

APA Corporation

Mark to market: non-cash G&A, dents EPS; but see higher cash flow than street

Reiterate Rating: BUY | PO: 57.00 USD | Price: 37.73 USD

EPS dented by non-cash G&A expense; c/flow higher

On 10/5, APA published several key indicators that dent headline EPS estimates for 3Q23 earnings - mainly on non-cash items. G&A spiked on mark-to-market stock compensation after strong share performance (\$145mm vs \$100mm guide). These one-time expenses were partially offset by realized gains on commodity derivatives related to basis hedging in the Permian (\$19mn) and a net gain on oil & gas purchases and sales (\$17mn) although dented by a spike in Waha pricing due to hot weather in the Permian that overshadowed the first contribution from APAs export agreement with Cheniere, which we estimate at \$30mm - \$40mm between Aug 1 and Sep 30. All-in-all EPS moves lower to \$1.22 from \$1.28; But we see cflow / sh at \$3.17, \$0.30 above consensus, on strong operating performance in the Perm & N Sea. Buybacks were light at 475,000 shares, as the company was in a black out period prior to the Suriname announcement.

Strong Permian and North Sea performance in 3Q23

Highlights of the quarter is strong performance from the Permian & N Sea that helped lift total company & oil production to the top half of a narrow guidance range (337-339 kboed). Note we expect oil production to beat its 159 -161 kbpd guidance range despite Egypt gross oil production below guidance on PSC impacts from higher oil prices (145 vs 148). Looking forward unplanned downtime in the N Sea is expected to lower 4Q23 production by 10% to 15% (or 7 kbd) but is expected back on-line by year end. Looking to 2024 management expects a stable outlook for Egypt and subject to how US gas behaves, a single rig could move back to the Alpine High noting the current contango in the forward curve. For the call watch for incremental color on the recent announcement of a [200 kbd development in Suriname\(see note\)](#) specifically on a timeline we believe could be mid-2027 post discussions with operator TTE at its recent analyst day.

Reiterate Buy: rate of change intact

We continue to see APA amongst the greatest rate of change in FcF of the US oils – led by LNG exports starting in Aug-23, which we estimate can add >\$300mm of FcF at current strip for 15 years. Along with the ‘free option’ of its 50% stake in a successful development in Suriname funded 87.5% by TTE. We believe APA is undervalued with the catalysts to outperform many of its US E&P peers over the next year. We slightly update our estimates and reiterate Buy.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	3.87	7.77	5.16	7.91	7.76
GAAP EPS	2.58	10.96	5.12	7.91	7.76
EPS Change (YoY)	NM	100.8%	-33.6%	53.3%	-1.9%
Consensus EPS (Bloomberg)			4.86	5.93	5.96
DPS	0.20	0.63	1.00	1.00	1.00
Valuation (Dec)					
P/E	9.7x	4.9x	7.3x	4.8x	4.9x
GAAP P/E	14.6x	3.4x	7.4x	4.8x	4.9x
Dividend Yield	0.5%	1.7%	2.7%	2.7%	2.7%
EV / EBITDA*	4.6x	2.3x	3.1x	2.7x	2.9x
Free Cash Flow Yield*	17.7%	26.2%	11.1%	19.8%	16.6%

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

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Stock Data

Price	37.73 USD
Price Objective	57.00 USD
Date Established	27-Sep-2023
Investment Opinion	C-1-7
52-Week Range	30.67 USD - 50.58 USD
Mkt Val (mn) / Shares Out (mn)	12,149 USD / 322.0
Average Daily Value (mn)	139.89 USD
BofA Ticker / Exchange	APA / NAS
Bloomberg / Reuters	APA US / APA.OQ
ROE (2023E)	197.0%
Net Dbt to Eqty (Dec-2022A)	387.3%
ESGMeter™	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"](#).

N Sea – North Sea

TTE - Total Energy

E&P – Exploration and production

Kbd – thousand of barrels per day

LNG – liquified natural gas

boe – barrel of oil equivalent

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iQprofileSM APA Corporation

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	14.5%	37.3%	18.1%	22.9%	19.2%
Return on Equity	NM	NM	197.0%	138.0%	80.7%
Operating Margin	38.4%	65.4%	46.5%	51.7%	48.3%
Free Cash Flow	2,149	3,188	1,353	2,402	2,016

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	2.3x	1.9x	2.2x	2.1x	2.2x
Asset Replacement Ratio	1.0x	1.5x	1.4x	1.4x	1.4x
Tax Rate	30.6%	28.8%	44.7%	40.2%	39.8%
Net Debt-to-Equity Ratio	23,139.6%	387.3%	228.4%	139.6%	96.4%
Interest Cover	4.7x	16.1x	13.4x	18.6x	16.7x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	6,498	9,220	7,763	8,837	8,458
% Change	55.0%	41.9%	-15.8%	13.8%	-4.3%
Gross Profit	4,732	8,198	5,990	6,860	6,430
% Change	88.3%	73.2%	-26.9%	14.5%	-6.3%
EBITDA	3,827	7,730	5,730	6,553	6,123
% Change	NM	102.0%	-25.9%	14.4%	-6.6%
Net Interest & Other Income	(514)	(379)	(284)	(251)	(251)
Net Income (Adjusted)	1,452	2,606	1,591	2,241	1,998
% Change	NM	79.5%	-38.9%	40.8%	-10.8%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont. Operations (GAAP)	967	3,674	1,578	2,239	1,999
Depreciation & Amortization	1,360	1,233	1,538	1,662	1,722
Change in Working Capital	0	0	0	0	0
Deferred Taxation Charge	(74)	305	0	0	0
Other Adjustments, Net	1,117	(269)	375	693	656
Capital Expenditure	(1,221)	(1,756)	(2,138)	(2,192)	(2,361)
Free Cash Flow	2,149	3,188	1,353	2,402	2,016
% Change	609.9%	48.3%	-57.5%	77.5%	-16.1%

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	302	245	142	789	1,260
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	7,201	7,505	7,916
Other Non-Current Assets	3,874	3,874	3,874	3,874	3,874
Total Assets	13,303	13,147	13,295	14,246	15,128
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	5,219	5,219	5,219
Other Non-Current Liabilities	4,204	4,791	4,291	4,291	4,240
Total Liabilities	13,272	11,802	11,071	11,071	11,020
Total Equity	31	1,345	2,224	3,175	4,108
Total Equity & Liabilities	13,303	13,147	13,295	14,246	15,128

* 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

3,707,567

Quarterly Earnings Estimates

	2022	2023
Q1	1.93A	1.19A
Q2	2.37A	0.85A
Q3	1.97A	1.22E
Q4	1.48A	1.91E

Post supplement estimate changes

APA Corporation published supplemental information for 3Q23. EPS moves down to \$1.22 from \$1.28 mostly due G&A increasing to \$145mn versus guidance of \$100mn on accruals associated with the increase in APA stock price during the quarter.

However, these were partially offset due realized gain on commodity derivatives (\$19mn) and a net gain on oil and gas purchases and sales (\$17mn). Incorporating guidance our EPS estimates change as follows.

Exhibit 1: APA Earnings Estimates

Updated for 3Q23 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	1.22	1.91	5.16	4.86
Previous	1.19	0.85	1.28	1.88	5.18	n/a
2024E	2.07	2.03	1.86	1.94	7.91	5.93
Previous	2.05	2.01	1.84	1.91	7.82	n/a
2025E	1.95	1.85	1.92	2.04	7.76	5.96
Previous	1.92	1.82	1.89	2.00	7.62	n/a

Source: BofA Global Research estimates, Bloomberg

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Price objective basis & risk

APA Corporation (APA)

Our \$57 PO assumes ex growth discounted cash flow value, which assumes \$80 Brent and \$75 West Texas Intermediate (WTI) long term. We also assume long-term Henry Hub natural gas as \$4.25. We apply a long-term (post-tax) weighted average cost of capital (WACC) of 9.7%, 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
	California Resources Corporation	CRC	CRC US	Kalei Akamine
	Canadian Natural Resources	YCNQ	CNQ CN	Doug Leggate
	Canadian Natural Resources	CNQ	CNQ US	Doug Leggate
	Chesapeake Energy	CHK	CHK US	Doug Leggate
	Chord Energy Corporation	CHRD	CHRD US	John H. Abbott
	ConocoPhillips	COP	COP US	Doug Leggate
	EOG Resources	EOG	EOG US	Doug Leggate
	EQT Corporation	EQT	EQT US	John H. Abbott
	ExxonMobil Corp.	XOM	XOM US	Doug Leggate
	Gulfport Energy Corporation	GPOR	GPOR US	Doug Leggate
	Hess Corp.	HES	HES US	Doug Leggate
	Imperial Oil	IMO	IMO US	Doug Leggate
	Imperial Oil	YIMO	IMO CN	Doug Leggate
	Northern Oil and Gas	NOG	NOG US	John H. Abbott
	Occidental Petroleum Corp.	OXY	OXY US	Doug Leggate
	Ovintiv Inc	YOVV	OW CN	Doug Leggate
	Ovintiv Inc	OW	OW US	Doug Leggate
	Range Resources Corp	RRC	RRC US	Doug Leggate
	Southwestern Energy Corp.	SWN	SWN US	Doug Leggate
	Suncor	YSU	SU CN	Doug Leggate
	Suncor	SU	SU US	Doug Leggate
NEUTRAL				
	Chevron Corp.	CVX	CVX US	Doug Leggate
	Coterra Energy Inc	CTRA	CTRA US	Doug Leggate
	Delek US Holdings, Inc.	DK	DK US	Doug Leggate
	Devon Energy Corp.	DVN	DVN 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
	Phillips 66	PSX	PSX US	Doug Leggate
	Valero Energy Corp.	VLO	VLO US	Doug Leggate
UNDERPERFORM				
	CNX Resources	CNX	CNX 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
	Pioneer Natural Resources	PXD	PXD US	Doug Leggate

IQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

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

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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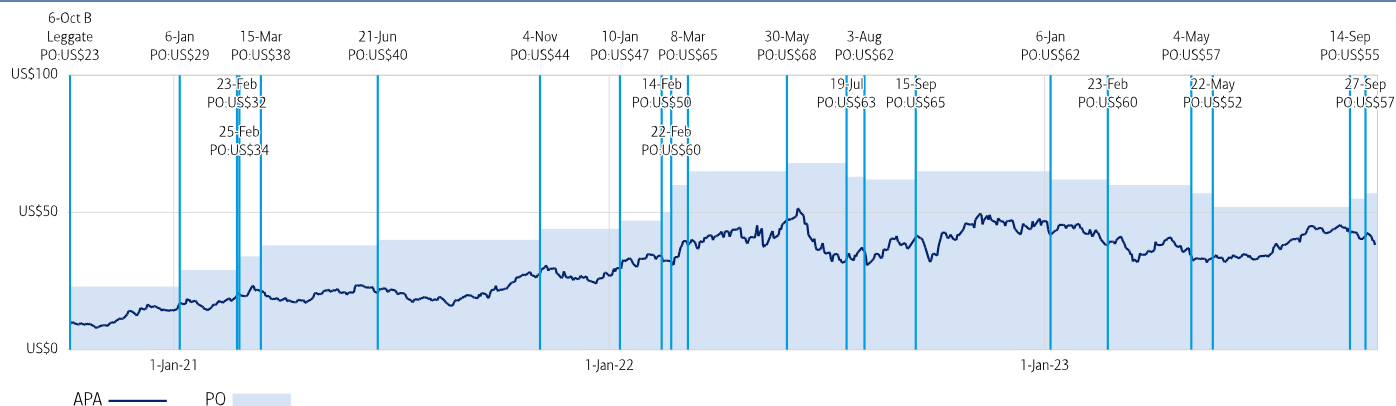
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APA Corp (APA) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Energy Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	78	58.21%	Buy	59	75.64%
Hold	33	24.63%	Hold	25	75.76%
Sell	23	17.16%	Sell	14	60.87%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

^{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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