



Occidental Petroleum Corporation (OXY)

Updated August 24th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	\$13	5 Year CAGR Estimate:	9.2%	Market Cap:	\$12.2 B
Fair Value Price:	\$18	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	9/7/2020 ¹
% Fair Value:	73%	5 Year Valuation Multiple Estimate:	6.5%	Dividend Payment Date:	10/13/2020
Dividend Yield:	0.3% ²	5 Year Price Target	\$20	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	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 \$12.2 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 8th, 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. It has become apparent 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 -71% plunge in the last 12 months.

In early August, Occidental reported (8/10/20) financial results for the second quarter of fiscal 2020. Due to the pandemic, the average realized price of oil of the company plunged -51% sequentially, from \$47 to \$23. As a result, Occidental incurred asset write-offs of -\$8.4 billion or -\$9.12 per share and posted an adjusted loss of -\$1.76 per share. 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. Notably Occidental expects to have only one operating rig in the Permian in the back half of the year, a -95% plunge from the 22 rigs in May-2019. Moreover, the asset write-offs in the second quarter were 75% of the market cap of the stock. The company also has net debt of \$62.7 billion, which is more than 5 times its current market cap, and thus it has cut its quarterly dividend by -99% this year, from \$0.79 to \$0.01.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$5.72	\$8.39	\$7.09	\$6.96	\$4.83	\$0.12	-\$1.01	\$0.89	\$5.01	\$1.45	-\$4.00	\$1.42
DPS	\$1.42	\$1.76	\$2.07	\$2.45	\$2.80	\$2.94	\$3.01	\$3.05	\$3.10	\$3.14	\$0.82	\$0.16
Shares³	812.8	811.0	805.5	796.0	770.6	763.7	764.2	766.4	755.4	809.5	916.0	950.0

We expect the pandemic to subside and the energy market to recover from next year. As a result, Occidental has decent growth prospects. It doubled its output in the Permian in the last three years (before the pandemic) and expects to double it again over the next five years if the energy market returns to normalcy, 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.

¹ Estimated date.

² Forward dividend yield.

³ 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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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	14.4	11.4	12.4	12.8	19.5	---	---	---	15.0	36.0	10.1	13.8
Avg. Yld.	1.7%	1.8%	3.0%	2.2%	3.0%	4.0%	4.2%	4.7%	4.1%	6.0%	0.3%	0.8%

In the last 12 months, shares of Occidental have fallen -71% due to the acquisition of Anadarko and the coronavirus crisis. As a result, Occidental is currently trading at 10.1 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 6.5% 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%	3.1%	11.3%

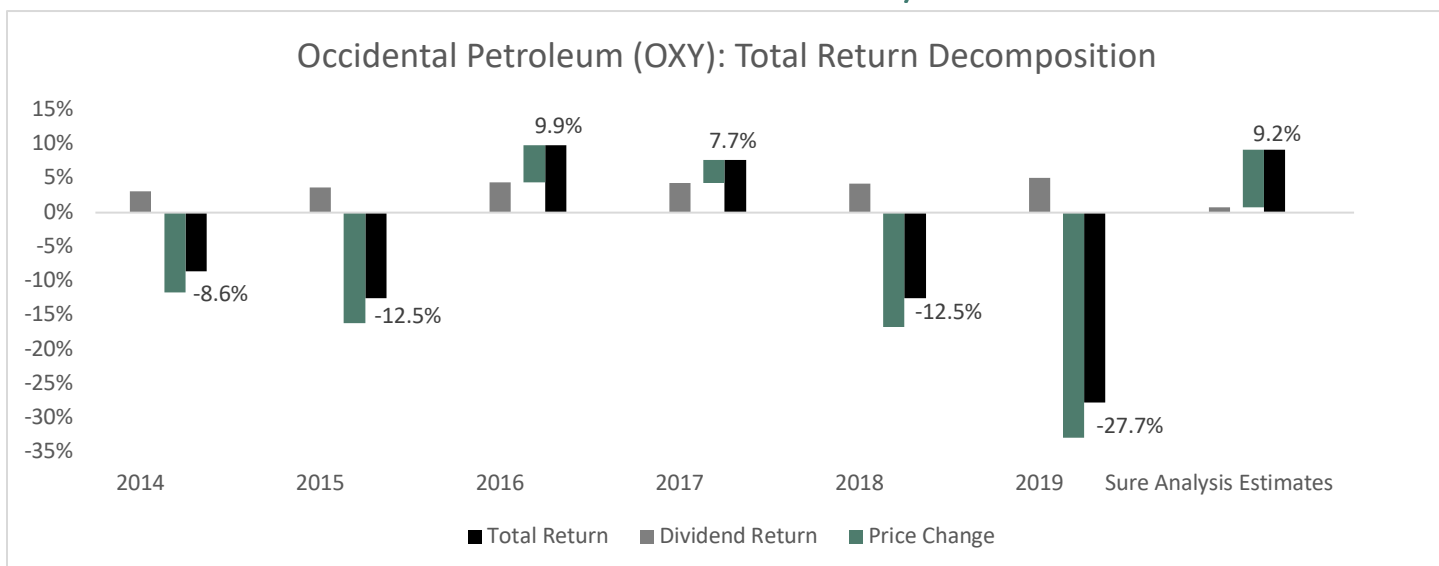
Before the pandemic, Occidental had raised its dividend for 17 consecutive years at an 11% average annual rate. However, the coronavirus crisis caught the company off-guard, with an excessive debt pile. As a result, Occidental has cut its dividend by -99% this year.

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 suppressed oil price caused by the pandemic rendered the timing of the above takeover disastrous. Due to its depressed stock price, Occidental could offer a 9.2% average annual return over the next five years. We thus rate the stock as a hold, but we note its excessive risk if 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
Revenue	19,045	23,939	20,100	20,170	19,312	12,480	10,090	12,508	17,824	20,393
Gross Profit	9,780	12,963	9,985	9,470	8,248	2,132	633	3,087	7,431	6,696
Gross Margin	51.4%	54.2%	49.7%	47.0%	42.7%	17.1%	6.3%	24.7%	41.7%	32.8%
SG&A Exp.	1,396	1,523	1,366	1,544	1,503	1,270	1,330	546	585	882
Operating Profit	7,638	10,577	7,909	7,222	6,045	483	(1,036)	1,095	5,117	2,815
Op. Margin	40.1%	44.2%	39.3%	35.8%	31.3%	3.9%	-10.3%	8.8%	28.7%	13.8%
Net Profit	4,530	6,771	4,598	5,903	616	(7,829)	(574)	1,311	4,131	(667)
Net Margin	23.8%	28.3%	22.9%	29.3%	3.2%	-62.7%	-5.7%	10.5%	23.2%	-3.3%
Free Cash Flow	5,626	4,763	3,438	5,570	2,680	(2,513)	553	1,262	2,694	738
Income Tax	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
Total Assets	52,432	60,044	64,210	69,443	56,259	43,409	43,109	42,026	43,854	109,330
Cash & Equivalents	2,578	3,781	1,592	3,393	3,789	3,201	2,233	1,672	3,033	3,032
Acc. Receivable	5,032	5,395	4,916	5,674	4,206	2,970	3,989	4,145	4,893	6,373
Inventories	1,041	1,069	1,344	1,200	1,052	986	866	1,246	1,260	1,447
Total Liabilities	19,948	22,424	24,162	26,071	21,300	19,059	21,612	21,454	22,524	75,098
Accounts Payable	4,646	5,304	4,708	5,520	5,229	3,069	3,926	4,408	4,885	7,017
Long-Term Debt	5,111	5,871	7,623	6,939	6,838	8,305	9,819	9,828	10,317	38,241
Total Equity	32,484	37,620	40,016	43,126	34,959	24,350	21,497	20,572	21,330	24,470
D/E Ratio	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
Return on Assets	9.4%	12.0%	7.4%	8.8%	1.0%	-15.7%	-1.3%	3.1%	9.6%	-0.9%
Return on Equity	14.7%	19.3%	11.8%	14.2%	1.6%	-26.4%	-2.5%	6.2%	19.7%	-2.9%
ROIC	13.0%	16.7%	10.1%	12.0%	1.3%	-21.0%	-1.8%	4.2%	13.3%	-1.3%
Shares Out.	812.8	811.0	805.5	796.0	770.6	763.7	764.2	766.4	755.4	809.5
Revenue/Share	23.40	29.45	24.81	25.07	24.72	16.30	13.21	16.33	23.35	25.19
FCF/Share	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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