

From: "Ens, Amanda" <[REDACTED]>

To: "jeffrey E." <jeevacation@gmail.com>, Richard Kahn <[REDACTED]>

Subject: Buy Hess

Date: Tue, 10 Jan 2017 18:35:24 +0000

Attachments: Q1_Top_10_Ideas.pdf

Hess remains a high conviction pick and is on our US 1 Top 10 list. The HES 8% 2/01/19 mandatory convert pfd at 5.5% yield looks attractive.

Ticker: HES A Pfd

Maturity/conversion: 2/1/2019

Price: 73.50

Coupon: 8%

Strip Yield: 5.5% (3.9% above the common equity)

Upside in HES common stock to \$80 price target: 29%

Pfd low strike: 39.00

Pfd high strike: 45.83

Pfd performance if stock is up 25%: +27%

Pfd performance if stock is down 25%: -19%

Investment thesis

Broad expectations of a pro-energy agenda from the incoming administration set a theoretically constructive backdrop for the US oils. Along with the tailwind from renewed OPEC support for oil prices, we view the broader energy sector as a momentum play in the early part of 2017 where stock specific catalysts can re-emerge to differentiate relative performance within the large cap US oils. We view Hess as the most catalyst rich large cap US [REDACTED] for 2017 with a return to growth and disproportionate exploration risk from a company with the highest cash margins in the sector, second best balance sheet and significant oil leverage to our base case that is an oil recovery in 2017. Hess remains amongst our top ideas in the US large cap oil sector for 2017, and we retain our Buy rating, and \$80 PO.

Deregulation / Gov't Legislation

While the potential for a less onerous regulatory backdrop, and greater access to Federal lands for exploration and development, the majority of current activity remains dominated by private lands thereby limiting any material changes arising from a Republican administration. The exception is the potential for more receptive backdrop for infrastructure development that can improve regional pricing through improved access to takeaway capacity.

Tax Policy:

For the majority of the US [REDACTED], changes in corporate tax rates have negligible impact given that substantial net operating losses and deferred tax credits means that cash taxes remain de minimis for the foreseeable future.

Catalysts:

News flow starts with an expected capex budget unchanged from 2016 at ~\$2bn, the company has stated it expects a return to drilling in the Bakken with a stated ramp up to 6 rigs from 2 currently returning the play to growth in 2017.. The first Guyana development (Liza) expected to achieve FID by 2Q17 and which we expect to confirm industry leading economics. Start-up of the first of two major developments – the North Malay basin gas play in 3Q17, putting Hess back on a growth track and turning attention to the Stampede start up in the US GoM in early 2Q18. In the background is an exploration test every 45-60 days any one of which could materially change the scale of the Hess business model of the next decade.

1Q17 risks:

We expect a supportive commodity backdrop, spending clarity and confirmed return to growth all punctuated by a steady stream of large scale exploration news flow to support relative performance for Hess in 1Q17. Greatest risk to the broader

energy sector comes from adherence of the OPEC agreement to support oil prices through coordinated production cuts; With this backdrop note that Hess retains one of the most resilient balance sheets in the sector, with adjusted net debt / cap of just 14% and \$2.9bn of net cash on the balance sheet at end 3Q16.

Company Description: Hess Corp (HES) is a mid-sized oil & gas company with 1.0bn boe of proved reserves at end 2015. [REDACTED] operations are focused in the US onshore, deep water GOM, North Sea, Guyana, West Africa, and Asia.

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From: Ens, Amanda
Sent: Thursday, November 17, 2016 1:50 PM
To: 'Richard Kahn'
Subject: Oil, Hess

Rich, I just tried you – wanted to catch up about the financials trade I just sent and also about energy, in case you're still monitoring oil. [REDACTED] mentioned Hess a while back as a trade idea. The Hess mando convert preferred yields 6.5%.

Our energy sector specialist attended the Hess dinner at our energy conference in Miami yesterday, with positive takeaways. In Guyana, XOM has secured an extension of the exploration license with no change in terms to 2026. He thinks most people felt they would get this extension, but this is important for investor sentiment and was at least one small component of the bear case on Guyana as the original term was to 2018. Importantly on this deal they have the same favorable terms. Hess also mentioned higher Bakken activity in 2017, and we believe Bakken economics have been underappreciated by the market.

Our energy strategists see an OPEC deal on Nov 30th as more likely after the Republican win. The stronger dollar is negative for oil prices, higher US rates could hurt EM (and their oil demand), a reduction in trade could further hurt EM oil demand an micro energy policies could bring down US production costs, leading to a surge in energy output over the next 2-3 years. In Strategy's view, these downside oil price risks increase the incentive for cartel members to work together to cope with a slowdown in EM oil consumption. A Republican government could weaken Iran's negotiating position, smoothing internal OPEC politics. US energy independence is also now back in play and OPEC will need to come together or sink together. The Saudis are running a \$100bn deficit alone and OPEC as a whole is running a ~\$500bn deficit this year. This is not sustainable.

Worldwide there is about a 3% decline rate (~3mm bls to make up each year alone just to keep production flat). Need oil above \$60 globally to incentivize the market to invest in both short cycle and long cycle projects and we need both. At today's prices, the pipeline of projects is simply not being filled.

We retain our \$61 average brent forecast for next year. More oil/OPEC color in our attached [REDACTED].

Regards,
Amanda

Amanda Ens
Director

[Redacted]

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