



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

AREX - NASDAQ - as of	5/4/17	\$2.03
Price Target		\$12.00
52-Week Range	\$1.35 -	\$4.35
Shares Outstanding (mm)		70.4
Market Cap. (\$mm)		\$142.9
1-Mo. Average Daily Volume		823,640
Institutional Ownership		24.4%
Net Debt/Total Capital	Q1'17	34.0%
ROE	FY'16	-9.3%
Book Value / Share	Q1'17	\$9.95
Price / Book Value		0.2x
Dividend & Yield		NA
LTM EBITDA Margin		58.1%

Adjusted EBITDA / Share FY 12/31

		Prior	Current	Prior	Current
	2016A*	2017E	2017E	2018E	2018E
1Q	\$0.21		\$0.20	A --	--
2Q	\$0.33	\$0.26	\$0.19	--	--
3Q	\$0.34	\$0.28	\$0.21	--	--
4Q	\$0.37	\$0.29	\$0.22	--	--
Year	\$1.22	\$1.05	\$0.82	\$1.33	\$0.97
P/E	1.7x		2.5x		2.1x

* - quarterly figures do not sum on share count change

Revenue (\$mm)

		Prior	Current	Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	\$17.6		\$26.4	A --	--
2Q	\$22.4	\$29.1	\$28.1	--	--
3Q	\$23.7	\$30.8	\$29.8	--	--
4Q	\$26.5	\$32.5	\$31.4	--	--
Year	\$90.3	\$118.5	\$115.6	\$142.8	\$134.1

Company Description: Ft. Worth, TX – based Approach Resources, Inc. is a junior exploration and production company with a focus on west and south Texas. In 2016 the company produced approximately 4.5Mmboe (million barrels oil equivalent), 62% liquids, from its ~800 net wells and had proved reserves of approximately 156Mmboe, 63% of which was oil and NGLs.

Energy

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Approach Resources, Inc.

AREX -- NASDAQ – Long-term Buy-3

Q1'17 Volume -11%, Pricing +37% Yr/Yr; Maintain Rating

Investment Highlights

- Approach reported Q1'17 adjusted EBITDA / share of \$0.20, beating consensus of \$0.18, compared to \$0.21 a year ago. Results were despite a 71% yr/yr increase in the share count resulting from the recent equity-for-debt exchange.
- Volume declined 7% sequentially in Q1 to 1.03 Mmboe with two well completions. Average realized pricing of \$25.68/Boe increased 7% sequentially, with improvements in all three product categories. All-in costs of \$35.98/Boe were 2% higher yr/yr but down 2% sequentially.
- Debt to total capitalization was 34% at quarter-end. The company has ~\$50M of capacity on the revolver and total liquidity of ~\$66M.
- Management affirmed 2017 production guidance with a midpoint decline of ~5% yr/yr, but sees volume increasing sequentially. We are trimming our volume forecast from 12.2 Mboe/d for 2017 to 11.8 Mboe/d with continued, but more moderate, pricing gains and a firming cost environment. Including the increase in the share count from the recent debt exchange, we are reducing our 2017 adjusted EBITDA/share forecast from \$1.05 to \$0.82 and our 2018 forecast from \$1.33 to \$0.97.
- We maintain our 24-month target of \$12, at which the shares would trade at an EV/Mcfe of \$0.77, a 77% discount to the sector average of \$3.37, which we believe adequately compensates for the ongoing industry uncertainty. As such, we reiterate our Long-term Buy-3 rating.

Note Important Disclosures on Pages 5-6
Note Analyst Certification on Page 5

ADDITIONAL DISCUSSION

Approach completed two wells in Q1 and foresees a similar pace through the year, with volume turning modestly upwards on a sequential basis. Notably, management sees Capex of \$50M to \$70M funded from cash flows.

The company is hedged on ~87% of anticipated 2017 gas production and ~48% of NGLs at ~\$2.89/Mcf and ~\$21/Bbl, respectively. Hedges cover ~53% of our forecasted 2018 gas production at ~\$3.08/Mcf. The lack of oil hedges remains a source of continuing concern for us, given the recent retreat in pricing, but we maintain our outlook for a continued commodity recovery into 2018. On the cost side, AREX recently signed agreements that management believes will help limit price escalation and assure completion and compression services.

SUITABILITY RATING

Our Suitability rating is 3 on a 1-to-4 scale (1 = most conservative, 4 = most aggressive). This reflects our favorable view of the company's relatively high-performing production development and competitive cost structure in the Permian Basin and relatively healthy balance sheet condition. This is balanced, however, against challenging industry-wide market conditions and a modest hedge position for 2017 and 2018.

CONSIDERATIONS AND RISKS

The energy production industry is highly capital intensive and highly competitive and is subject to a range of economic and operational risks. Foremost among these risks may be volatility in the underlying commodity pricing, which is subject to supply and demand fundamentals related to factors such as economic conditions, weather patterns and logistical constraints. The industry is also subject to a range of regulatory risks, including changes in environmental and pollution policies, permitting requirements, and employee benefits obligations. Operating financial risks include success rates and costs related to expansion of the reserve base.

Company-specific risks include the reduced hedge position, the potential for capital constraints that could limit AREX's operational flexibility, future pace of drilling or acquisition opportunities. Additionally, a substantial portion of the company's undeveloped acreage lease-holdings could expire through 2017, limiting future growth potential. Finally, smaller-cap stocks can be subject to pronounced volatility and may not be appropriate for all accounts.

Additional information is available upon request.

Approach Resources, Inc. (AREX)

(\$'s in '000's) FYE Dec.

Income Statement Analysis	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Oil & Gas Sales	\$ 258,529	\$ 131,336	\$ 17,615	\$ 22,433	\$ 23,749	\$ 26,505	\$ 90,302	\$ 26,355	\$ 28,060	\$ 29,770	\$ 31,400	\$ 115,585	\$ 134,050
Costs & Expenses													
Lease Operating	32,701	28,972	6,356	5,234	3,894	3,766	19,250	4,170	4,400	4,580	4,760	17,910	19,470
Severance & Production taxes	15,934	11,085	1,664	1,855	2,013	2,685	8,217	2,357	2,390	2,530	2,670	9,947	11,390
Exploration	3,831	4,439	569	1,622	1,047	685	3,923	1,043	1,040	1,060	970	4,113	4,480
Asset Impairment	-	221,633	-	-	-	-	-	-	-	-	-	-	-
G & A	32,104	28,341	6,051	5,832	5,825	7,026	24,734	5,928	6,060	6,210	6,360	24,558	27,310
D, D & A	106,802	109,319	20,229	19,991	19,422	19,402	79,044	17,962	18,970	19,530	20,100	76,562	82,050
Operating Profit	\$ 67,157	\$ (272,453)	\$ (17,254)	\$ (12,101)	\$ (8,452)	\$ (7,059)	\$ (44,866)	\$ (5,105)	\$ (4,800)	\$ (4,140)	\$ (3,460)	\$ (17,505)	\$ (10,650)
%	26.0%	-207.4%	-98.0%	-53.9%	-35.6%	-26.6%	-49.7%	-19.4%	-17.1%	-13.9%	-11.0%	-15.1%	-7.9%
Investment / Other Gain (Impairment)	(114)	10,735	104	854	(10)	-	948	5,056	-	(5,360)	(5,310)	5,056	5,562
Interest Inc. / (Exp.)	(21,651)	(25,066)	(6,298)	(6,808)	(7,067)	(7,086)	(27,259)	(5,463)	(5,410)	(5,360)	(5,310)	(21,543)	(18,250)
Realized Commodity Deriv' Gain / (Loss)	2,359	52,489	3,500	1,409	781	442	6,132	(961)	-	-	-	(961)	-
Unrealized Comm. Deriv' Gain / (Loss)	42,113	(33,214)	(957)	(8,076)	760	(3,343)	(11,616)	4,405	-	-	-	4,405	-
Pre-Tax Income	89,864	(267,509)	(20,905)	(24,722)	(13,988)	(17,046)	(76,661)	(2,068)	(10,210)	(9,500)	(8,770)	(30,548)	(23,338)
Income Tax	33,692	(93,405)	(7,245)	(8,687)	(4,915)	(3,571)	(24,418)	138,700	(3,830)	(3,560)	(3,290)	128,020	(8,752)
%	37.5%	34.9%	34.7%	35.1%	35.1%	20.9%	31.9%	-6707.0%	37.5%	37.5%	37.5%	-419.1%	37.5%
Extraordinary Items	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	56,172	(174,104)	(13,660)	(16,035)	(9,073)	(13,475)	(52,243)	(140,768)	(6,380)	(5,940)	(5,480)	(158,568)	(14,587)
Shares Outstanding	39,418	40,463	41,069	41,564	41,680	41,705	41,488	70,409	84,974	85,090	85,210	81,421	83,500
EPS - GAAP	\$1.43	(\$4.30)	(\$0.33)	(\$0.39)	(\$0.22)	(\$0.32)	(\$1.26)	(\$2.00)	(\$0.08)	(\$0.07)	(\$0.06)	(\$1.95)	(\$0.17)
EPS - Operating, Adjusted	\$0.74	(\$0.37)	(\$0.32)	(\$0.25)	(\$0.23)	(\$0.27)	(\$1.07)	(\$0.11)	-	-	-	(\$0.32)	-
Margin Analysis													
Production Gross margin	87.4%	77.9%	63.9%	76.7%	83.6%	85.8%	78.7%	84.2%	84.3%	84.6%	84.8%	84.5%	85.5%
Op. Taxes as % of O&G revenues	6.2%	8.4%	9.4%	8.3%	8.5%	10.1%	9.1%	8.9%	8.5%	8.5%	8.5%	8.6%	8.5%
S, G&A as % of O&G revenues	12.4%	21.6%	34.4%	26.0%	24.5%	26.5%	27.4%	22.5%	21.6%	20.9%	20.3%	21.2%	20.4%
D, D & A as % of O&G revenues	41.3%	83.2%	114.8%	89.1%	81.8%	73.2%	87.5%	68.2%	67.6%	65.6%	64.0%	66.2%	61.2%
Rate of Change Analysis													
Revenues	42.6%	-49.2%	-47.1%	-41.9%	-30.0%	4.0%	-31.2%	49.6%	25.1%	25.4%	18.5%	28.0%	16.0%
Op. Inc.	54.1%	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	-39.2%
EPS - operating	43.0%	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	-91.0%
Adjusted EBITDDA	47.5%	-34.4%	-73.9%	-57.9%	-53.9%	-42.6%	-59.1%	62.1%	19.7%	25.2%	22.3%	32.9%	20.9%
Shares Out.	1.0%	2.6%	2.3%	2.5%	2.8%	2.7%	2.5%	71.4%	104.4%	104.2%	104.3%	96.3%	2.6%
Working Cap.	-12.5%	-81.2%	45.0%	35.4%	-5.2%	-13.9%	60.3%	12.9%	7.4%	6.1%	5.5%	35.6%	6.7%
Guidance:	Guidance:	vol -11% yr/yr	vol -18% yr/yr	vol -28% yr/yr	vol -17% yr/yr;	Guidance:	vol -11% yr/yr						
11/7- vol's +40%	2/25-				11/3- propose	3/3- 4.34-4.64	1/26- phase 1 of						
on ~70 new wells;	-5.5Mmboe; 5/7-				debt exchange(s)	Mmboe;	exchange retires						
5/8- 4.79Mmboe;	affirm; 8/6-				of \$230M Sr	5/4- affirm;	\$131M of debt						
8/5- 4.95Mmboe;	5.4-5.5;				Notes for 39.3M	8/6- affirm;	for 39M shares;						
11/5- "lower end"	11/5- 5.4-5.6				(& ~29.9M)	11/3- affirm;	3/22- tender						
Actual: 5.05	Actual: 5.53				shares	Actual: 4.54	phase 2 retires						
Mmboe @ 69%)	Mmboe @ 65%					Mmboe @ 62%	\$15M for 4M						
liquids.	liquids.					liquids	shares						
												Forecasting 4.23	Forecasting 4.48
												Mmboe @ 62%	Mmboe @ 62%
												liquids	liquids

Source: Company reports and Hilliard Lyons estimates

Approach Resources, Inc. (AREX) (\$'s in '000s)

Cash Flow Analysis													
	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17p	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Net Inc.	56,172	(174,104)	(13,600)	(16,035)	(9,073)	(13,475)	(52,243)	(140,768)	(6,380)	(5,940)	(5,480)	(158,568)	(14,587)
D, D & A	106,802	109,319	20,229	19,991	19,422	19,402	79,044	17,962	18,970	19,530	20,100	76,562	82,050
Unrealized Commod. Deriv. Loss/(Gain)	(42,113)	33,214	957	8,076	(760)	3,343	11,616	(4,405)	-	-	-	(4,405)	-
Deferred Compensation Exp.	8,247	7,954	1,550	1,374	1,357	1,998	6,279	1,159	1,210	1,260	1,310	4,939	5,310
Deferred Inc. Tax (Charge)/Allowance	33,717	(93,140)	-	-	-	-	-	-	-	-	-	-	(34,968)
(Increase) Decrease in Wrkg. Cap.	(6,586)	(37,533)	3,903	4,451	(892)	(2,236)	5,226	1,790	1,150	1,030	980	4,944	1,268
Operating C.F.	156,239	(154,290)	12,979	17,857	10,054	9,032	49,922	(124,262)	14,950	15,880	16,910	(76,528)	39,073
(Cap. Ex.)	(3,024)	(67)	(3)	(12)	-	(1)	(16)	(20)	(20)	(20)	(20)	(80)	(88)
(Development & Acquisition Exp.)	(390,506)	(151,178)	(4,874)	(6,871)	(5,554)	(2,489)	(19,788)	(13,400)	(15,000)	(17,500)	(10,000)	(55,900)	(61,490)
Asset Sales / (Disposals)	(181)	-	-	-	-	-	-	-	-	-	-	-	-
(Dividends)	-	-	-	-	-	-	-	-	-	-	-	-	-
Free C.F.	(237,472)	(305,535)	8,102	10,974	4,500	6,542	30,118	(137,682)	(70)	(1,640)	6,890	(132,508)	(22,505)
ST Debt Drawn	353,921	272,000	12,600	21,000	7,000	9,500	50,100	137,680	70	1,640	-	139,390	24,755
(ST Debt Repaid)	(203,921)	(149,000)	(13,600)	(18,000)	(7,000)	(11,500)	(50,100)	117,030	60	1,390	(5,860)	112,620	-
LT Debt Drawn	-	-	-	-	-	-	-	-	-	-	-	-	20,254
(LT Debt Repaid)	-	(8,722)	-	-	-	-	-	(145,028)	-	-	-	(145,028)	(18,229)
Stock Issued	-	-	-	-	-	-	-	-	-	-	-	-	-
(Stock Repurchased)	-	-	-	-	-	-	-	-	-	-	-	-	-
Net C.F.	(87,472)	(191,257)	7,102	13,974	4,500	4,542	30,118	(28,000)	60	1,390	1,030	(25,526)	4,276
Adjusted EBITDA	188,282	123,553	8,698	13,712	14,145	15,468	50,512	14,101	16,420	17,710	18,920	67,148	81,190
Adjusted EBITDA / Share	\$4.78	\$3.05	\$0.21	\$0.33	\$0.34	\$0.37	\$1.22	\$0.20	\$0.19	\$0.21	\$0.22	\$0.82	\$0.97
yr/yr change	46%	-36%	-75%	-59%	-55%	-44%	-60%	-5%	-41%	-39%	-40%	-32%	18%
EBITDDA as % of O&G Sales	72.8%	94.1%	49.4%	61.1%	59.6%	58.4%	55.9%	53.5%	58.5%	59.5%	60.3%	58.1%	60.6%
CF Multiple	1.3x	0.6x											
Balance Sheet Analysis													
	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17p	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Cash	430	600	840	893	2,708	21	21	79	140	1,530	2,560	2,560	6,800
Accounts Receivable	19,635	11,889	7,372	7,933	8,115	9,639	9,639	8,000	11,200	11,900	12,600	12,600	13,400
Other Current Assets	3,210	7,949	8,004	3,347	2,254	2,250	2,250	2,478	2,480	2,480	2,480	2,480	30,000
Total Current Assets	61,079	20,438	16,216	12,173	13,077	12,494	12,494	10,557	13,820	15,910	17,640	17,640	50,200
Net PP&E	1,331,659	1,154,546	1,138,868	1,124,282	1,109,504	1,092,061	1,092,061	1,086,483	1,092,020	1,099,780	1,099,750	1,099,750	1,095,560
Other Assets	11,692	1,212	-	-	-	-	-	832	830	830	830	830	830
Total Assets	1,404,430	1,174,984	1,155,084	1,136,455	1,122,581	1,104,555	1,104,555	1,098,030	1,106,670	1,116,520	1,118,220	1,118,220	1,146,590
ST & Current Portion of LT Debt	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts Payable	33,336	10,799	13,767	10,151	9,098	9,482	9,482	10,500	16,840	17,860	18,840	18,840	18,770
Oil & Gas Payables	8,536	4,245	3,211	4,196	4,171	4,190	4,190	3,500	4,490	4,760	5,020	5,020	5,360
Other Current Liabilities	64,980	13,464	10,971	13,957	13,232	12,697	12,697	12,160	17,960	19,050	20,100	20,100	21,450
Total Current Liabilities	106,852	28,508	27,949	28,304	26,501	26,369	26,369	26,160	39,290	41,670	43,960	43,960	45,580
Credit Facility	150,000	270,748	269,917	273,431	273,561	271,696	271,696	275,000	275,130	278,160	272,300	272,300	297,060
Sr. Notes (Jun'21)	250,000	225,839	226,042	226,246	226,450	226,653	226,653	85,200	85,200	85,200	85,200	85,200	85,200
Deferred Inc Tax & Other LT Liabilities	123,251	41,922	35,325	27,292	22,606	16,885	16,885	11,259	11,370	11,480	11,590	11,590	12,050
Shareholders' Equity	774,327	607,967	595,851	581,182	573,463	562,952	562,952	700,410	695,680	700,010	705,170	705,170	706,700
Book Value per share	\$19.64	\$15.03	\$14.51	\$13.98	\$13.76	\$13.50	\$13.57	\$9.95	\$8.19	\$8.23	\$8.28	\$8.66	\$8.46
Current Ratio	0.6x	0.7x	0.6x	0.4x	0.5x	0.5x	0.5x	0.4x	0.4x	0.4x	0.4x	0.4x	1.1x
LT Debt/Cap.-Net of Cash	24.4%	27.0%	27.4%	27.9%	28.0%	28.7%	28.7%	10.8%	10.9%	10.7%	10.5%	10.5%	9.9%
Total Debt/Cap.-Net of Cash	34.0%	44.9%	45.3%	46.1%	46.3%	47.0%	47.0%	34.0%	34.1%	34.0%	33.4%	33.4%	34.5%
ROE: DuPont	7.3%	-28.6%	-9.2%	-11.0%	-6.3%	-9.6%	-9.3%	-80.4%	-3.7%	-3.4%	-3.1%	-22.5%	-2.1%

Source: Company reports and Hilliard Lyons estimates

Analyst Certification

I, Joel K. Havard, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Suitability Ratings

- 1** - A large cap, core holding with a solid history
- 2** - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
- 3** - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
- 4** - Speculative, due to small size, inconsistent profitability, erratic revenues, volatility, low trading volume or a narrow customer or product base

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price setback in the next 12 months.



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	30%	14%	86%
Hold/Neutral	71	58%	6%	94%
Sell	15	12%	7%	93%

As of 5 April 2017

Other Disclosures

Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of J.J.B. Hilliard, W.L. Lyons, LLC or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed here.

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