

CNX Resources

Reacting to low gas prices a +; but the question is where is it deferring wells

Reiterate Rating: NEUTRAL | PO: 23.00 USD | Price: 21.35 USD

Deferring the completion of three Marcellus pads

Following on the heels of other natural gas producers such as Chesapeake Energy, EQT, Comstock, and Antero, CNX lowered its 2024 production guide to 540-560 Bcfe from 570-590 Bcfe prior, or ~30 Bcfe based upon the mid-point, as it is deferring the completion of three Marcellus pads (11 wells) due to low natural gas prices. While we await CNX's response to our question on the location of these pads, we would note prior 2024 turn-in-line (TIL) guidance of 24 wells included 11 wells (8 Marcellus, 3 Utica) in its CPA region. If this turns out to be where it is deferring activity, we believe this will likely raise questions over possible degradation of future capital efficiency as activity later in the decade shifts more towards that area from its 'core' SWPA Central region.

580 Bcfe guide in 2025 may depend on timing of TILs

With the deferral of completions, CNX has lowered 2024 capex guidance to \$525-\$575mm from \$575-\$625mm prior, or ~\$50mm based upon the midpoint. It expects this capital to return when it plans to frac these wells in a better pricing environment, which we assume is later this year or early next. Based on this, we are currently modeling 2025 spending of ~\$540mm compared to its prior guidance that capital could fall below \$500mm next year. While CNX has so far maintained its long-term production target of ~580 Bcfe in 2025, in our view, there is perhaps some risk of this being pushed out depending on the timing of TILs. However, we assume production stays at that level until we have greater color on future activity.

Reiterate Neutral: Future capital intensity still a question

All-in-all, we see updated 2024 guidance as mixed. While we see the reduction in natural gas volumes as an appropriate response to lower commodity prices, we see this offset by concerns on where CNX may be deferring activity and what that might mean to future capital intensity. We reiterate our Neutral rating which reflects, on the one hand, that we see CNX's significant hedging and the free cash flow from its New Technology Business as supportive to the current shares. However, in our view, this is offset by our concerns on the longevity of its 'core' Marcellus inventory coupled with risk that its hedge position may eventually become a drag on relative performance when natural gas prices turn around, which is our view starting in 2025 beyond as LNG infrastructure comes online. Our \$23 PO remains unchanged assuming long-term \$4 HH.

| Estimates (Dec) (US\$) | 2022A | 2023A | 2024E | 2025E | 2026E |
|---------------------------|--------|--------|-------|-------|-------|
| EPS | 2.61 | 1.86 | 1.93 | 2.36 | 2.92 |
| GAAP EPS | (0.69) | 9.09 | 1.80 | 2.23 | 2.79 |
| EPS Change (YoY) | 65.2% | -28.7% | 3.8% | 22.3% | 23.7% |
| Consensus EPS (Bloomberg) | | | 1.72 | 2.42 | 2.73 |
| DPS | 0 | 0 | 0 | 0 | 0 |
| Valuation (Dec) | | | | | |
| P/E | 8.2x | 11.5x | 11.1x | 9.0x | 7.3x |
| GAAP P/E | NM | 2.3x | 11.9x | 9.6x | 7.7x |
| EV / EBITDA* | 4.3x | 5.8x | 5.7x | 5.1x | 4.6x |
| Free Cash Flow Yield* | 20.0% | 4.0% | 9.3% | 10.3% | 14.3% |

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

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Stock Data

| | |
|--------------------------------|-----------------------|
| Price | 21.35 USD |
| Price Objective | 23.00 USD |
| Date Established | 27-Sep-2023 |
| Investment Opinion | C-2-9 |
| 52-Week Range | 14.36 USD - 23.68 USD |
| Mkt Val (mn) / Shares Out (mn) | 3,348 USD / 156.8 |
| Free Float | 94.8% |
| Average Daily Value (mn) | 63.12 USD |
| BofA Ticker / Exchange | CNX / NYS |
| Bloomberg / Reuters | CNX US / CNX.N |
| ROE (2024E) | 7.7% |
| Net Dbt to Eqty (Dec-2023A) | 50.5% |
| ESGMeter TM | 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".

BCFE: billion cubic feet of gas equivalent

CPA: Central Pennsylvania

HH: Henry Hub

LNG: Liquid Natural Gas

SWPA: Southwest Pennsylvania

iQprofileSM CNX Resources

iQmethodSM – Bus Performance*

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|----------------------------|-------|-------|-------|-------|-------|
| Return on Capital Employed | -0.8% | 24.2% | 5.0% | 5.7% | 6.4% |
| Return on Equity | 16.1% | 9.7% | 7.7% | 8.7% | 9.8% |
| Operating Margin | -7.4% | 65.3% | 29.6% | 32.8% | 36.6% |
| Free Cash Flow | 669 | 135 | 312 | 343 | 478 |

iQmethodSM – Quality of Earnings*

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|--------------------------|-------|-------|-------|-------|-------|
| Cash Realization Ratio | 2.3x | 2.3x | 2.5x | 2.1x | 1.8x |
| Asset Replacement Ratio | 1.2x | 1.6x | 1.3x | 1.2x | 1.2x |
| Tax Rate | 33.0% | 22.6% | 21.0% | 21.0% | 21.0% |
| Net Debt-to-Equity Ratio | 74.0% | 50.5% | 40.2% | 30.2% | 19.0% |
| Interest Cover | -0.7x | 16.7x | 4.7x | 5.6x | 6.7x |

Income Statement Data (Dec)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|------------------------------|--------------|---------------|--------------|--------------|--------------|
| Sales | 1,261 | 3,466 | 1,782 | 1,907 | 2,057 |
| % Change | -40.8% | 174.8% | -48.6% | 7.0% | 7.9% |
| Gross Profit | 513 | 2,824 | 1,086 | 1,191 | 1,311 |
| % Change | 282.4% | 450.8% | -61.5% | 9.7% | 10.0% |
| EBITDA | 1,300 | 960 | 984 | 1,089 | 1,209 |
| % Change | 9.1% | -26.2% | 2.5% | 10.7% | 11.0% |
| Net Interest & Other Income | (128) | (143) | (113) | (112) | (112) |
| Net Income (Adjusted) | 534 | 357 | 351 | 430 | 530 |
| % Change | 53.4% | -33.2% | -1.7% | 22.5% | 23.4% |

Free Cash Flow Data (Dec)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|--|--------------|---------------|---------------|-------------|--------------|
| Net Income from Cont Operations (GAAP) | (141) | 1,744 | 327 | 405 | 507 |
| Depreciation & Amortization | 461 | 434 | 427 | 433 | 425 |
| Change in Working Capital | 29 | 113 | 0 | 0 | 0 |
| Deferred Taxation Charge | (76) | 504 | 87 | 24 | 20 |
| Other Adjustments, Net | 962 | (1,981) | 20 | 21 | 19 |
| Capital Expenditure | (566) | (679) | (549) | (540) | (493) |
| Free Cash Flow | 669 | 135 | 312 | 343 | 478 |
| % Change | 45.3% | -79.8% | 131.0% | 9.9% | 39.4% |
| Share / Issue Repurchase | (349) | (318) | 0 | 0 | 0 |
| Cost of Dividends Paid | 0 | 0 | 0 | 0 | 0 |
| Change in Debt | (115) | 2 | 0 | 0 | 0 |

Balance Sheet Data (Dec)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Cash & Equivalents | 21 | 0 | 227 | 570 | 1,048 |
| Trade Receivables | 355 | 134 | 134 | 134 | 134 |
| Other Current Assets | 198 | 294 | 294 | 294 | 294 |
| Property, Plant & Equipment | 7,097 | 7,343 | 7,465 | 7,572 | 7,639 |
| Other Non-Current Assets | 845 | 868 | 868 | 868 | 868 |
| Total Assets | 8,516 | 8,639 | 8,988 | 9,438 | 9,984 |
| Short-Term Debt | 0 | 326 | 326 | 326 | 326 |
| Other Current Liabilities | 1,313 | 482 | 482 | 482 | 482 |
| Long-Term Debt | 2,206 | 1,889 | 1,803 | 1,803 | 1,803 |
| Other Non-Current Liabilities | 2,047 | 1,558 | 1,645 | 1,670 | 1,689 |
| Total Liabilities | 5,565 | 4,255 | 4,256 | 4,280 | 4,300 |
| Total Equity | 2,950 | 4,385 | 4,732 | 5,158 | 5,684 |
| Total Equity & Liabilities | 8,516 | 8,639 | 8,988 | 9,438 | 9,984 |

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

Company Sector

Oil & Gas Producers

Company Description

CNX is a small-cap natural gas producer in Pennsylvania, West Virginia and Ohio. The company has undergone a significant transformation over the past ten years from what was previously an E&P / coal company to what is now a 'pure-play' natural gas producer and it recently took in house its previously publically traded MLP in September. As of the end 2019, it estimated year-end proved reserves of approximately 8.43 Tcfe (approximately 94% natural gas / 57% proved developed).

Investment Rationale

Our Neutral rating on CNX reflects a more constructive outlook on gas as the company's portfolio mix is approximately 95% natural gas, but met with concerns over depth of 'core' Marcellus inventory. We also note a potential tailwind from the company's new technology business.

Stock Data

Average Daily Volume 2,956,248

Quarterly Earnings Estimates

| | 2023 | 2024 |
|----|-------|-------|
| Q1 | 0.55A | 0.53E |
| Q2 | 0.30A | 0.45E |
| Q3 | 0.35A | 0.45E |
| Q4 | 0.67A | 0.51E |

Estimate changes

Adjusting for yearend results and updated guidance, our estimates change as follows:

Exhibit 1: CNX Earnings Estimates

Adjusting for yearend results and updated guidance

| | Q1 | Q2 | Q3 | Q4 | FY | BBG Consensus |
|----------|------|------|------|------|------|---------------|
| 2023A | 0.55 | 0.30 | 0.35 | 0.35 | 1.55 | 1.50 |
| 2024E | 0.53 | 0.45 | 0.45 | 0.51 | 1.93 | 1.66 |
| Previous | 0.45 | 0.47 | 0.51 | 0.60 | 2.03 | n/a |
| 2025E | 0.66 | 0.53 | 0.54 | 0.63 | 2.36 | 2.34 |
| Previous | 0.71 | 0.57 | 0.59 | 0.65 | 2.53 | n/a |
| 2026E | 0.80 | 0.71 | 0.68 | 0.72 | 2.92 | 2.74 |
| Previous | | | | | | n/a |

Source: BofA Global Research, Bloomberg

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Price objective basis & risk

CNX Resources (CNX)

Our \$23 PO 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 8.3%, which is based on the BofA strategy team's assumed risk premium and a five-year monthly beta and includes SWPA Central inventory 'risked' at 33%.

Upside risks to our PO are: (1) further progress on reducing well costs, (2) potential assets sales, and (3) potentially greater confidence in the depth to the company's remaining core Marcellus inventory.

Downside risks to our PO are: (1) the possibility that a potential severance tax in Pennsylvania could at some point be introduced, (2) weak natural gas prices and (3) services costs at some point could move higher

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 |
|-------------------|----------------------------------|-------------|------------------|----------------|
| 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 | Doug Leggate |
| | 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 |
| | Magnolia Oil and Gas | MGY | MGY US | Noah Hungness |
| | 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 |

US - Large Cap Oils Coverage Cluster

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---------------------|---------------------------|-------------|------------------|----------------|
| UNDERPERFORM | Chord Energy Corporation | CHRD | CHRD US | John H. Abbott |
| | 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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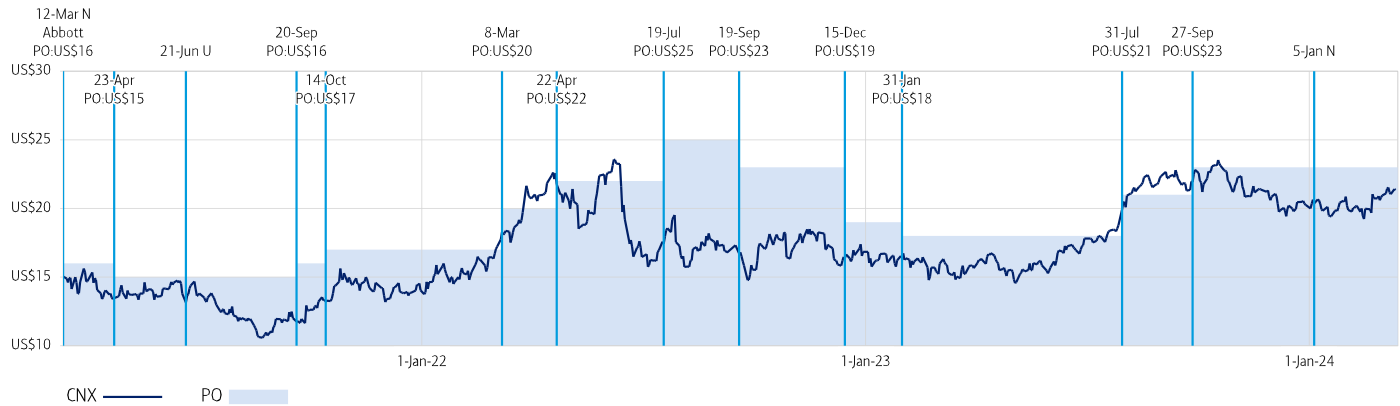
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Disclosures

Important Disclosures

CNX Resources (CNX) 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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|-------------------|---|--|
| 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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