

# **CNX Resources Corporation (CNX) Q1 2024 Earnings Call Transcript**

Seeking Alpha - Earnings Call Transcripts

April 25, 2024 Thursday

Copyright 2024 Seeking Alpha Provided by Syndigate Media Inc. All Rights Reserved

**Length:** 3604 words

**Byline:** SA Transcripts

**Body**

CNX Resources Corporation (CNX)

Q1 2024 Earnings Conference Call

April 25, 2024 10:00 AM ET

Company Participants

Tyler Lewis - Vice President, Investor Relations

Nick DeIuliis - President & Chief Executive Officer

Alan Shepard - Chief Financial Officer

Navneet Behl - Chief Operating Officer

Ravi Srivastava - President, New Technologies Group

Conference Call Participants

Zach Parham - JPMorgan

Leo Mariani - Roth MKM

Bertrand Donnes - Truist

Jake Roberts - TPH & Company

Presentation

Operator

Good morning, and welcome to the CNX Resources First Quarter 2024 Q&A Conference Call. All participants will be in listen-only mode. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Tyler Lewis, Vice President of Investor Relations. Please go ahead.

Tyler Lewis

Thanks, and good morning everybody. Welcome to CNX's first quarter Q&A conference call. Today we will be answering questions related to our first quarter results. This morning we posted to our Investor Relations website an updated slide presentation and detailed first quarter earnings release data, such as quarterly E&P data, financial statements and non-GAAP reconciliations, which can be found in a document titled 1Q 2024 earnings results and supplemental information of CNX Resources.

Also, we posted to our Investor Relations website, our prepared remarks for the quarter, which we hope everyone had a chance to read before the call. The call today will be used exclusively for Q&A.

With me today for Q&A are Nick DeIuliis, our President and CEO; Alan Shepard, our Chief Financial Officer; Navneet Behl, our Chief Operating Officer; and Ravi Srivastava, President of our New Technologies Group.

Please note that the company's remarks made during this call including answers to questions, include forward-looking statements, which are subject to various risks and uncertainties. These statements are not guarantees of future performance and our actual results may differ materially as a result of many factors. A discussion of risks and uncertainties related to those factors and CNX's business is contained in its filings with the Securities and Exchange Commission and in the release issued today.

With that, thank you for joining us this morning. And operator, can you please open the call for Q&A at this time

Question-and-Answer Session

Operator

We will now begin the question-and-answer session. [Operator Instructions] First question is from Zach Parham with JPMorgan. Please go ahead.

Zach Parham

Hey, thanks for taking my question. First, just wanted to ask on New Tech. Earlier this week you announced two new ventures in that business one in OFS, and one in alternative fuels. Could you just quantify the potential cash flow generation potential of these two ventures and give us some detail on the timing of these two ventures generating some cash flow.

Ravi Srivastava

Hey, Zach, this is Ravi. Our guidance for 2024 is unchanged. Our free cash flow guidance for 2024 remains at $75 million a year from -- for the New Tech business group by business unit, and as far as the future potential, these commercial opportunities are still taking concrete form. I think we'll be able to talk more about of these opportunities in more in greater detail in the coming quarters, but we expect it to start ticking form towards the end of the end of 2024 and have a more meaningful impact in 2025 and 2026. So stay tuned.

Subscribe to Seeking Alpha for more content like this

Zach Parham

Got it. Thanks, Ravi. And then shifting gears a little bit. You were aggressive with the buyback again in the first quarter and over the last three quarters you've been really aggressive bought back at about double the level of free cash flow generation. It does seem like the buyback pace slowed a little bit in April. Can you just give us your latest thoughts on how you're thinking about allocating free cash flow between buybacks and debt reduction going forward?

Alan Shepard

Yes. Rebound like we talked about in the prepared commentary on our unsecured maturity runway and kind of low secured debt gives us a lot of flexibility on a quarter-to-quarter basis. I mean, we're always evaluating the pace and timing of buybacks. In Q1, we saw a real opportunity when the stock was trading in the 20s to figure out a lot there modulated a little bit later in the quarter as the stock kind of ran up.

I think if you look at $50 million over the projected $300 million. There's still a lot of room to buy back shares for the remainder of the year. So consistent with always we're going to be flexible on trying to maintain flat to declining debt. No real changes to the strategy.

Zach Parham

Thanks. Appreciate the color next.

Operator

The next question is from Leo Mariani with Roth MKM. Please go ahead.

Leo Mariani

Hi. I just wanted to continue to focus a bit on the new tech businesses here, obviously, kind of a lot going on with the new kind of CNG LNG business as well as the OFS business. I was hoping you could speak a little bit more to what the physical mechanism here is on these businesses. I mean sounds like from the press releases there could be some type of proprietary devices that allow you guys to really capture the CNG without the aid of additional mechanical compression and just also on the well flow back as well. Presumably there's some kind of proprietary device that you guys are using here. So maybe can you just kind of speak to that and give us a little more color on exactly what this product is that you're going to be rolling out to folks?

Ravi Srivastava

Okay. Thank you. And thanks for the question, I haven't heard the rest of questions but this might be my favorite question for this hour, because we want to talk about the technology that we have developed. We are pretty excited about it.

It's been in the works for a few years now. We've teased in the past earnings calls and we're very happy that we've reached this milestone where we have engaged in the partnerships where we can start to bring these technologies to market.

So to talk more about the technology what I would do is like I would break the technology into two segments. And the first step involves combining various discrete functions that are performed in a conventional flow back like pressure management, solids and sand removal and a high rate, flow back fluid removal. So these are discrete steps in the commercial flow back.

What our technology does is combine all this into one equipment, into one step and we can implement all this from a highly automated piece of equipment. We can perform all these at very high pressure and rate, and because our solution does differ materially smaller footprint. It reduces the environmental impact and the footprint that's required to deploy this technology. It can be deployed much faster than a conventional flow back spread. If it results in a lower cost and reduce cycle times for operators, it's a field system and because of that it eliminates any fugitive methane emissions and it's highly automated, which hit us in the reduced manpower required to operate this, which results in improved safety performances and reduce costs.

So for this particular technology, for this particular application, well like our estimates show that there's 20,000 wells and that our flow back in US and 60,000 wells internationally. And all of these wells, which require flowback and the potential application for this technology and the operators are looking to reduce CapEx, they're looking to reduce emissions, and that's exactly what our solution does.

So and we have partnered with Deep Well services to deliver these this solution within the United States and Deep Well brings a strong domain expertise and is a trusted name in the oilfield service industry and we're excited to partner with them to bring this solution to market.

Subscribe to Seeking Alpha for more content like this

And then the second part of our technology involves harnessing what we call Geobaric Energy, which is derived from high-pressure oil and gas reservoirs like the Utica Shale, Haynesville, Eagle Ford these are formations within US and then market share in Canada. And there's various international formations and offshore applications for this technology as well.

So Geobaric Energy like geothermal energies are renewable energy source, but have typically been wasted by oil and gas industry, while developing these high-pressure formations. I mean not only is this renewable energy source wasted operations and that expanding time energy and resources destroying this energy.

So what our technology does is, it allows us to harness this energy to manufacture CNG LNG and potentially electricity and hydrogen right on our well pads.

If you look at a typical CNG value chain, a gas is produced on a well pad, energy spent rationalizing the gas, which is then recompress and transport it to a compressor station but additional energy is spent to compress it further and then fill in CNG trailers that CNG specifications and then it's transported to the customer.

Our solution allows us to manufacture CNG, utilizing Geobaric Energy and without any mechanical compression right on our Utica well pack, filling the CNG trailers and delivered to customers bypassing several cost and energy intensive steps. So again the solution that lowers cost and emissions for customers, which is what industry is looking for.

And we have partnered with NuBlu Energy to bring this technology to the US market. NuBlu has a track record of developing CNG and LNG solutions, and we are excited to partner with them.

Nick DeIuliis

Hey, Leo, this is Nick. Maybe, too, it will be helpful because to your point, there are specific questions about technology and market for these announcements we've made. But also, these announcements are sort of additional developments, I call them in a much bigger thing that we've been working on now with New Tech for a couple of years. And it ties to a couple of realities, facts out there in the world today in our industry, right?

One is that you got this global demand for energy that keeps growing. And you see it in advanced economies like ours, with AI and data centers, you see it in a developing world where they're looking for and insisting on better quality of life for their people and citizens. So the world wants all these additional Btus, horsepowers, kilowatt hours, and they want lower emissions to go along with it. But there's other truths that we're seeing as well. Wind and solar at scale, when you couple that with electrifying everything, that is a recipe for grid disaster and the degree of subsidy probably doesn't change the physics of the matter. So that exclusively is going to have some challenges.

We see ideas right or opportunities to export more Appalachian gas and LNG units to places like India, China, Europe, wherever. And that sounds great, and it's got a certain degree, I guess, of logical merit to it. But the reality there is that you're going to have to build extensive pipelines and LNG facilities to do it. And in this lifetime, that's going to be really challenging.

So in terms of the near intermediate term, that's sort of DOA, I'm sorry, as an option. And really, it's sort of inefficient when you think about it because in the grand scheme, you're importing on one hand, Btus from thousands of miles away to here via things like gasoline and Mid East oil. And then you're exporting our Btu thousands of miles away, right, to the other nations that I've mentioned or examples like that with LNG. So it's not the most efficient sort of supply chain net-net.

Subscribe to Seeking Alpha for more content like this

You got hydrogen. Hey, the hydrogen economy, it's got some really interesting attributes specifically with blue hydrogen, which means natural gas is going to play a role in that. Green hydrogen at scale, that's going to be effectively from a technical perspective and able to scale it in a nonstarter as well as having some economic challenges.

So we think we found a better way with this New Tech approach, and it's one that checks all those boxes. It sort of was captured within our Appalachia First vision that we laid out a while ago, which is basically, make the natural gas responsibly here and then use it here through things like Ravi said, CNG, LNG, these technologies. And it basically leads to an onshoring of manufacturing of goods that we currently also import.

So when you do this, like we're basically shrinking supply chains, you're dropping emissions, you're declining costs, you're growing GDP and you're expanding jobs, family sustaining wages with respect to those jobs as well. And our friends in labor and the trades, they love that component of it.

So, this is real. This proprietary technology, right, its showing now that we can commercialize this. It is true. I mean, Ravi called it renewable, I call it true alternative energy with regard to the Geobaric that he mentioned in the shale formations. And when we're able to harness that, it really allows for efficient and cost-effective conversion of the energy in these high-pressure shale horizons like the Utica and Haynesville into CNG and LNG and then on the flowback technologies across all the shale horizons.

So, when you think about this, our markets, instead of trying to expand existing markets and horizontally expanding, what we're really proposing here is to vertically expand into market opportunities for natural gas, vertically expanding into electricity generation, whether it's the micro grids or meeting demand during power crises, which we've seen recently or feeding that growing appetite for things like AI data science centers.

Ground transportation is another huge market opportunity that we see the CNG, LNG, right. Because it's a displacing others gasoline and diesel products supply chains that have tens of thousands of miles cumulatively. On the air industry and fueling it. That's another big opportunity with the sustainable aviation fuel and then an onshoring of manufacturing, keeping a close to the CNG, LNG and frankly, our environmental attributes with our waste mine methane capture is a big one. So this past week, we saw two more tangible examples of this with those press releases our environmental attributes with waste methane capture is another big example of that.

They penetrate those four markets that I talked about. They're all individually, those four are massive in terms of potential, they all are going to generate free cash flow and they're all going to positively impact our view of NAV per share of the company. But these technologies they sort of they come from similar opportunities with that harnessed energy in [indiscernible] form and they both sort of rooted in the same vision. So sorry for the extensive one, two explanation but if it's something that has been front and center with us for a while. And we wanted to take the opportunity to sort of not just address your question but take a step back and look at the bigger picture.

Leo Mariani

Well, that's certainly helpful. Certainly appreciate all of the detail here. I think many, many folks are sort of wondering about a lot of this. I think that's very helpful. And then just a quick follow-up to that. So if I kind of read you correctly, it sounds like that you may be kind of starting to roll this out to third-party customers later this year and start to see some revenue end of this year and into 2025. Can you maybe just talk to the capital side the expect any meaningful capital associated with these new businesses that you've announced? Or is it a fairly kind of low capital intensity endeavor for the company?

Ravi Srivastava

Leo, this is Ravi, again. So the capital needs for this these solutions are very, very low, especially compared to our E&P program. There's no – at this stage no incremental capital is planned for 2024.

Leo Mariani

Okay. That's great. Thanks.

Operator

The next question is from Bertrand Donnes with Truist. Please go ahead.

Bertrand Donnes

Hey, good morning guys. Just wanted to shift gears real quick on to the activity curtailments. Maybe just get your thoughts on why you – why you kind of stopped at 11 wells. I would think there's some argument that your hedging is insulating you but probably another side of that is why don't you just pocket the hedging gains, also curtailed production. We had a quite recent drop. But just any thoughts on are you are you more inclined to hold at this level? Or are you kind of seeing prices and thinking about dropping more?

Subscribe to Seeking Alpha for more content like this

Ravi Srivastava

Yes I think so. Right now we're kind of sticking to the guidance we gave. We're going to hold the 11 deferrals for now. It's something we constantly watch in terms of the discrete decision on those wells. It's a function of you're coordinating with the operations team on where there's a clean break in terms of which wells you can stop on versus which ones might already be in process. So there's no real magic to that other than taking up its operations to get to the best answer overall from a free cash flow basis.

Bertrand Donnes

What about actual means shut-ins or any of that kind of activity.

Ravi Srivastava

Not caused by this time, most of our wells run a very low variable costs. So we're still making pretty healthy margins on those. As you pointed out, we're getting pretty close to hedge levels that we have very little in terms of urban volumes. I'm sorry kind of just work and maybe the some bonds we have into the hedge book.

Bertrand Donnes

That makes sense. And then just to pile on to the new tech, maybe just a little bit of a different approach to this. In the prepared remarks you referenced the potential to be a meaningful free cash flow contributor on the DWS side. I just wasn't sure in my reading too much into that versus the new blue agreement? Or is there a tangible difference between the two?

Navneet Behl

I would say, but it's something we talked about a little bit. They both have very large addressable markets. I think the market for flowback is little more developed, right? It's very identifiable. And we think we'll probably ramp quicker into that market because it is an activity going on. And it's a clear superior technology to deploy CNG and LNG. We've been pushing on those. There are markets for those currently with a lot of the electric frac fleets and market penetration there. We're optimistic on, but it probably a little bit slower than deep. Well, that's why we made that comment. That makes sense. Ravi, do you want to add anything.

Ravi Srivastava

That's absolutely correct. I think under the flowback market is something that we can penetrate into very, very quickly and CNG markets that take a little bit more time to us.

Bertrand Donnes

Understood. Thanks guys.

Operator

[Operator Instructions] The next question is from Jake Roberts with TPH & Company. Please go ahead.

Jake Roberts

Good morning. I just wanted to -- I just wanted to touch base on the kind of the preliminary 2025 outlook. Just curious with the activity levels assumed in that $550 million program? And then maybe, if you could provide any color on the kind of the price outlook you might need to see to trigger that incremental 50 beyond the $500 million you've spoken to about relative to maintenance?

Ravi Srivastava

Yes, it's the same underlying activity set that we talked about on the last call that we've been guiding to kind of that $500 million run rate. All you're seeing there is the shifting of those 11 wells that we deferred into early next year. If we were to ramp back up from call it this 555, 560 area back to that 580 target so that's all we're trying to indicate there. And we're going to watch where kind of the pricing develops to. I think we've got a lot to be learned over the summer here in terms of how sustainable the production drops are hot summer is. There's a lot of factors that will go into the ultimate planning for 2025. And once we're in a position to firm that up, we will.

Jake Roberts

Great. Thank you. And the second question, looking at slide five of the deck with the debt stack kind of now really weighted to the first part of the next decade. Just curious, if it changes the philosophy around the duration of the hedge book as we as we enter the back half of this decade?

Ravi Srivastava

Yes. No, great question. So there's definitely the balance sheet and hedge book are correlated or have a relationship. I think what we've talked about in the past on hedging is that we're looking to shorten up the overall length of the book historically. We've got around five years. We've been kind of watching the books come in by 12 to 18 months. So we're still very much in the camp of hedging going into the near term here, but just trying to maintain flexibility in kind of the outer years as we see the volatility continue in our space, particularly some of the projections you're seeing in power demand and gas demand, we'll make sure that we're able to capture those through our hedging program but not getting too far out.

Subscribe to Seeking Alpha for more content like this

Jake Roberts

Thank you. Appreciate the time.

Operator

This concludes our question and answer session. I would like to turn the conference back over to Tyler Lewis for any closing remarks.

Tyler Lewis

Thank you again for joining us this morning. Please feel free to reach out if anyone has any additional questions. Otherwise, we look forward to seeing with everyone again next quarter. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

**Load-Date:** April 25, 2024

**End of Document**