

APA Corporation

Solid pre-earnings supplement may be viewed as a positive; Buy

Reiterate Rating: BUY | PO: 49.00 USD | Price: 30.85 USD

Adj. EPS stable post 8-K at \$1.34;

On 01/23, APA published its earnings supplement with preliminary estimated price and hedge realizations, dry hole expense (\$21mm), Egyptian tax barrels (39 Mbbl/d, in line), net gain from oil and gas purchases and sales (\$98mm inc LNG) and G&A (\$70) - which is sequentially lower by \$30mm vs the company's initial guide due to the decline in the share price. Adjusting for these updates, our 4Q23 adj. EPS estimate is unchanged at \$1.34 / shr. APA did not provide any updates to quarterly production guidance; but with Egypt tax barrels inline we expect production to be within sight of guidance (334,000 boepd) despite an ongoing backlog of workovers in Egypt related to ESP replacements. Overall, an inconsequential update, which leaves all eyes on further disclosure on the resource depth assumed with the pending acquisition of Callon Petroleum.

Secondary of KNTK drives net debt lower

Positive incremental data point is that APA ended the year with ~\$5.1bn in net debt representing a ~\$389mm decline quarter over quarter. While there are likely a number of contributing factors, our understanding is that the biggest driver was likely the sale of 6.5mm shares of Kinetik(KNTK) on Dec. 11th where there was also 30-day greenshoe for 975k shares. However, note from discussions with management we expect another positive working capital update from Egypt. The company also did continue to repurchase shares buying back ~ 3.2mm shares at an average price of \$37.63 per share. APA's average outstanding shares for the quarter is ~306.2mm versus 308mm in 3Q23.

Watch for more color on Callon deal at results

APA is scheduled to announce results after the market close on Wednesday, February 22nd with a call the following day at 10am CT. As noted in our published [4Q23 Earnings Ref book \(see note\)](#), we expect the main items to watch to include an update on Egypt workovers, but additional disclosure on its recent plans to acquire [Callon Petroleum](#) (see note) announced on Jan 5th. On the margin watch for emerging discussions of a possible 2nd FPSO in Suriname and earlier FID vs y/end guidance suggested by operator TTE. We slightly adjust our estimates and reiterate our Buy rating on APA as we continue to believe the Street is not giving full credit for Suriname nor sustainable free cashflow of the base business nor synergies from Callon. Note our current estimates do not include Callon pending closure we expect in 2Q24.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	3.87	7.77	4.71	4.49	5.57
GAAP EPS	2.58	10.96	4.83	4.49	5.57
EPS Change (YoY)	NM	100.8%	-39.4%	-4.7%	24.1%
Consensus EPS (Bloomberg)			4.92	5.26	5.57
DPS	0.20	0.63	1.00	1.00	1.00
Valuation (Dec)					
P/E	8.0x	4.0x	6.5x	6.9x	5.5x
GAAP P/E	12.0x	2.8x	6.4x	6.9x	5.5x
Dividend Yield	0.6%	2.0%	3.2%	3.2%	3.2%
EV / EBITDA*	4.1x	2.0x	2.9x	3.0x	2.9x
Free Cash Flow Yield*	21.6%	32.1%	16.0%	16.3%	16.4%

* For full definitions of *IQmethod*SM measures, see page 5.

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Timestamp: 24 January 2024 01:26AM EST

24 January 2024

Equity

Doug Leggate
Research Analyst
BofAS
+1 713 247 6013
doug.leggate@bofa.com

John H. Abbott
Research Analyst
BofAS
+1 713 247 7144
john.h.abbott@bofa.com

Kalei Akamine
Research Analyst
BofAS
+1 713 247 7880
kalei.akamine@bofa.com

Noah Hungness
Research Analyst
BofAS
noah.hungness@bofa.com

Carlos Escalante
Research Analyst
BofAS
carlos.escalante@bofa.com

Stock Data

Price	30.85 USD
Price Objective	49.00 USD
Date Established	5-Jan-2024
Investment Opinion	C-1-7
52-Week Range	29.95 USD - 46.98 USD
Mkt Val (mn) / Shares Out (mn)	9,934 USD / 322.0
Free Float	99.5%
Average Daily Value (mn)	164.14 USD
BofA Ticker / Exchange	APA / NAS
Bloomberg / Reuters	APA US / APA.OQ
ROE (2023E)	169.9%
Net Dbt to Eqty (Dec-2022A)	387.3%
ESGMeter TM	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".

FPSO – floating production storage and offloading
LNG – liquified natural gas
FID – Final investment decision
TTE – Total Energy
boepd – barrel of oil equivalent per day
ESP – electric submersible pump
mbbl – thousand of barrel

iQprofileSM APA Corporation

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	14.5%	37.3%	17.1%	14.7%	15.8%
Return on Equity	NM	NM	169.9%	88.7%	76.8%
Operating Margin	38.4%	65.4%	44.7%	43.2%	43.9%
Free Cash Flow	2,149	3,188	1,593	1,622	1,628

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	2.3x	1.9x	2.5x	2.7x	2.4x
Asset Replacement Ratio	1.0x	1.5x	1.4x	1.2x	1.4x
Tax Rate	30.6%	28.8%	42.7%	46.3%	42.2%
Net Debt-to-Equity Ratio	23,139.6%	387.3%	217.9%	168.8%	126.9%
Interest Cover	4.7x	16.1x	11.7x	13.4x	14.1x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	6,498	9,220	7,495	7,507	7,747
% Change	55.0%	41.9%	-18.7%	0.2%	3.2%
Gross Profit	4,732	8,198	5,704	5,472	5,660
% Change	88.3%	73.2%	-30.4%	-4.1%	3.4%
EBITDA	3,827	7,730	5,394	5,165	5,353
% Change	NM	102.0%	-30.2%	-4.2%	3.6%
Net Interest & Other Income	(514)	(379)	(302)	(249)	(249)
Net Income (Adjusted)	1,452	2,606	1,455	1,329	1,555
% Change	NM	79.5%	-44.2%	-8.6%	17.0%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	967	3,674	1,492	1,329	1,555
Depreciation & Amortization	1,360	1,233	1,510	1,605	1,628
Change in Working Capital	0	0	0	0	0
Deferred Taxation Charge	(74)	305	0	0	0
Other Adjustments, Net	1,117	(269)	693	619	612
Capital Expenditure	(1,221)	(1,756)	(2,102)	(1,931)	(2,168)
Free Cash Flow	2,149	3,188	1,593	1,622	1,628
% Change	609.9%	48.3%	-50.0%	1.9%	0.3%
Share / Issue Repurchase	0	(1,421)	(328)	(673)	(693)
Cost of Dividends Paid	(76)	(210)	(309)	(300)	(283)
Change in Debt	(1,387)	(1,392)	131	0	(51)

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	302	245	95	460	775
Trade Receivables	1,450	1,450	1,450	1,450	1,450
Other Current Assets	628	628	628	628	628
Property, Plant & Equipment	7,049	6,950	7,526	7,625	7,938
Other Non-Current Assets	3,874	3,874	3,874	3,874	3,874
Total Assets	13,303	13,147	13,573	14,037	14,664
Short-Term Debt	215	2	2	2	2
Other Current Liabilities	1,558	1,558	1,558	1,558	1,558
Long-Term Debt	7,295	5,451	5,193	5,193	5,193
Other Non-Current Liabilities	4,204	4,791	4,480	4,480	4,429
Total Liabilities	13,272	11,802	11,232	11,232	11,181
Total Equity	31	1,345	2,341	2,805	3,483
Total Equity & Liabilities	13,303	13,147	13,573	14,037	14,664

* For full definitions of iQmethodSM 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

5,320,622

Quarterly Earnings Estimates

	2022	2023
Q1	1.93A	1.19A
Q2	2.37A	0.85A
Q3	1.97A	1.33A
Q4	1.48A	1.34E

Estimate changes

Adjusting for items in the earnings supplement, our estimates change as follows:

Exhibit 1: APA Earnings Estimates
Adjusting for items in the earnings supplement

	Q1	Q2	Q3	Q4	FY	BBG Consensus
2022A	1.93	2.37	1.97	1.48	7.77	8.13
2023E	1.19	0.85	1.33	1.34	4.71	4.92
Previous	1.19	0.85	1.33	1.34	4.71	n/a
2024E	0.99	1.21	1.18	1.12	4.49	5.26
Previous	1.01	1.23	1.19	1.15	4.57	n/a
2025E	1.33	1.37	1.43	1.44	5.57	5.57
Previous	1.40	1.40	1.48	1.50	5.79	n/a

Source: BofA Global Research estimates, Bloomberg

BofA GLOBAL RESEARCH



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
BUY				
	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
NEUTRAL				
	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
	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
UNDERPERFORM				
	Chord Energy Corporation	CHRD	CHRD US	John H. Abbott
	Crescent Energy Company	CRGY	CRGY US	John H. Abbott
	Diamondback Energy Inc.	FANG	FANG US	Doug Leggate
	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

RSTR

	Pioneer Natural Resources	PXD	PXD US	Doug Leggate
	Southwestern Energy Corp.	SWN	SWN US	Doug Leggate

iQ^{method}™ 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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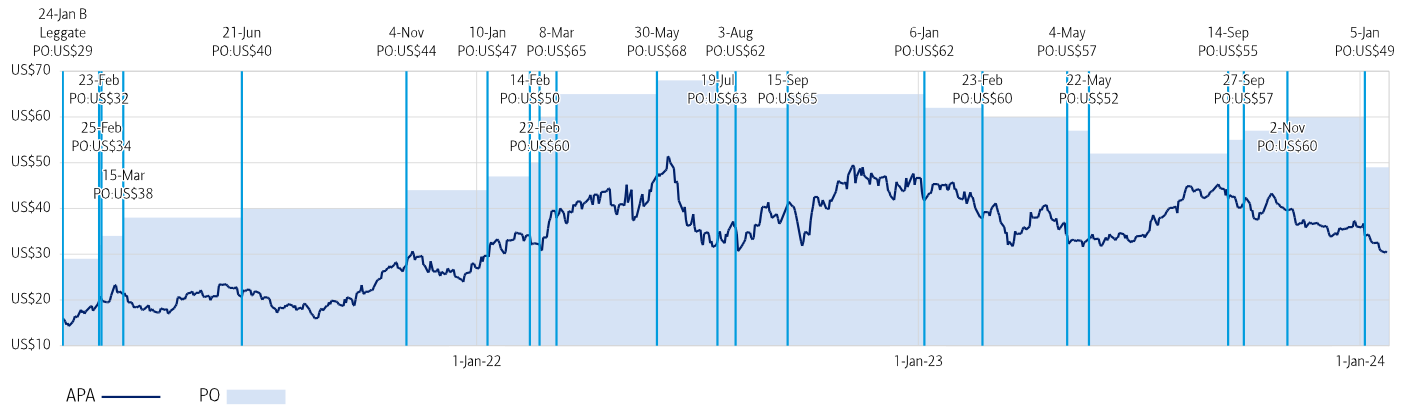
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APA Corp (APA) Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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 ^{R1}	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%

^{R1} 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 ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} 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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