

Coterra Energy Inc

4Q23 Earnings Recap: exercising flexibility - oil up, gas down as activity pivots south

Reiterate Rating: BUY | PO: 31.00 USD | Price: 26.33 USD

Exercising flexibility: oil up 6%, gas down 6%

Over the past year Coterra's management team has signaled willingness to pivot capital to the highest return opportunities in a portfolio bifurcated between Marcellus gas and its oil / combo plays in the Permian & Anadarko. With 4Q23 earnings, forward guidance does exactly that. Management is cutting total spending by 12% (\$1.85bn from \$2.1bn). Marcellus capex which accounted for 40% of a \$2.1bn budget is cut 55%; conversely after a year of addressing poor drilling performance, Anadarko capex almost doubles to \$290mm, with the Permian taking the lion's share of capital. The output grows oil by 6%, while allowing gas to decline 6%. Given the larger weight of gas in CTRA's portfolio the net is a decline of 2% in total output: but we see negligible impact on cashflow given current gas price weakness but capital savings flowing directly to improved FcF in 2024.

3-yr plan remains in focus; supports \$5bn+ in FcF

4Q23 oil & gas production at 697 mboepd handily beat guidance of 645-680 mboed. CTRA started 40 new wells, with 28 turned in line on the Permian and 12 on the Marcellus underlining management's portfolio tilt towards liquids. Note that 2024 capex of \$1.85bn is below street estimates of \$2.0bn with a decisive shift to the Anadarko and Permian, in what is arguably one of the most diverse pure E&P portfolio in the sector. Demonstrable capital flexibility carries over to CTRA's updated 3yr plan, with spending held at \$1.75bn-\$1.95bn driving oil growth of ~5% & boe growth in 0-5% range. By our estimates, this combination can support FcF of ~\$5bn at strip prices over the next three years. With total company inventory depth around 15 yrs, we believe CTRA's portfolio mix can support fair value at our PO of \$31, based on long term \$70 WTI/\$4.00 HH gas.

EPS miss, cashflow in line as weak gas realizations weigh

Coterra Energy reported adj EPS of 0.52/sh versus consensus and BofAe of \$0.55/0.61. The main deltas were better production, more than offset by weak Marcellus gas realizations. Discretionary cashflow ex w/c came of \$881mm was within sight of consensus (\$887mm) comfortably covering capex of \$468mm which was slightly below the street. The net is FcF of \$413mm ahead of our estimate of \$367mm. CTRA returned ~\$187mm to shareholders comprising \$29mm in buybacks and \$158mm in dividends. For the year cash returns were 77% of FY FcF, above its commitment of >50% of FcF. We revise our estimates to reflect updated guidance.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.94	2.27	2.03	2.44	2.85
GAAP EPS	5.10	2.15	2.03	2.44	2.85
EPS Change (YoY)	118.6%	-54.0%	-10.6%	20.2%	16.8%
Consensus EPS (Bloomberg)			2.14	3.06	3.39
DPS	1.96	1.17	0.80	0.80	0.80
Valuation (Dec)					
P/E	5.3x	11.6x	13.0x	10.8x	9.2x
GAAP P/E	5.2x	12.2x	13.0x	10.8x	9.2x
Dividend Yield	7.4%	4.4%	3.0%	3.0%	3.0%
EV / EBITDA*	2.8x	5.0x	5.1x	4.7x	4.4x
Free Cash Flow Yield*	19.6%	6.6%	7.2%	8.0%	9.4%

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

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Timestamp: 23 February 2024 04:09AM EST

23 February 2024

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Stock Data

Price	26.33 USD
Price Objective	31.00 USD
Date Established	5-Jan-2024
Investment Opinion	B-1-7
52-Week Range	22.25 USD - 29.89 USD
Mkt Val (mn) / Shares Out (mn)	20,116 USD / 764.0
Free Float	97.0%
Average Daily Value (mn)	179.66 USD
BofA Ticker / Exchange	CTRA / NYS
Bloomberg / Reuters	CTRA US / CTRAN
ROE (2024E)	11.2%
Net Dbt to Eqty (Dec-2023A)	9.1%
ESGMeter TM	Medium

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".

WTI – West Texas Intermediate

HH – Henry Hub

FCF – Free Cashflow

iQprofileSM Coterra Energy Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	21.8%	8.5%	7.8%	8.8%	9.6%
Return on Equity	32.2%	13.2%	11.2%	12.8%	13.9%
Operating Margin	57.6%	36.4%	33.9%	36.6%	37.7%
Free Cash Flow	3,936	1,328	1,449	1,614	1,893

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.4x	2.0x	2.2x	2.1x	2.1x
Asset Replacement Ratio	1.0x	1.3x	1.1x	1.1x	1.0x
Tax Rate	21.4%	23.6%	23.0%	23.0%	23.0%
Net Debt-to-Equity Ratio	11.9%	9.1%	9.7%	9.4%	7.6%
Interest Cover	NM	NM	34.1x	38.8x	42.7x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	9,051	5,914	5,864	6,192	6,602
% Change	182.2%	-34.7%	-0.8%	5.6%	6.6%
Gross Profit	8,591	5,352	5,259	5,596	5,993
% Change	181.6%	-37.7%	-1.7%	6.4%	7.1%
EBITDA	6,877	3,815	3,740	4,042	4,363
% Change	238.1%	-44.5%	-2.0%	8.1%	7.9%
Net Interest & Other Income	(44)	(26)	(58)	(58)	(58)
Net Income (Adjusted)	3,932	1,712	1,485	1,698	1,873
% Change	247.2%	-56.5%	-13.2%	14.3%	10.3%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	4,065	1,625	1,485	1,698	1,873
Depreciation & Amortization	1,635	1,641	1,743	1,769	1,862
Change in Working Capital	0	0	0	0	0
Deferred Taxation Charge	235	74	89	101	112
Other Adjustments, Net	(293)	81	0	0	0
Capital Expenditure	(1,706)	(2,093)	(1,868)	(1,954)	(1,954)
Free Cash Flow	3,936	1,328	1,449	1,614	1,893
% Change	263.6%	-66.3%	9.1%	11.4%	17.3%
Share / Issue Repurchase	(1,250)	(405)	(945)	(1,017)	(1,145)
Cost of Dividends Paid	(1,992)	(890)	(585)	(557)	(526)
Change in Debt	(875)	(3)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	673	956	874	913	1,134
Trade Receivables	90	90	90	90	90
Other Current Assets	1,448	1,448	1,448	1,448	1,448
Property, Plant & Equipment	17,479	18,259	18,385	18,570	18,663
Other Non-Current Assets	464	464	464	464	464
Total Assets	20,154	21,217	21,261	21,485	21,798
Short-Term Debt	0	575	575	575	575
Other Current Liabilities	1,193	1,611	1,611	1,611	1,611
Long-Term Debt	2,181	1,586	1,586	1,586	1,586
Other Non-Current Liabilities	4,110	4,165	4,253	4,355	4,467
Total Liabilities	7,484	7,937	8,025	8,127	8,239
Total Equity	12,659	13,269	13,224	13,347	13,549
Total Equity & Liabilities	20,143	21,206	21,250	21,474	21,787

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

Company Sector

Oil & Gas Producers

Company Description

Coterra is an oil and gas producer with operations in Appalachia, the Permian and the Anadarko basin. As of the end of the 2021, it has estimated proved reserves of 2,893 MMboe (approximately 86% natural gas and 73% proved developed)

Investment Rationale

Our Buy rating on CTRA reflects our view that it is a relatively defensive way to gain exposure to potentially higher long term natural gas prices as the company is relatively low beta given the strength of its balance sheet.

Stock Data

Average Daily Volume 6,823,328

Quarterly Earnings Estimates

	2023	2024
Q1	0.87A	0.45E
Q2	0.39A	0.52E
Q3	0.50A	0.52E
Q4	0.52A	0.54E

4Q23 Earnings recap

4Q23 actual earnings versus our estimates and how it compares on a q/q and y/y basis:

Exhibit 1: CTRA 4Q23 Earnings Variance

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

Segment Earnings	4Q23A	4Q23E	4Q22A	YOY	3Q23A	QOQ
Total Rev & Non-Op Inc	1,596	1,583	2,280	-30%	1,356	18%
Production Expenses	(233)	(216)	(216)	8%	(199)	17%
DD&A	(456)	(463)	(439)	4%	(421)	8%
Income Tax Expense	(153)	(135)	(256)	-40%	(94)	63%
Other Income / Expenses	(309)	(317)	(210)	47%	(369)	-16%
Net Income (Adjusted)	387	451	905	-57%	373	4%
Special Items	(29)	-	(127)	-77%	50	-158%
Net Income (Reported)	416	451	1,032	-60%	323	29%
Earnings (Adjusted)	0.52	0.61	1.16	-56%	0.50	4%
Earnings (Reported)	0.55	0.61	1.32	-58%	0.43	29%
Dividend	0.20	0.20	0.15	33%	0.20	0%

Source: BofA Global Research; Company data

BofA GLOBAL RESEARCH

Table below reflects actual 4Q23 actual EPS, as well as BofA and consensus projections through 2025:

Exhibit 2: CTRA Earnings Estimates

Earnings estimates updated for actual 4Q23 and consensus

	Q1	Q2	Q3	Q4	FY	BBG Consensus
2022A	1.01	1.35	1.42	1.16	4.94	4.85
2023E	0.87	0.39	0.50	0.52	2.27	2.28
Previous	0.87	0.39	0.50	0.61	2.36	n/a
2024E	0.45	0.52	0.52	0.54	2.03	2.09
Previous	0.37	0.44	0.51	0.58	1.90	n/a
2025E	0.62	0.56	0.62	0.64	2.44	3.01
Previous	0.70	0.63	0.71	0.75	2.79	n/a

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Price objective basis & risk

Coterra Energy Inc (CTRA)

Our price objective of \$31/sh assumes ex growth discounted cash flow value, which assumes \$75 Brent and \$70 West Texas Intermediate (WTI) long term. We also assume long-term Henry Hub natural gas as \$4.00. We apply a long-term (post-tax) weighted average cost of capital (WACC) of 6.8%, which is based on the BofA strategy team's assumed risk premium and a five-year monthly beta.

The risks to our price objective are (1) the oil and gas price and margin environment, (2) significant delays to the new upstream projects critical to its production targets, (3) inability to capture the price environment due to cost pressures (opex, capex, and taxation) and (4) lower natural gas prices compared to our estimates. Upside risks to our price objective are higher oil & gas prices, unexpected narrowing of basis differential and lower cap ex spending.

Analyst Certification

I, Doug Leggate, 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
	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

US - Large Cap Oils Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
	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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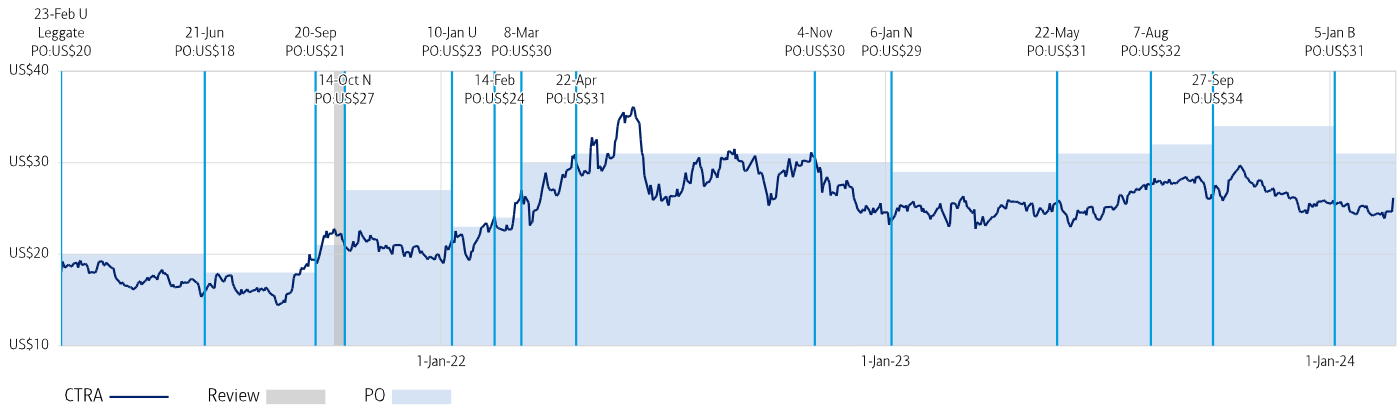
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Coterra Energy Inc (CTRA) Price Chart



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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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