



EOG Resources (EOG)

Updated May 25th, 2021 by Derek English

Key Metrics

Current Price:	\$79	5 Year CAGR Estimate:	3.5%	Market Cap:	\$43.7 B
Fair Value Price:	\$72	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	07/16/21
% Fair Value:	110%	5 Year Valuation Multiple Estimate:	-1.8%	Dividend Payment Date:	07/30/21
Dividend Yield:	2.2%	5 Year Price Target	\$83	Years Of Dividend Growth:	4
Dividend Risk Score:	D	Retirement Suitability Score:	D	Last Dividend Increase:	10.0%

Overview & Current Events

EOG Resources (NYSE: EOG) is a crude oil and natural gas company headquartered in Houston, Texas. Founded in 1999, EOG was incorporated as a Delaware corporation after it separated from Enron. EOG Resources is principally engaged in the exploration, development, and production of crude oil and natural gas with reserves in the United States, Canada, Trinidad, and China. EOG has three operating segments split by geographical areas: Crude oil, Natural Gas and Natural Gas Liquids (NGL). Crude oil is the largest segment which accounts for 79% of revenue.

EOG Resources released Q1 2021 results on May 6th, 2021. The company enjoyed a strong quarter with an adjusted EPS of \$1.62, which is the second-highest EPS in its history. Higher prices for crude oil, natural gas, and natural gas liquids all contributed to higher earnings. Average crude oil prices increased to \$58.02 per barrel in the 1Q from \$41.81 per barrel in the 4Q. EOG also realized higher prices for a portion of natural gas sold on a spot basis during intense demand related to winter storms and natural gas sold at prices tied to the LNG export market. Total per-unit costs in 1Q were slightly above the guidance range mid-point due to higher fuel and power prices during the winter storm.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$2.05	\$1.05	\$4.02	\$5.32	-\$8.29	-\$1.98	\$4.46	\$5.89	\$4.71	-\$1.04	\$4.00	\$4.64
DPS	\$0.32	\$0.34	\$0.37	\$0.51	\$0.67	\$0.67	\$0.67	\$0.81	\$1.08	\$1.41	\$1.65	\$2.42
Shares	532.0	541.0	546.0	548.0	545.0	553.0	578.0	580.0	580.0	578.0	578.0	560.0

The earnings-per-share numbers in the above table show the cyclical nature EOG Resources' industry. Over the last decade, earnings-per-share have ranged from -\$8.29 to \$5.89. Net income is heavily dependent on the price of oil which has risen in Q1. We have estimated annual EPS to be around \$4.00 in 2021, and the company is on track to beat this estimation. In addition, the company posted a free cash flow of \$1.1 Billion which was ahead of our expectations and a new record for the company. Cash capital expenditures before acquisitions was below the midpoint of the guidance range due to faster drilling times, more efficient completion operations, and lower-cost sand and water sourcing.

The company has a solid dividend history with a 20% CAGR since 1999. Due to the impressive free cash, EOG will reward shareholders with a \$1.00 special dividend per share. In addition, the company will also distribute the common quarterly dividend of \$0.4125 per share on July 30th. The current dividend is covered at a \$40 WTI oil price, and we have estimated an 8% dividend growth rate over the next five years, which is on the lower end of management's expectations.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	24.2	51.3	18.1	18.6	---	---	21.5	19.2	18.2	---	18.7	18.0
Avg. Yld.	0.6%	0.6%	0.5%	0.5%	0.8%	0.8%	0.7%	0.7%	1.3%	3.0%	2.2%	2.9%

Excluding the years that EOG reported negative EPS, the company has traded with average price-to-earnings of around 20. Given the nature of this business, it is customary to see a considerable fluctuation in earnings, making it difficult to predict a steady growth rate over the next five years. Therefore, we are using 18 times earnings under "normalized"

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circumstances, assuming the WTI oil price remains above \$50, for our fair value calculation. Typically, EOG offered a low starting yield, but it has become more attractive lately, yielding 2.2%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	15%	32%	9%	10%	---	---	15%	14%	23%	---	41%	52%

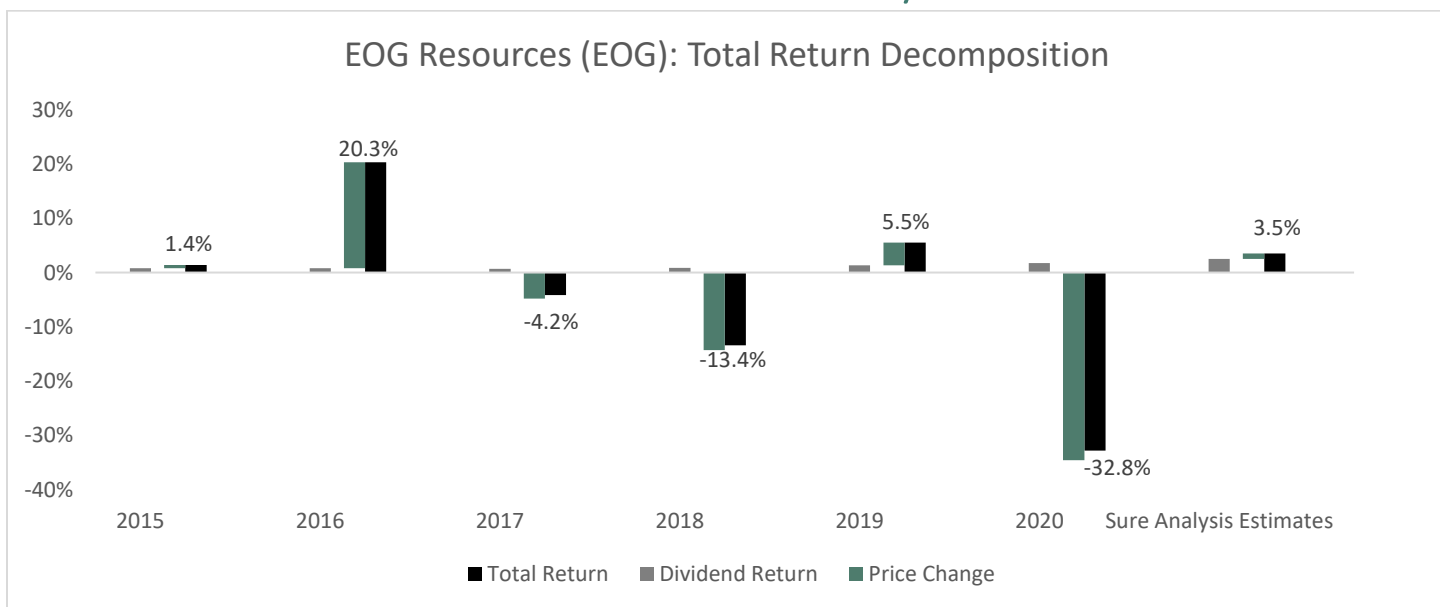
One of EOG Resources' main competitive advantages is its high-quality management team. After a downturn in 2016, the company swiftly focused the business on cutting costs and drilling for only premium wells, which allowed the company to have returns of over 30% even when the price of oil was \$40. After 2020 they have shifted their focus to a double premium strategy to develop wells that earn a 60% return at \$40 WTI and \$2.50/Mcf natural gas. The company also targets a 5% well cost reduction in 2021 on the back of a 15% reduction in 2020. The solid Q1 results keep the company on track to exceed the 5% well cost reductions in 2021. EOG's management is focused on increasing returns and generating free cash flow and has stated that they will not be growing production in an oversupplied market. With an estimated 8%-10% in oil growth, they target \$6.5 B FCF at \$50 WTI by 2023.

While the industry has had some challenging times, particularly over the last 12 years, the company has never cut or suspended its dividend, which further cements the directors' commitment to shareholders. In addition, the payout ratio has historically been below 40%, and the company has total debt of \$5.8 B compared to \$20 B in shareholders equity which gives a total debt/equity ratio of 0.28. Combined with strong FCF growth, the dividend appears well covered.

Final Thoughts & Recommendations

There is no doubt about the cyclical nature of EOG Resources, which makes it more important for investors to focus on value and total returns. Accordingly, EOG's management is focused on returning value to their shareholders and is aiming to grow FCF by at least 8% a year. Excluding the special dividend, we have estimated a total return of 3.5% annually for EOG. The low return is mainly because the share price has nearly doubled since January. Nevertheless, the company's commitment to the dividend and the impressive management team is enough to earn a hold recommendation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	8,974	11,055	14,399	16,639	8,656	7,463	11,206	17,177	16,942	9,873
Gross Profit	5,435	6,787	9,585	11,080	4,014	2,859	6,603	12,022	11,346	4,950
Gross Margin	60.6%	61.4%	66.6%	66.6%	46.4%	38.3%	58.9%	70.0%	67.0%	50.1%
SG&A Exp.	2,377	3,367	3,997	4,528	2,753	2,402	3,765	5,630	5,841	3,182
Operating Profit	2,025	2,164	3,931	4,644	-126	-711	1,485	4,807	3,913	458
Operating Margin	22.6%	19.6%	27.3%	27.9%	-1.5%	-9.5%	13.3%	28.0%	23.1%	4.6%
Net Profit	1,091	570	2,197	2,915	-4,525	-1,097	2,583	3,419	2,735	-605
Net Margin	12.2%	5.2%	15.3%	17.5%	-52.3%	-14.7%	23.0%	19.9%	16.1%	-6.1%
Free Cash Flow	-2,372	-2,118	269	402	-1,418	-224	141	1,692	1,741	1,543
Income Tax	819	710	1,240	2,080	-2,397	-461	-1,921	822	810	-134

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	24,839	27,337	30,574	34,763	26,970	29,299	29,833	33,934	37,125	35,805
Cash & Equivalents	616	876	1,318	2,087	719	1,600	834	1,556	2,028	3,329
Accounts Receivable	1,451	1,657	1,659	1,779	931	1,216	1,597	1,915	2,002	1,522
Inventories	591	683	563	707	599	350	484	859	767	629
Total Liabilities	12,198	14,052	15,156	17,050	14,027	15,318	13,550	14,570	15,484	15,503
Accounts Payable	2,034	2,079	2,254	2,861	1,472	1,512	1,847	2,240	2,429	1,681
Long-Term Debt	5,009	6,312	5,913	5,910	6,655	6,986	6,387	6,083	5,175	5,816
Shareholder's Equity	12,641	13,285	15,418	17,713	12,943	13,982	16,283	19,364	21,641	20,302
D/E Ratio	0.40	0.48	0.38	0.33	0.51	0.50	0.39	0.31	0.24	0.29

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	4.7%	2.2%	7.6%	8.9%	-14.7%	-3.9%	8.7%	10.7%	7.7%	-1.7%
Return on Equity	9.5%	4.4%	15.3%	17.6%	-29.5%	-8.1%	17.1%	19.2%	13.3%	-2.9%
ROIC	6.6%	3.1%	10.7%	13.0%	-20.9%	-5.4%	11.8%	14.2%	10.5%	-2.3%
Shares Out.	532.0	541.0	546.0	548.0	545.0	553.0	578.0	580.0	580.0	578.0
Revenue/Share	16.85	20.41	26.36	30.33	15.86	13.49	19.36	29.59	29.17	17.05
FCF/Share	-4.45	-3.91	0.49	0.73	-2.60	-0.40	0.24	2.92	3.00	2.67

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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