



# Chevron Corporation (CVX)

Updated May 6<sup>th</sup>, 2021 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$109	<b>5 Year CAGR Estimate:</b>	4.9%	<b>Market Cap:</b>	\$208.7 B
<b>Fair Value Price:</b>	\$76	<b>5 Year Growth Estimate:</b>	8.0%	<b>Ex-Dividend Date:</b>	5/18/21
<b>% Fair Value:</b>	144%	<b>5 Year Valuation Multiple Estimate:</b>	-7.1%	<b>Dividend Payment Date:</b>	6/10/21
<b>Dividend Yield:</b>	4.9%	<b>5 Year Price Target</b>	\$111	<b>Years Of Dividend Growth:</b>	34
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	3.9%

## Overview & Current Events

Chevron is the third-largest oil major in the world based on its market cap of \$209 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 April, Chevron reported (4/30/21) financial results for the first quarter of fiscal 2021. The company reduced its production 3.5% over the prior year's quarter and was negatively affected by suppressed refining margins. As a result, its adjusted earnings-per-share decreased -53%, from \$1.93 to \$0.90. On the bright side, these earnings marked a great improvement from the marginal loss posted in the fourth quarter. In addition, thanks to the high oil prices, which have resulted from the unprecedented production cuts of OPEC and Russia, and the expected recovery of the global demand for refined products, the oil major is poised to recover strongly later this year. It thus raised its dividend by 3.9%. Thanks to improved prospects, we have raised our earnings-per-share forecast for the full year from \$3.40 to \$5.40.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$13.44	\$13.32	\$11.09	\$10.14	\$2.45	-\$0.27	\$3.79	\$7.74	\$6.19	-\$0.20	<b>\$5.40</b>	<b>\$7.93</b>
<b>DPS</b>	\$3.09	\$3.51	\$3.90	\$4.21	\$4.28	\$4.29	\$4.32	\$4.48	\$4.76	\$5.16	<b>\$5.31</b>	<b>\$5.50</b>
<b>Shares<sup>1</sup></b>	1981	1947	1913	1880	1883	1892	1905	1914	1872	1911	<b>1940</b>	<b>1900</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 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. Chevron could 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 in projects that begin delivering cash flows within two years. We expect the oil major to grow its earnings-per-share by 7% per year on average over the next five years.

## Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
<b>Avg. P/E</b>	7.5	8.1	10.9	11.9	39.4	---	29.4	14.1	19.3	---	<b>20.2</b>	<b>14.0</b>
<b>Avg. Yld.</b>	3.1%	3.3%	3.2%	3.5%	4.4%	4.3%	3.9%	4.0%	4.0%	5.8%	<b>4.9%</b>	<b>4.9%</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 a forward price-to-earnings ratio of 20.2. 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 -7.1% 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%	---	98.3%	69.3%

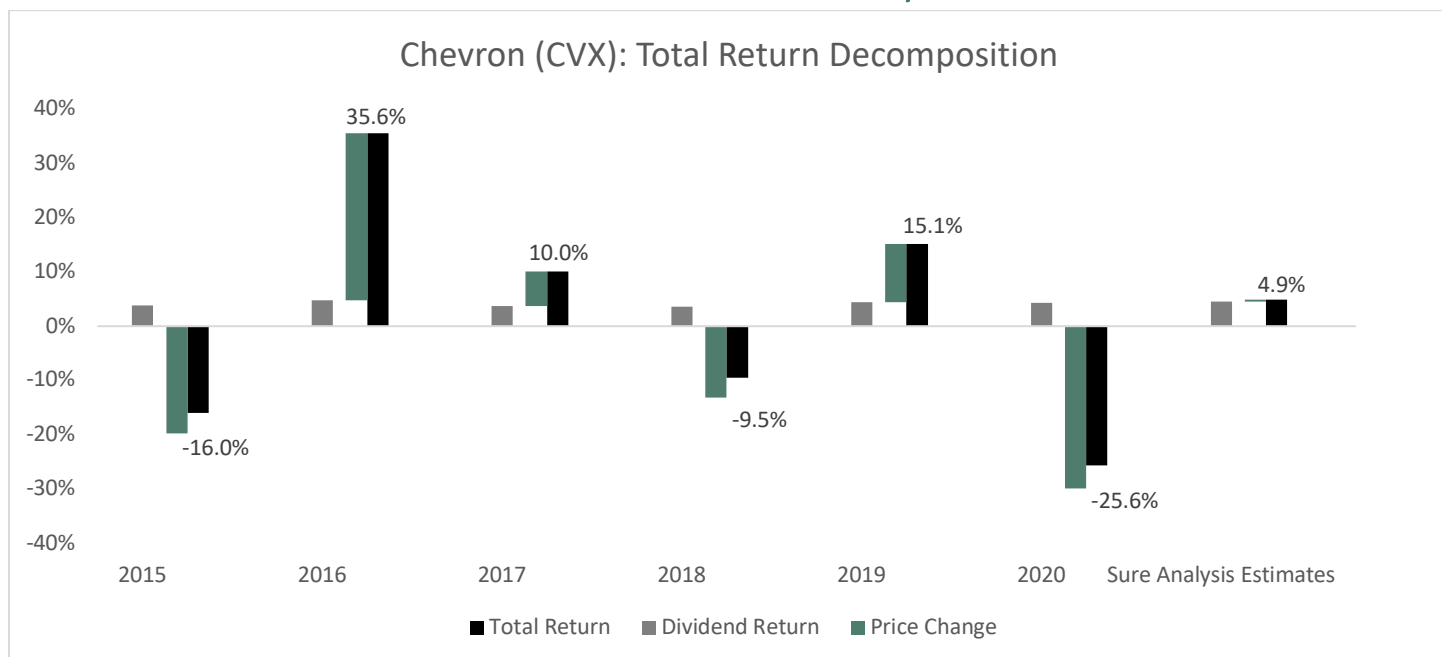
As a commodity producer, Chevron is vulnerable to any downturn in the price of oil, particularly given that it is the most leveraged oil major to the oil price. In addition, the oil major currently has an unsustainable payout ratio due to the impact of the pandemic on its business. However, we expect 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 just raised its dividend 3.9% and is likely to keep raising its dividend in the upcoming years, albeit at a slow pace. Chevron is a member of the exclusive Dividend Aristocrats list thanks to its 34 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. 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 57% in about six months and hence it now may offer a 4.9% annualized total return over the next five years. We thus rate it as a hold.

## Total Return Breakdown by Year



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## Income Statement Metrics

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

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets (\$B)</b>	209.47	232.98	253.75	266.03	264.54	260.08	253.81	253.86	237.43	239.79
<b>Cash &amp; Equivalents</b>	15864	20939	16245	12785	11022	6988	4813	9342	5686	5596
<b>Acc. Receivable</b>	21793	20997	21622	16736	12860	14092	15353	15050	13325	---
<b>Inventories</b>	5543	6144	6380	6505	6334	5419	5585	5704	5848	---
<b>Goodwill &amp; Int.</b>	4642	4640	4639	4593	4588	4581	4531	4518	4463	---
<b>Total Liab. (\$B)</b>	87.29	95.15	103.33	109.84	110.65	113.36	104.49	98.22	92.22	239.8
<b>Accounts Payable</b>	22147	22776	22815	19000	13516	13986	14565	13953	14103	---
<b>Long-Term Debt</b>	10024	12093	20334	27750	38469	46033	38763	34459	26973	---
<b>Total Equity (\$B)</b>	121.38	136.52	149.11	155.03	152.72	145.56	148.12	154.55	144.21	131.7
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	13.6%	11.8%	8.8%	7.4%	1.7%	-0.2%	3.6%	5.8%	1.2%	-2.3%
<b>Return on Equity</b>	23.8%	20.3%	15.0%	12.7%	3.0%	-0.3%	6.3%	9.8%	2.0%	-4.0%
<b>ROIC</b>	21.6%	18.6%	13.4%	10.8%	2.4%	-0.3%	4.8%	7.8%	1.6%	-3.7%
<b>Shares Out.</b>	1981	1947	1913	1880	1883	1892	1905	1914	1872	1911
<b>Revenue/Share</b>	122.12	117.35	113.95	106.42	69.29	58.84	70.96	83.02	73.81	50.52
<b>FCF/Share</b>	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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