



Chevron Corporation (CVX)

Updated February 2nd, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	\$107	5 Year CAGR Estimate:	10.0%	Market Cap:	\$200.3 B
Fair Value Price:	\$98	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	2/14/20
% Fair Value:	109%	5 Year Valuation Multiple Estimate:	-1.7%	Dividend Payment Date:	3/10/20
Dividend Yield:	4.8%	5 Year Price Target	\$144	Years Of Dividend Growth:	33
Dividend Risk Score:	C	Retirement Suitability Score:	B	Last Dividend Increase:	8.4%

Overview & Current Events

Chevron is the third-largest oil major in the world based on its market cap of \$200 billion, behind only Shell (RDS-A) and ExxonMobil (XOM). In both 2018 and 2019, 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 more leveraged to the price of oil than all the other oil majors.

In late January, Chevron reported (1/31/20) financial results for the fourth quarter of fiscal 2019. In the quarter, production remained flat over the prior year's quarter but in the full year it grew 4% thanks to strong growth in the Permian Basin. However, in the quarter, the average realized price of oil and gas fell. In addition, Chevron incurred a \$9.2 billion net asset write-off, as the value of its North American natural gas assets has slumped. As a result, Chevron switched from a profit of \$1.95 per share in prior year's quarter to a loss of -\$3.51 per share. Even its adjusted earnings-per-share of \$1.39 fell -29% due to lower commodity prices. As this decrease in the bottom line was caused by a modest ~10% decrease in the average realized price of oil and gas, the high sensitivity of the results of Chevron to the underlying commodity prices was confirmed once again.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$9.48	\$13.44	\$13.32	\$11.09	\$10.14	\$2.45	-\$0.27	\$3.79	\$7.74	\$6.19	\$6.20	\$9.11
DPS	\$2.84	\$3.09	\$3.51	\$3.90	\$4.21	\$4.28	\$4.29	\$4.32	\$4.48	\$4.76	\$5.16	\$6.00
Shares¹	1993	1981	1947	1913	1880	1883	1892	1905	1914	1872.3	1850	1800

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, 7% in 2018 and 4% in 2019 and expects to grow its output 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. It is remarkable that Chevron has more than doubled the value of its assets in Permian in the last two years thanks to new discoveries and technological advances. Chevron also learned its lesson from the recent downturn and now invests most of its funds on projects that begin delivering cash flows within two years. We continue to expect the company to grow its earnings-per-share by about 8% per year on average over the next five years.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	8.2	7.5	8.1	10.9	11.9	39.4	---	29.4	14.1	19.3	17.3	15.8
Avg. Yld.	3.6%	3.1%	3.3%	3.2%	3.5%	4.4%	4.3%	3.9%	4.0%	4.0%	4.8%	4.2%

¹ In millions.

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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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. Due to somewhat suppressed earnings this year, Chevron is now trading at a price-to-earnings ratio of 17.3, which is higher than its 10-year average of 15.8. If the stock reverts to its average valuation level over the next five years, it will incur a -1.7% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	30.0%	23.0%	26.4%	35.2%	41.5%	175%	---	114%	57.9%	76.9%	83.2%	65.8%

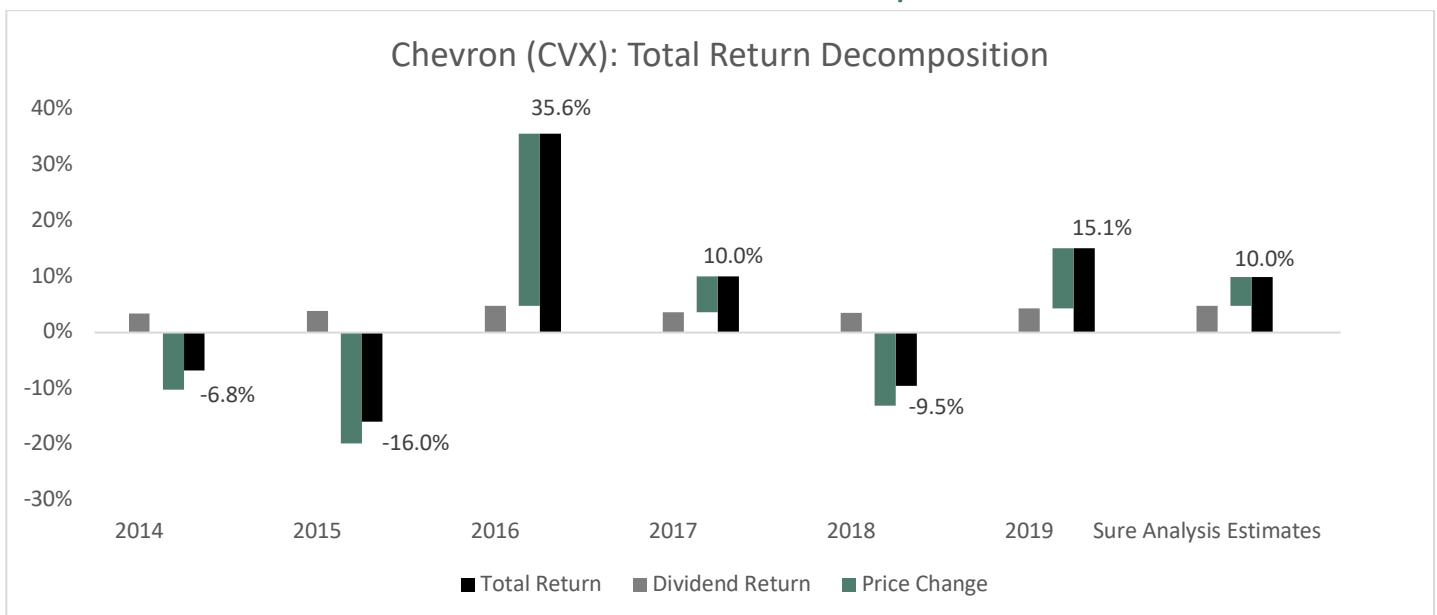
Chevron has above-average dividend safety considering its industry. As a commodity producer, Chevron is vulnerable to any downturn in the price of oil, particularly given that it is the most leveraged oil major to the oil price. Fortunately, the company is in the positive phase of its cycle now. Moreover, Chevron had an unsustainable payout ratio from 2015 through 2017 but its payout ratio has fallen to 83%, which is high but manageable if earnings grow as expected.

Chevron's main competitive advantage is its size and industry position. As major projects have recently been completed, the company has achieved record free cash flows in the last three years. Chevron recently raised its dividend 8.4% and will keep raising its dividend for the foreseeable future. Chevron is a member of the exclusive Dividend Aristocrats list thanks to its 33 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 could also benefit from somewhat higher oil prices in the upcoming years thanks to strong growth in demand. Moreover, the stock has become attractive lately thanks to the massive sell-off of the entire energy sector due to the threat of the coronavirus. It was the worst January on record for the energy sector. We expect 10.0% annualized total returns over the next five years, consisting of 8.0% earnings growth and the 4.8% dividend yield, which may be offset by a drag from valuation change. Chevron is one of the highest quality energy stocks on the market today. Thanks to the recent sell-off and the attractive expected return of Chevron, we rate it as a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue (\$B)	198.20	244.37	230.59	220.16	200.49	129.93	110.22	134.67	158.90	
Gross Profit	68668	81537	76411	71274	64030	39137	31437	39560	44905	
Gross Margin	34.6%	33.4%	33.1%	32.4%	31.9%	30.1%	28.5%	29.4%	28.3%	
SG&A Exp.	4767	4745	4724	4510	4494	4443	4305	4110	3838	
Operating Profit	25375	38299	35013	27213	19726	-3710	-5471	3128	14446	
Op. Margin	12.8%	15.7%	15.2%	12.4%	9.8%	-2.9%	-5.0%	2.3%	9.1%	
Net Profit	19024	26895	26179	21423	19241	4587	-497	9195	14824	
Net Margin	9.6%	11.0%	11.4%	9.7%	9.6%	3.5%	-0.5%	6.8%	9.3%	
Free Cash Flow	11742	14595	7874	-2983	-3932	-10B	-5419	6934	16826	
Income Tax	12919	20626	19996	14308	11892	132	-1729	-48	5715	

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets (\$B)	184.77	209.47	232.98	253.75	266.03	264.54	260.08	253.81	253.86	
Cash & Equivalents	14060	15864	20939	16245	12785	11022	6988	4813	9342	
Acc. Receivable	20943	21793	20997	21622	16736	12860	14092	15353	15050	
Inventories	5493	5543	6144	6380	6505	6334	5419	5585	5704	
Goodwill & Int.	4617	4642	4640	4639	4593	4588	4581	4531	4518	
Total Liab. (\$B)	78.96	87.29	95.15	103.33	109.84	110.65	113.36	104.49	98.22	
Accounts Payable	19259	22147	22776	22815	19000	13516	13986	14565	13953	
Long-Term Debt	11190	10024	12093	20334	27750	38469	46033	38763	34459	
Total Equity (\$B)	105.08	121.38	136.52	149.11	155.03	152.72	145.56	148.12	154.55	
D/E Ratio	0.11	0.08	0.09	0.14	0.18	0.25	0.32	0.26	0.22	

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	10.9%	13.6%	11.8%	8.8%	7.4%	1.7%	-0.2%	3.6%	5.8%	
Return on Equity	19.3%	23.8%	20.3%	15.0%	12.7%	3.0%	-0.3%	6.3%	9.8%	
ROIC	17.3%	21.6%	18.6%	13.4%	10.8%	2.4%	-0.3%	4.8%	7.8%	
Shares Out.	1993	1981	1947	1913	1880	1883	1892	1905	1914	
Revenue/Share	98.75	122.12	117.35	113.95	106.42	69.29	58.84	70.96	83.02	
FCF/Share	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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