

Date: October 9, 2012

Analyst Name: Benjamin Bender

## CIF Stock Recommendation Report (Fall 2012)

Company Name and Ticker: Apache Corporation (APA)

### Section (A) Summary

Recommendation Buy: Yes <b>No</b>		Target Price:	Stop-Loss Price:
Sector: Energy	Industry: Exploration/Production	Market Cap (in Billions): 33.81B	# of Shrs. O/S (in Millions): 391.22
Current Price: 86.95	52 WK Hi: 112.09	52 WK Low: 77.93	EBO Valuation: 89.01
Morningstar (MS) Fair Value Est.: 140.00	MS FV Uncertainty: Average	MS Consider Buying: 98.00	MS Consider Selling: 189.00
EPS (TTM): 8.35	EPS (FY1): 9.77	EPS (FY2): 10.49	MS Star Rating: 5 stars
Next Fiscal Yr. End 2012 December	Last Fiscal Qtr. End: Less Than 8 WK: Y <b>N</b>	If Less Than 8 WK, next Earnings Ann. Date: November 1	Analyst Consensus Recommendation: Buy (1.71)
Forward P/E: 8.24	Mean LT Growth: 5.77	PEG: 1.43	Beta: 1.31
% Inst. Ownership: 83.47%	Inst. Ownership- Net Buy: <b>Y</b> N	Short Interest Ratio: 2.1	Short as % of Float: 1.2%
<b><u>Ratio Analysis</u></b>	<b><u>Company</u></b>	<b><u>Industry</u></b>	<b><u>Sector</u></b>
P/E (TTM)	10.36	10.55	14.8
P/S (TTM)	1.97	2.79	3.15
P/B (MRQ)	1.15	1.48	.9
P/CF (TTM)	3.68	7.55	8.76
Dividend Yield	.79	2.15	2.06
Total Debt/Equity (MRQ)	33.38	7.18	12.48
Net Profit Margin (TTM)	19.52	29.48	10.77
ROA (TTM)	6.45	8.27	3.48
ROE (TTM)	11.91	12.98	6.01

<p><b><u>Investment Thesis</u></b></p> <p>While there is strong support from analysts to buy or hold Apache stock, there is not enough conclusive evidence to indicate that this investment will generate positive returns.</p> <p>On one hand, there are a bountiful amount of ratios that illustrate APA's ability to be a value-oriented firm that manages itself in a way that is less risky than their rivals. But on the other hand, earnings are shaky and the analysts seem to be too optimistic in estimating earnings for the next fiscal year.</p> <p>The EBO analysis was the most disappointing, the result caused by a low LT growth rate represented by a value oriented company.</p> <p>In the end, Apache has its positives and negatives, but it is uncertain if the company is actually undervalued. With the volatile market we are in, an election approaching and possible supply shocks stemming from Iran, it is not wise to go into this company just yet.</p>	<p><b><u>Summary</u></b> Provide brief summary of your analysis in each section that follows.</p>
	<p><b><u>Company Profile:</u></b> Apache Corp is a company involved in the production/exploration of petroleum and natural gas products with operations in 6 countries.</p>
	<p><b><u>Fundamental Valuation: NEGATIVE SIGNAL</u></b> With a growth rate slower than the industry average, the EBO valuation for Apache is disappointing 2013 and onwards. Sensitivity analysis could not reassure either.</p>
	<p><b><u>Relative Valuation: POSITIVE SIGNAL</u></b> APA positions itself as a value oriented company with value metrics lower than rivals. It is less risky and safer, but unfortunately has a low LT growth rate.</p>
	<p><b><u>Revenue and Earnings Estimates: NEGATIVE SIGNAL</u></b> With a major negative surprise in the June quarter and overly optimistic earning/revenue estimates from a year ago, APA is most likely to fall short in the next FY.</p>
	<p><b><u>Analyst Recommendations: POSITIVE SIGNAL</u></b> All analysts recommend buy or outperform with a few hold opinions. No lower recommendations given. Reuter-1.71 and Morningstar-1.3</p>
	<p><b><u>Institutional Ownership: NO SIGNAL</u></b> There has been little in major changes of ownership for Apache; there is no certainty in which way the company will head from this information.</p>
	<p><b><u>Short Interest: POSITIVE SIGNAL</u></b> With a 2.1 short ratio, APA looks to be thought of somewhat bullish by the market. Compared to competitors, it has a lower short ratio than three of them.</p>
<p><b><u>Stock Price Chart: NEGATIVE SIGNAL</u></b> APA has lower returns than competition and the sector, but has beaten the S&amp;P 500 when looking at the 5 year chart.</p>	

## Section (B) Company Profile (two pages maximum)

### Company Summary

As given on the 20<sup>th</sup> page of the 2011 10-K report from Apache Corp, the company describes themselves:

“Apache Corporation, a Delaware corporation formed in 1954, is an independent energy company that explores for, develops, and produces natural gas, crude oil, and natural gas liquids. We currently have exploration and production interests in six countries: the U.S., Canada, Egypt, Australia, offshore of the U.K. in the North Sea, and Argentina. Apache also pursues exploration interests in other countries that may over time result in reportable discoveries and development opportunities. We treat all operations as one line of business.”

Here is a breakdown of the global operations of Apache on the 23<sup>rd</sup> page of their 10-K report:

The following table sets out a brief comparative summary of certain key 2011 data for each of our operating areas. Additional data and discussion is provided in Part II, Item 7 of this Form 10-K.

	<u>2011 Production</u> (In MMboe)	<u>Percentage of Total 2011 Production</u>	<u>2011 Production Revenue</u> (In millions)	<u>12/31/11 Estimated Proved Reserves</u> (In MMboe)	<u>Percentage of Total Estimated Proved Reserves</u>	<u>2011 Gross Wells Drilled</u>	<u>2011 Gross Productive Wells Drilled</u>
United States .....	104.3	38%	\$ 6,104	1,290	43%	702	671
Canada .....	45.9	17	1,617	764	26	143	131
Total North America .....	150.2	55	7,721	2,054	69	845	802
Egypt .....	60.2	22	4,791	292	10	177	147
Australia .....	25.2	9	1,734	330	11	9	5
North Sea .....	20.0	7	2,091	197	6	14	11
Argentina .....	17.5	7	473	117	4	42	40
Total International .....	122.9	45	9,089	936	31	242	203
Total .....	273.1	100%	\$ 16,810	2,990	100%	1,087	1,005

### Business Model, Competition, Environment and Strategy

Apache is considered to be in the slowing growth stage, having been established in 1954 (2011 10-K, page 4). Business in the petroleum/natural gas market is not seasonal as energy plays a major role in the supply side of global commerce. Apache is categorized as a large-cap value firm, and holds these values for their growth strategy (2011 10-K, page 20):

- Balanced portfolio of core assets
- Conservative capital structure
- Rate of return focus

No region produces more than 22% of the overall production for Apache (2011 10-K, page 3). There are two noteworthy mentions about the company. The first is regarding shale production (2011 10-K, page 4):

“In the last decade, the most significant advance was the coupling of horizontal drilling with hydraulic fracturing techniques that enable our industry to develop and produce resources otherwise trapped in shales and other low-permeability rocks. Apache is applying this technology worldwide.”

The second is Apache’s presence as the largest producer of off-shore oil in water less than 500 feet in the Gulf of Mexico Shelf region (2011 10-K, page 24). These give competitive advantages to Apache, but the firm is also faced with significant risks to factor into their business model.

With a large portion of production in the Western Desert in Egypt, 292 MMboe to be exact, there is much at stake for the company given the tumultuous nature of the Arab Spring and the transition to a new government in Egypt. With such huge risks, APA has purchased “multi-year political risk insurance from the Overseas Private Investment Corporation (OPIC) and other highly rated international insurers covering its investments in Egypt” that covers over 1 billion in possible coverage from losses that may arise from expropriation or other socio-political risks (2011 10-K, page 29).

Also, Apache plans to begin expanding operations into the relatively unknown practice of finding petroleum reserves in deep sea waters. Through acquisitions, Apache may become an industry leader in this field, but the risk of equipment failure and mishandling of supply chain management may significantly eat into their profits and earnings.

## Revenue and Earnings History

This information is available in *Reuters.com*, “*Financials*” tab. Copy/paste the quarterly revenue and earnings per share numbers for the most recent three years. Add the numbers over four fiscal quarters to get annual revenue and earnings. For the current fiscal year, go ahead add up as many quarters as are available. **NOTE:** revenue numbers are “*in millions*”.

**Discuss any pattern in revenue and earnings (e.g., increasing year over year; seasonal; etc.)**

### REVENUE

Periods	2010	2011	2012
March	2673.25	3925.0	4536.0
June	2972.0	4338.0	3972.0
September	3013.0	4328.0	
December	3434.0	4297.0	

Note: Units in Millions of U.S. Dollars

### EARNINGS PER SHARE

Periods	2010	2011	2012
March	2.07876	2.85642	1.99749
June	2.53687	3.17128	0.8641
September	2.11989	2.505	
December	1.77	2.98	

Note: Units in U.S. Dollars

## Section (C) Fundamental Valuation (EBO)

Include the following here:

Copy/paste completed Fundamental Valuation (EBO) Spreadsheet

APA	PARAMETERS	FY1	FY2	Ltg									
	EPS Fore casts	9.81	10.49	5.77%	Model 1: 12-year forecasting horizon (T=12). and a 7-year growth period.								
	Book value /share (last fye)	72.28											
	Discount Rate	11.68%			Please download and save this template to your own storage device You only need to input values to cells highlighted in "yellow" The rest of the spreadsheet is calculated automatically Please read "Guidelines_for_FundamentalValuation_ProfLe_e_Spreadsheet" file carefully								
	Dividend Payout Ratio (POR)	7.56%											
	Next Fisc Year end	2012											
	Current Fisc Mth (1 to 12)	10											
	Target ROE (industry avg.)	14.30%											
	<b>Year</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
	Long-term EPS Growth Rate (Ltg)			0.0577	0.0577	0.0577	0.0577	0.0577					
	Forecasted EPS	9.81	10.49	11.10	11.74	12.41	13.13	13.89					
	Beg. of year BV/Shr	72.285	81.353	91.050	101.306	112.155	123.629	135.765					
	Implied ROE		0.129	0.122	0.116	0.111	0.106	0.102					
ROE	(Beg. ROE, from EPS forecasts)	0.136	0.129	0.122	0.116	0.111	0.106	0.102	0.110	0.119	0.127	0.135	0.143
Abnormal ROE	(ROE-k)	0.019	0.012	0.005	-0.001	-0.006	-0.011	-0.014	-0.006	0.002	0.010	0.018	0.026
growth rate for B	(1-POR)*(ROE-1)	0.000	0.125	0.119	0.113	0.107	0.102	0.098	0.095	0.102	0.110	0.117	0.125
Compounded growth		1.000	1.125	1.260	1.401	1.552	1.710	1.878	2.056	2.266	2.514	2.808	3.159
<b>growth*AROE</b>		<b>0.019</b>	<b>0.014</b>	<b>0.006</b>	<b>-0.001</b>	<b>-0.009</b>	<b>-0.018</b>	<b>-0.027</b>	<b>-0.013</b>	<b>0.004</b>	<b>0.025</b>	<b>0.051</b>	<b>0.083</b>
required rate (k)		0.117	0.117	0.117	0.117	0.117	0.117	0.117	0.117	0.117	0.117	0.117	0.117
Compound discount rate		1.117	1.247	1.393	1.555	1.737	1.940	2.166	2.419	2.702	3.017	3.369	3.763
div. payout rate (k)		0.076											
Add to P/B	PV(growth*AROE)	0.02	0.01	0.00	0.00	-0.01	-0.01	-0.01	-0.01	0.00	0.01	0.02	0.02
Cum P/B		1.02	1.03	1.03	1.03	1.03	1.02	1.00	1.00	1.00	1.01	1.02	1.05
Add: Perpetuity													
beyond current yr	(Assume this yr's AROE forever)	0.15	0.09	0.04	-0.01	-0.05	-0.08	-0.11	-0.05	0.01	0.07	0.13	0.19
Total P/B	(P/B if we stop est. this period)	1.16	1.12	1.07	1.02	0.98	0.94	0.90	0.95	1.01	1.08	1.15	1.23
<b>Implied price</b>		<b>92.19</b>	<b>89.01</b>	<b>85.03</b>	<b>81.27</b>	<b>77.71</b>	<b>74.34</b>	<b>71.14</b>	<b>75.59</b>	<b>80.39</b>	<b>85.66</b>	<b>91.46</b>	<b>97.93</b>
<b>Check:</b>													
Beg. BV/Shr		72.28	81.35	91.05	101.31	112.15	123.63	135.77	148.60	163.77	181.72	203.01	228.31
Implied EPS		9.81	10.49	11.10	11.74	12.41	13.13	13.89	16.41	19.42	23.03	27.38	32.65
Implied EPS growth			0.069	0.058	0.058	0.058	0.058	0.058	0.182	0.183	0.186	0.189	0.193

Inputs (provide below input values used in your analysis)

EPS forecasts (FY1 & FY2): 9.81 & 10.49

Long-term growth rate: 5.77

Book value /share (along with book value and number of shares outstanding):

Book value: 27,766M

# of shares outstanding: 384.12M

Book value / share: 72.28

Dividend payout ratio: 7.56

Next fiscal year end: 2012

Current fiscal month: 10

Target ROE: 14.3

## Output

Above normal growth period chosen: 2013

EBO valuation (Implied price from the spreadsheet): 89.01

## Sensitivity Analysis

EBO valuation would be (you can include more than one scenario in each of the following):

85.03 if changing above normal growth period to: 2014

123.85 if changing growth rate from mean (consensus) to the highest estimate: 14.63

48.19 if changing growth rate from mean (consensus) to the lowest estimate: 5.64

87.74 if changing discount rate to: 11.18%

97.19 if changing discount rate to: 12.18%

No change until 2019 if changing target ROE to: 11.78

## Section (D) Relative Valuation

Copy/paste your completed relative valuation spreadsheet here

APA													
				Mean FY2									
				Earnings Estimate	Forward	Mean LT	PEG	P/B	ROE	Value	P/S	P/CF	
Ticker	Name	Mkt Cap	Current Price	(next fiscal year)	P/E	Growth Rate		(MRQ)	5 yr ave	Ratio	TTM	TTM	
1	APC	Anadarko Petroleum Co	\$ 34,502.83	\$ 68.85	\$ 4.29	16.05	4.93%	3.26	1.71	5.34%	0.32	2.52	13.46
2	COG	Cabot Oil & Gas Corp	\$ 9,298.30	\$ 43.90	\$ 0.90	48.78	22.75%	2.14	4.35	9.33%	0.47	8.71	17.99
3	DVN	Devon Energy Corp	\$ 24,287.09	\$ 59.98	\$ 4.71	12.73	6.47%	1.97	1.09	1.24%	0.88	2.18	4.85
4	EOG	EOG Resources, Inc	\$ 29,678.29	\$ 109.82	\$ 5.39	20.37	13.95%	1.46	2.22	11.73%	0.19	2.61	6.93
	APA	Apache Corp	\$ 33,601.49	\$ 86.48	\$ 10.49	8.24	5.77%	1.43	1.14	11.78%	0.10	1.96	3.66
Implied Price based on:					P/E	PEG	P/B	Value	P/S	P/CF			
1	APC	Anadarko Petroleum Corp				\$168.35		\$197.04	\$129.72		\$286.16	\$111.19	\$318.04
2	COG	Cabot Oil & Gas Corp				\$511.68		\$129.78	\$329.99		\$416.64	\$384.31	\$425.08
3	DVN	Devon Energy Corp				\$133.59		\$119.13	\$82.69		\$785.53	\$96.19	\$114.60
4	EOG	EOG Resources, Inc				\$213.73		\$88.40	\$168.41		\$169.13	\$115.16	\$163.74
		High				\$511.68		\$197.04	\$329.99		\$785.53	\$384.31	\$425.08
		Low				\$133.59		\$88.40	\$82.69		\$169.13	\$96.19	\$114.60
		Median				\$191.04		\$124.45	\$149.06		\$351.40	\$113.17	\$240.89

## From the Top Panel

Discuss whether your stock and its competitors have very different multiples. Point out if any of the five stocks have multiples that are far off from the others. Make an attempt to explain why (you would want to read analyst research report in *Morningstar Direct*; you should also look for

comments from other financial sites). **The discussions should address all of the following valuation metrics: forward P/E, PEG, P/B (MRQ), P/S (TTM), and P/CF (TTM).**

Compare the implied prices derived from various valuation metrics. Also compare those implied price to the stock's current price, and 52-week high and low.

In relation to all the other valuation metrics, APA is much more of a value stock. Forward P/E, PEG, P/B, P/S and P/CF are all the lowest or very close to being the lowest ratio amongst the competition. Being the most value stock amongst the five is also indicated by Apache having the lowest LT growth rate. This low growth rate is significant because the stock price of APA is actually higher than three of the rivals' prices. The current stock price is also nearer to the 52 week low, which raises a flag as to how a value company is more valuable than companies with stronger growth prospects. Either Apache is a great buy or it is a value trap that should be avoided.

### **From the Bottom Panel**

Discuss the various implied prices of your stock derived from competitors' ("comparables") multiples. How different are the prices derived from the various valuation metrics? Note any valuation metrics that seem to yield outlier prices and explain why (**HINT**: is that because that particular valuation metrics is not very relevant for the industry? Do you best to provide convincing arguments).

For each valuation metrics, Compare the current price and 52-week high /low of your stock to the High-low range derived from multiples of its competitors.

Among the valuation metrics analyzed, **which ones do you think are most relevant as a valuation tool for your stock?**

When compared to the price multiples, APA is more aligned with DVN than the rest. DVN has its prices lower than the others in general when using APA's stock price. COG is the biggest foil and outlier to Apache and I believe it is because COG has a lower significant market cap than the competition. It is relatively new, starting up in 1996, so growth is naturally going to occur for the company. Since the operations of energy firms can be heavily affected by the supply shocks of oil commodity prices, I believe that P/S and P/CF will be more significant metrics in valuing energy firms.

### **Section (E) Revenue and Earnings Estimates**

**Copy/Paste the "Historical Surprises" Table from *Reuters.com*, "Analysts" tab (include both revenue and earnings; make note that revenues might be in "millions")**

Review recent trends in company's reported revenue and earnings, and discuss whether (1) the company has a pattern of "surprising" the market with numbers different from analysts' estimates; (2) Were they positive(actual greater than estimate) or negative (actual less than estimate) surprises? (3) Were surprises more notable for revenue or earnings? (4) Look up the stock chart to see how the stock price reacted to the "surprises". **NOTE:** Reuters does not put the sign on the surprise. **You need to put a "negative" sign when it is a negative surprise.**

Overall, APA tends to hardly surprise the market. They seem to be only single digit percentage surprise differences, with the exception of the most recent quarter ending. That quarter saw a major surprise, especially when compared to the other numbers. More importantly, that surprise was negative. It is notable that Apache had little surprises that were often positive, to suddenly having a major negative surprise. The stock market reacted by keeping APA returns in the negative for following quarter.

Estimated vs Actual	Estimate	Actual	Difference	Surprise %
<b>SALES (in millions)</b>				
Quarter Ending Jun-12	4,257.14	3,972.00	285.14	6.70
Quarter Ending Mar-12	4,485.55	4,536.00	50.45	1.12
Quarter Ending Dec-11	4,281.21	4,297.00	15.79	0.37
Quarter Ending Sep-11	4,208.48	4,328.00	119.52	2.84
Quarter Ending Jun-11	4,255.87	4,338.00	82.13	1.93
<b>Earnings (per share)</b>				
Quarter Ending Jun-12	2.53	2.07	0.46	18.22
Quarter Ending Mar-12	3.09	3.00	0.09	2.98
Quarter Ending Dec-11	2.86	2.94	0.08	2.74
Quarter Ending Sep-11	2.78	2.95	0.17	5.96
Quarter Ending Jun-11	3.09	3.22	0.13	4.13

**Copy/paste the “Consensus Estimates Analysis” Table from *Reuters.com*, “Analysts” tab (include both revenue and earnings)**

Review the range and the consensus of analysts’ estimates. (1) Calculate the % difference of the “high” estimate from the consensus (mean); (2) Calculate the % (negative) difference of the “low” estimate from the consensus; (3) Are the divergent more notable for the current or out-quarter, FY1 or FY2, revenue or earnings? (4) Note the number of analysts providing LT growth rate estimate. It that roughly the same as the number of analysts providing revenue and earnings estimates?

Below is a table illustrating the % differences from the mean consensus. The quarterly differences are somewhat higher than the FY differences. Earnings are more divergent than revenue was. The LT growth predictions are far fewer, only eight exist when the other estimates have counts in the upper teens or in the twenties.

	<b>High Difference</b>	<b>Low Difference</b>
<b>SALES (in millions)</b>		
Quarter Ending Dec-12	17%	14%
Quarter Ending Mar-13	25%	17%
Year Ending Dec-12	9%	7%
Year Ending Dec-13	19%	22%
<b>EARNINGS (per share)</b>		
Quarter Ending Dec-12	33%	28%
Quarter Ending Mar-13	49%	28%
Year Ending Dec-12	15%	14%
Year Ending Dec-13	41%	46%
LT Growth Rate (%)	73%	65%

	<b># of Estimates</b>	<b>Mean</b>	<b>High</b>	<b>Low</b>	<b>1 Year Ago</b>
<b>SALES (in millions)</b>					
Quarter Ending Dec-12	16	4,303.37	5,049.75	3,722.00	4,970.88
Quarter Ending Mar-13	12	4,369.61	5,440.35	3,647.02	5,065.58
Year Ending Dec-12	18	16,813.90	18,368.10	15,657.00	18,571.40

Year Ending Dec-13	21	18,422.40	21,986.60	14,454.00	20,107.40
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**EARNINGS (per share)**

Quarter Ending Dec-12	25	2.43	3.24	1.75	3.45
Quarter Ending Mar-13	16	2.43	3.63	1.76	4.23
Year Ending Dec-12	25	9.81	11.26	8.47	12.43
Year Ending Dec-13	29	10.49	14.76	5.64	15.03
LT Growth Rate (%)	8	5.77	10.00	2.00	9.33

Sales and Earnings Figures in U.S. Dollars (USD)

**Copy/paste the “Consensus Estimates Trend” Table from *Reuters.com*, “Analysts” tab (include both revenue and earnings)**

Review recent trend of analysts’ consensus (mean) estimates on revenue and earnings. (1) Are the consensus estimates trending up, down, or stay the same? (2) Is the trend more notable for the near- or out- quarter, FY1 or FY2, revenue or earnings?

Most of the current, week, 1 month, and 2 month predictions are relatively the same to one another whether they are for revenue or earnings, but the mentioned figures are all lower than the estimates made a year ago. This says that analysts are often optimistic about their yearly predictions for Apache, so I would be inclined to say that the FY13 estimates for revenue and earnings will be lower than is predicted by the analysts.

	Current	1 Week Ago	1 Month Ago	2 Month Ago	1 Year Ago
<b>SALES (in millions)</b>					
Quarter Ending Dec-12	4,303.37	4,300.66	4,345.97	4,387.72	4,970.88
Quarter Ending Mar-13	4,369.61	4,381.08	4,348.90	4,404.05	5,065.58
Year Ending Dec-12	16,813.90	16,834.90	16,909.60	17,140.40	18,571.40

Year Ending Dec-13	18,422.40	18,449.10	18,501.60	18,738.50	20,107.40
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**Earnings (per share)**

Quarter Ending Dec-12	2.43	2.40	2.39	2.44	3.45
Quarter Ending Mar-13	2.43	2.42	2.42	2.48	4.23
Quarter Ending Dec-12	9.81	9.78	10.08	10.34	12.43
Quarter Ending Dec-13	10.49	10.48	10.83	11.12	15.03

**Copy/paste the “Estimates Revisions Summary” Table from *Reuters.com*, “Analysts” tab (include both revenue and earnings)**

Review the number of analysts revising up or down their estimates (both revenue and earnings) **in the last and last four weeks.** (1) Note whether there are more up or down revisions; (2) are the revisions predominantly one directional? (3) Any notable difference last week versus last four weeks, revenue versus earnings?

There are more up revisions. None are predominantly one directional. There is little difference in revisions last week when compared to revisions made four weeks ago. The only notable area is for revisions made over the last 4 weeks about the year ending in 2013.

Number Of Revisions:	Last Week		Last 4 Weeks	
	Up	Down	Up	Down
<b>Revenue</b>				
Quarter Ending Dec-12	3	1	3	2
Quarter Ending Mar-13	1	1	1	1
Year Ending Dec-12	2	2	3	2
Year Ending Dec-13	2	2	2	4

## Earnings

Quarter Ending Dec-12	5	1	7	6
Quarter Ending Mar-13	2	1	3	3
Year Ending Dec-12	3	2	8	7
Year Ending Dec-13	5	3	5	12

You will need to incorporate what you see here with Morningstar's analyst research report (you can access **Morningstar Direct at the Financial Markets Lab.**) and other readings/analysis you found from various on-line financial sites. Discuss whether you think the company has a good chance of making or beating analyst consensus estimate, and why. Based on how the stock has been trading lately, do you think market has already anticipated strong or lackluster financial outlook from the company?

Below is an earnings estimate from Morningstar given in their analysis report on page 7. It believes APA will have a higher five year growth forecast, even though it is still significantly below the industry average of 15.44%. I think the market has seen low earnings over the years and expects that trend to continue with Apache's value approach to their business model.

### Annual Earnings Estimates

Earnings Type	12/2012		—	
	\$	Growth %	\$	Growth %
High	11.26	-1.83	14.76	31.08
		-26.15518		
Low	8.47	7445510	5.64	-33.41
Mean	9.98	-12.99	10.62	6.41
30 Days Ago	10.09	-12.03	10.91	8.13
60 Days Ago	10.59	-7.67	11.46	8.22
90 Days Ago	11.47	0.00	12.40	8.11
Number of Estimates	24		18	
Five Year Growth Forecast: 6.11%				
Industry Average: 15.44%				

## Section (F) Analysts' Recommendations

Copy/paste the "Analyst Recommendations and Revisions" Table from *Reuters.com*, "Analysts" tab. NOTE: Make sure you copy the entire table including the "Mean Rating" at the bottom of the table.

1-5 Linear Scale	Current	1 Month Ago	2 Month Ago	3 Month Ago
(1) BUY	15	15	15	15
(2) OUTPERFORM	10	10	10	11
(3) HOLD	6	6	6	6
(4) UNDERPERFORM	0	0	0	0
(5) SELL	0	0	0	0
No Opinion	0	0	0	0
Mean Rating	1.71	1.71	1.71	1.72

**Review the trend of analyst recommendations over the last three months. Is there a notable change of analyst opinions, turning more bullish or bearish? How many different ratings out of the five possible ones did the company receive currently, one, two, and three months ago? Is there a notable trend of opinion convergence or divergence? Is what you see here consistent to comments in Morningstar analyst's research report as well as various online financial sites you had researched on?**

Analysts from Reuters, Morningstar, and Yahoo! Finance all have positive outlooks on the future performance of Apache. They all see APA as being undervalued compared to the market. Most recommend buy or outperform with no opinions below hold. Morningstar notes an "average" uncertainty risk on page 4 of its analysis report.

Reuters – 1.71

Morningstar – 1.3

S&P 500 – 1.5

Yahoo! Finance – 1.8

**NOTE:** On a Five-point scale, Reuters assigns “1” to “Buy”, the most bullish recommendation, and “5” to “Sell”, the most bearish recommendation. **Some other online sites have an opposite scale** with their “1” being the most bearish and “5” being the most bullish recommendations.

## Section (G) Institutional Ownership

Copy/paste the completed **“CIF Institutional Ownership” spreadsheet** here.

APA

Ownership Activity	# of Holders	% Beg. Holders	Shares	% Shares
Shares Outstanding			391,222,423	100.00%
# of Holders/Tot Shares Held	1,239	100.16%	326,475,112	83.45%
# New Positions	11	0.89%		
# Closed Positions	9	0.73%		
# Increased Positions	41	3.31%		
# Decreased Positions	39	3.15%		
<b>Beg. Total Inst. Positions</b>	1,237	100.00%	326,563,021	83.47%
# Net Buyers/3 Mo. Net Chg	2	51.25%	-87,909	-0.02%

Ownership Information	% Outstanding
Top 10 Institutions % Ownership	28.30%
Mutual Fund % Ownership	1.36%
Float %	99.34%

> 5% Ownership		
Holder Name	% Outstanding	Report Date
Capital Research Global Investors	5.4	6/30/2012

**Combine information provided in all three sections to discuss whether (1) institutions, on net basis, have been increasing or decreasing ownership and how significant, (2) the stock has sizable institution interests and support, (3) the extent of the (> 5%) owners, and (4) this could be a bullish or bearish indication of future stock price movement.**

There has been an increase in institutional buyers, but they have been buying up smaller portions. This is indicated by the increase in net buyers and the decrease in 3 month net changes. Capital Research Global Investors is the only sizeable holder of APA stock and other ownership seems to be adequately spread around the market. The changes in ownership indicate neither bullish nor bearish movements, but mostly flat signals.

**Section (H) Short Interest (two pages)**

From <http://www.nasdaq.com/> (NASDAQ’s website)

Copy/paste or enter the data in the following table. You also need to copy/paste the chart to the right.

**Copy/paste or type the information from “short interest” table. You will start from the most recent release date, and go back for a year (some stocks may not have data go back for a year)**

**Copy/paste the chart to the right of the “short interest” table, immediately follow the table below**

**NOTE:** You are encouraged to look at the short interest information for two of the companies’ closest competitors. This will help gauge whether the sentiment indicated in the short interest statistics is company specific or industry-wide.

Settlement Date	Short Interest	Avg Daily Share Volume	Days To Cover
9/14/2012	4,723,593	2,727,343	1.731939
8/31/2012	4,443,571	2,052,770	2.164671
8/15/2012	4,701,220	2,628,701	1.788419
7/31/2012	3,803,401	2,967,913	1.281507
7/13/2012	4,208,168	2,793,850	1.506225
6/29/2012	4,728,041	3,761,300	1.257023

6/15/2012	5,075,580	3,663,034	1.385622
5/31/2012	4,786,536	3,227,246	1.483164
5/15/2012	4,844,153	3,675,162	1.318079
4/30/2012	6,212,856	2,642,639	2.351004
4/13/2012	6,490,939	2,575,949	2.519824
3/30/2012	5,609,518	3,045,665	1.841804
3/15/2012	5,282,878	2,539,694	2.080124
2/29/2012	4,926,824	2,988,882	1.648384
2/15/2012	4,490,859	3,075,865	1.460031
1/31/2012	4,086,987	3,141,949	1.300781
1/13/2012	4,342,903	3,319,489	1.308305
12/30/2011	3,425,588	2,277,309	1.504226
12/15/2011	3,994,732	3,044,164	1.312259
11/30/2011	4,930,602	3,398,370	1.450873
11/15/2011	4,671,084	2,922,459	1.598340
10/31/2011	5,313,365	3,476,551	1.528344
10/14/2011	5,440,816	3,698,771	1.470979

Read more: <http://www.nasdaq.com/symbol/apa/short-interest#ixzz28jio77Wl>



From <http://finance.yahoo.com/>

Complete the following table with information from the *“share statistics” table*.

<b>Avg Vol (3 month)</b>	<b>Avg Vol (10 day)</b>	<b>Shares Outstanding</b>	<b>Float</b>
2,693,740	2,648,850	391.22M	389.42M
<b>Shares Short (Most recent date)</b>	<b>Short Ratio (Most recent date)</b>	<b>Short % of Float (Most recent date)</b>	<b>Shares Short (2 weeks prior)</b>
4.72M	2.1	1.2%	4.44M

**Based on the short interest statistics and its recent trend, how is the market sentiment on the stock? Has the sentiment turned more bullish or bearish over the last year? How about in more recent month and why?**

The market seems to be favoring the short ratio for Apache. The Days to Cover metric goes up and down too much to read into, but should be noted it is currently going downwards, indicating a lesser impact from closing short positions. Yet with a 2.1 short ratio, APA is quite

low to be considered bearish. When compared to the competition, Apache appears to rank in the upper middle for short ratios:

APC – 1.6

APA – 2.1

EOG – 2.2

COG – 3.1

DVN – 3.2

## **Section (I) Stock Charts**

**Discuss what you observe from the stock charts. This should include comparing your stock to competitors, sector, and SP500 over the three different time horizons.**

When compared to the other companies, APA has less return. This can be interpreted as the company being less risky than others in the Energy sector. I do find concern that Apache has underperformed against the sector and the S&P 500 in the past three months and year, but there is some reassurance in noticing that APA outperformed the S&P 500 for the entirety of the past five years.

### **LEGEND:**

D. Purple – S&P 500

L. Green – Energy

D. Blue – APA

L. Blue – EOG

D. Green – COG

Red – APC

L. Purple – DVN

### A Three Months Price Chart

Copy/paste the "3 Mos." stock chart here



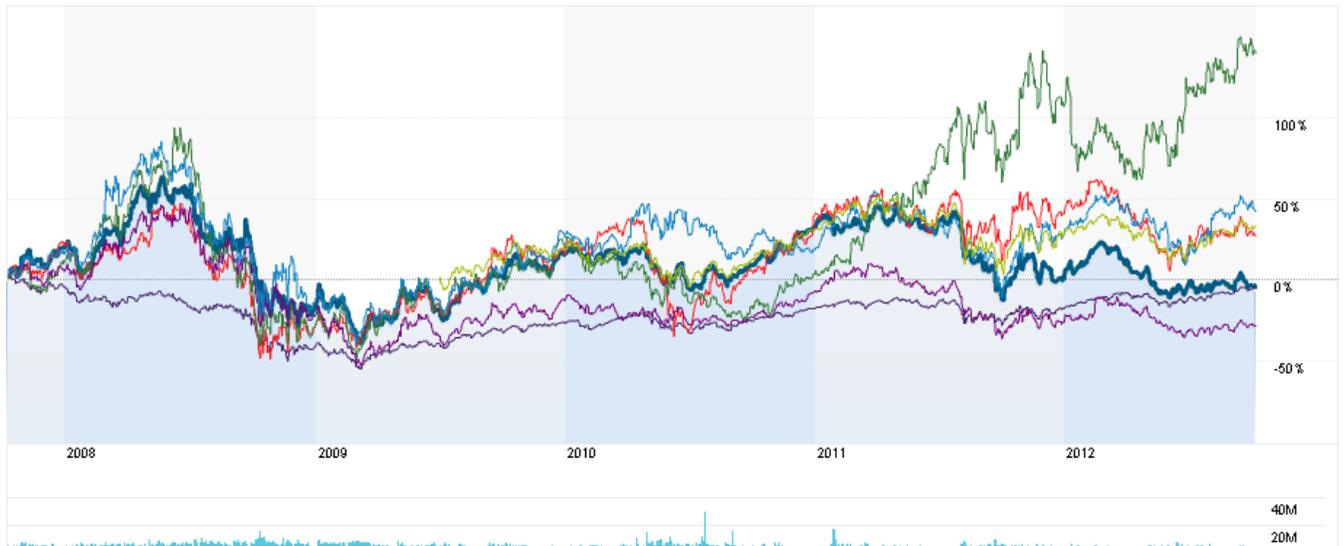
### A One Year Price Chart

Copy/paste the "1 Yr" stock chart here



## A Five Year Price Chart

Copy/paste the "5 Yrs." stock chart here



## Works Cited

- <http://seekingalpha.com/article/906891-3-big-energy-stocks-to-buy-now-3-to-avoid>
- [http://www.apachecorp.com/Resources/Upload/file/investors/Apache\\_AR\\_2011.pdf](http://www.apachecorp.com/Resources/Upload/file/investors/Apache_AR_2011.pdf)
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