

Kosmos Energy

Duration differentiates – inflection to drive recognition

Reiterate Rating: BUY | PO: 8.10 USD | Price: 5.76 USD

Key takeaways

- Capex nudged higher, hopefully for the last time. Platform for growth largely set.
- Last pieces of the puzzle to fall into place across 2Q-3Q24. Free cash inflection then visible at long last.
- We see our c.25% FCF yield for 2025e offering compelling value given clear asset longevity advantage. Reiterate Buy.

Tortue tests patience once more

Kosmos confirmed partner reports of Tortue first gas slipping one quarter to 3Q24. The fresher disappointment that we saw was higher capex, owing to a higher cost replacement subsea pipelay contract – while noting \$160m of potential arbitration recourse against the original contractor. This ultimately defers Kosmos' FCF inflection story, once more, although one that we see as de-risked within the next ~6-months. We see a ~25% FCF yield for 2025e as still highly attractive for a company with a reserve depth advantage of >20-years or well >30-years with resource optionality included. We lower our estimates to reflect the latest guidance (Exhibit 7) and our PO moves to \$8.10 (650GBp) from \$9.40 (770GBp) before. We reiterate our Buy rating.

Higher production, waiting longer for lower capex

We still see Komos' delivering >20% production growth for 2024e. But the anticipated step down in capex is less visible, or in fact, only visible owing to an overspend in 4Q23. Our FCF forecast is just ~\$250m or a ~10% yield for 2024e. But we see the platform for growth as likely sturdily set by mid-year. The company sees a YE24 exit rate of ~90kboe/d, representing ~45% growth versus the FY23 result. Capex in 2025e should fall towards ~\$550m with major growth projects in the rear-view mirror by then: ~25% lower YoY. We see FCF then inflecting towards ~\$700m for FY25e.

Estimates (Dec) (USD)	2022A	2023A	2024E	2025E	2026E
EPS (Adjusted Diluted)	0.50	0.47	0.86	1.08	0.76
EPS Change (YoY)	392.0%	-5.7%	84.0%	24.8%	-29.4%
Dividend / Share	0	0	0	0	0
GDR EPS (Adjusted Diluted - £)	40.4	37.8	68.1	85.0	60.0
GDR Dividend / Share (£)	0	0	0	0	0
Valuation (Dec)					
P/E	11.6x	12.3x	6.67x	5.34x	7.56x
EV / EBITDA*	3.47x	4.06x	3.29x	2.73x	3.21x
Free Cash Flow Yield*	21.8%	-11.8%	10.3%	26.4%	18.8%

* For full definitions of *IQmethod*SM measures, see page 6.

27 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	9.40	8.10
2024E EPS	1.00	0.86
2025E EPS	1.10	1.08
2026E EPS	0.75	0.76

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Stock Data

Price (Common / GDR)	5.76 USD / 463.00 GBp
Price Objective	8.10 USD / 650.00 GBp
Date Established	27-Feb-2024 / 27-Feb-2024
Investment Opinion	C-1-9 / C-1-9
52-Week Range	5.28 USD-8.55 USD
Market Value (mn)	2,650 USD
Shares Outstanding (mn)	460.1 / 460.1
Average Daily Value (mn)	33.41 USD
Free Float	97.7%
BofA Ticker / Exchange	KOS / NYS
BofA Ticker / Exchange	XKELF / LSE
Bloomberg / Reuters	KOS US / KOS.N
ROE (2024E)	32.0%
Net Dbt to Eqty (Dec-2023A)	222.3%
ESGMeter™	High

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](#)".

FCF = free cash flow

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Refer to important disclosures on page 7 to 10. Analyst Certification on page 5. Price Objective Basis/Risk on page 5.

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Timestamp: 27 February 2024 12:30AM EST

iQprofileSM Kosmos Energy

Key Income Statement Data (Dec)

(US\$ Millions)

	2022A	2023A	2024E	2025E	2026E
Sales	2,300	1,702	2,036	2,390	2,129
EBITDA Adjusted	1,452	1,238	1,530	1,841	1,569
Depreciation & Amortization	(498)	(445)	(561)	(676)	(692)
EBIT Adjusted	954	793	969	1,165	876
Net Interest & Other Income	118	96.0	150	150	150
Tax Expense / Benefit	(111)	(158)	(394)	(491)	(347)
Net Income (Adjusted)	226	214	394	491	347
Average Fully Diluted Shares Outstanding	455	456	456	456	456

Key Cash Flow Statement Data

Net Income (Reported)	226	214	394	491	347
Depreciation & Amortization	498	445	561	676	692
Change in Working Capital	151	(66.0)	0	0	0
Deferred Taxation Charge	0	0	0	0	0
Other CFO	255	172	113	163	92.8
Cash Flow from Operations	1,131	765	1,068	1,331	1,132
Capital Expenditure	(787)	(933)	(708)	(533)	(533)
(Acquisition) / Disposal of Investments	(22.1)	0	0	0	0
Other CFI	106	(62.2)	0	0	0
Cash Flow from Investing	(704)	(995)	(708)	(533)	(533)
Share Issue / (Repurchase)	(2.75)	0	0	0	0
Cost of Dividends Paid	(0.66)	(0.17)	0	0	0
Increase (decrease) debt	(324)	124	0	0	0
Other CFF	(87.4)	17.5	(91.0)	(105)	(105)
Cash Flow from Financing	(415)	142	(91.0)	(105)	(105)
Total Cash Flow (CFO + CFI + CFF)	12.0	(88.1)	269	693	495
FX and other changes to cash	39.8	0	3.42	0	0
Change in Cash	51.8	(88.1)	273	693	495
Change in Net Debt	(376)	212	(273)	(693)	(495)
Net Debt	2,083	2,296	2,023	1,330	835

Key Balance Sheet Data

Property, Plant & Equipment	3,843	4,160	4,231	3,981	3,785
Goodwill	NA	NA	NA	NA	NA
Other Intangibles	NA	NA	NA	NA	NA
Other Non-Current Assets	269	355	355	355	355
Trade Receivables	0	0	0	0	0
Cash & Equivalents	183	95.3	368	1,061	1,556
Other Current Assets	285	327	327	327	327
Total Assets	4,580	4,938	5,281	5,725	6,024
Long-Term Debt	2,267	2,391	2,391	2,391	2,391
Other Non-Current Liabilities	951	960	909	861	813
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	574	555	555	555	555
Total Liabilities	3,792	3,906	3,855	3,807	3,759
Total Equity	788	1,033	1,426	1,918	2,265
Total Equity & Liabilities	4,580	4,938	5,281	5,724	6,023

Business Performance*

Return On Capital Employed	15.2%	10.9%	10.6%	11.8%	8.24%
Return On Equity	34.4%	23.5%	32.0%	29.4%	16.6%
Operating Margin	9.51%	16.2%	31.3%	34.8%	25.6%
Free Cash Flow (MM)	571	(309)	269	693	495

Quality of Earnings*

Cash Realization Ratio	4.99x	3.58x	2.71x	2.71x	3.26x
Asset Replacement Ratio	1.58x	2.10x	1.26x	0.79x	0.77x
Tax Rate	32.8%	42.5%	50.0%	50.0%	50.0%
Net Debt/Equity	264%	222%	142%	69.4%	36.9%
Interest Cover	8.07x	8.26x	6.46x	7.77x	5.84x

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Oil & Gas Producers

Company Description

Kosmos is a conventional oil and gas E&P company with assets across the U.S. Gulf of Mexico, Ghana, Equatorial Guinea, Senegal and Mauritania. The gives the company a diverse asset base and supports both infrastructure led exploration as well as high impact basin opening drilling. Recent corporate activity (GoM and EG assets) and exploration success (Senegal and Mauritania) support c.60-70kboe/d of production, set to grow towards 100kboe/d in the medium-term.

Investment Rationale

We see Kosmos as a well-positioned E&P with a differentiated equity story via its long duration LNG position, set to begin production during 2024. We see long-dated optionality in its gas heavy portfolio offshore Africa but also see Kosmos on the cusp of a near-term cash inflection. We have a Buy rating.

Stock Data

Shares / GDR	1.00
Price to Book Value	1.8x

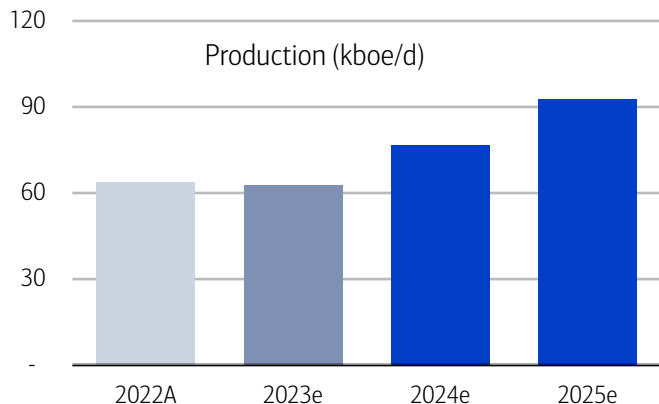
Key Changes

(GBP)	Previous	Current
Price Obj.	770.00	650.00
2024E EPS	78.82	68.07
2025E EPS	86.71	84.98
2026E EPS	59.21	60.03

Growth story still visible

Exhibit 1: Production outlook

Production will grow ~20% YoY in 2024 and once again in 2025

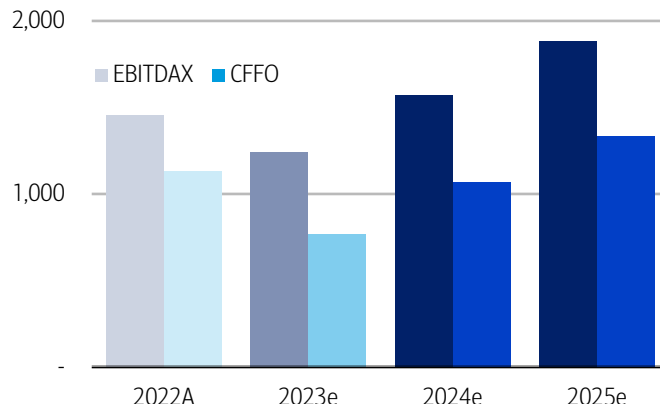


Source: BofA Global Research estimates, company report

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Exhibit 2: Earnings and cash flow outlook

Cash flow look set to follow production higher into 2025 (\$m)

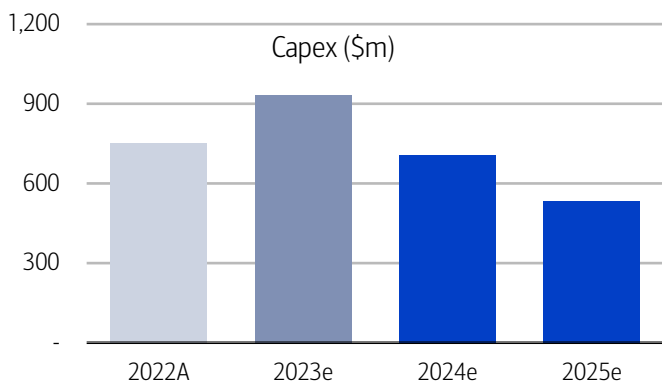


Source: BofA Global Research estimates (Brent \$80/bbl in 2024-25e), company report

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Exhibit 3: Capex outlook

Capex will step down from 2022 levels by 2025

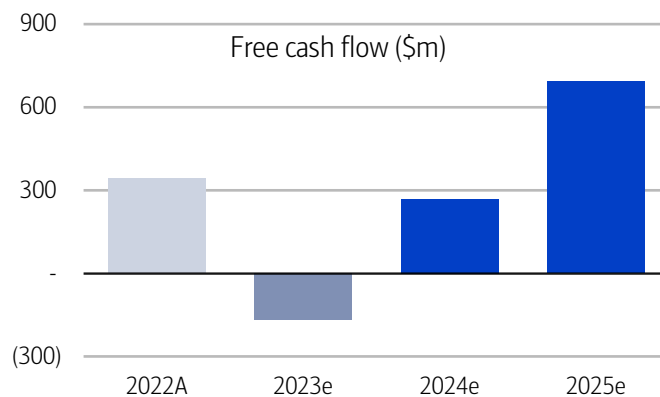


Source: BofA Global Research estimates, company report

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Exhibit 4: Free cash flow outlook

We see the major cash flow inflection story visible in 2025

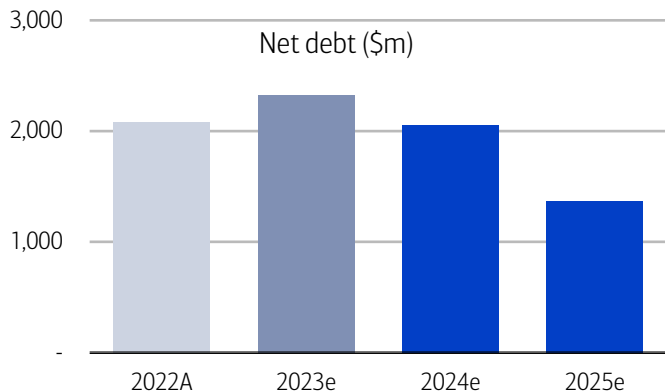


Source: BofA Global Research estimates, company report

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Exhibit 5: Net debt outlook

We see net debt finally driven lower by YE25

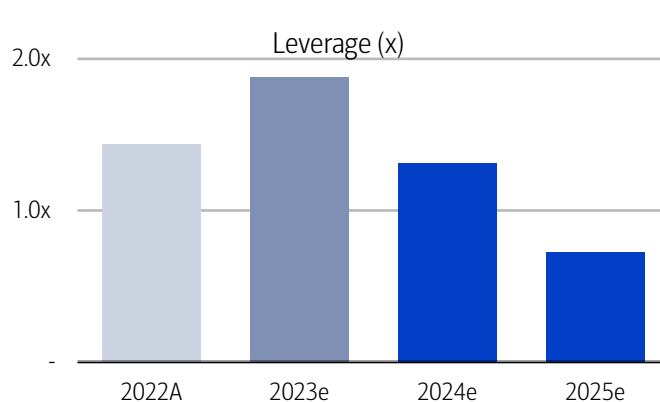


Source: BofA Global Research estimates, company report

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Exhibit 6: Leverage outlook (net debt / EBITDA)

Leverage looks set to fall well below 1x by YE25



Source: BofA Global Research estimates, company report

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Our estimates are updated to reflect provided guidance for 2024:

Exhibit 7: Guidance for 2024

Kosmos provided formal guidance for 2024 – with higher capex than previously indicated

		Outlook 2024	Actuals 2023
Production	kboe/d	71 - 77	63
Opex	\$/boe	~15 - 17	16.9
Overheads	\$m	~100 - 120	100
Exploration expense	\$m	~40 - 60	40
Interest expense	\$m	~150	96
Capex	\$m	700 - 750	850

Source: BofA Global Research, company report

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Versus our prior estimates, and company indications, this represents lower production due to Tortue delays as well as higher Tortue capex.

Our discounted-cashflow driven PO moves to \$8.10 (650GBp) from \$9.40 (770GBp) before. We reiterate our Buy rating.

Exhibit 8: BofA estimate changes

Our free cash flow estimates are primarily lowered in 2024

		New			Old		
\$m unless stated	2024	2025	2026	2024	2025	2026	
Production (kboe/d)	76	93	95	83	95	96	
Brent (\$/bbl)	80	80	70	80	80	70	
EBITDA	1,530	1,841	1,569	1,702	1,876	1,565	
Free cash flow	269	693	495	495	706	479	

Source: BofA Global Research estimates

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Price objective basis & risk

Kosmos Energy (KOS / XKELF)

Our US\$8.10/sh (650p/sh) is based on a full asset life DCF. We derive our equity valuation once deducting net financial debt as well as decommissioning liabilities. We use a long-term oil price of \$70 and a 10% discount rate.

Downside risks to our PO: A lower oil price than forecast, unexpected production issues, development delay or cost overruns.

Upside risks to our PO: A higher oil price than forecast, high production efficiency, development cost savings or exploration success.

Analyst Certification

I, Matthew Smith, 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.

EMEA - Oil & Gas Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Capricorn Energy	CRNZD	CNE LN	Matthew Smith
	Energiean	EERGF	ENOG LN	Matthew Smith
	Energiean	XMQFF	ENOG IT	Matthew Smith
	Equinor ASA	STOHF	EQNR NO	Christopher Kuplent
	Equinor ASA	EQNR	EQNR US	Christopher Kuplent
	Harbour Energy	PMOIF	HBR LN	Matthew Smith
	Kosmos Energy	KOS	KOS US	Matthew Smith
	Kosmos Energy	XKELF	KOS LN	Matthew Smith
	Neste	NTOIF	NESTE FH	Christopher Kuplent
	Neste	NTOIY	NTOIY US	Christopher Kuplent
	Saipem	SAPMF	SPM IM	Christopher Kuplent
	Shell plc	SHEL	SHEL US	Christopher Kuplent
	Shell Plc	RYDAF	SHEL LN	Christopher Kuplent
	TotalEnergies	TTFNF	TTE FP	Christopher Kuplent
	TotalEnergies	TTE	TTE US	Christopher Kuplent
	Vallourec	VLOUF	VK FP	Joseph Charuy
NEUTRAL				
	Aker Solutions	AKRTF	AKSO NO	Christopher Kuplent
	BP plc	BP	BP US	Christopher Kuplent
	BP plc	BPAQF	BP/ LN	Christopher Kuplent
	Eni	E	E US	Matthew Smith
	Eni	EIPAF	ENI IM	Matthew Smith
	EnQuest	ENQUF	ENQ LN	Matthew Smith
	Ithaca Energy plc	XMFYF	ITH LN	Matthew Smith
	Tenaris	TS	TS US	Joseph Charuy
	Tenaris	TNRSF	TEN IM	Joseph Charuy
	Var Energi	XGZNF	VAR NO	Matthew Smith
UNDERPERFORM				
	Aker BP	DETNF	AKRBP NO	Matthew Smith
	Galp Energia	GLPEF	GALP PL	Matthew Smith
	OMV	OMVJF	OMV AV	Matthew Smith
	OMV	OMVKY	OMVKY US	Matthew Smith
	Repsol	REPY	REPY US	Matthew Smith
	Repsol	REPYF	REP SQ	Matthew Smith
	Subsea 7 SA	ACGYF	SUBC NO	Christopher Kuplent
	Technip Energies	THNPF	TE FP	Christopher Kuplent
	Technip Energies	THNPY	THNPY US	Christopher Kuplent
	Tullow Oil	TUWLF	TLW LN	Matthew Smith



EMEA - Oil & Gas Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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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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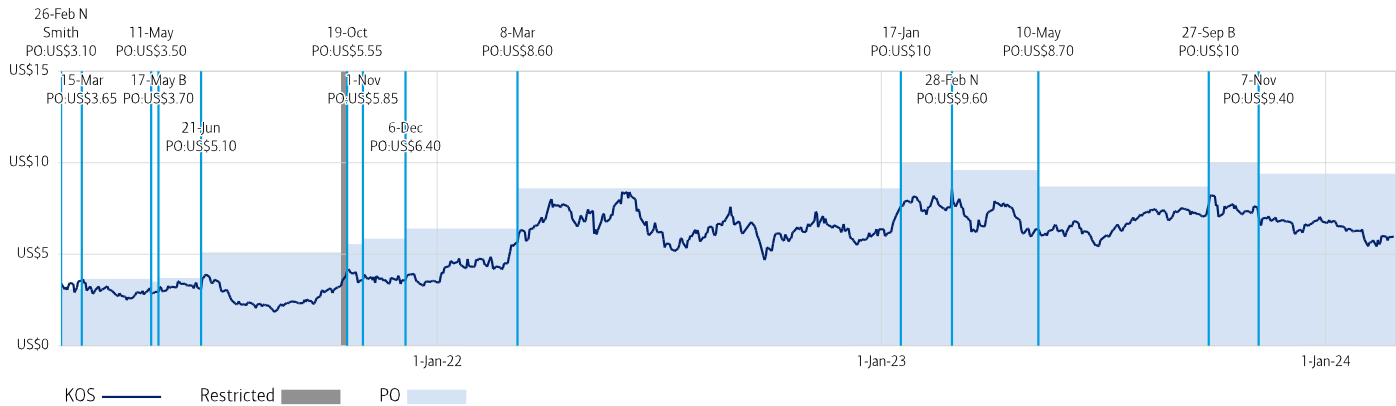
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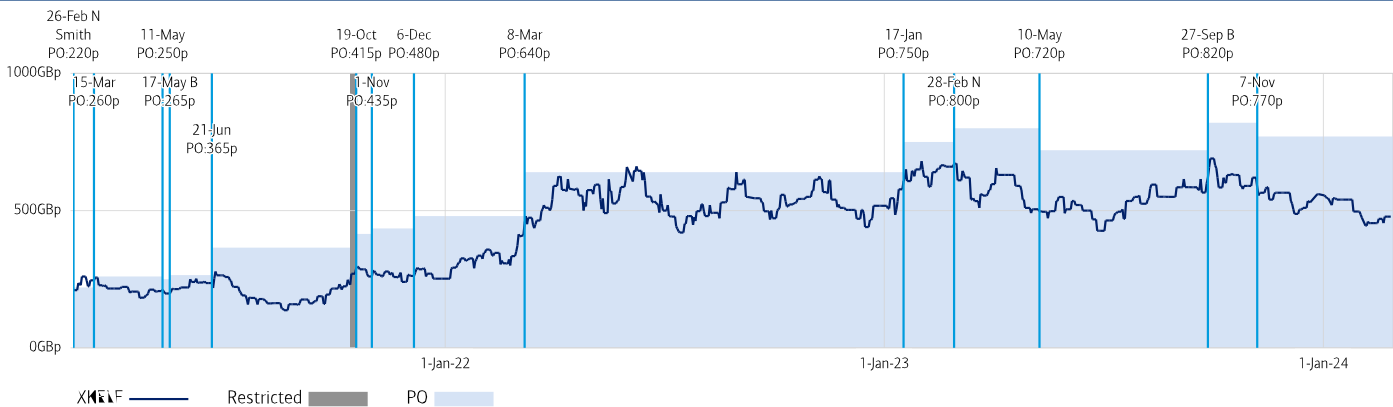
Important Disclosures

Kosmos Energy (KOS) Price Chart



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.

Kosmos Energy (XKELF) Price Chart



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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