Pioneer Natural Resources (PXD)

Updated February 26th, 2023, by Tiago Dias

Key Metrics

Current Price:	$199	**5 Year CAGR Estimate:**	5.3%	**Market Cap:**	$46 B
Fair Value Price:	$375	**5 Year Growth Estimate:**	-10.0%	**Ex-Dividend Date:**	03/03/2023
% Fair Value:	53%	**5 Year Valuation Multiple Estimate:**	13.5%	**Dividend Payment Date:**	03/17/2023
Dividend Yield:	5.0%	**5 Year Price Target**	$221	**Years Of Dividend Growth:**	5
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**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 $46 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 Q4 and full year 2022 earnings on February 22nd, 2023. For the quarter, earnings-per-share equalled $5.98, including mark-to-market adjustments and certain other unusual items. Excluding these items, non-GAAP adjusted income for the quarter was $5.91 per share. For the full year the company reported earnings of $31.13 per share. The company also declared a new quarterly dividend of $5.58 to be paid in March, in line with their fixed + variable dividend policy. The company also bought back $400 million in shares during the quarter for a total of $1.65 billion in 2022.

The company's management team expects that the business will be able to cashflow around $9 billion in 2023, about half of which is expected to be spent on its capital budget related to drilling, infrastructure, and exploration.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$4.06	$4.76	-$0.12	-$0.20	$2.16	$6.31	$8.18	$1.61	$13.27	$31.13	***$25.00***	***$14.76***
DPS	$0.08	$0.08	$0.08	$0.08	$0.08	$0.32	$1.20	$2.20	$6.83	$25.44	***$9.98***	***$5.89***
Shares	143	149	149	170	170	170	166	164	243	240	***236.0***	***230.0***

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 2028 earnings (and dividends) will be substantially lower than they were in 2022. We are forecasting $14.76 earnings-per-share, and a correspondingly lower dividend at $5.89 per share.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	38.2	40.2	--	--	--	27.6	17.2	--	11.9	8.0	***8.0***	***15.0***
Avg. Yld.	0.1%	0.0%	0.1%	0.1%	0.1%	0.2%	0.9%	2.2%	4.3%	10.2%	***5.0%***	***2.7%***

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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 2028, which is in-line with the market average.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	2%	2%	-67%	-40%	4%	5%	15%	137%	51%	82%	***40%***	***40%***

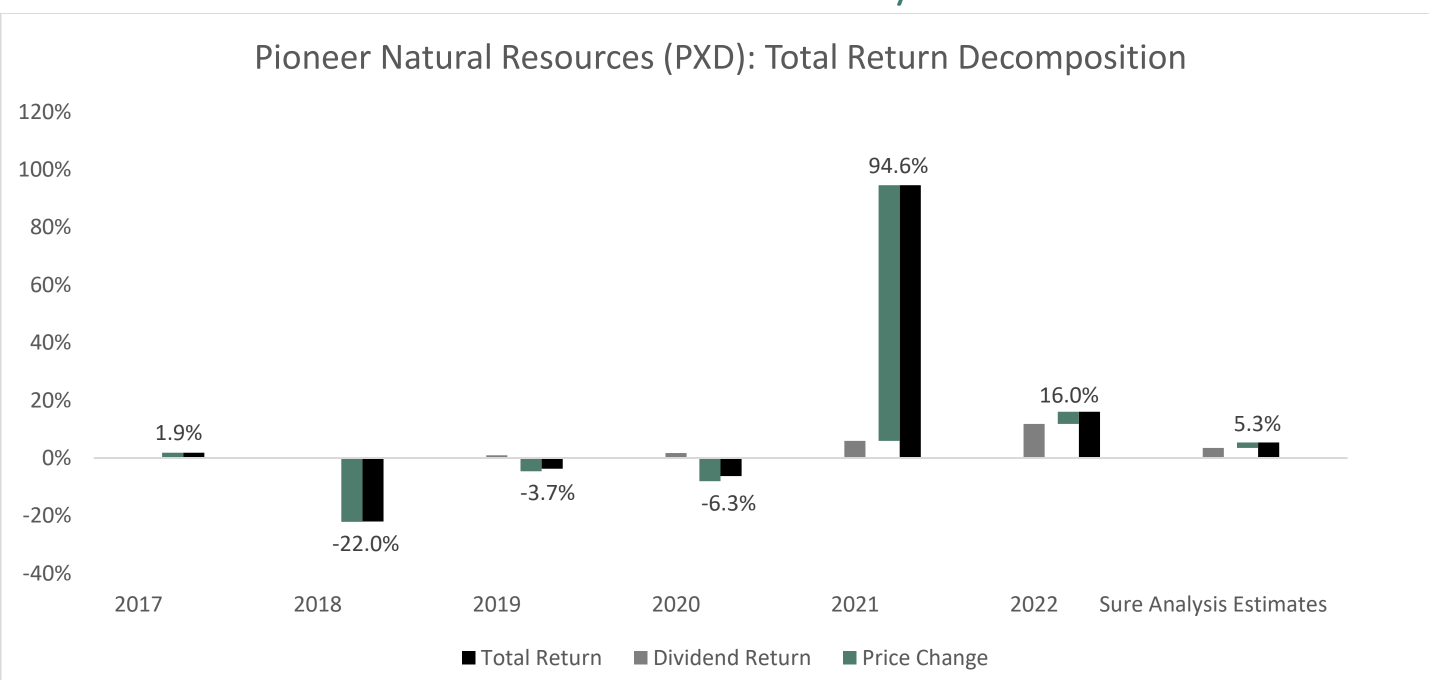
As an all-American oil and gas company, Pioneer is protected from the geopolitical concerns that some of its competitors must deal with. As such, there is a very low chance that they will suffer meaningfully from sanctions or other regulatory action. Additionally, the low rates of reinvestment that their 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 remains 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 5.3% per year, the bulk of which will come 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	3,422	4,325	2,878	3,509	5,294	9,379	9,671	7,024	17,870	24,384
Gross Profit	1,417	1,662	(108)	157	1,281	2,776	2,315	828	6,894	10,732
Gross Margin	41.4%	38.4%	-3.8%	4.5%	24.2%	29.6%	23.9%	11.8%	38.6%	44.0%
SG&A Exp.	296	333	327	331	346	402	343	256	309	357
Operating Profit	1,002	1,133	(638)	(375)	810	1,803	1,881	516	6,527	10,319
Op. Margin	29.3%	26.2%	-22.2%	-10.7%	15.3%	19.2%	19.4%	7.3%	36.5%	42.3%
Net Profit	(838)	930	(273)	(556)	833	978	773	(200)	2,118	7,845
Net Margin	-24.5%	21.5%	-9.5%	-15.8%	15.7%	10.4%	8.0%	-2.8%	11.9%	32.2%
Free Cash Flow	(493)	(877)	(855)	(357)	(266)	(278)	127	481	2,890	7,428
Income Tax	(213)	556	(155)	(403)	(524)	276	235	(61)	628	2,106

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	12,294	14,909	15,154	16,459	17,003	17,903	19,088	19,229	36,811	35,740
Cash & Equivalents	393	1,025	1,391	1,118	896	825	631	1,442	3,847	1,032
Acc. Receivable	434	440	385	518	645	814	1,035	695	1,685	1,853
Inventories	220	241	155	181	212	242	205	224	369	424
Goodwill & Int.	274	272	272	272	270	264	261	261	243	243
Total Liabilities	5,679	6,320	6,779	6,048	5,724	5,792	6,952	7,660	13,974	13,199
Accounts Payable	1,060	1,320	883	875	1,282	1,624	1,411	1,030	2,559	2,637
Long-Term Debt	2,653	2,648	3,655	3,213	2,732	2,284	2,289	3,300	6,932	4,904
Total Equity	6,602	8,581	8,368	10,404	11,274	12,111	12,136	11,569	22,837	22,541
LTD/E Ratio	0.40	0.31	0.44	0.31	0.24	0.19	0.19	0.29	0.30	0.22

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	-6.6%	6.8%	-1.8%	-3.5%	5.0%	5.6%	4.2%	-1.0%	7.6%	21.6%
Return on Equity	-13.6%	12.3%	-3.2%	-5.9%	7.7%	8.4%	6.4%	-1.7%	12.3%	34.6%
ROIC	-8.9%	9.1%	-2.3%	-4.3%	6.0%	6.9%	5.4%	-1.4%	9.5%	27.4%
Shares Out.	143	149	149	170	170	170	166	164	243	252
Revenue/Share	25.16	30.03	19.32	21.14	31.14	54.85	57.91	42.57	72.64	96.76
FCF/Share	(3.63)	(6.09)	(5.74)	(2.15)	(1.56)	(1.63)	0.76	2.92	11.75	29.48

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