



Summary

I believe Permian Resources is an excellent growth stock that is undervalued because of its consistently increasing revenues, above average industry operating efficiency, and exposure to the growing U.S domestic energy demand. This thesis outlines a 12–18-month upside opportunity

Business Overview

Permian Resources is an oil and natural gas company that operates 450,000 acres in Texas and New Mexico. Permian Resources went public after merging with Silver Run Acquisition Corporation in 2016 and have been expanding operations aggressively. As of now Permian Resources is the second biggest E&P player in their region, falling just behind larger companies like Exxon or Chevron. Permian Resources engages in both drilling and fracking and produces 170,000 barrels of crude a day.

Investment Rationale

Permian Resources is positioned excellently in the E&P oil industry and is poised to continue its growth for the coming years. Permian Resources has not only been increasing their revenues and profits y/y but they also have been increasing their margins very consistently. Apart from the financials that are incredibly attractive they are also in a rapidly growing domestic fracking energy industry which will further increase efficiency. Permian is also has been fortifying their balance sheet y/y and decreasing their total leverage. The stock has a dividend yield of 4.40% and has made a really good recovery from the markets April lows.

Risks

Permian's main and unrefutably risk is large swings in energy prices caused by the abundance of current conflict in the Middle East. The company currently has an average break-even price on each barrel of \$40 and if the price of a barrel were to drop below that price its likely that could have short-term implications for their business. Some other risks include increased fracking regulation although its unlikely under our current administration and the company's debt if left unmanaged could spiral out of control, though they are working towards deleveraging the company.

Conclusion & Target

For Permian Resources I expect to see a 40-50% increase in their share value in the coming years as they continue to derisk the company and grow to a more normalized P/E ratio for their industry. As far as maximum loss I am willing to take a 30% haircut on this one as my hard stop because if the stock were to drop that much it would mean something has gone very wrong. I will hold this as a long-term growth play patiently collecting my dividend and harvesting profits from their nearly guaranteed increase in efficiency and shareholder value.