

Vital Energy Inc

Earnings catch up: Solid 4Q, backwardated oil curve keeps us U/P, PO remains \$42

Reiterate Rating: UNDERPERFORM | PO: 42.00 USD | Price: 47.46 USD

Expands inventory to 10 from 8 years

We update estimates following VTLE's 4Q23 results report on 21 February. In our view, the quarter was directionally positive, with the company expanding its inventory by ~185 locations so that it now sees a 10yr backlog (vs eight years previously). The increase is mainly attributable to the Forge assets where there has been 33% volume improvement versus legacy wells. Northern Oil and Gas (NOG), VTLE's partner in that position, confirmed on its call last Friday that it is seeing a similar uplift. Along with the inventory update, VTLE announced a 2024 outlook with spending in the range of \$750-\$800mm and oil and corporate volumes of 55-59 Mbo / d and 116.5-121.5 Mboe / d. In our view, this was largely consistent with Street expectations after the company acquired additional working interests in the Henry assets. All-in-all, we see the quarter as operationally solid.

Retain Underperform as inventory backlog is not uniform

That said, we reiterate our Underperform rating on VTLE. While it has continued to expand upon its drilling backlog, its 10yr inventory is not homogenous; with its most prospective locations in Howard County, TX largely gone, future activity should be weighted more toward the southern Del and Eastern Glasscock. Based on this profile, we find it difficult to give credit for all ten years of drilling backlog and assume eight years instead. Additionally, in our view, VTLE's recent share performance has seemingly benefited from continued industry consolidation. By our estimates, the current share price bakes in a long-term price deck of ~\$75 WTI / \$3.50 HH compared to our BofA price deck of \$70 WTI / \$4 HH, which is lower with respect to oil given a steeply backwardated oil curve that we continue to believe challenges potential upside from here. Based on all this, we see our Underperform rating as appropriate with an unchanged \$42 PO.

4Q23 recap: EBITDA beat mainly on production taxes

VTLE's 4Q23 adj. EPS / EBITDA of \$2.55 / \$304mm exceeded consensus \$2.52 / \$288mm (BofAe \$2.57 / \$290mm). However, it includes \$6mm in other income in adj. EBITDA, which we would typically exclude, as it relates to interest earned. We see adj. EBITDA closer to \$298mm with the delta versus our projections on production taxes (+5mm), oil transportation / market expense (\$2mm) and GP&T (\$1mm). Note that VTLE preannounced quarterly production of 113.7 Mboe / d on 9 January.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	21.53	15.64	10.76	9.95	9.79
GAAP EPS	21.79	16.04	11.17	10.38	10.22
EPS Change (YoY)	141.1%	-27.4%	-31.2%	-7.5%	-1.6%
Consensus EPS (Bloomberg)			9.99	11.10	10.86
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	2.2x	3.0x	4.4x	4.8x	4.8x
GAAP P/E	2.2x	3.0x	4.2x	4.6x	4.6x
EV / EBITDA*	3.5x	3.1x	2.5x	2.6x	2.6x
Free Cash Flow Yield*	15.4%	11.0%	22.2%	19.5%	15.6%

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

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Stock Data

Price	47.46 USD
Price Objective	42.00 USD
Date Established	5-Jan-2024
Investment Opinion	C-3-9
52-Week Range	39.74 USD - 62.87 USD
Mkt Val (mn) / Shares Out (mn)	1,656 USD / 34.9
Free Float	76.4%
Average Daily Value (mn)	33.61 USD
BofA Ticker / Exchange	VTLE / NYS
Bloomberg / Reuters	VTLE US / VTLE.N
ROE (2024E)	13.5%
Net Dbt to Eqty (Dec-2023A)	60.1%

Abbreviations:

HH: Henry Hub

Mbo- thousand barrels of oil

Mboe-thousand barrels of oil equivalent

WTI: West Texas Intermediate
GP&T: gathering, processing & compression fees

iQprofileSM Vital Energy Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	31.6%	17.1%	10.7%	9.3%	8.4%
Return on Equity	44.7%	16.7%	13.5%	11.1%	9.8%
Operating Margin	39.7%	42.7%	35.3%	33.4%	33.1%
Free Cash Flow	255	182	367	323	258

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	2.3x	2.5x	2.9x	3.0x	2.9x
Asset Replacement Ratio	1.8x	1.4x	1.3x	1.3x	1.3x
Tax Rate	0.9%	NM	22.0%	22.0%	22.0%
Net Debt-to-Equity Ratio	96.2%	60.1%	40.9%	27.4%	18.3%
Interest Cover	6.1x	4.4x	4.5x	4.4x	4.3x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,921	1,548	1,883	1,874	1,869
% Change	37.8%	-19.4%	21.7%	-0.5%	-0.3%
Gross Profit	1,374	1,022	1,246	1,240	1,226
% Change	63.1%	-25.6%	21.9%	-0.5%	-1.1%
EBITDA	915	1,044	1,316	1,254	1,240
% Change	80.6%	14.2%	26.0%	-4.7%	-1.1%
Net Interest & Other Income	(125)	(150)	(148)	(143)	(143)
Net Income (Adjusted)	363	325	403	377	371
% Change	181.8%	-10.5%	24.0%	-6.5%	-1.6%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	368	333	418	393	387
Depreciation & Amortization	312	463	638	635	648
Change in Working Capital	28	(71)	0	0	0
Deferred Taxation Charge	(1)	(189)	114	106	43
Other Adjustments, Net	124	277	(5)	(6)	(6)
Capital Expenditure	(575)	(631)	(798)	(806)	(815)
Free Cash Flow	255	182	367	323	258
% Change	276.7%	-28.9%	102.4%	-12.1%	-20.2%
Share / Issue Repurchase	(37)	0	0	0	0
Cost of Dividends Paid	(30)	(25)	(20)	(15)	(10)
Change in Debt	(318)	505	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	44	14	246	569	827
Trade Receivables	163	239	239	239	239
Other Current Assets	38	118	118	118	118
Property, Plant & Equipment	2,411	4,360	4,520	4,691	4,858
Other Non-Current Assets	70	418	418	418	418
Total Assets	2,726	5,150	5,542	6,036	6,460
Short-Term Debt	0	79	79	79	79
Other Current Liabilities	415	517	517	517	517
Long-Term Debt	1,113	1,609	1,474	1,474	1,474
Other Non-Current Liabilities	87	159	273	379	423
Total Liabilities	1,615	2,364	2,343	2,449	2,493
Total Equity	1,111	2,785	3,199	3,586	3,968
Total Equity & Liabilities	2,726	5,150	5,542	6,036	6,460

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

Company Sector

Oil & Gas Producers

Company Description

VTLE is a small-cap oil and gas producer in both the Midland and Delaware parts of the Permian Basin where it holds approximately 250k net acres. Post its recent Tall City, Maple acquisitions, it has estimated 2023 year end proved reserves of approximately 632 MMboe (approximately 43% oil).

Investment Rationale

Our Underperform rating reflects the risk of deteriorating portfolio capital efficiency against the backdrop of declining forward oil curve.

Stock Data

Average Daily Volume 708,250

Quarterly Earnings Estimates

	2023	2024
Q1	4.50A	2.33E
Q2	4.35A	2.34E
Q3	5.16A	2.97E
Q4	2.55A	3.11E

4Q23 earnings recap

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

Exhibit 1: VTLE 4Q23 Earnings Variance

Y/Y and Q/Q Comparison (\$ in Millions, except in per share data)- approximately in line with our estimates

Segment Earnings	4Q23A	4Q23E	4Q22A	YoY	3Q23A	QoQ
Total Rev & Non-Op Inc	445	450	364	22%	436	-16%
Transportation and Processing	(9)	(11)	(15)	-39%	(11)	36%
Production	(24)	(29)	(21)	10%	(27)	-21%
Production Expenses	(33)	(41)	(36)	-10%	(38)	-5%
DD&A	(153)	(152)	(85)	79%	(120)	-29%
Income Tax Expense	(35)	(22)	(3)	1030%	(2)	29%
Other Income / Expenses	(149)	(159)	(182)	-18%	(179)	2%
Net Income (Adjusted)	76	77	58	31%	96	-39%
Special Items	205	-	60	241%	(91)	-166%
Net Income (Reported)	281	77	118	138%	5	2316%
Earnings (Adjusted)	2.55	2.57	3.50	-27%	5.16	-32%
Earnings (Reported)	9.42	2.57	7.13	32%	0.26	2605%
Dividend	-	-	-		-	

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: VTLE Earnings Estimates

Reduction in 2025 estimates reflects higher DD&A as well as updated diluted share count reflecting additional interests in Henry assets

	Q1	Q2	Q3	Q4	FY	BBG Consensus
2022A	5.17	7.50	5.30	3.50	21.53	21.76
2023E	4.50	4.35	5.16	2.55	15.64	17.31
Previous	4.50	4.35	5.16	2.57	15.67	n/a
2024E	2.33	2.34	2.97	3.11	10.76	10.03
Previous	2.28	2.24	3.03	3.19	10.73	n/a
2025E	2.62	2.44	2.57	2.33	9.95	11.17
Previous	2.78	2.62	2.81	2.63	10.83	n/a

Source: BofA Global Research estimates, company reports, Bloomberg

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Price objective basis & risk

Vital Energy Inc (VTLE)

Our \$42 PO is based on discounted cash flow analysis, which assumes an 11% WACC and long-term commodity price deck of \$4.00 HH / \$70 WTI.

Upside risks: 1) Execution on efficiencies, 2) favorable deal activity, and 3) better than expected price realizations.

Downside risks: 1) Lack of access to the financial markets, 2) unable to fully integrate assets acquired, and 3) a perceived equity overhang.

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				
	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
	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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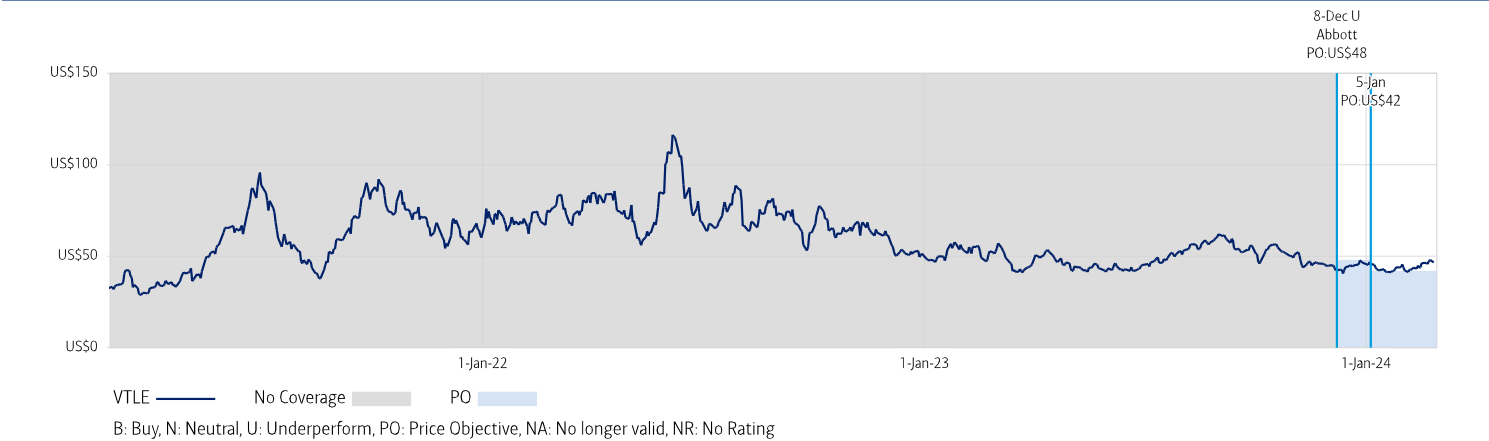
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Vital Energy (VTLE) Price Chart



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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%

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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%

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