



Chevron Corporation (CVX)

Updated August 6th, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	\$119	5 Year CAGR Estimate:	11.1%	Volatility Percentile:	24.7%
Fair Value Price:	\$117	5 Year Growth Estimate:	7.5%	Momentum Percentile:	47.5%
% Fair Value:	102%	5 Year Valuation Multiple Estimate:	-0.4%	Growth Percentile:	75.5%
Dividend Yield:	4.0%	5 Year Price Target	\$168	Valuation Percentile:	46.9%
Dividend Risk Score:	B	Retirement Suitability Score:	B	Total Return Percentile:	62.4%

Overview & Current Events

Chevron is the third-largest oil major in the world based on its capitalization of \$226 billion, behind only Shell (RDS-A) and ExxonMobil (XOM). In 2018, Chevron generated 78% of its earnings from its upstream segment. While close industry peers BP and Total produce crude oil and natural gas at approximately equal ratios and Exxon has a 60/40 production ratio, Chevron is more leveraged to the oil price, with a 61/39 production ratio. Moreover, as the company prices a significant portion of its natural gas volumes based on the oil price, about 75% of its total output is priced based on the oil price. As a result, Chevron is much more leveraged to the price of oil than all the other oil majors.

In early August, Chevron reported (8/2/19) financial results for the second quarter of fiscal 2019. In contrast to the other oil majors, which posted lower earnings due to lower prices of oil and natural gas, Chevron grew its earnings-per-share 28%, from \$1.78 in last year's quarter to \$2.27 thanks to record production volumes, the merger termination fee from Anadarko, and a non-cash tax benefit in Canada. Chevron grew its production 9% over last year's quarter thanks to more than 50% growth in the Permian Basin and strong growth at Wheatstone in Australia and thus posted record production volumes.

On May 9th, Chevron decided not to participate in a bidding war with Occidental over the acquisition of Anadarko. Chevron initially offered \$65 per share for Anadarko but then Occidental offered \$76 per share. Thanks to its strategic decision, Chevron received a termination fee of \$740 million from Anadarko. It also resumed its share repurchases, which will amount to \$5 billion per year (~2% of current market cap). We applaud this decision of Chevron, as it confirms its management's focus on investing only in high-return endeavors.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$5.24	\$9.48	\$13.44	\$13.32	\$11.09	\$10.14	\$2.45	-\$0.27	\$3.79	\$7.74	\$7.40	\$10.62
DPS	\$2.66	\$2.84	\$3.09	\$3.51	\$3.90	\$4.21	\$4.28	\$4.29	\$4.32	\$4.48	\$4.76	\$6.00
Shares	2007	1993	1981	1947	1913	1880	1883	1892	1905	1914	1890	1880

Chevron invested heavily in growth projects for years but failed to grow its output for an entire decade, as oil projects take several years to start bearing fruit. However, Chevron is now in the positive phase of its investing cycle, as it is growing its output thanks to past investments while it has now reduced its capital expenses.

Chevron grew its output by 5% in 2017 and 7% in 2018 and expects to grow its output by 4%-7% this year and by 3%-4% per year until 2024. We believe that the sustained growth in the Permian Basin and in Australia will help the oil major meet its production guidance.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	13.4	8.2	7.5	8.1	10.9	11.9	39.4	---	29.4	14.1	16.1	15.8
Avg. Yld.	3.8%	3.6%	3.1%	3.3%	3.2%	3.5%	4.4%	4.3%	3.9%	4.0%	4.0%	3.6%

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Chevron's stock valuation has fluctuated wildly over the past decade. This reflects the underlying volatility of its business model and profitability. When oil prices rise and Chevron's profits increase, its valuation multiple shrinks. Conversely, periods of falling oil prices result in a ballooning price-to-earnings ratio. Chevron is now trading at a price-to-earnings ratio of 16.1, which is almost equal to its 10-year average of 15.8. As a result, Chevron seems fairly valued right now. If the stock trades at its average valuation level in five years, it will incur a mild 0.4% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	50.8%	30.0%	23.0%	26.4%	35.2%	41.5%	175%	---	114%	57.9%	64.3%	56.5%

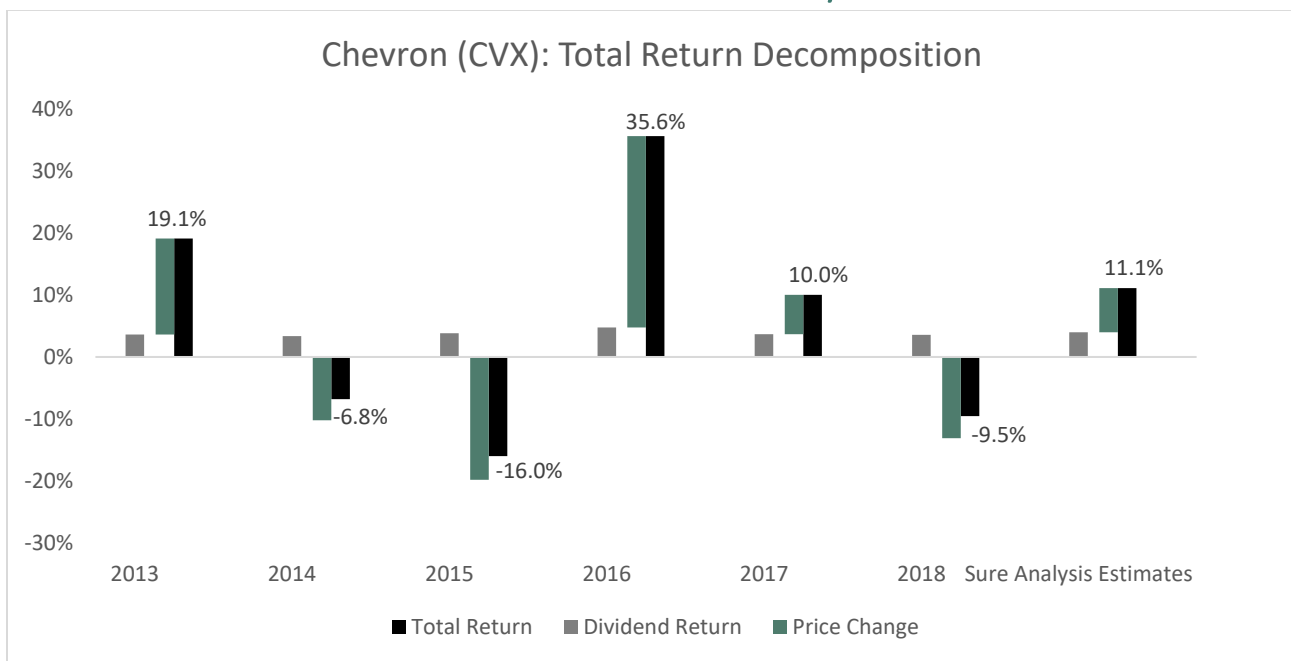
Chevron has above-average dividend safety considering its industry. As a commodity producer, Chevron is vulnerable to any downturn in the price of oil, particularly given that it is the most leveraged oil major to the oil price. Fortunately, the company is in the positive phase of its cycle now. Moreover, Chevron had an unsustainable payout ratio in the last three years but its payout ratio has fallen to a more reasonable level of 64%.

Chevron's main competitive advantage is its size and industry position. As major projects have recently been completed, cash flow has become positive for the first time in four years. Chevron should continue raising its dividend for the foreseeable future. Chevron is a member of the exclusive Dividend Aristocrats list thanks to its 32 consecutive years of dividend increases. The only other energy sector Dividend Aristocrat is Exxon Mobil.

Final Thoughts & Recommendation

After a decade without output growth, Chevron has begun to grow its output and is properly positioned to continue to grow it for years. The oil major is also likely to benefit from somewhat higher oil prices in the upcoming years thanks to strong growth in demand. We expect 11.1% annualized total returns over the next five years, consisting of 7.5% earnings growth, the 4.0% dividend yield and a minor drag from valuation change. Chevron is one of the highest quality energy sector stocks on the market today. Given its high expected returns, Chevron earns a buy recommendation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue (\$B)	168.32	198.20	244.37	230.59	220.16	200.49	129.93	110.22	134.67	158.90
Gross Profit	42701	68668	81537	76411	71274	64030	39137	31437	39560	44905
Gross Margin	25.4%	34.6%	33.4%	33.1%	32.4%	31.9%	30.1%	28.5%	29.4%	28.3%
SG&A Exp.	4527	4767	4745	4724	4510	4494	4443	4305	4110	3838
Operating Profit	7131	25375	38299	35013	27213	19726	-3710	-5471	3128	14446
Op. Margin	4.2%	12.8%	15.7%	15.2%	12.4%	9.8%	-2.9%	-5.0%	2.3%	9.1%
Net Profit	10483	19024	26895	26179	21423	19241	4587	-497	9195	14824
Net Margin	6.2%	9.6%	11.0%	11.4%	9.7%	9.6%	3.5%	-0.5%	6.8%	9.3%
Free Cash Flow	-470	11742	14595	7874	-2983	-3932	-10B	-5419	6934	16826
Income Tax	7965	12919	20626	19996	14308	11892	132	-1729	-48	5715

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets (\$B)	164.62	184.77	209.47	232.98	253.75	266.03	264.54	260.08	253.81	253.86
Cash & Equivalents	8716	14060	15864	20939	16245	12785	11022	6988	4813	9342
Acc. Receivable	17931	20943	21793	20997	21622	16736	12860	14092	15353	15050
Inventories	5529	5493	5543	6144	6380	6505	6334	5419	5585	5704
Goodwill & Int.	4618	4617	4642	4640	4639	4593	4588	4581	4531	4518
Total Liab. (\$B)	72.06	78.96	87.29	95.15	103.33	109.84	110.65	113.36	104.49	98.22
Accounts Payable	16437	19259	22147	22776	22815	19000	13516	13986	14565	13953
Long-Term Debt	10213	11190	10024	12093	20334	27750	38469	46033	38763	34459
Total Equity (\$B)	91.91	105.08	121.38	136.52	149.11	155.03	152.72	145.56	148.12	154.55
D/E Ratio	0.11	0.11	0.08	0.09	0.14	0.18	0.25	0.32	0.26	0.22

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	6.4%	10.9%	13.6%	11.8%	8.8%	7.4%	1.7%	-0.2%	3.6%	5.8%
Return on Equity	11.7%	19.3%	23.8%	20.3%	15.0%	12.7%	3.0%	-0.3%	6.3%	9.8%
ROIC	10.6%	17.3%	21.6%	18.6%	13.4%	10.8%	2.4%	-0.3%	4.8%	7.8%
Shares Out.	2007	1993	1981	1947	1913	1880	1883	1892	1905	1914
Revenue/Share	84.12	98.75	122.12	117.35	113.95	106.42	69.29	58.84	70.96	83.02
FCF/Share	-0.23	5.85	7.29	4.01	-1.54	-2.09	-5.36	-2.89	3.65	8.79

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

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