



Occidental Petroleum Corporation (OXY)

Updated November 9th, 2018 by Aristofanis Papadatos

Key Metrics

Current Price:	\$73	5 Year CAGR Estimate:	8.6%	Volatility Percentile:	56.0%
Fair Value Price:	\$71	5 Year Growth Estimate:	5.0%	Momentum Percentile:	65.4%
% Fair Value:	103%	5 Year Valuation Multiple Estimate:	-0.6%	Growth Percentile:	30.3%
Dividend Yield:	4.2%	5 Year Price Target	\$91	Valuation Percentile:	48.1%
Dividend Risk Score:	C	Retirement Suitability Score:	B	Total Return Percentile:	46.1%

Overview & Current Events

Occidental Petroleum is an international oil and gas exploration and production company with operations in the U.S., Middle East, and Latin America. While the company also has a midstream and chemical segments, it is more sensitive to the price of oil than the integrated oil majors. That's why Occidental Petroleum was more severely affected than its integrated peers by the downturn in the oil market, which began almost four years ago. Due to the downturn in the oil market, the company reported negligible earnings in 2015 and posted losses in 2016.

However, the oil market has tightened this year and the oil price is likely to remain at healthy levels for the foreseeable future. In early November, Occidental Petroleum reported (11/5/18) its financial results for the third quarter of fiscal 2018. The company reported its highest earnings in the last four years and smashed the analysts' earnings-per-share estimates (\$1.77 vs. \$1.54). While the average realized oil price remained flat over previous quarter, the upstream segment increased its adjusted pre-tax earnings by 24%, from \$780 million to \$963 million, partly thanks to 7% production growth. Notably the daily production in the Permian Basin increased 12% over Q2 and 60% over Q3 of 2017. The midstream & marketing segment more than tripled its adjusted pre-tax earnings, from \$250 million in Q2 to \$796 million in Q3, thanks to improved marketing margins.

The free cash flow of the company has increased to a level that is sufficient to cover its capital expenses and its dividend. Thanks to its cost-cutting initiatives and its discipline to invest only in fields with a low breakeven oil price, the company now generates sufficient cash flows to cover its expenses and its dividend at an oil price of \$50. Occidental Petroleum has built inventory in the Permian Basin that is sufficient for production for 17 years at a breakeven oil price below \$50.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$8.98	\$3.79	\$5.72	\$8.39	\$7.09	\$6.96	\$4.83	\$0.12	-\$1.01	\$0.89	\$5.15	\$6.57
DPS	\$1.14	\$1.30	\$1.42	\$1.76	\$2.62	\$1.92	\$2.80	\$2.94	\$3.01	\$3.05	\$3.10	\$3.30
Shares	810.3	811.9	812.8	811.0	805.5	796.0	770.6	763.7	764.2	765.1	760.0	730.0

While Occidental Petroleum smashed the analysts' estimates and achieved 4-year high earnings, the stock has lost 7% since our last research report, in which we mentioned that the market had already priced a great portion of future growth in the stock. This case shows why investors should always pay attention to valuation.

As the company posted impressive results in Q3, we have revised our earnings-per-share estimate for this year, from \$4.70 to \$5.15. Moreover, thanks to the exciting growth prospects of the company, particularly in Permian Resources, we continue to expect 5.0% average annual earnings-per-share growth over the next five years.



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Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	8.0	17.8	14.4	11.4	12.4	12.8	19.5	N/A	N/A	N/A	14.2	13.8
Avg. Yld.	1.6%	1.9%	1.7%	1.8%	3.0%	2.2%	3.0%	4.0%	4.2%	4.7%	4.2%	3.6%

In our last research report, we mentioned that the market was too hasty in pricing the exciting growth prospects of Occidental Petroleum and thus the stock was overvalued. As the stock has lost 7% since then, its valuation has become much more reasonable. The stock is now trading at a P/E ratio of 14.2, which is only slightly higher than its 10-year average P/E ratio of 13.8. If the stock reverts to its average valuation level over the next five years, it will incur a modest 0.6% annualized drag due to P/E contraction.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	40.3%	21.7%	24.2%	27.1%	20.8%	19.5%	22.0%	15.3%	11.2%	16.3%	24.0%	25.0%
Debt/A	34.2%	34.1%	38.0%	37.3%	37.6%	37.5%	37.9%	43.9%	50.1%	51.0%	52.0%	45.0%
Int. Cov.	89.1	38.9	66.8	36.1	51.9	55.5	80.2	4.1	-3.2	3.5	10.0	15.0
Payout	12.7%	34.3%	24.8%	21.0%	37.0%	27.6%	58.0%	2450%	----	343%	60.2%	50.2%
Std. Dev.	49.2%	27.1%	20.6%	35.0%	22.1%	18.8%	18.2%	22.6%	19.4%	15.5%	17.0%	20.0%

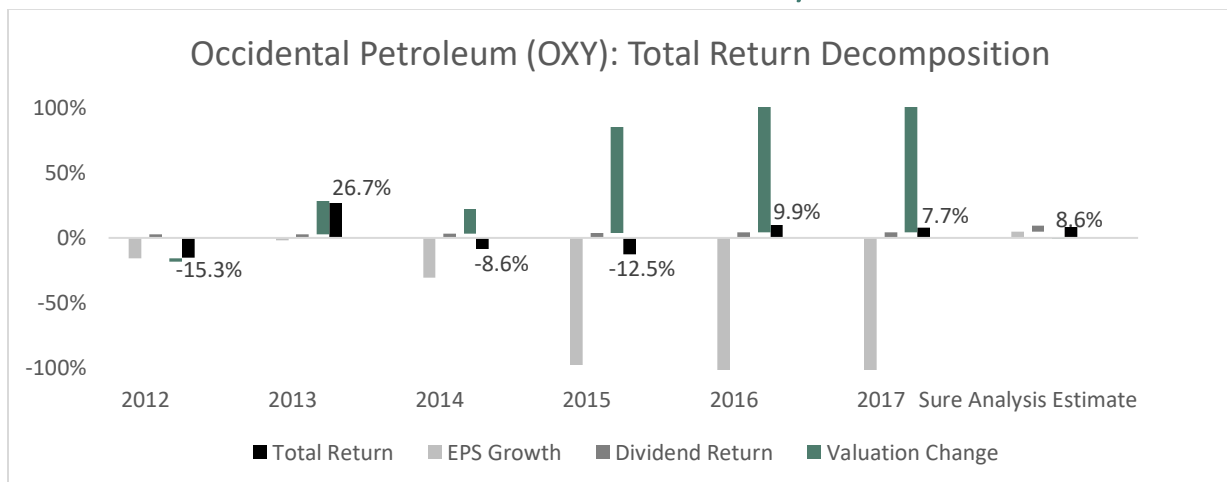
Occidental has raised its dividend for 16 consecutive years at a 12% average annual rate and currently offers a generous 4.2% dividend yield. Cash flows are sufficient to support capital expenses and dividends. Moreover, thanks to the healthy outlook of the oil sector, the company has resumed share repurchases, thus signaling its confidence in enjoying sustained free cash flows. Therefore, the dividend can be considered safe for the foreseeable future.

The company's reliance on oil prices was prominent in the Great Recession, when its earnings-per-share plunged 58%, from \$8.98 in 2008 to \$3.79 in 2009. We reiterate that it is more sensitive to oil prices than the other oil majors.

Final Thoughts & Recommendation

Thanks to its correction since early October, Occidental Petroleum is much more reasonably valued. The stock is likely to offer an 8.6% average annual return over the next five years. While the stock has become attractive, we continue to favor its major peers, such as Exxon Mobil, BP and Total. Therefore, Occidental Petroleum earns a hold rating.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	24480	14942	19045	23939	20100	20170	19312	12480	10090	12508
Gross Profit	16730	9583	12933	16554	13570	13673	12509	6676	4901	6914
Gross Margin	68.3%	64.1%	67.9%	69.2%	67.5%	67.8%	64.8%	53.5%	48.6%	55.3%
SG&A Exp.	1285	1300	1396	1523	1366	1544	1503	1270	1330	1424
Operating Profit	12147	5171	7750	10757	7989	7329	6175	601	-930	1194
Op. Margin	49.6%	34.6%	40.7%	44.9%	39.7%	36.3%	32.0%	4.8%	-9.2%	9.5%
Net Profit	6857	2915	4530	6771	4598	5903	616	-7829	-574	1311
Net Margin	28.0%	19.5%	23.8%	28.3%	22.9%	29.3%	3.2%	-62.7%	-5.7%	10.5%
Free Cash Flow	1287	2562	5626	4763	3438	5570	2680	-2513	552	1519
Income Tax	4629	2063	2995	4201	2659	3214	1685	-1330	-662	17

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	41537	44229	52432	60044	64210	69443	56259	43409	43109	42026
Cash & Equivalents	1777	1224	2578	3781	1592	3393	3789	3201	2233	1672
Acc. Receivable	3117	4092	5032	5395	4916	5674	4206	2970	3989	4145
Inventories	958	998	1041	1069	1344	1200	1052	986	866	1246
Total Liabilities	14212	15070	19948	22424	24162	26071	21300	19059	21612	21454
Accounts Payable	3306	3282	4646	5304	4708	5520	5229	3069	3926	4408
Long-Term Debt	2747	2796	5111	5871	7623	6939	6838	8305	9819	9828
Total Equity	27300	29081	32484	37620	40016	43126	34959	24350	21497	20572
D/E Ratio	0.10	0.10	0.16	0.16	0.19	0.16	0.20	0.34	0.46	0.48

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	17.6%	6.8%	9.4%	12.0%	7.4%	8.8%	1.0%	-15.7%	-1.3%	3.1%
Return on Equity	27.4%	10.3%	14.7%	19.3%	11.8%	14.2%	1.6%	-26.4%	-2.5%	6.2%
ROIC	25.1%	9.4%	13.0%	16.7%	10.1%	12.0%	1.3%	-21.0%	-1.8%	4.2%
Shares Out.	810.3	811.9	812.8	811.0	805.5	796.0	770.6	763.7	764.2	765.1
Revenue/Share	29.84	18.36	23.40	29.45	24.81	25.07	24.72	16.30	13.21	16.33
FCF/Share	1.57	3.15	6.91	5.86	4.24	6.92	3.43	-3.28	0.72	1.98

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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