



Occidental Petroleum Corporation (OXY)

Updated February 15th, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	\$67	5 Year CAGR Estimate:	9.2%	Volatility Percentile:	53.3%
Fair Value Price:	\$55	5 Year Growth Estimate:	8.4%	Momentum Percentile:	46.9%
% Fair Value:	122%	5 Year Valuation Multiple Estimate:	-3.9%	Growth Percentile:	83.6%
Dividend Yield:	4.7%	5 Year Price Target	\$83	Valuation Percentile:	21.0%
Dividend Risk Score:	D	Retirement Suitability Score:	B	Total Return Percentile:	52.8%

Overview & Current Events

Occidental Petroleum is an international oil and gas exploration and production company with operations in the U.S., the Middle East, and Latin America. While the company also has a midstream and a chemical segment, 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 in mid-2014. Due to the downturn in the oil market, the company reported negligible earnings in 2015 and posted losses in 2016.

However, the price of oil has doubled off its bottom in early 2016 and is likely to remain at healthy levels for the foreseeable future. In mid-February, Occidental Petroleum reported (2/12/19) financial results for the fourth quarter of fiscal 2018. Excluding impairment charges on Qatar assets of \$220 million and \$196 million in the fourth and third quarter, respectively, core earnings-per-share fell 31%, from \$1.77 in the third quarter to \$1.22 in the fourth quarter. The decline resulted mostly from a 10% decrease in the average realized oil price. On the bright side, in the year, production increased 9% over the prior year. Management expects 9%-11% production growth this year, with more than 30% growth in Permian Resources.

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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$3.79	\$5.72	\$8.39	\$7.09	\$6.96	\$4.83	\$0.12	-\$1.01	\$0.89	\$5.01	\$4.00	\$6.00
DPS	\$1.30	\$1.42	\$1.76	\$2.62	\$1.92	\$2.80	\$2.94	\$3.01	\$3.05	\$3.10	\$3.14	\$3.34
Shares	811.9	812.8	811.0	805.5	796.0	770.6	763.7	764.2	766.4	755.4	745.0	720.0

Due to the plunge of oil prices since early October, analysts have their forecasts downward for this year and now expect earnings-per-share of \$3.58. Thanks to strong production growth and our expectations for somewhat higher oil prices, we expect Occidental Petroleum to earn about \$4.00 per share this year. Moreover, thanks to the exciting growth prospects of the company, particularly in Permian Resources, we expect earnings-per-share of around \$6.00 by 2024.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	17.8	14.4	11.4	12.4	12.8	19.5	N/A	N/A	N/A	15.0	16.8	13.8
Avg. Yld.	1.9%	1.7%	1.8%	3.0%	2.2%	3.0%	4.0%	4.2%	4.7%	4.1%	4.7%	4.0%

Since early October, when the price of oil began to plunge, Occidental's stock price fell 20%. However, due to lower expected earnings this year, the stock is now trading at a P/E ratio of 16.8, which is 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 3.9% annualized drag due to P/E contraction.

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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Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	34.3%	24.8%	21.0%	37.0%	27.6%	58.0%	2450%	----	343%	61.9%	78.5%	55.7%

Occidental has raised its dividend for 16 consecutive years at a 12% average annual rate and currently offers a generous 4.7% dividend yield. Cash flows are sufficient to support capital expenses and dividends. And, the company has resumed share repurchases, thus signaling its confidence in enjoying sustained free cash flows. The dividend should be considered safe for the foreseeable future. On the other hand, the company has only marginally raised its dividend in each of the last four years and is likely to continue to do so for the foreseeable future. Investors should thus expect minimal dividend growth going forward.

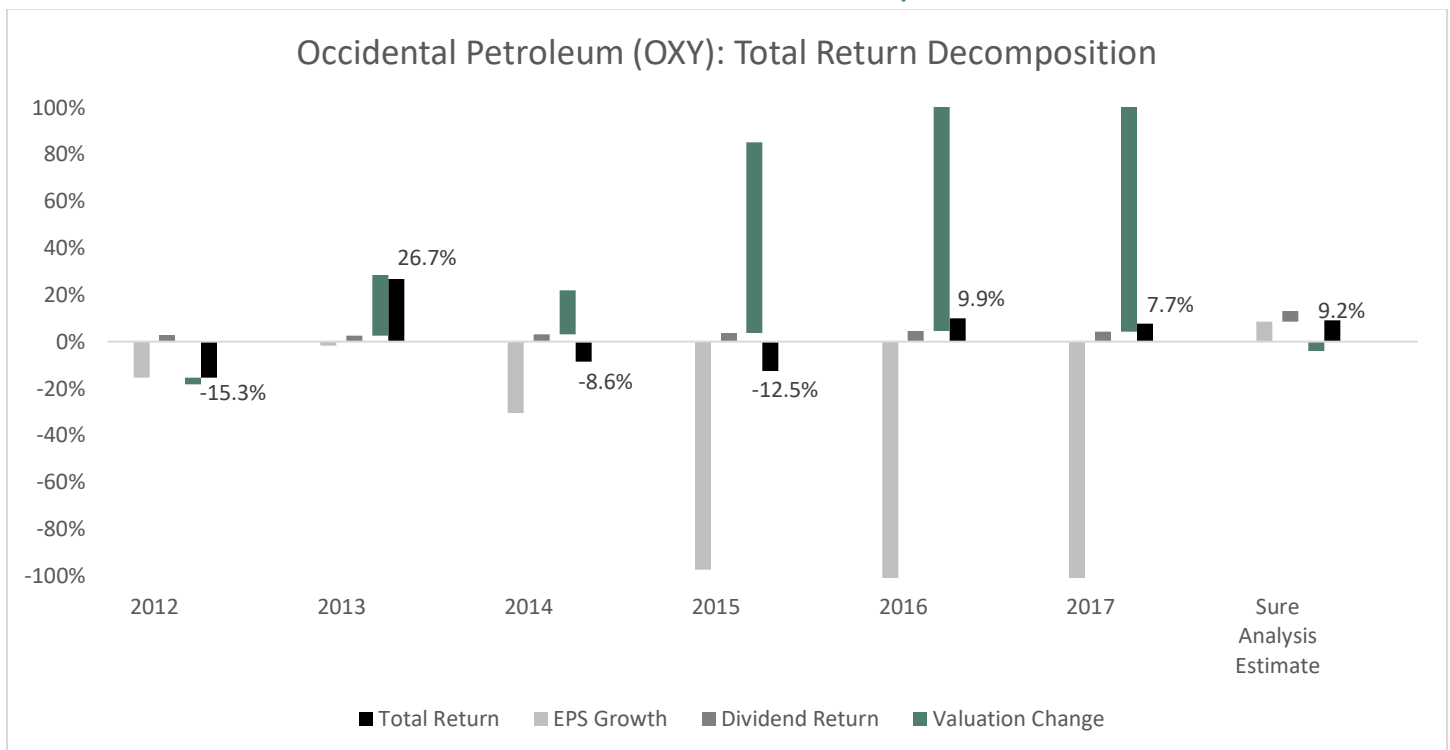
Occidental is remarkably sensitive to the gyrations of oil prices. The company's reliance on oil prices was prominent in the Great Recession, when its earnings-per-share plunged 58%, from \$8.98 in 2008 to \$3.79 in 2009. We reiterate that it is more sensitive to oil prices than the energy sector "supermajors" like Exxon Mobil (XOM) and Total (TOT).

Final Thoughts & Recommendation

Due to the current suppressed level of oil prices, Occidental is expected to post lower earnings this year. Nevertheless, the stock is likely to offer an 9.2% average annual return over the next five years.

However, while the stock has become attractive, we continue to favor its major peers, including Exxon Mobil, BP (BP), and Total. Therefore, Occidental Petroleum maintains its hold rating from us at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	14942	19045	23939	20100	20170	19312	12480	10090	12508	17824
Gross Profit	9583	12933	16554	13570	13673	12509	6676	4901	6914	11256
Gross Margin	64.1%	67.9%	69.2%	67.5%	67.8%	64.8%	53.5%	48.6%	55.3%	63.2%
SG&A Exp.	1300	1396	1523	1366	1544	1503	1270	1330	1424	1613
Operating Profit	5171	7750	10757	7989	7329	6175	601	-930	1194	5253
Op. Margin	34.6%	40.7%	44.9%	39.7%	36.3%	32.0%	4.8%	-9.2%	9.5%	29.5%
Net Profit	2915	4530	6771	4598	5903	616	-7829	-574	1311	4131
Net Margin	19.5%	23.8%	28.3%	22.9%	29.3%	3.2%	-62.7%	-5.7%	10.5%	23.2%
Free Cash Flow	2562	5626	4763	3438	5570	2680	-2513	552	1519	2749
Income Tax	2063	2995	4201	2659	3214	1685	-1330	-662	17	1477

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	44229	52432	60044	64210	69443	56259	43409	43109	42026	43854
Cash & Equivalents	1224	2578	3781	1592	3393	3789	3201	2233	1672	3033
Acc. Receivable	4092	5032	5395	4916	5674	4206	2970	3989	4145	4893
Inventories	998	1041	1069	1344	1200	1052	986	866	1246	1191
Total Liabilities	15070	19948	22424	24162	26071	21300	19059	21612	21454	22524
Accounts Payable	3282	4646	5304	4708	5520	5229	3069	3926	4408	4885
Long-Term Debt	2796	5111	5871	7623	6939	6838	8305	9819	9828	10317
Total Equity	29081	32484	37620	40016	43126	34959	24350	21497	20572	21330
D/E Ratio	0.10	0.16	0.16	0.19	0.16	0.20	0.34	0.46	0.48	0.48

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	6.8%	9.4%	12.0%	7.4%	8.8%	1.0%	-15.7%	-1.3%	3.1%	9.6%
Return on Equity	10.3%	14.7%	19.3%	11.8%	14.2%	1.6%	-26.4%	-2.5%	6.2%	19.7%
ROIC	9.4%	13.0%	16.7%	10.1%	12.0%	1.3%	-21.0%	-1.8%	4.2%	13.3%
Shares Out.	811.9	812.8	811.0	805.5	796.0	770.6	763.7	764.2	766.4	755.4
Revenue/Share	18.36	23.40	29.45	24.81	25.07	24.72	16.30	13.21	16.33	23.35
FCF/Share	3.15	6.91	5.86	4.24	6.92	3.43	-3.28	0.72	1.98	3.60

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

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