



Occidental Petroleum Corporation (OXY)

Updated May 27th, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$25	5 Year CAGR Estimate:	0.2%	Market Cap:	\$23.8 B
Fair Value Price:	\$18	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	6/9/2021
% Fair Value:	136%	5 Year Valuation Multiple Estimate:	-6.0%	Dividend Payment Date:	7/15/2021
Dividend Yield:	0.2%	5 Year Price Target	\$25	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	F	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 \$23.8 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 acquired 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. However, this is a huge acquisition, as the \$38 billion value of the deal is greater than the current market cap of Occidental. Occidental secured \$10 billion in funding from Berkshire Hathaway (BRK.A) in exchange for preferred shares, which receive an 8% annual dividend.

In early May, Occidental reported (5/10/21) financial results for the first quarter of fiscal 2021. The average realized price of oil grew 37% sequentially but it was not sufficient to render Occidental profitable and thus the company posted an adjusted loss of -\$0.15 per share. This loss is a huge disappointment, in sharp contrast to the strong profits posted by the other oil companies amid a strong rally of the oil price. The huge interest expense of Occidental certainly played a role. We criticize the company for concealing this expense within "other expenses". Occidental has net debt of \$55.8 billion, which is more than double its current market cap, and it cut its quarterly dividend by -99% last year, from \$0.79 to \$0.01. On the bright side, the price of oil has rallied above pre-COVID levels this year thanks to the aggressive production cuts of OPEC+ and we now expect Occidental to lose -\$0.80 per share this year (instead of -\$1.40).

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$8.39	\$7.09	\$6.96	\$4.83	\$0.12	-\$1.01	\$0.89	\$5.01	\$1.45	-\$3.91	-\$0.80	\$1.73
DPS	\$1.76	\$2.07	\$2.45	\$2.80	\$2.94	\$3.01	\$3.05	\$3.10	\$3.14	\$0.82	\$0.04	\$0.28
Shares¹	811.0	805.5	796.0	770.6	763.7	764.2	766.4	755.4	809.5	918.7	950.0	1000.0

We expect the pandemic to subside and the energy market to recover in the second half of the year. As a result, Occidental has decent growth prospects. It doubled its output in the Permian in 2017-2019 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 6% per year on average off its mid-cycle level (5-year average before the pandemic) of \$1.29 in the next five years.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	11.4	12.4	12.8	19.5	---	---	---	15.0	36.0	---	19.4	14.2
Avg. Yld.	1.8%	3.0%	2.2%	3.0%	4.0%	4.2%	4.7%	4.1%	6.0%	4.3%	0.2%	1.2%

¹ In millions

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Occidental is currently trading at 19.4 times its mid-cycle earnings. This earnings multiple is much higher than the 10-year average price-to-earnings ratio of 14.2. If the stock reverts to its average valuation level over the next five years, it will incur a -6.0% annualized drag due to the contraction of its valuation level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	21.0%	37.0%	27.6%	58.0%	---	---	343%	61.9%	217%	---	3.1%	16.5%

Before the pandemic, Occidental had raised its dividend for 17 consecutive years at an 11% average annual rate.

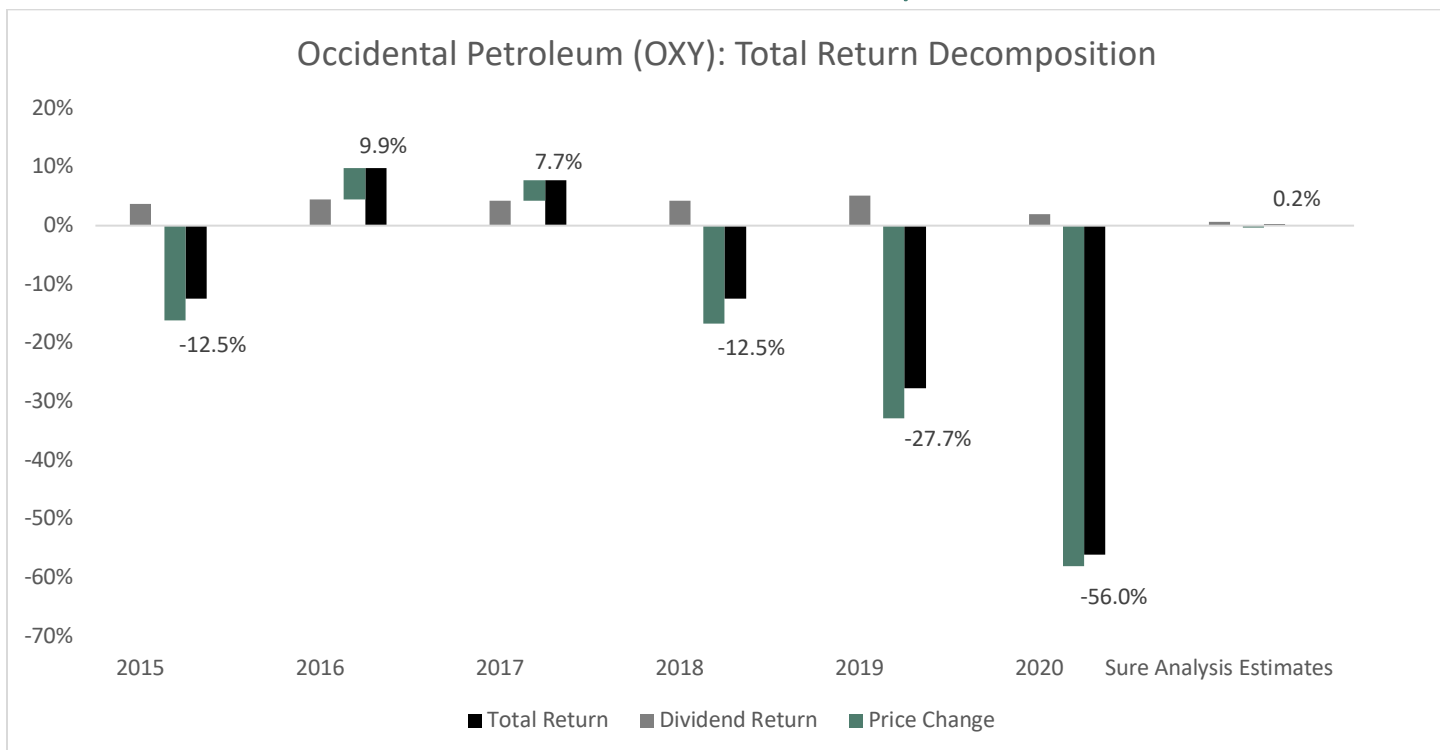
However, the coronavirus crisis caught the company off-guard, with an excessive debt pile. As a result, Occidental cut its dividend by -99% last year.

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. Due to the enthusiasm of the market over the ongoing vaccination program, the stock of Occidental has rallied 75% in the last 12 months. As a result, the stock has become fully valued in our view and could offer poor returns over the next five years. If the pandemic subsides soon, the stock may offer great short-term returns, but it could offer poor long-term returns off its current level. We rate shares as a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	23,939	20,100	20,170	19,312	12,480	10,090	12,508	17,824	20,911	17,809
Gross Profit	12,963	9,985	9,470	8,248	2,132	633	3,087	7,431	7,019	2,844
Gross Margin	54.2%	49.7%	47.0%	42.7%	17.1%	6.3%	24.7%	41.7%	33.6%	16.0%
SG&A Exp.	1,523	1,366	1,544	1,503	1,270	1,330	546	585	893	864
Operating Profit	10,577	7,909	7,222	6,045	483	(1,036)	1,095	5,117	2,983	(1,258)
Op. Margin	44.2%	39.3%	35.8%	31.3%	3.9%	-10.3%	8.8%	28.7%	14.3%	-7.1%
Net Profit	6,771	4,598	5,903	616	(7,829)	(574)	1,311	4,131	(667)	-14,831
Net Margin	28.3%	22.9%	29.3%	3.2%	-62.7%	-5.7%	10.5%	23.2%	-3.2%	-83.3%
Free Cash Flow	4,763	3,438	5,570	2,680	(2,513)	553	1,262	2,694	759	901
Income Tax	4,201	2,659	3,214	1,685	(1,330)	(662)	17	1,477	861	(2,172)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	60,044	64,210	69,443	56,259	43,409	43,109	42,026	43,854	107,190	80,064
Cash & Equivalents	3,781	1,592	3,393	3,789	3,201	2,233	1,672	3,033	3,032	2,008
Acc. Receivable	5,395	4,916	5,674	4,206	2,970	3,989	4,145	4,893	4,233	2,115
Inventories	1,069	1,344	1,200	1,052	986	866	1,246	1,260	1,581	1,898
Total Liabilities	22,424	24,162	26,071	21,300	19,059	21,612	21,454	22,524	72,958	61,491
Accounts Payable	5,304	4,708	5,520	5,229	3,069	3,926	4,408	4,885	4,910	2,987
Long-Term Debt	5,871	7,623	6,939	6,838	8,305	9,819	9,828	10,317	38,588	36,185
Total Equity	37,620	40,016	43,126	34,959	24,350	21,497	20,572	21,330	24,470	8,811
D/E Ratio	0.16	0.19	0.16	0.20	0.34	0.46	0.48	0.48	1.13	1.95

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	12.0%	7.4%	8.8%	1.0%	-15.7%	-1.3%	3.1%	9.6%	-0.9%	-15.8%
Return on Equity	19.3%	11.8%	14.2%	1.6%	-26.4%	-2.5%	6.2%	19.7%	-2.9%	-89.1%
ROIC	16.7%	10.1%	12.0%	1.3%	-21.0%	-1.8%	4.2%	13.3%	-1.3%	-23.3%
Shares Out.	811.0	805.5	796.0	770.6	763.7	764.2	766.4	755.4	809.5	918.7
Revenue/Share	29.45	24.81	25.07	24.72	16.30	13.21	16.33	23.35	25.83	19.39
FCF/Share	5.86	4.24	6.92	3.43	(3.28)	0.72	1.65	3.53	0.94	0.98

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

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