



Chevron Corporation (CVX)

Updated January 31st, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$131	5 Year CAGR Estimate:	4.2%	Market Cap:	\$251.8 B
Fair Value Price:	\$139	5 Year Growth Estimate:	-1.0%	Ex-Dividend Date:	2/15/22
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.1%	Dividend Payment Date:	3/10/22
Dividend Yield:	4.3%	5 Year Price Target	\$132	Years Of Dividend Growth:	35
Dividend Risk Score:	B	Retirement Suitability Score:	A	Last Dividend Increase:	6.0%

Overview & Current Events

Chevron is the third-largest oil major in the world based on its market cap of \$252 billion, behind only Shell (RDS-A) and ExxonMobil (XOM). In 2018, 2019 and 2021, Chevron generated 78%, 78% and 84% of its earnings from its upstream segment respectively. 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 Chevron prices a material 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 oil price than the other oil majors.

In late January, Chevron reported (1/28/22) financial results for the fourth quarter of fiscal 2021. The company cut its production by -5% over the prior year's quarter but greatly benefited from the strong recovery of the energy market from the pandemic and the deep production cuts of OPEC and Russia, which led the price of oil to rally to a 7-year high. The average realized prices of oil and gas of Chevron nearly doubled over the prior year's quarter and thus the oil major grew its adjusted earnings-per-share from \$0.16 to \$2.56, a nearly 8-year high. In the full year, Chevron posted record free cash flow of \$21.1 billion (\$10.98 per share) and achieved a reserve replacement ratio of 112%. Management expects oil prices to fall back to mid-cycle levels at some point but raised the dividend by 6.0%.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$13.32	\$11.09	\$10.14	\$2.45	-\$0.27	\$3.79	\$7.74	\$6.19	-\$0.20	\$8.13	\$9.90	\$9.41
DPS	\$3.51	\$3.90	\$4.21	\$4.28	\$4.29	\$4.32	\$4.48	\$4.76	\$5.16	\$5.31	\$5.68	\$5.94
Shares¹	1947	1913	1880	1883	1892	1905	1914	1872	1911	1922	1900	1800

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, 4% in 2019, 1% in 2020 due to the pandemic and 0.5% in 2021. Nevertheless, the pandemic has begun to subside thanks to the massive distribution of vaccines. Chevron has returned to growth mode thanks to its sustained growth in the Permian Basin and in Australia. The company has more than doubled the value of its assets in the Permian in the last three 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. In addition, thanks to the high grading of its asset portfolio, Chevron can fund its dividend even at an oil price of \$40. Nevertheless, given the 7-year high earnings-per-share expected this year, we expect a -1% average annual decrease of earnings-per-share over the next five years.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	8.1	10.9	11.9	39.4	---	29.4	14.1	19.3	---	12.8	13.2	14.0
Avg. Yld.	3.3%	3.2%	3.5%	4.4%	4.3%	3.9%	4.0%	4.0%	5.8%	5.1%	4.3%	4.5%

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 a price-to-earnings ratio of 13.2. This earnings multiple is lower than its 10-year average of 18.2. As we have assumed that the earnings in 2027 will be at the upper part of the business cycle, we expect the stock to trade at an earnings multiple around 14.0. If this proves correct, the stock will enjoy a 1.1% annualized gain in its returns over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	26.4%	35.2%	41.5%	175%	---	114%	57.9%	76.9%	---	65.3%	57.4%	63.1%

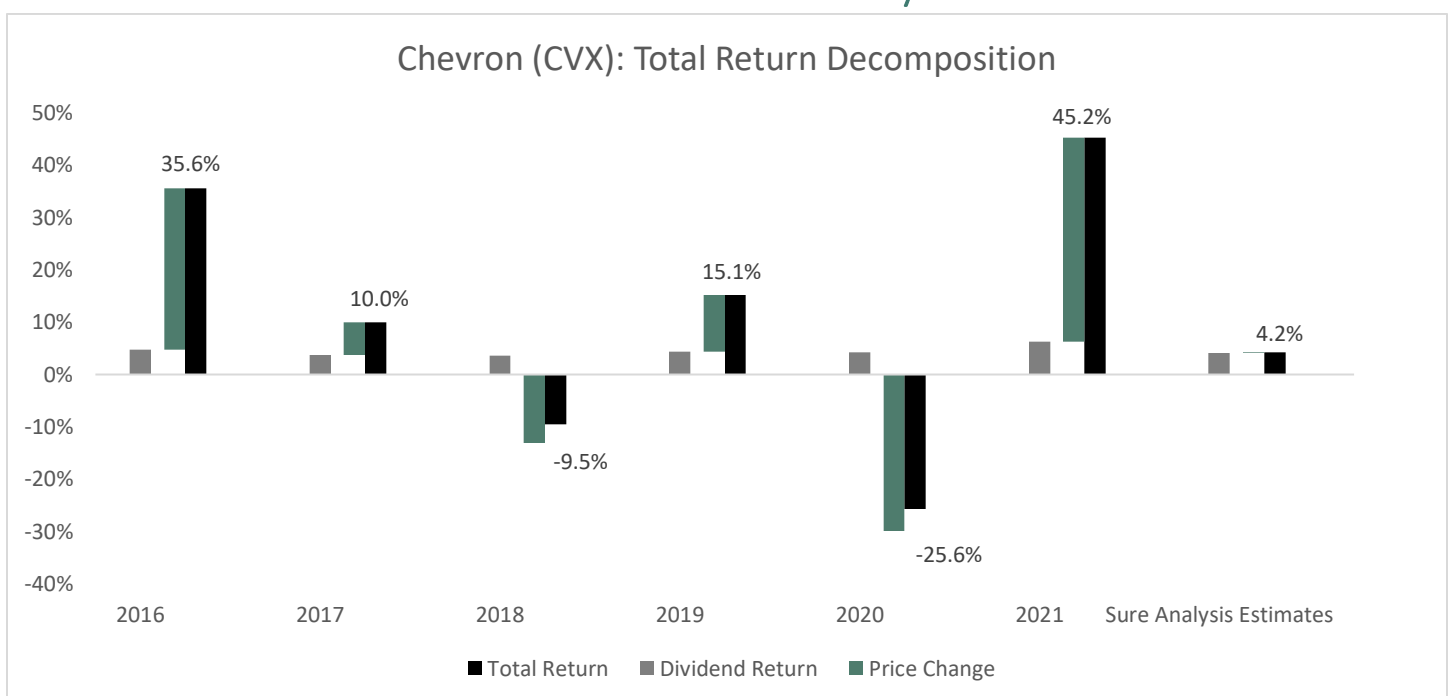
As a commodity producer, Chevron is vulnerable to any downturn in the price of oil, particularly given that it is the most leveraged oil major to the oil price. The oil major issued debt in 2020 to defend its dividend amid the pandemic but it is recovering strongly from that crisis and the payout ratio has become sustainable again.

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 and in 2021. Chevron just raised its dividend by 6.0% 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 35 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. The company is recovering strongly from the pandemic and greatly benefits from the rally of the oil price, which has resulted from the deep production cuts of OPEC+. However, the stock has nearly doubled in the last 15 months, close to its all-time highs. As a result, it now may offer just a 4.2% 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	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue (\$B)	230.59	220.16	200.49	129.93	110.22	134.67	158.90	139.87	94.47
Gross Profit	76411	71274	64030	39137	31437	39560	44905	30534	24475
Gross Margin	33.1%	32.4%	31.9%	30.1%	28.5%	29.4%	28.3%	21.8%	25.9%
SG&A Exp.	4724	4510	4494	4443	4305	4110	3838	4143	4213
Operating Profit	35013	27213	19726	-3710	-5471	3128	14446	100	-6977
Op. Margin	15.2%	12.4%	9.8%	-2.9%	-5.0%	2.3%	9.1%	0.1%	-7.4%
Net Profit	26179	21423	19241	4587	-497	9195	14824	2924	-5543
Net Margin	11.4%	9.7%	9.6%	3.5%	-0.5%	6.8%	9.3%	2.1%	-5.9%
Free Cash Flow	7874	-2983	-3932	-10B	-5419	6934	16826	13198	1700
Income Tax	19996	14308	11892	132	-1729	-48	5715	2691	-1892

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets (\$B)	232.98	253.75	266.03	264.54	260.08	253.81	253.86	237.43	239.79
Cash & Equivalents	20939	16245	12785	11022	6988	4813	9342	5686	5596
Acc. Receivable	20997	21622	16736	12860	14092	15353	15050	13325	1147
Inventories	6144	6380	6505	6334	5419	5585	5704	5848	5676
Goodwill & Int.	4640	4639	4593	4588	4581	4531	4518	4463	4402
Total Liab. (\$B)	95.15	103.33	109.84	110.65	113.36	104.49	98.22	92.22	107.06
Accounts Payable	22776	22815	19000	13516	13986	14565	13953	14103	10950
Long-Term Debt	12093	20334	27750	38469	46033	38763	34459	26973	43870
Total Equity (\$B)	136.52	149.11	155.03	152.72	145.56	148.12	154.55	144.21	131.7
LTD/E Ratio	0.09	0.14	0.18	0.25	0.32	0.26	0.22	0.19	0.33

Profitability & Per Share Metrics

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