



EOG Resources Inc.

“Strong Free Cash Flow Utilized to Boost Dividends”

Bloomberg: | Reuters: | Stock Code:

Valuation / Recommendation

EOG’s 3Q21 results exceeded our expectations due to crude oil, natural gas, and natural gas liquids (NGL) prices surpassing our forecasts. We are, therefore, upgrading our FY21 EPS forecast to USD6.9 from USD6.5.

Despite the recent pessimism in the oil markets associated with the Omicron COVID-19 variant, we are raising our FY22 EPS estimate to USD7.6 from USD6.4 previously as we expect natural gas prices to be higher than our previous estimates for FY22. Consequently, we will be raising our target price to USD98.95 from USD84.33 based on PER of 13x FY22F EPS of USD7.6.

Investment Highlights

3Q21 net profit improved significantly y-o-y to USD 1.1bn (3Q20: USD42m net loss). The higher net profit is due to stronger realized oil, natural gas, and NGL prices. EOG realized USD70.85 and USD37.72 per barrel of oil and NGL respectively in 3Q21 (3Q20: USD40.15 and USD14.34). EOG realized USD4.34 per mcf of natural gas in 3Q21 (3Q20: USD1.68).

9M21 net profit recovered to USD2.7bn (9M20: USD942m loss). The improvement in net profit was driven by higher oil, natural gas, and NGL prices. The recovery in net profit was also due to lower impairment loss of USD170m (FY20: USD2.0bn).

Raising dividends amid strong free cash flow. EOG has declared another special dividend amounting to USD2 per share and has raised its regular quarterly dividend to USD0.75 per share. EOG currently has a relatively healthy ttm gross dividend yield of 5.4%. 9M21 free cash flow stood at USD2.8bn (9M20: USD1.3bn).

Risk factors. The price of oil could decline significantly in the event that the new COVID-19 variant causes countries to impose stricter economic restrictions. A warm winter and rising US natural gas production could negatively impact realized natural gas prices for EOG.

Share Information		Top 3 Shareholders (%)	
Market Cap (USD bn)	50.0	Capital Group Cos Inc.	15.69
Issued Shares (m)	581	Vanguard Group Inc.	8.54
52W High (USD)	98.20	BlackRock Inc.	7.47
52W Low (USD)	47.72		
Estimated Free Float (%)	99.7		
Beta vs S&P500	1.1		
65-Day Average Vol. ('000)	4,478		

INVESTMENT STATISTICS (FY Dec)	FY18	FY19	FY20	FY21F	FY22F
Revenue (USD m)	17,275.4	17,380.0	11,032.0	18,338.4	18,151.4
Net Profit (USD m)	3,419.0	2,734.9	(604.6)	4,030.5	4,422.3
EPS (USD)	5.9	4.7	(1.0)	6.9	7.6
EPS Growth (%)	32.1	(20.2)	-	-	9.7
EBITDA (USD m)	7,921.5	7,480.1	2,866.6	9,852.0	9,236.8
Free Cash Flow (USD m)	1,692.1	1,740.7	1,543.1	3,534.8	4,000.3
ROA (%)	10.1	7.4	-	10.8	11.1
ROE (%)	17.7	12.6	-	18.8	18.3
NA Per Share (USD)	33.6	37.5	35.1	36.9	41.5
Net Gearing (%)	23.4	18.2	16.9	7.9	(2.3)
Gross Dividend Yield (%)	0.9	1.2	2.8	5.8	3.5
Price/Earnings Ratio (x)	15.7	16.8	n.a.	12.4	11.3

Sources: Mercury Securities, Company

NYSE
ENERGY
BUY
TP: USD98.95
Price: USD85.99

RESULTS (USD m) FY Dec	3Q21	2Q21	qoq %	3Q20	yoy %
Operating Revenue & Others	4765.0	4139.0	15.1	2246.0	112.2
Operating Costs (Excluding DD&A)	(2367.0)	(2054.0)	-	(1426.0)	-
EBITDA	2398.0	2083.0	15.1	820.0	192.4
DD&A	(927.0)	(914.0)	-	(823.0)	-
EBIT	1471.0	1169.0	25.8	(3.0)	-
PBT	1429.0	1124.0	27.1	(53.0)	-
Exceptional Items	(81.0)	7.0	-	(150.0)	-
PBT (Excl. Exceptional Items)	1510.0	1117.0	35.2	97.0	1456.7
Net Profit	1095.0	907.0	20.7	(42.0)	-
EPS (USD)	1.88	1.56	20.5	(0.07)	-

Business Overview

EOG Resources, Inc. is one of the largest crude oil and natural gas exploration and production companies in the United States. The Group has proved reserves in China and Trinidad as well.

EOG produced 844.4 thousand barrels of oil equivalents per day in 3QFY21. Crude oil and condensate made up 53.2% of production and 95.7% of production is based in the US.

Stock Return Information

S&P 500 (pts)	4,538.4
Expected Share Return (%)	15.1
Expected Gross Dividend Yield (%)*	5.8
Expected Total Return (%)	20.9
*This includes the USD2 per share special dividend with ex-date of December 14, 2021	

Price Performance	1M	3M	12M
Absolute (%)	(5.5)	27.1	84.7
Relative to FBMKLCI (%)	(2.8)	27.0	61.0



Sources: Mercury Securities, Bloomberg, Company

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