# Permian Resources Corporation

# Initiate at Neutral with $15 PO; Big share gains are in the rear-view mirror post M&A

**Reinstating Coverage: NEUTRAL | PO: 15.00 USD | Price: 13.24 USD**

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## Limited upside ahead after stellar outperformance

We initiate on Permian Resources (Ticker: PR) at Neutral with a $15 PO. PR is the product of the Sept. 2022 "merger of equals" between privately held Colgate & publicly traded Centennial. The Nov. 2023 all-equity, $4.5bn Earthstone Energy acquisition lifted PR into the large cap E&P peer universe as the eighth biggest producer in the Permian Basin, with current production of 375 boepd, >400k net acres and a drilling backlog management suggests at >15 years. As a larger company with a strong execution history, we see PR attracting investors in a competitive sector where rate of change can define relative share performance. That said, PR has significantly outperformed the Russell 3000 Energy Index since the deal was announced. Thus, we think that leaves limited upside at our base case, which assumes $80 Brent ($75 WTI) in 2024 with backwardation embedded in our long-term commodity view at $70 WTI. Accordingly, we see fair value at around $15/sh.

## Earthstone synergies are positive but discounted

PR's strategy has some hallmarks of its private equity pedigree, one with a strong track record of returns albeit helped by an oil price recovery since 2016. Still, management believes that at its limited size with ~60 bpd of oil production growth is an acceptable strategy. While PR has yet to provide a 2024 view, we expect maximizing FcF will be prioritized with the outlook enhanced by cost & operating synergies, including productivity improvements, capital efficiencies and reductions in cash costs (LOE and G&A). However, by our analysis, FcF expectations are reflected in the share price.

## Limited public float vs peers may remain an overhang

PR has an unusual corporate structure that has a two-share class structure (class A, publicly & representing 66% of basic equity, and Class C held privately mainly by sponsors for tax reasons). PR's current public float is 49% leaving a material share over-hang vs peers. Another challenge or the investment case in our view is PR's cash return strategy that is anchored on returning 50% of FcF after base dividends to shareholders, mainly through variable dividends. In our view such dividends are unlikely to be capitalized in a depleting asset business, thus eroding equity value under our DCF valuation. Note that co-CEOs Will Hickey & James Walter are aligned with shareholders on this given that they own >4% of PR's equity, receive no base salary but benefit from the variable dividend policy.

| Estimates (Dec) (US$) | 2021A | 2022A | 2023E | 2024E | 2025E |
|---|---|---|---|---|---|
| EPS | 0.50 | 1.32 | 1.28 | 1.43 | 1.64 |
| GAAP EPS | 0.37 | 2.12 | 1.20 | 1.50 | 1.73 |
| EPS Change (YoY) | NM | 164.0% | -3.0% | 11.7% | 14.7% |
| DPS | 0 | 0.05 | 0.39 | 0.70 | 0.74 |
| **Valuation (Dec)** | | | | | |
| P/E | 26.5x | 10.0x | 10.3x | 9.3x | 8.1x |
| GAAP P/E | 35.8x | 6.2x | 11.0x | 8.8x | 7.7x |
| Dividend Yield | 0% | 0.4% | 2.9% | 5.3% | 5.6% |
| EV / EBITDA* | 11.1x | 4.3x | 2.8x | 2.0x | 1.8x |
| Free Cash Flow Yield* | 4.9% | 14.1% | 10.5% | 21.3% | 22.7% |

* For full definitions of *iQmethod* SM measures, see page 15.

### Stock Data

| | |
|---|---|
| Price | 13.24 USD |
| Price Objective | 15.00 USD |
| Date Established | 5-Jan-2024 |
| Investment Opinion | C-2-7 |
| 52-Week Range | 8.43 USD - 15.49 USD |
| Mrkt Val (mn) / Shares Out (mn) | 4,244 USD / 320.5 |
| Free Float | 86.8% |
| Average Daily Value (mn) | 119.21 USD |
| BofA Ticker / Exchange | PR / NYS |
| Bloomberg / Reuters | PR US / PR.N |
| ROE (2023E) | 23.0% |
| Net Dbt to Eqty (Dec-2022A) | 36.8% |
| 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".

FcF – Free Cashflow

DCF – Discounted Cashflow

WTI – West Texas Intermediate

HH – Henry Hub

Boepd – Barrels of oil equivalent/day

E&P – Exploration & production

LOE – Lease Operating Expense

# *iQprofile* SM Permian Resources Corporation

***iQ**method* SM **– Bus Performance***

| **(US$ Millions)** | **2021A** | **2022A** | **2023E** | **2024E** | **2025E** |
|---|---|---|---|---|---|
| Return on Capital Employed | 8.1% | 15.1% | 10.7% | 13.1% | 13.6% |
| Return on Equity | 5.2% | 18.1% | 23.0% | 29.0% | 29.3% |
| Operating Margin | 32.1% | 47.3% | 37.7% | 38.0% | 39.9% |
| Free Cash Flow | 206 | 600 | 447 | 904 | 963 |

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

| **(US$ Millions)** | **2021A** | **2022A** | **2023E** | **2024E** | **2025E** |
|---|---|---|---|---|---|
| Cash Realization Ratio | 3.8x | 2.7x | 2.6x | 2.6x | 2.4x |
| Asset Replacement Ratio | 1.1x | 1.7x | 1.6x | 1.4x | 1.4x |
| Tax Rate | NM | 13.8% | 16.9% | 22.5% | 22.5% |
| Net Debt-to-Equity Ratio | 29.7% | 36.8% | 60.5% | 48.2% | 37.8% |
| Interest Cover | 5.4x | 10.5x | 6.3x | 6.7x | 8.0x |

**Income Statement Data (Dec)**

| **(US$ Millions)** | **2021A** | **2022A** | **2023E** | **2024E** | **2025E** |
|---|---|---|---|---|---|
| Sales | 1,030 | 2,131 | 3,070 | 4,650 | 4,941 |
| % Change | 77.4% | 106.9% | 44.1% | 51.5% | 6.2% |
| Gross Profit | 1,030 | 2,131 | 3,070 | 4,650 | 4,941 |
| % Change | 77.4% | 106.9% | 44.1% | 51.5% | 6.2% |
| EBITDA | 585 | 1,516 | 2,284 | 3,319 | 3,613 |
| % Change | 118.2% | 159.3% | 50.7% | 45.3% | 8.9% |
| Net Interest & Other Income | (226) | (137) | (344) | (268) | (243) |
| **Net Income (Adjusted)** | **138** | **515** | **772** | **1,163** | **1,340** |
| **% Change** | **NM** | **271.9%** | **49.8%** | **50.7%** | **15.3%** |

**Free Cash Flow Data (Dec)**

| **(US$ Millions)** | **2021A** | **2022A** | **2023E** | **2024E** | **2025E** |
|---|---|---|---|---|---|
| Net Income from Cont Operations (GAAP) | 103 | 827 | 724 | 1,223 | 1,411 |
| Depreciation & Amortization | 289 | 445 | 996 | 1,502 | 1,586 |
| Change in Working Capital | (3) | 22 | (61) | 0 | 0 |
| Deferred Taxation Charge | 1 | 120 | 131 | 334 | 195 |
| Other Adjustments, Net | 135 | (42) | 214 | (8) | (18) |
| Capital Expenditure | (320) | (772) | (1,556) | (2,147) | (2,210) |
| **Free Cash Flow** | **206** | **600** | **447** | **904** | **963** |
| **% Change** | **NM** | **191.3%** | **-25.5%** | **102.3%** | **6.6%** |
| Share / Issue Repurchase | 0 | 0 | (95) | 0 | 0 |
| Cost of Dividends Paid | 0 | (14) | (97) | (152) | (122) |
| Change in Debt | (468) | (79) | 108 | 0 | 0 |

**Balance Sheet Data (Dec)**

| **(US$ Millions)** | **2021A** | **2022A** | **2023E** | **2024E** | **2025E** |
|---|---|---|---|---|---|
| Cash & Equivalents | 9 | 60 | 0 | 10 | 411 |
| Trade Receivables | 71 | 283 | 339 | 339 | 339 |
| Other Current Assets | 6 | 121 | 14 | 14 | 14 |
| Property, Plant & Equipment | 3,675 | 7,874 | 10,319 | 10,964 | 11,588 |
| Other Non-Current Assets | 43 | 155 | 197 | 197 | 197 |
| **Total Assets** | **3,805** | **8,493** | **10,870** | **11,525** | **12,549** |
| Short-Term Debt | 0 | 0 | 0 | 0 | 0 |
| Other Current Liabilities | 168 | 606 | 760 | 760 | 760 |
| Long-Term Debt | 826 | 2,141 | 3,702 | 3,308 | 3,308 |
| Other Non-Current Liabilities | 60 | 90 | 286 | 621 | 815 |
| **Total Liabilities** | **1,054** | **2,836** | **4,748** | **4,689** | **4,883** |
| **Total Equity** | **2,751** | **5,656** | **6,121** | **6,836** | **7,666** |
| **Total Equity & Liabilities** | **3,805** | **8,493** | **10,870** | **11,525** | **12,549** |

* For full definitions of *iQmethod* SM measures, see page 15.

## Company Sector

Oil & Gas Producers

## Company Description

PR is the 8th largest producer in the Permian Basin and the sixth largest producer in the Delaware. Pro forma for its recent Earthstone acquisition, it has pro forma 2022 proved reserves of approximately 1,035 MMboe, of which approximately 43% is oil and approximately 64% proved developed.

## Investment Rationale

Our rating reflects limited upside under our base case that assumes $80 Brent ($75 WT) in 2024 with backwardation embedded in our long-term commodity view of $70 WTI.

## Stock Data

| | |
|---|---|
| Average Daily Volume | 9,004,096 |

## Quarterly Earnings Estimates

| | **2022** | **2023** |
|---|---|---|
| Q1 | 0.05A | 0.32A |
| Q2 | 0.60A | 0.25A |
| Q3 | 0.70A | 0.36A |
| Q4 | 0.14A | 0.34E |

# Initiate at Neutral

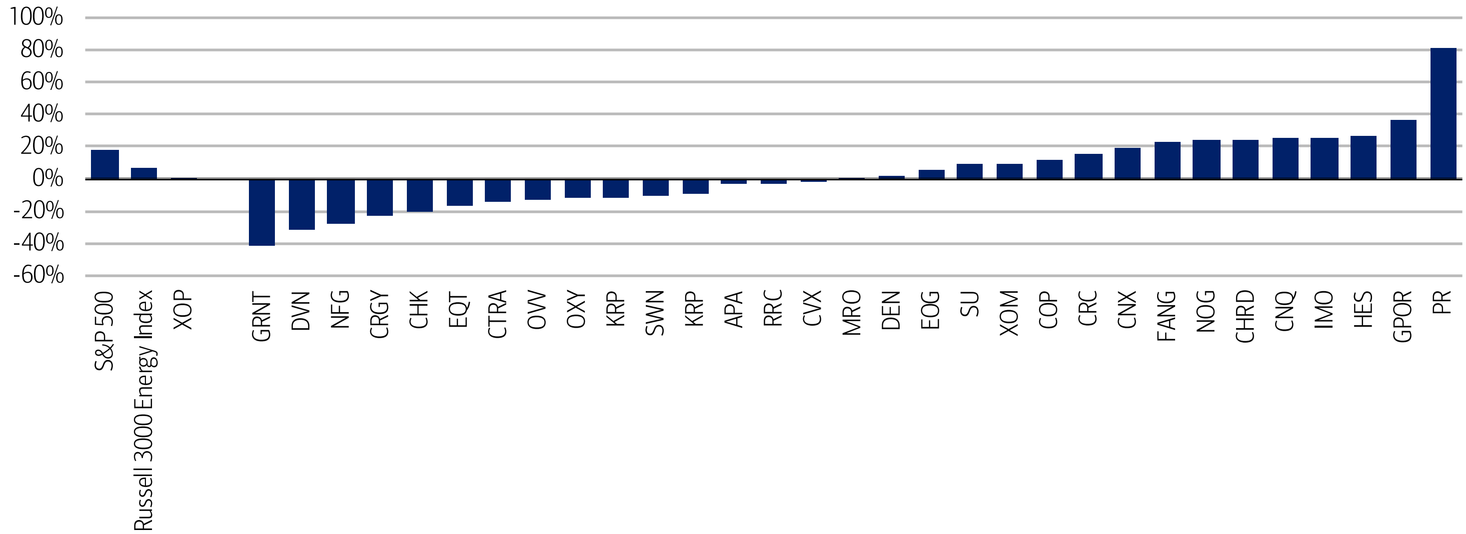
## Private company heritage defines public company strategy

We initiate on Permian Resources (Ticker: PR) at Neutral with a $15 PO. PR is the product of the Sept. 2022 "merger of equals" between privately held Colgate Energy and publicly traded Centennial (founded by former EOG CEO Mark Papa) with Colgate leadership running the combined company. On Nov. 1, 2023 the company's scale expanded with the all-equity, $4.5bn Earthstone Energy acquisition, lifting PR into the large cap E&P peer group as the eighth-largest producer in the Permian Basin with current production of ~375 boepd (50% oil). PR now holds over 400,000 net acres with a drilling backlog management suggests is >15 years. Legacy PR shareholders own ~73% of fully diluted shares with a two-class structure and 49% public float.

As a larger company we see management with a credible execution at Colgate and PR pre-Earthstone attracting investors in a competitive sector where rate of change can define relative share performance. That said, PR has outperformed versus the Russell 3000 Energy Index by ~75% since the initial Colgate/Centennial merger and by 54% over the past year, mostly following the Earthstone deal. In our view, that leaves limited upside to our base case which assumes $80 Brent ($75 WTI) in 2024, with backwardation embedded in our long-term commodity view at $70 WTI. Accordingly, with fair value around $15 per share, our initial rating is Neutral.

**Exhibit 1: PR has outperformed the Russell 3000 Energy Index by approximately 75% since 09/01/22 when the company was formed**

Approximately 54% relative outperformance over past year




**Source:** BofA Global Research, Bloomberg

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In our view, PR has strong track record of returns albeit helped with the tailwind from an oil price recovery over the last four years, and before that the artificial support from Saudi/OPEC+ that held (Brent) oil above $60 between 2016 and 2019. In our view, unnecessary growth in oil production led to the market share battle that saw Saudi target US shale in 2020. Still, management believes that at its limited size with oil production of ~130,000 bpd growth (Pre -Earthstone) is an acceptable strategy. For now, 2024 plans have not been disclosed but we expect growth to be an output of the combined company's deliberate drilling plans. Additionally, the integration of Earthstone is expected to yield material cost and operating synergies, including capital & LOE, with associated contribution to the expansion of FcF that we believe has already supported PR's recent share performance vs peers.

While PR has been public for over a year, its corporate structure has many of the hallmarks of its private company heritage with co-CEOs and a compensation structure that offers no base salary but skews cash returns toward variable dividends. Management owns 5% of the equity and hence benefits from the variable cash distribution, aligning its interests with public equity holders. However, we think that variable dividends will unlikely be capitalized in a depleting asset business, eroding equity value under our DCF approach to valuation. Additionally, PR retains a material share overhang from a limited public float (49%) and still, relatively complex two share class structure (class A & C[1]).

## Valuation

### DCF based PO $15/sh ($4.00HH, $70 long-term WTI)

Our $15 PO is DCF based, where the multiple and free cash yield is the output bench-marked on its most recent 3Q23 earnings. We see inventory depth as a critical constraint. However, we assume management's assertion of 15 years to stress an upside case that assumes no degradation in productivity or sustainable free cashflow. Our discount rate of 9% reflects a relatively new post-acquisition structure, but with the scale that for now we assume supports relative volatility in the middle of the peer group.

The challenge for PR, as with all US E&Ps, is market recognition of value with a forward curve in perpetual backwardation where single year multiples reflect an elevated spot price supported by OPEC+ intervention. But as seen with the consolidation trend for some of the largest companies with best-in-class portfolio depth, acquisition values are being corralled by a declining forward price, not the aspirational outcome of sustained artificial support by OPEC. With our 2024 WTI price at $75 ($80 Brent) & backwardation reflected from 2026 at $70 WTI l/term, we see fair value reasonably around ~$15/sh.

**Exhibit 2: PR DCF: $15 PO**

Cash flows extend beyond the period shown

| Discount Rate | 9% | 4Q23 | 1Q24 | 2Q24 | 3Q24 | 4Q24 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Production (MBoe/ d)** | | 258.8 | 301.9 | 305.2 | 303.3 | 308.9 | 321.8 | 341.4 | 362.1 | 382.0 | | | | | | | |
| % sequential growth | | 50.5% | 60.7% | 1.1% | -0.6% | 1.9% | 5.6% | 6.1% | 6.1% | 5.5% | | | | | | | |
| % Oil | | 50.0% | 48.8% | 48.8% | 48.5% | 48.4% | 48.2% | 47.9% | 47.3% | 47.0% | | | | | | | |
| **Commodity deck** | | | | | | | | | | | | | | | | | |
| Henry Hub ($/Mmbtu) | | $2.88 | $2.50 | $2.50 | $2.75 | $3.25 | $3.55 | $4.00 | $4.00 | $4.00 | | | | | | | |
| WTI ($ / bbl) | | $78.54 | $72.50 | $77.50 | $77.50 | $72.50 | $72.50 | $70.00 | $70.00 | $70.00 | | | | | | | |
| **Realizations** | | | | | | | | | | | | | | | | | |
| Oil ($ / Bbl) | | 77.58 | 71.71 | 75.78 | 75.62 | 71.26 | 71.00 | 68.60 | 68.60 | 68.60 | | | | | | | |
| NGLs ($ / Bbl) | | 17.39 | 15.81 | 16.94 | 17.64 | 17.22 | 18.13 | 17.33 | 17.33 | 17.33 | | | | | | | |
| Natural gas ($/Mcf) | | 1.72 | 1.60 | 0.77 | 1.48 | 1.80 | 2.16 | 2.77 | 2.80 | 2.73 | | | | | | | |
| **Consolidated:** | | | | | | | | | | | | | | | | | |
| Debt Adjusted Cash Flow | | 706 | 774 | 822 | 872 | 848 | 3,418 | 3,590 | 3,800 | 3,984 | 3,984 | 3,984 | 3,984 | 3,984 | 3,984 | 3,984 | 3,984 |
| Capital Expenditures | | (490) | (529) | (543) | (509) | (565) | (2,210) | (2,263) | (2,294) | (2,380) | (2,100) | (2,100) | (2,100) | (2,100) | (2,100) | (2,100) | (2,100) |
| Other (+/-) | | | | | | | | | | | | | | | | | |
| Free Cash Flow | | - | 244 | 280 | 362 | 282 | 1,209 | 1,327 | 1,505 | 1,604 | 1,884 | 1,884 | 1,884 | 1,884 | 1,884 | 1,884 | 1,884 |
| Present Value (4Q22-2032) | 9,219 | | | | | | | | | | | | | | | | |
| Terminal PDP value | 6,791 | | | | | | | | | | | | | | | | |
| **Total PV** | 16,010 | | | | | | | | | | | | | | | | |
| Net Debt | (3,702) | | | | | | | | | | | | | | | | |
| Add back Convert with a $8.45 cap | 170 | | | | | | | | | | | | | | | | |
| **Equity value** | **12,478** | | | | | | | | | | | | | | | | |
| Price Objective | 15 | | | | | | | | | | | | | | | | |
| Shares outstanding (adj. for convert) | 815.3 | | | | | | | | | | | | | | | | |

**Source:** BofA Global Research

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[1] 'A' shares trade publicly (~66% of basic equity, 'C' shares are privately held, mainly by sponsors for tax reasons (13% NGP, 12% Pearl Energy, 11% Encap, ~8% Riverstone, and ~3% Post Oak). [1]

Other key assumptions are as follows:

- An assumed ~15yr inventory, based on management guidance followed by a terminal PDP decline rate starting at ~35% and falling to 6% long term.
- We assume cash taxes begin in 2026 with the terminal PDP decline fully taxed. Our assumed discount rate is 9%, the mid-point of our large cap E&P peer group pending a longer trading history for the larger entity to determine relative volatility.
- Management believes at its scale with oil & gas production of ~130,000 bpd (260,000 boepd) growth is an acceptable strategy (in the context of Saudi intervention to support price. We assume oil production growth of ~5% through 2028, after which we assume maintenance capex of ~$2.1bn

Our base case assumes $80 Brent ($75 WTI) in 2024 and long-term prices of $70 WTI / $4.00 HH. Please note in our valuation we add back $170mm in convertible notes with a capped call of ~$8.45/sh reflected in the diluted share count.

### Valuation sensitivities

Currently, we see shares reflecting long-term $68 WTI. In our view, the biggest question facing management is pace of growth seen as appropriate for the combined company and the definition, duration, and veracity of its 'core' inventory. Additionally, with the all-equity acquisition of Earthstone we see PR's portfolio break even to support current capex at around ~$58 / bbl assuming $4.25 HH and supporting near term growth we expect at around 20%, after a step change in the first full year of production as a combined company in 2024, where absolute growth is closer to 6%. Greater scale of free cashflow also improves PR's b/sheet metrics, with a current capital structure that has around 38% net debt and lowers commodity sensitivity, shown in the table below:

- By our estimates, a $5 change impacts our valuation by ~$1.3 per share.
- at strip ($4 HH / $65 WTI) we see fair value closer to $11.6 / sh based upon our DCF methodology assuming an 9% WACC.

**Exhibit 3: Sensitivity to l/term changes in oil & natural gas prices**

$5 change oil impacts value ~$1.3/sh; a 25c change in l/term gas by ~$0.40/sh

| | | WTI ($/bbl) | | | | |
|---|---|---|---|---|---|---|
| | | $60 | $65 | $70 | $75 | $80 |
| HH ($/Mcf) | $3.25 | 9.6 | 11.9 | 14.2 | 16.5 | 18.7 |
| | $3.50 | 10.0 | 12.3 | 14.5 | 16.8 | 19.1 |
| | $3.75 | 10.3 | 12.6 | 14.9 | 17.2 | 19.5 |
| | $4.00 | 10.7 | 13.0 | 15.3 | 17.6 | 19.9 |
| | $4.25 | 11.1 | 13.4 | 15.7 | 18.0 | 20.3 |

**Source:** BofA Global Research estimates

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**Exhibit 4: Sensitivity to changes in l/term oil & WACC**

.5% change in the WACC impacts DCF by ~$0.80 to $1 per share

| | | WTI ($/bbl) | | | | |
|---|---|---|---|---|---|---|
| | | $60 | $65 | $70 | $75 | $80 |
| HH ($/Mcf) | 8.0% | 12.2 | 14.7 | 17.2 | 19.7 | 22.2 |
| | 8.5% | 11.4 | 13.8 | 16.2 | 18.6 | 21.0 |
| | 9.0% | 10.7 | 13.0 | 15.3 | 17.6 | 19.9 |
| | 9.5% | 10.1 | 12.3 | 14.5 | 16.7 | 18.9 |
| | 10.0% | 9.5 | 11.6 | 13.7 | 15.8 | 17.9 |

**Source:** BofA Global Research estimates

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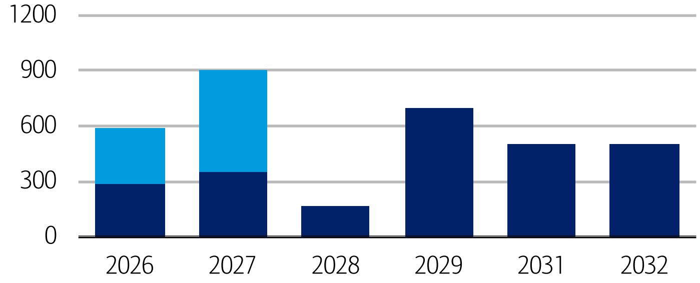
### Relative value

Currently, we see PR trading at an ~4.1x 2025 multiple compared to a peer group average of 4.4x, perhaps reflecting the equity overhang. Our $15 PO has an implied 2025 multiple of ~4.5x multiple, approximately in-line with the peer group average. Please note for PR we assume fully diluted share count as that reflects the conversion of senior notes and have correspondingly adjusted net debt.

## Other investment considerations

Pro forma for the Earthstone deal, PR has liquidity of ~$1,522mm under its $2.5bn borrowing base, where it has elected commitments of $2bn. In our view, this is likely more than sufficient as it aims to generate free cash. Note that pro forma for the acquisition, PR has a staggered senior maturity debt profile; its first senior note is not due until 2026.

**Exhibit 5: Staggered senior maturity schedule**
Makes it more manageable




**Source:** BofA Global Research; Company reports

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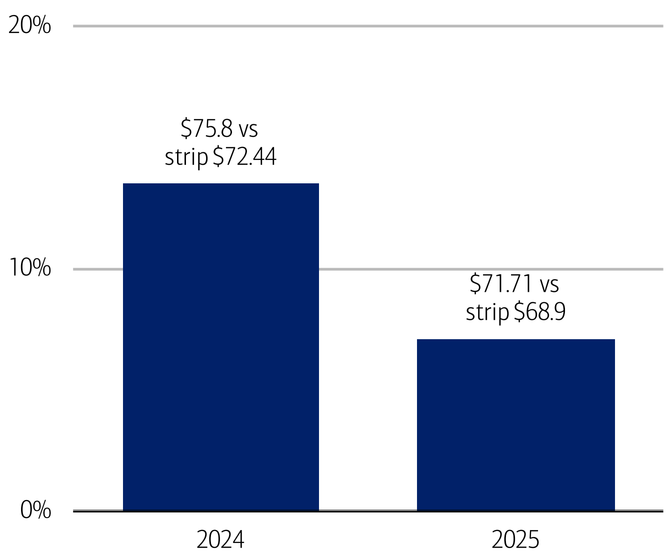
## Hedging: nothing formal

PR does not have a formal hedge program and will proactively add contracts, which, in our view, is not a negative as it will deploy additional capital to potentially grow.

By our estimates, it has ~ 13% and 7% of its oil hedged at weighted average floor ~$75.8 / bbl and $71.7 per bbl in 2024 and 2025 and approximately 11% and 7% for natural gas in each of those years, respectively, at $3.48 and $4 per Mcf.

**Exhibit 6: % oil hedged at weighted average floor prices**
PR will proactively add to its oil hedges . . .




**Source:** BofA Global Research estimates

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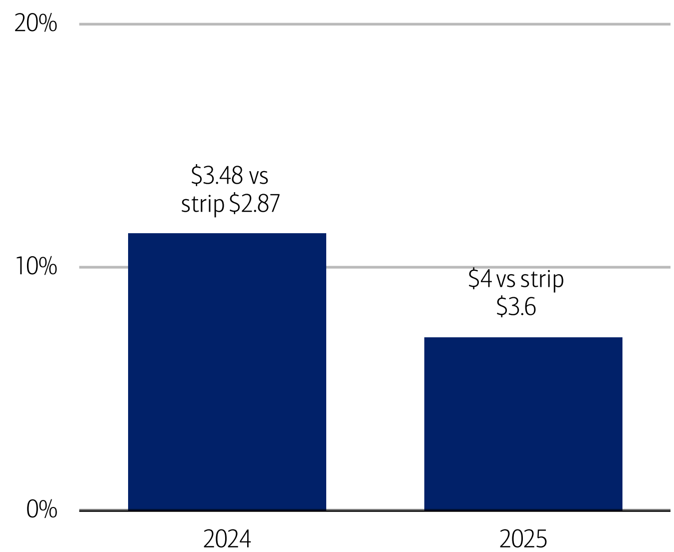
**Exhibit 7: % natural gas hedged at weighted avg floor prices**
. . . the same is true for natural gas




**Source:** BofA Global Research estimates

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## No plans to increase its 50% return of free cash flow to investors

PR has indicated that it has no plans to raise it 50% return of free cash after the base dividend as management thinks the current strategy has the right balance even as debt is reduced. This may cause some investors seeking greater cash returns to look elsewhere.

# Company Overview

PR was formed on September 1, 2022, from a "merger of equals" between Centennial Resources Development and privately held Colgate Energy. Upon closing. Will Hickey and James Walter from Colgate became co-CEOs with Hickey handling operations as de-facto COO and Walter acting as CFO.

- Centennial was formed on October 11, 2016, after Silver Run Acquisition Corp (a SPAC affiliated with private equity firm Riverstone) completed the acquisition of Centennial Resource Production. It subsequently became Centennial Resource Development with Mark Papa (former CEO of EOG) as its first CEO.

- Colgate was founded in 2015 by Hickey & Walter with PE backing from Pearl Energy Investments and NGP. It pursued an acquisition-led strategy from the outset, seeking opportunistic deals with the goal of building a fully self-funding E&P and noting at the time that most growth orientated E&Ps were cash flow negative.

Colgate had demonstrated a strong track record of acquisitions – a strategy management believes is the best way to create value, mostly by consolidating acreage positions around its core areas. The table below summarizes acquisitions that bolstered key acreage positions in the Delaware basin.

**Exhibit 8: Colgate acquisitions in 2021**
Acquired approximately 69k of its 105k net acres in the Delaware that year

| Transaction date | Transaction details |
|---|---|
| 6/1/2021 | Colgate acquired Lux Energy in all stock transaction which added 22k net acres in Ward and Reeves Counties, TX as well as 17 Mboe / d of production |
| 6/10/2021 | It then purchased ~25k net acres and 10 Mboe / d of production in Ward and Reeves counties from Occidental Petroleum for $508mm |
| 11/7/2021 | And finally acquired ~22k net acres and ~750 Boe /d of production in Eddy and Lea counties in New Mexico for $190mm |

**Source:** BofA Global Research; Company reports

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PR has indicated that it will likely slow large-scale M&A in the near-term as it works to integrate the Earthstone assets. However, management continues to think that there will be opportunities to create additional value through smaller "ground game" activity, with the potential opportunity set enhanced by the Earthstone transaction (reviewed below). Prior to leading PR, the management team from Colgate had an active history on the A&D front, closing on five large transactions, 100 + bolt-ons, 40+ trades and over 10 divestitures. Longer term, it is open to potential M&A, although it wants to remain a Permian player.

## Earthstone

Prior to merging with PR, Earthstone made ~$2.5bn of acquisitions (including Chisholm, Titus, and Novo) over the past two years, building a material footprint in the Permian with ~223k net acres, of which ~ 56k lies in the Delaware and 167k in the Midland basin. It also had an estimated drilling backlog of ~1,000 locations, which it estimated at a 13-year inventory life, of which two-thirds was in Eddy and Lea Counties in New Mexico. Production at the time of the merger with Earthstone was ~117 Mboe/d.

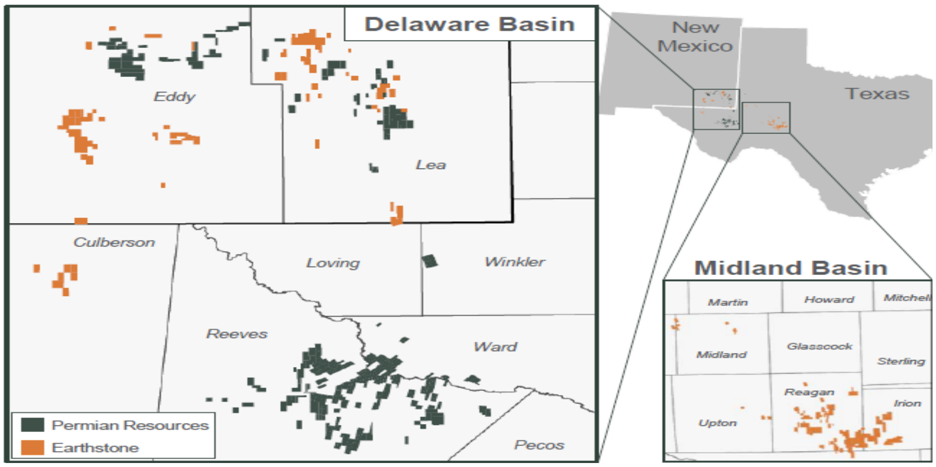
Following the $4.5bn Earthstone transaction announced on Aug 21$^{st}$, PR's scale has changed significantly:

- PR now holds ~404k net acres in Permian with 290k net acreage (~72%) in the Delaware and balance in Midland basin. 43% of the Delaware acreage lies in the South, mainly Reeves Co, Texas, with the rest primarily in Eddy and Lea County, New Mexico.

- Additionally, it has ~68k net royalty acres, primarily in Northern Eddy County that improves the company's net revenue interest in that area. Pro forma 2022, proved reserves are estimated at ~1,035 MMboe, of which ~43% is oil and 64% proved developed.

- As part of the Earthstone portfolio, PR has ~167k net acres in the Midland Basin in Upton and Reagan Counties, and in our view, PR may harvest it for free cashflow.

**Exhibit 9: Pro forma Permian footprint**
Owns over 400k net acres




**Source:** Company reports

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Additionally, the deal has expanded its "core" Northern Delaware acreage in Eddy and Lea counties in New Mexico by ~667 locations in what management believes were underappreciated assets in Earthstone's valuation. While it has also acquired assets in the Midland Basin in Upton and Reagan counties, in our view, this was not the primary focus of the transaction given management's plans to harvest them mainly for cash. Pro forma, PR estimates that it has over 15yrs of "core" inventory.

## Awaiting guidance

PR has yet to provide a pro forma 2024 outlook. However, preliminary guidance sees the merger with Earthstone as highly accretive to free cashflow (as illustrated in the chart below), noting that management has already having announced a 20% increase in the quarterly fixed dividend to $6c per share beginning in 2024.

**Exhibit 10: Initially expecting ~$175mm in synergies**
Not fully reflected is the possibility to lower Earthstone's higher LOE costs overtime

| Primary Synergies | | Synergies Timing / Value | |
|---|---|---|---|
| Category | Commentary | Timing | Annual Value |
| DC&F | • Go-forward D&C savings driven by PR's peer-leading costs<br>• Permian Resources delivering >10% lower Delaware costs per lateral foot | Begins at closing | ~$115 Million |
| LOE + GP&T | • Identified tangible savings through enhanced production operations, personnel and contract services optimization and reduced midstream costs | Begins in 2024 | |
| General & Administrative | • Combined team will be led by PR's executive management team, but will include key contributors from all parties | Begins in 2024 | ~$30 Million |
| Cost of Capital | • Accelerates progress toward investment grade credit profile<br>• Potential to refinance Earthstone notes once callable | Begins at closing | ~$30 Million |

*Total Estimated Annual Synergies of ~$175 Million*

**Source:** Company reports

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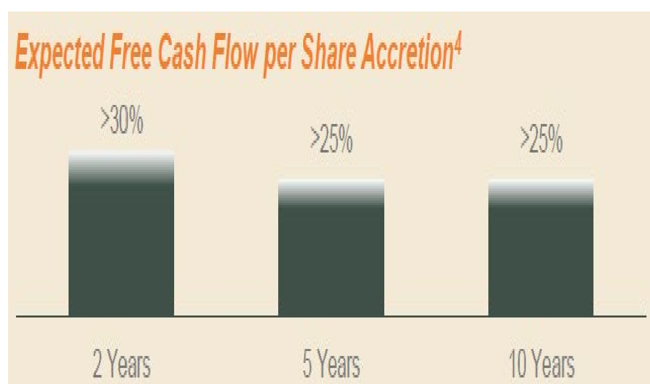
**Exhibit 11: Initial expectations on cash free cash flow accretion from Earthstone transaction**
Provided when the deal was announced on August 21st




**Source:** Company reports

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In the above free CF outlook are initial expected synergies of ~$175mm shown which include:

- expected G&A savings of ~$30mm annually mainly from less executives.
- an improving cost of capital while aiming to refinance Earthstone's bonds when they become callable (estimated savings ~$30mm).
- Notably, optimism that it can achieve investment grade in the next 12 to 18 months.

Longer-term, PR believes that it will be able to reduce Earthstone's relatively high LOE expense (related to items such as water disposal that are more contractual) to PR's legacy structure. To provide context, Earthstone's LOE expense per boe in 3Q was ~$9.40 per boe compared to PR's ~$5.42 per boe, or ~$4 per boe higher.

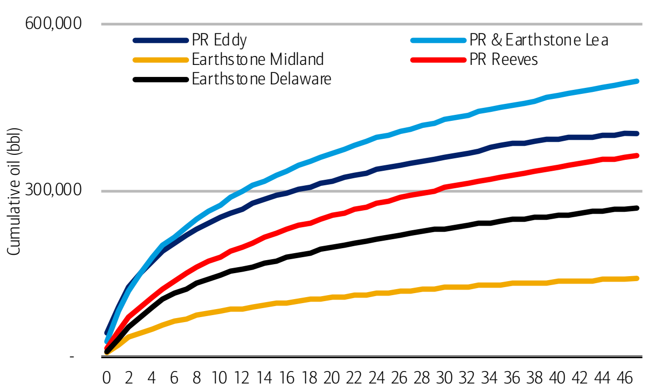
PR management also sees room for improved operating performance with low hanging fruit from pricing on items such as sand and fuel, followed by the swapping out of rigs and applying best practices with initial estimated savings of $1mm per well. Additionally potential drilling efficiencies include PR drilling & completions that management suggests are ~51% and ~16% higher, respectively, on lateral footage per day versus legacy Earthstone, with the combined portfolio targeting highest productivity areas.

In our view, the high variability of productivity raises questions over where capital will be allocated longer term – and the inventory depth associated with each area. From our discussions with management, we expect the emphasis of 2024 activity to be on the New Mexico side of the border versus Texas.

For now, we assume management's guidance of 15 years as a reasonable starting point. But if activity ends up being weighted to less productive areas, there is a risk that portfolio capital efficiency may deteriorate, impacting sustainable FcF.

**Exhibit 12: Cum oil by asset through 50 months**

Lea & legacy PR north Eddy assets lead the pack. "Earthstone Delaware" includes Culberson and South Eddy acreage only




**Source:** BofA Global Research; Rystad

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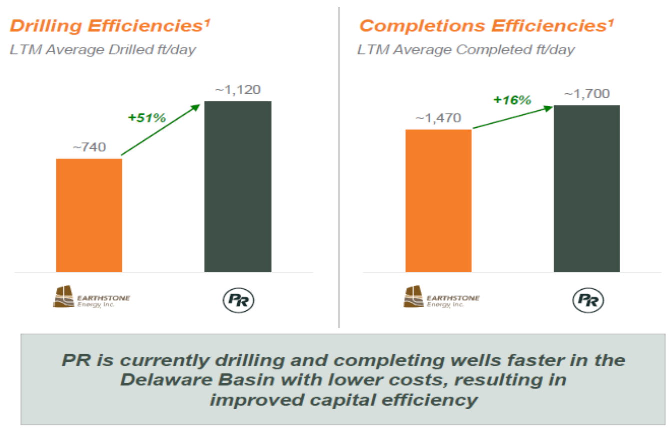
**Exhibit 13: Drilling & completion operations vs Earthstone's**

Directionally supports expected savings of $1mm per well




**Source:** Company reports

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While all of this is directionally positive, PR has not yet given a preliminary 2024 outlook. It expects to do so in February. That said, the combined company has about 11 rigs, and management has indicated that it will put together a program that aims to maximize free cash flow — this is not an ex-growth company—with ~90% of capital allocated to the Delaware, with a slight bias towards New Mexico, and the remaining 10% to the Midland Basin to harvest for cash.

As far as potential growth, it has indicated that it could grow in the range of 0% to 10% without committing to a specific range as it works through the pro forma portfolio. Although the lack of clarity on this year's plan creates some uncertainty, we expect the strategy to remain focused on maximizing free cash flow by either adding or reducing activity while maintaining a strong balance sheet in the 0.5x to 1.0x range. Note post the closing of Earthstone, we estimate PR has leverage of ~1x.

Under our base case, the exhibit below shows our outlook for oil & gas production growth, free cashflow, net debt to EBITDA, and returns:

**Exhibit 14: Oil & production growth, free CF, net debt to EBITDA and returns under our BofA deck**

Estimated cash return of ~5 to ~7% over five-year period

| **Commodity Deck** | **2024** | **2025** | **2026** | **2027** | **2028** |
|---|---|---|---|---|---|
| Henry Hub ($ / Mcf) | 2.75 | 3.55 | 4.00 | 4.00 | 4.00 |
| WTI ($ / Bbl) | 75.00 | 72.50 | 70.00 | 70.00 | 70.00 |
| **Production (Mboe /d)** | 305 | 322 | 341 | 362 | 382 |
| % oil | 49% | 48% | 48% | 47% | 47% |
| % sequential growth | 62% | 6% | 6% | 6% | 5% |
| Net debt to EBITDA | 0.8x | 0.6x | 0.4x | 0.4x | 0.3x |
| Cash flow operations ($mm) | 3,051 | 3,173 | 3,344 | 3,631 | 3,631 |
| Capex | (2,147) | (2,210) | (2,263) | (2,294) | (2,294) |
| **Free cash flow before fixed dividend** | **904** | **963** | **1,081** | **1,337** | **1,337** |
| Fixed dividend | (186) | (186) | (186) | (186) | (122) |
| **Free cash flow after fixed dividend** | **718** | **777** | **896** | **1,151** | **1,214** |
| 50% variable return | 359 | 389 | 448 | 575 | 607 |
| **Total estimated return** | **545** | **574** | **634** | **761** | **729** |
| **% Free CF yield before dividend** | **8.8%** | **9.4%** | **10.5%** | **13.0%** | **13.0%** |
| % Fixed dividend Yield | 1.8% | 1.8% | 1.8% | 1.8% | 1.2% |
| Variable yield | 3.5% | 3.8% | 4.4% | 5.6% | 5.9% |
| Total estimated % return | 5.3% | 5.6% | 6.2% | 7.4% | 7.1% |

**Source:** BofA Global Research estimates

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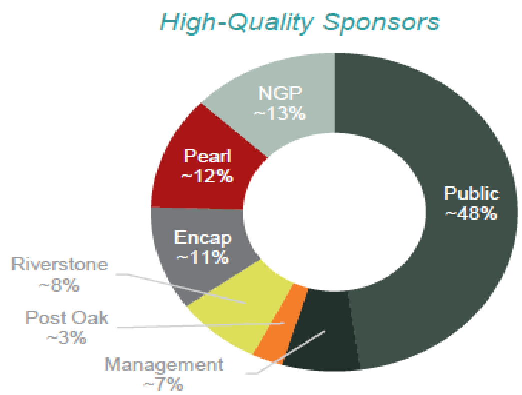
We note that there is still a perceived equity overhang of ~45% with sponsors on the Board (Pearl, Encap, Riverstone, and Post Oak) subject to a lock up period of 180 days from when the transaction closed on 11/01, although PR does have the ability to wave that. However, all have agreed to participate in future secondary offerings organized by PR versus doing one-off equity deals or gradually selling their interests into the market. In our view, this more organized approach likely helps reduce share volatility while providing an opportunity for PR to take advantage of potential share dislocations.

## Cash return strategy led by variable dividends

PR's management estimates its strategy has delivered consistent strong return on investments – leading to a cash return strategy via a fixed dividend and commitment to pay out at least ~50% of remaining free cash flow via variable dividends or buybacks. However, its preference is variable dividends, with buy backs held for opportunistic buy backs that exploit potential dislocations in share performance, for example should one of its sponsors sells part of its interest.

**Exhibit 15: Sponsor ownership stands at ~45%**

All sponsors on the board are subject to a lock up period of 180 days from 11/01




**Source:** Company reports

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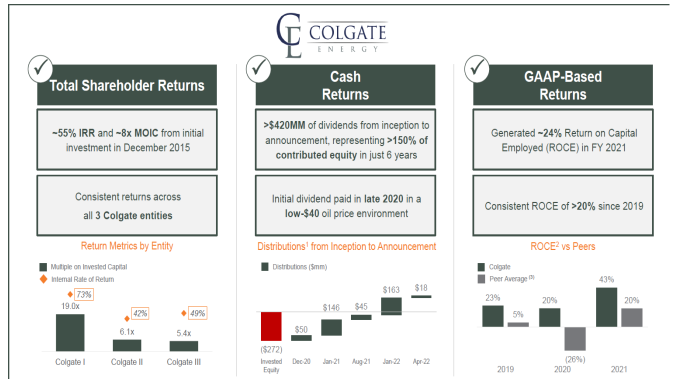
**Exhibit 16: Both CEO's had a successful track record at Colgate Energy**

55% IRR on initial invested capital since December 2015




**Source:** Company reports

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A recent example of this is in September when it agreed to purchase 2.2mm shares during a secondary offering.

Management sees its cash return strategy aligned with shareholders given an ownership structure weighted towards its sponsors who hold ~51% of the shares. Neither co-CEO takes a cash salary; however, both benefit from the variable dividend policy given significant ownership – ~4.3% of the diluted shares (with ~5% of total diluted shares owned by management) and compensation structure geared towards equity. As such, the primary means by which senior management is compensated, outside of long-term stock awards is through the company's capital return program. Even so, we continue to favor share buy backs as a means of preserving value per share, in a depleting asset base where we see the payment of variable dividends from prior period free cashflow as eroding forward equity value, as the incremental payments will ultimately add to net debt.

## Other considerations

### Exposure to federal lands

PR has ~15% federal land exposure, and in New Mexico specifically, it has about 25%. In our view, this poses some risk if an Administration were to pursue measures to curb activity on government land.

### Higher operator ownership with acreage primarily held by production

PR's Permian acreage is ~97% held by production. One of the advantages of this is that it allows future activity levels to be driven by returns and not location preservation.

### Future optionality with Midland assets

While PR near-term plans is to harvest the Midland assets for cash, at higher longer natural gas prices, it does believe that these assets provide future optionality including possibly being traded or sold.

### Lack of geographical diversification

All of PR's assets are in the Permian, which makes it potentially more susceptible to potential disruptions.

# Appendix 1

## Peer comparison

The table below summarizes key production and debt metrics for Permian resources versus E&P peers.

**Exhibit 17: Estimate that PR is trading at 2025 ~4.1x EV multiple versus a peer group average of ~4.4x**

Our $15 PO has an implied multiple of ~4.5x

| | | | | | | | 2024 PRODUCTION | | | | 2025 PRODUCTION | | | | Y/Y Growth | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Covered | Company | Ticker | Price | Market Cap | Net Debt | Enterprise Value | Equivalent (Mboe /d) | Gas (MMcf/d) | NGL (Mboe/d) | Oil (Mb/d) | Equivalent (Mboe/d) | Gas (MMcf/d) | NGL (Mboe/d) | Oil (Mb/d) | Equivalent | Gas | NGL | Oil |
| Yes | Devon Energy | DVN | 45.61 | 29,219 | 5,721 | 35,080 | 658 | 1,050 | 163 | 320 | 652 | 1,026 | 160 | 320 | -1% | -2% | -2% | 0% |
| Yes | Daimondback | FANG | 155.70 | 27,868 | 5,403 | 33,975 | 375 | 553 | 98 | 272 | 375 | 563 | 98 | 274 | 0% | 2% | 0% | 1% |
| Yes | EOG Resources | EOG | 121.01 | 70,567 | (846) | 69,721 | 1,051 | 1,908 | 237 | 496 | 1,109 | 2,110 | 246 | 511 | 6% | 11% | 4% | 3% |
| No | Matador | MTDR | 55.39 | 6,599 | 2,231 | 9,042 | 3,592 | 366 | - | 93 | 7,470 | 401 | - | 97 | 108% | 10% | n/a | 5% |
| Yes | Marathon Oil | MRO | 24.17 | 14,145 | 5,227 | 19,372 | 389 | 678 | 80 | 197 | 381 | 645 | 76 | 197 | -2% | -5% | -5% | 0% |
| Yes | Ovintiv | OVV | 43.09 | 11,758 | 7,076 | 18,834 | 466 | 1,532 | 79 | 164 | 466 | 1,511 | 76 | 157 | 0% | -1% | -4% | -4% |
| | Permian Resources | PR | 13.27 | 10,815 | 3,872 | 14,687 | 305 | 526 | 69 | 148 | 322 | 560 | 74 | 155 | 6% | 6% | 6% | 5% |

| | | RESERVES | | | LEVERAGE | FCF | | FCF Yield | | EBITDA | | EV / EBITDA | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | Ticker | Equivalent | Oil | Pct Oil | NET DEBT / EBITDA | 2024 | 2025 | 2024 | 2025 | 2024 | 2025 | 2024 | 2025 |
| Devon Energy | DVN | 1,815 | 1,286 | 71% | 0.7x | 3,913 | 3,325 | 13% | 11% | 8,461 | 7,647 | 4.1x | 4.6x |
| Daimondback | FANG | 2,033 | 1,555 | 76% | 0.8x | 3,716 | 3,115 | 13% | 11% | 7,105 | 6,368 | 4.8x | 5.3x |
| EOG Resources | EOG | 4,238 | 2,806 | 66% | -0.1x | 7,305 | 6,298 | 10% | 9% | 15,138 | 13,754 | 4.6x | 5.1x |
| Matador | MTDR | 357 | 196 | 55% | 1.2x | 626 | 647 | 9% | 10% | 1,888 | 2,308 | 4.8x | 3.9x |
| Marathon Oil | MRO | 1,338 | 955 | 71% | 1.0x | 2,700 | 2,007 | 19% | 14% | 5,438 | 4,725 | 3.6x | 4.1x |
| Ovintiv | OVV | 2,273 | 1,142 | 50% | 1.3x | 2,443 | 2,019 | 21% | 17% | 5,528 | 5,383 | 3.4x | 3.5x |
| Average | | | | | 0.8x | | | 14% | 12% | | | 4.2x | 4.4x |
| Permian Resources | | 1,035 | 445 | 43% | 1.2x | 904 | 963 | 8% | 9% | 3,319 | 3,613 | 4.4x | 4.1x |

**Source:** BofA Global Research, Bloomberg

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# Appendix 2

## Free cash flow and leverage sensitivities

The tables below provide sensitivities to net debt / EBITDA and free cash flow yield metrics at strip, and sensitivities under our BofA commodity deck and at +/- $5/bbl.

**Exhibit 18: Free CF, debt metrics & return of capital sensitivities**
At strip, +/- $5 oil and under our BofA price deck

**Strip**

| Commodity Deck | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|
| Henry Hub ($ / Mcf) | 2.88 | 3.60 | 3.86 | 3.86 | 3.80 |
| WTI ($ / Bbl) | 72.44 | 68.90 | 65.99 | 64.00 | 62.78 |
| **Production (Mboe /d)** | 305 | 322 | 341 | 362 | 382 |
| % oil | 49% | 48% | 48% | 47% | 47% |
| % sequential growth | 62% | 6% | 6% | 6% | 5% |
| Net debt to EBITDA | 0.9x | 0.8x | 0.6x | 0.6x | 0.5x |
| Cash flow operations ($mm) | 2,942 | 3,000 | 3,127 | 3,298 | 3,298 |
| Capex | (2,147) | (2,210) | (2,263) | (2,294) | (2,294) |
| **Free cash flow before fixed dividend** | **795** | **791** | **864** | **1,004** | **1,004** |
| Fixed dividend | (186) | (186) | (186) | (186) | (122) |
| **Free cash flow after fixed dividend** | **609** | **605** | **678** | **818** | **881** |
| 50% variable return | 305 | 302 | 339 | 409 | 441 |
| **Total estimated return** | **490** | **488** | **525** | **595** | **563** |
| **% Free CF yield before dividend** | **7.8%** | **7.7%** | **8.4%** | **9.8%** | **9.8%** |
| % Fixed dividend Yield | 1.8% | 1.8% | 1.8% | 1.8% | 1.2% |
| Variable yield | 3.0% | 2.9% | 3.3% | 4.0% | 4.3% |
| Total estimated % return | 4.8% | 4.8% | 5.1% | 5.8% | 5.5% |

**Sensitivity: Minus $5 to WTI oil prices**

| Commodity Deck | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|
| Henry Hub ($ / Mcf) | 2.88 | 3.60 | 3.86 | 3.86 | 3.80 |
| WTI ($ / Bbl) | 67.44 | 63.90 | 60.99 | 59.00 | 57.78 |
| **Production (Mboe /d)** | 305 | 322 | 341 | 362 | 382 |
| % oil | 49% | 48% | 48% | 47% | 47% |
| % sequential growth | 62% | 6% | 6% | 6% | 5% |
| Net debt to EBITDA | 1.1x | 1.0x | 0.8x | 0.8x | 0.8x |
| Cash flow operations ($mm) | 2,693 | 2,744 | 2,882 | 3,039 | 3,039 |
| Capex | (2,147) | (2,210) | (2,263) | (2,294) | (2,294) |
| **Free cash flow before fixed dividend** | **546** | **534** | **619** | **745** | **745** |
| Fixed dividend | (186) | (186) | (186) | (186) | (122) |
| **Free cash flow after fixed dividend** | **360** | **349** | **434** | **559** | **623** |
| 50% variable return | 180 | 174 | 217 | 279 | 311 |
| **Total estimated return** | **366** | **360** | **403** | **465** | **433** |
| **% Free CF yield before dividend** | **5.3%** | **5.2%** | **6.0%** | **7.3%** | **7.3%** |
| % Fixed dividend Yield | 1.8% | 1.8% | 1.8% | 1.8% | 1.2% |
| Variable yield | 1.8% | 1.7% | 2.1% | 2.7% | 3.0% |
| Total estimated % return | 3.6% | 3.5% | 3.9% | 4.5% | 4.2% |

**Sensitivity: Plus $5 to WTI oil prices**

| Commodity Deck | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|
| Henry Hub ($ / Mcf) | 2.88 | 3.60 | 3.86 | 3.86 | 3.80 |
| WTI ($ / Bbl) | 77.44 | 73.90 | 70.99 | 69.00 | 67.78 |
| **Production (Mboe /d)** | 305 | 322 | 341 | 362 | 382 |
| % oil | 49% | 48% | 48% | 47% | 47% |
| % sequential growth | 62% | 6% | 6% | 6% | 5% |
| Net debt to EBITDA | 0.8x | 0.6x | 0.4x | 0.4x | 0.3x |
| Cash flow operations ($mm) | 3,191 | 3,247 | 3,371 | 3,557 | 3,557 |
| Capex | (2,147) | (2,210) | (2,263) | (2,294) | (2,294) |
| **Free cash flow before fixed dividend** | **1,043** | **1,038** | **1,108** | **1,262** | **1,262** |
| Fixed dividend | (186) | (186) | (186) | (186) | (122) |
| **Free cash flow after fixed dividend** | **858** | **852** | **922** | **1,077** | **1,140** |
| 50% variable return | 429 | 426 | 461 | 538 | 570 |
| **Total estimated return** | **615** | **612** | **647** | **724** | **692** |
| **% Free CF yield before dividend** | **10.2%** | **10.1%** | **10.8%** | **12.3%** | **12.3%** |
| % Fixed dividend Yield | 1.8% | 1.8% | 1.8% | 1.8% | 1.2% |
| Variable yield | 4.2% | 4.2% | 4.5% | 5.3% | 5.6% |
| Total estimated % return | 6.0% | 6.0% | 6.3% | 7.1% | 6.8% |

**BofA base case**

| Commodity Deck | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|
| Henry Hub ($ / Mcf) | 2.75 | 3.55 | 4.00 | 4.00 | 4.00 |
| WTI ($ / Bbl) | 75.00 | 72.50 | 70.00 | 70.00 | 70.00 |
| **Production (Mboe /d)** | 305 | 322 | 341 | 362 | 382 |
| % oil | 49% | 48% | 48% | 47% | 47% |
| % sequential growth | 62% | 6% | 6% | 6% | 5% |
| Net debt to EBITDA | 0.8x | 0.6x | 0.4x | 0.4x | 0.3x |
| Cash flow operations ($mm) | 3,051 | 3,173 | 3,344 | 3,631 | 3,631 |
| Capex | (2,147) | (2,210) | (2,263) | (2,294) | (2,294) |
| **Free cash flow before fixed dividend** | **904** | **963** | **1,081** | **1,337** | **1,337** |
| Fixed dividend | (186) | (186) | (186) | (186) | (122) |
| **Free cash flow after fixed dividend** | **718** | **777** | **896** | **1,151** | **1,214** |
| 50% variable return | 359 | 389 | 448 | 575 | 607 |
| **Total estimated return** | **545** | **574** | **634** | **761** | **729** |
| **% Free CF yield before dividend** | **8.8%** | **9.4%** | **10.5%** | **13.0%** | **13.0%** |
| % Fixed dividend Yield | 1.8% | 1.8% | 1.8% | 1.8% | 1.2% |
| Variable yield | 3.5% | 3.8% | 4.4% | 5.6% | 5.9% |
| Total estimated % return | 5.3% | 5.6% | 6.2% | 7.4% | 7.1% |

**Source:** BofA Global Research estimates

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## Price objective basis & risk

**Permian Resources Corporation (PR)**

Our $15 PO is based on discounted cash flow assuming a 9% WACC and a long-term price deck of $4.00 HH / $70 WTI.

Potential upside risks: 1) potential upside to initial synergies from the Earthstone acquisition, 2) Continued efficiency gains on the operational front, and 3) better execution on the ground game activity

Potential downside risks: 1) difficulty integrating assets acquired, 2) regulatory risk, and 3) supply chain delays

## 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 |
| | California Resources Corporation | CRC | CRC US | Kalei Akamine |
| | 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 |
| | Chord Energy Corporation | CHRD | CHRD US | John H. Abbott |
| | ConocoPhillips | COP | COP US | Doug Leggate |
| | EOG Resources | EOG | EOG 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 |
| | Gulfport Energy Corporation | GPOR | GPOR US | Doug Leggate |
| | Imperial Oil | IMO | IMO US | Doug Leggate |
| | Imperial Oil | YIMO | IMO CN | Doug Leggate |
| | Kimbell Royalty Partners | KRP | KRP US | John H. Abbott |
| | Northern Oil and Gas | NOG | NOG 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 |
| | Southwestern Energy Corp. | SWN | SWN US | Doug Leggate |
| | Suncor | YSU | SU CN | Doug Leggate |
| | Suncor | SU | SU US | Doug Leggate |
| **NEUTRAL** | | | | |
| | Coterra Energy Inc | CTRA | CTRA US | Doug Leggate |
| | Delek US Holdings, Inc. | DK | DK US | Doug Leggate |
| | Devon Energy Corp. | DVN | DVN 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** | | | | |
| | CNX Resources | CNX | CNX US | John H. Abbott |
| | Crescent Energy Company | CRGY | CRGY US | John H. Abbott |
| | Diamondback Energy Inc. | FANG | FANG US | Doug Leggate |

**US - Large Cap Oils Coverage Cluster**

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---|---|---|---|---|
| | Marathon Oil Corp. | MRO | MRO US | Doug Leggate |
| | National Fuel Gas Company | NFG | NFG US | John H. Abbott |
| | Vital Energy Inc | VTLE | VTLE US | John H. Abbott |
| **RSTR** | | | | |
| | Pioneer Natural Resources | PXD | PXD US | Doug Leggate |

## *iQ*method SM Measures Definitions

| **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 |

*iQmethod* SM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

*iQdatabase* ® is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

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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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