Hess Corp.

Inflection point: adding Hess to BofAML's US 1 'best ideas' list

Reiterate Rating: BUY | PO: 80.00 USD | Price: 49.97 USD

Bank of America Merrill Lynch

Equity | 11 April 2017

Short interest ratio: catalyst for recovery

Over the past six months Hess has been one of the most volatile stocks in the sector, facing headwinds from a significant increase in short interest that has exaggerated volatility. From discussions with investors, the arguments against Hess seem to begin and end with a combination of declining production and an expanding balance sheet – all part of the deliberate portfolio choices that favored completing major projects at the expense of short cycle production. We expect this to end in 2Q17 with a rebound in oil and gas production starting in 2H17 and critically, an inflection in free cash flow that we expect will return Hess to free cash flow with the flexibility to re-up investment in the Bakken. We thus would view Hess as a dangerous 'short' for investors seeking to hedge other portfolio risks.

Inflection point on multiple levels right around the corner

We believe Hess' investment case is approaching an inflection point on multiple levels. We expect oil and gas production to trough in 2Q17, with a rebound of 60,000 boepd or 22%, by 4Q17 marking the single biggest sequential change in production of any company in the sector. This is likely to kickstart an extended period of growth in 2018/19 but with the contribution from Guyana driving a step change in Hess' growth trajectory through 2025. Near term, we think Hess is also poised for an inflection in free cash flow that is reasonably $1bn annualized, with $700mm irrespective of oil prices. Versus consensus operating cash flow of ~$1.9bn in 2017, this stands out as the biggest swing in free cash of any company in the sector.

Adding Hess to US 1 'best ideas' list

After a year of waiting, we believe the inflection point in Hess' investment case is just around the corner, with the broader sector pullback positioning the shares with amongst the highest upside in the sector as implied by our price objectives. At current levels, Hess 'discounts' strip oil prices. Under our base case, which assumes a rebound in oil prices towards $70 from 2020 fair value is reasonably ~$80 per share. If *non-producing* asset value from Guyana is included we estimate this would be closer to $90. BofAML's US1 list is a collection of the firm's best investment ideas managed with the goal of providing superior investment performance over the long term. For Hess, we believe the combination of catalysts, short interest and absolute value can drive a period of strong relative outperformance vs peers. For this reason, Hess replaces DVN as the energy stock on BofAML's US 1 list.

Estimates (Dec)

(US$)	2015A	2016A	2017E	2018E	2019E
EPS	(3.92)	(4.94)	(3.75)	(1.46)	(0.76)
GAAP EPS	(10.77)	(19.92)	(3.75)	(1.46)	(0.76)
EPS Change (YoY)	NM	-26.0%	24.1%	61.1%	47.9%
Consensus EPS (Bloomberg)			(3.03)	(2.09)	(0.45)
DPS	1.00	1.00	1.00	1.00	1.00

Valuation (Dec)

	2015A	2016A	2017E	2018E	2019E
P/E	NM	NM	NM	NM	NM
GAAP P/E	NM	NM	NM	NM	NM
Dividend Yield	2.0%	2.0%	2.0%	2.0%	2.0%
EV / EBITDA*	17.2x	NM	9.9x	6.4x	5.4x
Free Cash Flow Yield*	-13.2%	-8.7%	-3.8%	-0.3%	3.7%

* For full definitions of *iQmethod*℠ measures, see page 11.

Timestamp: 11 April 2017 05:30AM EDT

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Stock Data

Price	49.97 USD
Price Objective	80.00 USD
Date Established	8-Dec-2016
Investment Opinion	B-1-7
52-Week Range	45.12 USD - 65.56 USD
Mrkt Val (mn) / Shares Out (mn)	15,656 USD / 313.3
Average Daily Value (mn)	198.56 USD
BofAML Ticker / Exchange	HES / NYS
Bloomberg / Reuters	HES US / [redacted]
ROE (2017E)	-8.6%
Net Dbt to Eqty (Dec-2016A)	26.1%

*iQprofile*SM Hess Corp.

iQ**method* SM **– Bus Performance

(US$ Millions)	2015A	2016A	2017E	2018E	2019E
Return on Capital Employed	-8.5%	-21.0%	-3.6%	-0.9%	0.1%
Return on Equity	-5.4%	-9.0%	-8.6%	-3.7%	-2.1%
Operating Margin	-1,197.3%	-247.2%	-25.4%	-5.0%	0.5%
Free Cash Flow	(2,061)	(1,359)	(592)	(50)	574

iQ**method* SM **– Quality of Earnings

(US$ Millions)	2015A	2016A	2017E	2018E	2019E
Cash Realization Ratio	NM	NM	NM	NM	NM
Asset Replacement Ratio	1.0x	0.6x	0.9x	0.9x	0.9x
Tax Rate	18.8%	41.0%	16.2%	21.9%	8.4%
Net Debt-to-Equity Ratio	19.2%	26.1%	34.9%	40.7%	40.5%
Interest Cover	-10.1x	-31.1x	-3.8x	-1.0x	0.1x

Income Statement Data (Dec)

(US$ Millions)	2015A	2016A	2017E	2018E	2019E
Sales	286	4,182	4,379	5,704	6,359
% Change	-98.1%	1,363.2%	4.7%	30.3%	11.5%
Gross Profit	(2,606)	4,182	4,379	5,704	6,359
% Change	NM	NM	4.7%	30.3%	11.5%
EBITDA	1,155	(5,482)	2,005	3,097	3,646
% Change	-84.3%	NM	NM	54.5%	17.7%
Net Interest & Other Income	(340)	(332)	(289)	(297)	(304)
Net Income (Adjusted)	**(1,113)**	**(1,531)**	**(1,174)**	**(456)**	**(246)**
% Change	**NM**	**-37.6%**	**23.3%**	**61.1%**	**46.0%**

Free Cash Flow Data (Dec)

(US$ Millions)	2015A	2016A	2017E	2018E	2019E
Net Income from Cont Operations (GAAP)	(3,056)	(6,132)	(1,126)	(408)	(246)
Depreciation & Amortization	3,955	3,413	2,857	2,962	3,188
Change in Working Capital	80	(47)	0	0	0
Deferred Taxation Charge	(1,319)	2,200	(228)	(128)	(13)
Other Adjustments, Net	2,321	1,361	357	323	369
Capital Expenditure	(4,042)	(2,154)	(2,453)	(2,798)	(2,725)
Free Cash Flow	**-2,061**	**-1,359**	**-592**	**-50**	**574**
% Change	**-98.0%**	**34.1%**	**56.4%**	**91.6%**	**NM**

Balance Sheet Data (Dec)

(US$ Millions)	2015A	2016A	2017E	2018E	2019E
Cash & Equivalents	2,716	2,732	1,974	1,974	1,974
Trade Receivables	847	768	768	768	768
Other Current Assets	841	776	776	776	776
Property, Plant & Equipment	26,352	19,941	18,886	18,299	17,412
Other Non-Current Assets	3,439	4,404	4,404	4,404	4,404
Total Assets	**34,195**	**28,621**	**26,807**	**26,220**	**25,334**
Short-Term Debt	86	112	112	112	112
Other Current Liabilities	2,542	2,139	2,088	2,036	1,982
Long-Term Debt	6,544	6,694	6,694	7,105	6,844
Other Non-Current Liabilities	4,622	4,085	4,085	4,085	4,085
Total Liabilities	**13,794**	**13,030**	**12,979**	**13,338**	**13,023**
Total Equity	**20,401**	**15,591**	**13,828**	**12,883**	**12,311**
Total Equity & Liabilities	**34,195**	**28,621**	**26,807**	**26,220**	**25,334**

* For full definitions of *iQmethod* SM measures, see page 11.

Company Sector

Oils

Company Description

Hess Corp (HES) is a mid-sized oil and gas company with 1.0bn boe of proved reserves at the end of 2015. [redacted] operations are focused in the US onshore, deepwater GOM, North Sea, West Africa oil, and Asian natural gas.

Investment Rationale

Our house view is that oil should rebound long term to $75 WTI / $80 Brent. Investment case anchored by exploration prospects led by Guyana. Added to this, it has a strong balance sheet, low risk production visibility in the Bakken and a stable international base. As such, we view HES' valuation as attractive and maintain our Buy rating.

Stock Data

Average Daily Volume	3,973,678

Quarterly Earnings Estimates

	2016	2017
Q1	-1.72A	-1.21E
Q2	-1.11A	-1.19E
Q3	-1.12A	-0.72E
Q4	-1.01A	-0.63E

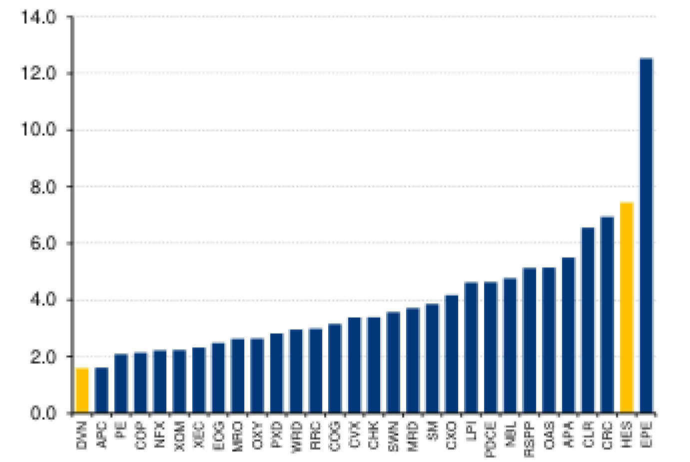
Adding Hess to BofAML US1 list

Inflection point

Over the past six months Hess has proven to be one of the most volatile stocks in the sector, facing extraordinary headwinds from a significant increase in short interest that has exaggerated volatility of what is already one of the more highly levered oil stocks in the sector. From discussions with investors, the arguments against Hess begin and end with a combination of declining production and expanding balance sheet – all part of the deliberate portfolio choices that favored completing major projects at the expense of short cycle production.

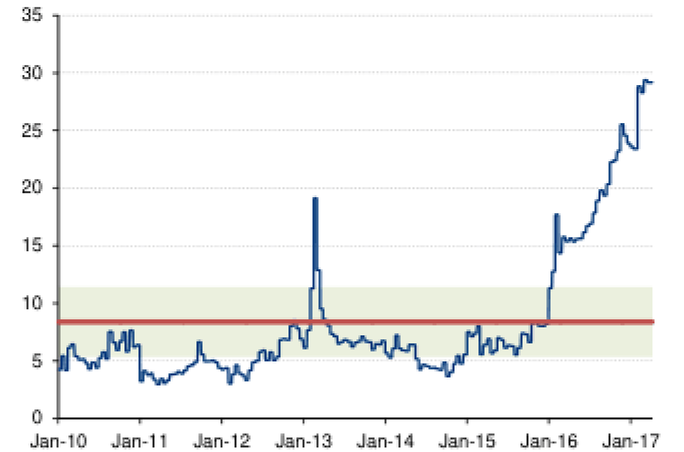
This cycle ends in 2Q17 with an expected rebound in oil and gas production starting in 2H17 and critically, an inflection in free cash flow that by our estimates should return Hess to free cash flow with the flexibility to re-up investment in the Bakken. We thus view Hess as a dangerous short for investors seeking to hedge other portfolio positions.

Exhibit 1: Short interest ratio (days to cover) US oils



Source: Bloomberg; BofA Merrill Lynch Global Research estimates

Exhibit 2: Hess short interest ratio (mm shares)



Source: Bloomberg; BofA Merrill Lynch Global Research estimates

In our view, any meaningful reduction in short interest could drive an outsize response to the improving operating outlook that we expect to start in 2H17 and can be summarized as follows:

- By our estimates, oil and gas production troughs in 2Q17 as Bakken production stabilizes before recovering through year-end. With start-up of the first of two major projects (NMB[1]) and incremental production in the US GoM, we anticipate growth in oil and gas production of ~60,000boepd or 22% between 2Q17 & 4Q17.

- Planned increase in Bakken rig count points to an exit rate of ~105–110 kboepd up from 90-95 kboepd in 1Q17 for an intra-year growth rate of ~16% underpinned by a step up to 6 rigs from 2 at the start of the year. We expect Bakken growth to continue in 2018 and 2019 at ~16% yoy with upside from larger completions.

Management guidance suggests exit rate production in 2017 of ~335,000 boepd; start-up of the second of Hess' major projects (Stampede) adds 15,000 boepd from 1H18 (est); along with a resumption of growth by resurgent operator Aker BP at Valhall (Hess 64%) we expect top line growth of 15% in 2018 with a FY contribution and continued Bakken ramp contributing to ~10% growth in 2019 including first oil from Guyana.

[1] North Malay Basin, adding 20,000 boepd starting in Sep 2017

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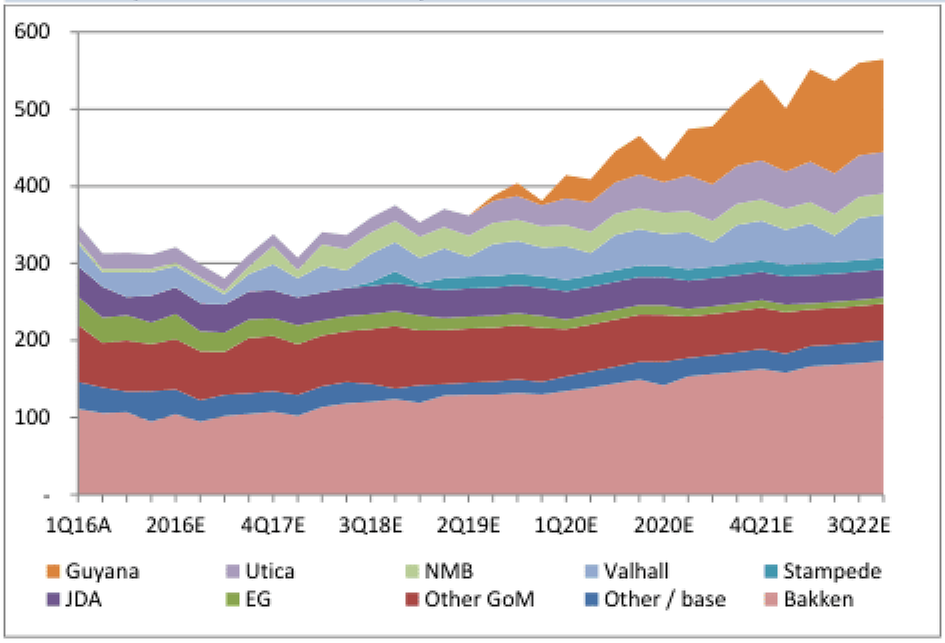
In other words, 2Q17 marks the low point in oil and gas production, with momentum accelerating in 2H17 to kick start a multi-year period of growth.

Chart 1: Hess production outlook: inflection point from 2Q17

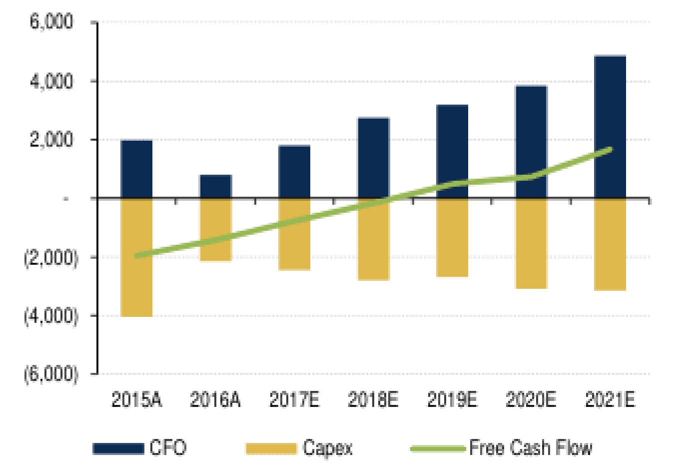


Source: BofA Merrill Lynch Global Research estimates

Critically, Hess has multiple levers to pull that reverse production declines as cash becomes available from completion of NMB and Stampede.

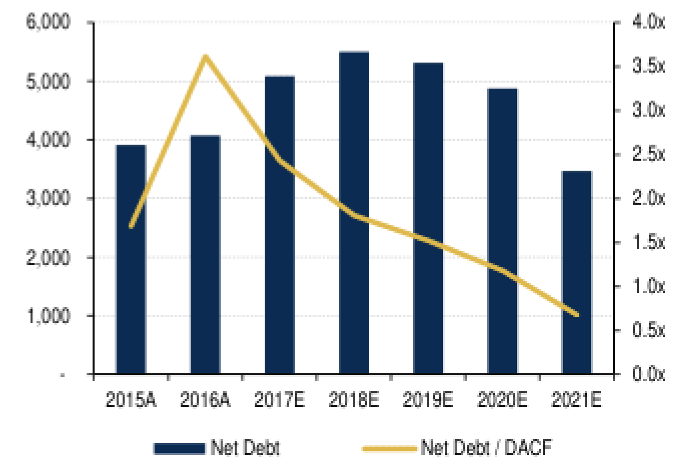
Planned spending to complete NMB and Stampede is ~$700mm in 2017; with completion we expect this to drop closer to $200mm in 2018 so that before any contribution from operating cash flow from these projects we expect Hess 'apples to apples' capex to move lower in 2018 driving an inflection in free cash flow.

Exhibit 3: Free cash flow turns positive in 2018



Source: BofA Merrill Lynch Global Research estimates

Exhibit 4: with an accelerating decline in net debt



Source: BofA Merrill Lynch Global Research estimates

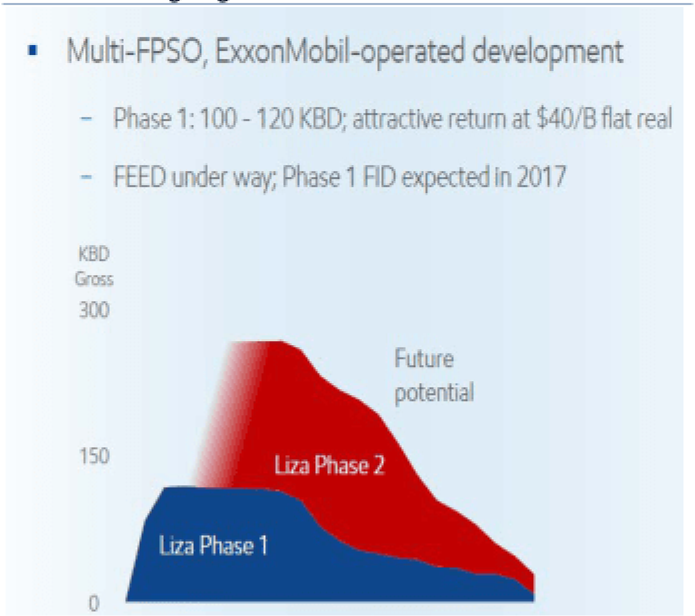
Our assumptions include a likely project sanction of the first phase 'early production system' at the Liza discovery in 2Q17. However, based on discovered oil to date that we believe now easily exceeds 2bn barrels, we believe Hess is on the cusp of a multi-year period of growth that is material for a company of its size. Critically, we believe most commentators have not yet included the cash flow contribution from Guyana in Hess' estimates given visibility that barely looks past 2018. However, with first oil now likely in 2H19, we view final investment decision (FID) – and an exploration program that yields one well result every 6-8 weeks as a catalyst to rerate Hess over time.

Liza area moving towards 2bn boe

Operator Exxon recently confirmed the latest exploration test in Guyana 'Snoek' as the latest discovery in the Liza development area, with ~82ft of net pay and in line with pre drill expectations we are led to believe is in the 200-300mm boe range. Recall from our discussions with management, Snoek was characterized as a smaller but distinct target, updip of Liza, but lower risk.

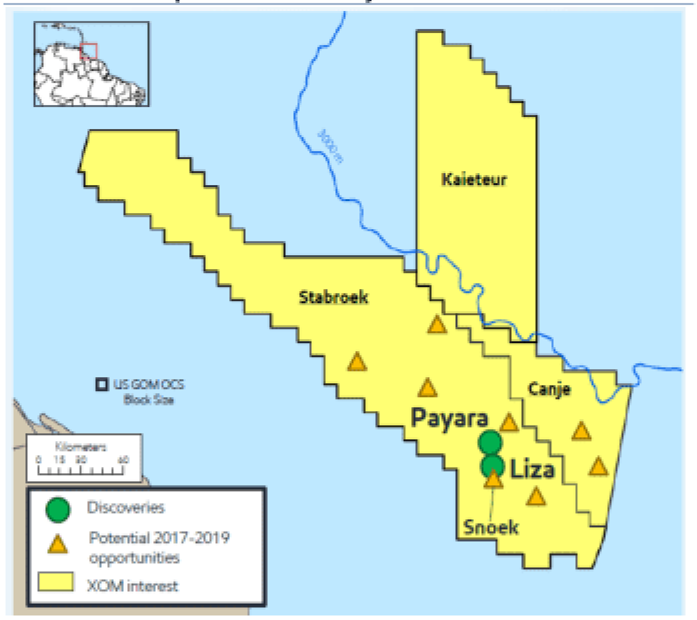
The well was drilled in 26 days to a depth of ~17,000ft in 5,128ft of water 5 miles south west of Liza #1, as shown in the graphic below; the Stena Carron drill ship has now relocated to the next well test, the 'Liza #4' appraisal, where we anticipate results by end April but with the possibility of a drill stem test in a success case that may push the well result into mid-May.

Exhibit 5: Liza targeting



Source: Exxonmobil

Exhibit 6: Exxon operated blocks in Guyana



Source: Exxonmobil

Critically, 'Snoek' reinforces management's prior characterization of the Stabroek block as moving towards a 'DHI play' meaning the risk profile of incremental exploration improves - a critical factor for the next well in queue, the Payara #2 appraisal that will also target a deeper test (Pacuma) scaled with a pre drill target of ~1bn boe. The next prospect, Liza lookalike named 'Turbot will likely be spud around mid-year.

From our discussions with Hess and the operator we summarize our understanding as follows:

- Operator XOM had previously framed the discovered potential in the Liza / Payara at 1.5bn – 2.0bn boe, subject to completion of two planned additional appraisal wells. Quoting EVP Mark Albers and CEO Darren Woods

'The success at Payara combined with the additional oil pay discovered with Liza-3 brings the total discovered resource on the block to somewhere between 1.4 billion oil equivalent barrels and 2 billion oil equivalent barrels.'

' to clarify, what we have found – not potential upside, but what we have found is 1.4 billion to 2 billion BOE. The upside is multi-billion barrel unrisked potential'.

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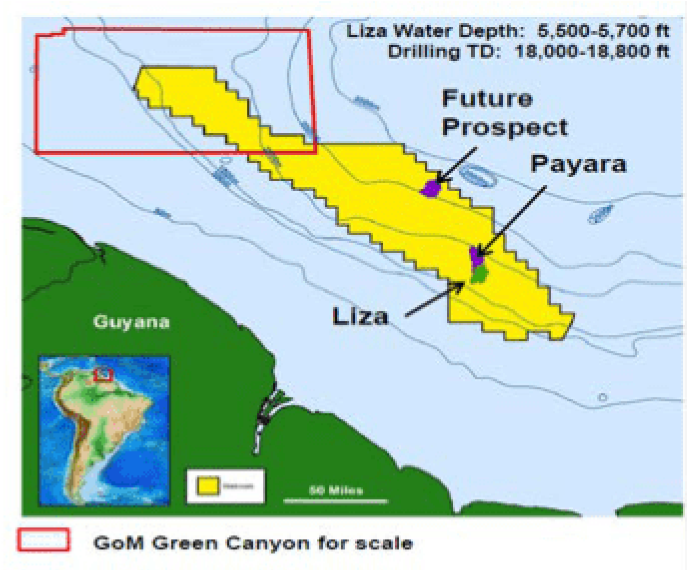
- Snoek and with Liza deep previously likely moves recoverable resource closer to the upper end of this range 2bn boe before Liza #4 and Pacuma, providing line of sight for at least a 4 FPSO development starting in 2019.

- After Liza 4, the Stena Carron drillship will move back to Payara to drill an appraisal well which will also test a deeper prospect 'Pacuma tail'. Where pre-drill prospect size is scaled at about 1bn boe. The next prospect (Turbot) will then be spud south east of Payara. Note is that if Payara 2 is successful, this would likely add another 'boat' with capacity of 150,000 boepd.

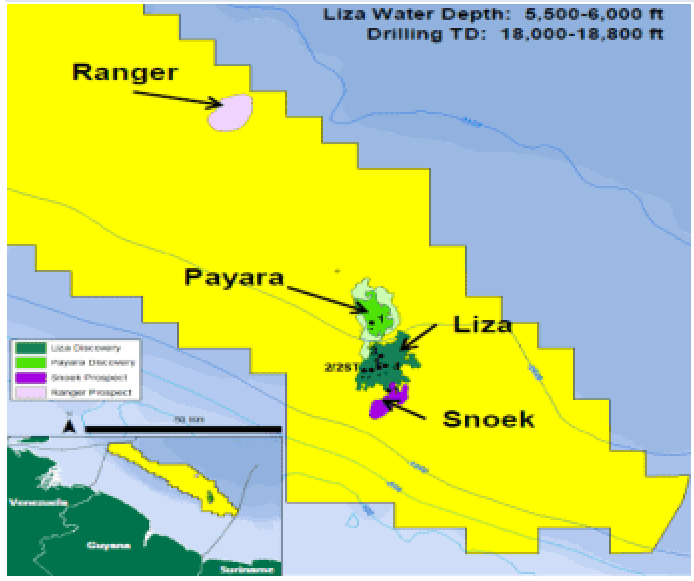
The graphics below characterize Hess view of Payara and Snoek. We assume the 1bn boe Pacuma prospect is the light green area below Payara.

Exhibit 7: Initial characterization of Payara



Source: Hess

Exhibit 8: Updated characterization suggests a similar footprint to Liza



Source: Hess

Again quoting ExxonMobil management:

'Just as we progressed rapidly at Liza, we'll move quickly to develop Payara if the delineation well is successful.'

Recall that Hess management has suggested Payara will 'definitely be commercial'. However at this early stage we assume no value for Payara in our assessed value of Hess' not least as any attempt at precision is obviously premature. But with discussions with management suggesting scenarios through appraisal where Payara is a lookalike to Liza, we believe a 'plus three year' development scheme is a reasonable basis to frame option value in a success case.

Under our $70 Brent base case, the theoretical NPV would be around $10/sh. This is on top of the approximate $12-14/ share value we estimate is reasonable for Hess from the existing Liza discovery. Note we continue to assume about 400,000 bpd gross development scenario–reviewed again below to reflect the latest project proposal submitted to the Guyana Government which now targets first production in 2H19.

Note we assume negligible value for natural gas revenue in this latest iteration, thus the range of $12-$14 for Liza mentioned above and $22-$24 for Liza / Payara. The table below assumes gas valued at $1 / mmcfe.

Table 1: Notional multi-phase development at Guyana: about $22/sh to Hess

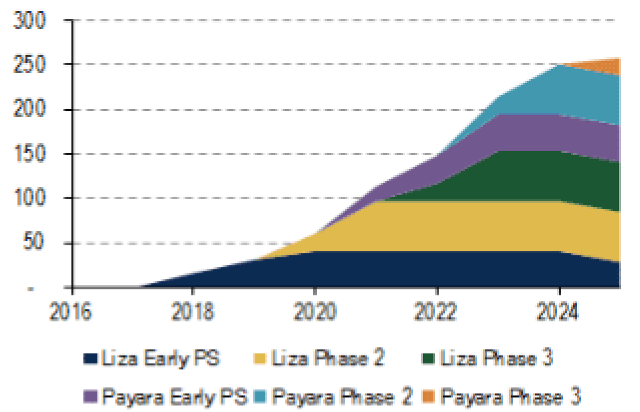
	Gross Barrels (mmboe)	Full Project NPV $MM	Hess 30% Interest NPV	NPV net to Hess
	(mmboe)	$mm	$mm	$/sh
Liza				
Early Production System	425	4,258	1,277	$3.9
Phase 1	600	4,932	1,480	$4.6
Phase 2	600	3,821	1,146	$3.5
Liza Total	**1,625**	**13,010**	**3,903**	**$12.0**
Payara (spec)				
Early Production System	425	3,392	1,018	$3.1
Phase 1	600	3,668	1,100	$3.4
Phase 2	600	2,682	805	$2.5
Payara spec Total	**1,625**	**9,742**	**2,923**	**$9.0**
Guyana Total	**3,250**	**22,753**	**6,826**	**$21.1**

Source: BofA Merrill Lynch Global Research estimates; Hess shares fully diluted 324.2mm shares after preference convert

Note that at current strip oil prices of ~$55 Brent, this is closer to $14.4/sh of which Payara is ~$6/sh or $2.0bn. On a 'risked' basis, we believe this is a reasonable development scenario representative of any incremental discovery that resembles Liza recalling that the partners have identified over 20 additional drilling prospects. On the assumption of a 'plus three year' development scenario after Liza, the potential impact on incremental production and cash flow is significant for Hess while the cumulative impact also becomes significant for XOM.

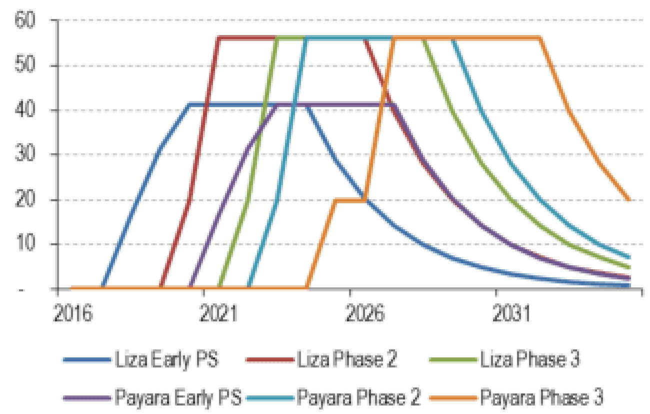
The charts below show our latest assessment of how a compound timeline for a Liza / Payara development could look, if Payara as a project does indeed prove to be a look alike to Liza.

Exhibit 9: Hess theoretical production profile for Liza / Payara



Source: BofA Merrill Lynch Global Research estimates

Exhibit 10: Hess net production profile (by phase)



Source: BofA Merrill Lynch Global Research estimates

Critically, Guyana is now being described as a 'DHI play' meaning seismic and core have been sufficiently calibrated as to provide direct hydrocarbon indicators and hence de-risking future exploration tests. This appears confirmed again by the latest 'Snoek' success.

XOM's development plan calls for an FPSO (floating production and storage offloading vessel) with production capacity of about 150,000 boepd for every 450mm barrels of recoverable reserves, with plateau production extending up to 10 years. We suggest management's commentary supports gross production capacity from current discovered resource of at least 600,000 boepd.

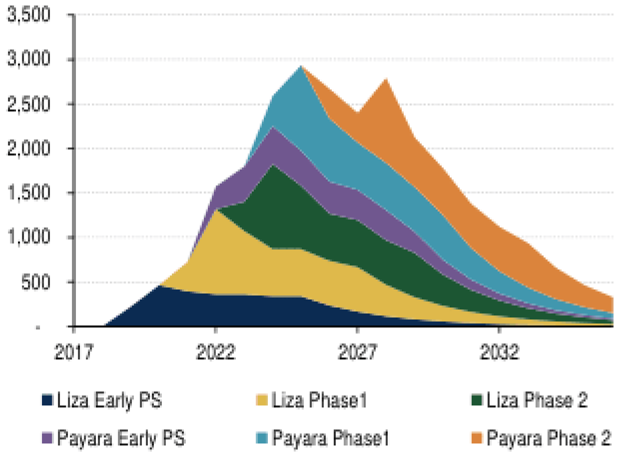
Impact on cash flow

While the impact on production is significant, we suggest the impact on cash flow is transformational for Hess. Referencing the charts below:

- Under our base case that assumes $70 oil from 2020, we estimate operating cash flow net to Hess would reach over $2.5bn;

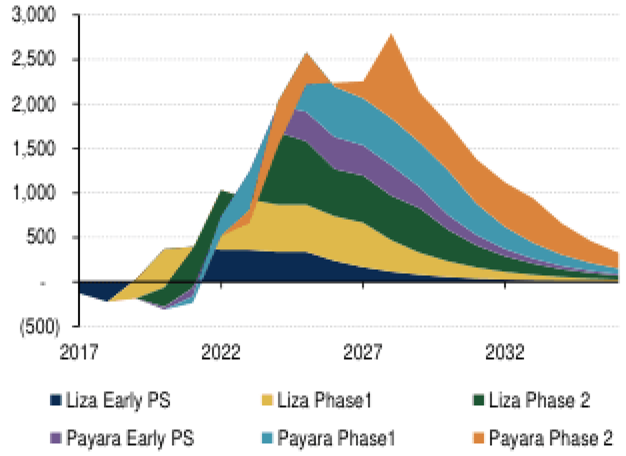
- Net free cash flow peaks at over $2bn with a net cash outflow at any point in the development of ~$300mm.

Chart 2: Hess operating cash flow contribution: Guyana ($70 base case)



Source: BofA Merrill Lynch Global Research

Chart 3: Hess free cash flow contribution: Guyana ($70 base case)



Source: BofA Merrill Lynch Global Research

While first oil in 2019 is only the early stage of development, it is enough in our view to provide visibility on multiple compression perceived absent from Hess' investment case given its focus on short cycle development. However, after the low point in production in 2Q17 we suggest Hess has both – short cycle, comprising not only the Bakken but tie back opportunities across established infrastructure in Norway and the US GoM – and long cycle in the shape of a transformational opportunity in Guyana, that becomes tangible with a likely FID in 2Q17.

Impact on valuation

In our view, an imminent inflexion point in free cash flow comes with a step change in value recognition for Hess. Momentum from a >20% jump in production in the six months of the second half of 2017 carries growth through 2018, with Guyana accelerating for a decade from 2019. At our base case we suggest this leaves Hess 'discounting' current strip oil prices at current levels of ~$50 / share.

The table below sets our PO at our target mid cycle multiple of 5.5x EV/DACF; note this does not include any value for non-producing Guyana resource value that we estimate at ~$6/share.

Table 2: At strip oil prices, Hess looks fairly valued based on a target multiple of 5.5x EV/DACF

	2015	2016	2017e	2018e	2019e	2020e	2021e
Shares Outstanding	284	310	313	313	323	324	324
Market Cap	13,119	13,334	13,415	13,415	13,415	13,415	13,415
Non-producing Guyana NAV				-	-	-	-
Net Debt	3,914	4,074	5,136	6,224	6,985	7,798	7,866
Preference shares		557	557	557			
EV	17,033	17,965	19,108	20,196	20,400	21,213	21,281
DACF	2,321	1,127	1,847	2,378	2,625	3,030	3,795
Forward EV / DACF	**15.1x**	**9.7x**	**8.0x**	**7.7x**	**6.7x**	**5.5x**	

Source: BofA Merrill Lynch Global Research

Under our base case, which assumes a rebound in oil prices towards $70 from 2020, we see fair value as reasonably around $80 per share. If non-producing asset value is included (around $3bn or ~$9/sh), we estimate this would be closer to $90.

Table 3: At our base case, we see fair value closer to $80 based on a target multiple of 5.5x EV/DACF

	2015	2016	2017e	2018e	2019e	2020e	2021e
Shares Outstanding	284	310	313	313	323	324	324
Market Cap	22,341	22,684	22,814	22,814	22,814	22,814	22,814
Non-producing Guyana NAV				-	-	-	-
Net Debt	3,914	4,074	4,832	5,243	4,983	4,441	3,020
Pref		557	557	557			
EV	26,255	27,315	28,203	28,614	27,797	27,255	25,834
DACF	2,321	1,127	2,150	3,045	3,602	4,291	5,132
Forward EV / DACF	**23.3x**	**12.7x**	**9.3x**	**7.9x**	**6.5x**	**5.3x**	

Source: BofA Merrill Lynch Global Research

BofAML US 1 list

The BofAML US1 list is a collection of the firm's best investment ideas managed with the goal of providing superior investment performance over the long term. Since the presidential election, the 'trump tax rally' that has arguably lifted the broader S&P500 on the expectation of lower corporate taxes has left most US oils lagging given the absence of any benefit from lower taxes. For Hess, we believe the catalysts are still ahead while the relative performance hurdle associated with the election has passed. For this reason, Hess replaces DVN as our energy stock on the BofAML US1 list.

Earnings updates

Marking to market for 1Q17 we update earnings as follows:

Table 4: HES Earnings Estimates

	Q1	Q2	Q3	Q4	FY	BBG Consensus
2015A	(0.98)	(0.52)	(1.03)	(1.40)	(3.92)	(3.92)
2016E	(1.72)	(1.11)	(1.12)	(1.01)	(4.94)	(4.98)
Previous	(1.72)	(1.11)	(1.12)	(1.01)	(4.94)	n/a
2017E	(1.21)	(1.19)	(0.72)	(0.63)	(3.75)	(3.03)
Previous	(1.37)	(1.19)	(0.72)	(0.63)	(3.91)	n/a
2018E	(0.40)	(0.40)	(0.35)	(0.30)	(1.46)	(2.09)
Previous	(0.40)	(0.41)	(0.35)	(0.31)	(1.47)	n/a

Source: BofA Merrill Lynch Global Research

Price objective basis & risk

Hess Corp. (HES)

Our price objective of $80 / share is based on a 5-year outlook which assumes a 5.5x DACF multiple and a commodity deck of $67.50 WTI and $70 Brent to which we add $10 / sh for Liza in offshore Guyana. The multiple is based on a finite timeline to delivery which is supported by core NAV.

The risks to our price objective are: 1) the oil and gas price environment, (2) slowdowns in development drilling that leave production below expectations, and (3) news flow around HES' exploratory and appraisal drilling activities that could impact the stock.

Analyst Certification

I, Doug Leggate, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Large Cap Oils Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Anadarko Petroleum Corp.	APC	APC US	Doug Leggate
	Chevron Corp.	CVX	CVX US	Doug Leggate
	ConocoPhillips	COP	COP US	Doug Leggate
	Continental Resources Inc.	CLR	CLR US	Doug Leggate
	Devon Energy Corp.	DVN	DVN US	Doug Leggate
	EOG Resources	EOG	EOG US	Doug Leggate
	Hess Corp.	HES	HES US	Doug Leggate
	Marathon Oil Corp.	MRO	MRO US	Doug Leggate
	Marathon Petroleum Company	MPC	MPC US	Doug Leggate
	Occidental Petroleum Corp.	OXY	OXY US	Doug Leggate
	Pioneer Natural Resources	PXD	PXD US	Doug Leggate
	Range Resources Corp	RRC	RRC US	Doug Leggate
	Tesoro Corp.	TSO	TSO US	Doug Leggate
	Valero Energy Corp.	VLO	VLO US	Doug Leggate
NEUTRAL				
	Chesapeake Energy Corp.	CHK	CHK US	Doug Leggate
	Delek US Holdings, Inc.	DK	DK US	Doug Leggate
	ExxonMobil Corp.	XOM	XOM US	Doug Leggate
	HollyFrontier Corp	HFC	HFC US	Doug Leggate
	Noble Energy	NBL	NBL US	Doug Leggate
	Phillips 66	PSX	PSX US	Doug Leggate
UNDERPERFORM				
	Apache Corp	APA	APA US	Doug Leggate
	Cabot Oil & Gas Corp.	COG	COG US	Doug Leggate
	PBF Energy	PBF	PBF US	Doug Leggate
	Southwestern Energy Corp.	SWN	SWN US	Doug Leggate

iQmethod℠ Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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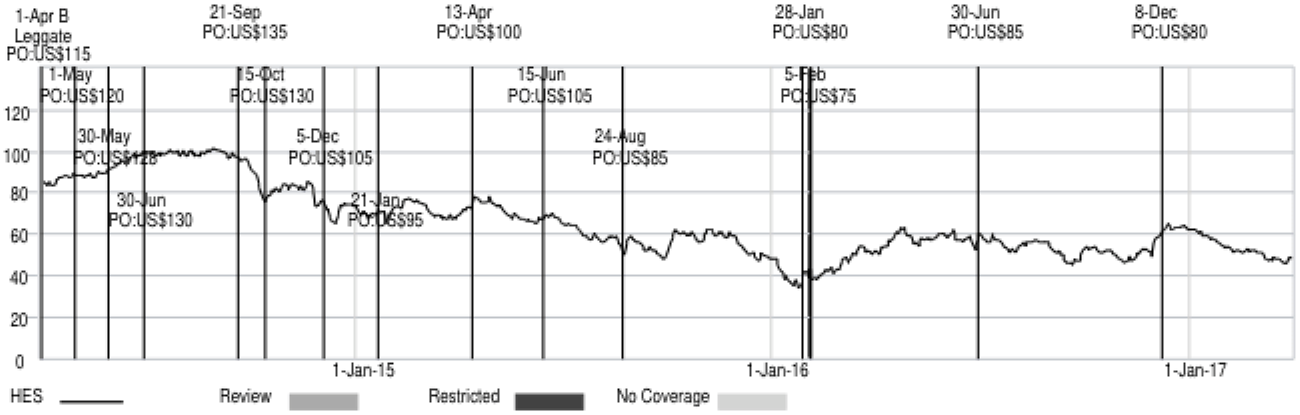
HES Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading 'Fundamental Equity Opinion Key'. Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of March 31, 2017 or such later date as indicated.

Equity Investment Rating Distribution: Energy Group (as of 31 Mar 2017)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	109	49.77%	Buy	84	77.06%
Hold	52	23.74%	Hold	43	82.69%
Sell	58	26.48%	Sell	34	58.62%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2017)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1578	51.33%	Buy	979	62.04%
Hold	690	22.45%	Hold	434	62.90%
Sell	806	26.22%	Sell	381	47.27%

* Issuers that were investment banking clients of BofA Merrill Lynch or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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