



# Comstock Resources

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NYSE: CRK

LITG Energy Sector

1.
  - Lowest cost natural gas operator trading at a discount due to exogenous cyclical factors
  
2.
  - Management's track record of prudent capital allocation will both allow them to weather short term commodity price risks and deliver above market returns on capital over the long term
  
3.
  - Capitalize on longer term trends of natural gas as an essential energy source and “transition fuel”
  - Gain exposure to natural gas as a sector, and improve tracking to the overall index



# Business Overview

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	<u>Name</u>	<u>Business Model</u>	<u>Profit Drivers</u>	<u>Example Companies</u>
	Upstream	<ul style="list-style-type: none"> <li>Extract resource (oil, natural gas) and sell at market price</li> </ul>	<ul style="list-style-type: none"> <li>Oil Prices</li> <li>Production costs</li> </ul>	<p>Comstock, EOG, ConocoPhillips, Antero</p>
	Oil Field Services	<ul style="list-style-type: none"> <li>Provide services (drilling, production, well development)</li> <li>Customers are E&amp;P Companies</li> </ul>	<ul style="list-style-type: none"> <li>E&amp;P capex spending</li> </ul>	<p>Schlumberger, Haliburton, Baker Hughes, Weatherford</p>
	Midstream	<ul style="list-style-type: none"> <li>Transport from E&amp;P to Refinery</li> <li>Operate, maintain, and build pipelines</li> </ul>	<ul style="list-style-type: none"> <li>Fee based revenues based on volume</li> <li>Operations in desirable basins</li> </ul>	<p>Plains All American, ONEOK, DCF Midstream</p>
	Downstream	<ul style="list-style-type: none"> <li>Refine and process hydrocarbons into consumable fuels or products</li> <li>Petroleum, jet fuel petrochemicals, etc...</li> </ul>	<ul style="list-style-type: none"> <li>Refining spreads, which tend to be relatively constant</li> <li>End market demand for refined products</li> </ul>	<p>Phillips66, Marathon, all integrated (operate in all areas) companies refining divisions</p>

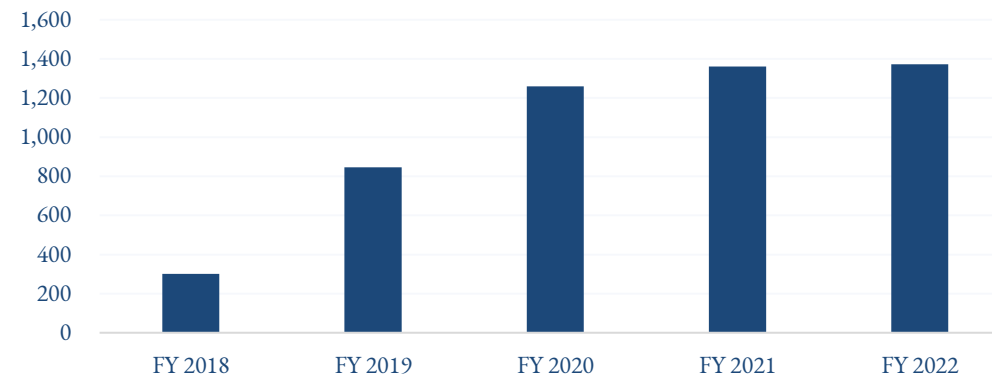
# Company Overview



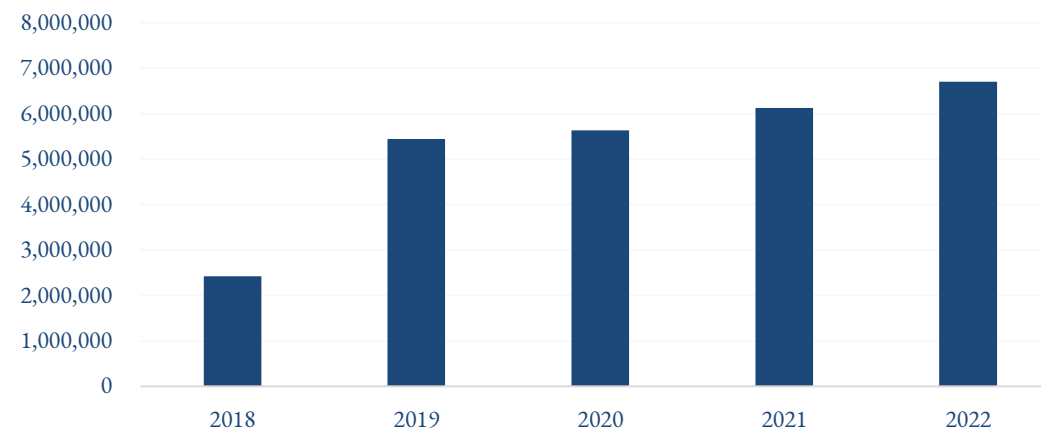
- Leading independent natural gas producer operating in North Louisiana and East Texas
- Founded 1919, Headquarters in Frisco, TX
- Now solely produces natural gas after divestiture of Bakken oil assets
- ~80% EBITDAX margin, one of the largest in the industry

TTM Data (\$MM)	
Stock Price (4/14/2023)	\$11.12
Market Cap	\$3,086
Enterprise Value	\$5,275
Revenue	\$3,583
EBITDAX	\$2,779
EBITDAX Margin	77%
EV/Production	3.85x
EV/Reserves	4.72x

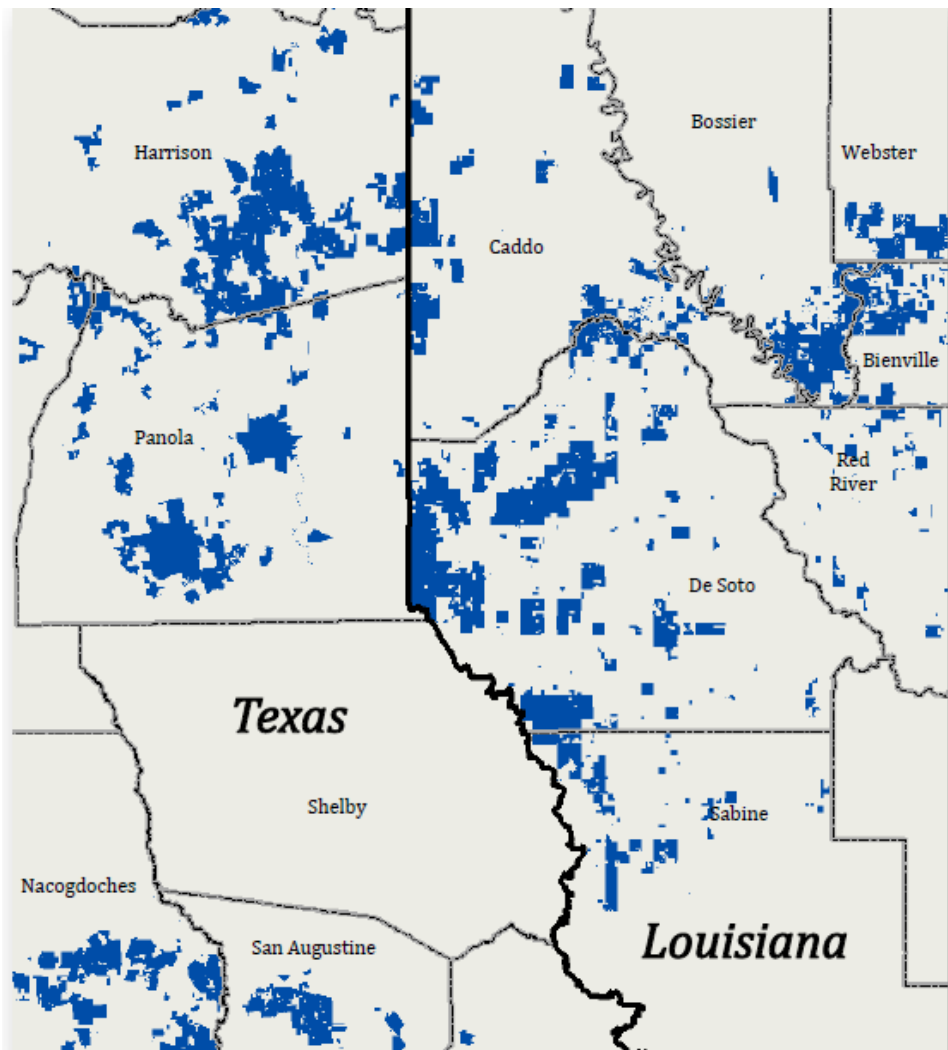
Total Production (MMcf/Day)



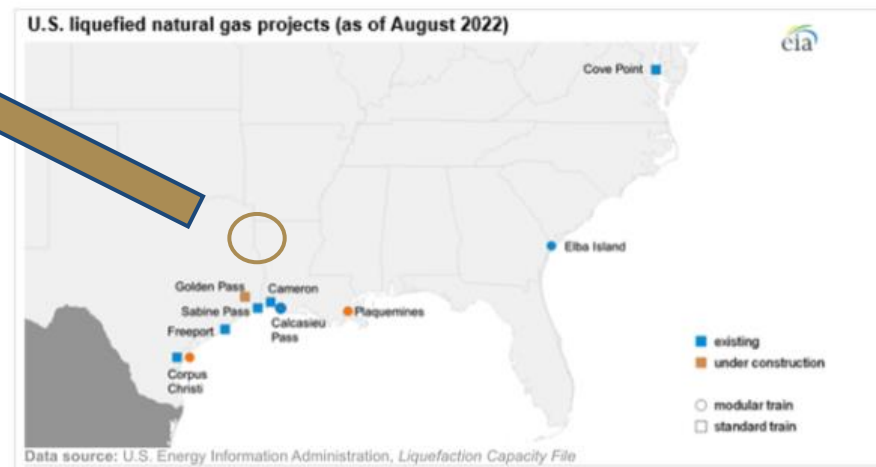
Total Proved Reserves (Mmcf)



# Acreage Map



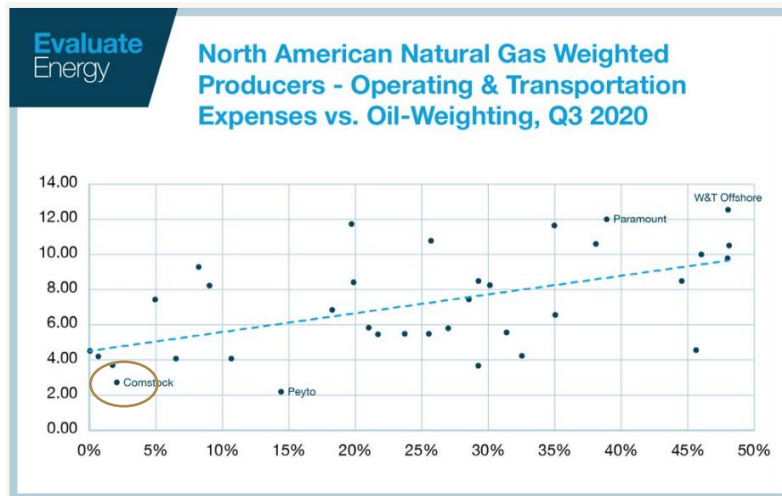
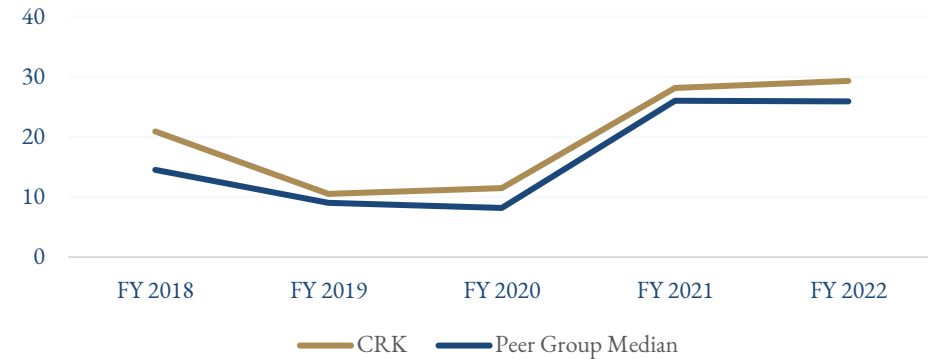
- 470,000 net acres in the Haynesville basin in Texas and Louisiana
  - Added 98,000 net acres in 2022
- Traditionally seen as a higher cost basin due to deep shale formation, however, is becoming more economical due to LNG demand and improvements in well production technology
- Comstock land is located near LNG liquefaction and export facilities located exclusively on the gulf coast
- Most large pureplay natural gas producers are in the Appalachian region (Marcellus shale)



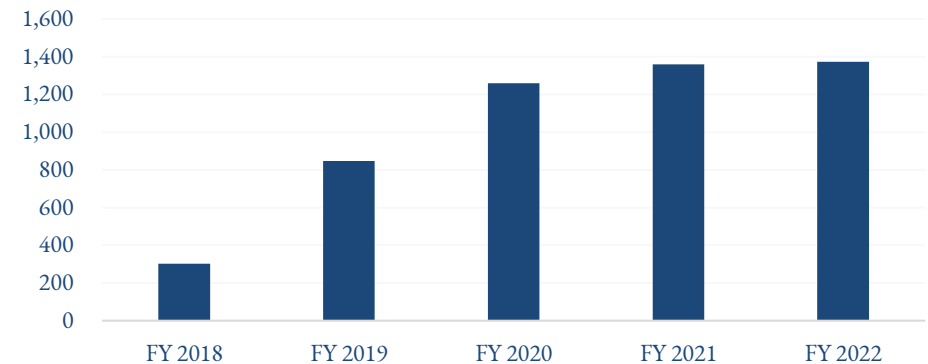
## Structurally Higher Margins Than Peers

- Low production costs when compared to peers due to proximity to LNG export terminals
- Production costs are more heavily weighted towards production, while peers mainly in Appalachia need to pay higher transportation (pipeline) costs
- This allows Comstock to earn **structurally higher returns** than peers over the long run for LNG related demand

Operating Netback Per BOE



Total Production (MMcf/Day)



## Factors that influence commodity price

- Weather (warm winter in Europe)
- Strength of the economy
- Availability and prices of other fuels
- Level of natural gas in storage
- One Time Events (Freeport LNG fire)

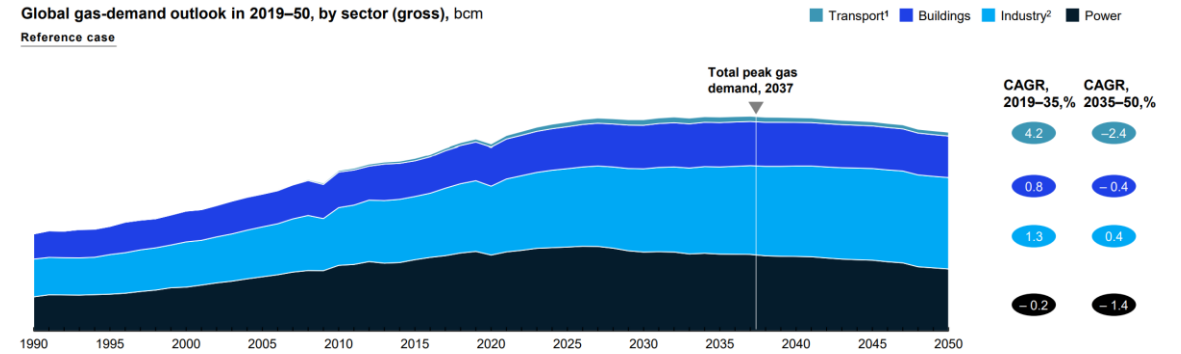
## Transition Fuel

- Much cleaner than oil and is seen as necessary middle ground in transitioning to renewables

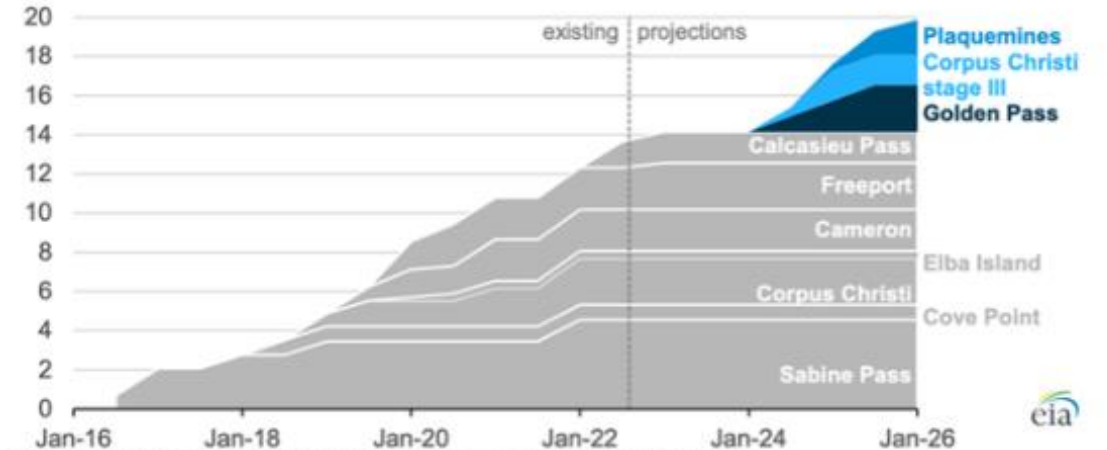
## LNG

- Liquefied natural gas
- Essentially, cooled natural gas for transportation on LNG vessels, mainly to Europe and Asia
- Large demand increase from Europe given need for independence from Russian natural gas

In the 2021 Global Energy Perspective reference case, gas demand peaks in 2037 but will decline slowly afterward.



U.S. liquefied natural gas export projects: existing and under construction (2016–2025)  
billion cubic feet per day



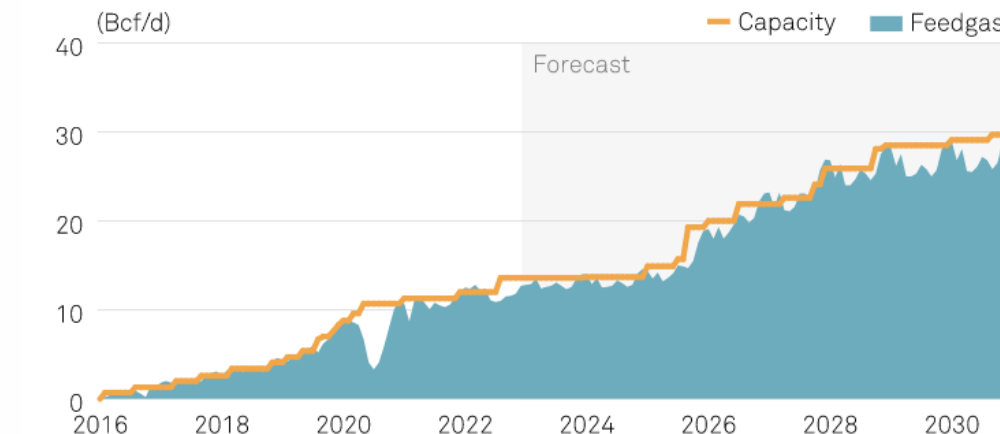
Data source: U.S. Energy Information Administration, Liquefaction Capacity File  
Note: EIA estimates are based on information from Federal Energy Regulatory Commission and U.S. Department of Energy filings, company websites, trade press, and other industry sources.



# Potential LNG Upside

- LNG exposure and key relationships, priority, and contracts with transportation pipelines into the gulf
- This exposure not only warrants a demand premium, but may eventually warrant a **price premium** as exposure to higher world natural gas prices are realized as export infrastructure increases
- With this, companies such as Comstock will benefit from increased demand from Europe, Asia, and emerging economies around the world
- Of course, the U.S producers will benefit if this demand isn't significantly met by foreign producers

## North American LNG export capacity rises post 2024



Source: S&P Global Commodity Insights

Natural Gas Producer (CRK)



Transportation Pipeline



LNG Liquefaction and Exportation



## Risk

## Mitigant

### Low Natural Gas Prices/Lack of Hedging

- Low production costs when compared with peers will allow them to survive periods of low commodity prices, despite low commodity price near term outlook for 2023
- Always going to be taking commodity risk when investing in natural gas companies, however we feel like we are getting in at a good time during the cycle

### Credit Risk (B+ Credit)

- During Covid, Comstock refinanced their bonds, extending maturities until 2029 and decreased their leverage to ~ 1x, although this number is expected to climb as commodity prices effect cash flows
- Sufficient liquidity due to ~1.5B of undrawn revolver
- Managements proven ability to navigate macro uncertainty, such as through 2019-2020

### High Ownership Concentration

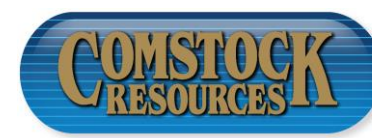
- ~60% of public float is owned by Jerry Jones, the owner of the Dallas Cowboys, who has extensive experience in natural gas E&P
- Although a risk due to ownership concentration, Jones has made clear through interviews that he is in for the long-term, and believes that Comstock is the lowest cost producer in North America



# Valuation

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# Public Comparables



## Peer Group

Comps Table									
Company	Market Cap (\$)	Enterprise Value (\$)	Natural Gas Production (MMcf/D)	Oil Production (MMbbl/D)	% Natural Gas	% Oil	NetBack Per BOE	EBITDAX Margin	
COMSTOCK RES INC	3086	5275	1372	0	100.0%	0.02%	33	77%	
<b>Industrial Power Generation</b>									
EQT CORP	11942	16252	5047	3	99.9%	0.06%	32	71%	
ANTERO RESOURCES	7054	11946	2186	9	99.6%	0.40%	27	68%	
RANGE RESOURCES	6559	8489	1478	7	99.5%	0.50%	28	48%	
SOUTHWESTRN ENGY	5683	10200	4164	14	99.7%	0.33%	30	65%	
CNX RESOURCES CO	2783	5150	1481	1	100.0%	0.05%	33	20%	
<b>Median</b>								65%	
<b>Total</b>									

- Trading at a discount due to weak heading programs for 2023 when compared to peers, smaller size, and untimely production expansion programs expected to be a large use of cash
- CRK should trade at a premium for production and reserve metrics due to lower production costs/higher margins. For each MMcf of natural gas they are able to profit **more** than peers

Implied Equity Value			
	ITM	2023E	2024E
EBITDAX	8203	5041	6795
Production	2578	2656	4912
Reserves	1330		

Implied Share Price			
	ITM	2023E	2024E
EBITDAX	\$30	\$18	\$25
Production	\$9	\$10	\$18
Reserves	\$5		

## NAV Model Overview

- Used for companies with depleting asset bases (e.g., oil and gas, metals and mining)
- Assumes all proven and probable resources are produced and sold at market prices until resources are depleted
  - (Commonly) Values undeveloped land at land prices determined by recent transactions in the basin
  - Main assumptions are production rates, production costs, and maintenance capex

## Outputs

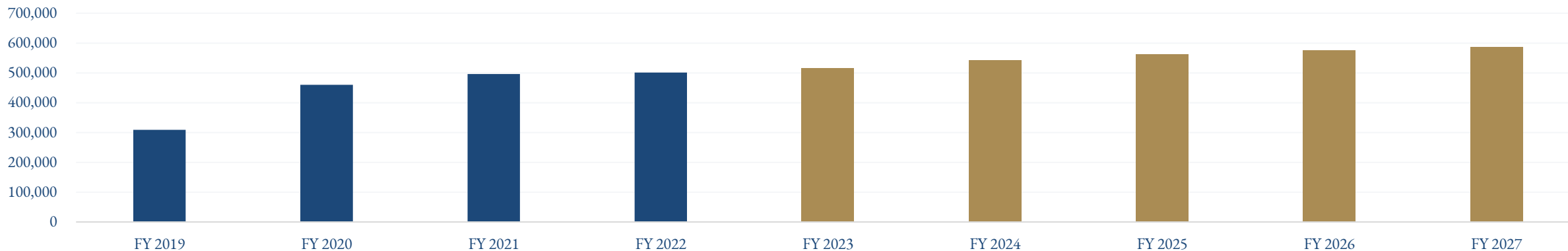
NAV Model Outputs		
	Implied Share Price	Implied Upside
Base Case	\$12	10%
Bear Case	\$17	50%
Bull Case	\$8	-32%

Long-Term  
Natural Gas Price  
Growth

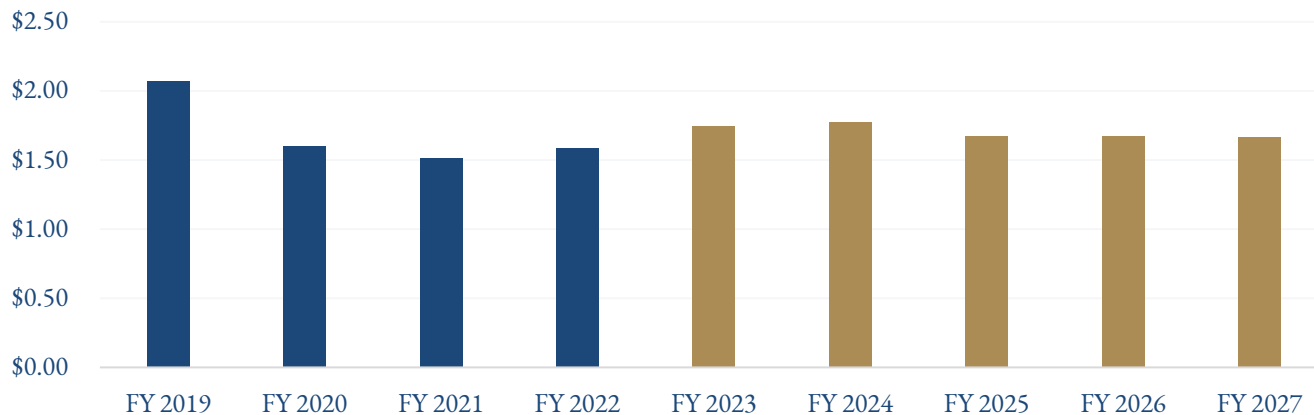
	WACC				
	8%	9%	10%	11%	12%
1%	24%	13%	2%	-7%	-16%
1.50%	29%	17%	6%	-4%	-13%
2%	33%	21%	10%	0%	-10%
2.50%	38%	25%	14%	3%	-7%
3%	43%	30%	18%	7%	-3%

## Assumptions

Total Production (MMcf)



Production Costs Per MMcf



NAV Model - Base Case Realized Natural Gas Price Assumptions					
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Natural Gas	\$2.76	\$3.47	\$4.26	\$4.36	\$4.46
Oil	\$82.00	\$77.00	\$62.00	\$60.00	\$60.00

NAV Model - Bull Case Realized Natural Gas Price Assumptions					
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Natural Gas	\$3.26	\$3.84	\$4.71	\$4.82	\$4.93
Oil	\$82.00	\$77.00	\$68.50	\$66.30	\$66.30

NAV Model - Bear Case Realized Natural Gas Price Assumptions					
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Natural Gas	\$2.76	\$3.10	\$3.81	\$3.90	\$3.99
Oil	\$73.50	\$69.00	\$55.50	\$53.70	\$53.70

## Thesis Summary

- Comstock is among the lowest cost natural gas producers in the United States, benefiting from geographic location close to LNG export facilities. They're may allow them to achieve premium pricing as U.S export capacity increases this decade
- Natural gas, along with the related stocks, has fallen significantly in the past 5 months, allowing us an opportune time to invest in Comstock, which can survive low commodity prices due to low production costs and sufficient liquidity
- This allows the energy sector to take advantage of natural gas as a transition fuel and U.S LNG export trends

## Recommendation

- **Initiate ½ of the position and buy the other ½ after Q1 earnings on 5/3**
- We do think management guidance and street estimates for 2023 are still too optimistic
- We expect guidance to be lowered, and earnings estimates revised then
- After this, we believe it would be a great time to enter what we believe to be one of the highest quality and lowest cost natural gas producers in North America



# Appendix

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## Extended Maturities and High Liquidity



- Comstock simplified their capital structure during covid, converting all preferred stock to common, and refinancing/extending debt maturities until 2029
- During high natural gas prices, significant debt was also paid down, along with any credit line borrowings, allowing for an extension and increased revolver capacity
- Following an upgrade from credit rating agencies, Comstock initiated a \$.50 per share dividend, with plans to repurchase shares (although the second will have to wait)

Credit (TTM)									
	Gross Debt	Gross Debt/EBITDA	Net Debt/EBITDA	EBITDA/Interest	FCF/Debt	Debt/EV	(CFO-Capex)/Debt	S&P	Fitch
<b>COMSTOCK RES INC</b>	<b>2243</b>	<b>0.80x</b>	<b>0.78x</b>	<b>13.33x</b>	<b>28%</b>	<b>37%</b>	<b>28%</b>	<b>B+</b>	<b>B+</b>
<b>Comps</b>									
EQT CORP	5727	1.31x	0.97x	9.79x	36%	34%	36%	BBB-	BBB-
ANTERO RESOURCES	4630	0.95x	0.95x	20.53x	75%	33%	46%	BB+	BBB-
RANGE RESOURCES	1930	0.96x	0.96x	9.98x	73%	24%	73%	BB	
SOUTHWESTERN ENGY	4567	0.47x	0.46x	24.11x	23%	42%	23%	BB+	BB+
CNX RESOURCES CO	2338	5.96x	5.91x	-0.24x	28%	46%	29%	BB	BB-

# Stock Ownership



- Jerry Jones, owner of the Dallas Cowboys owns around 2/3 of shares outstanding
- Jones made most of his net worth through his natural gas E&P companies, so has experience within the industry
- He thinks that Comstock could “be worth multiples of what the Cowboys are worth”
- Given the Cowboys are worth an approximate \$8 Billion, maybe we should have used this for our valuation model instead

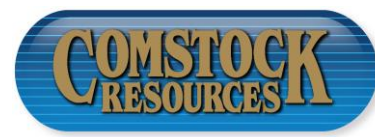
## Is this Concerning

- Generally, this is certainly concerning due to high ownership concentration
- However, this is much better than having a Pre-IPO sponsor own over half of the shares (as the fund diligently pointed out with companies such as Corsair where the sponsor may need to access liquidity to return capital to investors)
- Through reviewing interviews and statements that Jerry Jones has made, it appears this is a very long-term investment, and he is committed to own his shares despite short term macro volatility
- Hopefully the Cowboys execution issues will not be the same for Comstock

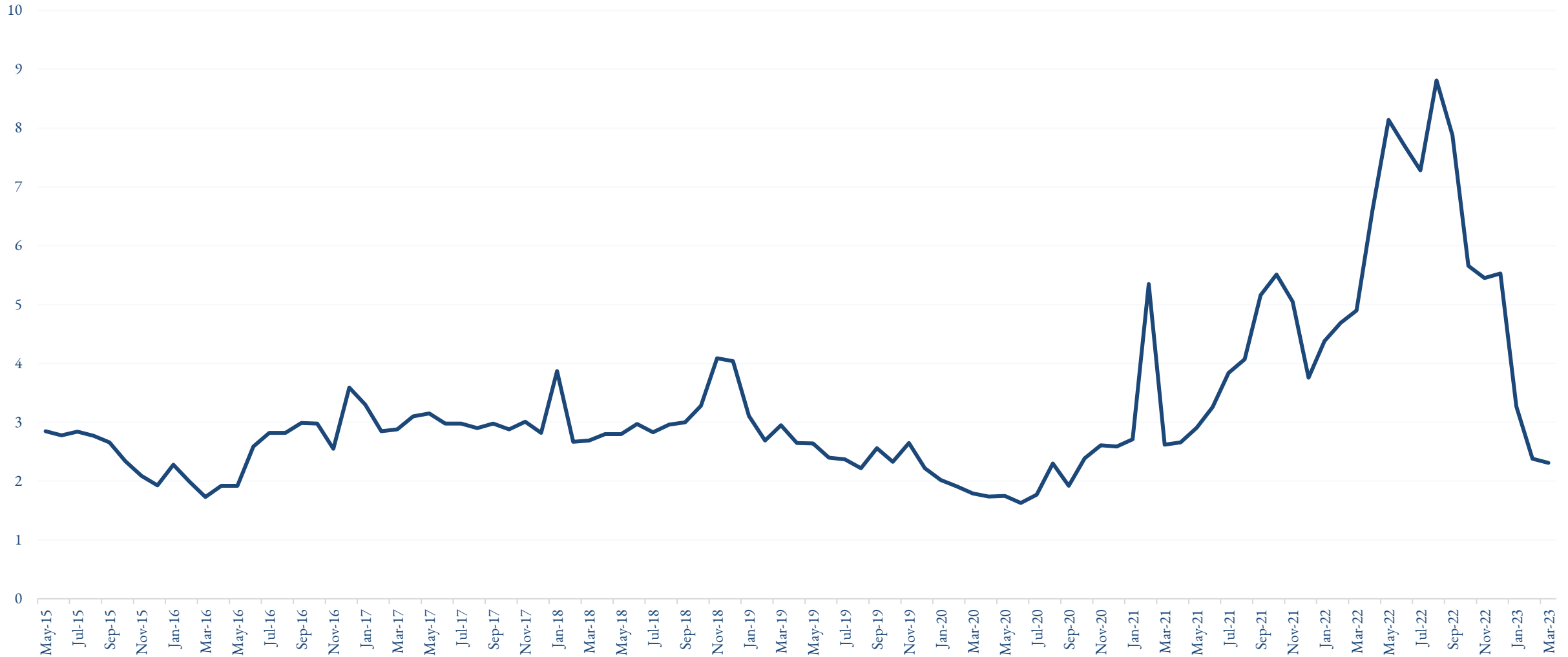
Holder Name	Portfolio Name	Source	Opt	Position	% Out
1. Jones Jerral Wayne		Issuer	All	182,321,429	65.70
2. Vanguard Group Inc/The		ULT-AGG		10,013,749	3.61
3. State Street Corp		ULT-AGG		8,619,011	3.11
4. BlackRock Inc		ULT-AGG		6,556,406	2.36
5. Dimensional Fund Advisors LP	DIMENSIONAL FUND ADVISORS LP	13F		4,891,910	1.76
6. DE Shaw & Co LP		ULT-AGG		4,847,764	1.75
7. Key Group Holdings Cayman Ltd	KEY GROUP HOLDINGS (CAYMAN), LTD	13F		4,619,854	1.66
8. Pacer Advisors Inc	Multiple Portfolios	MF-AGG		3,850,872	1.39
9. BANK OF NEW YORK MELLON CORP/THE		ULT-AGG		3,293,106	1.19
10. Millennium Management LLC/NY	MILLENNIUM MANAGEMENT LLC	13F		2,864,944	1.03
11. MARSHALL WACE		ULT-AGG		2,138,740	0.77
12. Aventail Capital Group LP	Aventail Capital Group, LP	13F		1,893,605	0.68
13. Hwabao WP Fund Management Co Ltd	Multiple Portfolios	MF-AGG		1,786,156	0.64
14. Allison M Jay		Form 4		1,690,813	0.61
15. Geode Capital Management LLC	GEODE CAPITAL MANAGEMENT LLC	13F		1,616,742	0.58
16. Two Sigma Investments LP		ULT-AGG		1,519,843	0.55
17. Credit Agricole Group		ULT-AGG		1,513,306	0.55
18. SIG HOLDING LLC		ULT-AGG		1,343,751	0.48
19. Renaissance Technologies LLC	RENAISSANCE TECHNOLOGIES LLC	13F		1,340,700	0.48
20. First Trust Advisors LP		ULT-AGG		1,257,582	0.45
21. WisdomTree Inc		ULT-AGG		1,050,956	0.38
22. Teachers Insurance & Annuity Association of America		ULT-AGG		1,018,692	0.37

- Strategic relationship with successful Dallas businessman Jerry Jones, the company's largest shareholder, whose investment to date in Comstock totals \$1.1 billion

# Natural Gas Prices Over Time

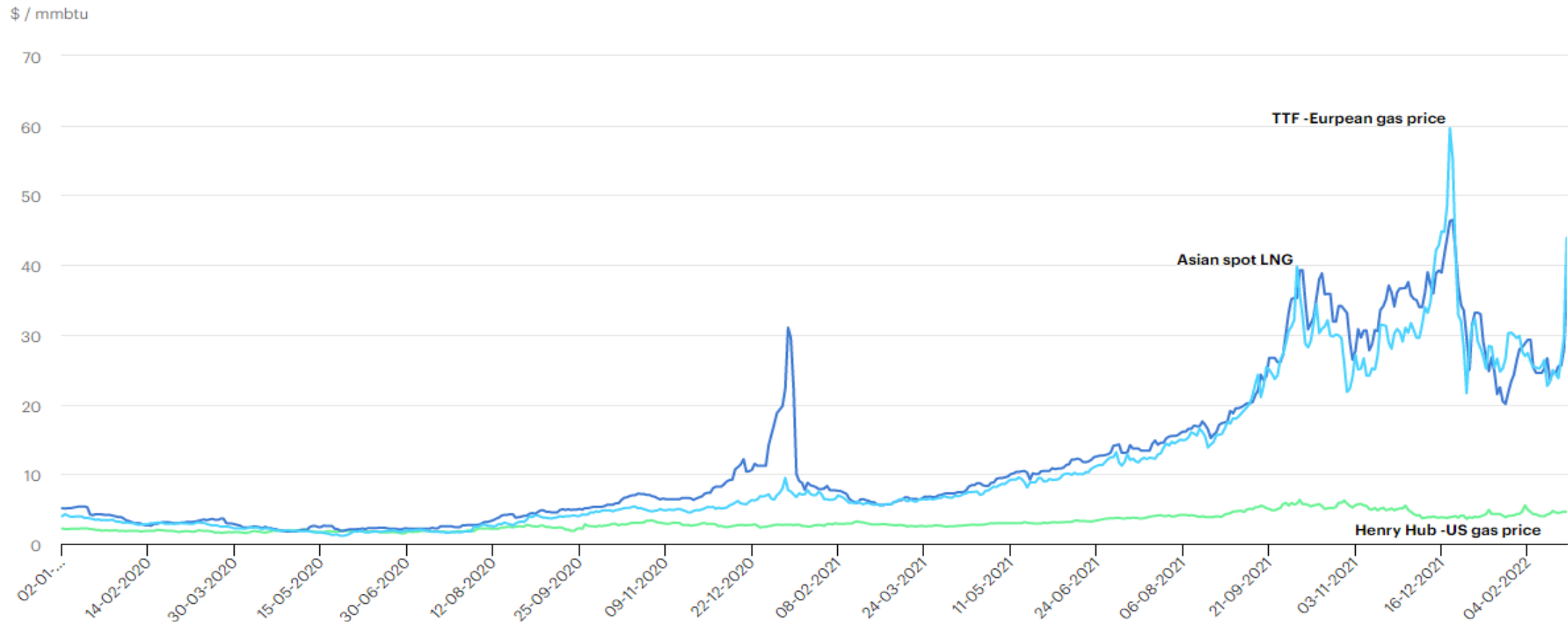


Henry Hub Natural Gas Prices Over Time (\$/Mmbtu)



# Henry Hub Compared to Global Rates

- Large domestic supply (due to fracking technology breakthroughs) and limited export capacity has traditionally kept U.S natural gas prices relatively cheap (via IEA.org)



# Gas Rig Count (Baker Hughes Rig Count)



- Following a large drop in active rigs during covid, industry production has increased significantly to capture high oil prices sparked by Russia/Ukraine conflict
- Currently, natural gas prices are below many producer's cash production costs, so production will naturally lower

U.S Gas Rig Count 2015 to Present

