



EOG Resources (EOG)

Updated February 27th, 2024 by Derek English

Key Metrics

Current price:	\$114	5 Year CAGR Estimate:	17.7%	Market Cap:	\$64.9 B
Fair Value Price:	\$202	5-Year Growth Estimate:	3.0%	Ex-Dividend Date:	04/16/24
% Fair Value:	56%	5-Year Valuation Multiple Estimate:	12.2%	Dividend Payment Date:	04/30/24
Dividend Yield:	3.3%	5 Year Price Target	\$235	Years Of Dividend Growth:	6
Dividend Risk Score:	D	Retirement Suitability Score:	D	Rating:	Buy

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 Q4 and full year 2023 results on February 22nd, 2024. For the fourth quarter, EOG demonstrated robust financial performance, with an adjusted net income of \$1.8 billion, equating to \$3.07 per share. Oil and gas surpassed management's guidance, with volumes and per-unit operating costs performing favorably. Additionally, EOG secured a significant 10-year Brent-linked gas sales agreement set to commence in January 2027. The company will have sales volumes of 140K MMBtu per day linked to Brent crude oil prices with an additional 40K MMBtu per day linked to Brent crude oil prices or a US Gulf Coast gas index. Focusing on the full year of 2023, adjusted net income dropped to \$11.69 per share as prices of Crude oil, NGL and Natural gas prices all dropped with the latter dropping by 60%. The company generated \$5.1 billion in free cash flow and returned \$4.4 billion to shareholders in terms of dividends, special dividends and share buybacks. Finally, the company announced a \$6.2 billion capital plan to grow oil production 3% and total production 7% by completing 600 net wells in premium domestic area.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$5.32	(\$8.29)	(\$1.98)	\$4.46	\$5.89	\$4.71	\$1.46	\$8.61	\$13.76	\$11.69	\$11.24	\$13.03
DPS	\$0.51	\$0.67	\$0.67	\$0.67	\$0.81	\$1.08	\$1.50	\$1.99	\$3.00	\$3.30	\$3.64	\$5.35
Shares	548.0	545.0	553.0	578.0	580.0	580.0	578.0	581.0	583.0	584.0	580.0	560.0

The earnings-per-share numbers in the above table show the cyclical nature of EOG Resources' industry. Over the last decade, earnings-per-share have ranged from -\$8.29 to \$13.71. Net income is heavily dependent on oil prices, which has been fluctuating since the beginning of the pandemic. While the company has come in ahead of guidance in prior years, our estimate of \$14.20 was missed in 2023. We estimated a slower year in 2024 due to the company's estimates on crude oil volumes of 488K bbl/day and increased CAPEX spending. Strong free cash flow growth has helped the company strengthen its balance sheet by reducing its debt and rewarding its shareholders with special dividends.

The company has a solid dividend history with a ~27% CAGR since 2013. Due to the impressive free cash flow, EOG rewarded shareholders with another \$1.50 special dividend per share on December 29th, 2023. This is on top of the \$5.80 special dividend announced in 2022. In addition, the company also increased its common dividend to \$3.64/share annually. This is 10% higher than the previous level in 2023. The current dividend is covered at a \$32 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.



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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	18.6	-10.3	-42.3	21.5	19.2	18.2	34.5	10.3	9.4	10.3	10.1	18.0
Avg. Yld.	0.5%	0.8%	0.8%	0.7%	0.7%	1.3%	3.0%	2.2%	2.3%	2.7%	3.3%	2.3%

Excluding the years that EOG reported negative EPS, the company has traded with average price-to-earnings of around 18. 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, for our fair value calculation, we use 18 times earnings under "normalized" circumstances, assuming the WTI oil price remains above \$50. As a result, the company trades at 56% of our fair value estimate of \$202. Typically, EOG offered a low starting yield, but it has become more attractive lately, yielding 3.3%, excluding the special dividends.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	10%	-8%	-34%	15%	14%	23%	103%	23%	22%	28%	32%	41%

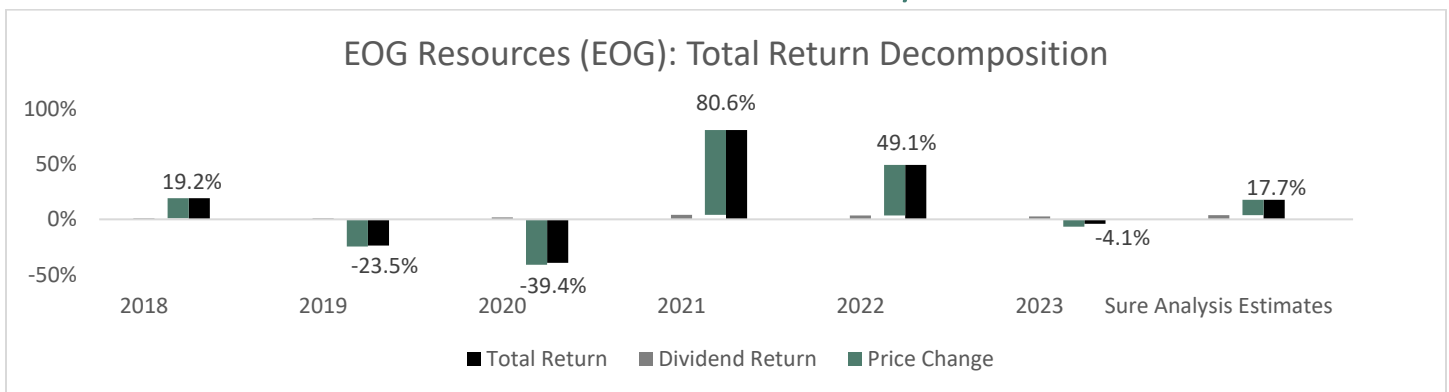
One of EOG Resources' main competitive advantages is its high-quality management team. After a downturn in 2016, the company swiftly focused on cutting costs and drilling for only premium wells, which allowed the company to have returns of over 30% even when the price of oil was \$40. After 2020 they 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. 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. The company has a long-term debt of \$3.7 billion.

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%. 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 focuses on returning value to its shareholders and aims to grow FCF by at least 8% yearly. Excluding the special dividend, we have estimated a total return of 17.7%. The company is committed to returning as much value to shareholders as possible and recently increased the dividend by 10% to go along with distributing special dividends. As a result, we currently rate EOG as a buy due to projected returns and have a five-year target price of \$235.

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	14,399	16,639	8,656	7,463	11,206	17,177	16,942	9,873	19,670	29,490
Gross Profit	9,585	11,080	4,014	2,859	6,603	12,022	11,346	4,950	14,320	24,000
Gross Margin	66.6%	66.6%	46.4%	38.3%	58.9%	70.0%	67.0%	50.1%	72.8%	81.4%
SG&A Exp.	3,997	4,528	2,753	2,402	3,765	5,630	5,841	3,182	4,684	7,105
Operating Profit	3,931	4,644	-126	-711	1,485	4,807	3,913	458	7,613	14,260
Operating Margin	27.3%	27.9%	-1.5%	-9.5%	13.3%	28.0%	23.1%	4.6%	38.7%	48.4%
Net Profit	2,197	2,915	-4,525	-1,097	2,583	3,419	2,735	-605	4,664	7,759
Net Margin	15.3%	17.5%	-52.3%	-14.7%	23.0%	19.9%	16.1%	-6.1%	23.7%	26.3%
Free Cash Flow	269	402	-1,418	-224	141	1,692	1,741	1,543	4,941	6,093
Income Tax	1,240	2,080	-2,397	-461	-1,921	822	810	-134	1,269	2,142

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	30,574	34,763	26,970	29,299	29,833	33,934	37,125	35,805	38,240	41,370
Cash & Equivalents	1,318	2,087	719	1,600	834	1,556	2,028	3,329	5,209	5,972
Accounts Receivable	1,659	1,779	931	1,216	1,597	1,915	2,002	1,522	2,335	2,774
Inventories	563	707	599	350	484	859	767	629	584	1,058
Total Liabilities	15,156	17,050	14,027	15,318	13,550	14,570	15,484	15,503	16,060	16,590
Accounts Payable	2,254	2,861	1,472	1,512	1,847	2,240	2,429	1,681	2,242	2,532
Long-Term Debt	5,913	5,910	6,655	6,986	6,387	6,083	5,175	5,816	4,859	4,863
Shareholder's Equity	15,418	17,713	12,943	13,982	16,283	19,364	21,641	20,302	22,180	24,780
LTD/E Ratio	0.38	0.33	0.51	0.50	0.39	0.31	0.24	0.29	0.22	0.20

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	7.6%	8.9%	-14.7%	-3.9%	8.7%	10.7%	7.7%	-1.7%	12.6%	19.5%
Return on Equity	15.3%	17.6%	-29.5%	-8.1%	17.1%	19.2%	13.3%	-2.9%	22.0%	33.1%
ROIC	10.7%	13.0%	-20.9%	-5.4%	11.8%	14.2%	10.5%	-2.3%	17.6%	27.4%
Shares Out.	546.0	548.0	545.0	553.0	578.0	580.0	580.0	578.0	584	587
Revenue/Share	26.36	30.33	15.86	13.49	19.36	29.59	29.17	17.05	33.68	50.24
FCF/Share	0.49	0.73	-2.60	-0.40	0.24	2.92	3.00	2.67	8.46	10.38

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

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