

DIAMONDBACK ENERGY INC (NASDAQ GS: FANG, Currency: USD) Purchased on 7/14/22 at \$106.25

Bloomberg Rating: IGB Sector: Energy Industry: Oil, Gas & Consumable Fuels Sub-Industry: Oil & Gas Exploration & Production

Description
Diamondback Energy Inc operates as an independent oil and natural gas company currently focused on the acquisition, development, exploration, and exploitation of unconventional, onshore oil, and natural gas reserves in the Permian Basin in West Texas.

Key Statistics	
52-Week Range	65.93 - 162.24
Avg Daily Vol (3 M)	3,101,644
Market Value	21,357.5
Current Enterprise	27,844.53
Shares Outstanding	173.44 M
Dividend Yield	9.9%
Float %	99.5%
Institutional %	99.1%
Analyst Coverage	30 Analysts
Target Price	170.37
LT Growth Rate	-
Consensus Rating	4.67
Return on Equity	31.7%

	Actual and Estimate Data		
	LTM	12/2022	12/2023
Revenue	7,582.00	9,685.36	8,768.28
% change y/y		52.6%	-9.5%
EBITDA	5,897.00	7,525.22	6,910.05
% Margin		83.9%	-8.2%
EPS	18.303296	26.164	24.754
% change v/y		132.2%	-5.4%
EV/Sales	3.7x	2.8x	2.9x
EV/EBITDA	4.7x	3.7x	4.0x
P/Sales	2.9x	2.2x	2.4x
P/Earnings	6.7x	4.7x	5.0x
P/Book	1.6x	1.4x	1.1x

Relative Comps	Mkt Cap	PE (NTM)
Diamondback Energy Inc	21.36 B	4.7x
Pioneer Natural Resources Co	51.82 B	7.0x
Devon Energy	38.6 B	6.5x
EOG Resources	63.80	7.0x

Recommendation

Based upon our view of strong and sustainable operational trends, capital discipline, recent acquisitions and historically low valuation metrics, we recommend purchase of Diamondback Energy, Inc (NASDAQ: FANG) with a 12 month price target of \$185 (75% upside from our recent purchase price of \$106).

Fundamental Trends / Catalysts

Due to the changing dynamics of the Energy industry (i.e. the shift from growth towards capital efficiency and the emergence of ESG investing) oil and gas prices have remained resiliently high. We believe those trends will continue, and therefore expect FANG's earnings and cashflow to remain near current elevated levels over the next couple of years. Current 2022/2023 consensus estimates for FANG appear too low as they are based upon conservative commodity price assumptions (Oil \$92/\$88 Nat Gas \$4.60/\$3.90). Recent acquisitions, like QEP Resources, will allow the company to replace reserves and production from aging acreage like the Spanish Trail. Prodigious cash flow generation will be targeted towards growing dividends and large share repurchases providing additional catalysts for the shares. FANG is intent on improving its ESG scores over the next few years focusing on reducing greenhouse gas emissions such as methane, in a bid to attract additional investor interest and improved valuation multiples.

Balance Sheet / Cash Flow

Currently, FANG has a reasonably solid balance sheet, with a debt to cap (30%) and coverage ratios (Ebitda/Interest 9x) that are generally in line with industry peers. Between 2015-2020, FANG undertook an aggressive M&A strategy, consummating a series of deals (financed by both equity and debt) which effectively increased the size of the company by tenfold. After several years of negative Free Cash Flow, FANG's strategy was vindicated in 2020 as the company finally shifted into positive FCF territory. Just in the past 12 months alone, FANG has been able to pay down \$1.7b in debt, buy back \$540m in shares and pay out \$350m in dividends. FANG has committed to return at least 75% of future FCF to a sustainable and growing regular dividend, opportunistic share repurchases, and special variable-based dividends tied to its future profitability. We expect FANG to generate nearly \$4b in FCF (20% FCF Yield) in each of the next 2 calendar years (2023-2024).

Valuation

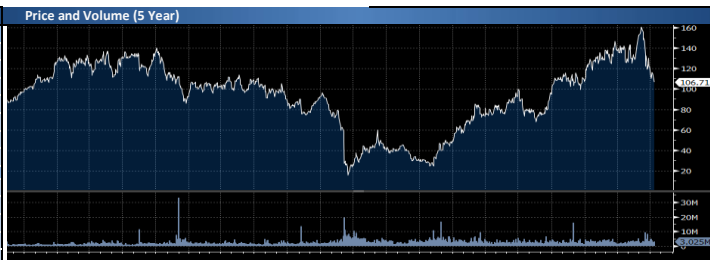
Based upon our 3 stage Discounted Cash Flow (DCF) valuation analysis and using conservative assumptions (including ZERO future growth beyond 2024), we estimate FANG's intrinsic value to be \$185 per share, or 75% above the current market price. A detailed Net Asset Value (NAV) calculation valuing all of the company's operating and undeveloped drilling acreage, yields a similarly attractive price target of \$175 per share. Additionally, FANG is trading at an all-time low valuation level across multiple metrics including P/E (4.5x), EV/EBITDAX (3.5x), EV/Sales (2.8x), and FCF Yield (9%). While these multiples are basically in line with industry peers (PXD, DVN, EOG), we note that FANG has been growing twice as fast as the overall industry (60% CAGR) over the past 5 years.

Risks

A possible economic recession, falling oil and natural gas prices, production shortfalls, and cost inflation including labor are among the key risks to our favorable investment thesis. A sooner than expected resolution to the war in Ukraine could result in quick drop in oil and gas prices. Additionally FANG's lack of geographic diversification (most of their production is located in the Permian Basin in West Texas) makes them susceptible to extreme climate events like wildfires and floods.

Business Segments (FY: Dec-21)	Revenue
Oil	79%
Natural Gas Liquid	12%
Natural Gas	8%
Midstream Services	1%
Realized G/L On Derivatives	

Measure:	Revenues			
	2020	2021	2022	2023
Q1 Mar	984.00	1081.00	1986.00	2251.27
Q2 Jun	633.00	1356.00	2466.00	2163.40
Q3 Sep	710.00	1512.00	2542.42	2147.37
Q4 Dec	729.00	1618.00	2402.79	2128.00
Year	3056.00	5567.00	9685.36	8768.28
Cal Yr	3006.00	6348.00	9685.36	8768.28
Revision				
	1 Week	4 Weeks	3 Months	6 Months
Qtr End 09/22	0.6%	2.3%	5.2%	41.6%
Qtr End 12/22	0.3%	0.9%	3.8%	34.4%
FY End 12/22	0.9%	1.3%	4.6%	35.2%
FY End 12/23	0.3%	1.9%	6.9%	31.4%



Prices/Volume	
YTD Change	14.18%
6 Month Change	14.06%
3 Month Change	-11.5%
1 Year Change	44.4%
Daily Volume	2,461,280
Average Volume 30 Day	2,821,865
Average Volume 3 Month	3,101,644
Average Volume 6 Month	2,880,435
Dividend Yld	5.8%
52 Week Beta	1.24

Measure:	EPS			
	2020	2021	2022	2023
Q1 Mar	-1.72	1.33	4.36	6.41
Q2 Jun	-15.16	1.71	7.93	6.19
Q3 Sep	-7.05	3.56	7.32	6.14
Q4 Dec	-4.68	5.54	6.88	6.05
Year	-28.59	12.30	25.64	24.70
Cal Yr	-28.59	12.30	25.64	24.70
Revision				
	1 Week	4 Weeks	3 Months	6 Months
Qtr End 09/22	0.7%	0.6%	6.5%	-
Qtr End 12/22	1.1%	-0.1%	5.0%	-
FY End 12/22	2.1%	3.0%	5.0%	-
FY End 12/23	2.2%	4.8%	10.7%	-

Performance	2013	2014	2015	2016	2017	2018	2019	2020	2021	5 Yr Avg
Price Change	176.6%	13.0%	11.9%	51.1%	24.9%	-26.6%	0.2%	-47.9%	122.8%	14.7%
S&P 500 INDEX	29.6%	11.4%	-0.7%	9.5%	19.4%	-6.2%	28.9%	16.3%	26.9%	17.0%
Industry (INDU Index)	26.5%	7.5%	-2.2%	13.4%	25.1%	-5.6%	22.3%	7.2%	18.7%	13.6%
Div Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	1.0%	3.2%	1.8%	1.3%
Financials	12/13 Y	12/14 Y	12/15 Y	12/16 Y	12/17 Y	12/18 Y	12/19 Y	12/20 Y	12/21 Y	5 Yr CAGR
Sales	200.8	506.1	591.6	528.3	1,211.8	2,046.5	4,031.0	3,056.0	5,567.0	60.2%
EBITDA	154.6	393.1	377.7	110.6	938.5	1,513.4	2,222.0	3,922.0	4,051.0	105.5%
EBIT	88.0	223.1	595.4	67.4	611.7	890.4	775.0	5,226.0	2,776.0	-310.3%
Net Income	54.6	193.8	550.6	165.0	482.3	845.7	240.0	4,517.0	2,182.0	-267.6%
EPS (Diluted)	1.29	3.64	-8.74	-2.20	4.94	8.06	1.47	-28.59	12.30	-241.1%
Dividends per Share	0.00	0.00	0.00	0.00	0.00	0.38	0.94	1.53	1.95	-
Shares for Fully Diluted	42.3	53.3	63.0	75.1	97.7	104.9	163.8	158.0	177.4	18.8%
Book Value per Share	17.95	30.78	28.08	41.02	53.53	83.39	83.33	55.63	68.08	10.7%
Cash & Near Cash	15.6	30.2	20.1	1,666.6	112.4	214.5	123.0	104.0	654.0	-17.1%
Total Assets	1,521.6	3,095.5	2,750.7	5,349.7	7,771.0	21,595.7	23,531.0	17,619.0	22,898.0	33.8%
Working Cap	59.4	15.0	32.7	1,582.8	218.8	94.6	394.0	634.0	8.0	-65.3%
LT Debt	460.0	673.5	487.8	1,105.9	1,477.3	4,464.3	5,378.0	5,624.0	6,642.0	43.1%
Cash Flow-Oper Activiti	155.8	356.4	416.5	332.1	888.6	1,564.5	2,739.0	2,118.0	3,944.0	64.0%
Capital Expenditures	934.8	1,447.6	902.1	1,190.0	911.0	1,664.7	2,921.0	1,859.0	2,299.0	14.1%
Free Cash Flow	779.0	1,091.2	485.6	857.9	22.4	100.2	182.0	259.0	1,645.0	-213.9%
Ratios	12/13 Y	12/14 Y	12/15 Y	12/16 Y	12/17 Y	12/18 Y	12/19 Y	12/20 Y	12/21 Y	5 Yr Avg
Gross Margin	49.3%	48.3%	42.5%	41.8%	55.4%	51.7%	43.4%	32.2%	55.5%	47.6%
EBITDA Margin	77.0%	77.7%	-63.8%	20.9%	77.4%	73.9%	55.1%	-128.3%	72.8%	30.2%
EBIT Margin	43.8%	44.1%	-100.6%	-12.8%	50.5%	43.5%	19.2%	-171.0%	49.9%	-1.6%
Profit Margin	27.2%	38.3%	-93.1%	-31.2%	39.8%	41.3%	6.0%	-147.8%	39.2%	-4.3%
Return on Assets	5.1	8.4	-18.8	-4.1	7.4	5.8	1.1	-22.0	10.8	0.6
Return on Com Eqty	8.3	14.9	-30.4	-5.9	10.8	8.9	1.8	-41.0	20.9	0.3
Asset Turnover	0.2	0.2	0.2	0.1	0.2	0.1	0.2	0.1	0.3	0.2
Assets/Equity	1.8	1.6	1.3	1.3	1.4	1.5	1.6	1.8	1.7	1.6
Net Inc per 1000 Empl	802.8	1699.6	-3905.2	-1044.5	1921.4	1189.4	337.1	-6170.8	2508.0	-43.0
Days Sales Out (DSO)	47.3	47.6	52.8	68.3	52.9	55.6	45.6	57.0	33.0	48.8
Acc Pay Turn Days (DPO)	26.7	20.4	24.9	40.2	47.4	39.9	24.6	22.1	7.8	28.4
Current Ratio	0.5	0.9	0.8	8.6	0.6	0.9	0.7	0.5	1.0	0.7
Quick Ratio	0.4	0.5	0.7	8.5	0.6	0.6	0.6	0.4	0.9	0.6
Total Debts/Total Capit	35.2	25.3	18.8	21.6	20.9	24.0	26.5	37.2	33.5	28.4
Total Debt/Total Equity	54.4	33.9	23.1	27.5	26.5	31.5	36.1	59.3	50.5	40.8

Growth Rate (CAGR) Summary				
	1Yr	3Yr	5Yr	10Yr
Sales	82.2%	39.6%	60.2%	60.6%
EBIT	-153.1%	46.1%	-310.3%	106.4%
EBITDA	-203.3%	38.8%	105.5%	72.0%
Net Income	-148.3%	37.2%	-267.6%	-
EPS (Diluted)	-143.0%	15.1%	-241.1%	-
Dividends	27.9%	73.2%	-	-
BVPS	22.4%	-6.5%	10.7%	-
Free Cash Flow	468.0%	-313.4%	-196.0%	-

Valuation Summary				
Current	5 Years			
	High	Low	Avg	
P/E (LTM)	9.6x	24.2x	9.6x	14.4x
P/E (NTM)	4.9x	19.2x	4.9x	10.5x
PEG (NTM)	0.6x	0.7x	0.2x	0.5x
P/Bk	1.6x	2.4x	0.9x	1.5x
P/CF	4.8x	13.8x	3.6x	6.6x
P/Sales	3.4x	10.2x	2.5x	4.7x
EV/EBITDA	6.5x	15.0x	6.5x	11.1x
EV/Sales	4.7x	11.6x	4.7x	7.2x
Div Yield	1.8%	3.2%	0.0%	1.3%