



# EOG Resources (EOG)

Updated November 9<sup>th</sup>, 2024 by Derek English

## Key Metrics

<b>Current price:</b>	\$134	<b>5 Year CAGR Estimate:</b>	14.0%	<b>Market Cap:</b>	\$71.9 B
<b>Fair Value Price:</b>	\$202	<b>5-Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	01/17/25
<b>% Fair Value:</b>	66%	<b>5-Year Valuation Multiple Estimate:</b>	8.6%	<b>Dividend Payment Date:</b>	01/31/25
<b>Dividend Yield:</b>	4.1%	<b>5 Year Price Target</b>	\$235	<b>Years Of Dividend Growth:</b>	7
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	Buy

## Overview & Current Events

EOG Resources (NYSE: EOG) is a crude oil and natural gas company headquartered in Houston, Texas. Founded in 1999, EOG was incorporated as a Delaware corporation after it separated from Enron. EOG Resources is principally engaged in the exploration, development, and production of crude oil and natural gas with reserves in the United States, Canada, Trinidad, and China. EOG has three operating segments split by geographical areas: Crude oil, Natural Gas, and Natural Gas Liquids (NGL). Crude oil is the largest segment, which accounts for 79% of revenue.

On November 7<sup>th</sup>, 2024, EOG Resources reported its Q3 2024 results. For the quarter, EOG recorded total revenue of \$5.97 billion, a slight decrease from \$6.03 billion in the second quarter and down from \$6.21 billion in Q3 2023. Net income for the quarter was \$1.67 billion, translating to earnings per share of \$2.95, which was consistent with Q2 2024. The company generated a solid operating cash flow of \$3.0 billion, a significant increase from \$2.28 billion in Q2 2023, and produced \$1.5 billion in free cash flow. Total expenditure for the quarter were \$1.57 billion. EOG's cash and cash equivalents rose to \$6.12 billion, and the company sustained a low debt-to-total capitalization ratio of 11.3%. Per-unit cash operating costs stood at \$10.05 per barrel of oil equivalent (Boe), demonstrating efficiency improvements over previous quarters. Management also announced a 7% dividend increase which is payable on January 31<sup>st</sup>, 2025.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$5.32	(\$8.29)	(\$1.98)	\$4.46	\$5.89	\$4.71	\$1.46	\$8.61	\$13.76	\$11.69	<b>\$11.24</b>	<b>\$13.03</b>
<b>DPS</b>	\$0.51	\$0.67	\$0.67	\$0.67	\$0.81	\$1.08	\$1.50	\$1.99	\$3.00	\$3.30	<b>\$3.64</b>	<b>\$5.35</b>
<b>Shares</b>	548	545	553	578	580	580	578	581	583	584	<b>580.0</b>	<b>560.0</b>

The earnings-per-share numbers in the above table show the cyclical nature of EOG Resources' industry. Over the last decade, earnings-per-share have ranged from -\$8.29 to \$13.71. Net income is heavily dependent on oil prices, which has been fluctuating since the beginning of the pandemic. While the company has come in ahead of guidance in prior years, our estimate of \$14.20 was missed in 2023. We estimated a slower year in 2024 due to the company's estimates on crude oil volumes of 488K bbl/day and increased CAPEX spending. Our \$11.24 estimate remains intact based on the third quarter results. Strong free cash flow growth has helped the company strengthen its balance sheet by reducing its debt and rewarding its shareholders with special dividends.

The company has a solid dividend history with a ~27% CAGR since 2013. Due to the impressive free cash flow, EOG has rewarded shareholders with special dividends over the past couple of years including a \$5.80 special dividend announced in 2022. In addition, the company also increased its common dividend to \$3.90/share annually. This is 7% higher than the previous level. The current dividend is covered at a \$32 WTI oil price, and we have estimated an 8% dividend growth rate over the next five years, which is on the lower end of management's expectations. The company is also committed to share buybacks to boost investor returns and repurchased \$758 million in Q3 which is \$2.2 billion YTD. As of September 30<sup>th</sup>, 2024 the company has \$6.8 billion remaining under its repurchase scheme.



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## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	18.6	-10.3	-42.3	21.5	19.2	18.2	34.5	10.3	9.4	10.3	<b>11.9</b>	<b>18.0</b>
Avg. Yld.	0.5%	0.8%	0.8%	0.7%	0.7%	1.3%	3.0%	2.2%	2.3%	2.7%	<b>4.1%</b>	<b>2.3%</b>

Excluding the years that EOG reported negative EPS, the company has traded with average price-to-earnings of around 18. Given the nature of this business, it is customary to see a considerable fluctuation in earnings, making it difficult to predict a steady growth rate over the next five years. Therefore, for our fair value calculation, we use 18 times earnings under "normalized" circumstances, assuming the WTI oil price remains above \$50. As a result, the company trades at 66% of our fair value estimate of \$202. Typically, EOG offered a low starting yield, but it has become more attractive lately, yielding 4%, excluding the special dividends.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	10%	-8%	-34%	15%	14%	23%	103%	23%	22%	28%	<b>32%</b>	<b>41%</b>

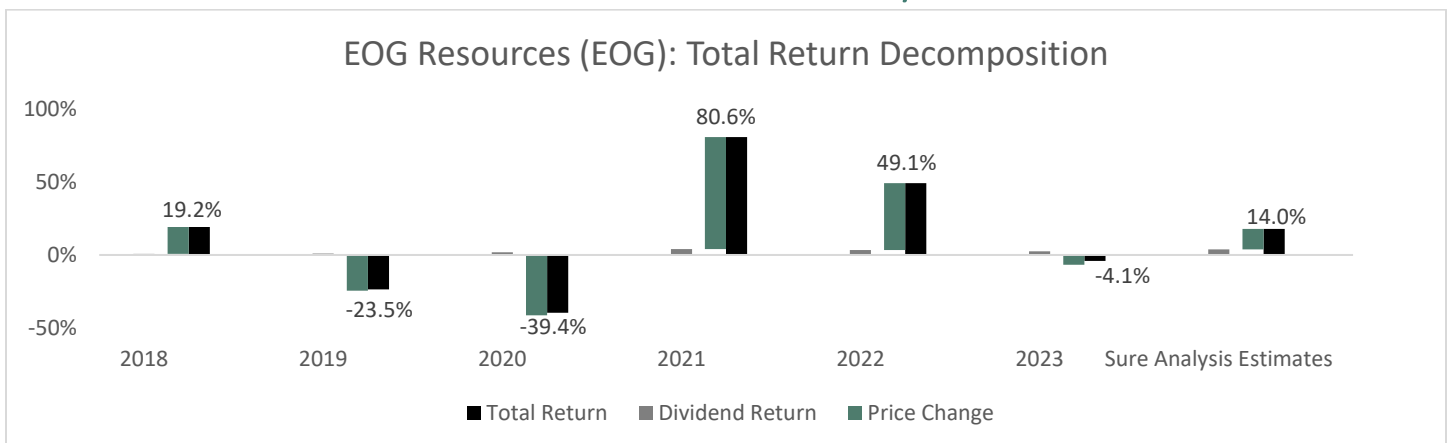
One of EOG Resources' main competitive advantages is its high-quality management team. After a downturn in 2016, the company swiftly focused on cutting costs and drilling for only premium wells, which allowed the company to have returns of over 30% even when the price of oil was \$40. After 2020 they have shifted their focus to a double premium strategy to develop wells that earn a 60% return at \$40 WTI and \$2.50/Mcf natural gas. EOG's management is focused on increasing returns and generating free cash flow and has stated that they will not be growing production in an oversupplied market. The company has a long-term debt of \$3.7 billion.

While the industry has had some challenging times, particularly over the last 12 years, the company has never cut or suspended its dividend, which further cements the directors' commitment to shareholders. In addition, the payout ratio has historically been below 40%. Combined with strong FCF growth, the dividend appears well covered.

## Final Thoughts & Recommendations

There is no doubt about the cyclical nature of EOG Resources, which makes it more important for investors to focus on value and total returns. Accordingly, EOG's management focuses on returning value to its shareholders and aims to grow FCF by at least 8% yearly. Excluding the special dividend, we have estimated a total return of 14.0%. The company is committed to returning as much value to shareholders as possible and recently increased the dividend by 7% to go along with distributing special dividends. As a result, we currently rate EOG as a buy due to projected returns and have a five-year target price of \$235.

## Total Return Breakdown by Year



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



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	16,639	8,656	7,463	11,206	17,177	16,942	9,873	19,670	29,490	23,180
<b>Gross Profit</b>	11,080	4,014	2,859	6,603	12,022	11,346	4,950	14,320	24,000	17,570
<b>Gross Margin</b>	66.6%	46.4%	38.3%	58.9%	70.0%	67.0%	50.1%	72.8%	81.4%	75.8%
<b>SG&amp;A Exp.</b>	4,528	2,753	2,402	3,765	5,630	5,841	3,182	4,684	7,105	6,349
<b>Operating Profit</b>	4,644	-126	-711	1,485	4,807	3,913	458	7,613	14,260	8,892
<b>Operating Margin</b>	27.9%	-1.5%	-9.5%	13.3%	28.0%	23.1%	4.6%	38.7%	48.4%	38.4%
<b>Net Profit</b>	2,915	-4,525	-1,097	2,583	3,419	2,735	-605	4,664	7,759	7,594
<b>Net Margin</b>	17.5%	-52.3%	-14.7%	23.0%	19.9%	16.1%	-6.1%	23.7%	26.3%	32.8%
<b>Free Cash Flow</b>	402	-1,418	-224	141	1,692	1,741	1,543	4,941	6,093	5,155
<b>Income Tax</b>	2,080	-2,397	-461	-1,921	822	810	-134	1,269	2,142	2,095

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	34,763	26,970	29,299	29,833	33,934	37,125	35,805	38,240	41,370	43,860
<b>Cash &amp; Equivalents</b>	2,087	719	1,600	834	1,556	2,028	3,329	5,209	5,972	5,278
<b>Accounts Receivable</b>	1,779	931	1,216	1,597	1,915	2,002	1,522	2,335	2,774	2,716
<b>Inventories</b>	707	599	350	484	859	767	629	584	1,058	1,275
<b>Total Liabilities</b>	17,050	14,027	15,318	13,550	14,570	15,484	15,503	16,060	16,590	15,770
<b>Accounts Payable</b>	2,861	1,472	1,512	1,847	2,240	2,429	1,681	2,242	2,532	2,437
<b>Long-Term Debt</b>	5,910	6,655	6,986	6,387	6,083	5,175	5,816	4,859	4,863	3,616
<b>Shareholder's Equity</b>	17,713	12,943	13,982	16,283	19,364	21,641	20,302	22,180	24,780	28,090
<b>LTD/E Ratio</b>	0.33	0.51	0.50	0.39	0.31	0.24	0.29	0.22	0.20	0.13

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	8.9%	-14.7%	-3.9%	8.7%	10.7%	7.7%	-1.7%	12.6%	19.5%	17.8%
<b>Return on Equity</b>	17.6%	-29.5%	-8.1%	17.1%	19.2%	13.3%	-2.9%	22.0%	33.1%	28.7%
<b>ROIC</b>	13.0%	-20.9%	-5.4%	11.8%	14.2%	10.5%	-2.3%	17.6%	27.4%	24.8%
<b>Shares Out.</b>	548.0	545.0	553.0	578.0	580.0	580.0	578.0	584	587	584
<b>Revenue/Share</b>	30.33	15.86	13.49	19.36	29.59	29.17	17.05	33.68	50.24	39.70
<b>FCF/Share</b>	0.73	-2.60	-0.40	0.24	2.92	3.00	2.67	8.46	10.38	8.83

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

### Disclaimer

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