

Granite Ridge Resources, Inc

4Q23 recap: Outlook a function of timing on a preannounced quiet quarter. Buy

Reiterate Rating: BUY | PO: 7.00 USD | Price: 6.07 USD

4Q23 in-line following pre-announced updates

We estimate GRNT's adj EPS / EBITDA of \$0.20 / \$82mm as in-line with consensus and BofA estimates of \$0.20 / \$76mm and \$0.20 / \$80mm respectively. Note that prior to results, GRNT had published an [operations update on 02/02](#) with preliminary 4Q corporate / oil production of 26 Mboe/d and 12 Mbbl/d, estimated oil & gas differentials of (\$2.50) vs WTI and gas at 100% of HH, with year-end net debt of ~\$100mm. On this basis we believe the focus will be on its 2024 outlook where the production trajectory is a function of well timing. As a footnote, GRNT reported a \$26mm impairment, largely related to its Haynesville assets due to low natural gas prices.

2024 capex guide in-line with our expectations

For 2024, GRNT has announced a budget of \$265mm - \$285mm with FY volumes expected in the range of 23.25-25.25 Mboe/d, up ~7% yoy after adjusting for its previously announced Permian sale to Vital Energy (1,700 Boe/d). While FY spending is consistent with our expectations (\$275mm), the production guide is lower versus our estimate of ~27 Mboe/d. However, there are several factors contributing to this. First, GRNT is only including non-operated deals that have closed. To the extent it secures additional deals, guidance could step up over time. Secondly, is the impact of timing of Permian wells related to its strategic partnership with one pad expected in 2Q and a second in early 3Q. Given the delta on volumes versus our expectations is in part timing and does not include additional bolt-ons, we are not concerned by the difference.

Reiterate Buy with unchanged PO of \$7

One other guidance item we would highlight is an FY oil mix of 47% vs our expectation of 47%, but is mainly due to the asset sale, noting the oil percentage should increase over the year as well, as the timing of Permian wells: by our estimates, GRNT's mix could be ~51% in 2025. All-in-all, we see 4Q results in-line based on the prior ops update with 2024 guidance reflecting the noise of well timing TILs that can disproportionately impact the FY average for a company of GRNT's small size. After underperforming the Russell 3000 Energy sector since 09/11/23 by ~14% following a secondary offering from the firm's sponsor (Grey Rock), we believe incremental performance can improve if GRNT can execute, particularly on its strategic partnership plans. Our rating remains Buy, \$7 PO (at l/term \$70 WTI / \$4 HH.)

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	0.85	1.86	0.81	0.79	1.02
GAAP EPS	0.82	1.97	0.68	0.79	1.02
EPS Change (YoY)	NA	118.8%	-56.5%	-2.5%	29.1%
Consensus EPS (Bloomberg)			0.81	0.68	0.66
DPS	0	0.08	0.44	0.44	0.44
Valuation (Dec)					
P/E	7.1x	3.3x	7.5x	7.7x	6.0x
GAAP P/E	7.4x	3.1x	8.9x	7.7x	6.0x
Dividend Yield	0%	1.3%	7.3%	7.2%	7.2%
EV / EBITDA*	4.2x	2.4x	2.9x	2.8x	2.3x
Free Cash Flow Yield*	12.1%	36.8%	23.3%	32.9%	39.8%

* For full definitions of *IQmethod*SM measures, see page 5.

08 March 2024

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Stock Data

Price	6.07 USD
Price Objective	7.00 USD
Date Established	5-Jan-2024
Investment Opinion	B-1-7
52-Week Range	4.82 USD - 8.14 USD
Mkt Val (mn) / Shares Out (mn)	807 USD / 133.0
Free Float	48.7%
Average Daily Value (mn)	2.09 USD
BofA Ticker / Exchange	GRNT / NYS
Bloomberg / Reuters	GRNT US / GRNT.N
ROE (2023E)	16.7%
Net Dbt to Eqty (Dec-2022A)	-8.2%

BOE – Barrels of oil equivalent

HH - Henry Hub

TIL - Turn In Line

WTI – West Texas Intermediate

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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iQprofileSM Granite Ridge Resources, Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	NA	39.6%	11.6%	11.5%	13.3%
Return on Equity	NM	45.1%	16.7%	14.9%	17.8%
Operating Margin	38.2%	55.7%	31.1%	32.1%	35.5%
Free Cash Flow	98	297	188	265	322

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.6x	1.4x	2.6x	3.1x	2.8x
Asset Replacement Ratio	0.9x	0.5x	0.6x	0.3x	0.3x
Tax Rate	NM	4.7%	23.7%	23.0%	23.0%
Net Debt-to-Equity Ratio	8.3%	-8.2%	13.0%	14.9%	13.9%
Interest Cover	46.5x	NM	30.7x	25.9x	30.4x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	290	497	392	433	505
% Change	NA	71.4%	-21.2%	10.4%	16.8%
Gross Profit	272	467	365	401	469
% Change	NA	71.5%	-21.9%	10.1%	16.8%
EBITDA	210	365	304	321	378
% Change	NA	73.7%	-16.9%	5.7%	17.7%
Net Interest & Other Income	(2)	(2)	(4)	(5)	(6)
Net Income (Adjusted)	113	247	107	103	134
% Change	NA	118.1%	-56.7%	-4.1%	30.1%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	108	262	90	103	134
Depreciation & Amortization	95	106	157	178	194
Change in Working Capital	(27)	(17)	(3)	0	0
Deferred Taxation Charge	0	13	17	31	40
Other Adjustments, Net	5	(17)	23	4	4
Capital Expenditure	(83)	(49)	(95)	(50)	(50)
Free Cash Flow	98	297	188	265	322
% Change	NA	203.3%	-36.7%	41.0%	21.2%
Share / Issue Repurchase	13	(51)	85	0	0
Cost of Dividends Paid	0	(11)	(59)	(57)	(57)
Change in Debt	0	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	12	51	10	10	10
Trade Receivables	47	72	76	76	76
Other Current Assets	39	23	14	14	14
Property, Plant & Equipment	449	645	846	942	1,067
Other Non-Current Assets	0	3	0	3	3
Total Assets	547	795	945	1,045	1,169
Short-Term Debt	50	0	0	0	0
Other Current Liabilities	18	64	70	70	70
Long-Term Debt	1	0	97	116	121
Other Non-Current Liabilities	4	108	116	146	186
Total Liabilities	72	172	282	332	377
Total Equity	475	622	663	712	793
Total Equity & Liabilities	547	795	945	1,045	1,169

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Oil & Gas Producers

Company Description

GRNT is a small cap focused on the non op activity in the oil and gas space where it is trying to improve upon its future operational visibility by forming strategic partnerships. Its largest equity owner is private equity firm Grey Rock, which owns approximately 50.3% of outstanding equity. Grey Rock provides many back office services to GRNT via a manger service agreement.

Investment Rationale

After a period of significant relative underperformance, we believe that incremental performance can improve if GRNT can execute on forming strategic partnerships. Among the benefits are less competition, more operational control, possibly greater future visibility on inventory depth as well as possibly furthering enhancing its ability to grow organically

Stock Data

Average Daily Volume 339,576

Quarterly Earnings Estimates

	2022	2023
Q1	NA	0.21A
Q2	NA	0.19A
Q3	NA	0.21A
Q4	NA	0.20E

4Q23 Earnings recap

The table below compares actuals to estimates and prior yoy and qoq results.

Exhibit 1: GRNT Earnings Variance

Q/Q Comparison (\$ in Millions, except in per share data)

	4Q23E	3Q23E	3Q23E	QoQ
Total revenue	106.8	105	108.4	-1%
Expenses:				
LOE	(15.4)	(17)	(16.9)	9%
Production tax	(7.9)	(8)	(7.8)	-1%
SGA	(5.7)	(5)	(4.9)	-18%
Stock option expense	(0.3)	(1)	(0.4)	8%
Operating Expenses	(29.0)	(29)	(29.6)	2%
DDA	(47.6)	(44)	(44.3)	-7%
Impairments	(26.5)	0	0.0	NM
EBIT	24.5	24	24.5	0%
Net Interest expense	(2.4)	(1)	(1.4)	-78%
EBT	22.0	34	23.1	-5%
Tax	(5.2)	(5)	(5.2)	0%
Net Income	16.8	29	18.0	-6%
Adjustments	11	0	13	-9%
Adjusted Net Income	26	26	28	-5%
Adjusted EBITDA	82	80	70	17%
Shares	132	132	133	-1%
Adjusted EPS / sh	0.20	0.20	0.21	-4%

Source: BofA Global Research; Company data

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Footnote: Estimate changes

Adjusting for results and updated guidance, our estimates change as follows:

Exhibit 2: GRNT Earnings Estimates

Reflects updated results and guidance

	Q1	Q2	Q3	Q4	FY	BBG Consensus
2023A	0.21	0.19	0.21	0.20	0.81	0.81
2024E	0.11	0.11	0.15	0.22	0.59	0.68
Previous	0.15	0.19	0.21	0.24	0.79	n/a
2025E	0.25	0.20	0.20	0.20	0.86	0.66
Previous	0.26	0.24	0.25	0.27	1.02	n/a
2026E	0.25	0.28	0.29	0.31	1.14	#N/A N/A
Previous	0.30	0.31	0.32	0.33	1.25	n/a

Source: BofA Global Research, Bloomberg

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Price objective basis & risk

Granite Ridge Resources, Inc (GRNT)

Our \$7 PO is based upon a discounted cash flow assuming long-term \$4.25 HH / \$75 WTI and an 11% WACC.

Upside risks are: 1) Favorable execution on the strategic partnership front, 2) Better access to the capital markets, and 3) the future elimination of the equity overhang

Downside risks are: 1) Difficulty in executing on strategic partnerships, 2) unable to increase access to the financial markets, and 3) increased competition for smaller deals

Analyst Certification

I, John H. Abbott, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Large Cap Oils Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	APA Corporation	APA	APA US	Doug Leggate
	Canadian Natural Resources	YCNQ	CNQ CN	Doug Leggate
	Canadian Natural Resources	CNQ	CNQ US	Doug Leggate
	Chesapeake Energy	CHK	CHK US	Doug Leggate
	Chevron Corp.	CVX	CVX US	Doug Leggate
	ConocoPhillips	COP	COP US	Doug Leggate
	Coterra Energy Inc	CTRA	CTRA US	Doug Leggate
	EQT Corporation	EQT	EQT US	John H. Abbott
	ExxonMobil Corp.	XOM	XOM US	Doug Leggate
	Granite Ridge Resources, Inc	GRNT	GRNT US	John H. Abbott
	Imperial Oil	IMO	IMO US	Doug Leggate
	Imperial Oil	YIMO	IMO CN	Doug Leggate
	Kimbell Royalty Partners	KRP	KRP US	John H. Abbott
	Magnolia Oil and Gas	MGY	MGY US	Noah Hungness
	Occidental Petroleum Corp.	OXY	OXY US	Doug Leggate
	Ovintiv Inc	YOVV	OVV CN	Doug Leggate
	Ovintiv Inc	OVV	OVV US	Doug Leggate
	Range Resources Corp	RRC	RRC US	Doug Leggate
	Suncor	YSU	SU CN	Doug Leggate
	Suncor	SU	SU US	Doug Leggate
NEUTRAL				
	California Resources Corporation	CRC	CRC US	Kalei Akamine
	CNX Resources	CNX	CNX US	John H. Abbott
	Delek US Holdings, Inc.	DK	DK US	Doug Leggate
	Devon Energy Corp.	DVN	DVN US	Doug Leggate
	Diamondback Energy Inc.	FANG	FANG US	Doug Leggate
	EOG Resources	EOG	EOG US	Doug Leggate
	Gulfport Energy Corporation	GPOR	GPOR US	Doug Leggate
	HF Sinclair Corporation	DINO	DINO US	Doug Leggate
	Marathon Petroleum Company	MPC	MPC US	Doug Leggate
	PBF Energy	PBF	PBF US	Doug Leggate
	Permian Resources Corporation	PR	PR US	Doug Leggate
	Phillips 66	PSX	PSX US	Doug Leggate
	Valero Energy Corp.	VLO	VLO US	Doug Leggate
UNDERPERFORM				
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	Crescent Energy Company	CRGY	CRGY US	John H. Abbott
	Marathon Oil Corp.	MRO	MRO US	Doug Leggate
	National Fuel Gas Company	NFG	NFG US	John H. Abbott
	Northern Oil and Gas	NOG	NOG US	John H. Abbott

US - Large Cap Oils Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Vital Energy Inc	VTLE	VTLE US	John H. Abbott
RSTR	Pioneer Natural Resources	PXD	PXD US	Doug Leggate

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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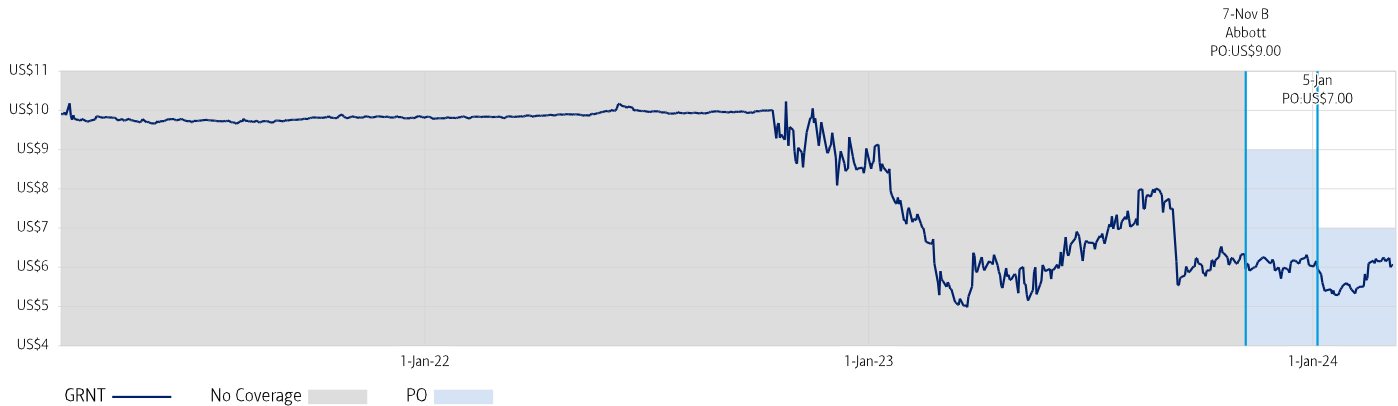
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Granite Ridge (GRNT) Price Chart



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Equity Investment Rating Distribution: Energy Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	83	61.48%	Buy	64	77.11%
Hold	28	20.74%	Hold	21	75.00%
Sell	24	17.78%	Sell	18	75.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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