

October 5th, 2018

Diamondback Energy, Inc. (FANG)
Sam Gerardi

Sector: Energy
Industry: Oil/ Natural gas
Current Price: 136.5
Target Price: 150.55

Company 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.

BUY

Current Price: \$135.40
Target Price: \$152.33
Market Cap: 13.799B
Beta: 0.832
Other key Metrics/Ratios

P/E Ratio: 20.5 EPS: 6.82

ROACE/WACC = 1.57



Thesis: I am recommending a BUY on Diamondback Energy. FANG has shown the ability to weather volatile oil price fluctuations and still maintain a profit. Energy securities are underrepresented in our portfolio. FANG is undervalued and shows strong indications of growing. This is not only a lucrative company to invest in.; it would give some much-needed diversification to an extremely underrepresented sector of the economy.

Catalysts: Forward looking projections that call for positive/negative outlook that will strengthen your thesis. Example:

- Short Term: Recent acquisition of has expanded oil field to 390,000 acres
- Mid Term(1-2 years): Develop and utilize new land and explore more acquisitions.
- Long Term(3+): adjust their capital structure to help elevate the cost of debt.

Earnings Performance

For my competitors, I compared FANG to seven other oil companies in the Permian Basin in West Texas. They are Energen Corp, Parsley Energy Inc-Class A, Approach Resources Inc, Cimarex Energy Co, Pioneer Natural Resources Co, Concho Resources Inc, Laredo Petroleum Inc

FANG US \$ ↑ 136.35 +1.10 Q136.32 / 136.35Q 3x18														
FANG US Equity % Actions 97 Export 90 Settings Financial Analysis														
Key Stats 1/5 3/5/5 4/C/F 9 Ratios 9 Segments 7 Add 8 ESG % Custom														
10 Adj Highlights 12 GAAP Highlights 13 Earnings 14 Enterprise Value 15 Multiples 16 Per Share 17 Stock Value														
In Millions of USD	2014 Y	2015 Y	2016 Y	2017 Y	Current/LTM	2018 Y Est	2019 Y Est	2013/2014	2013/2015	2013/2016	2013/2017	06/30/2018	12/31/2018	12/31/2019
Market Capitalization	3,400.7	4,468.7	9,109.9	12,393.6	13,447.0									
- Cash & Equivalents	30.2	20.1	1,666.6	112.4	113.9									
+ Preferred & Other	234.2	233.0	320.8	326.9	381.0									
+ Total Debt	673.5	487.8	1,105.9	1,477.3	1,967.1									
Enterprise Value	4,278.3	5,169.4	8,870.1	14,085.4	15,681.2									
Revenue, Adj	506.1	591.6	528.3	1,211.8	1,633.4	2,086.2	4,895.4							
Growth % YoY	152.1	16.9	-10.7	129.4	96.5	72.2	134.7							
Gross Profit, Adj	244.4	251.4	220.7	670.8	923.6	1,230.4	2,882.2							
Margin %	48.3	42.5	41.8	55.4	56.5	59.0	58.9							
EBITDA, Adj	395.3	437.8	356.6	938.4	1,269.4	1,594.7	3,803.3							
Margin %	78.1	74.0	67.5	77.4	77.7	76.4	77.7							
Net Income, Adj	121.6	74.4	140.6	508.8	673.0	681.4	1,585.0							
Margin %	24.0	12.6	26.6	42.0	41.2	32.7	32.4							
EPS, Adj	2.24	1.18	1.87	5.21	6.82	6.68	10.61							
Growth % YoY	85.5	-47.5	59.0	178.5	79.3	28.1	58.9							
Cash from Operations	356.4	416.5	332.1	888.6	1,258.5									
Capital Expenditures	-1,447.6	-902.1	-1,190.0	-2,233.7	-2,103.1	-1,498.7	-3,179.4							
Free Cash Flow	-1,091.2	-485.6	-857.9	-2,345.1	-844.5									

FANG US \$ ↓ 136.265 +1.015 Q136.27 / 136.30Q 1x1														
FANG US Equity % Actions 97 Export 90 Settings Earnings & Estimates														
Key Stats 1/5 3/5/5 4/C/F 9 Ratios 9 Segments 7 Add 8 ESG % Custom														
10 Earnings History ERN 2 Consensus Overview EEO 3 Analyst Coverage ANR														
Next Announcement	(E) 10/30/18	Trailing 12M P/E	19.98	Buy/Hold/Sell	28/3/0									
Prior Announcement	08/08/18	Forward 12M P/E	16.57	Current Price	136.33									
Avg/Implied 1 Day Move	2.29% / 4.52%	Est. LTG (EPS)	24.34%	Target Price	167.83									
4 Consensus Overview EEO 20 Current Period Overview (Q3/18) 21 Prior Period Analysis (Q2/18)														
Measure	Q3/18 Est	4Mk Chg	YoY Gr Growth vs Comps	Past Surprise										
10 EPS, Adj+	1.621	1.15%	21.9% Weaker	Beat 7 of 8										
10 EPS, GAAP	1.681	3.26%	127.2% Stronger	Beat 4 of 8										
10 Revenue	526.750M	-0.04%	71.4% Stronger	Beat 7 of 8										
10 Net Income, Adj+	156.467M	1.65%	19.4% Weaker	Beat 7 of 8										
10 Operating Profit	277.750M	-1.35%	---	---										
10 EBITDA	401.133M	-0.43%	72.6% Stronger	Beat 6 of 8										

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FANG has had very strong financials. Their year-to-year growth rate hovering around triple digits three out of the last five years and is projected to grow in a similar manner for the near future. Being in the oil industry, their EBITDA is consistent and above all other competition in their area. It is hovering around 75% and expecting to continue the next few years. Another factor that reinforces the BUY decision is their net income margin. With a simple average of around 30%, this company blows the competition out of the water. There are many factor that all point to this stock being a BUY. Over the past year, FANG has outperformed or matched EPS and Revenue estimates. When comparing to competition in the same industry and area of operation, FANG stands out as the leader due to thing such as best revenue growth year over year and third lowest P/E ratio in this class. In addition, using industry specific ratio of ROACE/WACC is 1.57 and ROIC/WACC is 1.35 from Bloomberg, both of which indicate that the firm is creating value.

FANG US \$ ↑ 136.35 +1.10 Q136.32 / 136.35Q 3x18										
FANG US Equity % Actions 97 Export 90 Settings Relative Valuation										
Comp Source Analyst Curated (BI) Name BI Permian B Oil Gas Val Curr USD										
Segment Revenue % Metric FANG Low Comp Range High										
Exploration & Production	99%	Est P/E Current Yr	20.42	6.51	35.46					
Midstream - Oil & Gas	1%	EV/EBITDAx	N.A.	34.32	57.93					
		Sales Growth Yoy	129.39%	4.72%	129.39%					
		EBITDA Margin (%)	77.43%	38.38%	77.43%					
		Oil & Gas Prod (M)	79.22k	11.60k	272.33k					
Overview Comp Sheets Markets EPS Preview Ownership Credit Custom										
Add Column 93 Fields 19 Save 20 Discard										
Name (BI Peers)	P/E	Last Px	Chg Pct 1D	Pct 1M	Rev - 1 Yr Gr%	EPS	P/E	ROE	Dvd 12M Yld	ROIC/WACC Ratio
Median	9.52E	93.08	0.01%	14.24%	39.69%	167.6	26.15	7.01%	0.18%	1.22
1001 DIAMONDBACK ENERGY	13.35E	136.35	0.81%	16.08%	129.39%	178.4	19.99	12.88%	0.18%	1.35
1011 CIMAREX ENERGY CO	9.40E	99.18	1.08%	15.15%	51.54%	285.8	16.71	21.40%	0.48%	2.27
1021 PIONEER NATURAL RESO	8.11E	183.28	1.21%	8.37%	27.04%	--	39.99	4.72%	0.17%	0.52
1031 ENERGEN CORP	8.86E	86.97	-0.49%	15.77%	60.87%	--	3.00	6.73%	--	1.08
1041 PARSLEY ENERGY INC-C	9.69E	30.26	1.10%	13.33%	83.27%	387.2	26.15	6.52%	--	0.56
1051 APPROACH RESOURCES INC	205.04M	2.17	0.93%	3.33%	4.72%	66.31	--	-4.65%	--	0.79
1061 CONCHO RESOURCES INC	31.69E	158.23	1.66%	16.78%	17.91%	156.7	50.19	5.04%	--	1.42
1071 LAREDO PETROLEUM INC	2.72E	7.26	-4.10%	-11.46%	7.04%	22.14	8.93	30.28%	--	2.37
(Accounting Adjustments: Adjusted for Abnormal Items when Applicable)										

Competitive advantage/ Growth potential

Diamondback Energy has some very impressive industry specific ratios. 73% of every well drilled is productive and of those well 97% have their cost paid back in the first year. Their daily production is up 46% from 76,977 to 11,592 Bo/D. Their cash margins are up 36% from a year ago and the cash cost is down 11%. This all points to an increase in efficiency. Of the oil produced, 92% is on pipe moving closer to 95%. This demonstrates that Diamondback Energy can effectively get its product to market. Diamondback completed a record 465,000 lateral feet across our portfolio this quarter, up 72% from 2Q 2017. They continue to maximize long laterals and efficient pad development across our acreage. Longer laterals improve capital efficiency, and pad development reduces cost for both drilling and completions.

Looking at the earnings call and the investor presentation, due to their company model of acquiring and expanding, this places them in a great position to generate large revenues. Due to the increase in horizontal drilling and other alternate drilling methods, the Permian Basin region is one of the most active oil producing areas in the country. The basin accounts for about 18% of US crude oil production and 23% of the country's oil reserves. FANG has positioned themselves to become one of the majority holders on land on the Permian basin. FANG's assets in the Permian Basin as well as their prospective plays within the region will stabilize the company as it continues on its growth path.

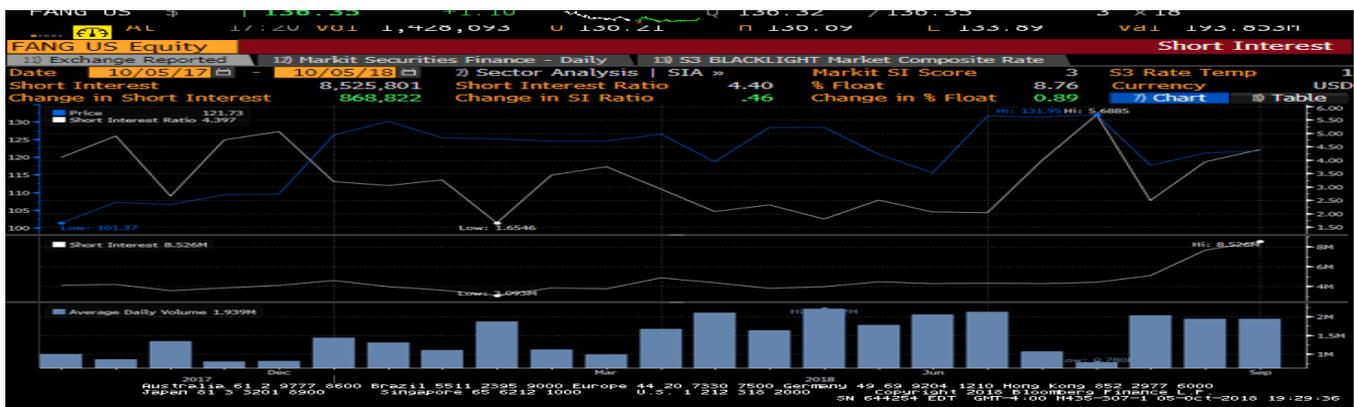
Section 5: Threats/ Downside

When participating in the oil industry there are some obvious and unavoidable threats. The largest threat is the crude oil price. Diamondback Energy is able to still produce a profit if oil prices get as low as \$44/barrel. Given that oil prices are hovering around 70 and could potentially increase in the coming few years, that is a positive, if things go their way. Due to global tensions, there is not a clear indication on where oil prices will be. The true chink in this company's armor is their current capital structure. They are financing their capital expenditure with debt. This could potentially be a crippling issue if there is an unforeseen drop in oil prices. If oil prices fall, this would increase their cost of debt to a fatal level. The beauty of an oil company, especially one that is well managed like FANG, if prices rise over \$100/barrel, they can virtually wipe out their debt due to their large cash margins and low cash cost.

Section 6: Ownership



Since this is an American company, over 91% of the shares are U.S. owned. A majority of that is via investment advisors. Besides the exception on August 15th, which was when Diamondback acquired Engeren, the trading volume is around 1.3 - 1.4 million shares a day, which makes this security fairly liquid. The short interest is around 8.76% of the float. The short interest ratio is hovering around 2.5 and 5.5. Considering the ruthless competition and cutthroat nature of the oil industry this short interest is low.



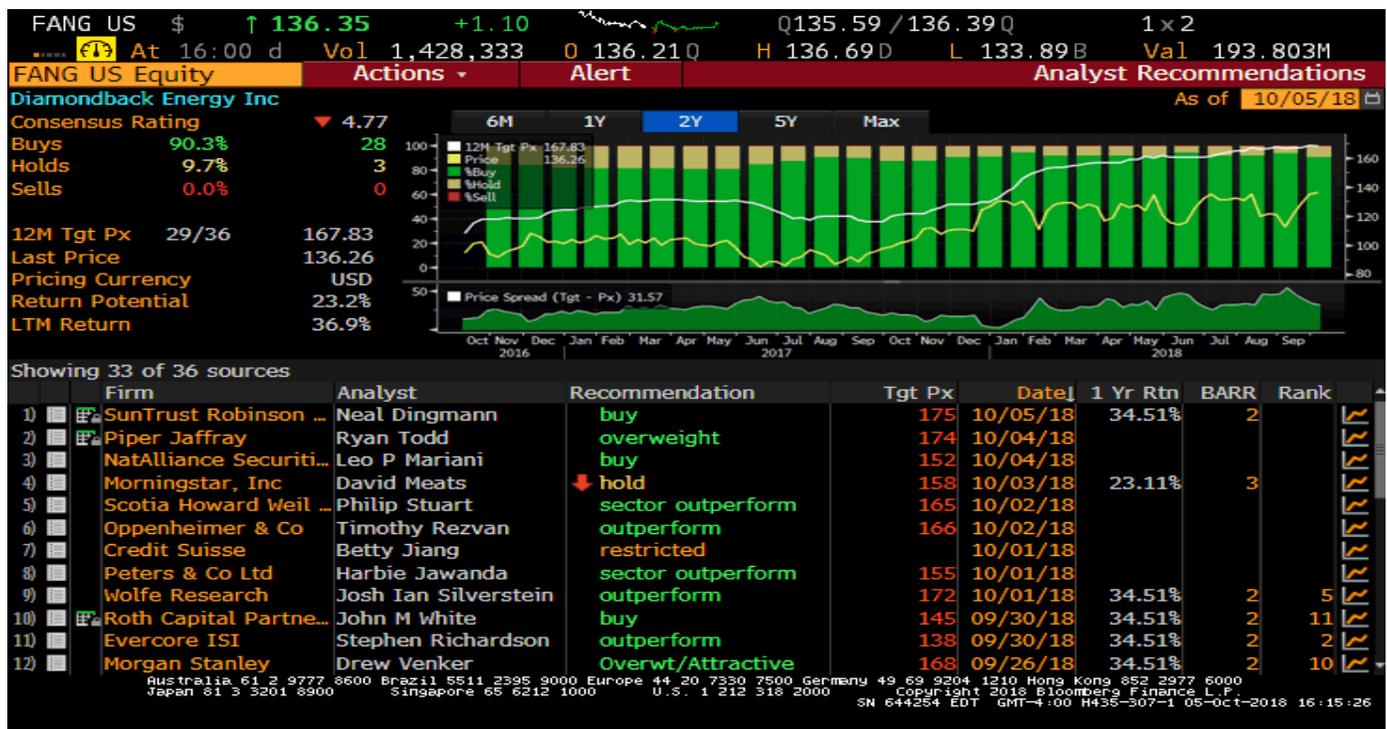
Base/Best/Worst case

For my intrinsic value I found that it was every close to the market value. The main factors that influenced the price was the projected revenue growth and CAPEX. With a revenue/CAPEX ratio of 50%, it is clear that this company has huge CAPEX expense, so any change in things such as the average life of an asset, like with wells and drilling platforms, had an enormous effect on the value of the stock. Therefore, with my proforma I was conservative with my growth rate and assumed that the average life of the asset is only 12 years.

My base case is 134.80 | best case is $1.01 \times 134.8 = 136.15$ | worst case is $0.99 \times 134.8 = 133.45$

My one-year price is 152.33 and the market says it is going to be 168.04. Due to my conservative assumptions, that justifies why my one-year price is lower than the market, but I assume it while converge closer to the market price. Both Bloomberg and Capital IQ predict that the stock with increase anywhere north of 20%.

Conclusion:



With the company's ratios and business model, Diamondback Energy is positioned to create a great increase in value. Like Girard says, "Listen to the smart people". In this case, 90.3% of the analysis on Bloomberg that cover FANG recommend a buy and 9.7% say hold with 0% recommending selling. This company has the ability to justify over 20% in price over the next year, which would be a nice return on top of helping to diversify the overall Fund portfolio. FANG is the perfect energy company to add to the unrepresented energy sector and can provide great enough returns to justify the potential volatility if oil prices drop. This is why I am recommending a BUY on FANG.

Diamondback Energy, Inc.
(fang)

CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

Analysis by Al Capone
10/5/2018

Current Price: **\$135.53**
Dividend Yield: **0.4%**

Intrinsic Value: **\$133.45**
Target Price: **\$150.55**

Target 1 year Return: **11.45%**
Probability of Price Increase: **47%**

Description		Market Data	
Diamondback Energy, Inc., an independent oil and natural gas company, focuses on the acquisition, development, exploration, and exploitation of onshore oil and natural gas reserves in the Permian Basin in West Texas.		Market Capitalization	\$13,338.55
		Daily volume (mil)	1.14
		Shares outstanding (mil)	98.62
		Diluted shares outstanding (mil)	99.14
		% Shares held by institutions	105%
		% Shares held by investment Managers	94%
		% Shares held by hedge funds	5%
		% Shares held by insiders	0.55%
		Short interest	3.64%
		Days to cover short interest	5.27
		52 week high	\$140.78
		52 week low	\$97.81
		Volatility	36.01%

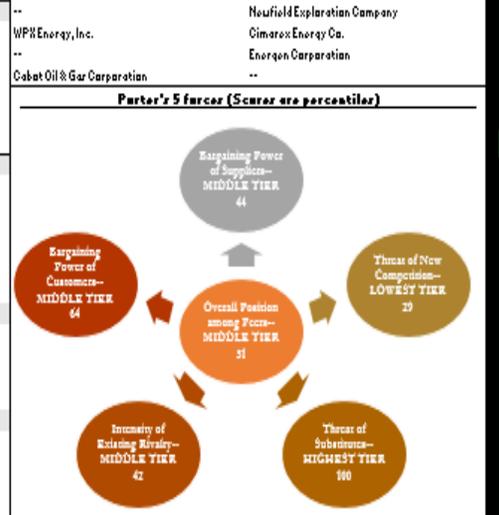
Quarter ending	Revenue	EBITDA	Market and Credit Scores	Industry and Segment Information
6/30/2017	3.74%	27.69%	Recommendation (STARS) Value--4	LTM Revenue by Geographic Segm* LTM Revenue by Business Segments
9/30/2017	1.91%	-18.62%	Recommendation (STARS) Description--Buy	United States--100% Oil & Gas-Exploration & Production--100%
12/31/2017	6.26%	-16.55%	Quality Ranking Value--NR	-- --
3/31/2018	9.11%	3.25%	Quality Ranking Description--Not Ranked	-- --
6/30/2018	8.88%	-3.74%	Short Score--3	-- --
Mean	5.98%	-1.60%	Market Signal Probability of Default % (Non-Rating)--0.124%	-- --
Standard error	1.0%	4.9%	Credit Model Score (Non-Rating)--bbb	

Management	Position	Total Compensation Growth	Stock Price Growth During Tenure
Stice, Travis	CEO & Director	23.27% per annum over 5y	24.21% per annum over 5y
Hall, Michael	President, COO & Director	29.01% per annum over 5y	24.21% per annum over 5y
Dick, Teresa	Executive VP, CFO & Assistant Secretary	20.72% per annum over 5y	24.21% per annum over 5y
Pantormucci, Russell	Executive Vice President of Reservoir Engineer	63.47% per annum over 4y	6.88% per annum over 4y
Mahar, Paul	Executive Vice President of Exploration & Burh	35.42% per annum over 3y	15.41% per annum over 3y
Blubaugh-Fau, Kara	VP - Accounting & Controller		

Profitability	fang (LTM)	fang Historical	Peers' Median (LTM)
Return on Capital (GAAP)	12.8%	5.96%	9.82%
Operating Margin	53%	36.34%	63.35%
Revenue/Capital (GAAP)	0.24	0.16	0.16
ROE (GAAP)	9.3%	8.5%	10.4%
Net margin	26.6%	30.8%	13.9%
Revenue/Book Value (GAAP)	0.35	0.28	0.75

Invested Funds	fang (LTM)	fang Historical	Peers' Median (LTM)
CapEx/Capital	12.2%	1.2%	6.5%
HW/Capital	-3.4%	-11.6%	-4.0%
Operating Assets/Capital	91.2%	110.9%	98.0%
Goodwill/Capital	0.0%	0.0%	0.0%

Capital Structure	fang (LTM)	fang Historical	Peers' Median (LTM)
Total Debt/Market Capitalization	0.24	0.19	0.40
Cost of Debt	3.3%	6.1%	5.0%
WACC	10.6%	10.3%	9.9%



Forecast Assumptions	Explicit Period (3 years)	Continuing Period	Intrinsic Value Distribution--Probability (Upside)=47%	Sensitivity Attribution Analysis
Revenue Growth CAGR	11%	2%		
Average Operating Margin	73%	72%		
Average Net Margin	37%	30%		
Growth in Capital CAGR	12%	2%		
Growth in Claims CAGR	0%	2%		
Average Return on Capital	12%	6%		
Average Return on Equity	14%	6%		
Average Cost of Capital	11%	12%		
Average Cost of Equity	12%	12%		

Below, insert a screenshot of your “OUTPUT” page from the Pro-Forma. Or, if you built your own model, insert screenshot of it here.