

Northern Oil and Gas

Ops update: Accelerated activity, offset by timing of wells at Mascot; Retain U/ P

Reiterate Rating: UNDERPERFORM | PO: 39.00 USD | Price: 34.02 USD

Lowering 4Q23 estimates on LOE and lighter oil volumes

Ahead of results on 02/22, NOG published its operations update that provides prelim 2024 guidance. For 4Q23 results it expects corporate volumes of ~114.4 Mboe/d, in-line with our expectations. However, the oil mix is narrower at ~60.2% compared with our expectation of 62% due in part, to its Utica acquisition closing in Nov-23. Management expects oil and gas realizations to be \$4.02-\$4.05/mcf and a 96% - 97% discount to WTI and Henry Hub, respectively, with an estimated realized hedge gain of ~\$11.8mm. Notable is LOE guidance in the range of \$9.70 - \$9.75 per boe due to higher workover expense as well as a \$4mm charge for firm transportation in Appalachia. Adjusting for these updates, our 4Q23 adj, EPS / EBITDA estimates fall to \$1.55 / \$392mm from \$1.63 / \$402mm, mainly on the higher LOE expense and slightly lower oil volumes.

Accelerated activity not translating into 2024 guide

Quarterly spending of ~\$260mm is significantly above consensus of \$166mm (BofA \$202mm) on accelerated activity and a busy 4Q23 'ground game'. However, this has not seemingly translated into higher preliminary 2024 oil guidance of 70-73 bpd and corporate guidance of 115-120 Mboe/d which is in line with Street expectations of 117 Mboe/d and 72 Mbbl/d. The reason is its Mascot project in the Midland Basin where there are currently wells shut-in as another batch is completed. Based on this and some weather impacts (~2% overall production in 1Q24), NOG expects corporate volumes to dip slightly in 1Q24 before picking up over the rest year as wells are turned sales at Mascot and from development at its Novo properties in the northern Delaware Basin. NOG has guided to 2024 capex in a range of \$825mm - \$900mm, which looks consistent Street expectations of \$873mm.

Reiterate U/P on the full value in a backward oil curve

All-in-all, we see the update as incrementally negative as accelerated activity has not led to a better 2024 guide. However, as wells at Mascot come online, we expect this to have more of a positive impact on 2025. With that said, we reiterate our Underperform rating mainly on a backwardated oil curve that we believe may limit upside from here. Our PO is unchanged at \$39/sh.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	3.49	6.53	6.52	6.03	6.54
GAAP EPS	(0.76)	8.49	7.70	6.03	6.54
EPS Change (YoY)	271.3%	87.1%	-0.2%	-7.5%	8.5%
Consensus EPS (Bloomberg)			6.77	6.48	6.49
DPS	0.11	0.88	1.45	1.52	1.60
Valuation (Dec)					
P/E	9.7x	5.2x	5.2x	5.6x	5.2x
GAAP P/E	NM	4.0x	4.4x	5.6x	5.2x
Dividend Yield	0.3%	2.6%	4.3%	4.5%	4.7%
EV / EBITDA*	9.5x	5.0x	3.6x	3.3x	3.1x
Free Cash Flow Yield*	5.7%	14.0%	16.1%	16.5%	16.5%

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

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Stock Data

Price	34.02 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
Mkt Val (mn) / Shares Out (mn)	3,419 USD / 100.5
Free Float	88.5%
Average Daily Value (mn)	41.86 USD
BofA Ticker / Exchange	NOG / NYS
Bloomberg / Reuters	NOG US / NOG.N
ROE (2023E)	47.6%
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".

Glossary

LOE-Lease operating expense
Boe-Barrel of oil equivalent
WTI-West Texas Intermediate
Bpd- Barrel per day
Mboe/d-Thousand barrels of oil equivalent per day
Mbbl/d- Thousand barrels per day
HH- Henry Hub

iQprofileSM Northern Oil and Gas

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	6.7%	39.1%	23.8%	19.0%	17.9%
Return on Equity	NM	117.8%	47.6%	30.0%	26.2%
Operating Margin	15.7%	54.3%	45.6%	42.5%	42.4%
Free Cash Flow	195	478	552	565	563

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.5x	1.6x	2.4x	2.4x	2.2x
Asset Replacement Ratio	1.4x	1.8x	1.9x	1.4x	1.3x
Tax Rate	3.5%	NM	NM	NM	NM
Net Debt-to-Equity Ratio	369.0%	204.3%	101.2%	66.8%	39.7%
Interest Cover	1.3x	10.6x	6.6x	7.2x	7.8x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	497	1,571	1,924	2,176	2,331
% Change	-10.0%	216.1%	22.5%	13.1%	7.1%
Gross Profit	326	1,310	1,573	1,763	1,886
% Change	-25.2%	301.7%	20.1%	12.1%	6.9%
EBITDA	543	1,034	1,418	1,551	1,658
% Change	55.2%	90.4%	37.2%	9.3%	6.9%
Net Interest & Other Income	(71)	(77)	(119)	(129)	(126)
Net Income (Adjusted)	256	566	599	601	652
% Change	172.4%	120.9%	5.9%	0.3%	8.5%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(56)	735	707	601	651
Depreciation & Amortization	141	251	484	613	655
Change in Working Capital	0	0	1,294	1,554	1,045
Deferred Taxation Charge	43	98	183	195	94
Other Adjustments, Net	268	(156)	(1,203)	(1,541)	(1,031)
Capital Expenditure	(202)	(451)	(914)	(856)	(851)
Free Cash Flow	195	478	552	565	563
% Change	104.9%	145.4%	15.5%	2.5%	-0.4%
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	333	642
Trade Receivables	194	271	364	364	364
Other Current Assets	12	47	93	93	93
Property, Plant & Equipment	1,253	2,483	3,944	4,312	4,508
Other Non-Current Assets	54	72	46	46	46
Total Assets	1,523	2,875	4,460	5,149	5,654
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	192	275	422	422	422
Long-Term Debt	803	1,525	1,803	1,829	1,732
Other Non-Current Liabilities	313	330	465	660	754
Total Liabilities	1,308	2,130	2,691	2,911	2,908
Total Equity	215	745	1,770	2,238	2,746
Total Equity & Liabilities	1,523	2,875	4,460	5,149	5,654

* 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 1,230,520

Quarterly Earnings Estimates

	2022	2023
Q1	1.58A	1.75A
Q2	1.72A	1.50A
Q3	1.80A	1.73A
Q4	1.43A	1.55E

Estimate changes

Adjusting for updates, our estimates move lower, in part, as have we have reduced our production estimates and increased our LOE assumption.

Exhibit 1: NOG Earnings Estimates

Adjusting for updates

	Q1	Q2	Q3	Q4	FY	BBG Consensus
2022A	1.58	1.72	1.80	1.43	6.53	7.19
2023E	1.75	1.50	1.73	1.55	6.52	6.72
Previous	1.75	1.50	1.73	1.63	6.61	n/a
2024E	1.31	1.55	1.63	1.54	6.03	6.48
Previous	1.71	1.84	1.80	1.60	6.96	n/a
2025E	1.67	1.66	1.66	1.55	6.54	6.50
Previous	1.68	1.72	1.74	1.64	6.78	n/a

Source: Company reports, BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH



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	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
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

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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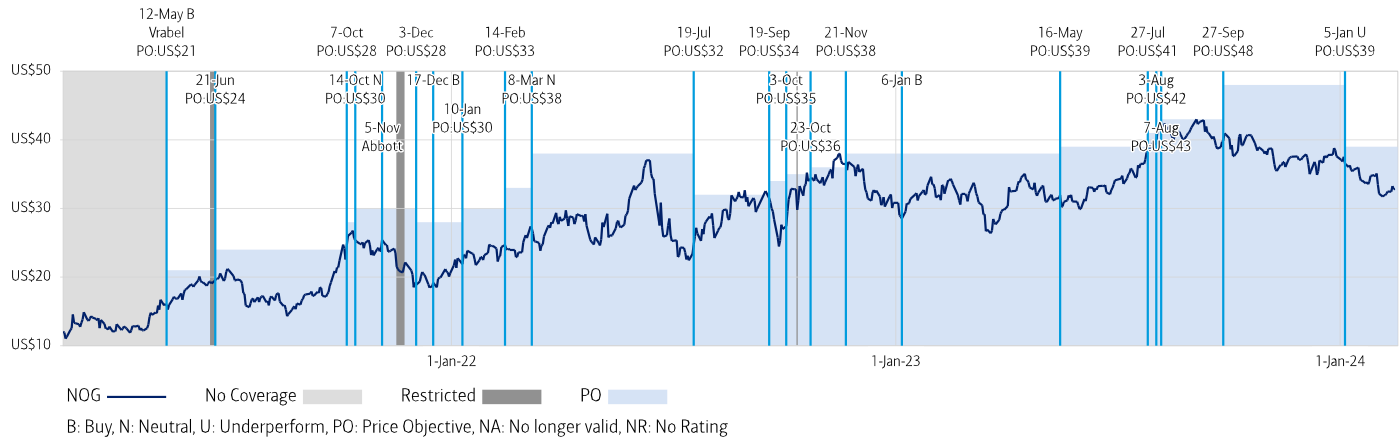
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Northern Oil and Gas (NOG) Price Chart



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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%

^{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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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