Pioneer Natural Resources (PXD)

Updated March 7th, 2024, by Tiago Dias

Key Metrics

Current Price:	$240	**5 Year CAGR Estimate:**	-3.5%	**Market Cap:**	$57 B
Fair Value Price:	$300	**5 Year Growth Estimate:**	-10.0%	**Ex-Dividend Date:**	03/01/2023
% Fair Value:	80%	**5 Year Valuation Multiple Estimate:**	4.6%	**Dividend Payment Date:**	03/22/2023
Dividend Yield:	2.6%	**5 Year Price Target**	$177	**Years Of Dividend Growth:**	5
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**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 $57 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 2023 earnings on February 22nd, 2024. For the quarter, the company earned $5.28 per share, below the $5.98 earned in the same period the prior year. For the full year the company reported $20.89 in earnings per share, well below the $31.13 reported in 2022, with the difference being largely attributable to decreased revenues. The company also declared a new quarterly dividend of $2.56 to be paid in March, in line with their fixed plus variable dividend policy. As per the merger agreement with ExxonMobil (XOM) this will be the final dividend under the fixed plus variable dividend policy, and going forward only the fixed dividend shall be paid until the conclusion of the merger.

The merger agreement which was announced in the third quarter last year is ongoing and consists of an all-stock merger of PXD with ExxonMobil. This merger to be paid entirely with ExxonMobil stock originally valued PXD at $253 per share, a 5.8% premium over the current price. Subsequent price adjustments have brought down the value to the equivalent of $248 per share, a $8 premium over the current PXD share price. Each PXD shareholder will receive 2.3234 shares of ExxonMobil stock in return for 1 PXD share if the deal closes as currently proposed.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	-$0.12	-$0.20	$2.16	$6.31	$8.18	$1.61	$13.27	$31.13	$31.13	$20.21	***$20.00***	***$11.81***
DPS	$0.08	$0.08	$0.08	$0.08	$0.32	$1.20	$2.20	$6.83	$25.44	$13.96	***$6.31***	***$3.73***
Shares	149	170	170	170	166	164	243	240	240	240	***240.0***	***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 2014 and 2015 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 2029 earnings (and dividends) will be substantially lower than they were in 2023. We are forecasting $11.81 earnings-per-share, and a correspondingly lower dividend at $3.73 per share.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	40.2	--	--	--	27.6	17.2	--	11.9	8.0	11.4	***12.0***	***15.0***
Avg. Yld.	0.0%	0.1%	0.1%	0.1%	0.2%	0.9%	2.2%	4.3%	10.2%	6.1%	***2.6%***	***2.1%***

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 near the top of a cycle, and as such Pioneer's earnings will likely decrease substantially in the future. It's for this reason that we estimate a P/E ratio of 15 for 2029, which is in-line with the market average.

Safety, Quality, Competitive Advantage, & Recession Resiliency

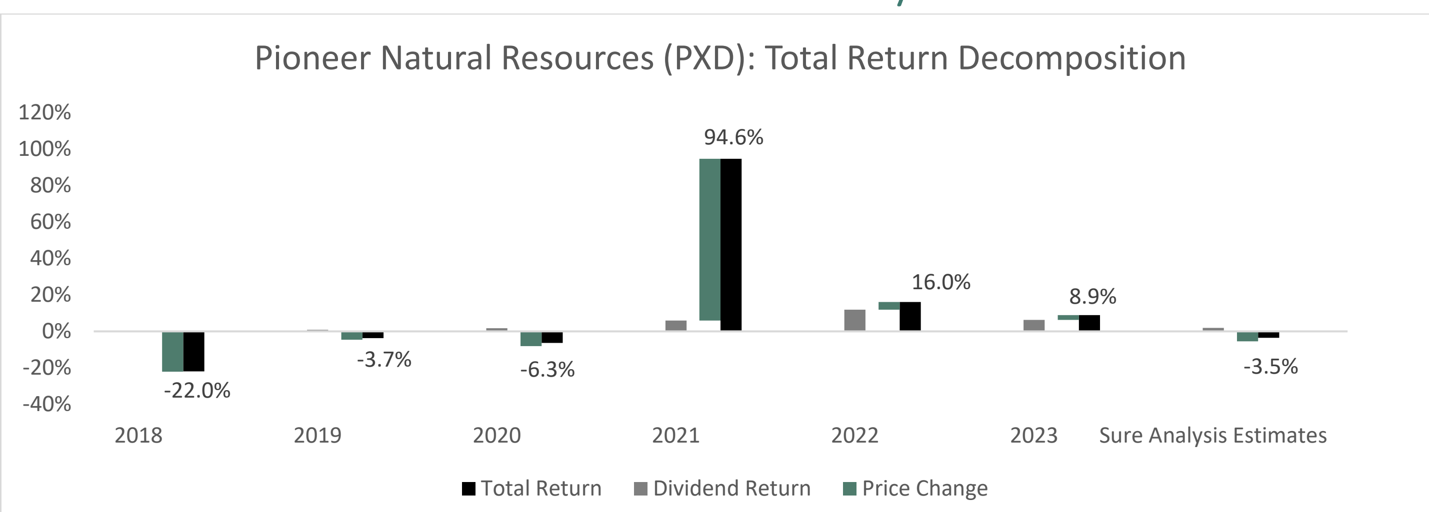
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	-67%	-40%	4%	1%	4%	75%	17%	22%	82%	69%	***32%***	***32%***

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 running well 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

The merger announcement completely changes the investment prospects of PXD shareholders, turning what would otherwise be a lackluster rating into an attractive play for existing shareholders that is liable to quickly return over 5% in the next year. Absent the merger agreement the company's prospects are not very attractive, however. As a result, we give the company and its shares 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.