

Mossberg's Investor Digest

Best Idea Profile:

Apache Corporation (NYSE:APA)

DESCRIPTION:

Headquartered in Houston; Apache Corporation is an independent energy company. APA explores and produces natural gas, crude oil and natural gas liquids. In North America, APA's exploration and production interests are focused in the Gulf of Mexico, the Gulf Coast, East Texas, the Permian Basin, the Anadarko Basin and the Western Canada. Outside of North America, Apache has E&P interests in Egypt, Western Australia, the U.K, the North Sea and Argentina. The company also has exploration interests in Chile located adjacent to its' Argentine operations on the Chilean side of the island of Tierra del Fuego. Apache's mission is to grow a profitable upstream oil and gas company with competitive investment rates of return.

KEY INVESTMENT CONSIDERATIONS:

Proven Operators – Apache has increased reserves 22 out of the last 24 years and increased production 29 out of the past 31 years. Also, the company has a history of being able to buy properties from the major oil companies and adding value to underworked assets.

Assets – At the end of FY09, Apache had total estimated proved reserves of 1,067 MMbbls of crude oil, condensate and NGLs and 7.8 Tcf of natural gas. APA's proved developed reserves totaled 1,636 MMboe, and estimated PUD reserves totaled 731 MMboe, or approximately 31% of worldwide total proved reserves. The Company also had total estimated proved undeveloped reserves of 731 MMboe. During the year, Apache converted 39 MMboe of proved undeveloped reserves to proved developed reserves through development drilling activity.

BP Asset Acquisition – APA has recently announced a \$7 billion asset purchase from BP. This purchase creates expansion opportunities in three core Apache regions; the Permian Basin in the US, Canada and the Western Desert of Egypt. This acquisition includes full business units and long-lived legacy properties, assets for drilling, large potential new plays, midstream assets and experienced staff. The purchase will increase Apache's reserves from 2589 MMBOE to 2974 MMBOE. 1H production will also increase from 686 MOBE/D to 769 MBOE/D in the post merger Apache. All of these assets purchased from BP are strategically located in areas where Apache is already operating and has established core competencies. With this acquisition the company also builds more scale and size for efficiency. Apache has announced another acquisition of Mariner Energy, which is expected to close during 3Q10.

Diversified Operations – The post BP purchase Apache will have combined production, which will be about 50% liquids. The company owns properties worldwide. The new Apache will have 22% of its production in Egypt, 17% in the Gulf of Mexico and 15% in Canada. The remainder of production is distributed among 6 other areas.

Strong Quarterly Results – For the 2Q10, APA reported net income grew to \$860 million, or \$2.53 per share from \$443 million, or \$1.31 per share on a year-over-year basis. For the same period, Apache reported that production of BOE (barrels of oil equivalent) increased 10% with liquid hydrocarbon up 19% and natural gas up 1%. The company experienced increased production in a number of areas including Australia, Egypt, the Gulf of Mexico and Oklahoma.

VALUATION:

Shares of Apache have been rebounding off their July 1st lows, as the market has more confidence in the story due to the recent financings. The development of additional opportunities from the BP purchase along with strong long-term trends for may bode well for this proven diversified energy producer.

(NYSE: APA)

Investment Data (as of 8/2/10)

Recent Price	\$89.96
52-Week Range	111 - 81.94
Fiscal Year End	DEC
Dividend	0.60
Yield	0.7%
Shares Outstanding	364MM
Average Trading Volume (3 mos)	5.1MM
Market Capitalization	33B
Cash	1.8B
Long Term Debt	5.0B
Enterprise Value (EV)	36B
LT Debt/ Equity	0.3
BV/ Share	\$52.33
TTM Revenue	\$10.5B
P/ Revenue	3x
TTM EPS	\$7.66
P/ EPS	12x
TTM EBITDA	\$4.75B
EV/ EBITDA	7x

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