Apache shares are plain cheap

Description

The past few months haven't been kind to **Apache** (NYSE: APA) . Coming out of last year's analyst day, investors were plenty enthused about the company's plans to greatly increase its rig counts in the Permian and Central regions in an effort to boost oil production. Steven Farris, Apache's CEO, even said: "For Apache, this is the time to drill more wells."

Investors must then be surprised that production growth for 2012 came in at just 5.5%, less than the medium-term target of 6%-9%. What's more, the company guided to just 3%-5% growth in 2013. While this lower growth rate should not persist in the long term, investors are likely disappointed in these recent developments.

I'd certainly like to see higher production growth from Apache, but there are reasons for the short-term bump in production growth. First, the company's capital spending program for 2012 called for half of its capital to go toward projects that did not grow production during the year. Second, another 21% of this year's spending program will go toward long-term projects. Apache could funnel that capital toward increasing production from its U.S. onshore properties, but the company has chosen to cultivate a balanced portfolio of assets across the globe.

Once finished, these global growth projects will add 150,000 barrels per day to production over the next five years and 200,000 barrels a day by 2020. These projects will add plenty of production to last year's average of 779,000 barrels per day, and and it is hoped that they will allow the company to reach its target of 1 million barrels per day by 2016.

Thanks to its focus on maintaining a balanced portfolio, Apache benefits from strong pricing on its oil and gas sales across the world. Fully 72% of Apache's oil production fetches a premium to WTI oil, and just 11% of its revenue came from North American natural gas last year. While many other independents based in the U.S. are struggling mightily due to their dependence on domestic natural gas, Apache continues to generate strong cash flow.

Foolish bottom line

Apache remains very undervalued at 3.4 times operating cash flow. That's a cheap price to pay for this top-notch global energy company.

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The Motley Fool owns shares of Apache.

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