



# EOG Resources Inc.

## “Higher Profitability Expected”

Bloomberg: EOG:US | Reuters: EOG.N | Stock Code: EOG:NYSE

### Valuation / Recommendation

We are revising our target price to USD108.96 from USD98.95 previously as we are expecting stronger future profitability amid the surge in oil prices. Our target price of USD108.96 is derived from PE of 13x FY23 forecast EPS of USD8.4. Despite the upward revision to our target price, we are downgrading EOG Resources to a **HOLD** due to the run-up in the stock’s price.

### Investment Highlights

**FY21 net profit of USD4.7 bn exceeds our expectations of USD4.0 bn.** EOG’s FY21 net profit represents a vast improvement over net loss of USD604.6 m reported in FY20. The higher net profit was attributed to significantly higher realized prices for crude oil, NGLs, and natural gas, as well as lower impairment expense in FY21 compared to the previous year.

**Revising FY22 net profit higher.** In view of the current environment of high oil prices, we are now expecting average WTI crude oil prices of USD87.49 per barrel for FY22. Consequently, we are increasing our FY22 net profit estimate to USD7.6 bn from USD4.4 bn previously.

**Expecting USD4.9 bn in net profit for FY23.** The net profit estimate is based on our expectations for WTI to average at a more normal USD65 per barrel in FY23 on lower uncertainty and realignment of supply and demand.

**Prospects.** Oil is expected to be volatile due to a number of factors including 1) buyers shunting Russian oil in response to Russia’s invasion of Ukraine 2) potential demand destruction due to high prices 3) potential return of Iranian barrels to the market 4) the pace of production growth from OPEC+, U.S. shale and other oil producing nations. Despite the volatility we expect oil prices to remain at elevated levels in the short-term.

**Risk factors.** A sudden plunge in oil prices could significantly impact EOG’s financial performance and position.

Share Information		Top 3 Shareholders (%)	
Market Cap (USD bn)	70.2	Capital Group Cos Inc	13.2
Issued Shares (m)	581	Vanguard Group Inc	8.8
52W High (USD)	123.19	BlackRock Inc	7.9
52W Low (USD)	62.81		
Estimated Free Float (%)	99.7		
Beta vs S&P500	1.05		
65-Day Average Vol. ('000)	4,985		

Sources: Mercury Securities, Bloomberg, Wall Street Journal

INVESTMENT STATISTICS (FY Dec)	FY19	FY20	FY21	FY22F	FY23F
Revenue (USD m)	17,380	11,032	18,642	24,023	19,401
Net Profit (USD m)	2,735	(605)	4,664	7,594	4,870
EPS (USD)	4.7	(1.0)	8.0	13.1	8.4
EPS Growth (%)	(20.2)	-	-	62.8	(35.9)
EBITDA (USD m)	7,480	2,867	9,762	13,468	9,998
Free Cash Flow (USD m)	1,741	1,543	4,941	6,806	4,923
ROA (%)	7.4	-	12.2	17.7	10.8
ROE (%)	12.6	-	21.0	28.9	17.0
Net Gearing/ (net cash) (%) <sup>1</sup>	18.2	16.9	(0.5)	(13.0)	(20.6)
Gross Dividend Yield (%) <sup>2</sup>	1.3	0.8	3.5	5.0	3.5
Price/Earnings Ratio (x) <sup>2</sup>	16.1	-	15.0	9.2	14.4

Sources: Mercury Securities, Company

<sup>1</sup>Net gearing is calculated as: (total debt - cash and equivalents)/shareholder’s equity

<sup>2</sup>PE and dividend yield for FY19-20 are based on the closing share price on the last trading day of 2019 and 2020

NYSE

ENERGY

HOLD

TP: USD108.96

Price: USD120.83

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### 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 828.9 thousand barrels of oil equivalents per day in FY21. Crude oil and condensate made up 53.7% of production and 95.3% of production is based in the US.

### Stock Return Information

S&P 500 (pts)	4,511.61
Expected Share Return (%)	(9.8)
Expected Gross Dividend Yield (%)	5.0
Expected Total Gross Return (%)	(4.8)

### Price Performance

	1M	3M	12M
Absolute (%)	11.3	40.8	88.4
Relative to S&P 500 (%)	6.5	44.7	73.9



Sources: Mercury Securities, Bloomberg, Company

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