

ChampionX Corp.

Resilient EBITDA & FCF with growing cash returns

Reiterate Rating: BUY | PO: 34.00 USD | Price: 30.58 USD

Continued growth in production linked PCT/PAT segments

CHX's core production oriented PCT (64% of '23 revenue) and PAT (27% of '23 revenue) businesses are set to continue to grow at mid-single-digit-% YoY in '24E on still robust US and Int'l/Offshore oil and liquids production growth. PCT is helped by increased opex spend on increasingly harder to reach and treat oil wells, including in offshore & mature fields, which have significantly higher chemical intensity. PAT, meanwhile, is more NAM focused but is benefiting from a resilient Rod Lift and Permian focused ESP franchise, + fast-growing Digital business (which includes emissions monitoring), where revenue was +16% YoY in '23 and is likely to grow another +/-15% YoY in '24E. CHX also continues to execute on a strong pipeline of productivity improvement projects, which helps enhance margin. While 1Q Adj. EBITDA margin likely sees headwind from – 1) higher freight cost, 2) dilutive mix in PCT due to seasonal QoQ decline in Int'l/Offshore revenue, & 3) higher investment in Digital, including emissions monitoring, we expect 50-75bps Adj. EBITDA margin improvement from 4Q23-4Q24E. We're tweaking our '24E Adj. EBITDA by +1% to \$805mm and maintaining our '25E Adj. EBITDA at \$890mm (both in-line with Cons).

12% more divvy and doubling share buyback authorization

CHX raised its regular quarterly dividend by 12% to \$0.095/share (1.2% annualized yield) and doubled its share repurchase authorization to \$1.5bn, of which \$1.04bn is currently available. Of note, CHX converted 53% of its '23 Adj. EBITDA to FCF & returned 83% of that FCF to shareholders in '23, which is much higher than its stated ≥60%. Further, CHX has returned \$458mm (8% of current m-cap) in buybacks since the inception of its share repurchase program in early '22. Assuming CHX returns 60%/75% of our 2024E-25E FCF to shareholders, it would have returned ~9%/11% of its current m-cap in 2024E-25E.

Reit. Buy on good mix of stability/growth and cash returns

CHX offers a good mix of relative stability in its production focused businesses + healthy growth as E&Ps stay disciplined & focus ever more on maximizing productivity/integrity of their existing assets. CHX has lifted its Adj. EBITDA margin to 21% in 2H23 & should continue to benefit from operating leverage + internal productivity improvement in '24E. With capex at ~3.5% of revenue, we see 50-55% of Adj. EBITDA/FCF conversion in 2024-25. We reiterate our DCF-based PO of \$34 (9.0x our '24E EBITDA) & Buy rating on CHX.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.30	1.81	1.89	2.33	2.84
GAAP EPS	0.75	1.57	1.89	2.33	2.84
EPS Change (YoY)	120.3%	39.2%	4.4%	23.3%	21.9%
Consensus EPS (Bloomberg)			1.94	2.36	2.73
DPS	0.23	0.33	0.37	0.42	0.46
Valuation (Dec)					
P/E	23.5x	16.9x	16.2x	13.1x	10.8x
GAAP P/E	40.8x	19.5x	16.2x	13.1x	10.8x
Dividend Yield	0.7%	1.1%	1.2%	1.4%	1.5%
EV / EBITDA*	10.1x	8.1x	7.8x	7.0x	6.4x
Free Cash Flow Yield*	5.2%	6.7%	7.0%	8.0%	9.0%

* For full definitions of *IQmethod*SM measures, see page 4.

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21 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E DPS	0.36	0.37

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Stock Data

Price	30.58 USD
Price Objective	34.00 USD
Date Established	11-Jan-2024
Investment Opinion	C-1-7
52-Week Range	23.66 USD - 38.37 USD
Mrkt Val (mn) / Shares Out (mn)	5,961 USD / 194.9
Free Float	98.9%
Average Daily Value (mn)	49.60 USD
BofA Ticker / Exchange	CHX / NAS
Bloomberg / Reuters	CHX US / CHX.OQ
ROE (2024E)	21.2%
Net Dbt to Eqty (Dec-2023A)	18.8%
ESGMeter TM	Medium

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US / NAM / Int'l = United States / North America / International

ESP = Electrical Submersible Pump

PCT / PAT = Production Chemical Technologies / Production Automation Technologies

Divvy / Reit. = Dividend / Reiterate

FCF / DCF = Free Cash Flow / Discounted Cash Flow

E&P = Exploration & Production

M-Cap / Cons = Market Capitalization / Consensus

iQprofileSM ChampionX Corp.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	11.6%	16.3%	16.3%	18.3%	20.0%
Return on Equity	15.5%	21.5%	21.2%	23.9%	26.4%
Operating Margin	9.9%	14.2%	14.7%	15.7%	16.5%
Free Cash Flow	311	398	415	475	535

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.5x	1.5x	1.5x	1.4x	1.4x
Asset Replacement Ratio	0.4x	0.6x	0.5x	0.6x	0.6x
Tax Rate	17.9%	23.9%	28.2%	27.0%	25.0%
Net Debt-to-Equity Ratio	22.5%	18.8%	10.5%	3.5%	-4.0%
Interest Cover	8.3x	9.8x	10.3x	11.7x	13.1x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	3,806	3,758	3,862	4,119	4,368
% Change	23.8%	-1.3%	2.8%	6.7%	6.0%
Gross Profit	1,205	1,382	1,412	1,529	1,642
% Change	23.1%	14.7%	2.2%	8.2%	7.4%
EBITDA	617	771	805	890	970
% Change	35.3%	25.0%	4.4%	10.5%	9.0%
Net Interest & Other Income	(45)	(55)	(55)	(55)	(55)
Net Income (Adjusted)	269	362	364	428	496
% Change	117.6%	34.2%	0.5%	17.7%	15.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	269	362	364	428	496
Depreciation & Amortization	242	236	238	243	248
Change in Working Capital	(90)	35	(11)	(45)	(48)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(8)	(92)	(46)	(11)	(12)
Capital Expenditure	(103)	(142)	(130)	(140)	(150)
Free Cash Flow	311	398	415	475	535
% Change	27.4%	28.1%	4.3%	14.5%	12.6%
Share / Issue Repurchase	(182)	(278)	(216)	(280)	(317)
Cost of Dividends Paid	(46)	(65)	(70)	(76)	(79)
Change in Debt	(106)	(31)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	250	289	418	537	677
Trade Receivables	601	535	543	578	615
Other Current Assets	647	602	664	674	712
Property, Plant & Equipment	735	774	771	775	786
Other Non-Current Assets	1,154	1,043	975	907	840
Total Assets	3,387	3,242	3,371	3,472	3,629
Short-Term Debt	6	6	6	6	6
Other Current Liabilities	853	777	836	836	863
Long-Term Debt	622	594	594	594	594
Other Non-Current Liabilities	230	204	191	217	242
Total Liabilities	1,710	1,581	1,628	1,653	1,706
Total Equity	1,677	1,661	1,743	1,819	1,923
Total Equity & Liabilities	3,387	3,242	3,371	3,472	3,629

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Oil Services

Company Description

ChampionX provides equipment and services that assist in the drilling, completion, and production phases of a well. Products consist of production chemicals, artificial lift equipment and solutions, including rod pumping systems, electric submersible pump systems, progressive cavity pumps, and drive systems and plunger lifts, as well as polycrystalline diamond cutters and bearings for drilling. Additionally, the company provides a full automation offering consisting of equipment and IoT solution

Investment Rationale

CHX is uniquely positioned within OFS as an almost pure-play production-levered company, which makes its earnings stream less volatile than its D&C levered peers. We rate CHX Buy due to (1) easing supply-chain challenges and resulting margin upside potential in PCT and (2) emerging International growth opportunities. CHX also has a strong balance sheet, healthy cash flows, and a fledgling shareholder returns program.

Stock Data

Average Daily Volume 1,621,936

Quarterly Earnings Estimates

	2023	2024
Q1	0.41A	0.39E
Q2	0.52A	0.45E
Q3	0.45A	0.51E
Q4	0.44A	0.54E

Price objective basis & risk

ChampionX Corp. (CHX)

Our PO of \$34.00 is derived from our discounted cash flow valuation, which we believe is a better method to value CHX than EV/EBITDA in these market conditions. We forecast earnings & cash flow through 2030, which we believe is the limit of market recognition, and then forecast a terminal growth of -1% due to potential disruptions from the energy transition while using a 8.1% WACC.

Downside risks to our price objective are 1) global economic weakness, 2) lower O&G prices, 3) slower Int'l growth, 4) market share loss, 5) technical & operational issues.

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US - Oil Services and Equipment Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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	Atlas Energy Solutions	AESI	AESI US	Saurabh Pant
	Baker Hughes Co.	BKR	BKR US	Saurabh Pant
	ChampionX Corp.	CHX	CHX US	Saurabh Pant
	Chart Industries	GTLS	GTLS US	Saurabh Pant
	Halliburton Company	HAL	HAL US	Saurabh Pant
	Helmerich & Payne	HP	HP US	Saurabh Pant
	NOV Inc.	NOV	NOV US	Saurabh Pant
	Patterson-UTI Energy	PTEN	PTEN US	Saurabh Pant
	SLB	SLB	SLB US	Saurabh Pant
	TechnipFMC plc	FTI	FTI US	Saurabh Pant
	Weatherford International	WFRD	WFRD US	Saurabh Pant
NEUTRAL				
	Liberty Energy	LBRT	LBRT US	Saurabh Pant
	ProFrac	ACDC	ACDC US	Saurabh Pant
UNDERPERFORM				
	Cactus Inc.	WHD	WHD US	Saurabh Pant
	Core Laboratories	CLB	CLB US	Saurabh Pant
	Transocean	RIG	RIG US	Saurabh Pant



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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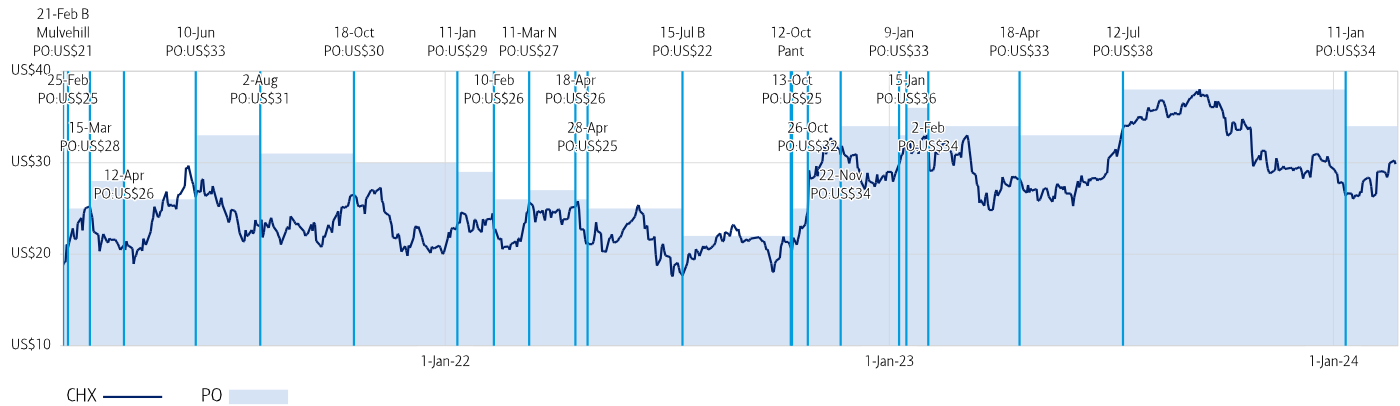
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ChampionX Corp. (CHX) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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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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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