



APA Corporation (APA)

Updated November 12th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	\$22	5 Year CAGR Estimate:	11.7%	Market Cap:	\$8.1 B
Fair Value Price:	\$32	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	10/22/2024
% Fair Value:	68%	5 Year Valuation Multiple Estimate:	8.1%	Dividend Payment Date:	11/22/2024
Dividend Yield:	4.5%	5 Year Price Target	\$32	Years Of Dividend Growth:	2
Dividend Risk Score:	D	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

On March 1st, 2021, Apache Corporation changed its name to APA Corporation. APA explores and produces crude oil, natural gas and natural gas liquids (NGLs) in the U.S., Egypt and the North Sea. It has a market capitalization of \$8.1 billion. In 2023, APA produced about 331,000 barrels of oil equivalent per day (excluding non-controlling interest). In this period, oil, natural gas, and NGLs comprised 81%, 12% and 7% of the total revenue of the company, respectively. The company is extremely sensitive to the prevailing price of oil; much more so than the well-known integrated oil majors like Exxon Mobil (XOM) and Chevron (CVX).

On April 1st, 2024, APA acquired Callon Petroleum (CPE) in an all-stock deal valued at \$4.5 billion (incl. debt). APA issued ~70 million shares for this deal. It also expects to grow its output ~50% and reap great synergies in the Permian Basin, where Callon Petroleum is present. As both the deal value and the output of Callon Petroleum are ~50% of the market cap and output of APA, respectively, we view the deal positively for APA, given expected synergies.

In early November, APA reported (11/6/24) financial results for the third quarter of 2024. Its production grew 13% over the prior year's quarter thanks to the acquisition of Callon Petroleum but the average realized price of oil decreased and the price of natural gas plunged amid high inventories. As a result, earnings-per-share decreased -25%, from \$1.33 to \$1.00, though they exceeded the analysts' consensus by \$0.01. APA cut its dividend by -90% in 2020 amid the pandemic but it restored its dividend last year.

APA has discovered about 700 million barrels of oil in Suriname, where it has exciting growth potential. In addition, the company greatly benefits from the war in Ukraine. While gas prices have reverted to normal levels, oil prices have remained above average. Nevertheless, we reiterate that APA is very sensitive to the gyrations of the oil price. Its -70% plunge in the last decade (vs. +190% of the S&P 500) is a stern reminder of the high risk of this stock. While the oil market is tight right now, we expect oil prices to deflate in the upcoming years.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$6.20	-\$0.33	-\$0.75	\$0.24	\$1.77	-\$0.12	-\$1.08	\$3.90	\$7.68	\$4.53	\$2.90	\$2.90
DPS	\$0.95	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$0.33	\$0.14	\$0.63	\$1.00	\$1.00	\$1.24
Shares¹	376.8	378.0	379.4	381.0	374.7	377.0	378.0	362.0	322.0	307.0	370.0	330.0

APA is an investment for those who want to benefit from the long-term growth in U.S. shale oil production and the promising potential of the area offshore Suriname. The deposits are near oilfields offshore Guyana where Exxon Mobil has discovered about 11.0 billion barrels of oil in the last five years. U.S. shale oil production plunged in 2020 due to the pandemic but it has recovered to all-time highs thanks to the recovery of the oil price from that downturn.

However, the extreme sensitivity of APA to the price of oil warrants caution. Due to the extreme sensitivity of APA to the price of oil, we reiterate that it is essentially impossible to make an accurate long-term forecast. This is also evident from the highly volatile earnings record. Overall, we expect APA to post approximately flat earnings-per-share in five years from now off mid-cycle earnings-per-share of \$2.90.

¹ In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



APA Corporation (APA)

Updated November 12th, 2024 by Aristofanis Papadatos

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	13.8	---	---	---	23.1	---	---	5.4	5.3	8.5	7.6	11.2
Avg. Yld.	1.1%	1.8%	1.9%	2.1%	2.4%	3.6%	2.2%	0.7%	1.5%	2.6%	4.5%	3.8%

APA has shed -38% this year due to uncertainty over the outlook of oil prices and is now trading at 7.6 times its mid-cycle earnings-per-share of \$2.90. This level is much lower than the 10-year average earnings multiple of 11.2 of the stock. If APA trades at its average valuation level in five years, it will enjoy an 8.1% annualized valuation gain.

Safety, Quality, Competitive Advantage, & Recession Resiliency

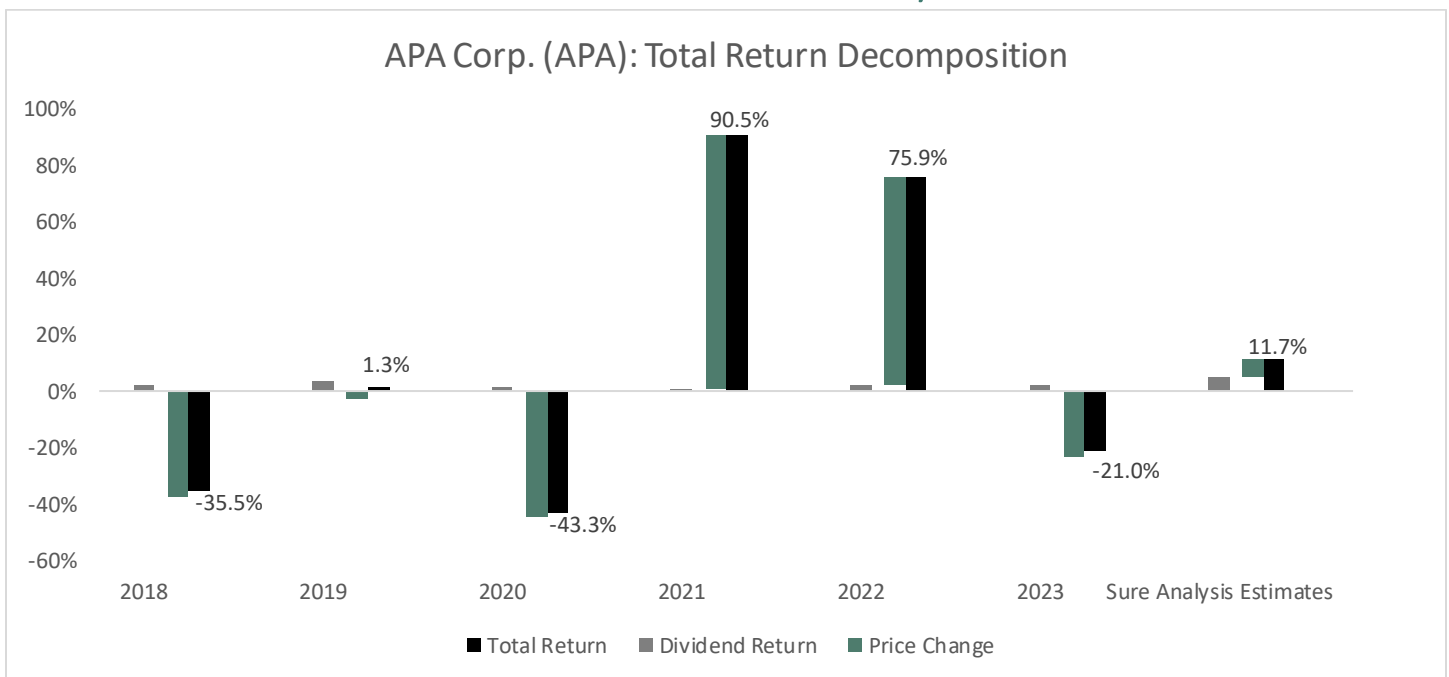
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	15.3%	---	---	417%	56.5%	---	---	3.6%	8.2%	22.1%	34.5%	42.8%

APA is highly cyclical and has remarkably volatile earnings, as it is extremely sensitive to fluctuations of the price of oil. In addition, free cash flows have been negative during years with low or average oil prices. This helps explain the decimation of the dividend in 2020. On the bright side, as APA thrives in the current environment of oil and gas prices, it has greatly reduced its debt load in the last two years. Nevertheless, its high vulnerability to the downturns of the energy sector renders the stock unsuitable for income-oriented investors.

Final Thoughts & Recommendation

APA has exciting growth potential in Suriname and Permian Basin but it wrote off \$8.0 billion of assets in 2019 and 2020 due to poor investments. The excessive write-offs raise a red flag for the risk of the stock. APA has dramatically underperformed the S&P 500 this year (-38% vs. +26%). The stock could offer an 11.7% average annual return over the next five years thanks to a 4.5% dividend and an 8.1% valuation tailwind. This highly cyclical stock is suitable only for those who have strong conviction in rising oil prices and can tolerate high stock price volatility. APA may sometimes offer great short-term returns, but it could offer poor long-term returns. Its 10-year return (-70% vs. +190% of S&P) is a testament to the risk of the stock. The stock maintains its hold rating.

Total Return Breakdown by Year



Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



APA Corporation (APA)

Updated November 12th, 2024 by Aristofanis Papadatos

Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	12,795	6,510	5,367	5,887	7,705	6,491	4,435	7,985	11,075	8,279
Gross Profit	5,758	1,145	1,055	2,028	3,173	1,916	905	3,540	6,255	4,227
Gross Margin	45.0%	17.6%	19.7%	34.4%	41.2%	29.5%	20.4%	44.3%	56.5%	51.1%
SG&A Exp.	453	380	410	395	431	406	290	376	483	351
Operating Profit	2,360	(2,335)	(144)	712	1,969	445	173	2,920	5,230	3,376
Op. Margin	18.4%	-35.9%	-2.7%	12.1%	25.6%	6.9%	3.9%	36.6%	47.2%	40.8%
Net Profit	(8,360)	-10,352	(1,405)	1,304	40	(3,515)	(4,784)	1,135	3,604	2,855
Net Margin	-65.3%	-159%	-26.2%	22.2%	0.5%	-54.2%	-107.9%	14.2%	32.5%	34.5%
Free Cash Flow	(3,007)	(2,141)	481	(332)	(127)	(94)	86	2,383	2,545	772
Income Tax	(518)	(1,010)	(442)	(585)	672	674	64	578	1,652	-324

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	55,952	25,500	22,519	21,922	21,582	18,107	12,746	13,303	13,147	15,244
Cash & Equivalents	769	1,467	1,377	1,668	714	247	262	302	245	87
Acc. Receivable	2,024	1,253	1,128	1,345	1,194	1,062	908	1,394	1,466	1,610
Inventories	708	570	476	368	401	502	492	473	427	453
Goodwill & Int.	---	---	---	---	---	---	---	---	---	---
Total Liabilities	27,815	16,010	14,840	13,131	12,770	13,642	13,391	13,308	11,802	11,553
Accounts Payable	1,210	618	585	641	709	695	444	731	771	658
Long-Term Debt	11,245	8,717	8,544	8,484	8,244	8,566	8,772	7,510	5,453	5,188
Total Equity	25,937	7,888	6,238	7,416	7,130	3,255	(1,639)	(1,595)	423	2,655
LTD/E Ratio	0.43	1.11	1.37	1.14	1.16	2.63	(5.35)	(4.71)	12.89	1.95

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	-14.2%	-25.4%	-5.9%	5.9%	0.2%	-17.7%	-31.0%	8.7%	27.3%	20.1%
Return on Equity	-28.2%	-61.2%	-19.9%	19.1%	0.6%	-67.7%	---	---	1148%	113%
ROIC	-19.8%	-36.0%	-8.2%	7.8%	0.2%	-23.4%	-45.2%	14.0%	53.0%	36.4%
Shares Out.	376.8	378.0	379.4	381.0	374.7	377.0	378.0	362.0	333	309
Revenue/Share	33.32	17.22	14.16	15.37	19.14	16.75	11.73	21.29	33.26	26.79
FCF/Share	(7.83)	(5.66)	1.27	(0.87)	(0.33)	(0.25)	0.23	6.35	7.64	2.50

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.