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LARGE-CAP OIL 3Q21 NAV COMPASS

Awaiting Execution in 2022 to Justify 2021's Gains

FOCUS

How are large-cap oil E&P companies positioned on key valuation, financial and operational metrics?

KEY POINTS

- Oil-weighted E&P stocks (SMID- and large-cap) have become more expensive on some metrics since we published the **last edition** of this quarterly report. The median market-implied WTI price for the group since then has risen from $59 to $62. We mainly attribute the increase to continued deleveraging, the roll-off of loss-making oil **hedges** and to investors recognizing that the group's FCF yields remain compelling even as commodity prices weakened. Such resiliency is aligned with expectations we published last quarter.
- As 2022 guidance is unveiled, we expect public E&Ps to continue low-growth, capital-efficient, yield-oriented strategies. Such guidance would allay investors' concerns about a potential abandonment of capital discipline amid higher commodity prices, improved hedge books and healthier balance sheets. Continued execution on such strategies could compel more yield-oriented investors to rotate into the space — as suggested in our **investor panel** last month.
- Large-caps continue to trade at a premium to SMID-caps with a median market-implied WTI price of ~$65 (versus $60 for the SMID-cap oil group), EV/CPV of 1.6x (versus 1.0x) and a 2022 FCF yield of 16% (versus 20%).

Positive Outlook(s):

- [illegible] remains a top pick and screens even cheaper after weakening gas prices in recent months hit the stock disproportionately more than peers. Improving oil recoveries on the Texas side of the Delaware Basin (as identified in **SuperTracker**) and capacity for increases to shareholder distributions (as identified in our **Play by Play** presentation) — even after the initiation of a variable-dividend framework — represent catalysts for the stock.
- Midland-focused large-caps [illegible] and [illegible] remain attractive even after recent share price outperformance. Each name holds the scale, inventory depth and quality, and potential for sustainable yields that are attractive to investors.

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- [redacted], the other Midland-exposed large-cap, screens even cheaper after recent share price underperformance. Near-term emphasis on debt redemption may not align with many investors' desires. But such capital allocation will continue to accrue to shareholders and make the stock appear even cheaper on multiples and NAV metrics. We view [redacted] as a top candidate to engage in M&A in 2022, mainly to be more competitive on inventory depth versus large-cap peers. We continue to see opportunity for inventory- and NAV-accretive acquisitions in the Midland even though recent consolidation reduced the inventory of takeout targets.
- [redacted] remains a long pick for us even though recent share price outperformance made the stock more expensive on a NAV basis. Like [redacted] and [redacted], the name holds the necessary ingredients to deliver on investors' desire for scale, quality and sustainable yield.

Neutral or Negative Outlooks:

- We revised our assumptions for [redacted]'s Suriname assets following a string of disappointing appraisal results. We now model two development phases instead of three, and we delayed our assumption for first oil by one year to 2026. The stock rallied on news of improved fiscal terms in Egypt, which mitigated the hit to NAV from the Suriname downgrades. But [redacted], which is much further along the commercialization process and is poised for growth in 2022, holds significantly lower risk than [redacted] We view [redacted]'s recent share price outperformance over [redacted] as an opportunity to pair a long [redacted] position with a short [redacted] position to gain exposure to high-impact oil growth while reducing exposure to exploration and appraisal risk.
- [redacted]'s **acquisition** of [redacted]'s Delaware assets came with some strategic weaknesses, but we view the purchase as accretive on a NAV basis. However, the name continues to screen as expensive. Two of [redacted]'s key advantages over peers in 2021 — a superior (and low-volume) hedge book and higher exposure to strengthening gas prices — are set to diminish in 2022.
- [redacted]'s compelling yield proposition embedded in its five-year plan is paired with less-competitive inventory to sustain long-term, capital-efficient development. [redacted]'s recent share price outperformance suggests investors have a different view on the portfolio's long-term capital efficiency. We expect capital efficiency to degrade over time, especially in the Bakken, as denoted in our latest SuperTracker report.
- [redacted] remains a short pick even after recent share price underperformance. Deteriorating productivity in the Delaware, coupled with a longer path to balance sheet health and distributions than peers, contrasts with investors' desires for visibility on low-risk, sustainable distribution programs.

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VALUATION

Large-caps continue to trade at a premium to SMID-caps.

FIGURE 1 | Valuation Metrics

		NAV ($/Share) @ Strip Then $3.00 HH:			Equity								Debt		
		$50 WTI	$60 WTI	$70 WTI	Share Price	Upside ($60/ $3.00)	Upside ($70/ $3.00)	$10 WTI Sensitivity	NAV at $60/$3.00 Flat	Change in NAV (Q/Q, $60/$3.00 Flat)	Implied WTI Price	Implied Discount Rate	Avg. Debt Price	Asset Coverage Pre-Tax $60/$3.00	Debt Yield
Large-Cap Oil	[illegible]	$10	$18	$27	$28.06	(35%)	(6%)	46%	$14.10	4%	$71.95	8%	111%	194%	4%
	[illegible]	$30	$40	$50	$46.20	(14%)	8%	26%	$35.40	51%	$66.21	10%	107%	299%	3%
	[illegible]	$19	$23	$26	$19.57	17%	34%	15%	$20.80	1%	$50.50	13%	108%	801%	2%
	[illegible]	$30	$41	$51	$45.57	(11%)	12%	26%	$37.70	13%	$64.74	10%	119%	757%	3%
	[illegible]	$60	$80	$101	$91.16	(12%)	11%	25%	$75.20	3%	$65.27	10%	114%	5,782%	2%
	[illegible]	$80	$109	$137	$111.84	(3%)	23%	26%	$98.70	2%	$61.09	11%	106%	447%	3%
	[illegible]	$52	$68	$87	$76.79	(11%)	13%	26%	$63.80	(6%)	$64.45	9%	120%	446%	3%
	[illegible]	$9	$13	$17	$16.87	(24%)	(2%)	30%	$11.20	7%	$70.66	8%	121%	382%	3%
	[illegible]	$27	$44	$61	$35.11	25%	74%	40%	$38.80	16%	$54.97	13%	123%	339%	3%
	[illegible]	$10	$22	$34	$31.06	(29%)	10%	55%	$17.30	14%	$67.46	9%	107%	171%	4%
	[illegible]	$132	$180	$228	$186.89	(4%)	22%	27%	$170.60	1%	$61.49	11%	100%	1,617%	2%
	Median					**(11%)**	**12%**	**26%**		**4%**	**$64.74**	**10%**	**111%**	**446%**	**3%**
SMID-Cap Oil	[illegible]	$36	$46	$57	$51.41	(10%)	11%	23%	$41.50	(8%)	$64.82	9%	101%	1,166%	6%
	[illegible]	$3	$6	$9	$6.45	(10%)	33%	47%	$5.00	(7%)	$62.24	10%	106%	265%	5%
	[illegible]	$16	$38	$62	$51.73	(26%)	19%	60%	$33.30	24%	$65.47	9%	101%	181%	7%
	[illegible]	$74	$91	$107	$80.82	12%	33%	18%	$86.90	(11%)	$53.99	12%	N/A	29,370%	N/A
	[illegible]	$9	$14	$19	$13.34	3%	42%	38%	$11.20	(1%)	$59.24	12%	100%	447%	4%
	[illegible]	$74	$121	$169	$68.04	78%	149%	39%	$110.60	(13%)	$48.74	15%	101%	246%	8%
	[illegible]	$14	$17	$21	$19.81	(13%)	5%	21%	$15.80	33%	$67.25	9%	103%	2,889%	4%
	[illegible]	$34	$44	$54	$38.98	13%	37%	22%	$40.70	12%	$55.13	12%	103%	470%	5%
	[illegible]	$17	$24	$30	$21.71	8%	36%	26%	$20.90	17%	$57.14	12%	106%	268%	7%
	[illegible]	$97	$133	$172	$131.97	1%	30%	28%	$124.60	(5%)	$59.48	12%	106%	(2,967%)	5%
	[illegible]	$39	$50	$62	$52.10	(3%)	18%	22%	$44.70	19%	$61.57	11%	103%	528%	4%
	[illegible]	$20	$30	$41	$31.65	(4%)	30%	35%	$27.10	(3%)	$61.14	11%	104%	280%	5%
	[illegible]	$3	$6	$9	$7.49	(23%)	13%	47%	$5.00	14%	$66.26	9%	100%	339%	4%
	[illegible]	$49	$71	$97	$69.21	2%	40%	34%	$66.40	9%	$58.80	12%	N/A	4,783%	N/A
	Median					**(1%)**	**31%**	**31%**		**4%**	**$60.31**	**11%**	**103%**	**393%**	**5%**

Note | Share prices as of Jan. 3. All share prices are USD except for ERF and WCP, which are CAD. All mentions of NAV are on a post-tax basis unless otherwise noted.
Avg. Debt Price = MV Debt / BV Debt assuming MV = BV for all revolving credit facilities; Asset Coverage = (NAV + Debt) / Net Debt
Source | Enverus, company disclosures

As 2022 guidance is unveiled, we expect public E&Ps to continue low-growth, capital-efficient, yield-oriented strategies. The guidance would allay investors' concerns about a potential abandonment of capital discipline amid higher commodity prices, improved hedge books and healthier balance sheets.

FIGURE 2 | Forecast Metrics @ 24-Month Strip Then $60 WTI and $3.00 HH

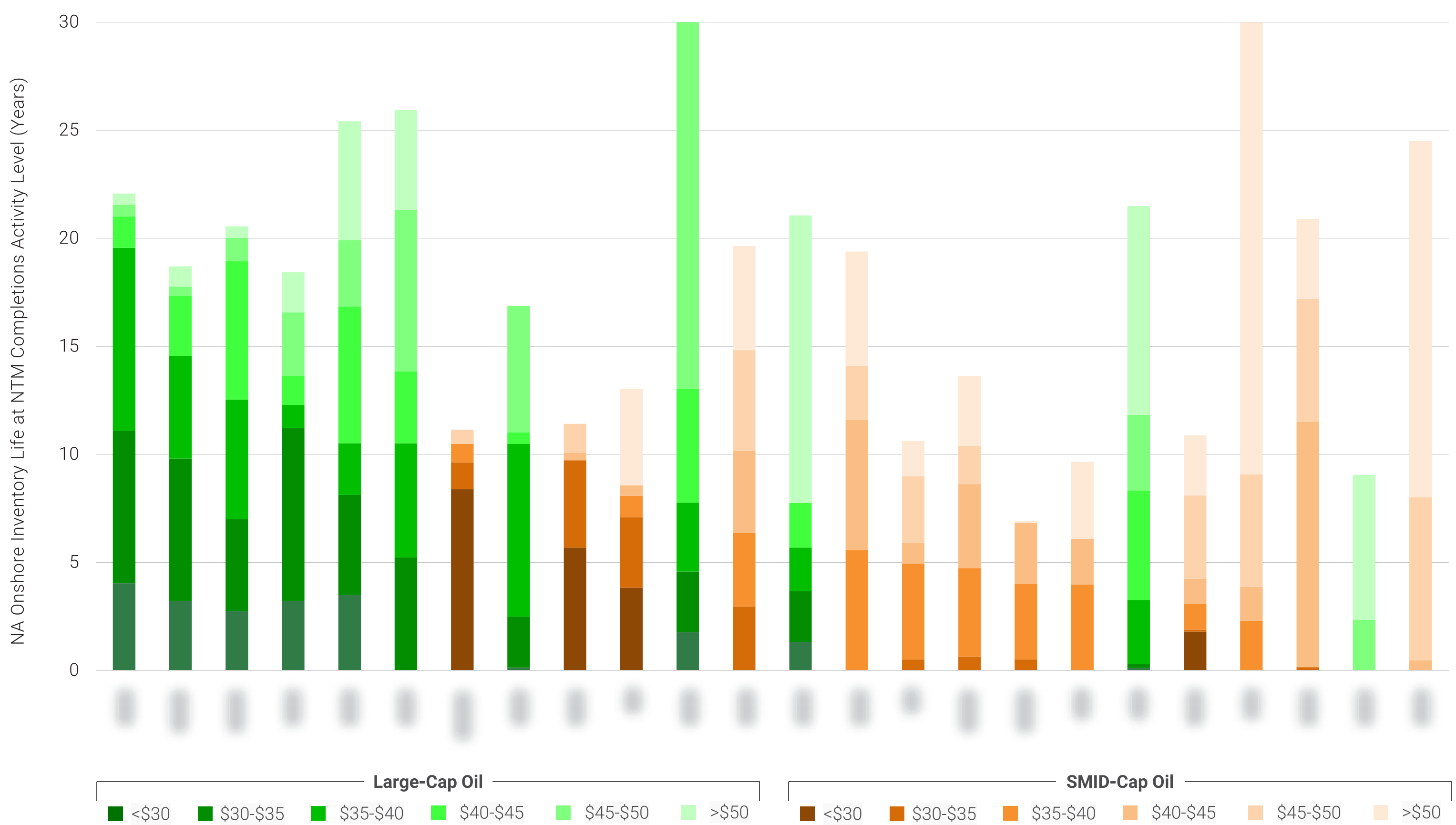
		Oil Production Growth		Free Cash Flow Yield		EV/EBITDA		Net Debt/EBITDA		Capex/CF		EBITDA ($MM)		Capex ($MM)	
		2021 E/E	2022 E/E	2021	2022	YE 2021	YE 2022	YE 2021	YE 2022	2021	2022	2021	2022	2021	2022
Large-Cap Oil	[illegible]	(19%)	7%	20%	14%	3.8x	3.8x	1.5x	1.3x	31%	48%	$4,408	$4,049	($1,156)	($1,700)
	[illegible]	5%	9%	16%	19%	5.2x	3.8x	1.5x	0.7x	32%	36%	$4,535	$5,536	($1,385)	($1,877)
	[illegible]	N/A	1%	7%	16%	7.9x	3.5x	0.6x	0.0x	36%	29%	$2,168	$4,531	($750)	($1,323)
	[illegible]	94%	(4%)	9%	11%	6.2x	5.1x	0.7x	0.3x	38%	36%	$5,537	$6,473	($1,968)	($2,288)
	[illegible]	6%	1%	9%	9%	5.0x	4.5x	0.1x	(0.2x)	35%	40%	$10,750	$11,255	($3,749)	($4,528)
	[illegible]	18%	1%	12%	16%	6.4x	4.4x	1.4x	0.7x	39%	34%	$3,996	$5,597	($1,460)	($1,842)
	[illegible]	(22%)	47%	4%	5%	7.7x	6.6x	1.5x	1.1x	54%	62%	$3,861	$4,385	($1,888)	($2,579)
	[illegible]	(0%)	(2%)	15%	19%	4.9x	4.1x	1.0x	0.6x	32%	31%	$3,372	$3,804	($1,027)	($1,120)
	[illegible]	18%	1%	19%	25%	4.1x	2.9x	1.4x	0.7x	48%	40%	$3,305	$4,106	($1,416)	($1,546)
	[illegible]	(4%)	(0%)	27%	28%	4.1x	3.2x	2.0x	1.3x	24%	25%	$13,440	$14,652	($2,867)	($3,399)
	[illegible]	30%	(6%)	6%	12%	7.2x	4.9x	0.3x	0.1x	48%	40%	$6,690	$9,434	($3,152)	($3,705)
	Median	**5%**	**1%**	**12%**	**16%**	**5.2x**	**4.1x**	**1.4x**	**0.7x**	**36%**	**36%**	**$4,408**	**$5,536**	**($1,460)**	**($1,877)**
SMID-Cap Oil	[illegible]	297%	29%	5%	22%	9.6x	2.4x	0.7x	(0.3x)	51%	39%	$493	$1,643	($247)	($645)
	[illegible]	14%	4%	13%	21%	4.6x	2.9x	1.5x	0.6x	57%	44%	$595	$812	($303)	($333)
	[illegible]	25%	(6%)	9%	20%	5.7x	3.3x	2.6x	1.3x	66%	52%	$1,036	$1,590	($616)	($782)
	[illegible]	11%	(2%)	3%	8%	11.4x	5.6x	(0.2x)	(0.6x)	62%	31%	$349	$652	($215)	($202)
	[illegible]	54%	3%	15%	26%	3.9x	2.3x	0.7x	(0.1x)	34%	37%	$1,042	$1,401	($343)	($513)
	[illegible]	80%	7%	8%	32%	4.2x	2.4x	2.3x	1.1x	86%	53%	$612	$928	($429)	($436)
	[illegible]	14%	(0%)	12%	16%	5.5x	3.9x	(0.0x)	(0.7x)	32%	27%	$835	$1,000	($257)	($274)
	[illegible]	(2%)	26%	9%	16%	5.6x	3.2x	1.3x	0.4x	60%	39%	$1,055	$1,592	($589)	($599)
	[illegible]	54%	3%	14%	29%	4.7x	2.4x	1.8x	0.6x	42%	36%	$567	$919	($214)	($313)
	[illegible]	19%	3%	23%	14%	2.5x	2.2x	(0.7x)	(1.1x)	28%	52%	$807	$784	($214)	($410)
	[illegible]	20%	(8%)	18%	25%	3.7x	2.4x	0.5x	(0.2x)	37%	33%	$1,597	$1,958	($563)	($632)
	[illegible]	27%	(3%)	9%	19%	4.9x	2.9x	1.6x	0.7x	65%	40%	$1,158	$1,703	($655)	($639)
	[illegible]	59%	(3%)	14%	20%	5.4x	3.5x	1.4x	0.5x	41%	36%	$1,096	$1,489	($435)	($527)
	[illegible]	(6%)	(1%)	17%	19%	3.7x	2.4x	(0.0x)	(0.6x)	35%	40%	$735	$888	($253)	($352)
	Median	**23%**	**1%**	**12%**	**20%**	**4.8x**	**2.7x**	**1.0x**	**0.2x**	**47%**	**39%**	**$821**	**$1,201**	**($323)**	**($475)**

Note | NAVs are pro forma for all deals prior to Jan. 3. Exit-to-exit growth in 2021 is not pro forma for transactions.
Source | Enverus, company disclosures

INVENTORY

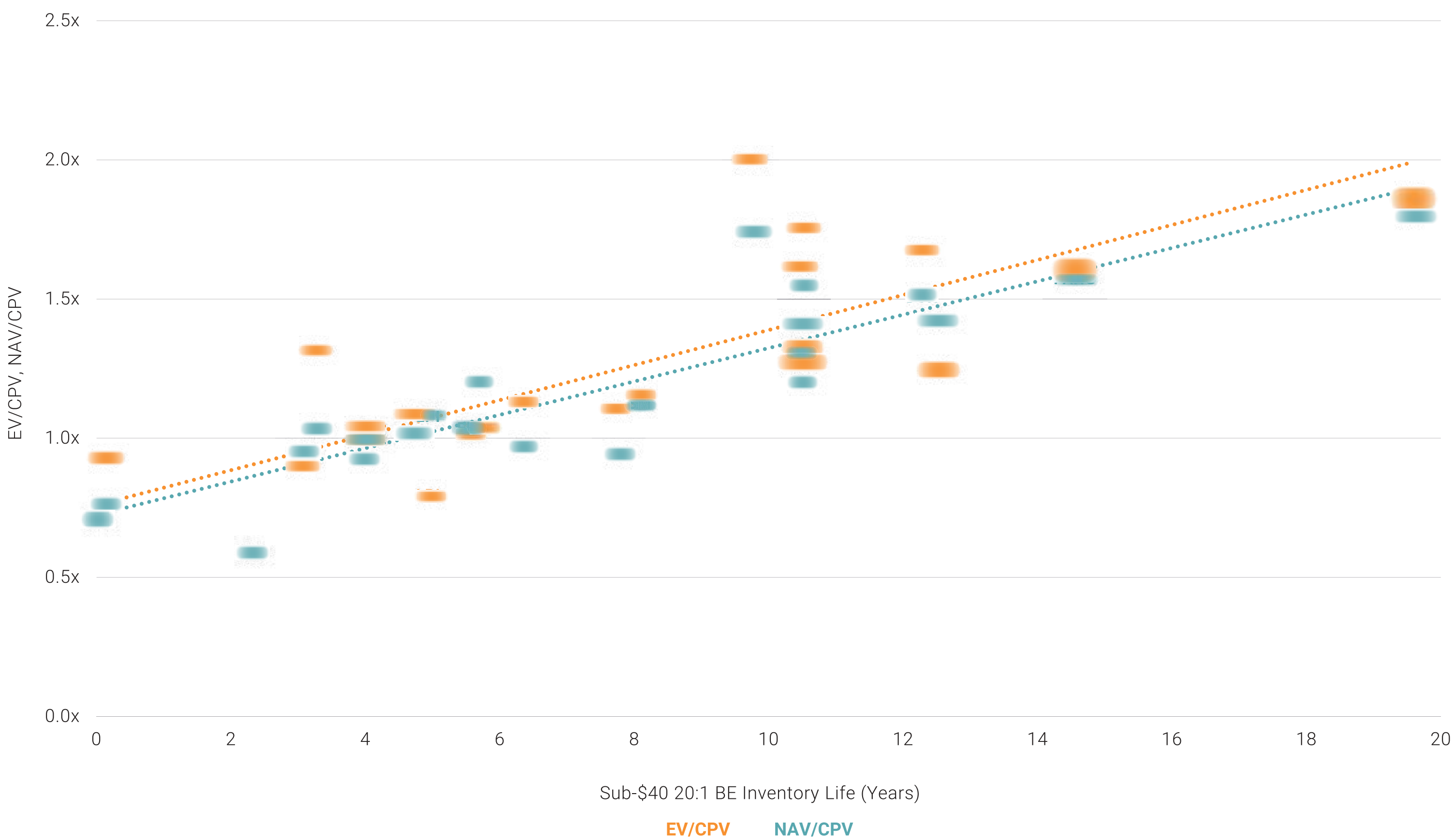
Large-cap operators with bigger distribution programs possess the inventory depth and quality (relative to SMID-cap counterparts) to assuage concerns about the sustainability of distributions. [redacted] now screens in the middle of the large-cap pack following its acquisition of [redacted]'s Delaware Basin asset, and we continue to view [redacted] and [redacted] as prime candidates to pursue inventory-accretive M&A.

FIGURE 3 | Inventory Life by Breakeven



Note | Breakeven 20:1 WTI:HH
Source | Enverus, company disclosures

FIGURE 4 | Sub-$40 Breakeven 20:1 WTI:HH Inventory Life vs. NAV/CPV and EV/CPV



Note | The inventory metric only includes North American onshore assets. NAV and CPV calculated at strip for 24 months then $60 WTI and $3.00 HH. EV is E&P only and excludes minority interest.
Source | Enverus, FactSet

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