

APA Corporation

Acquisition of CPE increases size & scale; 1/3rd of value appears related to synergies

Reiterate Rating: BUY | PO: 60.00 USD | Price: 34.18 USD

Maintains size & scale given plans to let North Sea decline

APA has announced plans to acquire Callon Petroleum (Ticker: CPE) in an all-equity transaction valued at ~\$4.5bn (inclusive of ~\$1.9bn net debt). Each outstanding share of CPE is expected to be exchanged into 1.0425 shares of APA stock, suggesting a ~14% premium based upon the prior close of both companies. Legacy APA shareholders will own ~81% of outstanding equity, with Callon shareholders owning the rest. While CPE does have assets in the Midland basin, in our view, the transaction is more focused on the Delaware and adds approximately 120k net acres with approximately ten years of inventory based on CPE's associated production. We also see the deal helping APA maintain size and scale given its prior plans to no longer add capital to the North Sea.

One third of value paid related to initial synergies

APA's management expects to provide more formal guidance once the deal closes (expected in 2Q24) but has highlighted pro forma 3Q23 Permian production of ~311 Mboe / d as a starting point. Initially, it expects annual synergies of ~\$150mm consisting of ~\$55mm in G&A, ~\$40mm cost of capital and \$55mm for operational. Already, it has announced plans to retire all Callon's debt via \$2bn term loan, and that it expects its credit profile to improve with a pro forma net debt to EBITDA ratio of approximately 1.1x. By our estimates, about one-third of the value APA is paying for CPE is related to initial annual after-tax synergies of ~\$120mm and assuming an 9% cost of capital.

Maintain Buy given underappreciated value for Suriname

All-in-all, we see the transaction as more opportunistic on APA's part in what was likely a competitive process, allowing it to further deliver and buyback shares while replacing geographic scale, given its plans to allow the North Sea to decline. That said, despite the operational logic, we believe the quality of the Callon portfolio is a question mark and believe the street will scrutinize the capital intensity of future activity that ventures out from established areas deeper into the SW Del. We maintain our Buy rating on APA as we continue to believe that the Street may not be giving it full value for its Suriname assets. Our \$60 PO remains unchanged assuming long-term \$80 Brent and \$4.25 HH.

| Estimates (Dec) (US\$) | 2021A | 2022A | 2023E | 2024E | 2025E |
|---------------------------|-------|--------|--------|-------|-------|
| EPS | 3.87 | 7.77 | 5.27 | 7.75 | 7.64 |
| GAAP EPS | 2.58 | 10.96 | 5.39 | 7.75 | 7.64 |
| EPS Change (YoY) | NM | 100.8% | -32.2% | 47.1% | -1.4% |
| Consensus EPS (Bloomberg) | | | 5.07 | 5.81 | 5.58 |
| DPS | 0.20 | 0.63 | 1.00 | 1.00 | 1.00 |
| Valuation (Dec) | | | | | |
| P/E | 8.8x | 4.4x | 6.5x | 4.4x | 4.5x |
| GAAP P/E | 13.2x | 3.1x | 6.3x | 4.4x | 4.5x |
| Dividend Yield | 0.6% | 1.8% | 2.9% | 2.9% | 2.9% |
| EV / EBITDA* | 4.3x | 2.2x | 2.9x | 2.6x | 2.8x |
| Free Cash Flow Yield* | 19.5% | 29.0% | 16.0% | 20.7% | 17.4% |

* For full definitions of *IQmethod*SM measures, see page 7.

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Stock Data

| | |
|--------------------------------|-----------------------|
| Price | 34.18 USD |
| Price Objective | 60.00 USD |
| Date Established | 2-Nov-2023 |
| Investment Opinion | C-1-7 |
| 52-Week Range | 30.67 USD - 46.98 USD |
| Mkt Val (mn) / Shares Out (mn) | 11,006 USD / 322.0 |
| Free Float | 99.5% |
| Average Daily Value (mn) | 131.71 USD |
| BofA Ticker / Exchange | APA / NAS |
| Bloomberg / Reuters | APA US / APA.OQ |
| ROE (2023E) | 192.4% |
| 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](#)".

Del - Delaware Basin

HH- Henry Hub

Mboe/d - Thousand barrels of oil equivalent per day

iQprofileSM APA Corporation

iQmethodSM – Bus Performance*

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|----------------------------|-------|-------|--------|--------|-------|
| Return on Capital Employed | 14.5% | 37.3% | 18.6% | 21.9% | 18.6% |
| Return on Equity | NM | NM | 192.4% | 128.6% | 76.1% |
| Operating Margin | 38.4% | 65.4% | 46.1% | 50.1% | 46.5% |
| Free Cash Flow | 2,149 | 3,188 | 1,758 | 2,276 | 1,919 |

iQmethodSM – Quality of Earnings*

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|--------------------------|-----------|--------|--------|--------|--------|
| Cash Realization Ratio | 2.3x | 1.9x | 2.4x | 2.0x | 2.2x |
| Asset Replacement Ratio | 1.0x | 1.5x | 1.4x | 1.4x | 1.5x |
| Tax Rate | 30.6% | 28.8% | 41.6% | 40.0% | 38.7% |
| Net Debt-to-Equity Ratio | 23,139.6% | 387.3% | 234.4% | 148.1% | 104.9% |
| Interest Cover | 4.7x | 16.1x | 12.5x | 17.2x | 15.3x |

Income Statement Data (Dec)

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|------------------------------|--------------|--------------|---------------|--------------|--------------|
| Sales | 6,498 | 9,220 | 7,756 | 8,905 | 8,547 |
| % Change | 55.0% | 41.9% | -15.9% | 14.8% | -4.0% |
| Gross Profit | 4,732 | 8,198 | 5,940 | 6,730 | 6,297 |
| % Change | 88.3% | 73.2% | -27.5% | 13.3% | -6.4% |
| EBITDA | 3,827 | 7,730 | 5,649 | 6,423 | 5,990 |
| % Change | NM | 102.0% | -26.9% | 13.7% | -6.7% |
| Net Interest & Other Income | (514) | (379) | (302) | (265) | (265) |
| Net Income (Adjusted) | 1,452 | 2,606 | 1,625 | 2,211 | 1,997 |
| % Change | NM | 79.5% | -37.6% | 36.0% | -9.7% |

Free Cash Flow Data (Dec)

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|--|---------------|--------------|---------------|--------------|---------------|
| Net Income from Cont Operations (GAAP) | 967 | 3,674 | 1,661 | 2,210 | 1,997 |
| Depreciation & Amortization | 1,360 | 1,233 | 1,515 | 1,638 | 1,698 |
| Change in Working Capital | 0 | 0 | 0 | 0 | 0 |
| Deferred Taxation Charge | (74) | 305 | 0 | 0 | 0 |
| Other Adjustments, Net | 1,117 | (269) | 683 | 658 | 622 |
| Capital Expenditure | (1,221) | (1,756) | (2,102) | (2,230) | (2,398) |
| Free Cash Flow | 2,149 | 3,188 | 1,758 | 2,276 | 1,919 |
| % Change | 609.9% | 48.3% | -44.9% | 29.5% | -15.7% |
| Share / Issue Repurchase | 0 | (1,421) | (522) | (1,073) | (884) |
| Cost of Dividends Paid | (76) | (210) | (309) | (292) | (267) |
| Change in Debt | (1,387) | (1,392) | 8 | 0 | (51) |

Balance Sheet Data (Dec)

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Cash & Equivalents | 302 | 245 | 95 | 683 | 1,105 |
| 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 | 7,543 | 7,908 | 8,382 |
| Other Non-Current Assets | 3,874 | 3,874 | 3,874 | 3,874 | 3,874 |
| Total Assets | 13,303 | 13,147 | 13,590 | 14,544 | 15,438 |
| 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 | 5,525 | 5,525 | 5,525 |
| Other Non-Current Liabilities | 4,204 | 4,791 | 4,188 | 4,188 | 4,137 |
| Total Liabilities | 13,272 | 11,802 | 11,273 | 11,273 | 11,222 |
| Total Equity | 31 | 1,345 | 2,318 | 3,271 | 4,216 |
| Total Equity & Liabilities | 13,303 | 13,147 | 13,590 | 14,544 | 15,438 |

* For full definitions of iQmethodSM measures, see page 7.

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

3,853,463

Quarterly Earnings Estimates

| | 2022 | 2023 |
|----|-------|-------|
| Q1 | 1.93A | 1.19A |
| Q2 | 2.37A | 0.85A |
| Q3 | 1.97A | 1.33A |
| Q4 | 1.48A | 1.91E |

Accretion dilution for CPE acquisition

Using consensus numbers for CPE, the following table shows our preliminary accretion / dilution.

Exhibit 1: Preliminary accretion / dilution

We have used consensus estimates for CPE

| APA Corp. EV: | Pre-Deal | +CPE | Post-Deal | | |
|-----------------------------|----------|-----------|-----------|--------------------|---------|
| Shares (October 31st, 2023) | 309 | 71 | 379 | Dilution 18.63% | |
| Sh Price (1/3/2024) | \$36.75 | \$36.75 | \$36.75 | | |
| Market Cap | 11,341 | 2,597 | 13,938 | | |
| Debt | 5,584 | 1,949 | 7,533 | | |
| Cash | 95 | 3 | 98 | | |
| Net Debt | 5,489 | 1,945 | 7,434 | | |
| Enterprise Value | 16,830 | 4,542 | 21,372 | | |
| Callon EV: | Pre-Deal | Post-Deal | | | |
| Shares (October 31st, 2023) | 68 | 68 | | APA Sh Px | \$36.75 |
| Sh Price (1/3/2024) | \$33.65 | \$38.31 | 14% | CPE Sh Px | \$38.31 |
| Market Cap | 2,281 | 2,597 | | Ratio | 1.04x |
| Debt | 1,949 | 1,949 | | | |
| Cash | 3 | 3 | | | |
| Net Debt | 1,945 | 1,945 | | | |
| Enterprise Value | 4,226 | 4,542 | | | |
| | 21,056 | 0.20 | | | |
| | 2024 | 2025 | 2026 | 2027 | 2028 |

| APA Corp.: | | | | | |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
| CPE Consensus Oil (WTI) | \$76.96 | \$71.92 | \$69.75 | \$69.74 | \$69.73 |
| CPE Consensus Gas | \$3.27 | \$4.13 | \$4.02 | \$4.01 | \$4.01 |
| Shares | 309 | 309 | 309 | 309 | 309 |
| Net Income | 1,408 | 1,620 | 1,590 | 1,553 | 1,319 |
| Depreciation | 1,614 | 1,643 | 1,684 | 1,716 | 1,747 |
| Deffered Tax | - | - | - | - | - |
| Exploration | 120 | 120 | 120 | 120 | 120 |
| Stock-based comp | 60 | 60 | 60 | 60 | 60 |
| Distributions to NCI | (292) | (282) | (326) | (365) | (395) |
| Income from disc. Ops. | 340 | 322 | 357 | 386 | 404 |
| Other | 107 | 107 | 107 | 107 | 107 |
| Cash Flow | 3,357 | 3,590 | 3,591 | 3,576 | 3,362 |
| *Note Cash Flow / bbl | \$30.68 | \$33.69 | \$34.24 | \$34.58 | \$33.01 |
| Total Capex | (1,931) | (2,168) | (2,172) | (2,198) | (1,902) |
| Free Cash Flow | 1,426 | 1,422 | 1,419 | 1,378 | 1,460 |
| Buyback | (733) | (743) | (787) | (806) | (895) |
| Common Dividend | (298) | (279) | (260) | (240) | (218) |
| Variable Dividend | - | - | - | - | - |
| Total Cash Returns | (1,031) | (1,023) | (1,047) | (1,046) | (1,113) |
| Excess Cash | 395 | 400 | 372 | 332 | 347 |
| Cash | 490 | 890 | 1,262 | 1,594 | 1,941 |
| Debt | 5,590 | 6,413 | 6,413 | 6,413 | 6,413 |
| EBITDAX | 5,253 | 5,358 | 5,399 | 5,431 | 5,509 |
| Net Debt | 5,100 | 5,523 | 5,151 | 4,819 | 4,472 |
| Net Debt to EBITDA | 1.0x | 1.0x | 1.0x | 0.9x | 0.8x |
| EPS (3Q23 Shares) | \$4.56 | \$5.25 | \$5.15 | \$5.03 | \$4.28 |
| CFPS (3Q23 Shares) | \$10.88 | \$11.63 | \$11.64 | \$11.59 | \$10.90 |
| FCFS (3Q23 Shares) | \$4.62 | \$4.61 | \$4.60 | \$4.46 | \$4.73 |
| Permian Oil | 85 | 88 | 90 | 92 | 93 |
| Permian NGL | 60 | 59 | 59 | 59 | 58 |
| Permian Gas | 433 | 451 | 489 | 511 | 527 |
| Permian Boe | 218 | 222 | 231 | 236 | 239 |
| Egypt Oil | 88 | 93 | 105 | 114 | 120 |
| Egypt NGL | - | - | - | - | - |
| Egypt Gas | 306 | 292 | 279 | 267 | 255 |
| Egypt Boe | 139 | 142 | 151 | 158 | 163 |
| North Sea Oil | 40 | 40 | 38 | 36 | 34 |
| North Sea NGL | - | - | - | - | - |
| North Sea Gas | 50 | 40 | 38 | 36 | 34 |
| North Sea Boe | 48 | 47 | 44 | 42 | 39 |

Exhibit 1: Preliminary accretion / dilution

We have used consensus estimates for CPE

| APA Corp. EV: | Pre-Deal | +CPE | Post-Deal | | |
|---------------------------------|-----------------|----------------|------------------|----------------|----------------|
| Total Oil | 177 | 170 | 167 | 164 | 162 |
| Total NGL | 61 | 60 | 60 | 59 | 58 |
| Total Gas | 790 | 784 | 806 | 814 | 816 |
| Total Boe | 370 | 360 | 361 | 359 | 356 |
| Callon: | | | | | |
| Consensus Oil (WTI) | \$76.96 | \$71.92 | \$69.75 | \$69.74 | \$69.73 |
| Consensus Gas | \$3.27 | \$4.13 | \$4.02 | \$4.01 | \$4.01 |
| Shares | 68 | 68 | 68 | 68 | 68 |
| Net Income | 467 | 483 | 617 | 655 | 632 |
| Depreciation | 578 | 593 | 624 | 649 | 671 |
| Other | 109 | 146 | 69 | 18 | 18 |
| Cash Flow | 1,154 | 1,221 | 1,309 | 1,321 | 1,322 |
| *Note Cash Flow / bbl | \$33.86 | \$34.37 | \$35.23 | \$35.42 | \$34.25 |
| Capex | (891) | (898) | (893) | (913) | (892) |
| Free Cash Flow | 263 | 324 | 416 | 408 | 430 |
| Buyback | - | - | - | - | - |
| Regular Dividend | - | - | - | - | - |
| Total Cash Return | - | - | - | - | - |
| Excess Cash | 263 | 324 | 416 | 408 | 430 |
| Cash | 3 | 327 | 743 | 1,151 | 1,581 |
| Debt | 1,949 | 5724 | 5724 | 5724 | 5724 |
| EBITDA | 1,309 | 1,342 | 1,452 | 1,485 | 1,458 |
| Net Debt | 1,945 | 5,397 | 4,981 | 4,573 | 4,143 |
| Net Debt / EBITDA | 1.5x | 4.0x | 3.4x | 3.1x | 2.8x |
| EPS (3Q23 Shares) | \$6.89 | \$7.12 | \$9.10 | \$9.66 | \$9.33 |
| CFPS (3Q23 Shares) | \$17.03 | \$18.02 | \$19.31 | \$19.49 | \$19.50 |
| FCFS (3Q23 Shares) | \$3.88 | \$4.77 | \$6.13 | \$6.02 | \$6.34 |
| SG&A | 115 | 116 | 118 | 121 | 121 |
| Permian Oil | 53 | 56 | 58 | 58 | 60 |
| Permian NGL | 20 | 21 | 22 | 22 | 22 |
| Permian Gas | 118 | 124 | 130 | 136 | 141 |
| Permian Boe | 93 | 97 | 102 | 102 | 106 |
| APA Corp. Pro Forma: | | | | | |
| Shares | 309 | 309 | 309 | 309 | 309 |
| New Shares | 71 | 71 | 71 | 71 | 71 |
| Total Shares | 379 | 379 | 379 | 379 | 379 |
| APA Net Income | 1,408 | 1,620 | 1,590 | 1,553 | 1,319 |
| CPE Net Income | 467 | 483 | 617 | 655 | 632 |
| Synergies (CPE SG&A, after tax) | 128 | 119 | 119 | 119 | 119 |
| Proforma Net Income | 2,002 | 2,221 | 2,325 | 2,326 | 2,070 |
| APA Depreciation | 1,614 | 1,643 | 1,684 | 1,716 | 1,747 |
| APA Other | 335 | 327 | 318 | 307 | 296 |
| CPE Depreciation | 578 | 593 | 624 | 649 | 671 |
| CPE Other | 109 | 146 | 69 | 18 | 18 |
| ProForma Cash Flow | 4,639 | 4,930 | 5,018 | 5,016 | 4,803 |
| APA Capex | (1,931) | (2,168) | (2,172) | (2,198) | (1,902) |
| CPE Capex | (891) | (898) | (893) | (913) | (892) |
| Capex Synergies | - | - | - | - | - |
| Proforma Capex | (2,822) | (3,065) | (3,065) | (3,111) | (2,794) |
| Proforma Free Cash Flow | 1,817 | 1,865 | 1,953 | 1,904 | 2,008 |
| APA Dividend Per Share | \$0.25 | \$0.25 | \$0.25 | \$0.25 | \$0.25 |
| APA Common Dividend | (379) | (379) | (379) | (379) | (379) |
| Excess Cash | 1,438 | 1,485 | 1,574 | 1,525 | 1,629 |
| Cash | 3,526 | 3,573 | 3,662 | 3,613 | 3,717 |
| Debt | 12,137 | 12,137 | 12,137 | 12,137 | 12,137 |
| EBITDA | 6,689 | 6,819 | 6,969 | 7,034 | 7,086 |
| Net Debt | 8,611 | 8,564 | 8,475 | 8,524 | 8,420 |
| Net Debt / EBITDA | 1.3x | 1.3x | 1.2x | 1.2x | 1.2x |
| APA Corp standalone | | | | | |
| EPS (3Q23 Shares) | \$4.56 | \$5.25 | \$5.15 | \$5.03 | \$4.28 |
| CFPS (3Q23 Shares) | \$10.88 | \$11.63 | \$11.64 | \$11.59 | \$10.90 |
| FCFS (3Q23 Shares) | \$4.62 | \$4.61 | \$4.60 | \$4.46 | \$4.73 |
| APA Corp Proforma | | | | | |
| EPS | \$5.28 | \$5.86 | \$6.13 | \$6.13 | \$5.46 |

Exhibit 1: Preliminary accretion / dilution

We have used consensus estimates for CPE

| APA Corp. EV: | Pre-Deal | +CPE | Post-Deal | | |
|----------------------|-----------------|-------------|------------------|---------|---------|
| CFPS | \$12.23 | \$13.00 | \$13.23 | \$13.22 | \$12.66 |
| FCFS | \$4.79 | \$4.92 | \$5.15 | \$5.02 | \$5.30 |
| Accretion / Dilution | | | | | |
| EPS | 16% | 12% | 19% | 22% | 28% |
| CFPS | 12% | 12% | 14% | 14% | 16% |
| FCFS | 4% | 7% | 12% | 12% | 12% |
| Permian Oil | 138 | 144 | 148 | 150 | 153 |
| Permian NGL | 81 | 80 | 81 | 80 | 80 |
| Permian Gas | 551 | 575 | 619 | 647 | 668 |
| Permian Boe | 311 | 320 | 333 | 338 | 344 |
| Other Oil | 128 | 133 | 143 | 149 | 154 |
| Other NGL | 0 | 0 | 0 | 0 | 0 |
| Other Gas | 356 | 332 | 317 | 302 | 289 |
| Other Boe | 188 | 188 | 196 | 200 | 202 |
| Total Oil | 267 | 277 | 291 | 299 | 307 |
| Total NGL | 81 | 80 | 81 | 80 | 80 |
| Total Gas | 907 | 907 | 936 | 950 | 957 |
| Total Boe | 499 | 508 | 528 | 537 | 547 |

Source: BofA Global Research estimates; Bloomberg

BofA GLOBAL RESEARCH

Price objective basis & risk

APA Corporation (APA)

Our \$60 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 |
| | Chevron Corp. | CVX | CVX 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 |
| | Granite Ridge Resources, Inc | GRNT | GRNT US | John H. Abbott |
| | Gulfport Energy Corporation | GPOR | GPOR US | Doug Leggate |
| | Imperial Oil | IMO | IMO US | Doug Leggate |
| | Imperial Oil | YIMO | IMO CN | Doug Leggate |
| | Kimbell Royalty Partners | KRP | KRP US | John H. Abbott |
| | 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 | OVV | 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 | | | | |
| | 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 |

US - Large Cap Oils Coverage Cluster

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|-------------------|---------------------------|-------------|------------------|----------------|
| | Marathon Oil Corp. | MRO | MRO US | Doug Leggate |
| | National Fuel Gas Company | NFG | NFG US | John H. Abbott |
| | Vital Energy Inc | VTLE | VTLE US | John H. Abbott |
| RSTR | | | | |
| | 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

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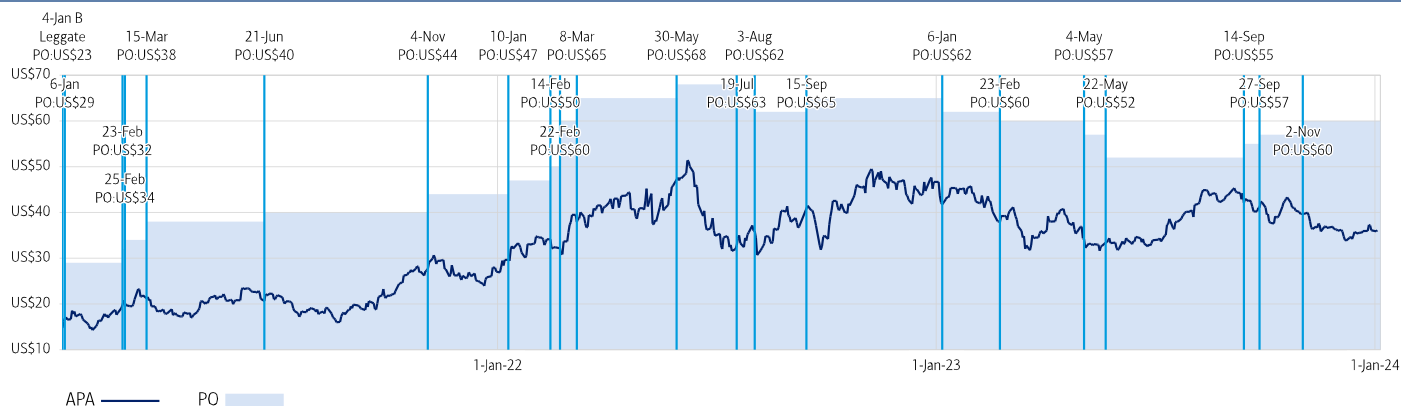
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Equity Investment Rating Distribution: Energy Group (as of 31 Dec 2023)

| 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% |

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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% |

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