

## CNX Resources

# 4Q23 First Look: Solid quarter; longer term guidance may be a 'show me' story

Maintain Rating: NEUTRAL | PO: 23.00 USD | Price: 20.42 USD

## Adj EBITDA beat on volumes and other income

CNX's headline adj EPS / EBITDA of \$0.67 / \$262mm beat consensus and BofA estimates (\$0.28 / \$222mm and \$0.35 / \$224mm respectively). Note that this includes an ~\$8mm asset sale gain (\$5c/sh), which we believe the market typically excludes. Adj. for this, we see 'clean' EBITDA at \$254mm, (~10% beat vs Street), with the main deltas versus our expectations higher volume of 1,596.9 MMcf/d (+\$13mm), ahead of our estimate of 1,542 MMcf/d due to accelerated turn-in-lines (leaving FY production to be 5 Bcfe higher than the top end of guidance), better net other income and expenses (+\$12mm), and lower production taxes (+\$5mm).

## Large step change in 2025 capex likely a show me story

For 2024, CNX expects FY spending and production in the range of \$575mm - \$625mm and 575-626 Bcfe. The midpoint of capex (\$600mm) appears directionally better than consensus (\$624mm) while the midpoint of volumes (580 Bcfe) is consistent with prior management commentary. Notably, it expects total corporate spending to decline below \$500mm in 2025, meaningfully below consensus (\$575mm). What appears to be driving this, in part, is a continuation of a moderating underlying decline rate as well as two deep Utica wells expected to be turned to sales in its CPA South region. Given what we perceive as a big step change, in decline, this is positive but may be a show me story in terms of market recognition of value.

## No plans to update 7yr outlook in near future

Longer term, we have questions on the trajectory of CNX's capital intensity as future activity shifts from SW Pa South to Central Pa, which management signals will occur in the late part of the decade. As of now, it seems to have no near-term plans to provide an update to its 7yr outlook (2020-26). However, in our view, the market is likely looking for more color on the later production trajectory given legacy inventory concerns.

## 2024 New technology free CF outlook moderated

CNX has lowered its FY 2024 New Technology free cash guide to \$75mm from a prior range of \$75-\$100mm. This looks based on both weaker pricing and reflecting that current incentives do not provide sufficient returns to invest in new waste methane abatement projects. With that said, management sees other potential opportunities to improve free cash flow for this segment from proprietary technology (related to gas & oil flowback) with more color expected from management in coming quarters.

## Maintain Neutral: ~15% upside to \$23 PO

All-in-all, we see 4Q as operationally solid, but we believe longer term guidance needs more detail before being discounted by the market. While we believe that free CF from its new technology business and significant hedging can support the shares vs peers in the near-term weak gas environment, we continue to see questions over CNX's 'true' core inventory depth in the Marcellus as well as risk that its significant hedging could become a drag on relative performance at some point given our constructive view on long-term gas. Our \$23 PO remains unchanged assuming long-term \$4 HH.

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### Stock Data

Price	20.42 USD
Price Objective	23.00 USD
Date Established	27-Sep-2023
Investment Opinion	C-2-9
52-Week Range	14.36 USD - 23.68 USD
Mrkt Val (mn) / Shares Out (mn)	3,894 USD / 190.7
Free Float	95.1%
Average Daily Value (mn)	57.06 USD
BofA Ticker / Exchange	CNX / NYS
Bloomberg / Reuters	CNX US / CNX.N
ROE (2023E)	8.5%
Net Dbt to Eqty (Dec-2022A)	74.0%
ESGMeter™	High

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MMcf/d - Million cubic feet equivalent per day

Bcfe - Billion cubic feet equivalent

HH - Henry Hub gas benchmark

## 4Q23 Earnings Summary

The table compares actuals to estimates and prior yoy and qoq results.

### Exhibit 1: CNX Earnings Variance: Beat on volumes, production taxes, and other income

Y/Y and Q/Q Comparison (\$ in Millions, except in per share data)

Segment Earnings	4Q23A	4Q23E	4Q22A	YoY	3Q23A	QoQ
Total Rev & Non-Op Inc	1,000	443	420	138%	351	20%
Production Expenses	(122)	(121)	(113)	8%	(121)	-7%
DD&A	(113)	(113)	(116)	-3%	(112)	4%
Income Tax Expense	(132)	(17)	(14)	873%	2	-734%
Other Income / Expenses	(508)	(127)	(42)	1117%	(54)	-23%
Net Income (Adjusted)	125	66	136	-8%	66	107%
Special Items	413	(3)	(103)	-501%	(45)	131%
Net Income (Reported)	538	63	33	1512%	21	56%
Earnings (Adjusted)	0.67	0.35	0.61	10%	0.35	76%
Earnings (Reported)	3.43	0.40	0.17	1895%	0.13	29%
Dividend	-	-	-		-	

Source: BofA Global Research; Company data

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## Price objective basis & risk

### CNX Resources (CNX)

Our \$23 PO assumes ex growth discounted cash flow value, which assumes \$75 Brent and \$70 West Texas Intermediate (WTI) long term. We also assume long-term Henry Hub natural gas as \$4.00. We apply a long-term (post-tax) weighted average cost of capital (WACC) of 8.3%, which is based on the BofA strategy team's assumed risk premium and a five-year monthly beta and includes SWPA Central inventory 'risked' at 33%.

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

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

## Analyst Certification

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### CNX Resources (CNX) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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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%

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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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