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**Subject:** \*\*HESS added to BAML US1 List - Play it through the Mandatory Convert Preferred

**Date:** Wed, 12 Apr 2017 19:48:52 +0000

**Attachments:** HESS\_US1\_List.pdf

**Inline-Images:** image001.jpg

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#### **Stock Thesis:**

Doug Leggate believes Hess' investment case is approaching an inflection point on multiple levels. BAML expects 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 should kickstart an extended period of growth in 2018/19 but with contribution from Guyana driving a step change in Hess' growth trajectory through 2025. In the near term, BAML thinks Hess is also poised for an inflection in FCF that is reasonably \$1bln annualized, with \$700mm irrespective of oil prices. BAML believes the combination of catalysts, short interest, and absolute value can drive a period of strong relative outperformance vs. peers. For this reason, HESS is replacing DVN as energy stock on BAML's US1 List. Price target is \$80 (58% upside from today's levels.)

#### **Mandatory Convertible Pfd Details:**

Maturity: 2/1/2019

Dividend: 8% paid quarterly

Current Yield: 6.65%

Yield Adv. Over equity: 465bps

Size of Deal: \$575mm

Par Value: \$50

Participation on a +/- 20% move in common: +84%/-73%

#### **What is a mandatory preferred?**

It is a pfd stock that pays a dividend that upon maturity (2/1/2019), automatically converts into common shares. The conversion ratio is determined upon where the stock is at the maturity of the pfd.

If the stock is below \$39 at maturity, holders will receive 1.2821 shares of stock per pfd

If the stock is above \$45.83 at maturity, holders will receive 1.0911 shares of stock per pfd

If the stock is between \$39 and \$45.83, holders will receive the equivalent of \$50 in stock (i.e. stock at 42.50, holders will receive 1.1765 shares)

#### **Why do the pfd over the equity?**

The HES mandatory convertible preferred allows you to participate in the upside participation of the common while outyielding the equity by 465 basis points. The common yields 2% and the mandatory pfd yields 6.65% currently. We have a BUY rating with a \$80 price objective, the highest on the street, representing 60% upside. Out of 28 analyst rankings, 12 are BUYS and 16 are holds with an average 12 month price target of \$63.83, 28% upside. On a +20% move in the stock, the pfd participates 84% of that while participating only 73% on the downside on a -20% move. The pfd is listed on the NYSE under symbol HES A and is \$575mm notional so it has decent liquidity. I think this is a great way to play the equity story.

#### **Amanda Ens**

Director

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