

# Kimbell Royalty Partners

## Earnings catch up: Solid and straight forward 4Q keeps KRP as defensive, Buy

Reiterate Rating: BUY | PO: 17.00 USD | Price: 15.69 USD

### Adj. EBITDA and quarterly distribution in-line

We update estimates post KRP's 4Q23 results last week (02/21). In our view, the quarter was solid and relatively straight forward with adj. EBITDA / distribution of \$69mm / \$0.43 almost on top of our expectations of \$67mm / \$0.44. It was also the first full quarter reflecting the Long Point transaction (closed in September last year) which is the largest deal in its history (\$455mm). The only slight delta versus our estimates was 903 boe/d of volumes from 3Q that was recognized in 4Q. Excluding this, KRP's 4Q23 production run rate of ~24.3 Mboe/d was within sight of our forecast of ~23.8 Mboe/d.

### 2024 guidance consistent with expectations

For 2024, KRP expects FY volumes in the range of 22.5-25.5 Mboe/d, the mid-point (24 Mboe /d) which we see in-line with our expectations. As a reminder, management tends to provide what it sees as a conservative guide as it has no control on the pace or timing of future development being a royalty company. However, it expects most of its growth to be from the Permian due to its Hatch, Long Point & MB acquisitions, and it has visibility on net DUCs / permits of 8.38 above its 5.8 maintenance estimate.

### No large transaction on the horizon

Management sees itself as a consolidator in the oil & gas mineral and royalty space. However, call commentary, suggests nothing is imminent. Small deals remain highly competitive, and owners of natural gas minerals seem willing to wait on the sidelines for better commodity prices. It also continues to see more opportunity in value creation from larger deals, but nothing looks to be on the near-term horizon. With that said, KRP had ~\$256mm of undrawn capacity on its \$550mm revolver. Please note that it will likely start paying down its \$314mm of convertible preferred in the 2<sup>nd</sup> half of this year.

### Reit. Buy rating as we continue to view it as defensive

Our Buy rating reflects our view of KRP as relatively defensive in a more volatile commodity environment with additional support from what we estimate an ~11% yield assuming \$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\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.91	0.95	1.06	1.21	1.36
GAAP EPS	1.68	0.69	0.56	0.65	0.74
EPS Change (YoY)	40.4%	-50.3%	11.6%	14.2%	12.4%
Consensus EPS (Bloomberg)			1.01	1.13	1.03
DPS	2.04	1.68	1.75	1.89	2.05
Valuation (Dec)					
P/E	8.2x	16.5x	14.8x	13.0x	11.5x
GAAP P/E	9.3x	22.7x	28.0x	24.1x	21.2x
Dividend Yield	13.0%	10.7%	11.1%	12.1%	13.1%
EV / EBITDA*	11.1x	9.2x	7.8x	7.5x	7.1x
Free Cash Flow Yield*	1.7%	-21.3%	16.1%	17.3%	18.6%

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

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#### Equity

#### Key Changes

(US\$)	Previous	Current
2024E DPS	1.60	1.75

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#### Stock Data

Price	15.69 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)	1,486 USD / 94.7
Free Float	87.7%
Average Daily Value (mn)	5.50 USD
BofA Ticker / Exchange	KRP / NYS
Bloomberg / Reuters	KRP US / KRP.N
ROE (2024E)	10.2%
Net Dbt to Eqty (Dec-2023A)	25.8%

DUC-Drilled and uncompleted well

HH-Henry Hub

Boe-barrel of oil equivalent

WTI-West Texas Intermediate

KRB- Kimbell Royalty Partners

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

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	16.3%	8.5%	8.9%	10.4%	12.4%
Return on Equity	21.9%	9.0%	10.2%	12.8%	16.0%
Operating Margin	59.4%	38.3%	44.2%	44.9%	45.2%
Free Cash Flow	25	(317)	239	257	276

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.3x	2.1x	2.4x	2.2x	2.1x
Asset Replacement Ratio	2.8x	5.1x	0x	0x	0x
Tax Rate	2.1%	4.3%	22.0%	22.0%	22.0%
Net Debt-to-Equity Ratio	25.9%	25.8%	22.3%	17.1%	10.5%
Interest Cover	10.7x	4.3x	6.0x	8.1x	12.2x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	248	294	325	341	356
% Change	82.9%	18.5%	10.6%	4.7%	4.6%
Gross Profit	232	274	301	315	329
% Change	85.3%	18.1%	10.0%	4.6%	4.6%
EBITDA	187	225	264	278	291
% Change	117.2%	20.1%	17.7%	5.0%	5.0%
Net Interest & Other Income	(14)	(26)	(24)	(19)	(13)
<b>Net Income (Adjusted)</b>	<b>127</b>	<b>83</b>	<b>100</b>	<b>115</b>	<b>129</b>
<b>% Change</b>	<b>102.4%</b>	<b>-34.5%</b>	<b>20.5%</b>	<b>14.2%</b>	<b>12.4%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	112	67	73	81	90
Depreciation & Amortization	(50)	(115)	(120)	(125)	(130)
Change in Working Capital	(11)	(9)	0	0	0
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	115	231	287	300	317
Capital Expenditure	(141)	(491)	0	0	0
<b>Free Cash Flow</b>	<b>25</b>	<b>-317</b>	<b>239</b>	<b>257</b>	<b>276</b>
<b>% Change</b>	<b>-28.8%</b>	<b>NM</b>	<b>NM</b>	<b>7.6%</b>	<b>7.5%</b>
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	(127)	(153)	(183)	(193)	(210)
Change in Debt	16	61	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	25	31	31	31	31
Trade Receivables	4	2	2	2	2
Other Current Assets	47	70	70	70	70
Property, Plant & Equipment	754	1,222	1,102	977	847
Other Non-Current Assets	247	12	12	12	12
<b>Total Assets</b>	<b>1,077</b>	<b>1,338</b>	<b>1,217</b>	<b>1,093</b>	<b>963</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	19	13	13	13	13
Long-Term Debt	235	296	240	176	110
Other Non-Current Liabilities	9	0	25	53	84
<b>Total Liabilities</b>	<b>263</b>	<b>309</b>	<b>279</b>	<b>243</b>	<b>207</b>
<b>Total Equity</b>	<b>813</b>	<b>1,028</b>	<b>939</b>	<b>850</b>	<b>756</b>
<b>Total Equity &amp; Liabilities</b>	<b>1,077</b>	<b>1,338</b>	<b>1,217</b>	<b>1,093</b>	<b>963</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 349,734

## Quarterly Earnings Estimates

	2023	2024
Q1	0.24A	0.21E
Q2	0.23A	0.29E
Q3	0.26A	0.28E
Q4	0.22A	0.28E

## 4Q23 Earnings Summary

We estimate 1Q23 adj earning per unit at \$0.22 where the primary delta versus our \$0.29 estimate is DD&A. The table below compares actuals to estimates and prior yoy and qoq results.

### Exhibit 1: KRP earnings variance

Y/Y and Q/Q Comparison (\$ in Millions, except in per share data)-Delta is primarily DD&A

	4Q23A	4Q23E	4Q22A	YoY	3Q23A	QoQ
Total Revenues	99.2	83.2	68.7	44.5%	67.2	47.6%
Production expenses	(18.2)	(16.0)	(13.1)	38.9%	(18.9)	-3.7%
DD&A	(36.2)	(27.7)	(16.7)	116.4%	(23.1)	57.0%
Interest expense	(7.5)	(6.8)	(4.0)	89.0%	(6.7)	11.7%
Other income / expenses	(26.3)	(10.5)	(5.6)	366.2%	(4.9)	436.1%
Provision / Benefit for tax	(1.3)	(7.2)	(0.9)	49.3%	(0.1)	935.9%
<b>Net Income (Reported)</b>	9.8	15.0	28.4	-65.6%	13.6	-28.0%
Special Items	10.3	12.8	(2.9)	-454.2%	11.4	-9.8%
<b>Net Income (Adjusted)</b>	20.1	27.8	25.5	-21.3%	25.0	-19.7%
Earnings Per Share (Reported)	0.14	0.20	0.48	-71.5%	0.20	-31.4%
Earnings per share (Adjusted)	0.22	0.29	0.36	-40.7%	0.26	-17.8%
Distributions	0.43	0.44	0.53	-18.9%	0.51	-15.7%

Source: BofA Global Research estimates, Company data

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## Estimate changes

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

### Exhibit 2: KRP Earnings Estimates

Adjusted for results and updated guidance

	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	0.22	0.95	0.92
Previous	0.24	0.23	0.26	0.29	1.03	n/a
2024E	0.21	0.29	0.28	0.28	1.06	1.01
Previous	0.22	0.24	0.23	0.27	0.96	n/a
2025E	0.27	0.29	0.32	0.33	1.21	1.13
Previous	0.29	0.27	0.30	0.33	1.18	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
	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
<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
	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
<b>UNDERPERFORM</b>				
	Chord Energy Corporation	CHRD	CHRD US	John H. Abbott
	Crescent Energy Company	CRGY	CRGY US	John H. Abbott

## 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
	Northern Oil and Gas	NOG	NOG US	John H. Abbott
	Vital Energy Inc	VTLE	VTLE US	John H. Abbott

## RSTR

	Pioneer Natural Resources	PXD	PXD US	Doug Leggate
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**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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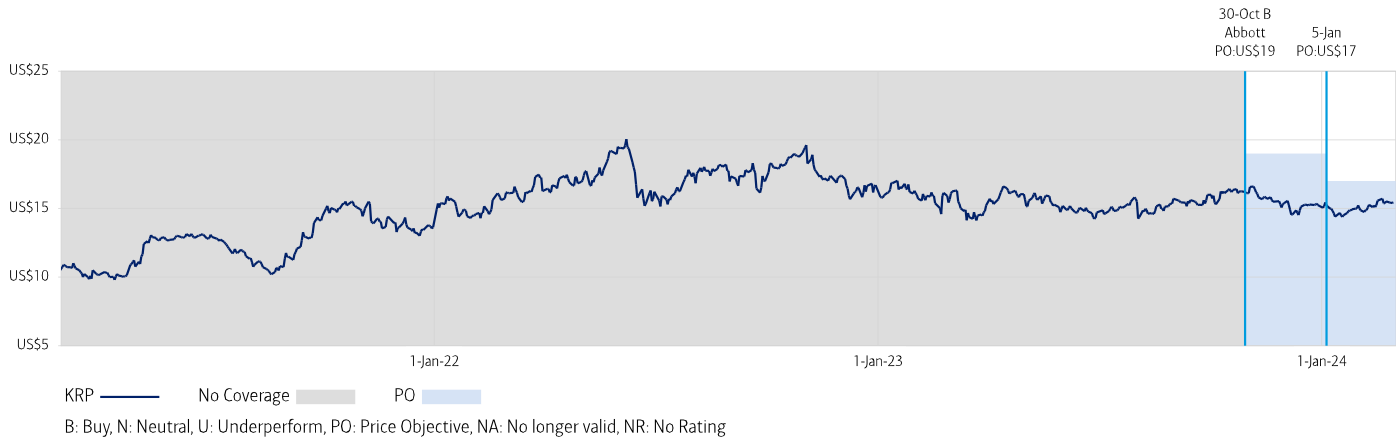
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### Kimbell Royalty (KRP) Price Chart



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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