

Northern Oil and Gas

Downgrade to U/P as we move defensive on oil in 2024, lower PO to \$39

Rating Change: UNDERPERFORM | PO: 39.00 USD | Price: 36.54 USD

Limited upside without major macro changes

We downgrade Northern Oil and Gas (NOG) to Underperform, lowering our PO to \$39 from \$48 as we have moved defensive on oil in 2024 (see our year ahead report entitled [2024 Outlook: Rangebound. Defensive oil, seasonal refining & still battleground gas](#)) given a steeply backwardated oil curve, which we see as reflecting record OPEC spare capacity, along with the possibility that Saudi may potentially have more difficulty in stabilizing the commodity price due to demand uncertainty and non-OPEC growth. Given these risks, we have lowered our long-term oil deck for our coverage universe to \$70 WTI from \$75 / bbl while adjusting long-term natural gas to \$4 HH from \$4.25 / mcf based upon strip pricing post 2026. The net result is that we view NOG's shares as fully valued, with upside from here likely limited unless there are major changes on the macro front.

D/g primarily based on macro, no operational issues expected

Our downgrade is primarily a commodity call as we are not anticipating any major operational issues for NOG this year as we believe it has sufficient capital in the ground to drive growth. It also has the flexibility to lower spending, given its non-op business model. With that said, one area that could possibly slow if there is uncertainty related to the oil price is large-scale acquisitions. In our view, this could be a slight negative as we believe NOG's past share performance has benefited from well-timed deals as reflected, in part, by its ~28% relative outperformance versus the Russell 3000 Energy Index in 2023. However, we see this as potentially offset, in part, by smaller deal activity (what it calls its ground game) as operators may look to NOG as a potential source of funds.

We prefer more natural gas exposed names

We make this downgrade during what we perceive as potentially one of the most uncertain oil macro environments since the start COVID with a preference for more gassy long-term exposure. Our \$39 PO on NOG is based upon a discounted cash flow assuming an 8.75% WACC and a long-term price deck of \$70 WTI / \$4 HH.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	3.49	6.53	6.73	7.14	6.79
GAAP EPS	(0.76)	8.49	7.89	7.14	6.79
EPS Change (YoY)	271.3%	87.1%	3.1%	6.1%	-4.9%
Consensus EPS (Bloomberg)			6.82	7.29	6.98
DPS	0.11	0.88	1.45	1.52	1.60
Valuation (Dec)					
P/E	10.5x	5.6x	5.4x	5.1x	5.4x
GAAP P/E	NM	4.3x	4.6x	5.1x	5.4x
Dividend Yield	0.3%	2.4%	4.0%	4.2%	4.4%
EV / EBITDA*	10.0x	5.2x	3.8x	3.2x	3.3x
Free Cash Flow Yield*	5.3%	13.0%	18.3%	19.0%	14.3%

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

05 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Inv. Opinion	C-1-7	C-3-7
Inv. Rating	BUY	UNDERPERFORM
Price Obj.	48.00	39.00

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Stock Data

Price	36.54 USD
Price Objective	39.00 USD
Date Established	5-Jan-2024
Investment Opinion	C-3-7
52-Week Range	25.56 USD - 43.64 USD
Mrkt Val (mn) / Shares Out (mn)	3,673 USD / 100.5
Free Float	88.3%
Average Daily Value (mn)	51.61 USD
BofA Ticker / Exchange	NOG / NYS
Bloomberg / Reuters	NOG US / NOG.N
ROE (2023E)	48.8%
Net Dbt to Eqty (Dec-2022A)	204.3%
ESGMeter™	Low

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"](#).

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Timestamp: 05 January 2024 06:28AM EST

iQprofileSM Northern Oil and Gas

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	6.7%	39.1%	24.8%	22.1%	18.1%
Return on Equity	NM	117.8%	48.8%	34.2%	25.7%
Operating Margin	15.7%	54.3%	46.6%	46.0%	45.3%
Free Cash Flow	195	478	671	698	524

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.5x	1.6x	2.4x	2.2x	2.1x
Asset Replacement Ratio	1.4x	1.8x	1.7x	1.4x	1.4x
Tax Rate	3.5%	NM	NM	NM	NM
Net Debt-to-Equity Ratio	369.0%	204.3%	93.4%	52.5%	30.2%
Interest Cover	1.3x	10.6x	6.8x	8.6x	8.3x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	497	1,571	1,937	2,318	2,250
% Change	-10.0%	216.1%	23.3%	19.7%	-3.0%
Gross Profit	326	1,310	1,600	1,936	1,873
% Change	-25.2%	301.7%	22.2%	21.0%	-3.3%
EBITDA	543	1,034	1,444	1,712	1,652
% Change	55.2%	90.4%	39.7%	18.5%	-3.5%
Net Interest & Other Income	(71)	(77)	(119)	(124)	(124)
Net Income (Adjusted)	256	566	618	712	676
% Change	172.4%	120.9%	9.2%	15.2%	-4.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(56)	735	725	711	676
Depreciation & Amortization	141	251	485	633	619
Change in Working Capital	0	0	1,294	1,554	1,045
Deferred Taxation Charge	43	98	189	231	94
Other Adjustments, Net	268	(156)	(1,202)	(1,540)	(1,032)
Capital Expenditure	(202)	(451)	(820)	(890)	(879)
Free Cash Flow	195	478	671	698	524
% Change	104.9%	145.4%	40.6%	4.0%	-25.0%
Share / Issue Repurchase	228	(54)	212	4	0
Cost of Dividends Paid	(28)	(28)	0	0	0
Change in Debt	(89)	726	714	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	10	3	13	441	807
Trade Receivables	194	271	364	364	364
Other Current Assets	12	47	93	93	93
Property, Plant & Equipment	1,253	2,483	3,849	4,231	4,491
Other Non-Current Assets	54	72	46	46	46
Total Assets	1,523	2,875	4,365	5,175	5,802
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	192	275	422	422	422
Long-Term Debt	803	1,525	1,683	1,683	1,683
Other Non-Current Liabilities	313	330	471	702	796
Total Liabilities	1,308	2,130	2,576	2,807	2,901
Total Equity	215	745	1,788	2,368	2,900
Total Equity & Liabilities	1,523	2,875	4,365	5,175	5,802

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

Company Sector

Oil & Gas Producers

Company Description

Northern Oil and Gas is the largest publicly traded non-operated E&P. Its net production reflects a broad array of working interests in a series of oil and gas properties where it partners with operators and takes a cut of well level revenues for a proportional amount of capital operating costs. It has assets in North Dakota, Pennsylvania and the Permian Basin.

Investment Rationale

Our Underperform rating is primarily based on the commodity environment as we perceive limited upside given a steeply backwardated oil curve.

Stock Data

Average Daily Volume 1,412,318

Quarterly Earnings Estimates

	2022	2023
Q1	1.58A	1.75A
Q2	1.72A	1.50A
Q3	1.80A	1.73E
Q4	1.43A	1.74E

\$39 Price Objective

Below is a summary of our \$39 DCF valuation for NOG assuming a long-term commodity deck of \$4 HH / \$70 WTI and an 8.75% WACC. Please note we start our valuation at the end of 1Q24 in order to avoid double counting for its Northern Delaware transaction, which is expected to close in 1Q24, that was announced on November 21st.

Exhibit 1: NOG DCF valuation: \$39 PO

Cash flows extend beyond the time period shown

Dedline	1Q24	2Q24	3Q24	4Q24	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Oil Production (Mbb/d)	79	79	77	75	75	73	66	59	55	52	44	39	35	32	30
Boe Production (Mboe/d)	1262	1241	1198	1168	1195	1131	1012	903	832	780	67	59	53	49	46
WTI (\$/bbl)	\$3.8	\$3.3	\$3.5	\$3.8	\$7.25	\$7.00	\$7.00	\$7.00	\$7.00	\$7.00	\$7.00	\$7.00	\$7.00	\$7.00	\$7.00
Brent (\$/bbl)	\$7.25	\$7.75	\$7.75	\$7.25	\$7.75	\$7.50	\$7.50	\$7.50	\$7.50	\$7.50	\$7.50	\$7.50	\$7.50	\$7.50	\$7.50
Henry Hub (\$/MMbtu)	\$77.50	\$82.50	\$82.50	\$77.50	\$3.55	\$4.00	\$4.00	\$4.00	\$4.00	\$4.00	\$4.00	\$4.00	\$4.00	\$4.00	\$4.00
<i>Consolidated:</i>															
Debt Adjusted Cash Flow	424	437	426	395	1,496	1,422	1,261	1,132	1,047	984	846	744	670	616	579
Capital Expenditures	(356)	(221)	(226)	(213)	(879)	(854)	(810)	(742)	(688)	(631)					
Free Cash Flow	-	-	216	182	617	568	451	390	359	352	846	744	670	616	579
Present Value	5,504										14%	12%	10%	8%	6%
Total PV	5,504														
Less: Net Debt	1,668														
Equity Value	3,847														
Diluted Shares Outstanding	100														
Valuation	39														

Source: BofA Global Research estimates

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Price objective basis & risk

Northern Oil and Gas (NOG)

Our price objective of \$39/sh assumes \$70 WTI / \$4 HH long-term. We apply a long-term (post-tax) weighted average cost of capital (WACC) of about 9%.

Downside risks to our price objective are: 1) the oil and gas macro environment, 2) NOG's non-op model leaves limited clarity on go forward activity assumptions, 3) Risks that NOG enters into expensive acquisitions as a means to maintain its production profile.

Upside risks are: 1) potential accretive transactions on favorable terms, 2) Costs coming in better than expected, and 3) productivity being better 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
BUY				
	APA Corporation	APA	APA US	Doug Leggate
	Canadian Natural Resources	YCNQ	CNQ CN	Doug Leggate
	Canadian Natural Resources	CNQ	CNQ US	Doug Leggate
	Chesapeake Energy	CHK	CHK US	Doug Leggate
	Chevron Corp.	CVX	CVX US	Doug Leggate
	ConocoPhillips	COP	COP US	Doug Leggate
	Coterra Energy Inc	CTRA	CTRA US	Doug Leggate
	EQT Corporation	EQT	EQT US	John H. Abbott
	ExxonMobil Corp.	XOM	XOM US	Doug Leggate
	Granite Ridge Resources, Inc	GRNT	GRNT US	John H. Abbott
	Imperial Oil	IMO	IMO US	Doug Leggate
	Imperial Oil	YIMO	IMO CN	Doug Leggate
	Kimbell Royalty Partners	KRP	KRP US	John H. Abbott
	Occidental Petroleum Corp.	OXY	OXY US	Doug Leggate
	Ovintiv Inc	YOVV	OW CN	Doug Leggate
	Ovintiv Inc	OWV	OW 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				
	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
	Phillips 66	PSX	PSX US	Doug Leggate
	Valero Energy Corp.	VLO	VLO US	Doug Leggate
UNDERPERFORM				
	Chord Energy Corporation	CHRD	CHRD US	John H. Abbott
	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
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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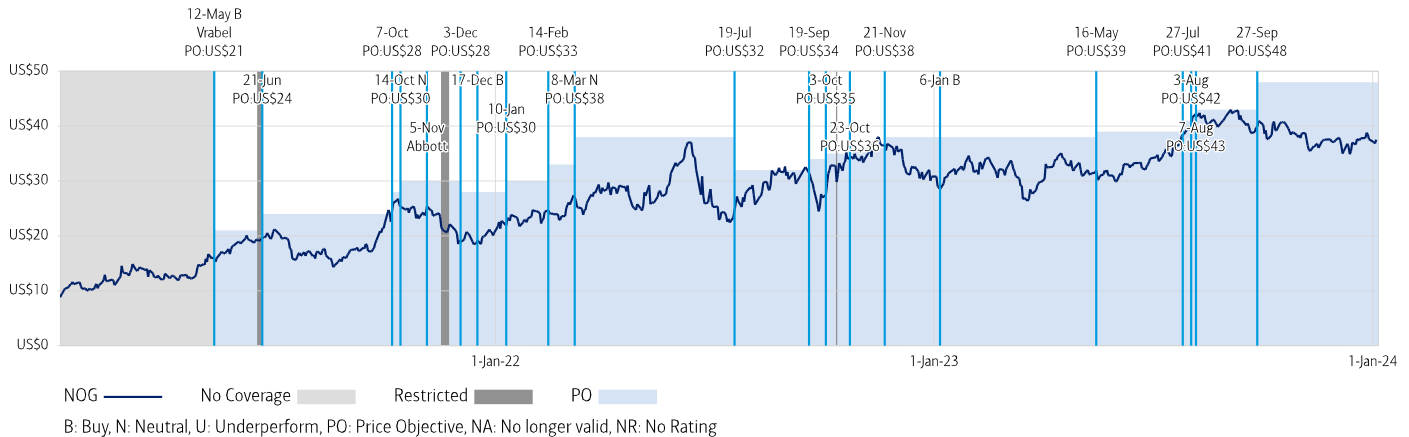
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Northern Oil and Gas (NOG) Price Chart



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 ^{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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