

Diamondback Energy Inc.

4Q23 recap: Solid, pending Endeavor which continues to look incrementally better

Reiterate Rating: NEUTRAL | PO: 182.00 USD | Price: 178.06 USD

EPS beat on lower production tax

FANG's adj EPS of \$4.74 was within sight of consensus (\$4.70 / sh, BofAe \$4.55 / sh) adjusted for pre-announced on volumes of 273.1 Mboe/d on Feb 12th which beat guidance (269-273 Mboe/d). Vs our estimate, the main delta is lower production tax (+\$28c) offset by higher LOE (-\$11c). C/flow (ex w/c) of \$1.56bn exceeded our estimate of \$1.42bn, helped by higher deferred taxes. Full consolidated FcF of ~\$910mm includes 100% of VNOM (\$146mm) and is after capex of \$649mm, which brought FY spending to \$2.70bn vs guidance of \$2.66 - 2.70bn. Overall we view 4Q23 as operationally solid but uneventful given FANG had provided several updates prior to results including quarterly production, price realizations and capex as well as its standalone 2024 outlook as part of the Feb 12th announcement of plans to [merge with Endeavor](#) (expected close 4Q24).

Endeavor is transformational

In our view, solid 4Q23 earnings and the 2024 outlook will be overwhelmed by the pending merger with Endeavor that is a material reset of FANG's stand-alone investment case. Critically we see management's use of highly valued equity securing one of the highest quality undeveloped acreage positions in the Permian that allow it to leverage a successful track record of execution across a larger asset base. Closer examination of synergies as presented by management leads us to believe a reduction in combined spending of \$725mm and \$550mm of capital & operating costs has incremental value in excess of \$10bn over 15 years. In addition, we expect opportunities for potential asset sales. For example, per our discussions with FANG's management, Endeavor's water assets are of similar size to the assets that it contributed to Deep Blue in September of last year. This is something it could potentially sell, and it could possibly use VNOM to maximize the value of Endeavor mineral royalties.

PO \$182 as Endeavor continues to reset FANG's outlook

Pending greater clarity on several of these issues we maintain a Neutral rating on FANG - but see the acquisition of Endeavor addressing prior shortcoming we saw on a fully valued equity and leveraging management's capability across one of the highest quality asset portfolios in the sector. An updated view of how synergies translate to value, and recent appreciation in VNOM lifts our PO to from \$170 to \$182. But discussions with management lead us to believe synergies have upside, albeit full disclosure on post-acquisition initiatives to release value may have to wait until the deal closes, expected by y/end '24.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	23.54	17.71	17.98	18.75	19.55
GAAP EPS	25.79	18.53	19.40	20.25	21.13
EPS Change (YoY)	110.6%	-24.8%	1.5%	4.3%	4.3%
Consensus EPS (Bloomberg)			18.16	19.60	20.28
DPS	9.01	8.06	3.60	3.60	3.60
Valuation (Dec)					
P/E	7.6x	10.1x	9.9x	9.5x	9.1x
GAAP P/E	6.9x	9.6x	9.2x	8.8x	8.4x
Dividend Yield	5.1%	4.5%	2.0%	2.0%	2.0%
EV / EBITDA*	5.2x	6.6x	6.4x	6.5x	6.6x
Free Cash Flow Yield*	13.7%	10.1%	9.1%	9.0%	8.8%

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

21 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	170.00	182.00
2024E DPS	3.36	3.60

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Stock Data

Price	178.06 USD
Price Objective	182.00 USD
Date Established	21-Feb-2024
Investment Opinion	C-2-7
52-Week Range	119.01 USD - 181.54 USD
Mrkt Val (mn) / Shares Out (mn)	32,117 USD / 180.4
Free Float	99.5%
Average Daily Value (mn)	373.38 USD
BofA Ticker / Exchange	FANG / NAS
Bloomberg / Reuters	FANG US / FANG.OQ
ROE (2024E)	17.5%
Net Dbt to Eqty (Dec-2023A)	34.7%
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"](#).

LOE – Lease Operating Expense

VNOM – Viper Energy Partners Lp

FCF – Free Cashflow

Boed – Barrels of oil equivalent per day

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Timestamp: 21 February 2024 05:11AM EST

iQprofileSM Diamondback Energy Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	22.8%	14.0%	12.8%	12.4%	12.0%
Return on Equity	28.8%	19.3%	17.5%	16.5%	15.7%
Operating Margin	67.5%	54.3%	53.7%	53.1%	52.7%
Free Cash Flow	4,387	3,234	2,928	2,889	2,837

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.5x	1.9x	1.7x	1.8x	1.8x
Asset Replacement Ratio	1.4x	1.5x	1.3x	1.3x	1.3x
Tax Rate	20.5%	21.5%	23.0%	23.0%	23.0%
Net Debt-to-Equity Ratio	38.8%	34.7%	30.7%	27.0%	23.5%
Interest Cover	40.9x	26.1x	25.3x	26.8x	28.4x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	9,643	8,412	8,407	8,333	8,200
% Change	41.9%	-12.8%	-0.1%	-0.9%	-1.6%
Gross Profit	9,643	8,412	8,407	8,333	8,200
% Change	41.9%	-12.8%	-0.1%	-0.9%	-1.6%
EBITDA	7,553	5,950	6,110	6,032	5,945
% Change	49.0%	-21.2%	2.7%	-1.3%	-1.4%
Net Interest & Other Income	(772)	(322)	(178)	(165)	(152)
Net Income (Adjusted)	4,164	3,188	3,097	3,039	2,972
% Change	109.9%	-23.4%	-2.8%	-1.9%	-2.2%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	4,562	3,336	3,340	3,282	3,212
Depreciation & Amortization	1,344	1,746	1,853	1,863	1,875
Change in Working Capital	(199)	296	0	0	0
Deferred Taxation Charge	720	378	184	183	182
Other Adjustments, Net	(102)	164	17	17	18
Capital Expenditure	(1,938)	(2,686)	(2,466)	(2,457)	(2,450)
Free Cash Flow	4,387	3,234	2,928	2,889	2,837
% Change	78.0%	-26.3%	-9.5%	-1.3%	-1.8%
Share / Issue Repurchase	(107)	(3,398)	(1,511)	(1,506)	(1,492)
Cost of Dividends Paid	(1,572)	(936)	(960)	(922)	(883)
Change in Debt	(1,462)	2,558	(454)	(453)	(449)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	164	585	638	696	759
Trade Receivables	722	846	846	846	846
Other Current Assets	506	190	190	190	190
Property, Plant & Equipment	23,759	26,674	26,994	27,294	27,579
Other Non-Current Assets	1,058	706	706	706	706
Total Assets	26,209	29,001	29,374	29,732	30,080
Short-Term Debt	10	0	0	0	0
Other Current Liabilities	1,706	2,108	2,125	2,142	2,160
Long-Term Debt	6,238	6,641	6,187	5,734	5,285
Other Non-Current Liabilities	2,565	2,822	3,006	3,189	3,371
Total Liabilities	10,519	11,571	11,317	11,065	10,816
Total Equity	15,690	17,430	18,056	18,667	19,264
Total Equity & Liabilities	26,209	29,001	29,374	29,732	30,080

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

Company Sector

Oil & Gas Producers

Company Description

Diamondback Energy is a pure play Permian producer with 429k pro forma net acres in the Midland (64%) and Delaware Basins (36%) with mineral rights ownership on certain acreage held indirectly through Viper Energy. The majority of acreage sits in contiguous blocks in Midland, Glasscock, Howard Martin/Andrews counties in Midland side and in Reeves, Pecos and Ward counties on the S Delaware side. 2020 YE reserves stood at 1,316 MMboe (62% PD), a roughly 4x increase from 2017 levels.

Investment Rationale

Our Neutral rating on FANG reflects the most recent acquisition of Endeavor creating a rate of change catalyst to force the market's recognition of value

Stock Data

Average Daily Volume 2,096,941

Quarterly Earnings Estimates

	2023	2024
Q1	4.10A	4.07E
Q2	3.68A	4.68E
Q3	5.49A	4.81E
Q4	4.74A	4.43E

4Q23 Earnings Summary

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

Exhibit 1: FANG 4Q23 Earnings Variance

Y/Y and Q/Q Comparison (\$ in Millions, except in per share data)- Beat on lower production taxes offset, in part, by higher LOE

Segment Earnings	4Q23A	4Q23E	4Q22A	YoY	3Q23A	QoQ
Total Rev & Non-Op Inc	2,228	2,156	2,030	10%	2,340	-5%
Production Expenses	(436)	(478)	(344)	27%	(417)	5%
DD&A	(469)	(452)	(365)	28%	(442)	6%
Income Tax Expense	(264)	(262)	(261)	1%	(276)	-4%
Other Income / Expenses	(99)	(150)	(60)	65%	(290)	-66%
Net Income (Reported)	960	813	1,000	-4%	915	5%
Special Items	(113)	-	(60)	88%	67	-269%
Net Income (Adjusted)	847	813	940	-10%	982	-14%
EPS (Adjusted)	4.74	4.55	5.29	-10%	5.49	-14%
EPS (Reported)	4.74	4.55	5.29	-10%	5.49	-14%
Dividend	0.90	0.90	2.26	-60%	3.37	-73%

Source: BofA Global Research estimates; Company data

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Estimate Changes

Adjusting for results and 2024 guidance, our estimates change as follows.

Exhibit 2: FANG Earnings Estimates

Earnings estimates adjusted for actual 4Q23 results versus consensus

	Q1	Q2	Q3	Q4	FY	BBG Consensus
2022A	5.20	7.07	6.48	5.29	23.54	24.20
2023E	4.10	3.68	5.49	4.74	17.71	17.94
Previous	4.10	3.68	5.49	4.53	17.79	n/a
2024E	4.07	4.68	4.81	4.43	17.98	18.14
Previous	4.15	4.75	4.87	4.50	18.26	n/a
2025E	4.39	4.69	4.90	4.77	18.75	19.57
Previous	4.46	4.76	4.96	4.83	18.99	n/a

Source: BofA Global Research estimates, Bloomberg

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Price objective basis & risk

Diamondback Energy Inc. (FANG)

Our price objective of \$182/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 8.2%, which is based on the BofA strategy team's assumed risk premium and a five-year monthly beta.

Downside 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, and (3) inability to capture the price environment due to cost pressures (opex, capex, and taxation). Upside risks to our price objective are higher oil & gas prices, new & unexplored plays, and further technological advances that add downside pressures to costs.

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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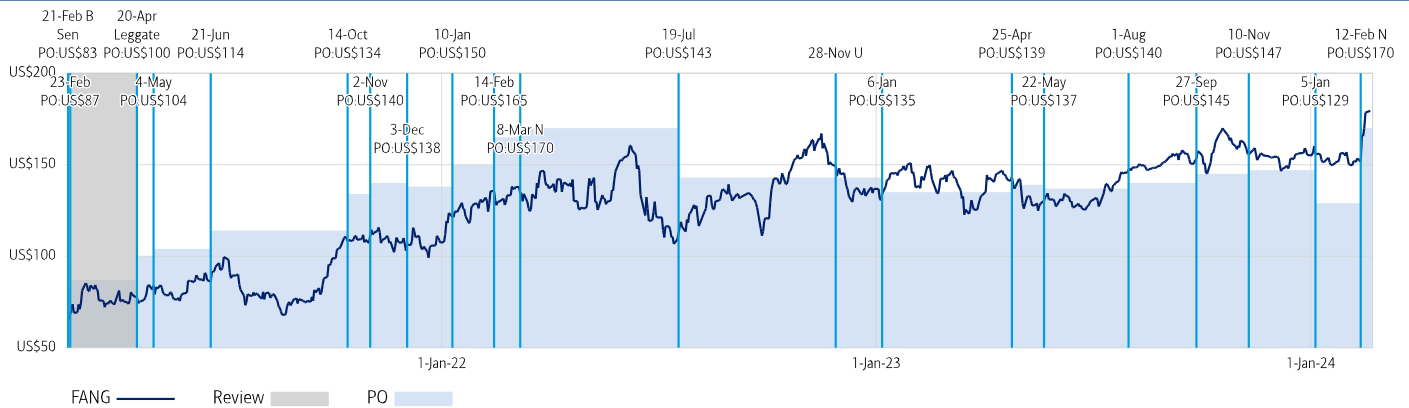
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Diamondback (FANG) Price Chart



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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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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