



FEATURED OPTIONS RADAR REPORT



Bulls Target Leading E&P with Greater Capacity for Cash Return Amid New Discoveries

Ticker/Price: HES (\$71)

Analysis:

Hess (HES) buyer 1000 October \$67.50 calls \$4.50 offer this morning and follows 2,500 October \$70 calls bought recently and sellers across the October \$67.50 and \$70 puts. HES has some larger, longer-dated call open interest in the January options from earlier this year as well as bullish February put sales. HES shares have pulled back to the 200-MA and forming a nice base under \$72.50 with a breakout move targeting \$75 and then up to the prior value-high at \$83. The \$21.25B company trades 15.86X earnings, 3.6X sales, and 14.33X FCF with a 1.5% yield. HES has been positioning themselves well over the last year by prioritizing cash and debt reduction while investing in low-risk, high-reward opportunities like expansion of the Stabroek Block offshore Guyana. HES sees Stabroek as one of the most important oil opportunities of the last decade with millions of undiscovered barrels of upside and the company maintaining exceptional development costs which make breakevens significantly below today's spot prices. HES expects to have multiple discovery wins over the next three years in the region across Liza Phase 1 and Phase 2. Additionally, HES recently shifted into a three-rig program in the Bakken as well to optimize their footprint while keeping cash flow steady and with hedges across both WTI and Brent, their broader capital return goals remain well on target. Analysts have an average target for shares of \$88 with a Street High \$120 from Bernstein. The firm out raising estimates in June as they think the new paradigm is one in which the supply side of oil markets will reduce, re-allocate and return capital more rapidly than the pace of the demand side transition. Piper positive on 7/23 noting that crude oil tightness adds further momentum to the robust FCF outlooks for the sector. Hedge fund ownership fell 8% last quarter.

Hawk Vision:



Hawk's Perspective: HES fundamentally looks solid and shares setting up well here to move out of this range and work back higher while crude works back above monthly value

Confidence Ranking: \$\$