



EOG Resources Inc.

“Net Income Lifted by Higher Crude Oil Prices”

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

Valuation / Recommendation

EOG’s 1H22 revenue and net profit were within our expectations. We are, therefore, maintaining our target price of USD124.67 for EOG. We will also be upgrading our recommendation for the stock to a BUY due to the pullback in the stock’s price since our last report. Our target price is derived from PE of 13x our FY23 forecast EPS of USD9.6.

Investment Highlights

2Q22 revenue surged 79.0% to USD7.4 bn (2Q21: USD4.1 bn). The increase in revenue was driven by 1) higher average crude oil, natural gas liquids, and natural gas prices of USD111.25 per barrel, USD42.28 per barrel, and USD7.19 per mcf respectively in 2Q22 (2Q21: USD66.12 per barrel, USD29.15 per barrel, and USD3.07 per mcf) 2) increased production amounting to 920.7 thousand barrels of oil equivalents per day (MBoeD) compared to 828.0 MBoeD in 2Q21. The increase in average prices and production was partially offset by higher losses on mark-to-market financial commodity derivative in 2Q22 of USD1.4 bn (2Q21: USD427m).

2Q22 net income jumped 146.7% to USD2.2 bn (2Q21: USD907 m) in line with higher revenue. EOG generated strong adjusted free cash flow* of USD1.3 bn in 2Q22 (2Q21: USD1.1 bn).

*Adjusted free cash flow is calculated as: cash provided by operating activities before changes in working capital less CAPEX.

EOG continues to return capital to shareholders. EOG recently declared a special dividend of USD1.50 per share on its common stock. The special dividend will be payable September 29, 2022, to stockholders of record as of September 15, 2022. EOG has declared a total of USD5.80 per share in regular and special dividends so far in FY22.

Oil market outlook. We expect crude oil prices to remain elevated in the short-term due to the following factors: 1) The EU switching some of its natural gas-fired power generation to oil-fired power generation due to high natural gas prices in Europe. A colder than average winter could see demand for oil spike in Europe. 2) While some countries like China and India may have picked up a significant amount of Russian crude and oil products that used to flow to Europe, the US, Japan and Korea, we opine that the surge in demand for Russian barrels from countries like China and India will eventually cool-off as countries tend to want to maintain diversified sources of crude oil supply. 3) Furthermore, the IEA expects the EU’s embargo on Russian crude and oil products that comes into full effect in February 2023 to result in a further decline in Russian oil exports as 1 million barrels per day of products and 1.3 million barrels per day of crude would have to find new markets (source: IEA Oil Market Report - August 2022). 4) Rising demand from China once COVID-19 restrictions are eased and they return to normalcy. 5) Tight spare capacity could result in spikes in crude oil prices should there be a major outage.

Factors that could continue to drive oil prices lower. 1) Demand destruction from high crude oil prices and a potential global recession could be more significant than expected. 2) A successful deal between Iran and world powers could result in additional supply.

Risk factors. A sudden plunge in oil prices could significantly impact EOG’s financial performance and position. Cost inflation in the O&G sector could pressure margins and reduce the returns from drilling new wells.

NYSE

ENERGY

BUY

TP: USD124.67

Price: USD112.41

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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 920.7 thousand barrels of oil equivalents per day in 2Q22. Crude oil and condensate made up 50.4% of production and 96.2% of production is based in the US in 2Q22.

Stock Return Information

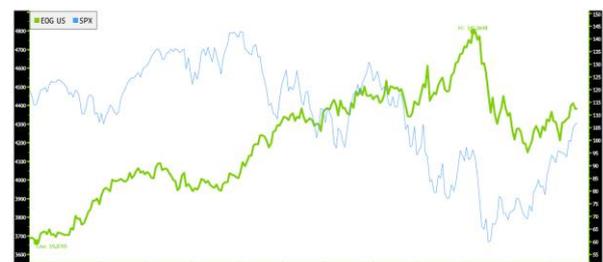
S&P 500 (pts)	4,305.2
Expected Share Return (%)	10.9
Expected Gross Dividend Yield (%)*	5.9
Expected Total Gross Return (%)	16.8
*Dividends paid by US companies are subject to 30% withholding tax.	

RESULTS

(USD m) FY Dec	2Q22	2Q21	yoy %
Operating Revenue & Others	7,407	4,139	79.0
Operating Costs (Excluding DD&A)	3,593	2,054	-
EBITDA	3,814	2,085	82.9
DD&A	911	914	-
EBIT	2,903	1,171	147.9
PBT	2,882	1,124	156.4
Net Profit	2,238	907	146.7
EPS (USD)	3.84	1.56	146.2

Price Performance

	1M	3M	12M
Absolute (%)	15.6	(9.1)	83.0
Relative to S&P 500 (%)	4.1	(16.5)	86.9



Sources: Mercury Securities, Bloomberg, Company

Share Information		Top 3 Shareholders (%)	
Market Cap (USD bn)	65.9	Capital Group Cos Inc	11.1
Issued Shares (m)	583	Vanguard Group Inc	9.0
52W High (USD)	147.99	BlackRock Inc	7.8
52W Low (USD)	62.81		
Estimated Free Float (%)	99.7		
Beta vs S&P500	1.1		
65-Day Average Vol. ('000)	4,285		

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	20,387
Net Profit (USD m)	2,735	(605)	4,664	7,594	5,572
EPS (USD)	4.7	(1.0)	8.0	13.0	9.6
EPS Growth (%)	(20.2)	-	-	62.5	(26.6)
EBITDA (USD m)	7,480	2,867	9,762	13,468	10,910
Free Cash Flow (USD m)	1,741	1,543	4,941	6,806	5,590
ROA (%)	7.4	-	12.2	18.4	13.0
ROE (%)	12.6	-	21.0	30.8	20.9
Net Gearing/ (net cash) (%) ¹	18.2	16.9	(0.5)	(7.2)	(14.1)
Gross Dividend Yield (%) ²	1.3	3.0	4.1	7.8	5.5
Price/Earnings Ratio (x) ²	16.1	-	14.0	8.6	11.7

Sources: Mercury Securities, Company

¹Net gearing is calculated as: (total debt - cash and equivalents)/shareholder's equity

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

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HOLD	Stock's total return is expected to be within +10% or -10% over the next 12 months (including dividend yield)
SELL	Stock's total return is expected to be -10% or worse over the next 12 months (including dividend yield)

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