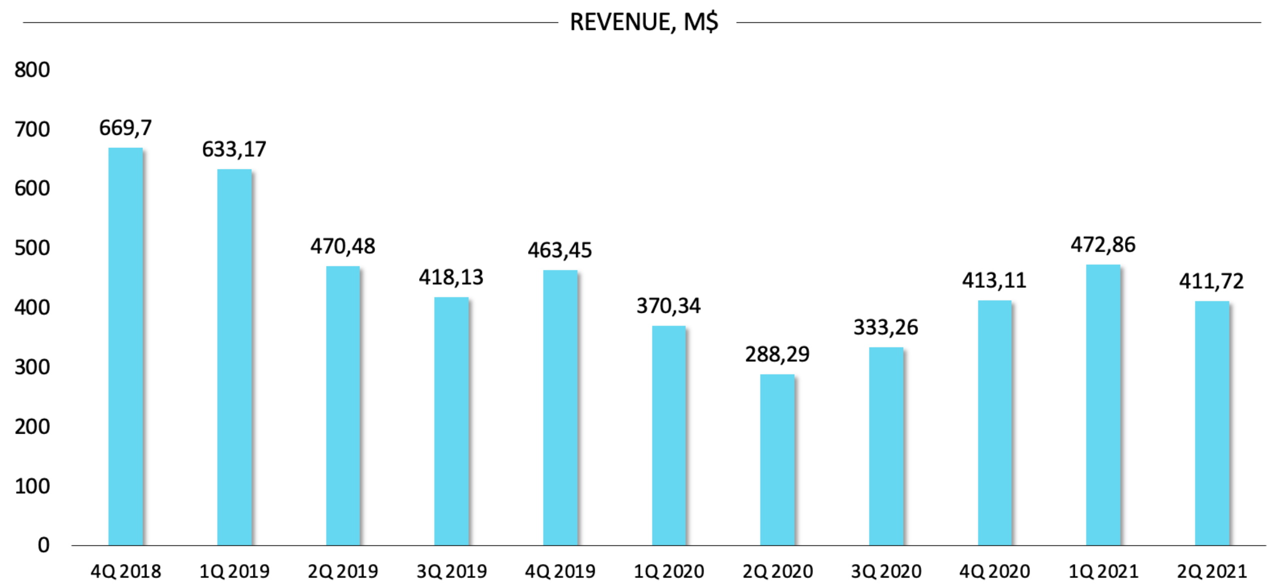
Initiation date: 08 Aug 2021

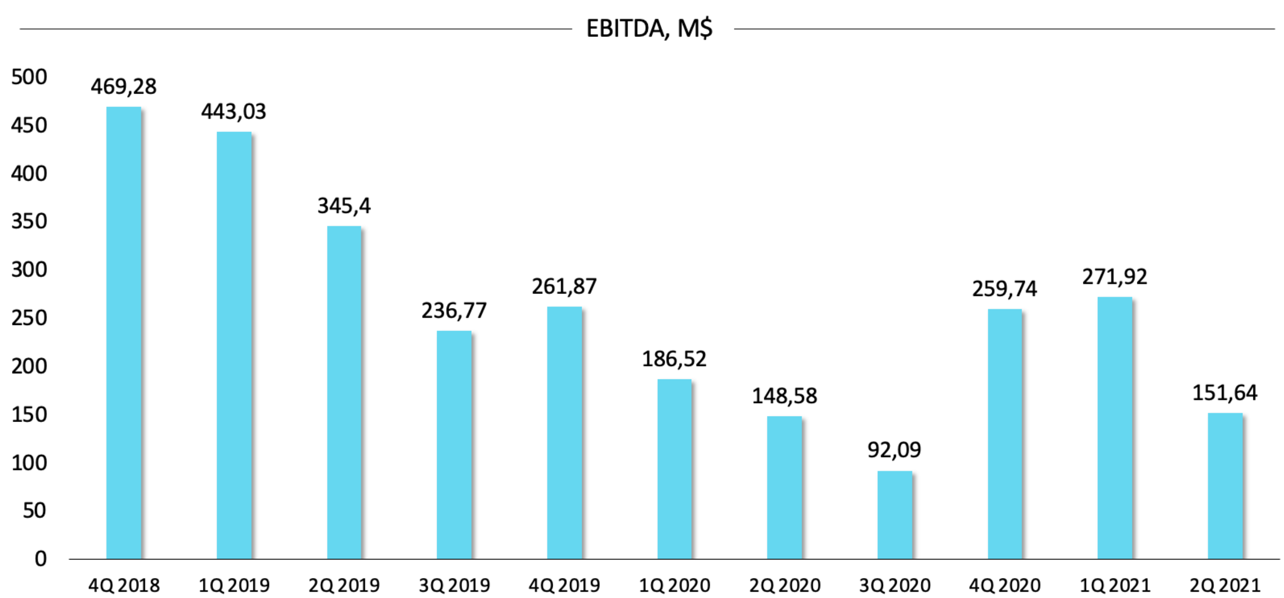
Cabot Oil&Gas is an undervalued natural gas producer in terms of EV/EBITDA and current market conditions.

Cabot Oil & Gas is an independent oil and gas company that operates in the segment of extraction, operation and production of natural gas in the continental United States.

Revenue increased by 42% in the 2nd quarter y/y:



EBITDA in the 2nd quarter increased by 2%:



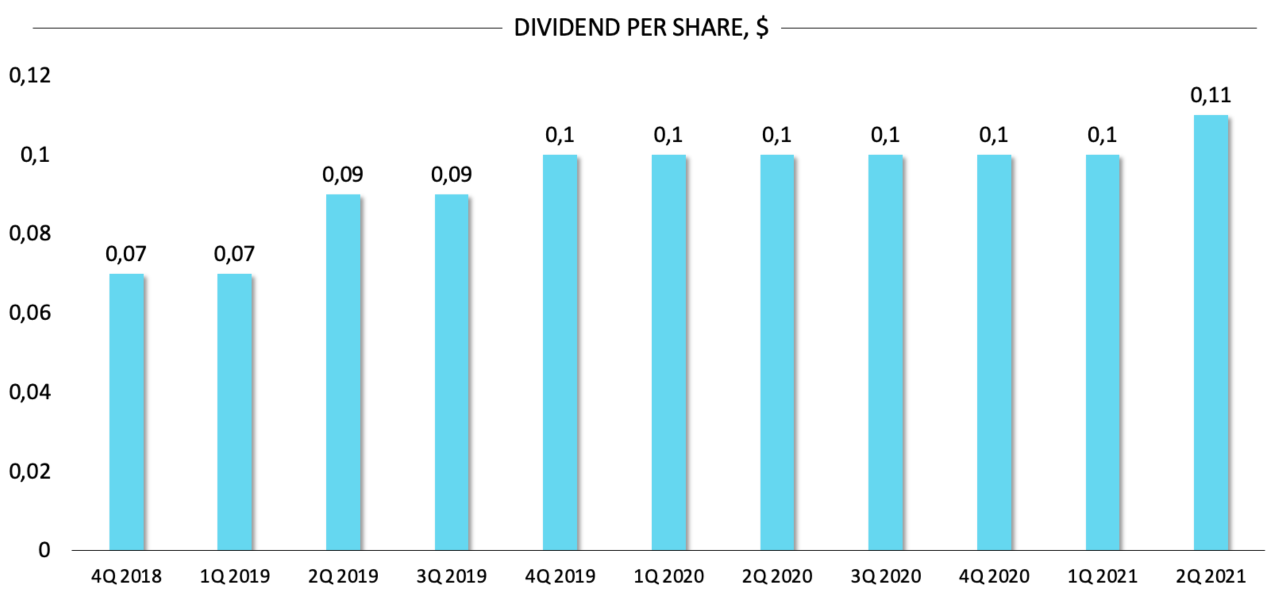
Gas prices in the United States (Henry Hub) increased by 52% over the last 4 quarters:

The shift in the market conditions determines the huge growth of the company's EBITDA (estimated EBITDA in the next 12 months may be 180% higher relative to LTM)

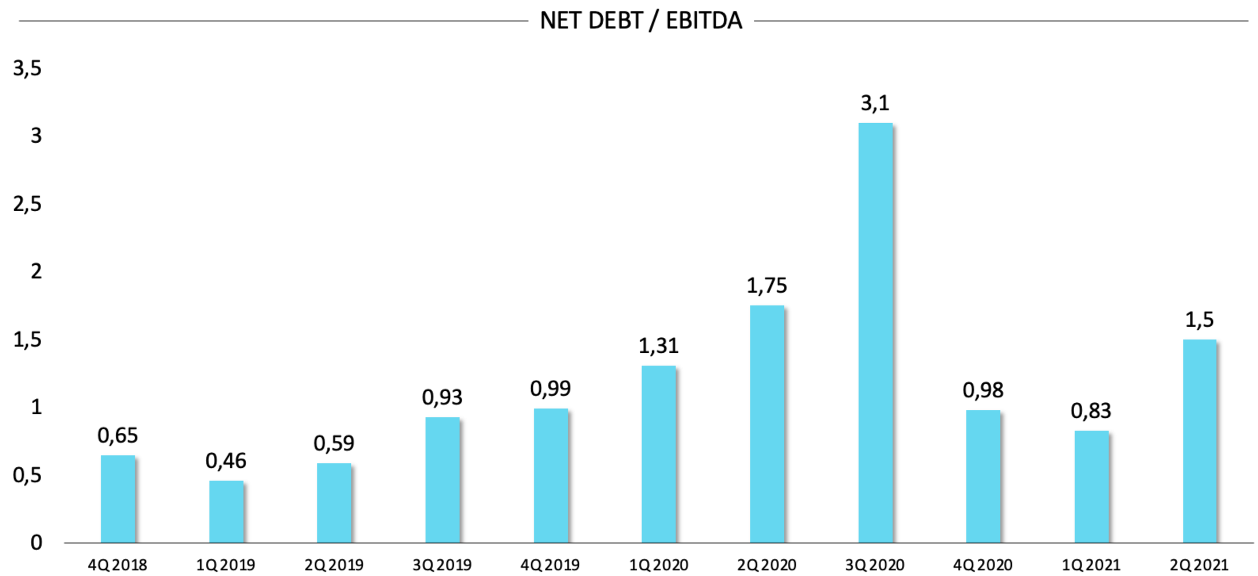
Production growth forecast: the company slightly reduced production in the 2nd quarter of 2021 due to one-off problems of intermediaries for gas transportation, but announced an acceleration of production in 2H 2021 (approximately +10% relative to 1H 2021) and reaching the previously announced guidance;

The company also has reserves for about 15 years and regularly increases the inventory base.

Cabot Oil&Gas pays a quarterly dividend of $0.11 per share. The annual dividend yield is **2.75%**

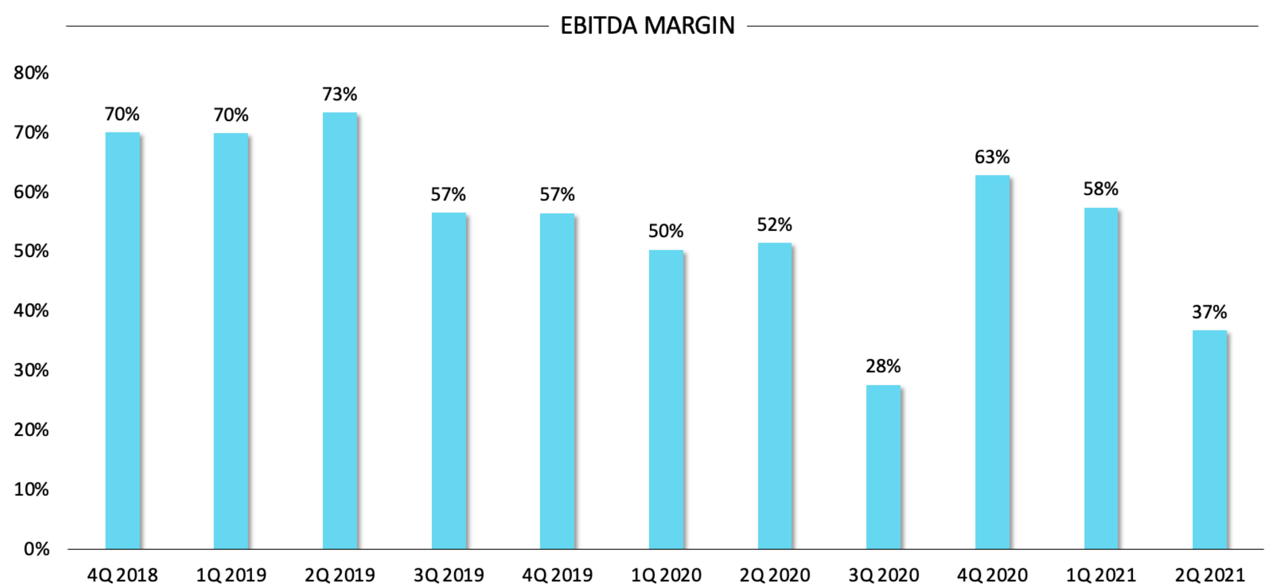


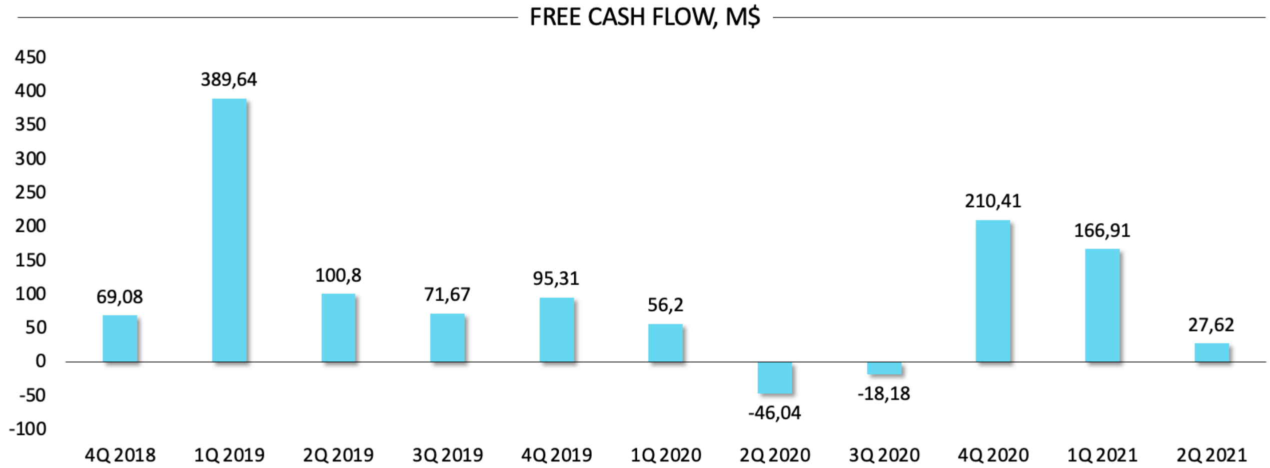
The debt is at a comfortable level:



Unlike many other producers, the company has a low debt burden, which allowed it to hedge less and get more benefits from the increase in gas prices. Starting from 2022, the company is not hedged at all, which will allow it to receive the maximum benefit from the market situation; only 20% of the company's sales are contracted at fixed prices, the rest are tied to market indices. In the 2nd quarter of 2021, the company still recorded a loss from hedging contracts, the termination of such losses is also expected to increase EBITDA.

Marginality in the 2nd quarter fell to 37%:





Free Cash Flow Yield = **6%**

Taking into account the current gas prices, the company has a great growth potential according to the calculations of our model

The company is worth about 10.1 EV / LTM EBITDA, at the same time, relative to the forecast EBITDA, the company is worth only 3.6 x (ultra-cheap).

$m, unless otherwise stated	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Next Twelve Months Estimate
Production	221	219	206	201	223
Daily	24066	2375	2287	2205	2454
Henry Hub Price ($/mcf)	2.12	2.76	2.72	2.94	4.13
Realized Price incl hedges ($/mcf)	1.57	1.89	2.3	2.05	3.24
Realized Price excl hedges ($/mcf)	1.51	1.9	2.31	2.05	3.24
Unit Cost ($/mcf)	1.41	1.39	1.44	1.41	1.49
Margin ($/mcf)	0.71	1.37	1.28	1.53	2.6
Rev Gross	333	413	473	411	723
Loss on derivatives	-42	43	-13	-87	-99
Revenue Net	291	415	460	325	624
Revenue Est	348	413	473	411	
EBITDA Estimate (unit margin * production - loss on derivatives	115	342	250	220	2,254
EBITDA	92	218	272	152	2,060
Diff	(23)	(125)	21	(68)	(194)
Current EV					7427
EV / LTM EBITDA					10.1
EV / NTM EBITDA E					3.6

Stock prices are at local lows, despite the rapid growth of gas prices:

Risks: Merger with another company. Cabot is in the process of merging with XEC; Cabot's shareholders will receive 49% in the combined company. The transaction was approved by the boards of directors of both companies, at the same time it may be somewhat less attractive for COG, since oil prices have increased by only 26% (against 57% for gas)

Taking into account the undervaluation of the company by EV/EBITDA, reserves for 16 years and high gas prices, we look positively at the shares of Cabot Oil&Gas (COG).

Kind regards,

Enhanced Investment Team

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