

Crescent Energy Company

4Q23 Recap: Positive capital efficiency & efforts to simplify story, offset by tax, U/P

Reiterate Rating: UNDERPERFORM | PO: 13.00 USD | Price: 11.90 USD

Adj EBITDA and production in-line with our estimates

CRGY's adj. EPS / EBITDA of \$0.29 / \$276mm compares to consensus of \$0.20 / \$288mm (BofA \$0.23 / \$281mm). Versus our EBITDA estimate, we see 4Q in-line with the delta on EPS driven in part, by lower DD&A after CRGY reported a \$154mm impairment (probably on gas assets). Quarterly production of ~165 Mboe / d is largely consistent with our projection (~166 Mboe / d). Operationally, we see the quarter as solid with CRGY continuing to improve efficiencies on both its Eagle Ford and Uinta assets with capex of \$134mm below consensus (\$155mm). Given this progress, management has lowered the mid-point of its FY 2024 capex guide to ~\$587mm from \$605mm with FY production unchanged at 165-170 Mboe / d.

Taking positive initiatives to simplify investment case

Notably, CRGY has eliminated its variable dividend payout and replaced it with a quarterly fixed dividend of \$0.12 / sh, or \$0.48 per annum (~4% yield) and a \$150mm share repurchase program - the latest to acknowledge variable dividends as a poor use of FcF that has no enduring impact on value. Conversely buybacks will be aimed at the non-publicly traded B-shares (~50% of total equity) - which we believe will help simplify efforts to simplify its investment case. Reflecting these changes our WACC assumption moves from ~12% to 11% - still towards the higher end of our coverage given an acquisition led strategy with an equity tilt. Recall management can earn 10% of outstanding A shares via 5 tranches (up to 2% each) starting in 2024 depending on relative and absolute performance metrics and because of the noneconomic series I preferred that gives KKR effective control of the company. Look for additional color on thoughts on M&A

PO unchanged at \$13 PO on trajectory of cash taxes

The primary offset to these positive initiatives and improving capital efficiency is cash taxes which is expected to be ~2-4% of adjusted EBITDA in 2024, after which it probably steps up to 3-5% in 2025 (ex-acquisitions). As such, the net impact including our updated WACC assumption is that our PO remains unchanged at \$13. We reiterate our Underperform rating on CRGY given estimated total one-year return of 12%.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.02	1.12	1.55	1.88	1.88
GAAP EPS	2.15	1.01	0.76	0.92	0.92
EPS Change (YoY)	NA	-62.9%	38.4%	21.3%	0%
Consensus EPS (Bloomberg)			1.10	1.55	1.50
DPS	0.68	0.48	0.48	0.48	0.48
Valuation (Dec)					
P/E	3.9x	10.6x	7.7x	6.3x	6.3x
GAAP P/E	5.5x	11.8x	15.7x	12.9x	12.9x
Dividend Yield	5.7%	4.0%	4.0%	4.0%	4.0%
EV / EBITDA*	3.1x	3.6x	3.2x	3.0x	3.0x
Free Cash Flow Yield*	20.6%	17.4%	21.0%	23.3%	22.7%

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

05 March 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E DPS	0.65	0.48

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Stock Data

Price	11.90 USD
Price Objective	13.00 USD
Date Established	5-Jan-2024
Investment Opinion	C-3-7
52-Week Range	9.17 USD - 14.22 USD
Mkt Val (mn) / Shares Out (mn)	2,033 USD / 170.9
Free Float	87.9%
Average Daily Value (mn)	9.39 USD
BofA Ticker / Exchange	CRGY / NYS
Bloomberg / Reuters	CRGY US / CRGY.N
ROE (2024E)	16.1%
Net Dbt to Eqty (Dec-2023A)	46.5%
ESGMeter™	NLA

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Timestamp: 05 March 2024 10:48AM EST

iQprofileSM Crescent Energy Company

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	NA	5.2%	6.6%	6.8%	6.5%
Return on Equity	NM	14.7%	16.1%	19.1%	18.7%
Operating Margin	41.9%	13.6%	22.4%	23.4%	23.4%
Free Cash Flow	420	354	428	475	461

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	2.0x	4.9x	3.6x	3.1x	3.1x
Asset Replacement Ratio	1.1x	0.9x	0.8x	0.9x	0.9x
Tax Rate	7.0%	6.7%	23.0%	23.0%	23.0%
Net Debt-to-Equity Ratio	37.8%	46.5%	36.2%	25.2%	15.7%
Interest Cover	13.3x	2.2x	4.5x	4.8x	4.8x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	3,057	2,383	2,350	2,390	2,394
% Change	NA	-22.1%	-1.4%	1.7%	0.2%
Gross Profit	3,027	2,358	2,330	2,375	2,384
% Change	NA	-22.1%	-1.2%	2.0%	0.4%
EBITDA	1,208	1,023	1,152	1,230	1,232
% Change	NA	-15.4%	12.7%	6.8%	0.1%
Net Interest & Other Income	(96)	(146)	(117)	(117)	(117)
Net Income (Adjusted)	509	191	281	340	341
% Change	NA	-62.4%	46.9%	21.0%	0.1%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	362	173	138	167	167
Depreciation & Amortization	533	676	693	694	695
Change in Working Capital	(8)	72	0	0	0
Deferred Taxation Charge	33	23	39	34	25
Other Adjustments, Net	92	(8)	143	173	174
Capital Expenditure	(593)	(581)	(586)	(593)	(600)
Free Cash Flow	420	354	428	475	461
% Change	NA	-15.5%	20.7%	11.0%	-2.9%
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	(28)	(34)	(43)	(43)	(43)
Change in Debt	195	441	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	0	3	304	665	1,013
Trade Receivables	460	507	507	507	507
Other Current Assets	57	106	106	106	106
Property, Plant & Equipment	5,438	6,116	6,009	5,908	5,813
Other Non-Current Assets	65	72	72	72	72
Total Assets	6,020	6,803	6,998	7,258	7,510
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	894	750	750	750	750
Long-Term Debt	1,248	1,694	1,681	1,681	1,681
Other Non-Current Liabilities	580	723	762	796	821
Total Liabilities	2,721	3,168	3,194	3,228	3,253
Total Equity	3,299	3,636	3,804	4,030	4,258
Total Equity & Liabilities	6,020	6,803	6,998	7,258	7,510

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

Company Sector

Oil & Gas Producers

Company Description

CRGY is a small-cap E&P formed from a reverse merger of Contango Oil & Gas and privately held Independence Energy (backed by KKR) in Dec. 2021. KKR retains control though the ownership of the non-economic Series I preferred shares which gives it the sole right to appoint directors to the board as well as certain veto rights. The company has two classes of shares (A & B). The A shares are publically traded while the B shares are held by KKR and its legacy investors from Independence.

Investment Rationale

Our Underperform rating on CRGY reflects, in part, that we see it at a potential disadvantage versus peers given a complex governance structure and management fee arrangement

Stock Data

Average Daily Volume 789,401

Quarterly Earnings Estimates

	2023	2024
Q1	0.32A	0.27E
Q2	0.15A	0.38E
Q3	0.35A	0.46E
Q4	0.29A	0.44E

4Q23 Earnings Summary

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

Exhibit 1: CRGY Earnings Variance

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

	4Q23A	4Q23E	4Q22A	YoY	3Q23A	QoQ
Total Revenues	658	638			642	-1%
Production Expenses	(327)	(305)			(285)	7%
DD&A	(183)	(197)			(186)	6%
Interest Expense	(43)	(36)			(42)	-15%
Other Income/Expenses	53	(46)			(281)	-84%
Provision/Benefit for Tax	(18)	(13)			21	-161%
Net Income (Reported)	140	42			(131)	-132%
Special Items						
Net Income (Adjusted)	53	42			59	-29%
Earnings Per Share (Adjusted)	0.29	0.23			0.35	-33%
Dividends	0.12	0.12			0.12	0%

Source: BofA Global Research; Company data

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Estimate changes

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

Exhibit 2: CRGY Earnings Estimates

Estimates move higher on lower DD&A

	Q1	Q2	Q3	Q4	FY	BBG Consensus
2022A	(0.06)	1.33	1.07	0.68	3.02	3.28
2023E	0.32	0.15	0.35	0.29	1.12	1.07
Previous	0.32	0.15	0.35	0.23	1.05	n/a
2024E	0.27	0.38	0.46	0.44	1.55	1.10
Previous	0.24	0.34	0.37	0.36	1.31	n/a
2025E	0.46	0.46	0.49	0.46	1.88	1.55
Previous	0.42	0.42	0.46	0.43	1.74	n/a

Source: BofA Global Research, Bloomberg

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Price objective basis & risk

Crescent Energy Company (CRGY)

Our \$13 PO is based upon an ex-growth DCF assuming approximately nine years of inventory, an after-tax WACC of approximately 11% and a long-term commodity price deck of \$4.00 HH / \$70 WTI. Please note we risk our initially equity value by approximately 10% due to the non-economic Series I preferred as we assume that is the value of control.

Downside risks 1) Potentially unable to execute on accretive acquisitions, 2) wider differentials, as well 3) as limited public float of approximately 23%

Upside risks: 1) Potential accretive acquisitions, 2) Execution success on improving performance on assets in-house, and 3) if investors become comfortable with corporate governance structure

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
	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
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
	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

US - Large Cap Oils Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM	Chord Energy Corporation	CHRD	CHRD US	John H. Abbott
	Crescent Energy Company	CRGY	CRGY US	John H. Abbott
	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

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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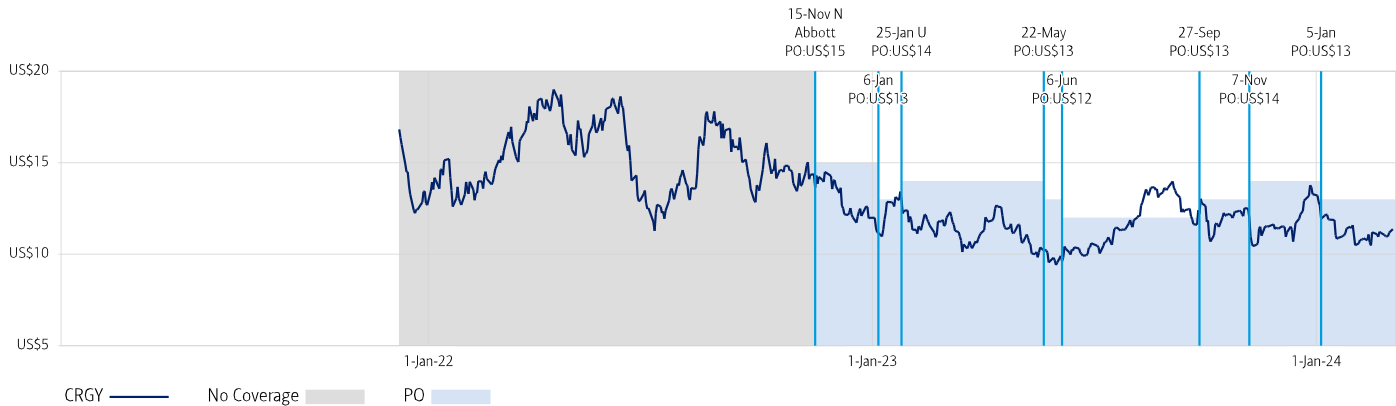
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Crescent Energy (CRGY) Price Chart



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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%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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