



PDC Energy Bulls Active on Merger Benefits into 2020

Ticker/Price: PDCE (\$25.85)

Analysis:

PDC Energy (PDCE) with another 2500 July \$17.5 puts sold to buy the \$30/\$35 call spreads adding to activity the last two days in these spreads. PDCE also with 300 July \$22.50 ITM calls bought \$5.80. PDCE shares are working out of a multi-week consolidation this week and looking to approach 2019 downtrend resistance near \$29. The \$1.6B Colorado-based energy firm is focused on the Wattenberg Field in Colorado and Delaware Basin in Texas. Shares trade 8.85X Earnings, 0.68X Book and 3.2X EV/EBITDA, cheap on valuation. Forecasts call for 75% EBITDA growth in 2020 and the company announced a \$1.7B stock-merger with SRC Energy (SRCI) in August. The combined company forms a top mid-cap E&P company and increased proved reserves to 850MMBoe. The deal is seen to be accretive to FCF, CROCI, and NAV and industry-leading operational and financial metrics. It will carry much lower Debt/EBITDA than peers and a leading cost profile. Analysts have an average target of \$43 on shares and short interest is high at 16% of the float but likely attributed to the M&A arbitrage with the recent spike in short interest. Barclays started coverage in August at Overweight with a \$42 target positive on the merger. BAML is positive as well and has a \$41 target noting PDCE is now a preferred company with superior FCF profile, strong execution, steady production growth and a healthy balance sheet. Hedge Fund ownership fell modestly in Q3 filings.

Hawk Vision:



Hawk's Perspective: PDCE is quietly becoming an attractive player in the E&P space and with Energy shaping up better a name to keep an eye on for a move to \$35.

Confidence Ranking: \$\$