

## ChampionX Corp.

## PCT-led 4Q beat + Dividend and buyback boost

Maintain Rating: BUY | PO: 34.00 USD | Price: 26.57 USD

## 4Q beat on strong PCT; divvy +12%, repo authorization 2x

CHX reported 4Q Adj EBITDA of \$198mm, which excludes an Fx loss of \$15mm. Note that CHX's 4Q Adj. EBITDA guide of \$187-\$197mm had also excluded further Fx changes; thus, we believe CHX's 4Q Adj. EBITDA beat of 4% vs. consensus of \$190mm is apples-to-apples. The 4Q beat was driven entirely by stronger PCT revenue and margin while DT was roughly in-line and PAT missed. See Exhibit 1. Regionally, INTL revenue was +6% QoQ to \$364mm, led by the seasonal strength in PCT, while NAM revenue was -3% QoQ to \$580mm. 4Q FCF of \$140mm beat consensus' \$137mm as higher EBITDA more than offset slightly higher capex and slightly lower working capital tailwind. CHX repurchased \$118mm of its shares in 4Q; it returned a total of 96%/83% of its 4Q/FY23 FCF to shareholders. Of note, CHX raised its regular quarterly dividend by 12% to \$0.095/share (1.4% annualized yield) and doubled its share repurchase authorization to \$1.5bn, of which \$1.04bn is currently available.

## 1Q guidance has revenue/Adj EBITDA in line/+1% vs. Cons

CHX guided to 1Q24 revenue of \$908-\$938mm, i.e., in line with consensus of \$926mm at the mid-point. 1Q Adj EBITDA guide is at \$179-\$189mm, i.e., +1% at the mid-point vs. consensus of \$182mm. Mgmt. expects typical seasonal declines in INTL operations, partially offset by QoQ improvement in NAM businesses. The company still expects to convert ≥50% of its Adj. EBITDA to FCF, and is committed to returning ≥60% of its FCF to shareholders.

## Strong 4Q, in-line 1Q guide, low expectation to help stock

CHX (-9% YTD), has underperformed the OSX by 415 bps over past two months. We think the weakness was driven by steady deterioration in NAM activity, which is 63% of CHX's revenue, which led many investors to believe the company may miss 1Q consensus. Further, CHX's strong FCF generation and return to shareholders, incl. a 12% increase in dividend and doubling of share repurchase authorization, is also a positive. Maintain Buy.

## Exhibit 1: CHX 4Q23 earnings variance

Actual results vs consensus and BofA

	Actual	4Q23 Cons	BofA	% Beat (Miss)		% Change	
				Cons	BofA	Q/Q	Y/Y
<b>Total Revenue</b>	<b>944</b>	<b>948</b>	<b>953</b>	<b>0%</b>	<b>-1%</b>	<b>0%</b>	<b>-4%</b>
Production & Automation Tech	53	56	56	-5%	-6%	-11%	4%
Drilling Tech	10	10	10	1%	1%	-25%	-6%
Production Chemicals	139	131	133	6%	5%	bps	bps
Reservoir Chemicals	6	4	4	34%	31%	bps	1bps
<b>Total EBITDA</b>	<b>198</b>	<b>190</b>	<b>191</b>	<b>4%</b>	<b>4%</b>	<b>0</b>	<b>11%</b>
<b>Diluted EPS</b>	<b>\$0.44</b>	<b>\$0.42</b>	<b>\$0.43</b>	<b>4%</b>	<b>2%</b>	<b>8%</b>	<b>2%</b>
<b>Free Cash Flow</b>	<b>140</b>	<b>137</b>	<b>140</b>	<b>2%</b>	<b>0%</b>	<b>28%</b>	<b>-17%</b>

Source: Company data, BofA Global Research estimates, Bloomberg, Visible Alpha

BofA GLOBAL RESEARCH

05 February 2024

## Equity

**Saurabh Pant**  
Research Analyst  
BofA  
saurabh.pant2@bofa.com

## Stock Data

Price	26.57 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)	5,280 USD / 198.7
Free Float	99.1%
Average Daily Value (mn)	38.86 USD
BofA Ticker / Exchange	CHX / NAS
Bloomberg / Reuters	CHX US / CHX.OQ
ROE (2023E)	19.7%
Net Dbt to Eqty (Dec-2022A)	22.5%
ESGMeter™	Medium

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US / NAM / INTL = United States / North America / International

Cons / Mgmt. / Fx = Consensus / Management / foreign exchange

PCT / PAT / DT = Production Chemical Technologies / Production Automation Technologies / Drilling Technologies

YTD / incl. = Year to Date / including

OSX = PHLX Oil Service Sector

Divvy / Repo = dividend / repurchase

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Timestamp: 05 February 2024 07:09PM EST



## 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.

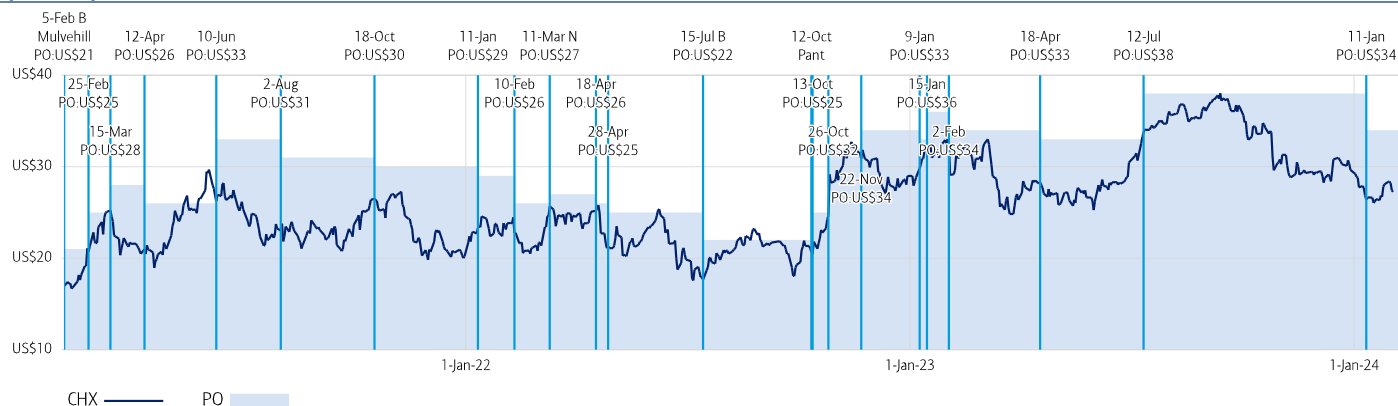
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### ChampionX Corp. (CHX) Price Chart



CHX — PO

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

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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%

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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