BofA SECURITIES

California Resources Corporation

The end of an Aera: CRC restores legacy scale & options for the investment case

Reiterate Rating: NEUTRAL | PO: 64.00 USD | Price: 53.22 USD

08 February 2024

Equity

Key Changes

(US$)	Previous	Current
Price Obj.	60.00	64.00

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Aera provides options for the investment case

This morning CRC announced the agreed acquisition of fellow CA operator, Aera Energy, in an all-stock deal (21.2 million shares) plus debt that values the enterprise at $2.1bn. We like it on compelling industrial logic: including synergies and a conservative base that assumes no improvement on permitting on the acquired assets, we see the deal accretive by ~$4/sh. An upside case that assumes permitting resumes at a pace where Aera can stabilize production, the accretion doubles. Additionally, we believe that with its larger scale there is greater potential to monetize overlooked parts of CRC's land position. However, until such times as permit resolution is resolved on the Aera assets we include only the blow down value and full recognition of synergies in our assessed value, which moves up from $60/sh to $64/sh. Our rating is unchanged at Neutral.

Deal adds at least $4-8/sh to value

In our view CRC secured an attractively priced deal: 2.6x 2024 EBITDA, increasing 2024 FcF by 45% noting the deal was announced in advance of a major court ruling that will shape the ability of the industry to secure oil and gas drilling permits that had been the rationale for our Neutral rating. By our analysis, Aera's producing assets and associated developed reserves (pdp) are reasonably valued at $1.4bn at $75 Brent. But that's before synergies, expected at $150mn annually, with a PV10 of $1.0bn, suggesting an all-in valuation of $2.4bn. This was quickly recognized by the market on the day, with the shares appreciating by $6. The scenario where Aera maintains its output is now the upside case. Per management the constraint isn't resource, its permitting – we believe the asset can support a 10- year plateau, supporting a valuation of $2.8bn.

Aera amplifies CRC's exposure to a favorable EIR ruling

Pro-forma production doubles and brings rate of change to a stagnant investment case in the form of cost efficiencies. We see strong industrial logic from combining the two CA producers with overlapping assets, supporting confidence in management's synergy target ($150mn). CA concentration may attract some attention, but merging two small oil companies in a global oil market may not warrant scrutiny by the FTC. In summary Aera frames CRC as a coiled spring on the Kern EIR ruling adding to option value led by the remediation of Huntington Beach for residential development ($10/sh).

Estimates (Dec) (US$)	2021A	2022A	2023E	2024E	2025E
EPS	0.88	4.95	5.46	5.26	5.66
GAAP EPS	7.55	6.75	6.47	5.26	5.66
EPS Change (YoY)	-97.1%	462.5%	10.3%	-3.7%	7.6%
Consensus EPS (Bloomberg)			5.20	5.58	5.64
DPS	0.17	0.68	1.16	1.24	1.24
Valuation (Dec)					
P/E	60.5x	10.8x	9.7x	10.1x	9.4x
GAAP P/E	7.0x	7.9x	8.2x	10.1x	9.4x
Dividend Yield	0.3%	1.3%	2.2%	2.3%	2.3%
EV / EBITDA*	2.9x	3.4x	3.5x	4.1x	4.0x
Free Cash Flow Yield*	12.7%	8.5%	12.4%	5.1%	4.8%

* For full definitions of *iQmethod*SM measures, see page 9.

Stock Data

Price	53.22 USD
Price Objective	64.00 USD
Date Established	8-Feb-2024
Investment Opinion	C-2-7
52-Week Range	34.02 USD - 58.44 USD
Mrkt Val (mn) / Shares Out (mn)	3,672 USD / 69.0
Free Float	97.8%
Average Daily Value (mn)	31.48 USD
BofA Ticker / Exchange	CRC / NYS
Bloomberg / Reuters	CRC US / CRC.N
ROE (2023E)	17.8%
Net Dbt to Eqty (Dec-2022A)	15.3%
ESGMeter™	High

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".

EIR – Environmental Impact Report
FTC – federal trade commission
CA – California
SJV – San Joaquin Valley
PV10- present value at 10% disc.
CMB / CCUS – carbon capture and storage

*iQprofile*SM California Resources Corporation

iQ**method* SM – **Bus Performance

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	7.1%	18.4%	15.9%	12.1%	12.6%
Return on Equity	4.9%	20.8%	17.8%	14.0%	14.6%
Operating Margin	13.3%	28.5%	30.1%	29.9%	29.7%
Free Cash Flow	466	311	455	186	175

iQ**method* SM – **Quality of Earnings

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	9.0x	1.8x	1.7x	1.6x	1.6x
Asset Replacement Ratio	0.9x	1.9x	0.9x	1.8x	2.0x
Tax Rate	NM	31.1%	22.3%	19.7%	19.2%
Net Debt-to-Equity Ratio	15.5%	15.3%	5.6%	9.4%	13.2%
Interest Cover	5.0x	15.3x	11.3x	9.7x	10.3x

Income Statement Data (Dec)

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	2,048	2,643	2,126	1,645	1,759
% Change	54.1%	29.1%	-19.6%	-22.6%	6.9%
Gross Profit	1,157	1,922	1,795	1,358	1,404
% Change	23.9%	66.1%	-6.6%	-24.3%	3.3%
EBITDA	1,332	1,109	1,085	926	962
% Change	56.5%	-16.7%	-2.2%	-14.6%	3.9%
Net Interest & Other Income	(43)	(51)	(58)	(51)	(51)
Net Income (Adjusted)	**73**	**384**	**387**	**354**	**381**
% Change	**-95.9%**	**426.0%**	**0.7%**	**-8.4%**	**7.6%**

Free Cash Flow Data (Dec)

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	625	524	458	354	381
Depreciation & Amortization	213	198	220	211	214
Change in Working Capital	(107)	(57)	(50)	0	0
Deferred Taxation Charge	0	226	(14)	0	0
Other Adjustments, Net	(71)	(201)	30	0	0
Capital Expenditure	(194)	(379)	(189)	(380)	(420)
Free Cash Flow	**466**	**311**	**455**	**186**	**175**
% Change	**689.8%**	**-33.3%**	**46.2%**	**-59.2%**	**-5.7%**
Share / Issue Repurchase	(148)	(312)	(252)	(200)	(200)
Cost of Dividends Paid	0	(59)	(81)	(85)	(85)
Change in Debt	1	0	0	0	0

Balance Sheet Data (Dec)

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	305	307	449	350	239
Trade Receivables	245	326	249	249	249
Other Current Assets	203	231	246	246	246
Property, Plant & Equipment	2,599	2,786	2,744	2,913	3,119
Other Non-Current Assets	494	317	264	264	264
Total Assets	**3,846**	**3,967**	**3,952**	**4,021**	**4,117**
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	854	894	717	717	717
Long-Term Debt	589	592	589	589	589
Other Non-Current Liabilities	567	617	158	158	158
Total Liabilities	**2,010**	**2,103**	**1,464**	**1,464**	**1,464**
Total Equity	**1,836**	**1,864**	**2,489**	**2,558**	**2,654**
Total Equity & Liabilities	**3,846**	**3,967**	**3,952**	**4,021**	**4,117**

* For full definitions of *iQmethod*SM measures, see page 9.

Company Sector

Oil & Gas Producers

Company Description

California Resources Corporation is a spin off from Occidental Petroleum Co, and is an oil and gas exploration and production company. Assets are located across California with approximately 60% of the production mix skewed towards oil. Activity going forward will focus on high return steam and water flood assets though carbon capture represents a longer-term opportunity.

Investment Rationale

CRC's plans to realign the corporate structure aims to attract better recognition of value for two discrete businesses and positions CRC as a break up story, where the first step is a monetization of Huntington Beach assets, followed by cost cuts, that are catalysts that differentiate CRC from peers but upside is limited. Neutral

Stock Data

Average Daily Volume	591,414

Quarterly Earnings Estimates

	2022	2023
Q1	1.16A	2.63A
Q2	1.13A	0.52A
Q3	1.45A	1.08A
Q4	1.24A	1.21E

End of an A(era)

Solid logic, expands options for the investment case

Before market open CRC announced an agreement to buy Aera Energy for $2.1bn (inclusive of $1.1bn in liabilities but excluding $240mm in mark to market hedge impact). The industrial logic is compelling given neighboring acreage positions in Kern County. Expected synergies of $150mm annually are material to the cost of the deal, with an NPV management suggest is $1bn over 10 years. By our analysis, on the basis of a simple blow down of the PdP value of Aera production, the accretion in value achieved with full delivery of the projected synergies is ~$2.46bn. Net of $1.1bn of acquired net debt and $1bn of issued equity, the net value is reasonably ~$363mm or ~$4/sh.

Beyond the regulatory risk, CRC is embedded with (now) four options in addition to oil leverage. A structurally tight California gas market with growing competition for molecules from Costa Azul in Mexico, an embryonic CCUS business but where much of the funding has been derisked by a credible joint venture partner in Brookfield ($9/sh), and Huntington Beach real estate value ($10/sh), and now the potential to recognize an operating scenario for Aera should the court case be decided favorably.

In the section below we walk through two valuation scenarios, concluding that the PDP is worth $4/sh at $75 Brent, and that the maintenance case is conservatively worth $8/sh. However, until such times as permit resolution is resolved on the Aera assets which have been in decline for several years, we include only the blow down value and full recognition of synergies in our assessed value, which moves up from $60/sh to $64/sh. Our rating is unchanged at Neutral.

Exhibit 1: PO raised from $60 to $64 to reflect the PDP value of Area

Upside remains modest at 20% following quick recognition of value by the market on the day of announcement

Discount Rate	10.0%	4Q23	2024	2025	2026	2027	2028	2029	2030	2031
Debt Adjusted Cash Flow		140	602	632	663	679	706	740	781	781
Capital Expenditures		(33)	(380)	(420)	(420)	(420)	(420)	(420)	(420)	(420)
Other (+/-)		-	-	-	-	-	-	-	-	-
Free Cash Flow		107	222	212	243	259	286	320	361	361
	-	-	-	-						
		Total		-						
Present Value (2023-2026)		664		-						
Terminal Value (2027-2060)		2,260		-						
Total PV		2,924		-						
Less: Net Debt		110		-						
Adjustment 1:		599								
Adjustment 2:		700								
Aera Valuation		2,400								
Aera price		2,100								
Net Aera Valuation		300								
Equity Value		4,413								
Shares Outstanding		68.6								
Per Share		$64.3								

Source: BofA Global Research Estimates.

BofA GLOBAL RESEARCH

Transaction details

Before market open CRC announced an agreement to buy Aera Energy for $2.1bn (inclusive of $1.1bn in liabilities but excluding $240mm in mark to market hedge impacts). The industrial logic is compelling given neighboring acreage positions in Kern County. Expected synergies of $150mm annually are material to the cost of the deal, with an NPV managements suggest is $1bn over 10 years. By our analysis, on the basis of a simple blow down of the PdP value of Aera production, the accretion in value achieved with full delivery of the projected synergies is ~$2.46bn.

Net of $1.1bn of acquired net debt and $1bn of issued equity, the net value is reasonably ~$363mm or ~$4/sh on the new diluted share count of ~89.8mm shares.

Based on the share price move on the day, we believe the market has already fully discounted the base case, leaving our rating at Neutral.

Exhibit 2: We estimate the value of the PDP wedge at $4/sh

Shares priced in the value of the PDP on the day of the announcement, as CRC traded up $6/sh

Aera Valuation	
NPV	1,703
Synergies	1,000
Hedge Book	(240)
	2,463

					2100	363	$4/sh											
Date		Production				Price Deck		($26.00)	8.50%		($8.00)		26%					
	Oil	Gas	Boe	Decline	Brent	Socal	Revenue	Opex	Prod Tax	SG&A	DD&A	EBT	Tax	Net Income	EBITDA	Cash Flow	Capex	FCF
2024	65	20	68	15.00%	$76.44	$2.87	1,824	(645)	(155)	(200)	(199)	625	(162)	462	823	661	(105)	556
2025	55	17	58	14.25%	$73.50	$4.50	1,515	(553)	(129)	(200)	(170)	462	(120)	342	633	512	(105)	407
2026	48	15	50	13.54%	$73.50	$4.50	1,310	(478)	(111)	(200)	(147)	373	(97)	276	520	423	(105)	318
2027	42	13	44	12.86%	$73.50	$4.50	1,141	(417)	(97)	(200)	(128)	299	(78)	221	427	350	(105)	245
2028	37	12	39	12.22%	$73.50	$4.50	1,002	(366)	(85)	(200)	(113)	238	(62)	176	351	289	(105)	184
2029	32	10	34	11.61%	$73.50	$4.50	886	(324)	(75)	(200)	(100)	187	(49)	139	287	238	(105)	133
2030	29	9	30	11.03%	$73.50	$4.50	788	(288)	(67)	(200)	(89)	145	(38)	107	233	196	(105)	91
2031	26	8	27	10.48%	$73.50	$4.50	705	(258)	(60)	(200)	(79)	108	(28)	80	188	160	(105)	55
2032	23	7	24	9.95%	$73.50	$4.50	635	(232)	(54)	(200)	(71)	78	(20)	58	149	129	(105)	24
2033	21	7	22	9.45%	$73.50	$4.50	575	(210)	(49)	(200)	(65)	52	(13)	38	116	103	(105)	(2)
2034	19	6	20	8.98%	$73.50	$4.50	524	(191)	(44)	(150)	(59)	79	(21)	58	138	117	(80)	37
2035	18	6	18	8.53%	$73.50	$4.50	479	(175)	(41)	(150)	(54)	59	(15)	44	113	98	(80)	18
2036	16	5	17	8.11%	$73.50	$4.50	440	(161)	(37)	(150)	(49)	42	(11)	31	92	81	(80)	1
2037	15	5	16	7.70%	$73.50	$4.50	406	(148)	(35)	(150)	(46)	28	(7)	20	73	66	(80)	(14)
2038	14	4	14	7.32%	$73.50	$4.50	376	(138)	(32)	(150)	(42)	15	(4)	11	57	53	(80)	(27)
2039	13	4	13	6.95%	$73.50	$4.50	350	(128)	(30)	(75)	(39)	78	(20)	58	118	97	(80)	17
2040	12	4	13	6.60%	$73.50	$4.50	327	(120)	(28)	(75)	(37)	68	(18)	50	105	87	(80)	7
2041	11	4	12	6.27%	$73.50	$4.50	307	(112)	(26)	(75)	(34)	59	(15)	44	94	78	(80)	(2)
2042	11	3	11	5.96%	$73.50	$4.50	288	(105)	(25)	(75)	(32)	51	(13)	38	84	70	(80)	(10)
2043	10	3	10	5.66%	$73.50	$4.50	272	(99)	(23)	(75)	(31)	44	(11)	33	75	63	(80)	(17)
2044	9	3	10	5.38%	$73.50	$4.50	257	(94)	(22)	(25)	(29)	88	(23)	65	116	94	(55)	39
2045	9	3	9	5.11%	$73.50	$4.50	244	(89)	(21)	(25)	(27)	82	(21)	61	109	88	(55)	33
2046	8	3	9	4.85%	$73.50	$4.50	232	(85)	(20)	(25)	(26)	77	(20)	57	103	83	(55)	28
2047	8	3	9	4.61%	$73.50	$4.50	222	(81)	(19)	(25)	(25)	72	(19)	53	97	78	(55)	23
2048	8	2	8	4.38%	$73.50	$4.50	212	(77)	(18)	(25)	(24)	68	(18)	50	92	74	(55)	19
2049	7	2	8	4.16%	$73.50	$4.50	203	(74)	(17)	(25)	(23)	64	(17)	47	87	70	(55)	15
2050	7	2	8	3.95%	$73.50	$4.50	195	(71)	(17)	(25)	(22)	60	(16)	45	82	67	(55)	12
2051	7	2	7	3.76%	$73.50	$4.50	188	(69)	(16)	(25)	(21)	57	(15)	42	78	63	(55)	8
2052	7	2	7	3.57%	$73.50	$4.50	181	(66)	(15)	(25)	(20)	54	(14)	40	75	60	(55)	5
2053	6	2	7	3.39%	$73.50	$4.50	175	(64)	(15)	(25)	(20)	52	(13)	38	71	58	(55)	3
2054	6	2	7	3.22%	$73.50	$4.50	169	(62)	(14)	(25)	(19)	49	(13)	36	68	55	(55)	0

Source: BofA Global Research

BofA GLOBAL RESEARCH

Key assumptions behind our blow down valuation are as follows:

- Decline rate. Management has guided to a decline rate of 10-15%. We assume 15% for the first year, then tapering as production falls, although as a conventional asset the risk is the decline rate remains higher than we have assumed. Management disclosed 262 million boe of proved reserves as of end-2022. Assuming extraction and zero replacement during 2023, our starting point for 2024 is assumed at 235 million boe. We assume that oil and gas yield aligns with the production mix that is 95% oil and 5% natural gas. In our blow down case our model produces approximately 230 million boe.

- Price deck. We assume 2024 in line with the strip, then sensitize mid-cycle oil prices from 2025 at $70 to $75 Brent. ($75 Brent shown below). Note $70 Brent is roughly in line with the tail-end of the forward curve, and $75 Brent is BofA's mid-cycle base case. For gas we assume $2.87 SoCal Border and $4.50 from 2025 in line with the long-term average of the forward curve.

- Production cost. We are modeling an opex / unit estimate of $26/bbl, slightly higher than CRC, to reflect the greater use of steam floods.

- SG&A in both cases, we hold SG&A flat through the first ten years to avoid double counting the benefit from synergies.

- Capex. In the blow down case, we assume spending on only facilities and workovers. Our stating point to understand total capex is $600mn of D&C costs for the pro forma portfolio. We then estimate $200mn of additional capital to account facilities and work overs, totaling $800mn. Given the size of each companies' portfolio, we assume capital is roughly equal sized.

The upside case is more interesting – and assumes Aera would benefit from a successful conclusion of an ongoing court case that might enable easier permitting and a level of activity necessary to hold production flat.

In that case, we believe the acquired asset value would be closer to $2.8bn, increasing the accretion in value closer to $705mm or ~$/8 per share.

Exhibit 3: Absent of permitting constraints, we believe the Aera assets could be held flat for 10 years for $400mn: worth $10/sh

We see the value of the Aera portfolio at $10/sh under an operating scenario that holds production flat for ten years, then allows for a natural decline rate

Aera Valuation

NPV	2,045
Synergies	1,000
Hedge Book	(240)
	2,805

					2100	705	$8/sh											
Date	Production				Price Deck			($26.00)	8.50%		($8.00)		26%					
	Oil	Gas	Boe	Decline	Brent	Socal	Revenue	Opex	Prod Tax	SG&A	DD&A	EBT	Tax	Net Income	EBITDA	Cash Flow	Capex	FCF
2024	65	20	68	0.00%	$76.44	$2.87	1,824	(645)	(155)	(200)	(199)	625	(162)	462	823	661	(400)	261
2025	65	20	68	0.00%	$73.50	$4.50	1,767	(645)	(150)	(200)	(199)	573	(149)	424	771	622	(400)	222
2026	65	20	68	0.00%	$73.50	$4.50	1,767	(645)	(150)	(200)	(199)	573	(149)	424	771	622	(400)	222
2027	65	20	68	0.00%	$73.50	$4.50	1,767	(645)	(150)	(200)	(199)	573	(149)	424	771	622	(400)	222
2028	65	20	68	0.00%	$73.50	$4.50	1,767	(645)	(150)	(200)	(199)	573	(149)	424	771	622	(400)	222
2029	65	20	68	0.00%	$73.50	$4.50	1,767	(645)	(150)	(200)	(199)	573	(149)	424	771	622	(400)	222
2030	65	20	68	0.00%	$73.50	$4.50	1,767	(645)	(150)	(200)	(199)	573	(149)	424	771	622	(400)	222
2031	65	20	68	0.00%	$73.50	$4.50	1,767	(645)	(150)	(200)	(199)	573	(149)	424	771	622	(400)	222
2032	65	20	68	0.00%	$73.50	$4.50	1,767	(645)	(150)	(200)	(199)	573	(149)	424	771	622	(400)	222
2033	65	20	68	0.00%	$73.50	$4.50	1,767	(645)	(150)	(200)	(199)	573	(149)	424	771	622	(400)	222
2034	55	17	58	15.00%	$73.50	$4.50	1,502	(549)	(128)	(200)	(169)	457	(119)	338	625	507	(100)	407
2035	47	15	50	14.25%	$73.50	$4.50	1,288	(470)	(109)	(200)	(145)	363	(94)	269	508	413	(100)	313
2036	41	13	43	13.54%	$73.50	$4.50	1,113	(407)	(95)	(200)	(125)	287	(75)	212	412	337	(100)	237
2037	35	11	37	12.86%	$73.50	$4.50	970	(354)	(82)	(200)	(109)	224	(58)	166	333	275	(100)	175
2038	31	10	33	12.22%	$73.50	$4.50	852	(311)	(72)	(200)	(96)	172	(45)	128	268	223	(100)	123
2039	28	9	29	11.61%	$73.50	$4.50	753	(275)	(64)	(150)	(85)	179	(47)	133	264	217	(100)	117
2040	24	8	26	11.03%	$73.50	$4.50	670	(245)	(57)	(150)	(75)	143	(37)	106	218	181	(100)	81
2041	22	7	23	10.48%	$73.50	$4.50	600	(219)	(51)	(150)	(67)	112	(29)	83	180	150	(100)	50
2042	20	6	21	9.95%	$73.50	$4.50	540	(197)	(46)	(150)	(61)	86	(22)	64	147	124	(100)	24
2043	18	6	19	9.45%	$73.50	$4.50	489	(179)	(42)	(150)	(55)	64	(17)	47	119	102	(100)	2
2044	16	5	17	8.98%	$73.50	$4.50	445	(163)	(38)	(50)	(50)	145	(38)	107	195	157	(100)	57
2045	15	5	16	8.53%	$73.50	$4.50	407	(149)	(35)	(50)	(46)	128	(33)	95	174	140	(100)	40
2046	14	4	14	8.11%	$73.50	$4.50	374	(137)	(32)	(50)	(42)	114	(30)	84	156	126	(100)	26
2047	13	4	13	7.70%	$73.50	$4.50	345	(126)	(29)	(50)	(39)	101	(26)	75	140	114	(100)	14
2048	12	4	12	7.32%	$73.50	$4.50	320	(117)	(27)	(50)	(36)	90	(23)	67	126	103	(100)	3
2049	11	3	11	6.95%	$73.50	$4.50	298	(109)	(25)	(25)	(33)	105	(27)	78	139	111	(100)	11
2050	10	3	11	6.60%	$73.50	$4.50	278	(102)	(24)	(25)	(31)	97	(25)	71	128	103	(100)	3
2051	10	3	10	6.27%	$73.50	$4.50	261	(95)	(22)	(25)	(29)	89	(23)	66	118	95	(100)	(5)
2052	9	3	9	5.96%	$73.50	$4.50	245	(90)	(21)	(25)	(28)	82	(21)	61	110	88	(100)	(12)
2053	8	3	9	5.66%	$73.50	$4.50	231	(84)	(20)	(25)	(26)	76	(20)	56	102	82	(100)	(18)
2054	8	3	8	5.38%	$73.50	$4.50	219	(80)	(19)	(25)	(25)	71	(18)	52	95	77	(100)	(23)

Source: BofA Global Research

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In our view, the November 2022 ruling on the Kern Co Environmental Impact Report (EIR) reduced the risk of a worst-case scenario, where the accelerated permitting framework is invalidated forcing operators into a gated (re: slow) permit application process. That ruling narrowed the scope of remedies to keep the current framework in operation, rather than calling for a complete overhaul. However, that ruling is now under appeal, with the outcome expected in 2Q24. If successful, California producers should be able to return to normal operating activities – and assuming the EIR is reinstated we believe the pro forma company will be able to stem its decline rate and maintain production.

It is worth noting that asset was sold by ExxonMobil and Shell over a period in 2021/22, when production was ~95,000 boepd. However, difficulty in receiving permits saw production declining to ~76 kboed in 3Q23.

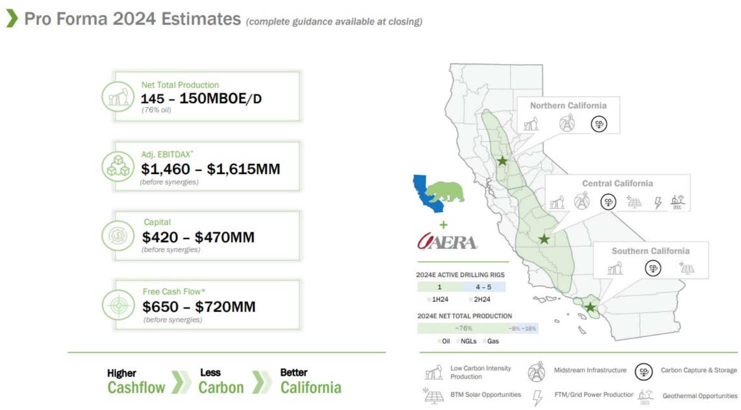
Note that pro-forma the company is expected to have 2024 production between 145 – 150 mboed (76% oil) with a capex range of $420 - $470 mm that is below maintenance capex of $600mn translating to a 8.3% decline from 3Q23 at 161 mboed (76% oil) due the ongoing permitting issues in Kern County.

Synergies & the industrial logic of carbon management

15 months after close the company is expected to realize $150mn in annualized synergies that is almost entirely made from operating costs and G&A but helped slightly from capex and infrastructure. Our confidence in these synergies is supported by the companies' overlapping operating positions, similar asset base, and CRC's track record of cost cutting pre-and-post bankruptcy in 2021. The company's pro-forma guidance is shown below.

Exhibit 4: Pro Forma 2024 estimates

The midpoint of production guidance implies an 8% decline from 3Q23



Source: Company reports

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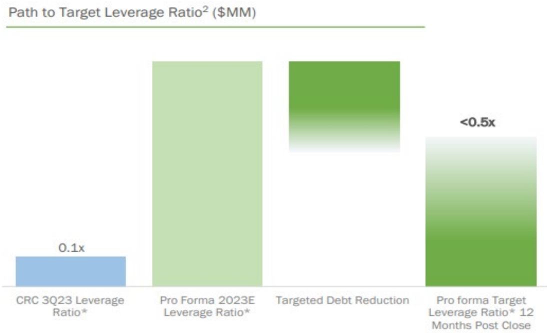
Additionally, CRC plans to refinance Aera draw on its RBL and 2nd lien that makes up most of the $1.1bn in liabilities and underlines by CRC's commitment received for a $500mn bridge loan facility. Moving forward we expect CRC to focus on deleveraging mainly though decreasing the bridge loan facility as the company is targeting less than 0.5x within 12 months after close.

Footnote: Carbon Management

Aera also expands CRC's CMB footprint adding 54 mmt (27mmt submitted with approval expected in 1H25 and 27 mmt to be submitted) additional pore space with half of the space adjacent to CTV's Elk Hills Clean Energy Park. Remember that CTV's first class VI draft permit has been released for public comment with the second permit for CTV I planned to be released later this year and first injection targeted by YE 2025 that is expected to coincide with the capture and storage project at the Elk Hill Gas Plant. While our valuation of the new asset is unchanged at $600mn we do note upside risk given additional scale but see FID of future green field projects as key for the market's recognition of value.

Exhibit 5: Leverage targets
Reaches below 0.5x within 12 months assumes Jan 25 strip



Source: Company reports

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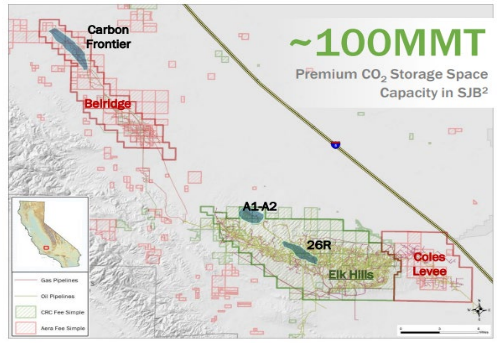
Exhibit 6: Carbon storage overlap
Aera adds 54mt of pore space doubles position in SJV



Source: Company reports

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Price objective basis & risk

California Resources Corporation (CRC)

Our price objective of $64/sh is based on ex growth DCF value using BofA's base case commodity view through 2024 and a Long-term (2025+) oil price assumption of $75 Brent. We assume long-term HH natural gas of $4.00. We apply a long-term (post-tax) weighted average cost of capital (WACC) of 9.6%, which is based on the BofA strategy team's assumed risk premium and a five-year monthly beta.

Upside risks to our PO are a higher sustaining commodity price than we have in our base case and faster than expected monetization of carbon capture/sequestration technology/acumen. Downside risks to our price objective are (1) regulatory risks in California, (2) project timing delays could impact our growth rates, and (3) as an oil leveraged company, a weak oil price environment would affect our estimates and valuation. (4) A slower than expected monetization of carbon capture/sequestration technology/acumen.

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I, Kalei Akamine, 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.

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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
	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
	Diamondback Energy Inc.	FANG	FANG US	Doug Leggate
	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

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Business Performance	**Numerator**	**Denominator**
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings	**Numerator**	**Denominator**
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	**Numerator**	**Denominator**
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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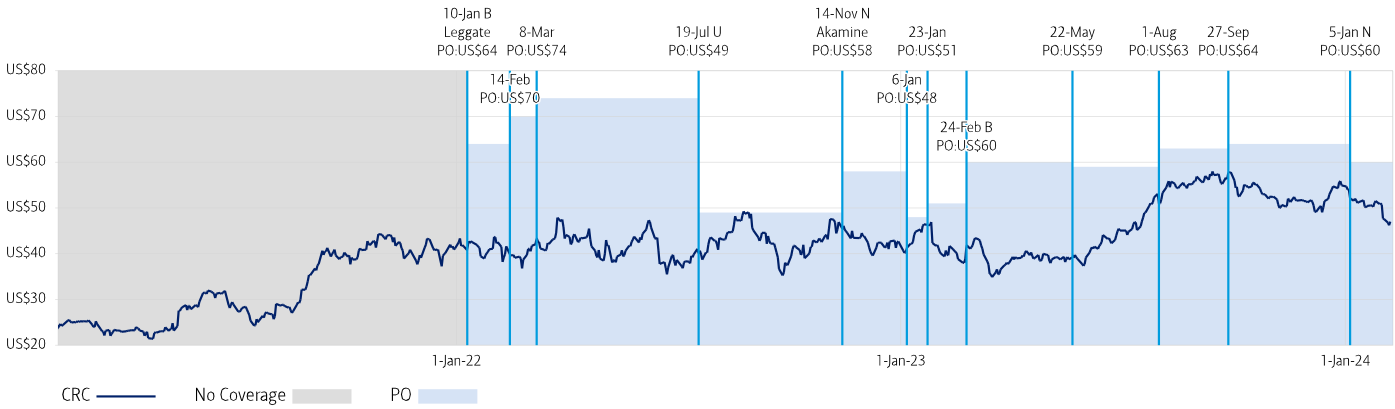
Important Disclosures

California Resources (CRC) Price Chart



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

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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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