

Diversified Energy: The real estate of oil and gas producers

Company:	Diversified Energy (DEC)	Market Cap:	\$12.95 (\$987m)
Industry:	Oil and gas producer	Production:	1.1Bcfe/d (75% gas, 25% oil)
Country:	US	Net Debt:	\$2.6bn
Date:	17 th March 2025	Adj. EBITDA:	\$973m (10% depreciation)
Dividend:	\$1.16 (10%)	Free cash flow:	\$420m (before ABS amort.)
Entry:	\$12.95 (\$987m)	Target:	\$17.4 or \$1.4 bn (+34%)

*Estimated guidance as of March 2025 and current oil and gas prices

Why Diversified Energy?

- 10% dividend yield, paid quarterly + share buybacks
- 75% of production is natural gas, with LNG export facilities leading to increased US natural gas prices and gas production from public producers is either flat this year or increasing only in H2 25
- 85% of cash flows hedged
- Annual debt reduction of \$265m would imply nearly 30% increase in equity valuation this year
- Investment grade credit rating
- Coal mine methane revenues are increasing to \$12m in 2025, \$24m 2026
- Large undeveloped acreage. Divestment in acreage can support cash flows (\$40-50m p.a.)

Risks

- 10% production decline per annum. Lost production is only replaced/grown by acquisitions
- Frequent equity issuance to fund acquisitions
- Ukraine peace and renewed Russian gas pipelines into Europe could put downward pressure on global natural gas prices

About Diversified Energy

Diversified Energy is an oil and gas producer with 1.2Bcf/d production and a mix of 25% oil and 75% gas (as of March 2025, after the Maverick acquisition). The company acquires assets, “runs them dry” and does not drill to bring new production onboard, which leads to an annual production decline of around 10% per annum. Around 85% of revenues are hedged over multiple years and funded via ABS, which gets amortised annually with the “run-down” of the asset. Diversified holds around 5.572m net acres of undeveloped leasehold land. Recent land sales in the Central Region had a price tag of \$1,300/acre, hence offering potentially attractive additional cash flow from sales. The company also owns a wells retirement business, Next LVL, which also generates revenues and profits from other producers, reducing their retirement obligation costs oftentimes to zero. In recent months, Diversified also began selling coal mine methane, which can be used to generate power through the electrochemical conversion of methane to hydrogen, and to electricity.

Why did the share price drop by over 30% since the Maverick acquisition?

After the Maverick acquisition¹, Diversified surprised the market with an additional 8.5m equity issuance to reduce debt in connection with the acquisition², which was likely needed to stay in line with the covenants of the credit facility³. The total dilution, including the 21.2m shares issued to the owners of Maverick, equated to 37% and the share price took an equivalent hit over the last few weeks. At the same time, the tariffs were announced, which took the entire Russell 2000 down. However, the free cash flow generated from the deal is also equivalent to around 1/3 of the combination of Diversified Energy and Maverick. From that perspective, the share price should have remained stable. The US onshore natural gas price, meanwhile, climbed by around \$1/mcf. The company now has \$2.6bn in net debt, \$1bn in equity valuation, whilst generating \$420m in free cash flow. The free cash flow is used to pay \$84m in annual dividends (paid quarterly), with the remainder going towards ABS amortization and debt reduction. This makes it equivalent to an 8.6x EV/FCF and a near 10% dividend yield. As over \$265m of ABS is being repaid in a year, this reduction in enterprise value (EV) should in theory go to the equity portion of the EV,

¹ https://polaris.brighterir.com/public/diversified_gas_and_oil/news/rns/story/xpv7nix

² https://polaris.brighterir.com/public/diversified_gas_and_oil/news/rns/story/x2pmo7w

³

https://d1io3yog0oux5.cloudfront.net/_7c9749735024bcddd4c871afbf5cfa84/dgoc/db/604/6013/report/2024+Annual+Report+-+Diversified+Energy.pdf p.126/127

although this is offset due to a 10% production decline. Finally, a \$1 change in mcf is equivalent to \$44m annual cash flow for Diversified, considering 15% of the 75% gas production is unhedged at 1.075BCF/d.

Diversified Energy's debt profile

Debt type	\$ m	Coupon	Annual repayment	Interest payment
Term loan II	84	8.58	1	7
Credit facility	200	7.58		15
ABS 4	80	4.95	20	4
ABS 6	242	7.5	35	18
ABS 8	586	7.28	31	43
ABS 9	75	6.891	15	5
ABS 10	530	6.4	66	34
Deferred consideration	113	9	40	10
Maverick debt	700	9.83	58	69
Cash	-3			
Net debt	2607		265	217

Source: Diversified Energy annual results 2024, Maverick acquisition announcement (includes personal assumptions)

https://polaris.brighterir.com/public/diversified_gas_and_oil/news/rns/story/w6o6zkw

https://d1io3yog0oux5.cloudfront.net/_7c9749735024bcddd4c871afbf5cfa84/dgoc/db/604/6013/report/2024+Annual+Report+-+Diversified+Energy.pdf

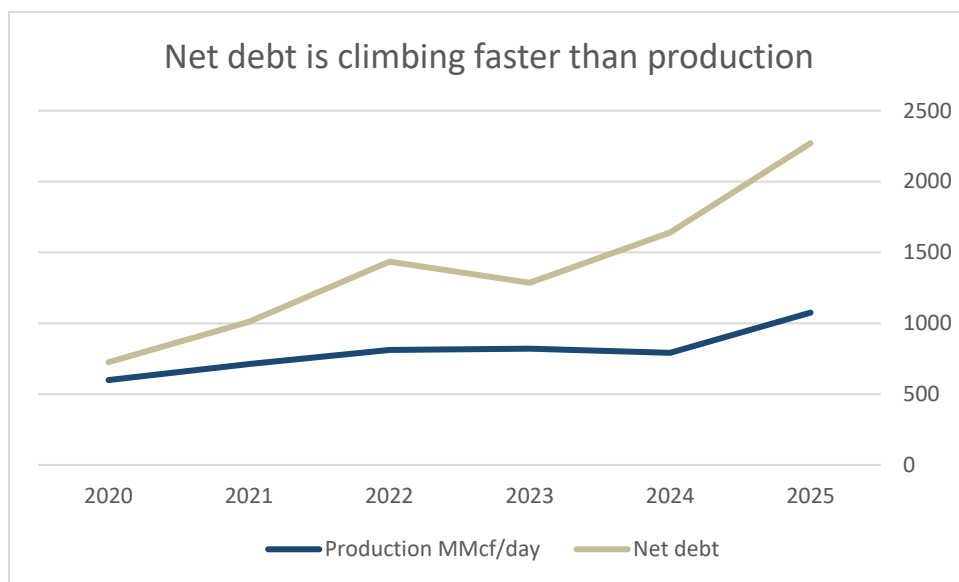
Diversified Energy's free cash flow (FCF) profile

Type	\$m
FCF	420
Dividend	84
Debt amortisation	265
FCF Post amortisation and dividend	71
Expected net debt end 2025	2,271

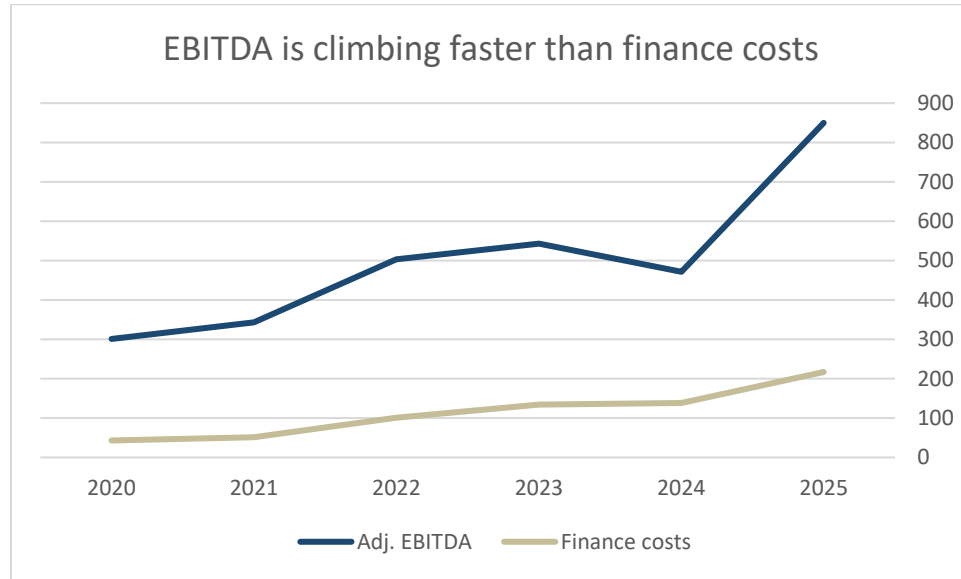
Source: Diversified Energy annual results 2024, Maverick acquisition announcement

The asset-backed funded acquisition model

Diversified Energy is not drilling to grow their production or offset their 10% production decline. Instead, the company acquires other producers via ABS (debt) and improves their financials through synergies and sales of undeveloped acreage. The key to this debt funded acquisition model is to understand how production increases vs. net debt and EBITDA vs. interest expense. While net debt climbed faster than production, EBITDA climbed faster than interest expense over the last five years. Meanwhile, shareholders have suffered from frequent equity issuance. However, although this is not great news for shareholders, the dividend has remained well above average (vs. all industries). As net debt is nearly 3x equity, now has been a good opportunity to buy the shares at an attractive valuation, if one considers around \$40-45m annual undeveloped leasehold sales and the up to \$24m annual coal mine methane cash flows. This could further reduce debt or enable new acquisitions. The newly emerging Cherokee shale play is also an added bonus. All in all, we have \$420m free cash flow, which includes production, \$50m in cost savings from the Maverick acquisition, \$12m from coal mine methane sales this year, \$40-45m in undeveloped acreage sales (equivalent to 55k acres at \$800/acre), but excludes a \$44m FCF delta (upside) to \$1/mcf gas price change. The 5.572m acres of undeveloped acreage Diversified owns is a hidden gem that could be equivalent to the entire equity valuation, especially as the new Trump administration is focused on growing domestic energy production and becoming the untouched global energy superpower.



Source: Diversified Energy annual reports



Source: Diversified Energy annual reports

Diversified Energy Acquisition History

Date	Assets Acquired/From	Acquisition cost in \$m	Paid by	Reserves quantity	Reserves Value	Production	Gas/Oil %	Current EBITDA NTM (\$m)	Purchase Multiple
Mar-25	Maverick	1,275	1/3 equity, \$208m cash		\$2.1bn (PV-10)	350 Mmcfe pd	45	380	3.3
Feb-25	Summit Natural Resources	42	cash	11 MMBoe	\$55m (PV-10)	12 Mmcfe pd	100	12	
Oct-24	West Texas Assets	69	\$35m equity	12 MMBoe	\$89m (PV-18)	21 Mmcfe pd	69	19	3.5
Aug-24	Crescent Pass Acquisition	106	\$28m equity	28 MMBoe	\$155m (PV-10)	38 Mmcfe pd	92	26	3.8
Jun-24	Oak Tree	410	\$83m deferred, \$120m debt	85 MMBoe	\$462m (PV-10)	122 Mmcfe pd	80	137	3
Mar-23	Tanos Energy	250	\$165m equity, \$90m cash	25 MMBoe	\$312m (PV-10)	99 Mmcfe pd	76	107	2.3
Sep-22	Upstream Assets	240	debt	31 MMBoe	\$297m (PV-10)	52 Mmcfe pd		96	2.5
Jul-22	Well services and plugging assets			0	0	0			

Apr-22	East Texas Assets	50	Cash	18 MMBoe	\$102m (PV-10)	22 Mmcfe pd	100	35	1.4
Dec-21	Tapstone Acquisition	181	\$181m debt	35 MMBoe	\$324m (PV-10)	72 Mmcfe pd	62	95	1.9
Aug-21	Tanos	154	Cash and debt	40 MMBoe	\$201m (PV-10)	82 Mmcfe pd		51	2.3
Jul-21	Blackbeard Acquisition	180	Cash and debt	79 MMBoe	\$238m (PV-10)	95 Mmcfe pd	82	48	3.5
May-21	Cotton Valley	135	Debt	50 MMBoe	\$175m (PV-10)	95 Mmcfe pd		40	2.9
May-20	Carbon Energy	110	Debt	74 MMBoe	\$189m (PV-10)	54.6 Mmcfe pd		30	3.3
Sep-19	Natural Gas Gathering Systems	8		0	0	0			
Sep-19	EdgeMarc Acquisition	50	Debt	13.5 MMBoe	\$58m (PV-10)	46 Mmcfe pd	99		2.1
Apr-19	HG Energy 2 Appalachia	400	\$234m equity, debt			11.2k boepd	90		
Jul-18	EQT Corporation	575	\$250m equity, debt	230 MMBoe	\$804m (PV-10)	24k boepd			
Apr-18	CNX Gas Company	85	Debt						
Mar-18	Alliance Petroleum	95	Equity	49.3 MMBoe	\$168m (PV-10)	53 Mmcfe per day	99	14	1
Dec-17	NGO Development Corporation	3	Cash			1.3 Mmcfe d			
Jun-17	Tital Energy	84.2	\$35m equity, \$110m debt			12.5k Boepd			

Source: Diversified Energy regulatory news

A highly attractive U.S. onshore natural gas outlook

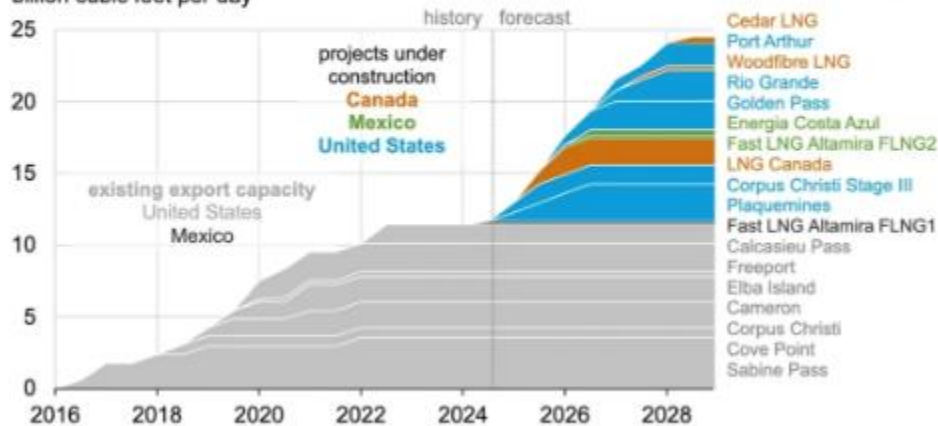
This year, the U.S. will bring nearly 3TCF (3,000BCF) in LNG export capacity online. At the same time, some of the largest U.S. natural gas focused onshore producers are either not increasing production at all this year or are only increasing production from H2 2025 & by a small amount. This is very different to the last LNG export ramp up between 2018 and 2021, when U.S. natural gas production increased ahead of LNG exports, keeping prices relatively low. Trump has now approved the 3.96BCF/d CP LNG export facility from

Venture Global⁴, which is not even included in the calculations below, but only set to come online sometime in 2026⁵. The U.S. rig count also stayed relatively stable during this 2018-2021 period (ignoring the decline through Covid). We have recently seen a rise in the private rig count (Enverus data) in the gas-rich Anadarko Basin and other, non-core basins, which could include the Cherokee basin. Whilst the 2018-2021 period was not very “bullish” for natural gas prices, the LNG export growth capacity in 2025 is much stronger than during the LNG export growth during the prior period, as three large facilities come online. Combined with the hesitant gas producers not looking to add much production, this should lead to higher U.S. natural gas prices, benefitting Diversified Energy (although only to a limited extent as only 15% of their production is unhedged). Finally, tariffs and the looming trade wars are an opportunity, not a threat, because smart countries will look to import U.S. natural gas to even out their trade balance with the US. This is the easiest and cheapest way for Europe to balance their trading books with the U.S. and does not even impact them financially, because they will need to import LNG anyway – and their natural gas inventories are low! See charts below

North America's LNG export capacity is on track to more than double by 2028

This TIE was updated September 6, 2024 to clarify a data point.

North America liquefied natural gas export capacity by project (2016–2028)
billion cubic feet per day



Data source: U.S. Energy Information Administration, *Liquefaction Capacity File*, and trade press
Note: Export capacity shown is project's base load capacity. Online dates of LNG export projects under construction are estimates based on trade press.
LNG=liquefied natural gas; FLNG=floating liquefied natural gas

⁴ https://www.rigzone.com/news/venture_global_lng_invests_another_10b_in_louisiana-07-dec-2021-167232-article

⁵ <https://financialpost.com/pm/biz/pm/trump-to-approve-lng-exports-from-venture-globals-cp2-project>

New LNG export facilities schedule

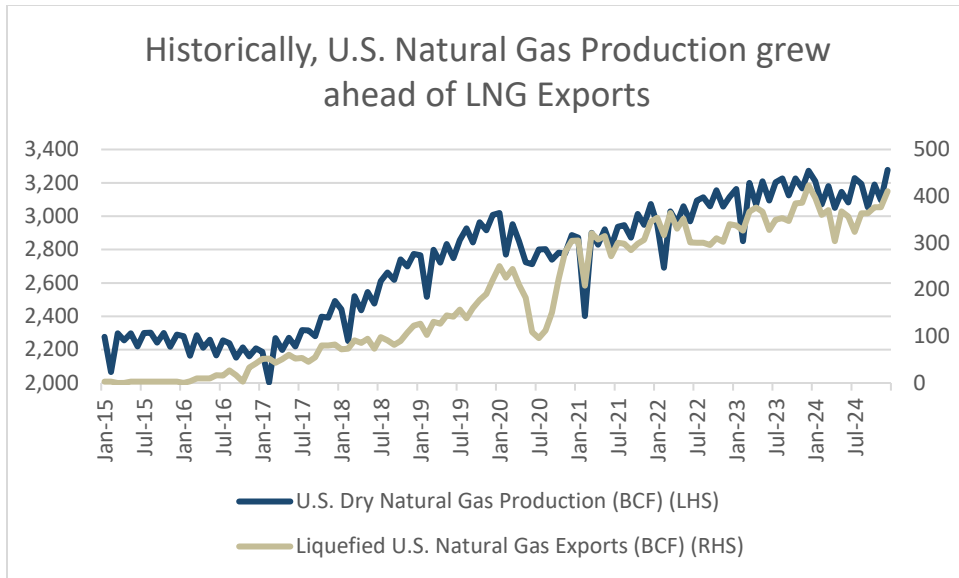
Country	LNG export terminal	Capacity (TWh)	Capacity (BCF)	Start date
USA	Plaquemines	278	949	26-Dec-24
USA	Corpus Christi Stage III	332	1,132	Feb-25
Canada	LNG Canada	193	657	mid-25
USA	Golden Pass	254	865	H2 2025
Mexico	Fast LNG Altamira FLNG2	19	66	Q1 2026
Qatar	Qatar I	466	1,589	early 2026
Mexico	Energia Costa Azul	43	146	Q2 2026
USA	Rio Grande	385	1,314	2027
Qatar	Qatar II	228	777	2027
Canada	Woodfibre LNG	32	110	2027
USA	Port Arthur	204	697	2027/2028
Canada	Cedar LNG	43	146	late 2028
Qatar	Qatar III	228	777	2030

Source: Individual projects

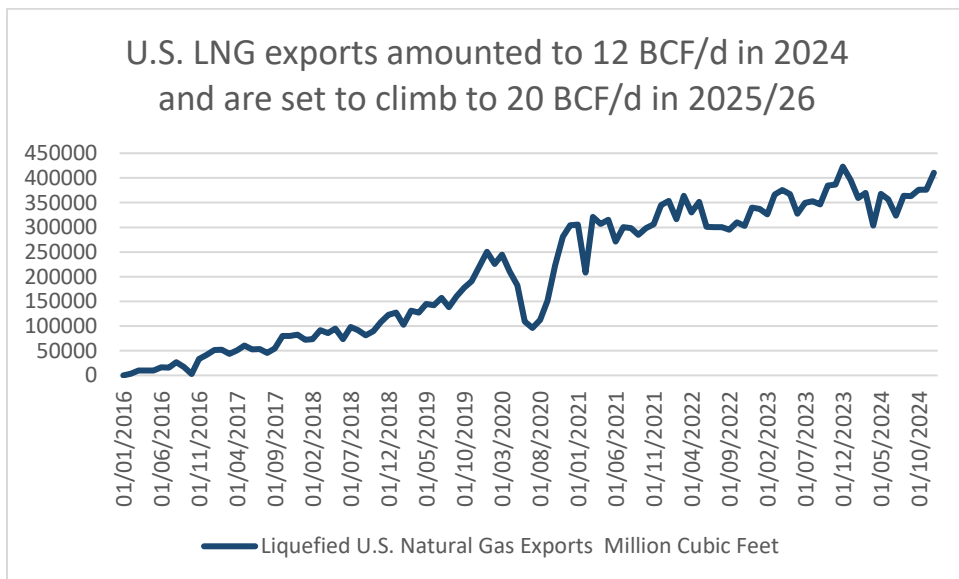
New LNG export facilities schedule

Company	Last year BCF	Guidance BCF	BCF difference
Expand Energy	2,340	2,592	252
EQT	2,228	2,225	-3
Antero Resources	803	803	0
Range Resources	796	803	7
Subtotal	6,166	6,423	256

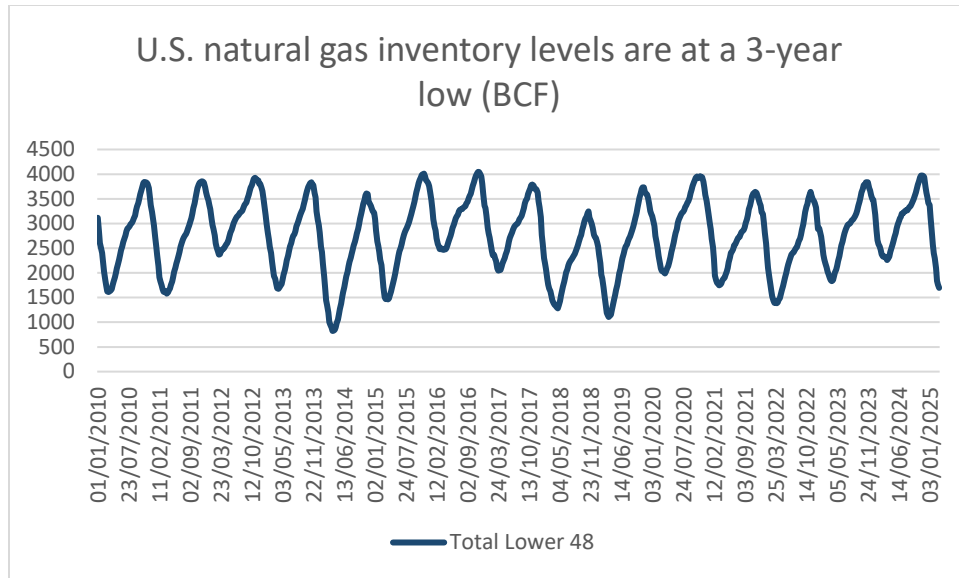
Source: Individual companies



Source: EIA

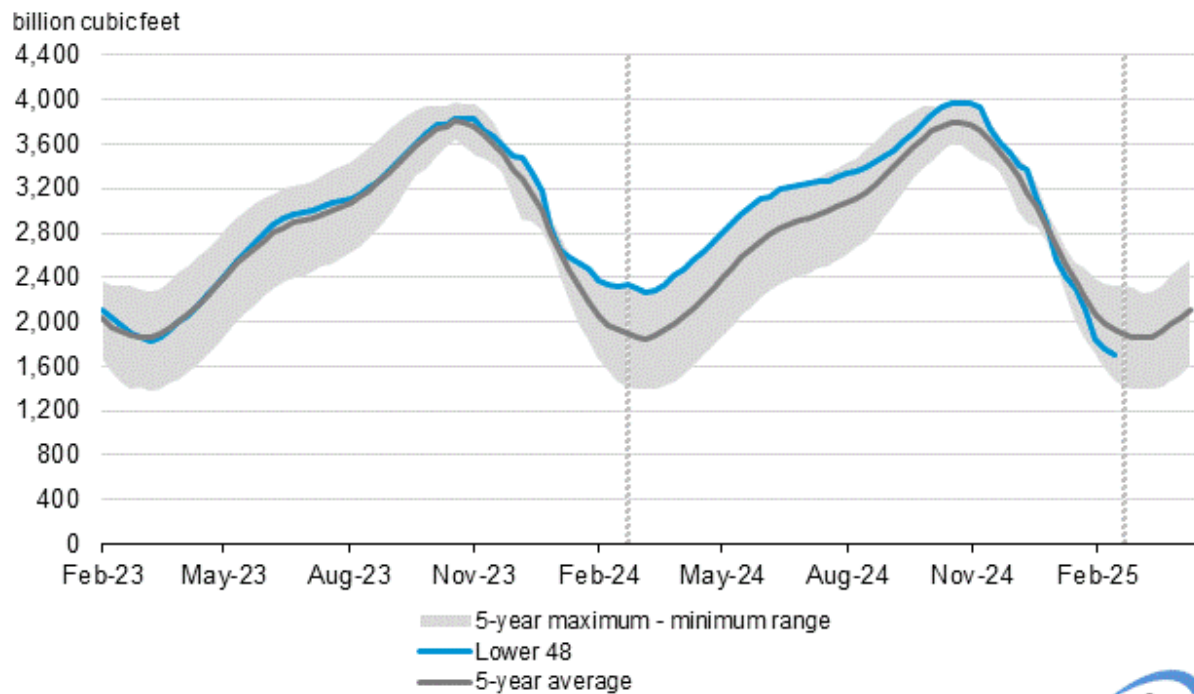


Source: EIA



Source: EIA

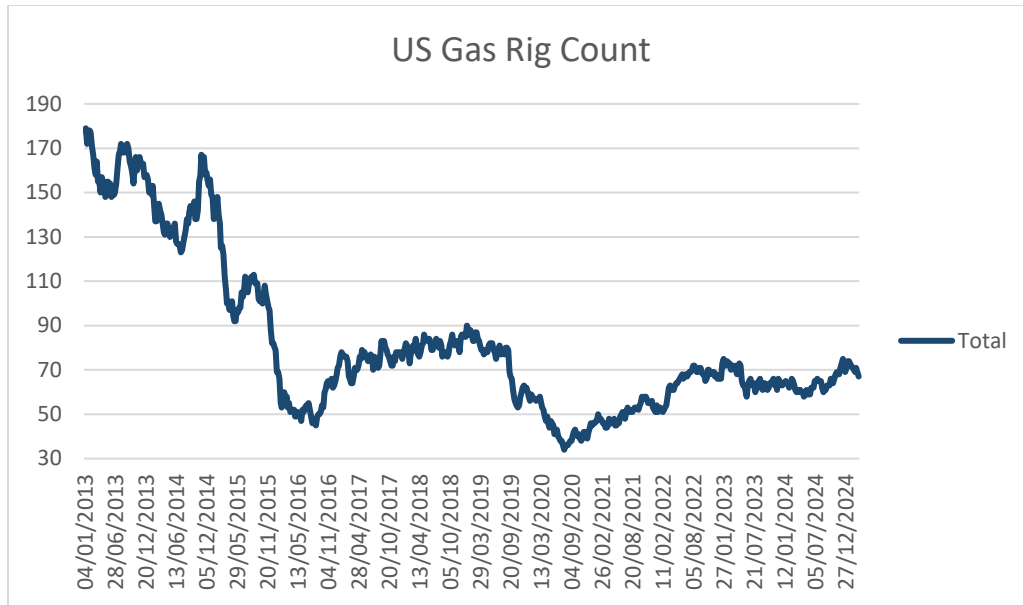
Working gas in underground storage compared with the 5-year maximum and minimum



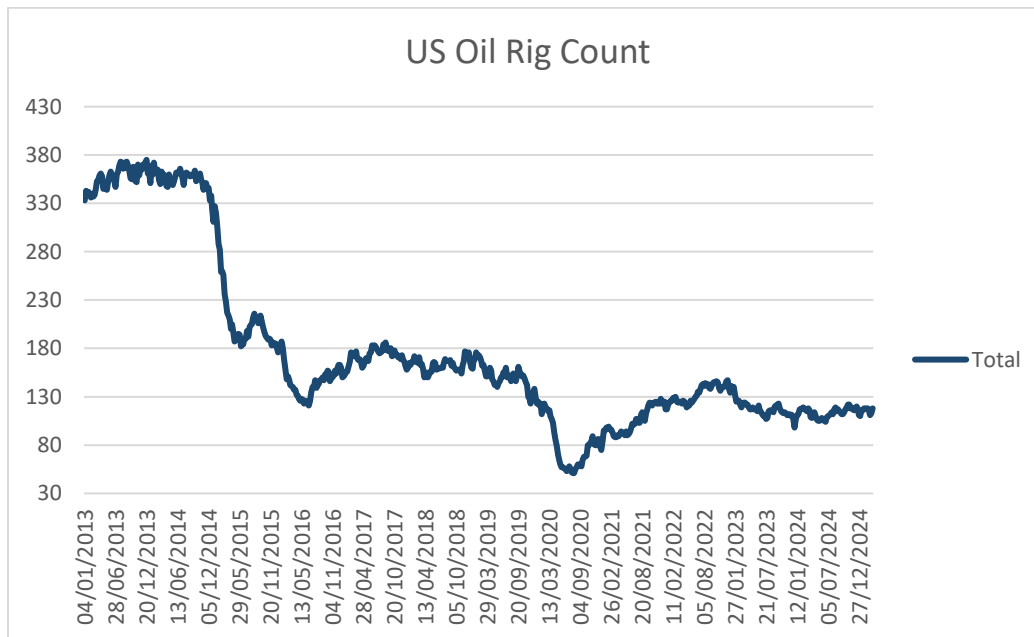
Data source: U.S. Energy Information Administration



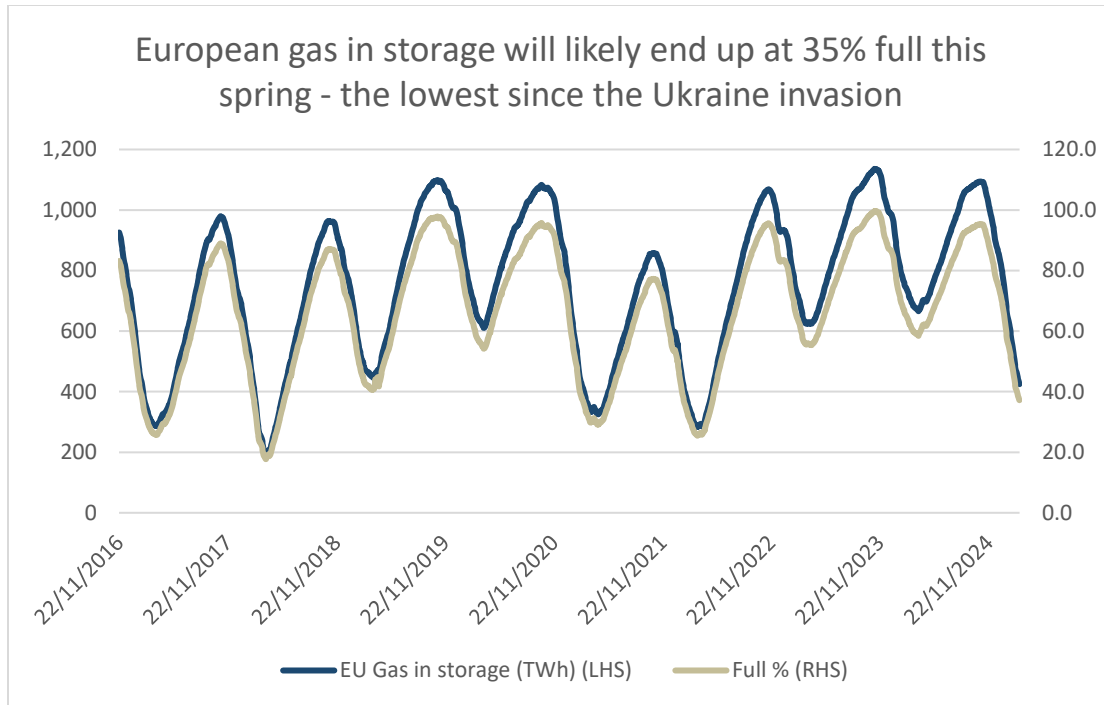
Note: The shaded area indicates the range between the historical minimum and maximum values for the weekly series from 2020 through 2024. The dashed vertical lines indicate current and year-ago weekly periods.



Source: EIA



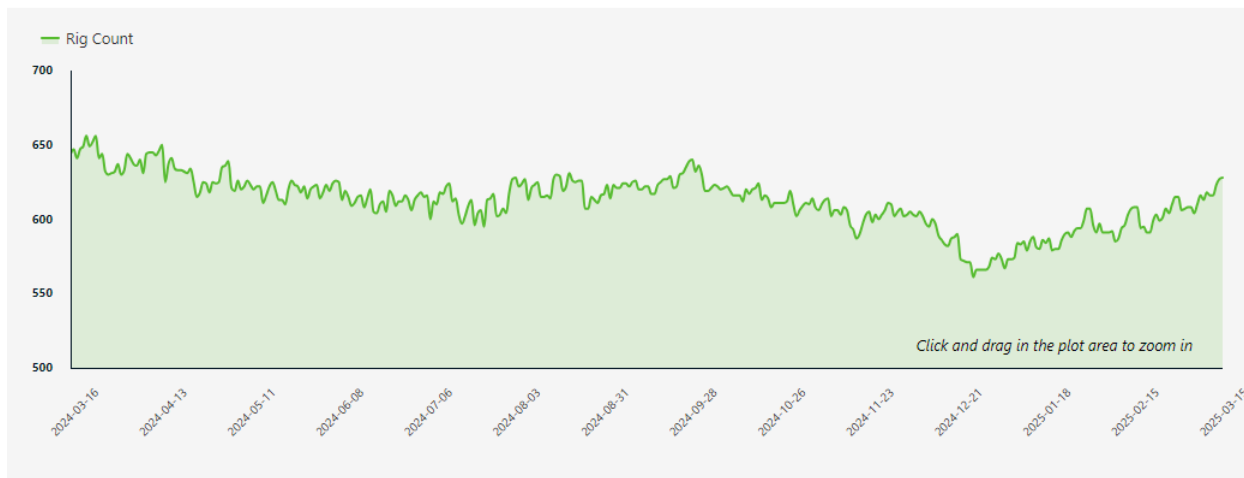
Source: EIA



Source: ASGI

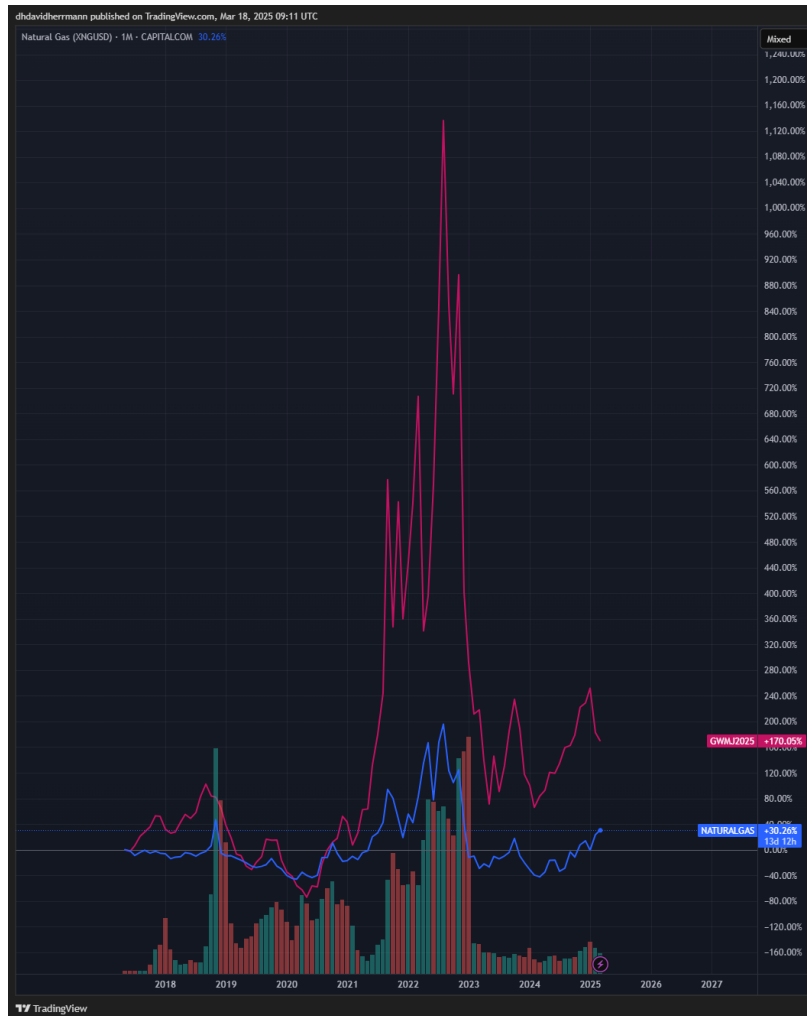
US oil and gas rig count including private operators

This Week's Analysis



Source: Enverus Daily Rig Count

US natural gas price (blue) vs. Europe natural gas price (red)



Source: TradingView

US natural gas price (blue) vs. WTI oil price (red)



Source: TradingView

US natural gas price (blue)



Source: TradingView



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