



### Appalachian Basin Natural Gas Producer Sees Bulls Bet On 2024 Rebound

Ticker/Price: AR (\$21.68)

#### Analysis:

**Antero Resources (AR)** on 12/12 saw buyers into weakness for over 5000 May \$24/\$30 call spreads at \$1.00 as the natural gas play tests recent lows and tries to rebound from the double bottom level near 20 from last May. AR also this week on 12/14 saw buyers of 300 May \$18 ITM calls for \$5.45 and this follows earlier this month seeing 2500 June \$15 puts at \$0.40 and the June \$18 short puts sold for \$0.73. AR still has some Jan \$20 short calls in OI while also 2000 Jan 2025 \$23 calls bought at \$9.19 and Jan 2025 \$35 calls bought on 5/22 for \$3.45 and still holding. The \$6.5B natural gas producing company trades at 10.1x earnings, 1.6x sales, FCF yield of 9.6% with revenues expected to rebound +10% in FY24 and growth estimated at +14% in FY25. The Company is engaged in the development, production, exploration and acquisition of natural gas, natural gas liquids (NGLs) and oil properties located in the Appalachian Basin. Shares have been sluggish the past month with natural gas prices selling off to lows and now the stock is back near a double bottom support level trying to rebound from 20 where large volume shelf exists from back in 2021 and the 200-week MA rising at 19 just below current levels. If natural gas can see a winter weather related rebound into the next few months, then AR could easily surge back to the 25-27 zone where the 2023 yearly POC of volume sits. AR is coming off a beat of top and bottom lines while upping FY23 production guidance and decreasing production costs slightly. Average analyst price target is \$36. Wells Fargo upgraded the name this week to Overweight and \$26 target noting favorable risk/reward as they like leaning into names like Antero with unhedged natural gas exposure. Following a tough 2023, the firm sees a strong likelihood of mean-reversion in valuation of the stock. JPM is more Neutral but keeps a \$31 target saying thinks the potential for more mergers and accusations given the industry's thirst for sticks on the map could keep a floor on valuations. M&A rumors in the Nat Gas sector has swirled this year as prices remain weaker but back in October Reuters reported that Chesapeake (CHK) is considering purchase of SWN. Names like RRC and AR also fit a similar scope that could be looked at as names under \$10B in market cap being attractive takeovers for larger energy giants. Jefferies is quite bullish as they raised their target to \$35 in late Oct and cites the combination of reiterating attractive operating guidance and relative equity underperformance making it an intriguing risk/reward play into 2024. Short interest is at 2.4%. Hedge fund ownership rose by 16%. Encompass Advisors started a new position last quarter of 1.36 million shares at an average price near 24.76.

#### Hawk Vision:



**Hawk's Perspective:** AR is back at levels where speculating on a natural gas recovery into late winter could be interesting. Closing a weekly candle above 22.50 would be nice to see but the May 24/30 call spreads at \$1.00 are a simple way to play it.

Confidence Ranking: \$\$