



# Chevron Corporation (CVX)

Updated November 6<sup>th</sup>, 2020 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$72	<b>5 Year CAGR Estimate:</b>	13.2%	<b>Market Cap:</b>	\$138.2 B
<b>Fair Value Price:</b>	\$61	<b>5 Year Growth Estimate:</b>	12.0%	<b>Ex-Dividend Date:</b>	11/17/20
<b>% Fair Value:</b>	118%	<b>5 Year Valuation Multiple Estimate:</b>	-3.2%	<b>Dividend Payment Date:</b>	12/10/20
<b>Dividend Yield:</b>	7.2%	<b>5 Year Price Target</b>	\$108	<b>Years Of Dividend Growth:</b>	33
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	D	<b>Last Dividend Increase:</b>	8.4%

## Overview & Current Events

Chevron is the third-largest oil major in the world based on its market cap of \$138 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 October-2020, Chevron completed the acquisition of Noble Energy for \$4.1 billion in an all-stock deal. The deal will provide Chevron with low-cost proved reserves and promising undeveloped resources.

In late October, Chevron reported (10/30/20) financial results for the third quarter of fiscal 2020. Due to the impact of the pandemic on the global demand for oil, production fell -7% over last year's quarter while the average realized oil price plunged -32%. In addition, refinery utilization and refining margins remained depressed due to the suppressed demand for oil products. As a result, adjusted earnings-per-share slumped -93%, from \$1.55 to \$0.11.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$9.48	\$13.44	\$13.32	\$11.09	\$10.14	\$2.45	-\$0.27	\$3.79	\$7.74	\$6.19	<b>-\$0.70</b>	<b>\$7.68</b>
<b>DPS</b>	\$2.84	\$3.09	\$3.51	\$3.90	\$4.21	\$4.28	\$4.29	\$4.32	\$4.48	\$4.76	<b>\$5.16</b>	<b>\$5.36</b>
<b>Shares<sup>1</sup></b>	1993	1981	1947	1913	1880	1883	1892	1905	1914	1872	<b>1853</b>	<b>1840</b>

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.

Chevron grew its output by 5% in 2017, 7% in 2018 and 4% in 2019 and expected to grow its output by 3%-4% per year until 2024 but the pandemic has disrupted its growth trajectory this year. Nevertheless, we expect the pandemic to subside from next year and Chevron to return to growth mode thanks to its sustained growth in the Permian Basin and in Australia. Chevron has more than doubled the value of its assets in the Permian in the last two years thanks to new discoveries and technological advances. Chevron also learned its lesson from the previous downturn and now invests most of its funds on projects that begin delivering cash flows within two years. We expect the oil major to grow its earnings-per-share by 12% per year on average over the next five years off its mid-cycle level (4-year average) of \$4.36.

## Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
<b>Avg. P/E</b>	8.2	7.5	8.1	10.9	11.9	39.4	---	29.4	14.1	19.3	<b>16.5</b>	<b>14.0</b>
<b>Avg. Yld.</b>	3.6%	3.1%	3.3%	3.2%	3.5%	4.4%	4.3%	3.9%	4.0%	4.0%	<b>7.2%</b>	<b>5.0%</b>

<sup>1</sup> In millions.

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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 16.5 times its mid-cycle earnings-per-share of \$4.36; which is near its 10-year average. We are assuming an earnings multiple around 14.0 in 2025. If this proves correct, the stock would incur a -3.2% annualized drag in its returns over the next five years.

## 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%	<b>118%</b>	<b>69.7%</b>

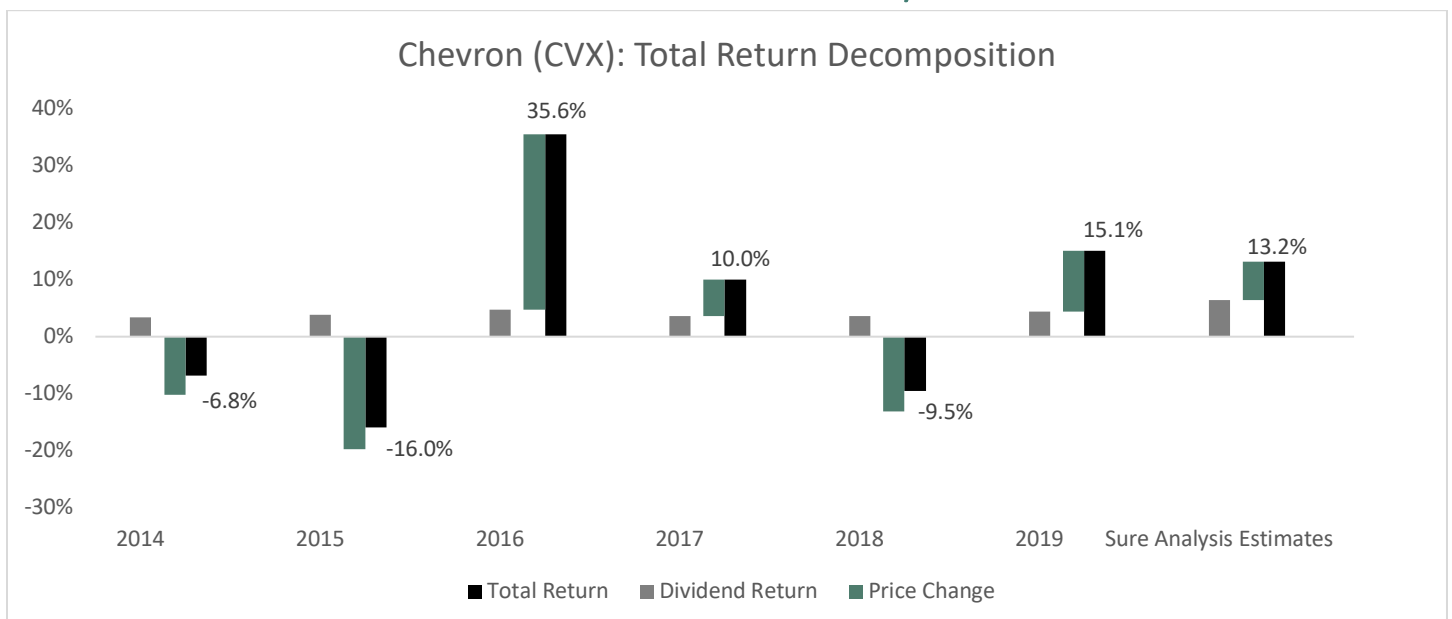
As a commodity producer, Chevron is vulnerable to any downturn in the price of oil, particularly given that it is the most leveraged oil major to the oil price. In addition, the oil major currently has an unsustainable payout ratio due to the impact of the pandemic on its business. However, we expect the pandemic to subside from next year and the payout ratio to become sustainable again in the upcoming years.

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 raised its dividend 8.4% this year and could keep raising its dividend in the upcoming years, albeit at a much slower pace. 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

Chevron is facing a strong headwind due to the coronavirus crisis but we expect the pandemic to subside and the oil major to recover from next year. The stock could offer a 13.2% annualized total return over the next five years, consisting of 12.0% earnings growth and the 7.2% dividend yield, which may be offset by a drag from valuation. Chevron is one of the highest quality energy stocks on the market today. Thanks to its attractive expected return, we rate it as a buy, but we note that only patient investors, who can wait for the recovery of the energy market, should consider the stock.

## 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)</b>	198.20	244.37	230.59	220.16	200.49	129.93	110.22	134.67	158.90	139.87
<b>Gross Profit</b>	68668	81537	76411	71274	64030	39137	31437	39560	44905	30534
<b>Gross Margin</b>	34.6%	33.4%	33.1%	32.4%	31.9%	30.1%	28.5%	29.4%	28.3%	21.8%
<b>SG&amp;A Exp.</b>	4767	4745	4724	4510	4494	4443	4305	4110	3838	4143
<b>Operating Profit</b>	25375	38299	35013	27213	19726	-3710	-5471	3128	14446	100
<b>Op. Margin</b>	12.8%	15.7%	15.2%	12.4%	9.8%	-2.9%	-5.0%	2.3%	9.1%	0.1%
<b>Net Profit</b>	19024	26895	26179	21423	19241	4587	-497	9195	14824	2924
<b>Net Margin</b>	9.6%	11.0%	11.4%	9.7%	9.6%	3.5%	-0.5%	6.8%	9.3%	2.1%
<b>Free Cash Flow</b>	11742	14595	7874	-2983	-3932	-10B	-5419	6934	16826	13198
<b>Income Tax</b>	12919	20626	19996	14308	11892	132	-1729	-48	5715	2691

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Total Assets (\$B)</b>	184.77	209.47	232.98	253.75	266.03	264.54	260.08	253.81	253.86	237.43
<b>Cash &amp; Equivalents</b>	14060	15864	20939	16245	12785	11022	6988	4813	9342	5686
<b>Acc. Receivable</b>	20943	21793	20997	21622	16736	12860	14092	15353	15050	13325
<b>Inventories</b>	5493	5543	6144	6380	6505	6334	5419	5585	5704	5848
<b>Goodwill &amp; Int.</b>	4617	4642	4640	4639	4593	4588	4581	4531	4518	4463
<b>Total Liab. (\$B)</b>	78.96	87.29	95.15	103.33	109.84	110.65	113.36	104.49	98.22	92.22
<b>Accounts Payable</b>	19259	22147	22776	22815	19000	13516	13986	14565	13953	14103
<b>Long-Term Debt</b>	11190	10024	12093	20334	27750	38469	46033	38763	34459	26973
<b>Total Equity (\$B)</b>	105.08	121.38	136.52	149.11	155.03	152.72	145.56	148.12	154.55	144.21
<b>D/E Ratio</b>	0.11	0.08	0.09	0.14	0.18	0.25	0.32	0.26	0.22	0.19

## Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Return on Assets</b>	10.9%	13.6%	11.8%	8.8%	7.4%	1.7%	-0.2%	3.6%	5.8%	1.2%
<b>Return on Equity</b>	19.3%	23.8%	20.3%	15.0%	12.7%	3.0%	-0.3%	6.3%	9.8%	2.0%
<b>ROIC</b>	17.3%	21.6%	18.6%	13.4%	10.8%	2.4%	-0.3%	4.8%	7.8%	1.6%
<b>Shares Out.</b>	1993	1981	1947	1913	1880	1883	1892	1905	1914	1872
<b>Revenue/Share</b>	98.75	122.12	117.35	113.95	106.42	69.29	58.84	70.96	83.02	73.81
<b>FCF/Share</b>	5.85	7.29	4.01	-1.54	-2.09	-5.36	-2.89	3.65	8.79	6.96

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

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