Pioneer Natural Resources (PXD)

Updated May 8th, 2022, by Tiago Dias

Key Metrics

Current Price:	$271	**5 Year CAGR Estimate:**	4.8%	**Market Cap:**	$65 B
Fair Value Price:	$450	**5 Year Growth Estimate:**	-10.0%	**Ex-Dividend Date:**	05/27/2022
% Fair Value:	60%	**5 Year Valuation Multiple Estimate:**	10.7%	**Dividend Payment Date:**	06/14/2022
Dividend Yield:	7.7%	**5 Year Price Target**	$266	**Years Of Dividend Growth:**	5
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Pioneer Natural Resources (PXD) is a large independent oil and gas exploration and production company that explores, develops, and produces oil, NGLs and gas within the United States. Founded in 1997, this $65 billion market cap company is a highly cyclical business with a dividend policy consisting of a base and a variable dividend.

Pioneer Natural Resources reported Q1 2022 earnings on May 4th, 2022. For the quarter earnings-per-share equalled $7.85, including mark-to-market adjustments and certain other unusual items. Excluding these items, non-GAAP adjusted income for the quarter was $7.74 per share. The company also declared a new quarterly dividend of $7.38 with an ex-dividend date of 05/27/2022 and a payment date of 06/14/2022. The company also bought back $250 million in shares. The combination of dividends and share buybacks represents a total annualized shareholder yield of approximately 15%.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$3.66	$4.06	$4.76	-$0.12	-$0.20	$2.16	$6.31	$8.18	$1.61	$13.27	***$30.00***	***$17.71***
DPS	$0.08	$0.08	$0.08	$0.08	$0.08	$0.08	$0.32	$1.20	$2.20	$6.83	***$21.00***	***$12.40***
Shares	123	143	149	149	170	170	170	166	164	243	***240***	***250***

Commodity producers are notoriously cyclical, and oil and gas companies are currently at the top of a cycle after some very difficult years since 2014. This is clearly shown in their revenue, earnings and even dividends, with 2015 and 2016 having net losses, even when removing one-off impairments and expenses.

It's this cyclicality that makes it difficult to estimate a future growth rate over the next 5 years, because PXD's revenue and earnings growth rate will be intrinsically connected to the price of oil 5 years from now, which is something no one can reliably predict. That said, we can make some educated assumptions based on historical data and trends. It's clear that the currently elevated oil and gas prices are due to a combination of supply chain disruptions, lack of investment in new production since the 2014 oil price crash, and geopolitical issues with Russia, a major oil producing nation. While none of these issues have a clear end in sight now, it's not unreasonable to assume that they will be worked out at some point over the next 5 years, and oil prices will subsequently drop.

It's for this reason that we estimate that 2027 earnings (and dividends) will be substantially lower in 2027 than they are in 2022. We are forecasting $17.71 earnings-per-share, and a correspondingly lower dividend at $12.40 per share.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	27.7	38.2	40.2	---	---	---	27.6	17.2	---	11.9	***9.0***	***15.0***
Avg. Yld.	0.1%	0.1%	0.0%	0.1%	0.1%	0.1%	0.2%	0.9%	2.2%	4.3%	***7.7%***	***4.7%***

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Pioneer has traded at a surprisingly elevated multiple given the cyclicality of the business, and the fact that it incurred net losses at multiple points over the past decade. While its P/E may seem comparatively low right now, we must remember that we are currently at the top of a cycle, and as such its earnings will likely decrease substantially in the future. It's for this reason that we estimate a P/E ratio of 15 for 2027, which is in-line with the market average.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	2%	2%	2%	-67%	-40%	4%	5%	15%	137%	51%	***70%***	***70%***

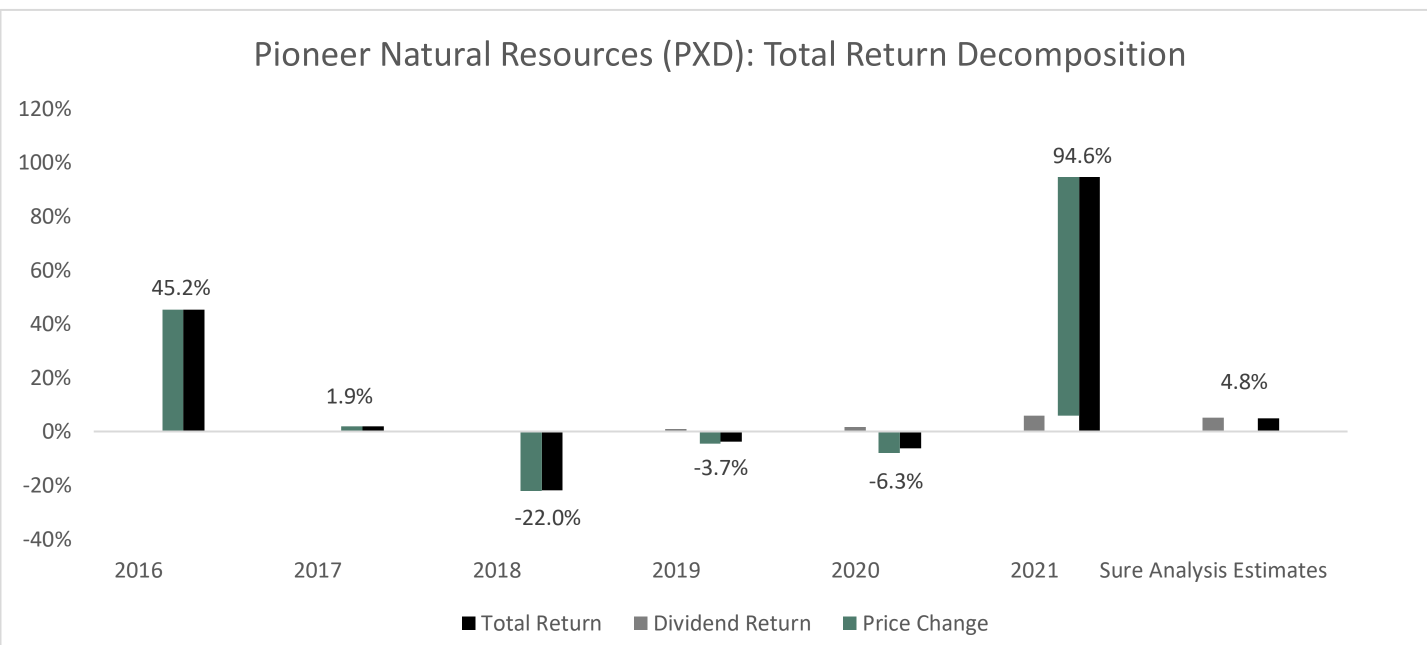
As an all-American oil and gas company, Pioneer is protected from the geopolitical concerns that some of its competitors must deal with. As such, there is a very low chance that they will suffer meaningfully from sanctions or other regulatory action. Additionally, the low rates of reinvestment that their management team is doing, along with a strong balance sheet means that they are more than able to keep their business afloat for the foreseeable future even at very low oil prices. Indeed, the company should be able to maintain profitability, and their base dividend, so long as oil remain above $30 per barrel, which is a surprisingly low price compared to some of its competitors and is directly related to the high quality of the deposits it owns and operates.

Final Thoughts & Recommendation

Cyclical companies like Pioneer are usually best bought at the bottom of the cycle, when everything looks bad, and the company's metrics appear overvalued. While the current valuation, with a low P/E and fantastic past growth rate, may seem to demonstrate that the business is wildly undervalued, the fact is that most of those indicators are merely the hallmarks of a cyclical business going from the bottom of a cycle to the top of a cycle.

For this reason, and with the expectation that oil prices will return to prices closer to their historical norms, we expect that the total return for the business over the next 5 years will be 4.8% per year, the bulk of which coming from the company's dividend. As such shares earn a hold rating.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	2,634	3,422	4,325	2,878	3,509	5,294	9,379	9,671	7,024	17,870
Gross Profit	1,124	1,417	1,662	(108)	157	1,281	2,776	2,315	828	6,894
Gross Margin	42.7%	41.4%	38.4%	-3.8%	4.5%	24.2%	29.6%	23.9%	11.8%	38.6%
SG&A Exp.	244	296	333	327	331	346	402	343	256	309
Operating Profit	726	1,002	1,133	(638)	(375)	810	1,803	1,881	516	6,527
Op. Margin	27.6%	29.3%	26.2%	-22.2%	-10.7%	15.3%	19.2%	19.4%	7.3%	36.5%
Net Profit	192	(838)	930	(273)	(556)	833	978	773	(200)	2,118
Net Margin	7.3%	-24.5%	21.5%	-9.5%	-15.8%	15.7%	10.4%	8.0%	-2.8%	11.9%
Free Cash Flow	(921)	(493)	(877)	(855)	(357)	(266)	(278)	127	481	2,890
Income Tax	288	(213)	556	(155)	(403)	(524)	276	235	(61)	628

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	13,069	12,294	14,909	15,154	16,459	17,003	17,903	19,088	19,229	36,811
Cash & Equivalents	229	393	1,025	1,391	1,118	896	825	631	1,442	3,847
Acc. Receivable	320	434	440	385	518	645	814	1,035	695	1,685
Inventories	197	220	241	155	181	212	242	205	224	369
Goodwill & Int.	298	274	272	272	272	270	264	261	261	243
Total Liabilities	7,202	5,679	6,320	6,779	6,048	5,724	5,792	6,952	7,660	13,974
Accounts Payable	827	1,060	1,320	883	875	1,282	1,624	1,411	1,030	2,559
Long-Term Debt	3,721	2,653	2,648	3,655	3,213	2,732	2,284	2,289	3,300	6,932
Total Equity	5,689	6,602	8,581	8,368	10,404	11,274	12,111	12,136	11,569	22,837
LTD/E Ratio	0.65	0.40	0.31	0.44	0.31	0.24	0.19	0.19	0.29	0.30

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.6%	-6.6%	6.8%	-1.8%	-3.5%	5.0%	5.6%	4.2%	-1.0%	7.6%
Return on Equity	3.4%	-13.6%	12.3%	-3.2%	-5.9%	7.7%	8.4%	6.4%	-1.7%	12.3%
ROIC	2.2%	-8.9%	9.1%	-2.3%	-4.3%	6.0%	6.9%	5.4%	-1.4%	9.5%
Shares Out.	123	143	149	149	170	170	170	166	164	243
Revenue/Share	20.90	25.16	30.03	19.32	21.14	31.14	54.85	57.91	42.57	72.64
FCF/Share	(7.31)	(3.63)	(6.09)	(5.74)	(2.15)	(1.56)	(1.63)	0.76	2.92	11.75

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