



Chevron Corporation (CVX)

Updated February 5th, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$89	5 Year CAGR Estimate:	8.6%	Market Cap:	\$171.9 B
Fair Value Price:	\$61	5 Year Growth Estimate:	12.0%	Ex-Dividend Date:	2/16/21
% Fair Value:	146%	5 Year Valuation Multiple Estimate:	-7.3%	Dividend Payment Date:	3/10/21
Dividend Yield:	5.8%	5 Year Price Target	\$108	Years Of Dividend Growth:	33
Dividend Risk Score:	D	Retirement Suitability Score:	C	Last Dividend Increase:	8.4%

Overview & Current Events

Chevron is the third-largest oil major in the world based on its market cap of \$172 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 has provided Chevron with low-cost proved reserves and promising undeveloped resources.

In late January, Chevron reported (1/29/21) financial results for the fourth quarter of fiscal 2020. The company grew its production 6% over the prior year's quarter thanks to its acquisition of Noble Energy but its average realized oil price plunged -30%. In addition, refinery utilization and refining margins remained depressed due to the sustained effect of the pandemic on the demand for oil products. As a result, Chevron posted a marginal loss of -\$11 million in the quarter.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$13.44	\$13.32	\$11.09	\$10.14	\$2.45	-\$0.27	\$3.79	\$7.74	\$6.19	-\$0.20	\$3.40	\$7.68
DPS	\$3.09	\$3.51	\$3.90	\$4.21	\$4.28	\$4.29	\$4.32	\$4.48	\$4.76	\$5.16	\$5.20	\$5.40
Shares¹	1981	1947	1913	1880	1883	1892	1905	1914	1872	1911	1940	1900

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 it grew its output only 1% in 2020 due to the pandemic. Nevertheless, we expect the pandemic to subside in the second half of this year thanks to the massive ongoing vaccination program 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	7.5	8.1	10.9	11.9	39.4	---	29.4	14.1	19.3	---	20.4	14.0
Avg. Yld.	3.1%	3.3%	3.2%	3.5%	4.4%	4.3%	3.9%	4.0%	4.0%	5.8%	5.8%	5.0%

¹ 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 20.4 times its mid-cycle earnings-per-share of \$4.36. This earnings multiple is higher than its 10-year average of 17.6. As we expect a recovery of the company through 2026, we expect the stock to trade at an earnings multiple around 14.0. If this proves correct, the stock will incur a -7.3% annualized drag in its returns over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	23.0%	26.4%	35.2%	41.5%	175%	---	114%	57.9%	76.9%	---	119%	70.3%

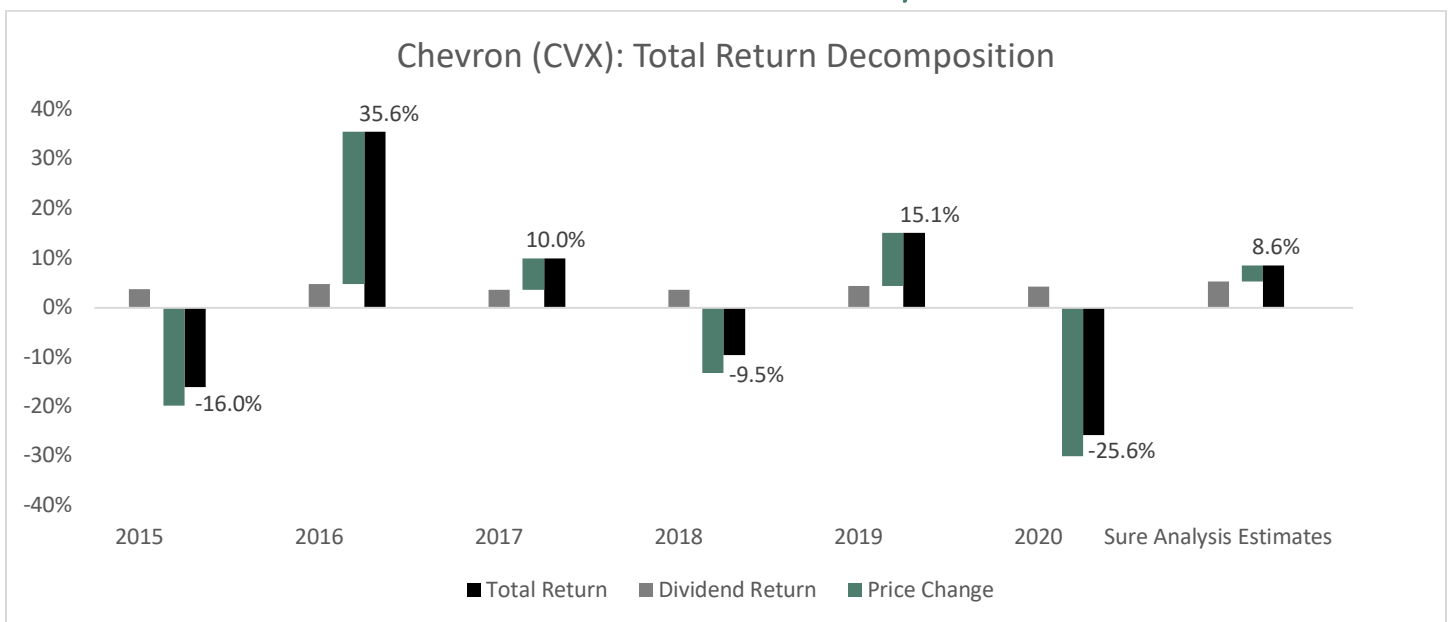
As a commodity producer, Chevron is vulnerable to any downturn in the price of oil, particularly given that it is the most leveraged oil major to the oil price. In addition, the oil major currently has an unsustainable payout ratio due to the impact of the pandemic on its business. However, we expect the pandemic to subside later this 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 achieved record free cash flows in 2017-2019. Chevron raised its dividend 8.4% last year and is likely to 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 one of the highest quality energy stocks on the market today. It is facing a strong headwind due to the coronavirus crisis but we expect the pandemic to subside and the oil major to recover later this year, partly thanks to the recovery of the oil price to pre-COVID levels, which has resulted from the deep production cuts of OPEC+. However, the stock has rallied 33% in just three months and hence it now may offer an 8.6% annualized total return over the next five years. We thus lower its rating from "buy" to "hold".

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue (\$B)	244.37	230.59	220.16	200.49	129.93	110.22	134.67	158.90	139.87	94.47
Gross Profit	81537	76411	71274	64030	39137	31437	39560	44905	30534	24475
Gross Margin	33.4%	33.1%	32.4%	31.9%	30.1%	28.5%	29.4%	28.3%	21.8%	25.9%
SG&A Exp.	4745	4724	4510	4494	4443	4305	4110	3838	4143	---
Operating Profit	38299	35013	27213	19726	-3710	-5471	3128	14446	100	-6977
Op. Margin	15.7%	15.2%	12.4%	9.8%	-2.9%	-5.0%	2.3%	9.1%	0.1%	-7.4%
Net Profit	26895	26179	21423	19241	4587	-497	9195	14824	2924	-5543
Net Margin	11.0%	11.4%	9.7%	9.6%	3.5%	-0.5%	6.8%	9.3%	2.1%	-5.9%
Free Cash Flow	14595	7874	-2983	-3932	-10B	-5419	6934	16826	13198	1700
Income Tax	20626	19996	14308	11892	132	-1729	-48	5715	2691	-1892

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets (\$B)	209.47	232.98	253.75	266.03	264.54	260.08	253.81	253.86	237.43	239.79
Cash & Equivalents	15864	20939	16245	12785	11022	6988	4813	9342	5686	5596
Acc. Receivable	21793	20997	21622	16736	12860	14092	15353	15050	13325	---
Inventories	5543	6144	6380	6505	6334	5419	5585	5704	5848	---
Goodwill & Int.	4642	4640	4639	4593	4588	4581	4531	4518	4463	---
Total Liab. (\$B)	87.29	95.15	103.33	109.84	110.65	113.36	104.49	98.22	92.22	239.8
Accounts Payable	22147	22776	22815	19000	13516	13986	14565	13953	14103	---
Long-Term Debt	10024	12093	20334	27750	38469	46033	38763	34459	26973	---
Total Equity (\$B)	121.38	136.52	149.11	155.03	152.72	145.56	148.12	154.55	144.21	131.7
D/E Ratio	0.08	0.09	0.14	0.18	0.25	0.32	0.26	0.22	0.19	---

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	13.6%	11.8%	8.8%	7.4%	1.7%	-0.2%	3.6%	5.8%	1.2%	-2.3%
Return on Equity	23.8%	20.3%	15.0%	12.7%	3.0%	-0.3%	6.3%	9.8%	2.0%	-4.0%
ROIC	21.6%	18.6%	13.4%	10.8%	2.4%	-0.3%	4.8%	7.8%	1.6%	-3.7%
Shares Out.	1981	1947	1913	1880	1883	1892	1905	1914	1872	1911
Revenue/Share	122.12	117.35	113.95	106.42	69.29	58.84	70.96	83.02	73.81	50.52
FCF/Share	7.29	4.01	-1.54	-2.09	-5.36	-2.89	3.65	8.79	6.96	0.91

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

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