

APA Corporation

APA connecting the dots on the logic of the Callon deal; Buy

Maintain Rating: BUY | PO: 49.00 USD | Price: 29.62 USD

Transaction expected to close on April 1st

After the close, APA provided an update on the timing of the pending [Callon Petroleum \(CPE\) transaction \(see note\)](#) which it expects to occur on April 1st, as it has past the Feb 22nd dead line set by Hart-Scott-Rodino Antitrust Improvements Act without a second request from the FTC. Please note the effective date is also April 1st so that there will be little to no adjustment to the closing price. In conjunction with this news, and coinciding with CPE's standalone 4Q23 results, APA published a presentation updating stand-alone Permian performance in both the Midland and Delaware basins, and how it expects to apply its operating practices on the acquired acreage. At high level, we see this as an attempt by management to connect the dots on the logic of the deal and how it believes it can extract value. Notable is that a key takeaway of the presentation is that expected synergies of \$150mm (\$55mm in overhead, \$40mm on an improved financing costs and \$55mm on LOE and DC&F) look conservative – and already account for over half the acquisition value on a 10-year DCF basis.

Upside to initial synergies via possibly better productivity

More specifically, based upon 3rd party well data, APA highlights its standalone average productivity in both the Midland and Delaware from 2021 to 2023. This screens above average vs peers, albeit on fewer wells. But what jumps out is its steady improvement over the past few years and ranking at #1 in Midland and #2 in Delaware. While this has been driven, in part, by technical work (discussed in detail in the presentation), it is also due to wider spacing and larger fracs. Comparing this to Callon standalone results, APA believes it can improve productivity on acreage it sees as overcapitalized. Notably, CPE's 4Q23 release suggests room for improvement - seeing better results from operational initiatives such as fit for completion designs and artificial lift. In other words, even CPE has shown room to improve costs and productivity – and reinforces perhaps that upside to the initial \$150mm in annual synergies projected by APA. Note while management has initially suggested ~10yrs of inventory on its pro forma footprint assuming 11 rigs, this could be accomplished on a lower rig count overtime (longer laterals etc).

Maintain Buy: we see no value for Suriname in the shares

All-in-all, we see the increased disclosure as a good start in addressing some of the questions from the market on the rationale for the Callon deal. With that said, we believe that the Street needs additional color on when the issues with ESPs in Egypt will be resolved – noting management has previously indicated that this will take several quarters. Still, with operational issues known, we see APA as a rate of change story within SMID peers – with exploration catalysts in Alaska, a highly capital efficient development in Suriname (\$8/sh value) and now, capacity to raise synergy target once the Callon deal is closed. Given all of this, we see our Buy rating as appropriate and maintain our \$49 price objective.

27 February 2024

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Stock Data

| | |
|--------------------------------|-----------------------|
| Price | 29.62 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 |
| Mkt Val (mn) / Shares Out (mn) | 9,538 USD / 322.0 |
| Free Float | 99.5% |
| Average Daily Value (mn) | 176.67 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™ | High |

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DC&F-Drilling, completion, and facilities

LOE-Lease operating expense

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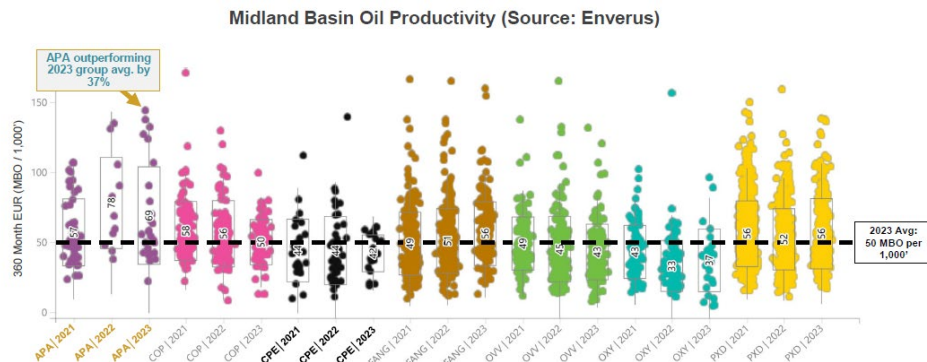
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Productivity opportunity

The following two exhibits are from APA's presentation where it has tried to highlight its relative productivity in the Midland and Delaware basins, which has above peers over the last three years (2021-2023) by using Enervus data. Part of this is due to wider space and larger fracs. CPE, on the other hand, has underperformed the average of the group, which APA attributes, in part, to over capitalization. It expects to rectify this, in part, via wider spacing and large completions.

Exhibit 1: Midland oil productivity

APA sees itself as number 1 in basin

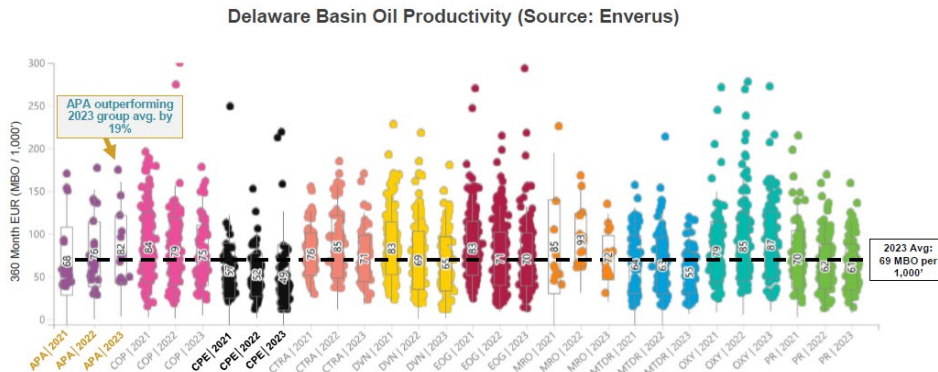


Source: APA, Enervus

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Exhibit 2: Delaware oil productivity

APA sees itself in number 2 in Basin



Source: APA, Enervus

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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

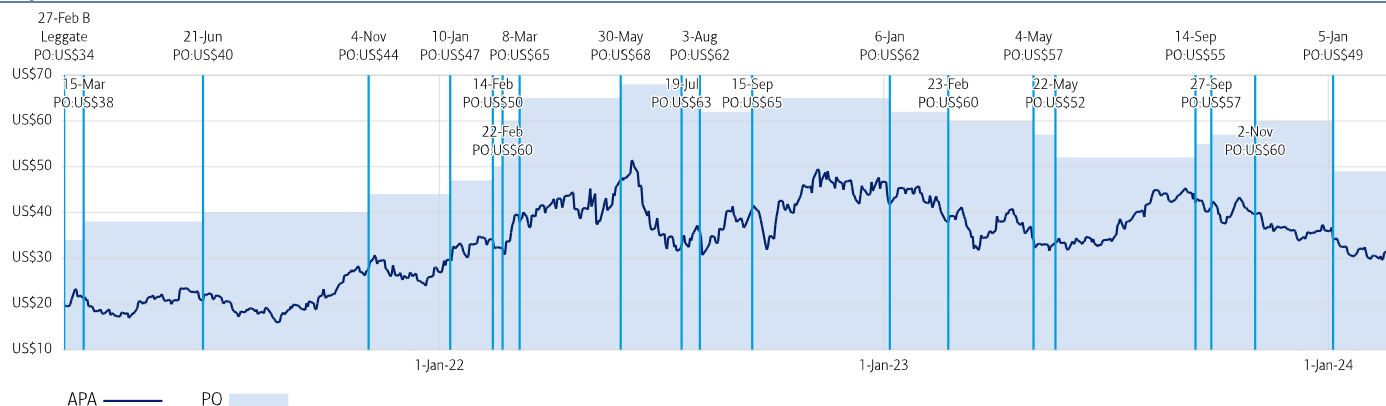
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Important Disclosures

APA Corp (APA) Price Chart



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

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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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|-------------------|---|--|
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