

# Kimbell Royalty Partners

## 4Q23 Preview: ~22% yoy growth in 2024, has momentum from 2023 deal activity

Reiterate Rating: BUY | PO: 17.00 USD | Price: 14.94 USD

### 4Q will be 1st quarter fully reflecting the Long Point deal

We update our Kimbell Royalty Partners (KRP) projections ahead of year end results on Wednesday, February 21<sup>st</sup>, with a call scheduled for the same day at 11am ET (Dial-in: 201-389-0869). 4Q23 will be the company's first full quarter to include the impact of its Long Point acquisition, which closed in September of last year. As a reminder, this is the largest transaction in KRP's history at ~\$455mm, which added to both its Permian & Mid con mineral and royalty footprints. For the quarter, we expect adj. EBITDA of \$67mm, in-line with consensus of \$68mm, on production of ~24 Mboe/d, at the high end of guidance (22.5-24.3 Mboe/d).

### We see majority of 2024 activity from the Permian

At results, KRP will announce 2024 guidance. We currently project FY volumes of ~24 Mboe/d (versus consensus of 24.5 Mboe/d). representing 22% yoy growth, driven primarily by acquisitions (Hatch, MB Minerals, and Long Point). Most of the activity we expect would be from the Permian. As a reminder, as a mineral and royalty business, KRP pays little in the way of capital expenditures, except for acquisitions.

### Look for KRP's latest thoughts on deal flow this year

KRP continues to view itself as a consolidator in the oil and gas mineral space. Over the past 5 years, we estimate it has added ~18 Mboe/d of production for ~\$1.8bn. For the upcoming earnings call look for more color on how management sees potential deal flow this year in what we see as a more volatile commodity backdrop. Additionally, watch for its latest thoughts on the trajectory of future cash tax after the transactions over the past year, and in light of the Alternative Minimum Tax challenging the broader industry.

### Reit Buy: Defensive in volatile commodity environment

We reiterate our Buy rating on KRP as we view it as relatively defensive in potentially a more volatile commodity environment. Additional support comes from an 11% yield in 2024 based on our BofA price deck of \$75 WTI / \$2.75 HH. However, we caution that its distribution payout, which is based on returning 75% of cash flow to shareholders, is entirely variable and could differ from our expectations.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	1.36	1.91	1.03	0.96	1.18
GAAP EPS	0.49	1.68	0.74	0.50	0.64
EPS Change (YoY)	NM	40.4%	-46.1%	-6.8%	22.9%
Consensus EPS (Bloomberg)			1.03	1.18	1.26
DPS	1.32	2.04	1.69	1.60	1.80
Valuation (Dec)					
P/E	11.0x	7.8x	14.5x	15.6x	12.7x
GAAP P/E	30.5x	8.9x	20.2x	29.9x	23.3x
Dividend Yield	8.8%	13.7%	11.3%	10.7%	12.1%
EV / EBITDA*	23.2x	10.7x	9.5x	8.1x	7.5x
Free Cash Flow Yield*	2.5%	1.8%	-21.7%	15.6%	17.4%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

26 January 2024

#### Equity

#### Key Changes

(US\$)	Previous	Current
2023E DPS	1.66	1.69

**John H. Abbott**  
Research Analyst  
BofAS  
+1 713 247 7144  
[john.h.abbott@bofa.com](mailto:john.h.abbott@bofa.com)

**Doug Leggate**  
Research Analyst  
BofAS  
[doug.leggate@bofa.com](mailto:doug.leggate@bofa.com)

**Noah Hungness**  
Research Analyst  
BofAS  
[noah.hungness@bofa.com](mailto:noah.hungness@bofa.com)

**Carlos Escalante**  
Research Analyst  
BofAS  
[carlos.escalante@bofa.com](mailto:carlos.escalante@bofa.com)

#### Stock Data

Price	14.94 USD
Price Objective	17.00 USD
Date Established	5-Jan-2024
Investment Opinion	B-1-7
52-Week Range	13.85 USD - 17.11 USD
Mkt Val (mn) / Shares Out (mn)	1,415 USD / 94.7
Free Float	88.1%
Average Daily Value (mn)	6.16 USD
BofA Ticker / Exchange	KRP / NYS
Bloomberg / Reuters	KRP US / KRP.N
ROE (2023E)	9.8%
Net Dbt to Eqty (Dec-2022A)	25.9%

#### Abbreviations:

HH: Henry Hub

MBOE: thousand barrels of oil equivalent

WTI: West Texas Intermediate

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Timestamp: 26 January 2024 05:42PM EST

# iQprofile<sup>SM</sup> Kimbell Royalty Partners

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	8.3%	16.3%	9.4%	8.2%	10.1%
Return on Equity	17.3%	21.9%	9.8%	9.2%	12.3%
Operating Margin	38.1%	59.4%	45.2%	44.3%	46.2%
Free Cash Flow	35	25	(307)	220	246

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.5x	1.3x	2.1x	2.4x	2.2x
Asset Replacement Ratio	1.5x	2.8x	5.6x	0x	0x
Tax Rate	0.2%	2.1%	9.6%	22.0%	22.0%
Net Debt-to-Equity Ratio	61.0%	25.9%	25.8%	23.1%	18.2%
Interest Cover	5.6x	10.7x	5.0x	5.4x	7.4x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	136	248	278	305	329
% Change	49.9%	82.9%	12.1%	9.8%	7.8%
Gross Profit	125	232	257	283	304
% Change	48.8%	85.3%	10.9%	10.0%	7.7%
EBITDA	86	187	211	247	268
% Change	76.4%	117.2%	12.7%	17.1%	8.5%
Net Interest & Other Income	(9)	(14)	(25)	(25)	(21)
<b>Net Income (Adjusted)</b>	<b>63</b>	<b>127</b>	<b>91</b>	<b>91</b>	<b>112</b>
<b>% Change</b>	<b>NM</b>	<b>102.4%</b>	<b>-28.6%</b>	<b>0.1%</b>	<b>22.9%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	34	112	71	67	80
Depreciation & Amortization	(37)	(50)	(88)	(111)	(116)
Change in Working Capital	(21)	(11)	6	0	0
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	115	115	198	265	281
Capital Expenditure	(56)	(141)	(494)	0	0
<b>Free Cash Flow</b>	<b>35</b>	<b>25</b>	<b>-307</b>	<b>220</b>	<b>246</b>
<b>% Change</b>	<b>NM</b>	<b>-28.8%</b>	<b>NM</b>	<b>NM</b>	<b>11.6%</b>
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	(72)	(127)	(155)	(173)	(185)
Change in Debt	46	16	37	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	7	25	40	40	40
Trade Receivables	3	4	3	3	3
Other Current Assets	35	47	63	63	63
Property, Plant & Equipment	543	754	1,248	1,137	1,022
Other Non-Current Assets	9	247	8	8	8
<b>Total Assets</b>	<b>597</b>	<b>1,077</b>	<b>1,362</b>	<b>1,251</b>	<b>1,135</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	28	19	15	15	15
Long-Term Debt	220	235	306	258	197
Other Non-Current Liabilities	5	9	9	32	59
<b>Total Liabilities</b>	<b>253</b>	<b>263</b>	<b>329</b>	<b>305</b>	<b>271</b>
<b>Total Equity</b>	<b>349</b>	<b>813</b>	<b>1,033</b>	<b>946</b>	<b>864</b>
<b>Total Equity &amp; Liabilities</b>	<b>601</b>	<b>1,077</b>	<b>1,362</b>	<b>1,251</b>	<b>1,135</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Oil & Gas Producers

## Company Description

KRP is small cap focused on the oil and gas space, where it believes that it is well positioned to be a consolidator. While it is still a MLP from a governance perspective, it opted to be taxed as a C-Corp in 2018. As a result, investors receive, 1099s vs K-1s

## Investment Rationale

Our Buy on KRP reflects that we believe that relative performance can possibly improve from here due to distribution growth in 2024 from recent acquisitions. In addition, we see it as possibly advantaged if a backwardated oil curve were to play out as it is relatively low beta as it does not have many of the costs of an E&P and because it also benefits from a relatively low underlying decline rate of 14% that augments its ability to generate cash.

## Stock Data

Average Daily Volume 412,383

## Quarterly Earnings Estimates

	2022	2023
Q1	0.47A	0.24A
Q2	0.59A	0.23A
Q3	0.50A	0.26A
Q4	0.36A	0.29E

# Summary of 4Q23 expectations

Below is a summary of our expectations heading into results.

## Exhibit 1: KRP Earnings Variance

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

	4Q23A	4Q23E	4Q22A	YoY	3Q23A	QoQ
Total Revenues		83.2	68.7	21.1%	67.2	23.8%
Production expenses		(16.0)	(13.1)	22.1%	(18.9)	-15.3%
DD&A		(27.7)	(16.7)	65.7%	(23.1)	20.2%
Interest expense		(6.8)	(4.0)	71.9%	(6.7)	1.6%
Other income / expenses		(10.5)	(5.6)	86.2%	(4.9)	114.1%
Provision / Benefit for tax		(7.2)	(0.9)	710.7%	(0.1)	5524.0%
<b>Net Income (Reported)</b>		15.0	28.4	-47.1%	13.6	10.7%
Special Items		12.8	(2.9)	-541.3%	11.4	12.3%
<b>Net Income (Adjusted)</b>		27.8	25.5	9.3%	25.0	11.4%
Earnings Per Share (Reported)		0.20	0.48	-57.4%	0.20	2.7%
Earnings per share (Adjusted)		0.29	0.36	-19.3%	0.26	11.7%
Distributions		0.44	0.53	-17.0%	0.51	-13.7%

Source: BofA Global Research estimates, Company data

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## Estimate Changes

We have updated our estimates ahead of results. The changes in our projections are driven, in part, from updating expected price realization assumptions.

## Exhibit 2: KRP Earnings Estimates

Changes in our projections are driven, in part, from updating expected price realization

	Q1	Q2	Q3	Q4	FY	BBG Consensus
2022A	0.47	0.59	0.50	0.36	1.91	1.75
2023E	0.24	0.23	0.26	0.29	1.03	1.03
Previous	0.24	0.23	0.26	0.26	1.00	n/a
2024E	0.22	0.24	0.23	0.27	0.96	1.18
Previous	0.24	0.30	0.29	0.29	1.12	n/a
2025E	0.29	0.27	0.30	0.33	1.18	1.26
Previous	0.30	0.30	0.33	0.34	1.27	n/a

Source: BofA Global Research, Bloomberg

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## Price objective basis & risk

### Kimbell Royalty Partners (KRP)

Our \$17 PO is based upon a discount cash flow assuming a long-term commodity deck of \$4.00 HH / \$70 WTI and a 10% WACC.

Upside risks to our price objective: 1) more activity than expected on KRP's acreage, 2) new potential plays and 3) favorable M&A as it aims to be a consolidator in the oil and gas mineral space

Downside risks to our price objective are: 1) potential unfavorable transactions, 2) less potential access to the capital markets as well as 3) possibly less activity on its leased acreage than expected.

## Analyst Certification

I, John H. Abbott, 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
<b>BUY</b>				
	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
<b>NEUTRAL</b>				
	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
<b>UNDERPERFORM</b>				
	Chord Energy Corporation	CHRD	CHRD US	John H. Abbott
	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

## US - Large Cap Oils Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
<b>RSTR</b>				
	Pioneer Natural Resources	PXD	PXD US	Doug Leggate

**iQmethod<sup>SM</sup> 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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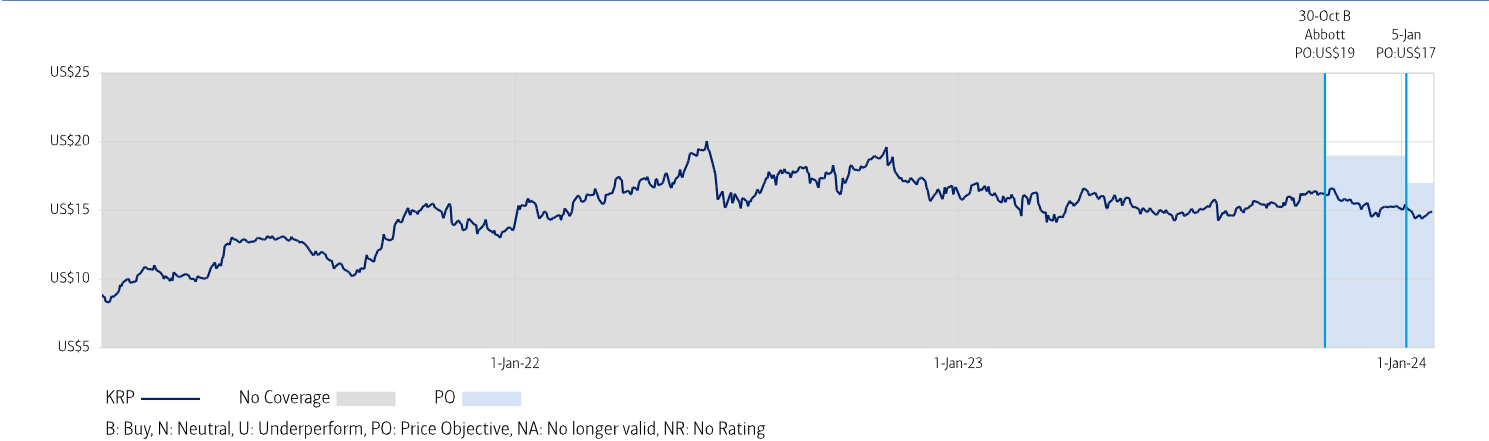
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## Important Disclosures

### Kimbell Royalty (KRP) Price Chart



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 <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%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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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