

Company: EOG Resources, Inc.	Ticker: EOG	Current Price: \$135.58	Sector: Energy	Industry: Oil & Gas Exploration & Production
Target Price: \$166.05 Stop Loss: \$108.46 52 Week Low / High: \$80.67 - \$147.99		TTM P/E: 12.41x Forward P/E: 7.60x TTM EPS: \$9.75	Beta: 1.61 Credit Rating: A- (S&P) Rating Outlook: Stable	Market Cap: \$78.35B Dividend Yield: 2.24%

Investment Thesis:

It is in our opinion that the company EOG Resources, Inc. (NYSE: EOG) is a buy at its current price based on the following value drivers:

1. Sustainable Cost Reduction Strategies
2. Strong Commitment to Shareholder Value Creation
3. Disciplined Capital Allocation
4. Technological Innovation and Efficiency

Company Overview:

EOG Resources, Inc. (EOG) is an independent upstream oil and gas company. EOG, along with its subsidiaries, engages in the exploration of, development, production, and marketing of crude oil, natural gas, and natural gas liquids (NGLs). The company operates mainly in the US, but also has a small presence in Trinidad and Tobago. At this point in 2022, EOG's largest revenue driver is crude oil and condensate, accounting for about 54% of their total revenue. Natural gas and NGLs combine for about 20% of revenue. EOG's gathering, processing, and marketing segment is expected to grow in the coming years to help support its strong performance. EOG evaluates its oil wells on a rate-of-return basis. Since 2016, they have used the term "premium" to describe their hurdle rate of 30%. Now, they have upgraded to "double premium," which has increased that hurdle rate to 60%. This will allow for higher cash flow generation and faster return on invested capital. Going forward, EOG will continue to focus on innovation and cost-effective utilization of technology. These strategies, along with the company's reliable dividends, position them well for the future and make them an attractive investment.

Industry Analysis:

EOG Resources, Inc. operates in the highly complex, capital-intensive Oil & Gas Exploration & Production Industry. Companies within this sub-industry are responsible for the upstream segment of the industry as a whole. This includes activities like creating geological surveys, obtaining land rights, and onshore and offshore drilling. Some of the key players here include ExxonMobil, Chevron, ConocoPhillips, Occidental Petroleum, and Hess. This industry is vital to the energy sector and the global economy, as oil and natural gas are still among the world's primary fuel sources. In 2022, oil and gas companies rebounded from previous years during COVID times. Since December 2020, the energy sector ETF (XLE) is up 144%. Oil prices have risen, and companies' profit margins have increased. Major trends in the industry involve focusing on financial health and practicing capital discipline. Given the high cyclicality and volatility of the upstream segment, these factors will be extremely important in the coming years. The industry is projected to have a CAGR of around 10% through 2027, implying substantial room for growth if companies can adapt quickly and take advantage of every opportunity they get.

Investment Risks:

Oil/Natural Gas Price Fluctuations: These fluctuations in price can reduce profit from companies in the industry. EOG's double premium strategy will ensure higher margins.
Intense Competition: Many companies are battling for finite resources. However, EOG is confident that it can replace its profitable oil reserves faster than they are depleted.
Government Regulation: Companies like EOG are subject to regulations and policies regarding permitting for oil and gas drilling on federal lands, greenhouse gas emissions, and more. EOG is working diligently to improve their ESG scores in order to become a more sustainable company and reduce risk in the foreseeable future.

Financial Performance:

Numbers in Millions

	2018	2019	2020	2021	2022
Revenue	17,266	17,076	9,934	19,777	26,660
Revenue Growth %	52.96%	(1.10%)	(41.8%)	99.1%	34.80%
Gross Profit	9,593	9,120	4,979	13,034	12,287
Gross Margin %	55.56%	53.41%	50.12%	65.90%	68.10%
Operating Income	4,344	7,416	3,263	9,769	9,113
EBIT	4,241	3,666	(137)	6,118	5,361
FCF	1,920	(235)	(329)	5,128	4,331
EPS	5.54	4.98	1.46	8.61	15.13

Relative Valuation

Company Info		Financial Metrics			Valuation Metrics				Operational Metrics			
Ticker	Firm	Mkt Cap (B)	BV of Equity (M)	Total Assets	P/Sales	P/B	Forward P/E	P/FCF	Gross Margin	EBIT Margin	ROE	ROA
EOG	EOG Resources	78.35	22,312	38,139	2.95	3.51	8.56	14.94	68.10%	27.80%	26.40%	12.30%
COP	ConocoPhillips	162.67	50,202	93,693	2.56	3.22	9.92	8.22	51.00%	34.50%	33.70%	16.10%
OXY	Occidental Petroleum	66.92	18,068	74,221	2.12	3.70	10.54	5.54	66.70%	34.00%	47.80%	9.30%
PXD	Pioneer	60.92	22,949	35,746	2.63	2.65	8.93	5.91	54.80%	40.80%	30.90%	17.20%
DVN	Devon Energy	49.77	10,873	23,557	2.93	4.93	7.68	7.99	60.10%	43.50%	63.20%	22.90%
Mean		83.73	24,881	53,071	2.64	3.60	9.13	8.52	60.14%	36.12%	40.40%	15.56%
Median		66.92	22,312	38,139	2.63	3.51	8.93	7.99	60.10%	34.50%	33.70%	16.10%

Prepared by MSFRM Fund Team 2 on 11/2/2022 using Bloomberg, S&P Net Advantage, Morningstar, Yahoo Finance

Discounted Cash Flow:

	2017-2021	2022-2026
Avg Revenue growth	28.79%	8.20%
Avg Net Income Margin	15.24%	21.84%
Avg FCF / Margin	9.35%	17.98%
Tax Rate		22.35%
WACC / Perpetual Growth Rate		6.00 / 2.00%

Analyst Opinion

Buy: 21	Hold: 14	Sell: 0
	Rating	Target
S&P Net Advantage	Strong Buy	152.00
Yahoo Finance	Buy	149.69

Total Returns

	EOG	Industry Sec	S&P 500
YTD	52.64%	54.41%	-17.15%
Last 3 years	84.00%	44.88%	10.43%
Last 5 years	29.75%	29.12%	10.48%

CSR Characteristics

	EOG	Industry
ESG Disclosure	36.0	34.27
Governance Disclosure Score	7.70	7.68
Social Disclosure Score	8.10	9.11
Environmental Disclosure Score	20.40	17.48