



APA Corporation (APA)

Updated November 8th, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$30	5 Year CAGR Estimate:	-6.1%	Market Cap:	\$11.4 B
Fair Value Price:	\$16	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	10/21/2021
% Fair Value:	192%	5 Year Valuation Multiple Estimate:	-12.2%	Dividend Payment Date:	11/22/2021
Dividend Yield:	1.7%	5 Year Price Target	\$19	Years Of Dividend Growth:	1
Dividend Risk Score:	C	Retirement Suitability Score:	D	Last Dividend Increase:	100%

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 \$11.4 billion. In 2020, APA produced about 399,000 barrels of oil equivalent per day (excluding non-controlling interest). In this period, oil, natural gas, and NGLs comprised 54%, 29% and 17% of the total revenue of the company, respectively. 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).

In early November, APA reported (11/3/21) financial results for the third quarter of fiscal 2021. The company reduced its production -2% sequentially. However, its average realized prices of oil and gas grew 8% and 29%, respectively. As a result, adjusted earnings-per-share grew 40%, from \$0.70 to \$0.98. Given the high leverage of APA to the oil price and the rally of the oil price to a 7-year high, we have raised our earnings-per-share forecast for the full year from \$2.95 to \$3.50. Moreover, while the company cut its quarterly dividend by -90% last year amid the pandemic, it recently doubled its annualized dividend from \$0.25 to \$0.50. In addition, it redeemed previously issued bonds of \$1.7 billion, thus strengthening its balance sheet.

APA has made four major discoveries in Block 58 offshore Suriname. APA has exciting growth potential in the area. In addition, the company greatly benefits from the aggressive production cuts of OPEC and Russia, which have led the oil price to rally to a 7-year high. Nevertheless, we reiterate that APA is a highly leveraged company, which is very sensitive to the gyrations of the oil price and thus it will have great upside in the positive scenario (higher oil prices) but huge downside in the event of low oil prices. Its -47% decline in the last five years and its -70% plunge in the last decade (vs. +273% of the S&P 500) are stern reminders of the high risk of this stock.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$11.47	\$4.92	\$5.50	\$6.20	-\$0.33	-\$0.75	\$0.24	\$1.77	-\$0.12	-\$1.08	\$3.50	\$1.34
DPS	\$0.60	\$0.66	\$0.77	\$0.95	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$0.33	\$0.50	\$0.64
Shares¹	384.3	391.7	396.1	376.8	378.0	379.4	381.0	374.7	377.0	378.0	379.0	380.0

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 10.0 billion barrels of oil in the last four years. U.S. shale oil production plunged last year due to the pandemic but it has begun to recover this year thanks to the rally of the oil price.

However, the remarkably poor free cash flows of APA warrant caution. The company has posted negative free cash flows in 5 out of the last 7 years. The company also has net debt of \$11.3 billion, which is nearly equal to its market cap. 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 grow its earnings-per-share by 4.0% per year over the next five years off mid-cycle earnings-per-share of \$1.10.

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 8th, 2021 by Aristofanis Papadatos

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	9.7	18.2	15.0	13.8	---	---	---	23.1	---	---	27.3	14.2
Avg. Yld.	0.5%	0.7%	0.9%	1.1%	1.8%	1.9%	2.1%	2.4%	3.6%	2.2%	1.7%	3.4%

APA is currently trading at 27.3 times its mid-cycle earnings-per-share of \$1.10. This level is much higher than its 10-year average earnings multiple of 14.2. 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 -12.2% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

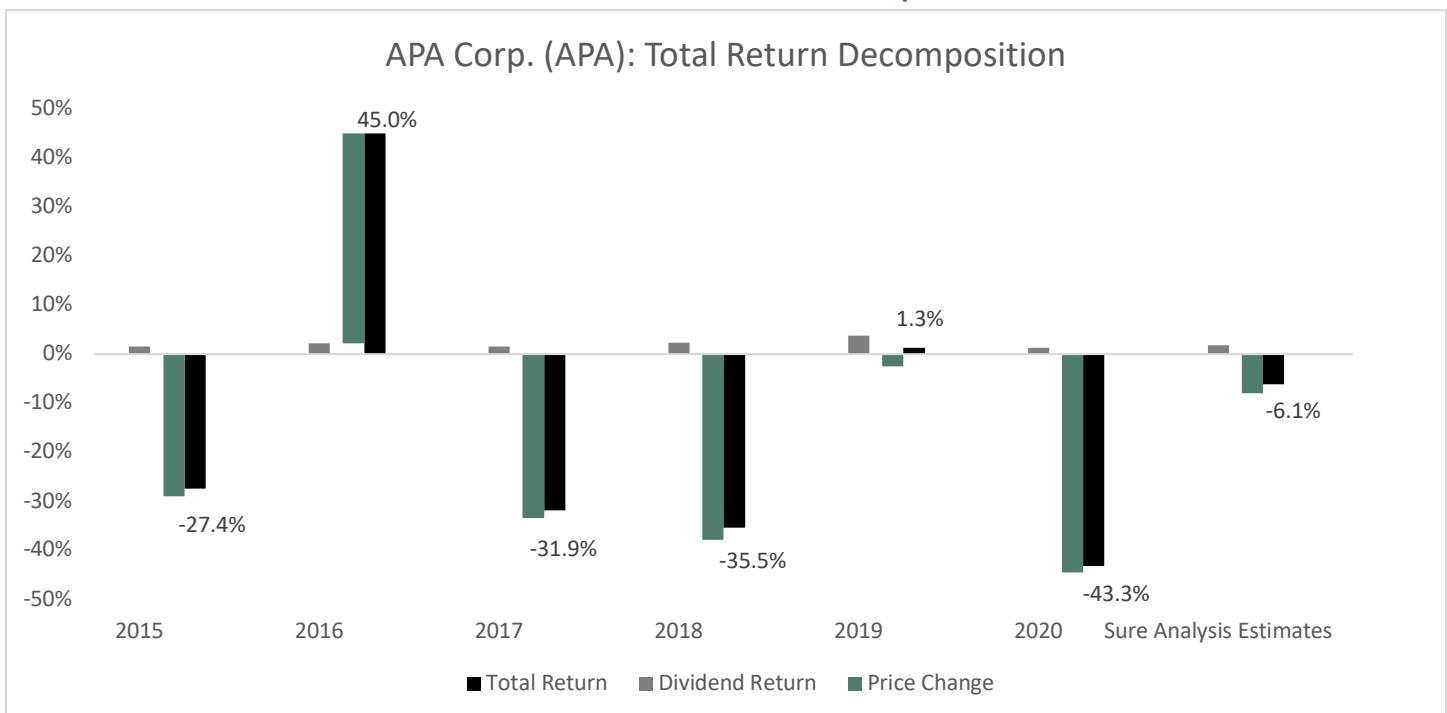
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	5.2%	13.4%	14.0%	15.3%	---	---	417%	56.5%	---	---	45.5%	47.7%

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 in 5 of the last 7 years. This helps explain the decimation of the dividend in 2020. Moreover, APA has a high debt load, with net debt of \$11.3 billion, which is nearly equal to the current market cap of the stock. All these factors render the stock unsuitable for income-oriented investors.

Final Thoughts & Recommendation

APA has exciting growth potential in Suriname but it wrote off \$8.0 billion of assets in 2019 and 2020 due to poor investments and suppressed oil prices. The excessive write-offs raise a red flag for the risk of the stock. Overall, we expect APA to offer poor returns over the next five years. 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. +273% of S&P) is a testament to the risk of the stock. We maintain our sell rating.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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 8th, 2021 by Aristofanis Papadatos

Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	16,810	16,428	14,771	12,795	6,510	5,367	5,887	7,705	6,491	4,435
Gross Profit	9,705	6,468	5,967	5,758	1,145	1,055	2,028	3,173	1,916	905
Gross Margin	57.7%	39.4%	40.4%	45.0%	17.6%	19.7%	34.4%	41.2%	29.5%	20.4%
SG&A Exp.	459	515	481	453	380	410	395	431	406	290
Operating Profit	8,271	5,122	4,170	2,360	(2,335)	(144)	712	1,969	445	173
Op. Margin	49.2%	31.2%	28.2%	18.4%	-35.9%	-2.7%	12.1%	25.6%	6.9%	3.9%
Net Profit	4,584	2,001	2,232	(8,360)	-10,352	(1,405)	1,304	40	(3,515)	(4,784)
Net Margin	27.3%	12.2%	15.1%	-65.3%	-159%	-26.2%	22.2%	0.5%	-54.2%	-107.9%
Free Cash Flow	2,875	(960)	279	(3,007)	(2,141)	481	(332)	(127)	(94)	86
Income Tax	3,509	2,853	1,928	(518)	(1,010)	(442)	(585)	672	674	64

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	52,051	60,737	61,637	55,952	25,500	22,519	21,922	21,582	18,107	12,746
Cash & Equivalents	295	160	1,906	769	1,467	1,377	1,668	714	247	262
Acc. Receivable	3,079	3,086	2,952	2,024	1,253	1,128	1,345	1,194	1,062	908
Inventories	655	908	891	708	570	476	368	401	502	492
Goodwill & Int.	1,114	1,289	1,369	---	---	---	---	---	---	---
Total Liabilities	23,058	29,406	26,244	27,815	16,010	14,840	13,131	12,770	13,642	13,391
Accounts Payable	1,048	1,092	1,616	1,210	618	585	641	709	695	444
Long-Term Debt	7,216	12,345	9,725	11,245	8,717	8,544	8,484	8,244	8,566	8,772
Total Equity	27,766	30,104	33,396	25,937	7,888	6,238	7,416	7,130	3,255	(1,639)
D/E Ratio	0.25	0.39	0.29	0.43	1.11	1.37	1.14	1.16	2.63	(5.35)

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	9.6%	3.5%	3.6%	-14.2%	-25.4%	-5.9%	5.9%	0.2%	-17.7%	-31.0%
Return on Equity	18.0%	6.9%	7.0%	-28.2%	-61.2%	-19.9%	19.1%	0.6%	-67.7%	-592%
ROIC	13.3%	5.0%	5.0%	-19.8%	-36.0%	-8.2%	7.8%	0.2%	-23.4%	-45.2%
Shares Out.	384.3	391.7	396.1	376.8	378.0	379.4	381.0	374.7	377.0	378.0
Revenue/Share	42.03	42.02	36.38	33.32	17.22	14.16	15.37	19.14	16.75	11.73
FCF/Share	7.19	(2.46)	0.69	(7.83)	(5.66)	1.27	(0.87)	(0.33)	(0.25)	0.23

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.