

EOG Resources



Industry: Oil

CEO: William R. Thomas

Ticker: EOG

Market Cap: 42.95 Billion

Price: \$71.05 (as of 10/28)

Price Target: \$83.84

Upside Potential: 16.5%

Business Overview

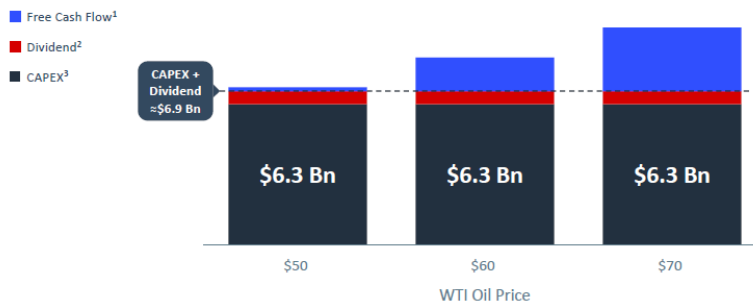


EOG Resources, Inc. is an exploration and production company, specifically for gas and crude oil. EOG operates primarily in the Eagle Ford Shale and Barnett Shale in Texas and the Bakken formation in North Dakota. Of its 2.5 million boe reserves, EOG holds 1.3 million barrels in crude oil and condensates, with a roughly 4.3 billion cubic feet of natural gas. The US is the company's largest market.

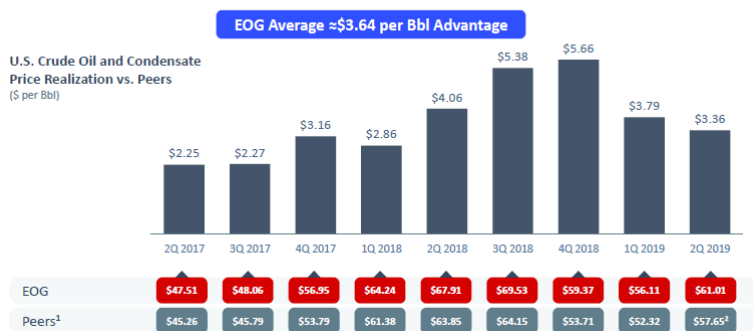
One of EOG's competitive advantages is that it is the biggest operator (by volume produced) in the Eagle Ford Shale play in South Texas. The company also has a presence in the Delaware Basin, owning about 160,000 net acres in the Leonard Shale, and over 345,000 net acres in the Wolfcamp Shale. Additionally, EOG has acreage in the Wolfcamp Shale within the Midland Basin. Further, the majority of EOG's wells are classified as premium wells. These are wells that can remain profitable through more efficient wells, along with superior infrastructure for transporting the oil. EOG is able to maintain a 10% return on capital employed when oil is less than \$50/barrel. This ensures EOG will have strong returns through various oil and market cycles.

Substantial 2019 Free Cash Flow with Higher Oil Prices

No Change to 2019 Capital Budget



EOG Realizes Higher Oil Prices than Peers



Business Strategy

EOG has done a good job of being acquisition averse, allowing the company to focus on low-cost exploration acreage, as opposed to purchasing higher-cost acreage where oil has already been discovered. This has allowed EOG to maintain nearly \$1 billion in cash holdings, while only having approximately \$5 billion in debt. The company has stated they are committed to paying down debt, which allows them to work towards their goal of maintaining a dividend growth rate of ~2%.

One of EOG's most accretive strategic gambles was exploring the Powder River Basin in Wyoming. South Texas' Eagle Ford shale remains EOG's top producing region, and the company also has significant presence in the Permian Basin. While most of its peers were hoping to boost output at the Permian Basin of West Texas, EOG was able to diversify its acreage, and therefore avoiding the pipeline limitations, which resulted in an enormous bottleneck for competitors.

EOG focused on E&P at the Powder Basin in 2015. However, in 2018 the company discovered the Mowry and Niobrara shale plays in the Basin which holds some 1.9 billion BOE of recoverable resources, a more than tenfold increase for EOG. In 2016 EOG acquired Yates Petroleum Corporation, Abo Petroleum Corporation, MYCO Industries, Inc. and certain other entities (collectively, Yates) in a deal valued at \$2.5 billion. This was some of the very limited acquisitions the company opted for.

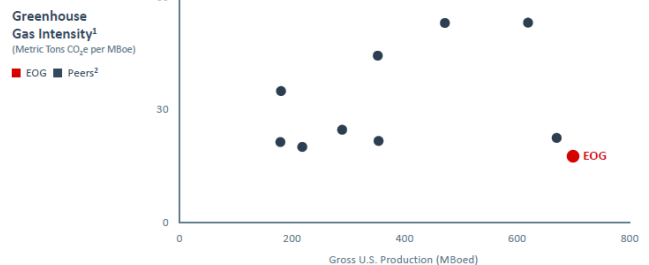
Asset Growth

EOG has been growing their inventory, both in quantity and quality. In February 2016, the company had ~3,200 wells, which would have yielded them approximately 625 MBoe (million barrels of oil equivalent). In 2019, the company had ~9,500 wells, yielding them approximately 970MBoe. This represents over 55% in per well output, and approximately 3X growth in barrel count in 3 years.

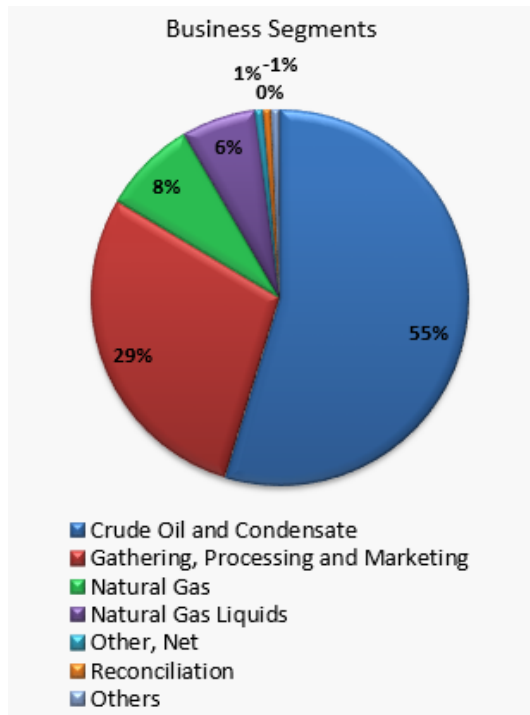
Cost Cutting & Social Awareness

The company has also committed to cost cutting to further expand their bottom line. In 2014, the company had cash operating costs of \$12.86 per Boe. In 2018, that was reduced to \$9.36. Further, the company is forecasting down for 2019, with expected cost per Boe is \$8.89. One place the company has cut cost is total transportation cost, and is marrying this effort with their initiatives to be an environmentally responsible company. Below, the chart illustrates that EOG is a market leader gross production (MBoe), yet among their competitors they rank far lower on greenhouse gas intensity (measured in Metric tons of CO₂ per MBoe).

Committed to Minimizing Emissions



Financial Performance



EOG has seen impressive revenue growth since 2015. Their top line has doubled to Sales of \$9.4B in 2015 to \$17B in FY18. Crude oil and crude condensates account for around 55% of total sales, natural gas sales account for roughly 8%, and NGLs (natural gas liquids) approximately 6%. The US accounts for over 95% of the company's proved reserves.

EOG also conducts gas gathering, processing, and marketing, which together bring in nearly 30% of the company's sales. It sells oil and natural gas in local downstream markets, transported either by pipeline or truck. EOG operates its own sand mine and sand processing plants in Hood County, Texas, to reduce costs and to help fulfill EOG's sand needs for its well completion operations in Texas.

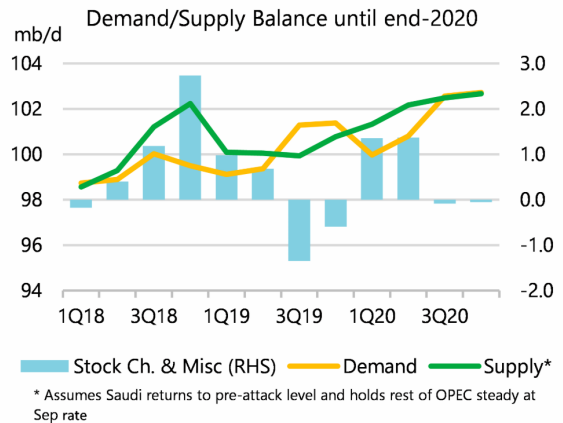
Cash holdings nearly doubled in FY2018, up from \$832M in FY2017 to \$1.55B in FY2018. Operations generated \$7.7 billion, up from 4.2B in 2017. This was offset by \$6.1 billion used for investments (mostly in additions of new oil & gas properties), plus \$839M of outflows to financing activities (primarily in debt repayments). The company was able to reduce its debt by some \$950 million during 2017, and its outstanding debt was just over \$6 billion at the year end.

Update on the Oil Market

There is a growing positive sentiment in the global oil market. Money managers boosted their net-long position on West Texas Intermediate crude for the first time since mid-September in the week ended Oct. 22, data released Friday showed, according to Bloomberg. Further, crude gained 5.4% last week. As short sellers begin to unwind positions, expect oil to receive a boost.

Further, September was a historical month for oil. The unprecedented attacks on the Aramco supplies was a large-scale supply disruption. This caused oil to spike to \$71/barrel. Following the attacks and Saudi press releases that this would not affect supply in the long-term, the price settled back down to ~\$58/barrel by 10/11 – this is \$2 below the price leading up to the attacks.

(The chart represents expected supply/demand through 3Q20 and was authored by the International Energy Agency.)



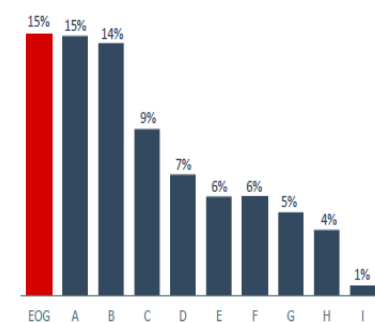
2Q19

In the second quarter of 2019, the company delivered strong results to investors. Their oil production target was 18% above its level a year prior. Of the \$1.7B budgeted for capital expenditure, EOG spent under, clocking in at \$1.6B. EOG generated \$350M of free cash flow, which helped contribute to the funds used to retire a \$900M bond due this past June. Further, the company's net debt/total capitalization ratio has fallen 16% since 2008. For the second consecutive year, EOG raised their dividend more than 30%.

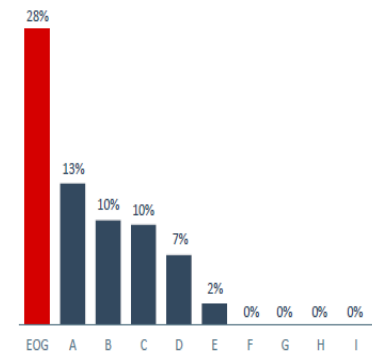
EOG Earns Peer-Leading Returns

Strong Reinvestment Returns Drive ROCE

2018 Return on Capital Employed¹



2018 U.S. Lower 48 All-in Rate of Return²

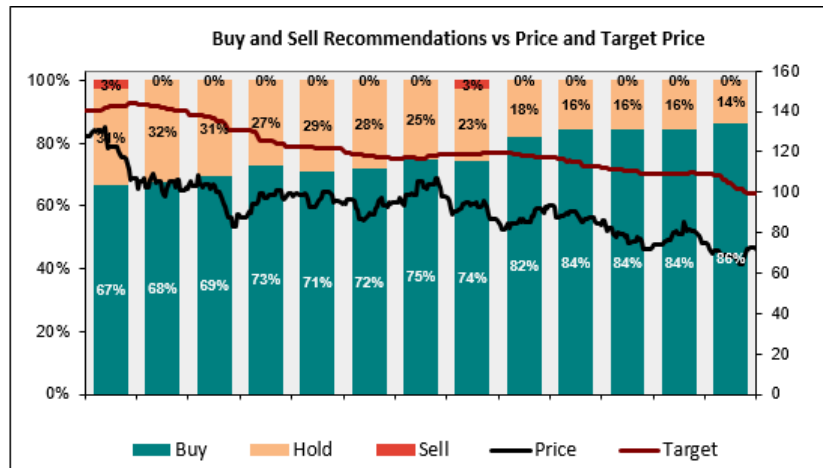


Widen Our Lead Through Premium Drilling & Disciplined Growth



Price Projections

Analyst Ratings



Price Target

I believe EOG, through their premium drilling, revenue growth and cost cutting measures, will exceed Analyst expectations in 2019. My 6 month outlook for the stock is an 18% climb from its closing price on 10/28, which would land them at \$83.84.

Outlook: Bullish

Price Target: \$83.84

Income Statement	2017 Y	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2018 Y	2019 Q1	2019 Q2
	12/31/2017	3/31/2018	6/30/2018	9/30/2018	12/31/2018	12/31/2018	3/31/2019	6/30/2019
Revenue	11,280	3,734	4,364	4,626	4,284	17,008	4,104	4,502
+ Sales & Services Revenue	11,206	3,724	4,401	4,682	4,370	17,177	4,040	4,487
+ Other Revenue	74	10	(37)	(56)	(86)	(169)	64	15
- Cost of Revenue	5,888	1,506	1,645	1,759	1,765	6,674	1,697	1,796
+ Cost of Goods & Services	2,479	757	796	841	845	3,239	817	838
+ Depreciation & Amortization	3,409	749	849	918	920	3,435	880	957
Gross Profit	5,392	2,228	2,719	2,867	2,519	10,333	2,407	2,706
+ Other Operating Income	-	-	-	-	-	-	-	-
- Operating Expenses	4,115	1,280	1,629	1,471	1,555	5,979	1,462	1,706
+ Selling, General & Admin	3,765	1,201	1,525	1,438	1,466	5,630	1,377	1,623
+ Selling & Marketing	3,330	1,106	1,420	1,327	1,349	5,203	1,270	1,501
+ General & Administrative	434	95	104	111	117	427	107	122
+ Research & Development	-	-	-	-	-	-	-	-
+ Other Operating Expense	350	79	104	33	88	349	85	83
Operating Income (Loss)	1,277	948	1,091	1,396	964	4,354	946	1,000
- Non-Operating (Income) Loss	265	61	72	60	35	228	49	41
+ Interest Expense, Net	267	267	267	234	234	234	234	234
+ Interest Expense	274	62	63	64	56	245	55	50
+ (Income) Loss from Affiliates	(3)	(3)	9	(3)	(21)	(14)	(6)	(9)
+ Other Non-Op (Income) Loss	(39)	(1)	9	9	(21)	(14)	(6)	(9)
Pretax Income (Loss), Adjusted	1,012	887	1,019	1,335	929	4,126	896	959
Pretax Income (Loss), GAAP	661	813	893	1,446	1,088	4,241	827	1,089
- Income Tax Expense (Benefit), GAAP	(1,921)	175	196	255	196	822	192	242
+ Current Income Tax (Benefit), GAAP	66	66	66	66	66	(221)	66	66
+ Deferred Income Tax (Benefit), GAAP	(1,474)	66	66	66	66	894	66	66
+ Tax Allowance/Credit, GAAP	(513)	(513)	(513)	(513)	(513)	149	(513)	(513)
Income (Loss) from Cont Ops, GAAP	2,583	639	697	1,191	893	3,419	635	848
- Net Extraordinary/Losses (Gains), GAAP	-	-	-	-	-	-	-	-
+ Discontinued Operations, GAAP	-	-	-	-	-	-	-	-
+ XO & Accounting Changes, GAAP	-	-	-	-	-	-	-	-
Income (Loss) Incl. MLI, GAAP	2,583	639	697	1,191	893	3,419	635	848
- Minority Interest, GAAP	-	-	-	-	-	-	-	-
Net Income, GAAP	2,583	639	697	1,191	893	3,419	635	848
- Preferred Dividends, GAAP	-	-	-	-	-	-	-	-
- Other Adjustments, GAAP	-	-	-	-	-	-	-	-
Net Income Avail to Common, GAAP	2,583	639	697	1,191	893	3,419	635	848

Balance Sheet	2017 Y	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2018 Y	2019 Q1	2019 Q2
	12/31/2017	3/31/2018	6/30/2018	9/30/2018	12/31/2018	12/31/2018	3/31/2019	6/30/2019
Total Assets								
+ Cash, Cash Equivalents & ST	834	816	1,008	1,274	1,556	1,556	1,136	1,160
+ Cash & Cash Equivalents	834	816	1,008	1,274	1,556	1,556	1,136	1,160
+ Accounts & Notes Receiv	1,597	1,702	1,908	2,151	1,915	1,915	2,203	2,002
+ Accounts Receivable, Net	1,597	1,702	1,908	2,151	1,915	1,915	2,203	2,002
+ Inventories	484	585	671	767	859	859	861	853
+ Other ST Assets	364	482	605	625	727	727	708	480
+ Derivative & Hedging Assets	8	1	2	2	24	24	4	135
+ Income Taxes Receivable	113	263	364	321	428	428	440	121
+ Misc ST Assets	242	219	279	302	275	275	264	224
Total Current Assets	3,270	3,585	4,232	4,817	5,057	5,057	4,908	4,496
+ Property, Plant & Equip, Net	25,665	26,376	27,154	27,948	28,076	28,076	30,029	30,619
+ Property, Plant & Equip	56,517	57,987	59,461	60,991	61,551	61,551	63,870	65,438
- Accumulated Depreciation	30,851	31,562	32,307	33,043	33,475	33,475	33,841	34,818
+ Other LT Assets	889	780	707	873	802	802	727	637
Total Noncurrent Assets	26,554	27,155	27,861	28,821	28,877	28,877	30,756	31,256
Total Assets	29,833	30,741	32,092	33,638	33,934	33,934	35,664	35,752
Liabilities & Shareholders' Equity								
+ Payables & Accruals	2,092	2,202	2,657	2,812	2,582	2,582	2,819	2,822
+ Accounts Payable	1,847	1,916	2,387	2,436	2,240	2,240	2,452	2,387
+ Accrued Taxes	149	180	213	249	215	215	240	269
+ Interest & Dividends Payable	96	107	107	127	127	127	127	166
+ ST Debt	356	363	1,263	1,263	913	913	1,311	1,410
+ ST Capital Leases	7	7	7	13	13	13	15	15
+ Current Portion of LT Debt	350	363	1,263	1,263	900	900	900	999
+ Other ST Liabilities	277	272	378	350	294	294	171	181
+ Derivatives & Hedging	50	84	155	138	-	-	1	-
+ Misc ST Liabilities	226	188	182	218	234	234	171	181
Total Current Liabilities	2,726	2,837	4,207	4,425	3,728	3,728	4,301	4,414
+ LT Debt	6,031	6,072	5,172	5,172	5,170	5,170	5,695	4,692
+ LT Borrowings	6,005	6,072	5,172	5,172	5,112	5,112	5,113	4,116
+ LT Capital Leases	26	26	26	58	58	58	53	49
+ Other LT Liabilities	4,793	4,992	5,170	5,502	5,672	5,672	5,763	6,015
+ Deferred Tax Liabilities	3,518	3,690	3,886	4,200	4,413	4,413	4,520	4,738
+ Derivatives & Hedging	7	7	-	-	-	-	-	-
+ Misc LT Liabilities	1,268	1,302	1,305	1,302	1,258	1,258	1,243	1,276
Total Noncurrent Liabilities	10,824	11,063	10,393	10,674	10,842	10,842	11,458	10,707
Total Liabilities	13,550	13,900	14,600	15,099	14,570	14,570	15,760	15,121
+ Share Capital & APIC	5,742	5,775	5,797	5,832	5,865	5,865	5,901	5,935
+ Common Stock	206	206	206	206	206	206	206	206
+ Additional Paid in Capital	5,537	5,569	5,592	5,626	5,659	5,659	5,695	5,729
- Treasury Stock	33	45	42	52	42	42	45	32
+ Retained Earnings	10,594	11,125	11,715	12,778	13,543	13,543	14,051	14,732
+ Other Equity	(19)	(14)	(18)	(19)	(1)	(1)	(3)	(5)
Total Equity	16,283	16,841	17,492	18,538	19,364	19,364	19,904	20,630
Total Liabilities & Equity	29,833	30,741	32,092	33,638	33,934	33,934	35,664	35,752