



# Apache Corp. (APA)

Updated May 15<sup>th</sup>, 2020 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$10	<b>5 Year CAGR Estimate:</b>	1.9%	<b>Market Cap:</b>	\$3.8 B
<b>Fair Value Price:</b>	\$4	<b>5 Year Growth Estimate:</b>	20.0%	<b>Ex-Dividend Date:</b>	4/21/2020
<b>% Fair Value:</b>	237%	<b>5 Year Valuation Multiple Estimate:</b>	-15.8%	<b>Dividend Payment Date:</b>	5/22/2020
<b>Dividend Yield:</b>	1.0% <sup>1</sup>	<b>5 Year Price Target</b>	\$11	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	D	<b>Last Dividend Increase:</b>	N/A

## Overview & Current Events

Apache 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 \$3.8 billion. In 2019, Apache produced about 429,000 barrels of oil equivalent per day (excluding non-controlling interest). In this period, oil, natural gas, and NGLs comprised 83%, 11% and 6%, respectively, of the total revenue of the company. The company is extremely sensitive to the prevailing price of oil and natural gas; much more so than the well-known integrated oil majors like Exxon Mobil (XOM) and Chevron (CVX).

On January 7<sup>th</sup>, 2020, the stock of Apache jumped 24%, the biggest one-day rally in its history, thanks to the announcement of having found significant deposits of oil off the coast of Suriname. The deposits are near an oilfield off shore Guyana where Exxon Mobil has discovered more than 6.0 billion barrels of oil in the last two years. However, Apache is now suffering from the spread of the coronavirus, which has led the oil price to collapse to 18-year lows. As a result, the stock has plunged -70% in just four months and thus it is now trading around its 20-year lows.

In early May, Apache reported (5/6/20) financial results for the first quarter of fiscal 2020. Due to the collapse of the oil price, the company incurred excessive asset impairments and thus reported a loss of -\$11.86 per share. While the adjusted loss was only -\$0.13 per share, the reported loss was greater than the current market cap of the stock and hence it raises a red flag. The company also cut its quarterly dividend by -90%. In addition, Apache hedged its production after the collapse of the oil price. This shows the high vulnerability of Apache to the downturn as well as management's desperation. Due to the pandemic and the depressed oil prices, we expect Apache to lose -\$2.60 per share this year.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$8.46	\$11.47	\$4.92	\$5.50	\$6.20	-\$0.33	-\$0.75	\$0.24	\$1.77	\$0.00	<b>-\$2.60</b>	<b>\$0.80</b>
<b>DPS</b>	\$0.60	\$0.60	\$0.66	\$0.77	\$0.95	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	<b>\$0.10</b>	<b>\$0.10</b>
<b>Shares<sup>2</sup></b>	382.8	384.3	391.7	396.1	376.8	378.0	379.4	381.0	374.7	377.0	<b>378.0</b>	<b>380.0</b>

Apache is an investment for those who want to benefit from booming U.S. shale oil production. However, U.S. shale oil producers are under great pressure right now due to the collapse of the oil price, which has resulted from the coronavirus. The number of U.S. active drilling rigs has decreased for seven consecutive weeks at a fast pace and thus it has slumped to an 11-year low level.

Moreover, the remarkably poor free cash flows of Apache warrant caution. The company has posted negative free cash flows in 6 out of the last 7 years. The company also has net debt of \$11.8 billion, which is more than triple its market cap. Due to the extreme sensitivity of Apache 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 Apache to grow its earnings-per-share by 20.0% per year over the next five years off its mid-cycle level (4-year average) of \$0.32.

<sup>1</sup> Forward dividend yield.

<sup>2</sup> 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.*



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## Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	11.8	9.7	18.2	15.0	13.8	---	---	---	23.1	---	<b>31.3</b>	<b>13.2</b>
Avg. Yld.	0.6%	0.5%	0.7%	0.9%	1.1%	1.8%	1.9%	2.1%	2.4%	3.6%	<b>4.0%</b>	<b>3.7%</b>

Apache is currently trading at 31.3 times its mid-cycle earnings. This level is much higher than its 10-year average earnings multiple of 13.2. As the company recovers over the next five years, we expect the stock to revert towards its historical valuation level. If this occurs, the stock will incur a -15.8% annualized drag in its returns, which will partly offset the 20.0% annual earnings growth we expect.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

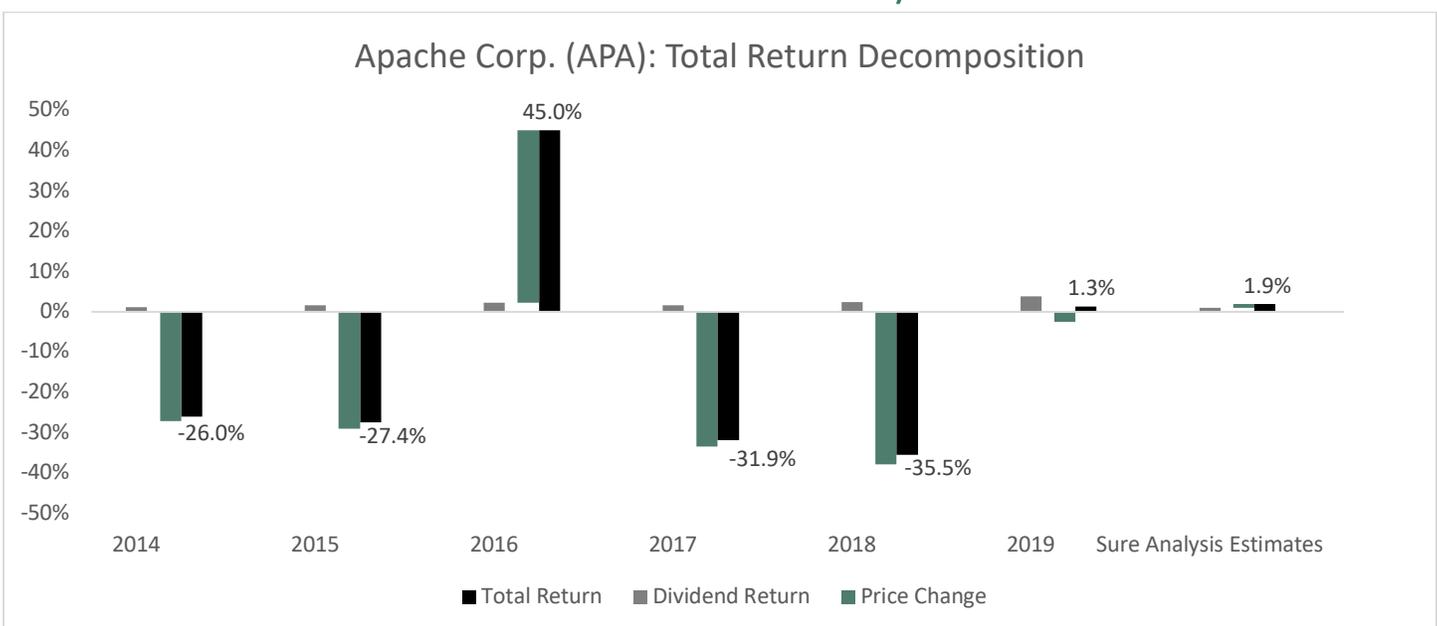
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	7.1%	5.2%	13.4%	14.0%	15.3%	---	---	417%	56.5%	---	<b>400%</b>	<b>48.0%</b>

Apache is highly cyclical and has remarkably volatile earnings, as they are extremely sensitive to fluctuations of the price of oil. In addition, free cash flows have been *negative* in 6 of the last 7 years. This helps explain the recent decimation of the dividend. Moreover, Apache has an excessive amount of debt, with net debt of \$11.8 billion, which is more than triple the current market cap of the stock. All these factors render the stock unsuitable for income-oriented investors.

## Final Thoughts & Recommendation

Apache announced a major discovery of oil in January but it has written off \$8.0 billion of assets in 2019 and 2020 due to poor investments and the collapse of the oil price. The write-offs are more than twice the market cap of the stock. Due to the high vulnerability of Apache to the pandemic, the stock is trading around its 20-year lows. However, we expect it to offer poor returns over the next five years due to its extreme sensitivity to the oil price, its poor free cash flows and its debt pile. If the oil price recovers strongly, the stock will offer extraordinary returns but this highly cyclical stock is suitable only for those who have strong conviction in rising oil prices and can tolerate high stock price volatility. We rate the stock as a sell.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Revenue</b>	12,183	16,810	16,428	14,771	12,795	6,510	5,367	5,887	7,348	6,315
<b>Gross Profit</b>	6,890	9,705	6,468	5,967	5,758	1,145	1,055	2,028	3,156	1,882
<b>Gross Margin</b>	56.6%	57.7%	39.4%	40.4%	45.0%	17.6%	19.7%	34.4%	43.0%	29.8%
<b>SG&amp;A Exp.</b>	380	459	515	481	453	380	410	395	431	406
<b>Operating Profit</b>	5,618	8,271	5,122	4,170	2,360	(2,335)	(144)	712	1,952	410
<b>Op. Margin</b>	46.1%	49.2%	31.2%	28.2%	18.4%	-35.9%	-2.7%	12.1%	26.6%	6.5%
<b>Net Profit</b>	3,032	4,584	2,001	2,232	(8,360)	-10,352	(1,405)	1,304	40	(3,515)
<b>Net Margin</b>	24.9%	27.3%	12.2%	15.1%	-65.3%	-159%	-26.2%	22.2%	0.5%	-55.7%
<b>Free Cash Flow</b>	(5,643)	2,875	(960)	279	(3,007)	(2,141)	481	(332)	(127)	(94)
<b>Income Tax</b>	2,174	3,509	2,853	1,928	(518)	(1,010)	(442)	(585)	672	674

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Total Assets</b>	43,425	52,051	60,737	61,637	55,952	25,500	22,519	21,922	21,582	18,107
<b>Cash &amp; Equivalents</b>	134	295	160	1,906	769	1,467	1,377	1,668	714	247
<b>Acc. Receivable</b>	---	3,079	3,086	2,952	2,024	1,253	1,128	1,345	1,194	1,062
<b>Inventories</b>	564	655	908	891	708	570	476	368	401	502
<b>Goodwill &amp; Int.</b>	1,032	1,114	1,289	1,369	---	---	---	---	---	---
<b>Total Liabilities</b>	19,048	23,058	29,406	26,244	27,815	16,010	14,840	13,131	12,770	13,642
<b>Accounts Payable</b>	779	1,048	1,092	1,616	1,210	618	585	641	709	695
<b>Long-Term Debt</b>	8,141	7,216	12,345	9,725	11,245	8,717	8,544	8,484	8,244	8,566
<b>Total Equity</b>	23,150	27,766	30,104	33,396	25,937	7,888	6,238	7,416	7,130	3,255
<b>D/E Ratio</b>	0.33	0.25	0.39	0.29	0.43	1.11	1.37	1.14	1.16	2.63

## Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Return on Assets</b>	8.5%	9.6%	3.5%	3.6%	-14.2%	-25.4%	-5.9%	5.9%	0.2%	-17.7%
<b>Return on Equity</b>	15.6%	18.0%	6.9%	7.0%	-28.2%	-61.2%	-19.9%	19.1%	0.6%	-67.7%
<b>ROIC</b>	11.4%	13.3%	5.0%	5.0%	-19.8%	-36.0%	-8.2%	7.8%	0.2%	-23.4%
<b>Shares Out.</b>	382.8	384.3	391.7	396.1	376.8	378.0	379.4	381.0	374.7	377.0
<b>Revenue/Share</b>	33.94	42.03	42.02	36.38	33.32	17.22	14.16	15.37	19.14	16.75
<b>FCF/Share</b>	(15.72)	7.19	(2.46)	0.69	(7.83)	(5.66)	1.27	(0.87)	(0.33)	(0.25)

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

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