

Diamondback Energy, Inc

FANG to acquire ENDENR, creating a Permian powerhouse; upgrade to OW

Rating Change - Credit

FANG to buy ENDENR for \$26b

On Monday, Diamondback Energy (FANG) announced plans to merge with privately held Endeavor Energy (ENDENR, covered by Gregg Brody) in a stock and cash transaction that includes 117.3mm shares of FANG common stock and \$8b cash. The transaction values ENDENR at ~\$26b, including net debt (net cash of \$1,160mm at 3Q23). FANG plans to finance the cash portion with cash on hand, borrowings under its credit facility, and/or proceeds from term loans and senior notes offerings. The company expects to issue between \$5b and \$6b of new debt and to call ENDENR's January 2028 notes (~\$900mm). The transaction is expected to close in 4Q24 with ~\$550mm of expected synergies.

FANG plans to reduce debt to \$10b "very quickly"

Pro forma (PF) for the acquisition, we estimate that FANG's net leverage will rise from 0.9x to 1.2x. Starting in 1Q24, FANG plans to reduce its shareholder returns commitment to at least 50% of free cash flow from 75%. Management's stated near-term objective is to pay down debt and reduce PF net debt to below \$10b "very quickly" (guided to "in 2025" during its call). FANG will also evaluate non-core asset sales, which could accelerate de-leveraging. The PF business will target 1.0x net leverage (at \$50-\$55/bbl WTI). We expect FANG to reach its 1.0x leverage target by YE25 under our \$75/WTI base-case scenario but will likely not reach \$10b of net debt until 2026 without asset sales.

Upgrade FANG to OW; see at least 10-15 bps of upside potential

Going into this transaction, we had an UW recommendation on the outstanding FANG notes due to unattractive relative value and the company's potential to do M&A. Notably, over the last few weeks, FANG's notes underperformed Occidental Petroleum's (OXY, MW) notes by 5-10 bps, improving the company's relative value and, now that the M&A news is past us, setting up an attractive entry point for FANG bonds. Currently, FANG trades marginally inside similar sized Canadian oil-sands producers, Canadian Natural Resources (CNQCN, OW) and Cenovus Energy (CVECN, OW), but FANG's notes have significantly more liquidity and do not have the headwind of being an oil sands operator (many investors cannot buy the bonds of oil sands producers due to ESG-related mandates). We therefore believe that FANG could eventually trade 10-20 bps inside the Canadians, though the timing of the expected new bond deal could keep the FANG notes trading wider for longer. In addition, when compared to OXY, which is also doing debt-financed M&A, we believe that FANG should trade at a significant premium (more than the current ~25 bp premium), as there are significantly more risk associated with OXY's ~5-year deleveraging plan than FANG's plan to de-lever "very-quickly." This is further highlighted by the potential combined FANG/ENDENR would not see leverage rise above 2.0x under a \$55/WTI commodity price deck, whereas OXY could see leverage rise above 4.0x. Last, we believe that FANG notes could close the gap to the ICE BofA BBB US Corporate Index (+125 bps) as we think that FANG could eventually reach high BBB ratings given its potentially larger size and scale. Overall, we see 10-15 bps of relative upside potential for FANG compared to the BBB Corp Index and therefore upgrade our recommendation to OW from UW.

12 February 2024

High Grade Credit
United States
Energy

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Diamondback Energy, Inc (FANG)			
Key Data	2022A	LTM	2023E
Operating (US\$ mm)			
Revenues	9,643	8,214	8,481
EBITDAX	7,016	6,182	6,363
Balance Sheet (US\$ mm)			
Cash	164	830	270
Total Debt	6,248	6,230	6,230
Total Leverage (x)	0.9	1.0	1.0
Net Leverage (x)	0.9	0.9	0.9

Source: Company filings & BofA Global Research. LTM as of 2023Q3

bbl: barrel

k: thousand

mboe: million barrels of oil equivalent

mmbtu: million British thermal units

MW: Marketweight

NR: not rated/not covered

OW: Overweight

UW: Underweight

WTI: West Texas Intermediate

YE: year-end

BofA Securities does and seeks to do business with issuers covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Refer to important disclosures on page 6 to 9. Analyst Certification on page 5. Valuation & Risk on page 5.

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Timestamp: 12 February 2024 01:13PM EST

FANG to buy ENDENR for \$26b

Transaction overview

On Monday, Diamondback Energy (FANG) announced plans to merge with privately held Endeavor Energy (ENDENR, covered by Gregg Brody) in a stock and cash transaction that includes 117.3mm shares of FANG common stock and \$8b cash. The transaction values ENDENR at ~\$26b, including net debt (net cash of \$1,160mm at 3Q23). FANG plans to finance the cash portion with cash on hand, borrowings under its credit facility, and/or proceeds from term loans and senior notes offerings. The company expects to issue between \$5b and \$6b of new debt and to call ENDENR's January 2028 notes (~\$900mm outstanding). FANG shareholders are expected to own ~60.5% of the pro-forma business, while ENDENR holders would own ~39.5%. The transaction is expected to close in 4Q24 and has been unanimously approved by FANG's board and has all necessary ENDENR approvals. Although the transaction must also pass a FANG shareholder vote, we have confidence that it will. FANG expects annual synergies of \$550mm and ~10% free cash flow per share accretion in 2025.

Capital allocation / de-leveraging

Starting in 1Q24, FANG plans to reduce its shareholder return commitment to at least 50% of free cash flow from 75% previously. Management stated that its near-term objective is to pay down debt added through the transaction and reduce pro-forma net debt to below \$10b "very quickly" (guided to "in 2025" during its call). FANG will also evaluate non-core asset sales, which could accelerate de-leveraging. The pro-forma business will target 1.0x net leverage (at \$50-55/bbl WTI).

Pro-forma business

The pro-forma (PF) business would operate 838k net acres across the Permian basin with production of ~816 mboe/d (FANG standalone production of 430 mboe/d in 3Q23). Notably, the combined entity would be the third-largest producer in the Permian basin behind only Exxon Mobil Corp (XOM, NR, ~1,300 mboe/d pro-forma for the Endeavor acquisition) and Chevron Corp (CVX, NR, 867 mboe/d). In 2025, FANG guided combined total company production of 800-825 mboe/d and capex of ~\$4.1-4.4b. Separately, management expects ~10% accretion to PF free cash flow per share in 2025 and annual synergies of \$550mm (includes ~\$325mm of capital and operating cost synergies, ~\$150mm of capital allocation and land synergies, and ~\$75mm of financial and corporate cost synergies).

4Q23 and 2024 guidance

FANG guided 4Q23 standalone production of 463 mboe/d (consensus of 459 mboe/d) and capex of \$649mm (consensus of \$627mm). In 2024, FANG sees standalone production of 458-466 mboe/d (consensus of 462 mboe/d) and capex of \$2.3-2.55b (consensus of ~\$2.5b). Separately, ENDENR guided FY24 standalone production to 190-200 mboe/d and capex of ~\$2.5-2.6b.

Important: At the end of this report, we include forecasted financials for the PF entity in 2024 and 2025. In our flexed case scenario, we use a price deck of \$55/bbl WTI and \$2.25/mmbtu Henry Hub for FY25.

Exhibit 1: Diamondback Energy (FANG) model and forecast (\$mm)

Under our \$75/WTI base price deck, we would expect FANG's PF net leverage to rise to 1.6x by YE24 but then fall to 0.9x by YE25

	2020	2021	2022	1Q23	2Q23	3Q23	4Q23E	2023E	2024E	2025E
Income Statement										
Oil sales	2,410	5,396	7,660	1,654	1,708	1,997	1,978	7,337	8,561	12,547
Natural gas sales	107	569	858	69	48	80	119	316	559	790
Natural gas liquid sales	239	782	1,048	179	140	188	200	707	885	1,353
Lease bonus	-	-	-	-	-	-	-	-	-	-
Midstream services	50	45	-	-	-	-	-	-	-	-
Other operating income	7	5	77	23	23	75	-	121	-	-
Total Revenue	2,813	6,797	9,643	1,925	1,919	2,340	2,297	8,481	10,006	14,690
Lease operating expenses	425	565	652	192	200	226	240	858	1,166	1,761
Production and ad valorem taxes	195	425	611	155	148	118	126	547	550	808
Gathering and transportation	140	212	258	68	68	73	72	281	343	510
Midstream services	105	89	-	-	-	-	-	-	-	-
DD&A	1,304	1,275	1,344	403	432	442	458	1,735	2,137	3,223
General & administrative expenses	88	146	144	40	37	34	43	154	220	337
Asset retirement obligation accretion	7	-	-	-	-	-	-	-	-	-
Other operating expense	4	84	112	42	34	106	35	217	140	140
Total operating exp.	2,268	2,796	3,121	900	919	999	973	3,791	4,556	6,779
Operating Income	545	4,001	6,522	1,025	1,000	1,341	1,323	4,689	5,449	7,911
Interest expense, net	(197)	(199)	(159)	(46)	(51)	(41)	(43)	(181)	(220)	(310)
Capitalized interest	(55)	(88)	(124)	(27)	(25)	(31)	(29)	(112)	(139)	(193)
Total Interest	(252)	(287)	(283)	(73)	(76)	(72)	(72)	(293)	(359)	(502)
Other income, net	(6,034)	(848)	(586)	(93)	(189)	(76)	1	(357)	10	-
Gain (loss) on derivative instruments, net	(81)	-	-	-	-	-	-	-	-	-
Gain on revaluation of investment	(9)	-	-	-	-	-	-	-	-	-
Income attributable to NCI	(155)	94	176	34	30	78	75	217	300	300
Income before taxes	(5,621)	2,813	5,560	919	721	1,191	1,207	3,935	4,940	7,302
Provision for (benefit from) income taxes	(1,104)	631	1,174	207	165	276	278	926	1,087	1,606
Net income	(4,517)	2,182	4,386	712	556	915	929	3,112	3,853	5,695
Shares outstanding - diluted	158	177	177	182	180	179	179	180	206	286
EPS - diluted	(\$28.59)	\$12.30	\$24.84	\$3.91	\$3.08	\$5.12	\$5.19	\$17.29	\$18.74	\$19.94
EBITDAX	2,106	4,006	7,016	1,429	1,393	1,759	1,782	6,363	7,597	11,135
LTM Int. Exp.	(252)	(287)	(283)	(285)	(292)	(294)	(293)	(293)	(359)	(502)
LTM EBITDAX	2,106	4,006	7,016	6,892	6,277	6,182	6,363	6,363	7,597	11,135
LTM CFFO	2,021	3,908	6,524	6,416	5,887	5,738	5,537	5,537	6,388	9,507
Credit Metrics										
EBITDAX/Interest Expense	8.4x	14.0x	24.8x	24.2x	21.5x	21.0x	21.7x	21.7x	21.2x	22.2x
Total Debt/EBITDAX	2.7x	1.7x	0.9x	1.0x	1.0x	1.0x	1.0x	1.0x	1.6x	0.9x
Net Debt/EBITDAX	2.6x	1.5x	0.9x	1.0x	1.0x	0.9x	0.9x	0.9x	1.6x	0.9x
Total Debt % Capital	36%	34%	28%	30%	29%	27%	26%	26%	25%	20%
Net Debt % Capital	36%	30%	28%	30%	29%	23%	25%	25%	25%	19%
Debt/CFFO	2.8x	1.7x	1.0x	1.1x	1.1x	1.1x	1.1x	1.1x	1.9x	1.1x
CFFO/Net Debt	37%	65%	107%	93%	90%	106%	93%	93%	52%	99%
Balance Sheet										
Cash and equivalents	104	672	164	53	21	830	270	270	100	667
Total Debt	5,624	6,687	6,248	6,960	6,543	6,230	6,230	6,230	12,340	10,230

Source: Company Filings, BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 2: Diamondback Energy (FANG) model and forecast (\$mm)

Under our \$55/WTI flexed price deck, we would expect FANG's PF net leverage to rise to 1.6x by YE24 and to remain roughly unchanged through YE25

	2020	2021	2022	1Q23	2Q23	3Q23	4Q23E	2023E	2024E	2025E
Income Statement										
Oil sales	2,410	5,396	7,660	1,654	1,708	1,997	1,978	7,337	8,561	9,201
Natural gas sales	107	569	858	69	48	80	119	316	559	593
Natural gas liquid sales	239	782	1,048	179	140	188	200	707	885	992
Lease bonus	-	-	-	-	-	-	-	-	-	-
Midstream services	50	45	-	-	-	-	-	-	-	-
Other operating income	7	5	77	23	23	75	-	121	-	-
Total Revenue	2,813	6,797	9,643	1,925	1,919	2,340	2,297	8,481	10,006	10,786
Lease operating expenses	425	565	652	192	200	226	240	858	1,166	1,761
Production and ad valorem taxes	195	425	611	155	148	118	126	547	550	593
Gathering and transportation	140	212	258	68	68	73	72	281	343	510
Midstream services	105	89	-	-	-	-	-	-	-	-
DD&A	1,304	1,275	1,344	403	432	442	458	1,735	2,137	3,223
General & administrative expenses	88	146	144	40	37	34	43	154	220	337
Asset retirement obligation accretion	7	-	-	-	-	-	-	-	-	-
Other operating expense	4	84	112	42	34	106	35	217	140	140
Total operating exp.	2,268	2,796	3,121	900	919	999	973	3,791	4,556	6,564
Operating Income	545	4,001	6,522	1,025	1,000	1,341	1,323	4,689	5,449	4,222
Interest expense, net	(197)	(199)	(159)	(46)	(51)	(41)	(43)	(181)	(220)	(370)
Capitalized interest	(55)	(88)	(124)	(27)	(25)	(31)	(29)	(112)	(139)	(193)
Total Interest	(252)	(287)	(283)	(73)	(76)	(72)	(72)	(293)	(359)	(562)
Other income, net	(6,034)	(848)	(586)	(93)	(189)	(76)	1	(357)	10	-
Gain (loss) on derivative instruments, net	(81)	-	-	-	-	-	-	-	-	-
Gain on revaluation of investment	(9)	-	-	-	-	-	-	-	-	-
Income attributable to NCI	(155)	94	176	34	30	78	75	217	300	300
Income before taxes	(5,621)	2,813	5,560	919	721	1,191	1,207	3,935	4,940	3,552
Provision for (benefit from) income taxes	(1,104)	631	1,174	207	165	276	278	926	1,087	781
Net income	(4,517)	2,182	4,386	712	556	915	929	3,112	3,853	2,771
Shares outstanding - diluted	158	177	177	182	180	179	179	180	206	286
EPS - diluted	(\$28.59)	\$12.30	\$24.84	\$3.91	\$3.08	\$5.12	\$5.19	\$17.29	\$18.74	\$9.70
EBITDAX	2,106	4,006	7,016	1,429	1,393	1,759	1,782	6,363	7,597	7,445
LTM Int. Exp.	(252)	(287)	(283)	(285)	(292)	(294)	(293)	(293)	(359)	(562)
LTM EBITDAX	2,106	4,006	7,016	6,892	6,277	6,182	6,363	6,363	7,597	7,445
LTM CFFO	2,021	3,908	6,524	6,416	5,887	5,738	5,537	5,537	6,388	6,335
Credit Metrics										
EBITDAX/Interest Expense	8.4x	14.0x	24.8x	24.2x	21.5x	21.0x	21.7x	21.7x	21.2x	13.2x
Total Debt/EBITDAX	2.7x	1.7x	0.9x	1.0x	1.0x	1.0x	1.0x	1.0x	1.6x	1.6x
Net Debt/EBITDAX	2.6x	1.5x	0.9x	1.0x	1.0x	0.9x	0.9x	0.9x	1.6x	1.6x
Total Debt % Capital	36%	34%	28%	30%	29%	27%	26%	26%	25%	23%
Net Debt % Capital	36%	30%	28%	30%	29%	23%	25%	25%	25%	23%
Debt/CFFO	2.8x	1.7x	1.0x	1.1x	1.1x	1.1x	1.1x	1.1x	1.9x	1.9x
CFFO/Net Debt	37%	65%	107%	93%	90%	106%	93%	93%	52%	54%
Balance Sheet										
Cash and equivalents	104	672	164	53	21	830	270	270	100	100
Total Debt	5,624	6,687	6,248	6,960	6,543	6,230	6,230	6,230	12,340	11,742

Source: Company Filings, BofA Global Research

BofA GLOBAL RESEARCH

Valuation & risk

Diamondback Energy (FANG)

Diamondback Energy (FANG) is an independent, oil and gas producer focused on the acquisition, development, exploration and exploitation of unconventional, onshore oil, and natural gas reserves in the Permian Basin.

Pro-forma (PF) for the acquisition of Endeavor, we continue to have a positive fundamental view of FANG. The transaction would be a good strategic fit for the business, in our view, and further strengthen its significant Tier-1 acreage position / scale in the Permian basin. We acknowledge that FANG plans to issue \$5-6b of new debt to fund the deal but note that management's explicit commitment to de-leveraging (post-acquisition) should help support the company's credit story. Compared to peers, we think FANG could eventually trade well inside similar size Canadian peers and flat to the BofA BBB Corp Index. We also think FANG bonds should trade at a significant premium to Occidental Petroleum (OXY), which has substantially higher risk involved with its approximate 5-year de-leveraging plan post its recent M&A transaction. We therefore see upside potential to FANG's current spreads and have an OW recommendation on the name.

Risks: volatility in oil, natural gas, and NGL prices, changes in its capex program that either stress or relieve cash flow estimates, debt-funded acquisitions, and shareholder-friendly activities that strain cash flows, such as share repurchases and dividend increases, and the pending Endeavor deal not closing.

Analyst Certification

I, Daniel Lungo, 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.



Security/Loan pricing

Diamondback Energy, Inc / FANG

	Amt		Ratings			Yield	Spread
Security		Maturity date	Moody's/S&P/Fitch	Price	Price date	(%)	(bps)
3.25, Senior, USD, 2026:B	800	01-DEC-2026	Baa2/BBB-/BBB	96.01	09-Feb-2024	4.78	43
3.5, Senior, USD, 2029:B	1,200	01-DEC-2029	Baa2/BBB-/BBB	91.78	09-Feb-2024	5.15	100
3.125, Senior, USD, 2031:B	900	24-MAR-2031	Baa2/BBB-/BBB	87.46	09-Feb-2024	5.26	111
4.4, Senior, USD, 2051:B	650	24-MAR-2051	Baa2/BBB-/BBB	79.98	09-Feb-2024	5.89	142
4.25, Senior, USD, 2052:B	750	15-Mar-2052	Baa2/BBB-/BBB	77.80	09-Feb-2024	5.87	144
6.25, Senior, USD, 2033:B	1,100	15-MAR-2033	Baa2/BBB-/BBB	104.73	09-Feb-2024	5.57	140
6.25, Senior, USD, 2053:B	650	15-Mar-2053	Baa3/BBB-	103.17	09-Feb-2024	6.02	161

For pricing information refer to "Other Important Disclosures" below.

B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Disclosures

Important Disclosures

Credit opinion history

Diamondback Energy, Inc / FANG

Company	Date ^{R1}	Action	Recommendation	
Diamondback Energy, Inc / FANG	31-Jan-2021		Overweight	
	12-Mar-2021	Restricted	NA	
	01-Apr-2021	Coverage Resumed	Marketweight	
	18-Aug-2021	Upgrade	Overweight	
	08-Oct-2021	Downgrade	Marketweight	
	17-Mar-2022	Upgrade	Overweight	
	14-Apr-2023	Downgrade	Marketweight	
Security	12-Dec-2023	Downgrade	Underweight	
	31-Jan-2023		Overweight	
	14-Apr-2023	Downgrade	Marketweight	95.57
	12-Dec-2023	Downgrade	Underweight	95.27
	31-Jan-2023		Overweight	
	14-Apr-2023	Downgrade	Marketweight	92.54
	12-Dec-2023	Downgrade	Underweight	90.56
	31-Jan-2023		Overweight	
	14-Apr-2023	Downgrade	Marketweight	87.67
	12-Dec-2023	Downgrade	Underweight	86.49
	31-Jan-2023		Overweight	
	14-Apr-2023	Downgrade	Marketweight	81.76
	12-Dec-2023	Downgrade	Underweight	79.64
	31-Jan-2023		Overweight	
	14-Apr-2023	Downgrade	Marketweight	79.87
	12-Dec-2023	Downgrade	Underweight	76.84
	31-Jan-2023		Overweight	
	14-Apr-2023	Downgrade	Marketweight	107.24
	12-Dec-2023	Downgrade	Underweight	103.82
	31-Jan-2023		Overweight	
	14-Apr-2023	Downgrade	Marketweight	105.63
	12-Dec-2023	Downgrade	Underweight	102.32

Table reflects credit opinion history as of previous business day's close.^{R1} First date of recommendation within the last 36 months, if for an issuer or within the last 12 months, if for a security or loan. The investment opinion system is contained at the end of the report under the heading "BofA Global Research Credit Opinion Key."

Pricing information in the table is provided for each action where available. In the case of bonds, loans, capital securities and equity preferreds, the price shown reflects the nominal cash price for the security; and in the case of CDS, the price shown reflects the spread, on the date of the relevant action.

B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); EP=Equity Preferred; CDS=Credit Default Swap

BofA Global Research Credit Opinion Key

BofA Global Research provides recommendations on an issuer's bonds (including corporate and sovereign external debt securities), loans, capital securities, equity preferreds and CDS as described below. Convertible securities are not rated. An issuer level recommendation may also be provided for an issuer as explained below. BofA Global Research credit recommendations are assigned using a three-month time horizon.

Issuer Recommendations: If an issuer credit recommendation is provided, it is applicable to bonds and capital securities of the issuer except bonds and capital securities specifically referenced in the report with a different credit recommendation. Where there is no issuer credit recommendation, only individual bonds and capital securities with specific recommendations are covered. Loans, CDS and equity preferreds are rated separately and issuer recommendations do not apply to them.

BofA Global Research credit recommendations are assigned using a three-month time horizon:

Overweight: Spreads and /or excess returns are likely to outperform the relevant and comparable market over the next three months.

Marketweight: Spreads and/or excess returns are likely to perform in-line with the relevant and comparable market over the next three months.

Underweight: Spreads and/or excess returns are likely to underperform the relevant and comparable market over the next three months.

BofA Global Research uses the following rating system with respect to **Credit Default Swaps (CDS)**:

Buy Protection: Buy CDS, therefore going short credit risk.

Neutral: No purchase or sale of CDS is recommended.

Sell Protection: Sell CDS, therefore going long credit risk.

Corporate Credit Issuer Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R2}	Count	Percent
Buy	144	37.21%	Buy	119	82.64%
Hold	193	49.87%	Hold	163	84.46%
Sell	50	12.92%	Sell	37	74.00%

^{R2} 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 corporate credit issuer recommendations. A corporate credit issuer rated Overweight is included as a Buy, a corporate credit issuer rated Marketweight is included as a Hold, and a corporate credit issuer rated Underweight is included as a Sell.

Credit Opinion History Tables for the securities referenced in this research report are available on the [Price Charts and Credit Opinion History Tables website](#), or call 1-800-MERRILL to have them mailed.

The issuer is or was, within the last 12 months, an investment banking client of BofAS and/or one or more of its affiliates: Diamondback.

BofAS or an affiliate has received compensation from the issuer for non-investment banking services or products within the past 12 months: Diamondback.

The issuer is or was, within the last 12 months, a non-securities business client of BofAS and/or one or more of its affiliates: Diamondback.

BofAS or an affiliate has received compensation for investment banking services from this issuer within the past 12 months: Diamondback.

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