

## Northern Oil and Gas

## 4Q23 earnings recap: Quiet 4Q given prior updates; focus shifts to 2024 outlook

Reiterate Rating: UNDERPERFORM | PO: 39.00 USD | Price: 34.61 USD

## EBITDA within sight of consensus on preannounced guide

NOG's adj. 4Q23 EBITDA of \$401mm is within sight of consensus & BofA estimates of \$396mm and \$392mm. Given NOG had provided a preliminary summary of operations on [Feb 15th \(see our note\)](#), ahead of earnings, many of the specifics of the quarter were already known (production of 114.3 Mboe/d, price realization & unit LOE ranges, quarterly capex & estimated hedges). Still versus our estimates, actual earnings benefited from final price realizations & lower LOE expense. From here, we anticipate investor focus to shift towards detailed 2024 outlook where it had previously guided to FY spending of \$825mm-\$900mm and corporate / oil volumes of 115-120 Mboe/d and 70-73 Mbbl/d.

## Higher DD&amp;A on reserves accounting may be a tax shield

Several aspects of 2024 guidance stand out. Higher DD&A guidance has been a theme for the sector on year-end price revisions seen across the sector: for NOG, DD&A of \$15.50 - \$17.50 / boe has meaningfully stepped-up vs \$13.00 - \$13.75 / boe in 2023, which we think also reflects NOG's participation in partnerships such as at Mascot in the Midland Basin and Forge in the Delaware. While this lowers pre-tax earnings, it will also provide a modest tax shield – look for color on call. In 2024, oil & gas differential guidance ranges of (\$4.00) - (\$4.50) per bbl under WTI, and 80% - 85% of HH have widened versus 2023 (ranges of (\$3.00) - (\$3.75) and 95% - 105%) and is simply a reflection of what management sees today. Lastly, NOG expects 2024 production taxes to be in the range of 9% - 10%, up slightly from 8% - 9% in 2023, which we see as a natural output of the Permian deals that it has done over the past year.

## Valuation capped by a declining strip keeps us at U/P

Beyond its immediate 2024 outlook, we expect the call to focus on strategic opportunities amidst broader sector consolidation. How has this changed the deal landscape for NOG? And how does it see this impacting activity on its existing acreage as operatorship changes (such as in the Bakken)? Additionally, watch for NOG's latest thoughts on returning capital to shareholders (do buybacks make sense?). On balance, we view NOG's successful track record of building growth with a valuation pared by a backward oil curve that leaves modest upside to fair value vs peers. With limited visibility on next step, we retain NOG at Underperform, \$39 PO unchanged. We adjust our estimates for results and updated guidance.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	6.53	6.59	5.26	5.84	5.89
GAAP EPS	8.49	10.05	5.26	5.84	5.89
EPS Change (YoY)	87.1%	0.9%	-20.2%	11.0%	0.9%
Consensus EPS (Bloomberg)			6.17	6.43	6.60
DPS	0.88	1.45	1.52	1.60	1.60
Valuation (Dec)					
P/E	5.3x	5.3x	6.6x	5.9x	5.9x
GAAP P/E	4.1x	3.4x	6.6x	5.9x	5.9x
Dividend Yield	2.5%	4.2%	4.4%	4.6%	4.6%
EV / EBITDA*	5.1x	3.7x	3.5x	3.2x	3.2x
Free Cash Flow Yield*	13.7%	24.2%	15.7%	16.4%	16.9%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

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## Stock Data

Price	34.61 USD
Price Objective	39.00 USD
Date Established	5-Jan-2024
Investment Opinion	C-3-7
52-Week Range	25.56 USD - 43.64 USD
Mkrt Val (mn) / Shares Out (mn)	3,479 USD / 100.5
Free Float	88.5%
Average Daily Value (mn)	41.66 USD
BofA Ticker / Exchange	NOG / NYS
Bloomberg / Reuters	NOG US / NOG.N
ROE (2024E)	23.3%
Net Dbt to Eqty (Dec-2023A)	89.2%
ESGMeter™	Low

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "[BofA ESGMeter Methodology](#)".

Bbl-barrel

Boe-barrel of oil equivalent

HH-Henry Hub

WTI-West Texas Intermediate

# iQprofile<sup>SM</sup> Northern Oil and Gas

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	39.1%	30.1%	17.1%	16.7%	15.1%
Return on Equity	117.8%	43.3%	23.3%	21.9%	18.9%
Operating Margin	54.3%	51.8%	38.1%	38.8%	38.3%
Free Cash Flow	478	842	547	570	587

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.6x	2.9x	2.7x	2.4x	2.5x
Asset Replacement Ratio	1.8x	1.9x	1.2x	1.2x	1.1x
Tax Rate	NM	NM	NM	NM	NM
Net Debt-to-Equity Ratio	204.3%	89.2%	63.6%	39.5%	21.3%
Interest Cover	10.6x	8.3x	6.4x	7.2x	7.2x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,571	2,166	2,160	2,308	2,350
% Change	216.1%	37.9%	-0.3%	6.8%	1.8%
Gross Profit	1,310	1,819	1,746	1,870	1,898
% Change	301.7%	38.9%	-4.0%	7.1%	1.5%
EBITDA	1,034	1,428	1,532	1,641	1,666
% Change	90.4%	38.2%	7.3%	7.1%	1.5%
Net Interest & Other Income	(77)	(121)	(129)	(125)	(125)
<b>Net Income (Adjusted)</b>	<b>566</b>	<b>605</b>	<b>524</b>	<b>582</b>	<b>586</b>
<b>% Change</b>	<b>120.9%</b>	<b>7.0%</b>	<b>-13.4%</b>	<b>11.1%</b>	<b>0.7%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	735	923	524	582	587
Depreciation & Amortization	251	486	696	732	752
Change in Working Capital	0	1,294	1,554	1,045	0
Deferred Taxation Charge	98	240	170	94	90
Other Adjustments, Net	(156)	(1,187)	(1,541)	(1,031)	13
Capital Expenditure	(451)	(914)	(856)	(851)	(854)
<b>Free Cash Flow</b>	<b>478</b>	<b>842</b>	<b>547</b>	<b>570</b>	<b>587</b>
<b>% Change</b>	<b>145.4%</b>	<b>76.3%</b>	<b>-35.1%</b>	<b>4.4%</b>	<b>2.9%</b>
Share / Issue Repurchase	(54)	212	4	0	0
Cost of Dividends Paid	(28)	0	0	0	0
Change in Debt	726	714	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	3	8	162	575	1,005
Trade Receivables	271	371	371	371	371
Other Current Assets	47	131	131	131	131
Property, Plant & Equipment	2,483	3,932	4,217	4,336	4,438
Other Non-Current Assets	72	43	43	43	43
<b>Total Assets</b>	<b>2,875</b>	<b>4,484</b>	<b>4,923</b>	<b>5,456</b>	<b>5,988</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	275	367	367	367	367
Long-Term Debt	1,525	1,836	1,713	1,713	1,713
Other Non-Current Liabilities	330	234	404	498	588
<b>Total Liabilities</b>	<b>2,130</b>	<b>2,437</b>	<b>2,484</b>	<b>2,578</b>	<b>2,668</b>
<b>Total Equity</b>	<b>745</b>	<b>2,048</b>	<b>2,440</b>	<b>2,878</b>	<b>3,320</b>
<b>Total Equity &amp; Liabilities</b>	<b>2,875</b>	<b>4,484</b>	<b>4,923</b>	<b>5,456</b>	<b>5,988</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Oil & Gas Producers

## Company Description

Northern Oil and Gas is the largest publicly traded non-operated E&P. Its net production reflects a broad array of working interests in a series of oil and gas properties where it partners with operators and takes a cut of well level revenues for a proportional amount of capital operating costs. It has assets in North Dakota, Pennsylvania and the Permian Basin.

## Investment Rationale

Our Underperform rating is primarily based on the commodity environment as we perceive limited upside given a steeply backwardated oil curve.

## Stock Data

Average Daily Volume 1,226,417

## Quarterly Earnings Estimates

	2023	2024
Q1	1.75A	1.12E
Q2	1.50A	1.33E
Q3	1.73A	1.45E
Q4	1.61A	1.36E

## 4Q23 Earnings Summary

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

### Exhibit 1: NOG Earnings Variance

Y/Y and Q/Q Comparison (\$ in Millions, except in per share data)- Delta on final price realizations and LOE expense

	4Q23A	3Q23E	4Q22A	YoY	3Q23A	QoQ
Total Revenues	794	551	370	114%	314	153%
Production Expenses	158	152	126	26%	138	15%
DD&A	151	149	77	96%	134	13%
Interest Expense	37	34	24	53%	37	-1%
Other Income/Expenses	1	0	1	-35%	1	-32%
Provision/Benefit for Tax	(59)	(53)	0	-217733%	21	-384%
<b>Net Income (Reported)</b>	389	163	133	192%	26	1389%
Special Items	228	0	23	911%	(135)	269%
<b>Net Income (Adjusted)</b>	161	163	123	31%	161	0%
Earnings Per Share (Reported)	3.91	1.63	1.56	151%	0.28	1297%
Earnings Per Share (Adjusted)	1.61	1.63	1.43	13%	1.73	-7%
Dividends	0.37	0.37	0.30	23%	0.37	0%

Source: BofA Global Research estimates; Company data

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## Estimate changes

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

### Exhibit 2: NOG Earnings Estimates

Estimates move lower mainly on higher expected DD&A

	Q1	Q2	Q3	Q4	FY	BBG Consensus
2022A	1.58	1.72	1.80	1.43	6.53	7.19
2023E	1.75	1.50	1.73	1.61	6.59	6.73
Previous	1.75	1.50	1.73	1.55	6.52	n/a
2024E	1.12	1.33	1.45	1.36	5.26	6.17
Previous	1.31	1.55	1.63	1.54	6.03	n/a
2025E	1.50	1.49	1.48	1.37	5.84	6.43
Previous	1.67	1.66	1.66	1.55	6.54	n/a

Source: BofA Global Research estimates, Bloomberg

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## Price objective basis & risk

### Northern Oil and Gas (NOG)

Our price objective of \$39/sh assumes \$70 WTI / \$4 HH long-term. We apply a long-term (post-tax) weighted average cost of capital (WACC) of about 9%.

Downside risks to our price objective are: 1) the oil and gas macro environment, 2) NOG's non-op model leaves limited clarity on go forward activity assumptions, 3) Risks that NOG enters into expensive acquisitions as a means to maintain its production profile.

Upside risks are: 1) potential accretive transactions on favorable terms, 2) Costs coming in better than expected, and 3) productivity being better than expected.

## 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
<b>BUY</b>				
	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
	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
<b>NEUTRAL</b>				
	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
<b>UNDERPERFORM</b>				
	Chord Energy Corporation	CHRD	CHRD US	John H. Abbott
	Crescent Energy Company	CRGY	CRGY US	John H. Abbott
	Marathon Oil Corp.	MRO	MRO US	Doug Leggate

## US - Large Cap Oils Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	National Fuel Gas Company	NFG	NFG US	John H. Abbott
	Northern Oil and Gas	NOG	NOG US	John H. Abbott
	Vital Energy Inc	VTLE	VTLE US	John H. Abbott
<b>RSTR</b>				
	Pioneer Natural Resources	PXD	PXD US	Doug Leggate

**iQmethod<sup>SM</sup> 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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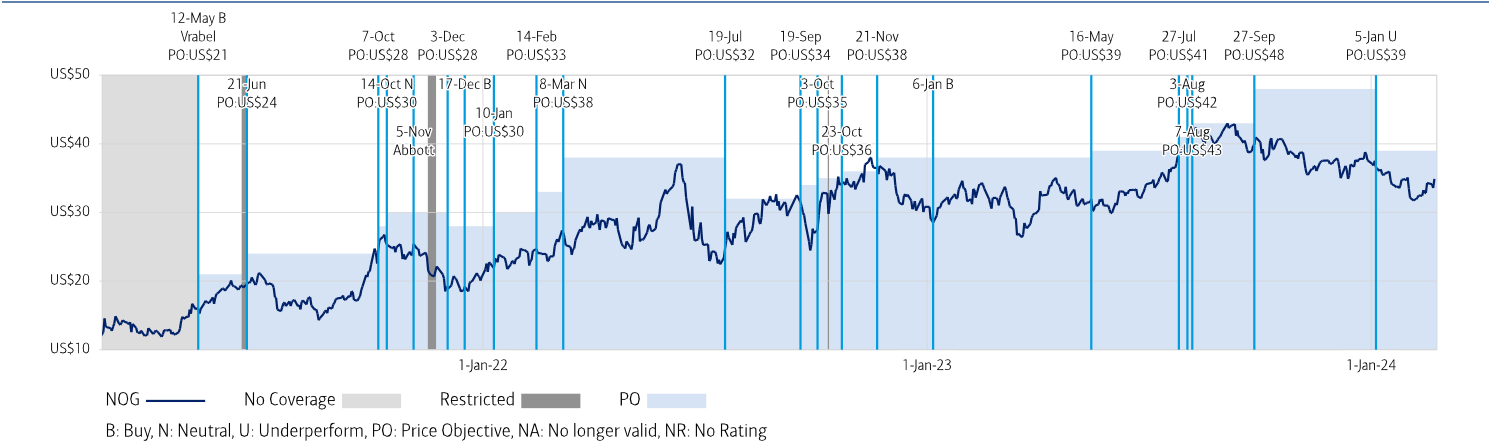
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Northern Oil and Gas (NOG) Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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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