Coterra Energy (CTRA)

Updated May 13th, 2024, by Aristofanis Papadatos

Key Metrics

Current Price:	$28	**5 Year CAGR Estimate:**	0.8%	**Market Cap:**	$20.9 B
Fair Value Price:	$18	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	5/15/24
% Fair Value:	159%	**5 Year Valuation Multiple Estimate:**	-8.9%	**Dividend Payment Date:**	5/30/24
Dividend Yield:	3.0%	**5 Year Price Target**	$25	**Years Of Dividend Growth:**	8
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Sell

Overview & Current Events

Coterra Energy (CTRA) is an oil and gas company that develops, explores, and produces oil, natural gas, and natural gas liquids. The business primarily operates in the Permian Basin, the Marcellus Shale area and the Anadarko Basin. The business makes most of its money from natural gas (86% of 2023 output) and to a lesser extent from oil (14% of 2023 output). The proved reserves of the company are approximately 75% natural gas, 11% oil and 14% natural gas liquids (NGLs). Overall, Coterra Energy is extremely sensitive to the dramatic cycles of the price of natural gas.

On October 1st, 2021, Coterra was formed through the combination of Cabot Oil & Gas (used to trade as COG) and Cimarex Energy (used to trade as XEC). With the new combined company, management believes to have built a diversified company with a strong free cash flow profile, and expects to enhance shareholder value by returning free cash flow to shareholders through dividends and share buybacks. The company also reaped $100 million of G&A synergies from the merger.

In early May, Coterra Energy reported (5/2/24) financial results for the first quarter of fiscal 2024. The average realized price of gas marginally decreased sequentially. As a result, earnings-per-share dipped -2% sequentially, from $0.52 to $0.51, though they exceeded the analysts' estimates by $0.10. The company has beaten analysts' consensus in 8 of the last 9 quarters. Management raised guidance for production growth this year from -2% to 0.5%. However, proved reserves declined -3% in 2023, on top of a -17% decrease in 2022. This raises a red flag for the future growth prospects.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$0.25	-$0.28	-$0.91	$0.22	$1.24	$1.63	$0.50	$2.29	$4.94	$2.26	***$2.20***	***$3.09***
DPS	$0.08	$0.08	$0.08	$0.17	$0.25	$0.35	$0.40	$0.46	$0.60	$0.80	***$0.84***	***$0.92***
Shares	418	414	457	466	448	418	401	504	781	751	***750***	***1000***

As a primarily gas upstream company, Coterra Energy is extremely sensitive to the swings of gas prices. This is clearly reflected in the highly volatile performance record of the company. Coterra Energy greatly benefited from the sanctions imposed by western countries on Russia in 2022. Before the sanctions, Russia was producing about one-third of natural gas consumed in Europe. As a result, the sanctions greatly tightened the global gas market and led gas prices to skyrocket in 2022.

However, gas prices have deflated this year due to an abnormally warm winter in the U.S. and Europe. Moreover, there is a record number of renewable energy projects that are under development all over the world right now. When all these projects come online, they are likely to take their toll on the prices of oil and gas. Nevertheless, due to a somewhat low comparison base this year amid low gas prices, we assume 7% growth of earnings-per-share until 2029.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	30.9	---	---	---	42.2	9.2	30.7	21.6	5.4	11.4	***12.7***	***8.0***
Avg. Yld.	1.7%	1.9%	2.6%	2.8%	2.7%	2.4%	3.5%	3.6%	2.3%	3.1%	***3.0%***	***3.7%***

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.

Coterra Energy (CTRA)

Updated May 13th, 2024, by Aristofanis Papadatos

As a cyclical business, Coterra Energy has fluctuating earnings and fluctuating price-to-earnings ratios. We estimate that a price-to-earnings ratio of about 8.0 is fair for the company under normal conditions. The stock is currently trading at a price-to-earnings ratio of 12.7. If it trades at our assumed fair valuation level in five years, it will incur an -8.9% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

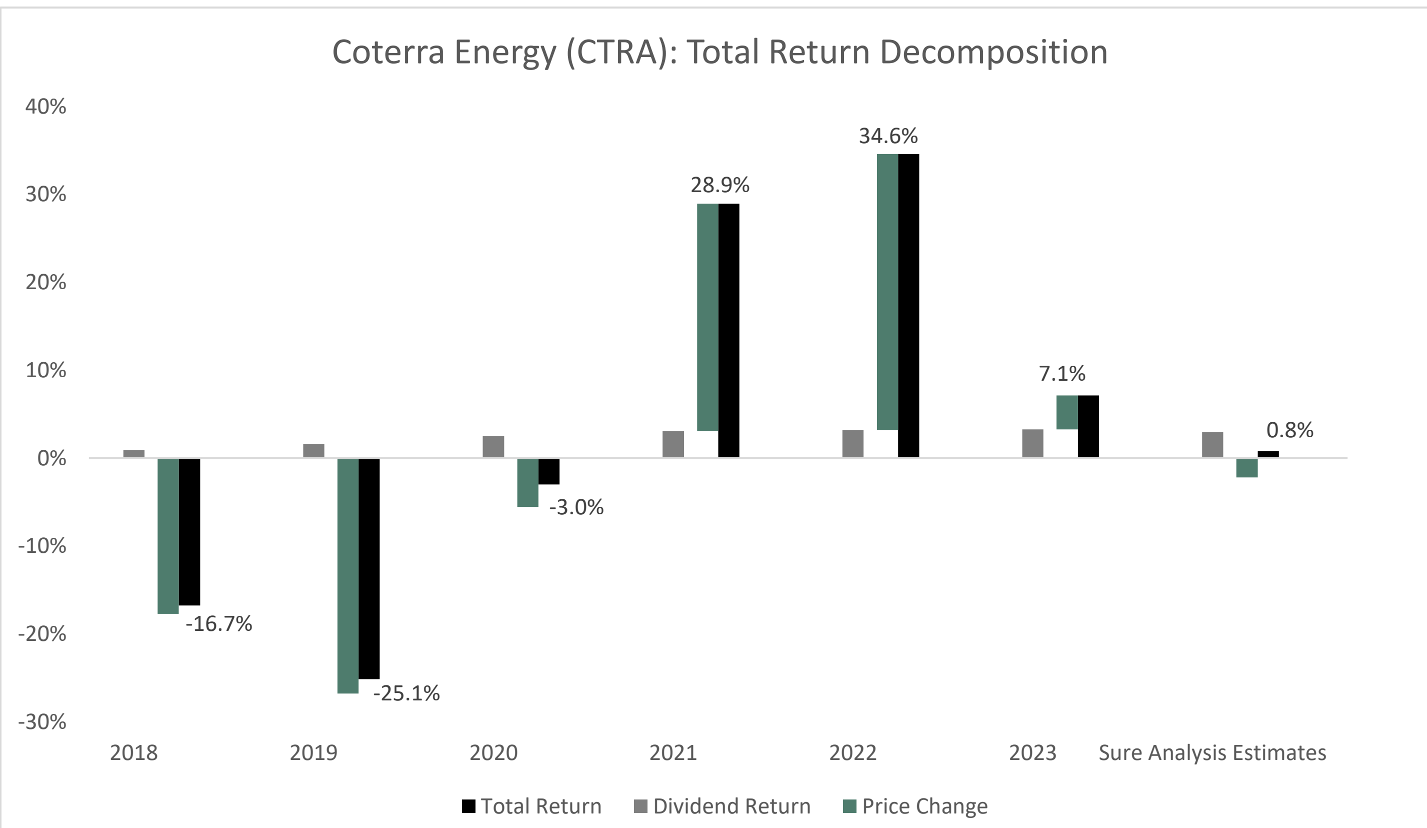
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	32%	---	---	77%	20%	21%	80%	20%	12%	35%	***38%***	***30%***

Coterra Energy has a strong balance sheet, which will help the company endure a potential downturn in its business. However, the company is highly vulnerable to the downturns of the energy sector, as its earnings are extremely sensitive to the price of natural gas. Consequently, the stock is not suitable for income-oriented investors. It is suitable only for investors with a strong conviction for higher gas prices in the future.

Final Thoughts & Recommendation

Coterra Energy is a company that is positioned to benefit from potentially high gas prices in the future. However, we view the stock as unattractive right now, especially given that we have passed the peak of the natural gas market. The stock could offer a 0.8% average annual return over the next five years, as its 7% growth of earnings-per-share and its 3.0% starting dividend yield may be partly offset by an -8.9% potential valuation headwind. We thus maintain our sell rating.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.]

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.

Coterra Energy (CTRA)

Updated May 13th, 2024, by Aristofanis Papadatos

Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	2,173	1,357	1,156	1,764	2,188	2,066	1,466	3,449	9,051	5,914
Gross Profit	1,015	154	18	596	1,020	1,008	431	1,937	7,636	2,736
Gross Margin	46.7%	11.3%	1.5%	33.8%	46.6%	48.8%	29.4%	56.2%	84.4%	46.3%
SG&A Exp.	83	68	86	98	97	95	106	164	327	279
D&A Exp.	---	---	---	---	---	406	391	693	1,635	---
Operating Profit	857	16	(125)	444	787	876	296	1,672	5,279	2,154
Op. Margin	39.4%	1.2%	-10.8%	25.1%	36.0%	42.4%	20.2%	48.5%	58.3%	36.4%
Net Profit	104	(114)	(417)	100	557	681	201	1,158	4,065	1,625
Net Margin	4.8%	-8.4%	-36.1%	5.7%	25.5%	33.0%	13.7%	33.6%	44.9%	27.5%
Free Cash Flow	(243)	(206)	22	134	210	657	202	939	3,746	1,559
Income Tax	(72)	(73)	(242)	(329)	141	219	41	344	1,104	503

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	5,438	5,253	5,123	4,727	4,199	4,487	4,524	19,900	20,154	20,415
Cash & Equivalents	21	1	499	480	2	200	140	1,036	673	956
Acc. Receivable	228	117	186	216	363	209	216	922	1,067	723
Inventories	14	17	13	8	11	14	15	39	63	59
Total Liabilities	3,295	3,244	2,555	2,203	2,111	2,336	2,308	8,162	7,495	7,376
Accounts Payable	55	30	27	8	30	22	11	94	27	60
Long-Term Debt	1,752	2,016	1,521	1,522	1,226	1,220	1,134	3,125	2,181	2,161
Total Equity	2,143	2,009	2,568	2,524	2,088	2,151	2,216	11,738	12,659	13,039
LTD/E Ratio	0.82	1.00	0.59	0.60	0.59	0.57	0.51	0.27	0.17	0.17

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.0%	-2.1%	-8.0%	2.0%	12.5%	15.7%	4.5%	9.5%	20.3%	8.0%
Return on Equity	4.8%	-5.5%	-18.2%	3.9%	24.2%	32.1%	9.2%	16.6%	33.3%	12.6%
ROIC	2.9%	-2.9%	-10.3%	2.5%	15.1%	20.4%	6.0%	12.7%	27.4%	10.8%
Shares Out.	418	414	457	466	448	418	401	504	799	760
Revenue/Share	5.20	3.28	2.53	3.79	4.89	4.94	3.66	6.84	11.33	7.78
FCF/Share	(0.58)	(0.50)	0.05	0.29	0.47	1.57	0.50	1.86	4.69	2.05

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