

Chord Energy Corporation

Downgrade to U/P as we have taken a defensive stance towards oil in 2024

Rating Change: UNDERPERFORM | PO: 165.00 USD | Price: 165.44 USD

Steeply backwarddated curve limits upside

We downgrade Chord Energy (CHRD) from Buy to Underperform with our PO lowered to \$165 from \$177 as we have taken a defensive posture towards oil in 2024 (see [Year Ahead](#)) given a highly backwarddated futures curve that reflects record OPEC spare capacity in an environment where we perceive some risk that it may be more challenging for Saudi to stabilize the commodity price due to a combination of demand uncertainty and non-OPEC growth. Given these concerns, we have lowered our long-term oil assumption for our coverage universe to \$70 WTI from \$75 while adjusting long-term gas to \$4 HH from \$4.25 HH based upon 2026 strip and beyond.

Shares reflect benefits of wider spacing & longer laterals

While our prior Buy rating on CHRD was predicated on a rate of change in its outlook from wider spacing and longer laterals that would provide greater confidence its depth of inventory and its ability to generate sustainable free cash flow, in our view, the company has largely demonstrated these benefits to the market as shares outperformed the Russell 3000 Energy Index by ~27% in 2023. In our valuation, we now allocate credit to ~10 years of inventory from 2023 through 2032 (versus 8 prior) and have lowered our WACC assumption from ~11% to 10%. Despite these positive revisions, these are more than offset by our lower long-term price deck.

One risk to our rating is potential M&A

Part of the difference between our price target and where shares are currently trading is likely 2024 oil volumes. While the Street is at ~100 Mbbl / d, CHRD has been quite insistent that this is too high and that its guide of 99 Mbbl / d is more appropriate. While the delta may seem small, it does make a difference when looking at the DCF of free cash flow over a multiyear horizon. Aside from commodity prices, one of the main risks to our rating is really potential M&A as this management team has been quite vocal that it believes that both size & scale are important. With that said, it is almost next to impossible to predict future deal activity, and on a standalone basis, we see potential upside from here as limited if the oil curve plays out. Our \$165 PO is based upon a DCF assuming a 10% WACC and a long-term price deck of \$70 WTI / \$4 HH.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(4.42)	27.46	18.64	20.50	21.19
GAAP EPS	15.40	44.89	16.49	20.20	20.89
EPS Change (YoY)	NM	NM	-32.1%	10.0%	3.4%
Consensus EPS (Bloomberg)			19.59	24.83	25.26
DPS	5.43	20.55	5.00	5.00	5.00
Valuation (Dec)					
P/E	NM	6.0x	8.9x	8.1x	7.8x
GAAP P/E	10.7x	3.7x	10.0x	8.2x	7.9x
Dividend Yield	3.3%	12.4%	3.0%	3.0%	3.0%
EV / EBITDA*	12.1x	4.2x	3.8x	3.6x	3.5x
Free Cash Flow Yield*	5.6%	20.4%	13.8%	11.8%	12.2%

* 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.	177.00	165.00

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Stock Data

Price	165.44 USD
Price Objective	165.00 USD
Date Established	5-Jan-2024
Investment Opinion	C-3-7
52-Week Range	117.05 USD - 175.20 USD
Mkt Val (mn) / Shares Out (mn)	6,829 USD / 41.3
Free Float	96.7%
Average Daily Value (mn)	65.56 USD
BofA Ticker / Exchange	CHRD / NYS
Bloomberg / Reuters	CHRD US / CHRD.OQ
ROE (2023E)	16.7%
Net Dbt to Eqty (Dec-2022A)	-4.3%
ESGMeter TM	Medium

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"](#).

BBL-barrel

HH-Henry Hub

WTI-West Texas Intermediate

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Timestamp: 05 January 2024 06:28AM EST

iQprofileSM Chord Energy Corporation

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	47.9%	40.3%	16.5%	15.5%	15.1%
Return on Equity	-9.4%	30.6%	16.7%	17.5%	17.4%
Operating Margin	57.7%	43.4%	34.1%	39.7%	40.2%
Free Cash Flow	382	1,393	940	804	836

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	2.2x	2.2x	1.9x	1.9x
Asset Replacement Ratio	1.4x	1.4x	1.4x	1.4x	1.4x
Tax Rate	NM	NM	29.6%	24.0%	24.0%
Net Debt-to-Equity Ratio	21.3%	-4.3%	-0.7%	-2.9%	-5.6%
Interest Cover	17.0x	NM	42.5x	37.8x	39.1x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	1,672	3,647	3,755	3,003	3,060
% Change	54.4%	118.1%	3.0%	-20.0%	1.9%
Gross Profit	1,672	3,647	3,755	3,003	3,060
% Change	54.4%	118.1%	3.0%	-20.0%	1.9%
EBITDA	550	1,584	1,727	1,840	1,889
% Change	NA	187.9%	9.1%	6.5%	2.6%
Net Interest & Other Income	(647)	(200)	(264)	(32)	(31)
Net Income (Adjusted)	(91)	875	810	895	925
% Change	NM	NM	-7.4%	10.5%	3.4%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	318	1,430	717	882	912
Depreciation & Amortization	158	370	593	635	644
Change in Working Capital	6	(47)	(84)	0	0
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	113	170	518	186	175
Capital Expenditure	(213)	(531)	(803)	(899)	(895)
Free Cash Flow	382	1,393	940	804	836
% Change	-38.2%	264.8%	-32.5%	-14.5%	4.0%
Share / Issue Repurchase	86	0	0	0	0
Cost of Dividends Paid	(112)	(655)	(217)	(218)	(218)
Change in Debt	343	15	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	172	593	429	544	697
Trade Receivables	377	782	1,032	1,032	1,032
Other Current Assets	1,066	108	123	123	123
Property, Plant & Equipment	1,320	4,711	5,254	5,495	5,724
Other Non-Current Assets	91	437	233	220	207
Total Assets	3,027	6,631	7,071	7,414	7,783
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	1,225	1,361	1,396	1,396	1,396
Long-Term Debt	393	394	395	395	395
Other Non-Current Liabilities	376	196	230	416	592
Total Liabilities	1,994	1,951	2,021	2,207	2,383
Total Equity	1,033	4,680	5,050	5,207	5,401
Total Equity & Liabilities	3,027	6,631	7,071	7,414	7,783

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

Company Sector

Oil & Gas Producers

Company Description

CHRD the second largest oil and natural gas producer in the Williston, formed from the merger Oasis and Whiting and Petroleum in 2022. Management estimates that it has approximately 1,000 to 1,100 'core' locations assuming an average two mile lateral length. Pro forma, it has estimated 2021 proved reserves of 577 MMboe, (approximately 56% oil and 76% PDP)

Investment Rationale

Our rating reflects that we perceive potentially limited upside given a steeply backwarddated oil curve

Stock Data

Average Daily Volume 396,253

Quarterly Earnings Estimates

	2022	2023
Q1	9.36A	4.51A
Q2	7.31A	3.65A
Q3	7.20A	5.06E
Q4	5.28A	5.42E

\$165 Price Objective

Below is a summary of our \$165 DCF valuation for CHRD assuming a long-term price deck of \$4 HH / \$70 WTI. Please note we are now assuming a 10% WACC and 10 years of inventory from 2023 through 2032 versus 11% and eight years previously due to the derisking of the company's inventory through wider spacing and longer laterals.

Exhibit 1: CHRD DCF Valuation: \$165 PO

Cash flows extend beyond the period shown

Discount rate	10%	4Q23	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E	2036E
Production (Mboe / d)		178	175	178	180	184	187	188	188						
% oil		58%	56%	56%	56%	55%	55%	54%	54%						
Commodity Deck															
Henry Hub (\$/MMbtu0		2.88	2.75	3.56	4.00	4.00	4.00	4.00	4.00						
WTI (\$ / Bbl)		78.15	75.00	72.50	70.00	70.00	70.00	70.00	70.00						
Consolidated															
Debt adjusted cash flow		452	1,733	1,760	1,754	1,779	1,807	1,810	1,818	1,818	1,818	1,130	904	741	
Capital expenditures		(160)	(899)	(895)	(914)	(932)	(962)	(990)	(1,016)	(1,026)	(1,037)				
Warrants		-	252	186											
Other		(10)	23	22	22										
Free cash flow		283	1,108	1,073	861	847	845	820	802	792	781	1,130	904	741	
												-30%	-20%	-18%	
Present value (4Q22 -2030)		4,799													
Terminal PDP value		2,742													
Total Present value		7,542													
Ownership in Energy Transfer		143													
Estimated tax leakage 45%		(8)													
		135													
Net Debt		(131)													
Equity value		7,546													
Shares ex warrants		41													
Equity value per share		182													
Warrants exercisable at 75.57 through 11/19/24															
Number of warrants		0.6													
Strike price		75.6													
Number of shares		42.1													
Equity value per share		179.2													
Warrants exercisable at 116.37 through 01/09/24															
Number of warrants		2.2													
Strike price		116.4													
Number of shares		44.3													
Equity value per share		170.5													
Warrants exercisable at 133.70 through 01/09/25															
Number of warrants		1.4													
Strike price		133.7													
Number of shares		45.7													
Equity value per share		165													
Price objective		165													
Shares Outstanding ((adj for warrants)		45.7													

Source: BofA Global Research estimates

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Price objective basis & risk

Chord Energy Corporation (CHRD)

Our price objective of \$165 /sh is based on DCF methodology and assumes \$4 HH/ \$70 WTI long-term. We apply a long-term (post-tax) weighted average cost of capital (WACC) of 10%.



Downside risks to our price objective: 1) oil differentials widen, 2) capital intensity increases, and 3) potential failure to execute on accretive transactions

Upside risks to our price objective: 1) greater market confidence on the extent of 'core' inventory, 2) Potentially lower spending from shift to more three-mile laterals, and 3) better oil differentials

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
	California Resources Corporation	CRC	CRC US	Kalei Akamine
	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
	EOG Resources	EOG	EOG 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
	Gulfport Energy Corporation	GPOR	GPOR US	Doug Leggate
	Imperial Oil	IMO	IMO US	Doug Leggate
	Imperial Oil	YIMO	IMO CN	Doug Leggate
	Kimbell Royalty Partners	KRP	KRP US	John H. Abbott
	Northern Oil and Gas	NOG	NOG US	John H. Abbott
	Occidental Petroleum Corp.	OXY	OXY US	Doug Leggate
	Ovintiv Inc	YOVV	OW CN	Doug Leggate
	Ovintiv Inc	OW	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				
	Coterra Energy Inc	CTRA	CTRA US	Doug Leggate
	Delek US Holdings, Inc.	DK	DK US	Doug Leggate
	Devon Energy Corp.	DVN	DVN 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
	CNX Resources	CNX	CNX 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
	National Fuel Gas Company	NFG	NFG 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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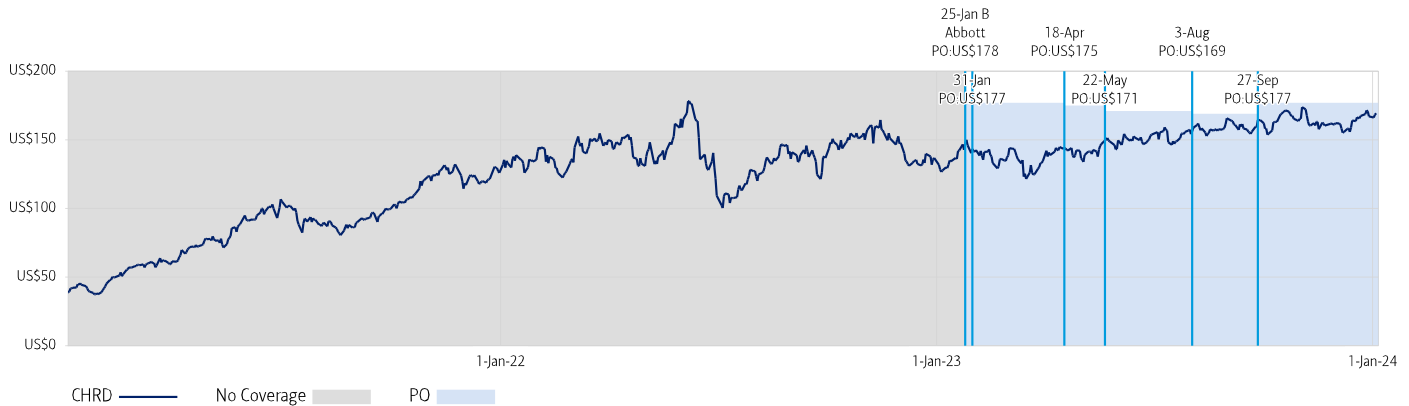
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Disclosures

Important Disclosures

Chord Energy (CHRD) Price Chart



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

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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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%

^{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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