



# Occidental Petroleum Corporation (OXY)

Updated May 25<sup>th</sup>, 2020 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$14	<b>5 Year CAGR Estimate:</b>	9.3%	<b>Market Cap:</b>	\$12.7 B
<b>Fair Value Price:</b>	\$18	<b>5 Year Growth Estimate:</b>	2.0%	<b>Ex-Dividend Date:</b>	6/5/2020
<b>% Fair Value:</b>	79%	<b>5 Year Valuation Multiple Estimate:</b>	4.9%	<b>Dividend Payment Date:</b>	7/13/2020
<b>Dividend Yield:</b>	3.1% <sup>1</sup>	<b>5 Year Price Target</b>	\$20	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	N/A

## 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. It has a market capitalization of \$12.7 billion. While the company also has a midstream and a chemical segment, it is much more sensitive to the price of oil than the integrated oil majors. That's why Occidental was more severely affected than its integrated peers by the downturn in the oil market between mid-2014 and 2016. Due to that downturn, the company reported negligible earnings in 2015 and posted a loss in 2016.

On August 8<sup>th</sup>, 2019, Occidental closed the acquisition of Anadarko. Occidental pursued this acquisition thanks to the promising asset base of Anadarko in the Permian, which has enhanced the already strong presence of Occidental in the area, and the \$3.5 billion annual synergies it expects to achieve from the integration of the two companies. However, this is a huge acquisition, as the \$38 billion value of the deal is triple the current market cap of Occidental. There are great concerns that Occidental overpaid for the deal. Occidental secured \$10 billion in funding from Berkshire Hathaway (BRK.A) in exchange for preferred shares, which receive an 8% annual dividend. In addition to the huge debt load that has resulted from the deal, the stock is trading near a 10-year low level, with a -74% plunge in the last 12 months.

In early May, Occidental reported (5/5/20) financial results for the first quarter of fiscal 2020. Due to the collapse of the oil price, which was caused by the pandemic, the company posted a loss of -\$2.42 per share, partly due to asset write-offs of -\$1.4 billion. The energy market is going through a severe downturn due to the coronavirus and hence the timing of the above acquisition of Occidental has proved disastrous. The company has net debt of \$68.9 billion, which is more than 5 times its current market cap, and thus it cut its quarterly dividend by -86%, from \$0.79 to \$0.11. We expect Occidental to lose -\$4.00 per share this year.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$5.72	\$8.39	\$7.09	\$6.96	\$4.83	\$0.12	-\$1.01	\$0.89	\$5.01	\$1.45	<b>-\$4.00</b>	<b>\$1.42</b>
<b>DPS</b>	\$1.42	\$1.76	\$2.07	\$2.45	\$2.80	\$2.94	\$3.01	\$3.05	\$3.10	\$3.14	<b>\$0.44</b>	<b>\$0.44</b>
<b>Shares<sup>2</sup></b>	812.8	811.0	805.5	796.0	770.6	763.7	764.2	766.4	755.4	809.5	<b>810.0</b>	<b>810.0</b>

We expect the pandemic to subside and the energy market to recover from next year. As a result, Occidental has decent growth prospects. It has doubled its output in the Permian in the last three years and expects to double it again over the next five years, from 300,000 to 600,000 barrels per day. We expect the company to grow its earnings-per-share by 2% per year on average off its mid-cycle level (5-year average) of \$1.29 in the next five years.

## Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
<b>Avg. P/E</b>	14.4	11.4	12.4	12.8	19.5	---	---	---	15.0	36.0	<b>10.9</b>	<b>13.8</b>
<b>Avg. Yld.</b>	1.7%	1.8%	3.0%	2.2%	3.0%	4.0%	4.2%	4.7%	4.1%	6.0%	<b>3.1%</b>	<b>2.2%</b>

<sup>1</sup> Forward dividend yield.

<sup>2</sup> In millions

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In the last 12 months, shares of Occidental have fallen -74% due to the acquisition of Anadarko and the spread of the coronavirus. As a result, Occidental is currently trading at 10.9 times its mid-cycle earnings. This earnings multiple is lower than the 10-year average price-to-earnings ratio of 13.8. If the stock reverts to its average valuation level over the next five years, it will enjoy a 4.9% annualized gain thanks to the expansion of its valuation level.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	24.8%	21.0%	37.0%	27.6%	58.0%	---	---	343%	61.9%	217%	<b>34.1%</b>	<b>30.9%</b>

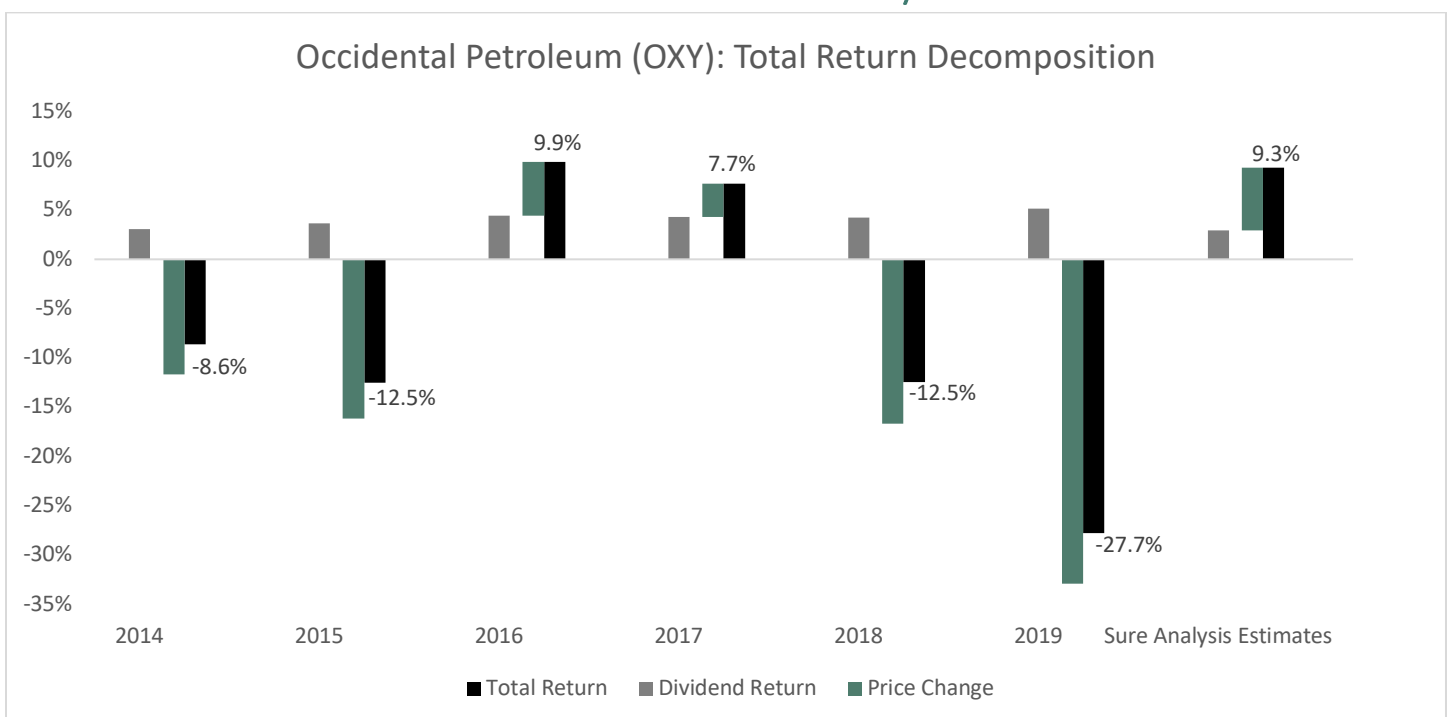
Before the pandemic, Occidental had raised its dividend for 17 consecutive years at an 11% average annual rate. However, the coronavirus crisis caught the company off-guard, with an excessive debt pile. As a result, Occidental recently cut its dividend by -86%.

Moreover, Occidental is very sensitive to the gyrations of oil prices. The company's reliance on oil prices was displayed in the Great Recession, when its earnings-per-share fell -58%, from \$8.98 in 2008 to \$3.79 in 2009. We reiterate that the company is much more sensitive to oil prices than its "supermajor" peers like Exxon Mobil (XOM) and Total (TOT), partly due to its excessive debt. Due to its leveraged balance sheet, Occidental has essentially become a leveraged bet for higher oil prices in the future. Therefore, only the investors who have strong confidence in a sustained rebound of the oil price should consider this stock.

## Final Thoughts & Recommendation

Due to its upstream nature and its takeover of Anadarko, which quadrupled interest expense, Occidental is extremely sensitive to the price of oil. The collapse of the oil price caused by the pandemic rendered the timing of the above acquisition disastrous. Due to its depressed stock price, Occidental could offer a 9.3% average annual return over the next five years. We thus rate the stock as a hold, but we note the excessive risk of the stock if the downturn from the pandemic lasts longer than anticipated.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Revenue</b>	19,045	23,939	20,100	20,170	19,312	12,480	10,090	12,508	17,824	20,393
<b>Gross Profit</b>	9,780	12,963	9,985	9,470	8,248	2,132	633	3,087	7,431	6,696
<b>Gross Margin</b>	51.4%	54.2%	49.7%	47.0%	42.7%	17.1%	6.3%	24.7%	41.7%	32.8%
<b>SG&amp;A Exp.</b>	1,396	1,523	1,366	1,544	1,503	1,270	1,330	546	585	882
<b>Operating Profit</b>	7,638	10,577	7,909	7,222	6,045	483	(1,036)	1,095	5,117	2,815
<b>Op. Margin</b>	40.1%	44.2%	39.3%	35.8%	31.3%	3.9%	-10.3%	8.8%	28.7%	13.8%
<b>Net Profit</b>	4,530	6,771	4,598	5,903	616	(7,829)	(574)	1,311	4,131	(667)
<b>Net Margin</b>	23.8%	28.3%	22.9%	29.3%	3.2%	-62.7%	-5.7%	10.5%	23.2%	-3.3%
<b>Free Cash Flow</b>	5,626	4,763	3,438	5,570	2,680	(2,513)	553	1,262	2,694	738
<b>Income Tax</b>	2,995	4,201	2,659	3,214	1,685	(1,330)	(662)	17	1,477	693

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Total Assets</b>	52,432	60,044	64,210	69,443	56,259	43,409	43,109	42,026	43,854	109,330
<b>Cash &amp; Equivalents</b>	2,578	3,781	1,592	3,393	3,789	3,201	2,233	1,672	3,033	3,032
<b>Acc. Receivable</b>	5,032	5,395	4,916	5,674	4,206	2,970	3,989	4,145	4,893	6,373
<b>Inventories</b>	1,041	1,069	1,344	1,200	1,052	986	866	1,246	1,260	1,447
<b>Total Liabilities</b>	19,948	22,424	24,162	26,071	21,300	19,059	21,612	21,454	22,524	75,098
<b>Accounts Payable</b>	4,646	5,304	4,708	5,520	5,229	3,069	3,926	4,408	4,885	7,017
<b>Long-Term Debt</b>	5,111	5,871	7,623	6,939	6,838	8,305	9,819	9,828	10,317	38,241
<b>Total Equity</b>	32,484	37,620	40,016	43,126	34,959	24,350	21,497	20,572	21,330	24,470
<b>D/E Ratio</b>	0.16	0.16	0.19	0.16	0.20	0.34	0.46	0.48	0.48	1.12

## Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Return on Assets</b>	9.4%	12.0%	7.4%	8.8%	1.0%	-15.7%	-1.3%	3.1%	9.6%	-0.9%
<b>Return on Equity</b>	14.7%	19.3%	11.8%	14.2%	1.6%	-26.4%	-2.5%	6.2%	19.7%	-2.9%
<b>ROIC</b>	13.0%	16.7%	10.1%	12.0%	1.3%	-21.0%	-1.8%	4.2%	13.3%	-1.3%
<b>Shares Out.</b>	812.8	811.0	805.5	796.0	770.6	763.7	764.2	766.4	755.4	809.5
<b>Revenue/Share</b>	23.40	29.45	24.81	25.07	24.72	16.30	13.21	16.33	23.35	25.19
<b>FCF/Share</b>	6.91	5.86	4.24	6.92	3.43	(3.28)	0.72	1.65	3.53	0.91

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

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