

## APA Corporation

## 4Q23 Earnings recap: Tax distorts EPS, cashflow beats, good capex guide ex Callon

Reiterate Rating: BUY | PO: 49.00 USD | Price: 31.44 USD

## Cashflow beat, EPS miss, 2024 capex outlook looks good

We do not fully understand APA's EPS, which looks like a headline miss of \$1.15 that was below consensus & BofAe of ~\$1.33, but is heavily distorted by valuation allowances seemingly related to year end reserves accounts, not all of which was stripped out as non-recurring. In our view a better gauge of the qtr is c/flow, which for 4Q23 was \$1,007mm, slightly ahead of BofAe at \$986mm, helped by higher net production in Egypt and the US vs guidance which offset additional compressor issues in the North Sea. Net of Capex ex NCI distributions of \$715mm leaves FCF of \$292mm funding \$76mm in dividends and \$121mm in share repurchases that restarted after slowing around TTE's Suriname announcement in September. Critically, as discussed in the most recent 8-K, net debt fell by \$388mm helped by the partial sale of KNTK shares

## 2024 outlook: Egypt not as bad as expected, US oil +10%

For 2024, the concerns about ongoing workover difficulties to rectify a constant cycle of equipment failures in Egypt have not played out in guidance that has FY24 adjusted oil production flat y/y at 157,000 bpd. Meanwhile growth from the US offsets declines in the North Sea and a slow pace of recovery in Egypt. In the Permian, APA expects to average 6 rigs lifting exit / exit oil growth by 10%. FY boepd guidance of 324 kboed (-3%) is mainly deliberate declines at Alpine high given the weak natural gas environment.

## Undervalued strategy can differentiate vs peers

APA's strategy is not anchored to shale but by what it describes as 'core competence in oil & gas', that includes exploration. It's easy to forget how APA owns 50% of a \$9bn development it discovered in 2019, funded 87.5% by operator TTE. Exploration can create value. For '24 APA's \$1.95bn budget, below Street at \$2.1bn includes \$100mm for new entry exploration in AK with 3 wells near existing discoveries with results expected soon after the 1Q24 drilling season that has non-zero option value: consider APA's share in Suriname which we value at ~\$8/sh. The implication is a base business generating \$800mm of FcF at current strip that looks inexpensive vs peers while the pending Callon acquisition adds opportunities to cut cost and optimize development of mid-tier assets that we believe can add APA back in portfolios as a differentiated alpha play vs peers. Reit. Buy.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	7.77	4.52	2.57	3.68	3.73
GAAP EPS	10.96	9.24	2.57	3.68	3.73
EPS Change (YoY)	100.8%	-41.8%	-43.1%	43.2%	1.4%
Consensus EPS (Bloomberg)			5.06	5.53	5.55
DPS	0.63	1.00	1.00	1.00	1.00
Valuation (Dec)					
P/E	4.0x	7.0x	12.2x	8.5x	8.4x
GAAP P/E	2.9x	3.4x	12.2x	8.5x	8.4x
Dividend Yield	2.0%	3.2%	3.2%	3.2%	3.2%
EV / EBITDA*	2.0x	3.1x	3.4x	3.3x	3.4x
Free Cash Flow Yield*	31.5%	7.9%	10.0%	12.7%	12.4%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

22 February 2024

## Equity

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## Stock Data

Price	31.44 USD
Price Objective	49.00 USD
Date Established	5-Jan-2024
Investment Opinion	C-1-7
52-Week Range	29.47 USD - 46.15 USD
Mkrt Val (mn) / Shares Out (mn)	10,124 USD / 322.0
Free Float	99.5%
Average Daily Value (mn)	176.12 USD
BofA Ticker / Exchange	APA / NAS
Bloomberg / Reuters	APA US / APA.OQ
ROE (2024E)	28.1%
Net Dbt to Eqty (Dec-2023A)	138.5%
ESGMeter <sup>TM</sup>	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

NCI – non controlling interests  
KNKT – Kinetic midstream  
FID – Final Investment Decision

AK – Alaska

TTE – TotalEnergies

bpd – barrel per day

boepd – barrel of oil equivalent per day

Nsea – North Sea

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# iQprofile<sup>SM</sup> APA Corporation

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	37.3%	23.0%	9.6%	11.0%	10.6%
Return on Equity	NM	90.9%	28.1%	34.7%	29.9%
Operating Margin	65.4%	42.0%	35.5%	35.9%	33.7%
Free Cash Flow	3,188	796	1,012	1,289	1,259

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.9x	2.2x	4.1x	3.3x	3.5x
Asset Replacement Ratio	1.5x	1.6x	1.2x	1.2x	1.2x
Tax Rate	28.8%	NM	53.7%	43.5%	40.7%
Net Debt-to-Equity Ratio	387.3%	138.5%	124.5%	108.7%	100.4%
Interest Cover	16.1x	10.2x	10.4x	10.8x	10.2x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	9,220	7,208	7,023	7,235	7,220
% Change	41.9%	-21.8%	-2.6%	3.0%	-0.2%
Gross Profit	8,198	5,436	4,952	5,072	4,983
% Change	73.2%	-33.7%	-8.9%	2.4%	-1.8%
EBITDA	7,730	5,098	4,645	4,765	4,676
% Change	102.0%	-34.0%	-8.9%	2.6%	-1.9%
Net Interest & Other Income	(379)	(312)	(249)	(249)	(249)
<b>Net Income (Adjusted)</b>	<b>2,606</b>	<b>1,398</b>	<b>778</b>	<b>1,060</b>	<b>1,016</b>
<b>% Change</b>	<b>79.5%</b>	<b>-46.4%</b>	<b>-44.3%</b>	<b>36.2%</b>	<b>-4.2%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	3,674	2,855	779	1,060	1,016
Depreciation & Amortization	1,233	1,540	1,832	1,847	1,921
Change in Working Capital	0	0	0	0	0
Deferred Taxation Charge	305	0	0	0	0
Other Adjustments, Net	(269)	(1,266)	593	611	627
Capital Expenditure	(1,756)	(2,333)	(2,192)	(2,229)	(2,306)
<b>Free Cash Flow</b>	<b>3,188</b>	<b>796</b>	<b>1,012</b>	<b>1,289</b>	<b>1,259</b>
<b>% Change</b>	<b>48.3%</b>	<b>-75.0%</b>	<b>27.2%</b>	<b>27.4%</b>	<b>-2.3%</b>
Share / Issue Repurchase	(1,421)	(329)	(302)	(482)	(479)
Cost of Dividends Paid	(210)	(308)	(305)	(292)	(276)
Change in Debt	(1,392)	(240)	0	(51)	(211)

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	245	87	244	437	433
Trade Receivables	1,450	1,450	1,450	1,450	1,450
Other Current Assets	628	628	628	628	628
Property, Plant & Equipment	6,950	8,947	9,080	9,234	9,391
Other Non-Current Assets	3,874	3,874	3,874	3,874	3,874
<b>Total Assets</b>	<b>13,147</b>	<b>14,986</b>	<b>15,275</b>	<b>15,623</b>	<b>15,777</b>
Short-Term Debt	2	1	1	1	1
Other Current Liabilities	1,558	1,558	1,558	1,558	1,558
Long-Term Debt	5,451	5,186	5,186	5,186	5,186
Other Non-Current Liabilities	4,791	4,560	4,560	4,509	4,298
<b>Total Liabilities</b>	<b>11,802</b>	<b>11,305</b>	<b>11,305</b>	<b>11,254</b>	<b>11,043</b>
<b>Total Equity</b>	<b>1,345</b>	<b>3,681</b>	<b>3,971</b>	<b>4,369</b>	<b>4,734</b>
<b>Total Equity &amp; Liabilities</b>	<b>13,147</b>	<b>14,986</b>	<b>15,275</b>	<b>15,623</b>	<b>15,777</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Oil & Gas Producers

## Company Description

APA is one of the largest US E&P companies with 2.3 BBOE of proven reserves (63% liquids). It is an acquirer/exploiter/explorer, fiscally conservative company that has grown its reserves and production consistently via acquisitions and organic projects. Operations are focused in the US, Egypt, and the North Sea, and exploration in Suriname.

## Investment Rationale

In addition to commodity price leverage, Apache has two organic catalysts that we believe can narrow the valuation gap: improved contract terms in Egypt that can reinvigorate activity and exploration success in Suriname, where success to date appears to be a free option.

## Stock Data

Average Daily Volume 5,601,914

## Quarterly Earnings Estimates

	2023	2024
Q1	1.19A	0.45E
Q2	0.85A	0.68E
Q3	1.33A	0.76E
Q4	1.15A	0.67E

## 4Q23 Earnings recap

The table below compares actuals to estimates and prior yoy and qoq results

### Exhibit 1: APA 4Q23 Earnings Variance

Y/Y and Q/Q Comparison (\$ in Millions, except in per share data)

Segment Earnings	4Q23A	4Q23E	4Q22A	YOY	3Q23A	QOQ
Total Rev & Non-Op Inc	1,708	2,020	2,056	-17%	2,098	-19%
Lease Operating Expense	(360)	(375)	(377)	-5%	(394)	-9%
DD&A	(414)	(385)	(339)	22%	(407)	2%
Income Tax Expense	1,324	(373)	(263)	-603%	(278)	-576%
Other Income / Expenses	936	(478)	(667)	-240%	(511)	-283%
<b>Net Income (Adjusted)</b>	352	408	476	-26%	410	-14%
Special Items	(1,421)	-	33		(49)	2800%
<b>Net Income (Reported)</b>	1,773	408	443	300%	459	286%
Earnings (Adjusted)	1.15	1.34	1.48	-22%	1.33	-14%
Earnings (Reported)	5.78	1.34	1.38	320%	1.49	288%
Dividend	0.25	0.25	0.25	0%	0.25	0%

Source: BofA Global Research; Company data

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## Estimate Changes

Adjusting for results and updated guidance, including non-cash DD&A (FY guide \$1.78bn vs \$1.5bn in 2023), and exploration our estimates change as follows. Note our estimates do not include the pending acquisition of Callon.

### Exhibit 2: APA Earnings Estimates

Updated for 4Q23 results

	Q1	Q2	Q3	Q4	FY	BBG Consensus
2023A	1.19	0.85	1.33	1.34	4.71	4.73
2024E	0.45	0.68	0.76	0.67	2.57	5.06
Previous	0.99	1.21	1.18	1.12	4.49	n/a
2025E	0.86	0.92	0.97	0.93	3.68	5.53
Previous	1.33	1.37	1.43	1.44	5.57	n/a
2026E	0.94	0.87	0.92	1.01	3.73	5.55
Previous						n/a

Source: BofA Global Research, Bloomberg

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## Price objective basis & risk

### APA Corporation (APA)

Our \$49 PO assumes ex growth discounted cash flow value, which assumes \$75 Brent and \$70 West Texas Intermediate (WTI) long term. We also assume long-term Henry Hub natural gas as \$4.00. We apply a long-term (post-tax) weighted average cost of capital (WACC) of 8.4%, which is based on the BofA strategy team's assumed risk premium and a five-year monthly beta.

Upside risks to achieving our price objective are 1) higher commodity prices, 2) exploration success in Suriname, 3) exploration success and increased drilling activity in Egypt. Downside risks to achieving our price objective are (1) lower commodity prices, (2) Egyptian political risk, (3) exploration risk in Suriname.

## Analyst Certification

I, Doug Leggate, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Large Cap Oils Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	APA Corporation	APA	APA US	Doug Leggate
	Canadian Natural Resources	YCNQ	CNQ CN	Doug Leggate
	Canadian Natural Resources	CNQ	CNQ US	Doug Leggate
	Chesapeake Energy	CHK	CHK US	Doug Leggate
	Chevron Corp.	CVX	CVX US	Doug Leggate
	ConocoPhillips	COP	COP US	Doug Leggate
	Coterra Energy Inc	CTRA	CTRA US	Doug Leggate
	EQT Corporation	EQT	EQT US	John H. Abbott
	ExxonMobil Corp.	XOM	XOM US	Doug Leggate
	Granite Ridge Resources, Inc	GRNT	GRNT US	John H. Abbott
	Imperial Oil	IMO	IMO US	Doug Leggate
	Imperial Oil	YIMO	IMO CN	Doug Leggate
	Kimbell Royalty Partners	KRP	KRP US	John H. Abbott
	Occidental Petroleum Corp.	OXY	OXY US	Doug Leggate
	Ovintiv Inc	YOVV	OVV CN	Doug Leggate
	Ovintiv Inc	OVV	OVV US	Doug Leggate
	Range Resources Corp	RRC	RRC US	Doug Leggate
	Suncor	YSU	SU CN	Doug Leggate
	Suncor	SU	SU US	Doug Leggate
<b>NEUTRAL</b>				
	California Resources Corporation	CRC	CRC US	Kalei Akamine
	CNX Resources	CNX	CNX US	John H. Abbott
	Delek US Holdings, Inc.	DK	DK US	Doug Leggate
	Devon Energy Corp.	DVN	DVN US	Doug Leggate
	Diamondback Energy Inc.	FANG	FANG US	Doug Leggate
	EOG Resources	EOG	EOG US	Doug Leggate
	Gulfport Energy Corporation	GPOR	GPOR US	Doug Leggate
	HF Sinclair Corporation	DINO	DINO US	Doug Leggate
	Marathon Petroleum Company	MPC	MPC US	Doug Leggate
	PBF Energy	PBF	PBF US	Doug Leggate
	Permian Resources Corporation	PR	PR US	Doug Leggate
	Phillips 66	PSX	PSX US	Doug Leggate
	Valero Energy Corp.	VLO	VLO US	Doug Leggate
<b>UNDERPERFORM</b>				
	Chord Energy Corporation	CHRD	CHRD US	John H. Abbott
	Crescent Energy Company	CRGY	CRGY US	John H. Abbott
	Marathon Oil Corp.	MRO	MRO US	Doug Leggate

## US - Large Cap Oils Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	National Fuel Gas Company	NFG	NFG US	John H. Abbott
	Northern Oil and Gas	NOG	NOG US	John H. Abbott
	Vital Energy Inc	VTLE	VTLE US	John H. Abbott
<b>RSTR</b>				
	Pioneer Natural Resources	PXD	PXD US	Doug Leggate

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

**Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +  
Other LT Liabilities  
Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

**Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales  
  
Basic EBIT + Depreciation + Amortization

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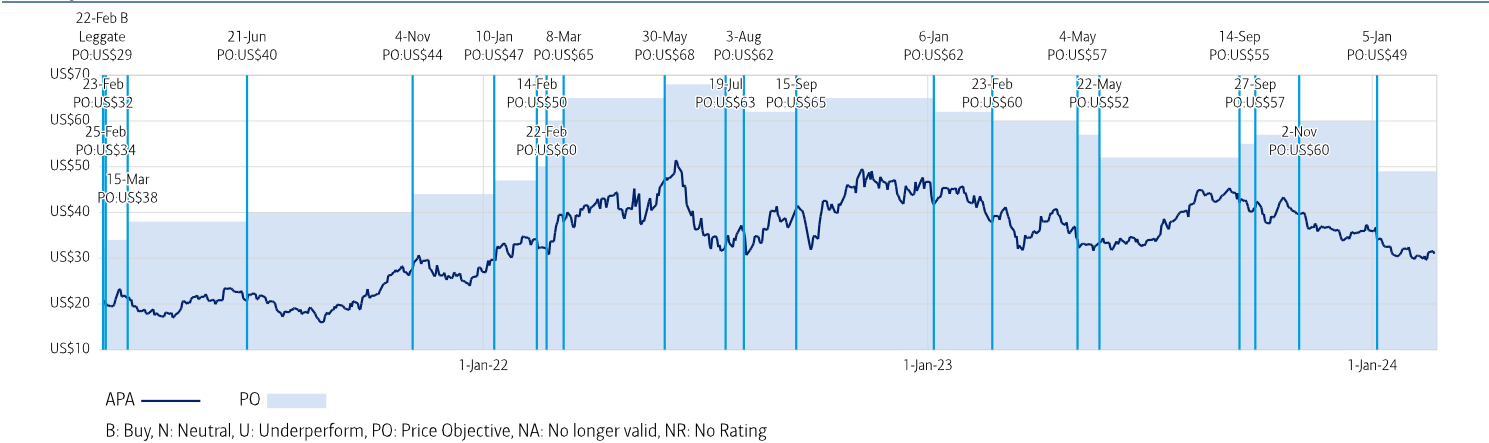
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APA Corp (APA) Price Chart



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### Equity Investment Rating Distribution: Energy Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	83	61.48%	Buy	64	77.11%
Hold	28	20.74%	Hold	21	75.00%
Sell	24	17.78%	Sell	18	75.00%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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