



Occidental Petroleum Corporation (OXY)

Updated May 16th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$64	5 Year CAGR Estimate:	-6.4%	Market Cap:	\$60.0 B
Fair Value Price:	\$43	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	6/9/2022
% Fair Value:	150%	5 Year Valuation Multiple Estimate:	-7.8%	Dividend Payment Date:	7/15/2022
Dividend Yield:	0.8%	5 Year Price Target	\$43	Years Of Dividend Growth:	1
Dividend Risk Score:	C	Retirement Suitability Score:	F	Rating:	Sell

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 \$60 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 63% of 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 (5/10/22) financial results for the first quarter of fiscal 2022. Its average realized price of oil grew 22% sequentially while the chemical segment posted record earnings for a third consecutive quarter thanks to wide margins amid strong pent-up demand. As a result, Occidental grew its adjusted earnings-per-share 43%, from \$1.48 to \$2.12. Due to its high debt load, Occidental is one of the greatest beneficiaries in its sector from the 13-year high prices of oil and gas, which have resulted from the sanctions of western countries on Russia. It reduced its net debt by \$6.7 billion in 2021 and by \$3.3 billion in the first quarter. Due to its debt load, Occidental is extremely sensitive to oil and gas prices. We have thus raised our annual forecast from \$2.40 (before the war) to \$8.80.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$7.09	\$6.96	\$4.83	\$0.12	-\$1.01	\$0.89	\$5.01	\$1.45	-\$3.91	\$2.55	\$8.80	\$3.00
DPS	\$2.07	\$2.45	\$2.80	\$2.94	\$3.01	\$3.05	\$3.10	\$3.14	\$0.82	\$0.04	\$0.52	\$0.76
Shares¹	805.5	796.0	770.6	763.7	764.2	766.4	755.4	809.5	918.7	972.7	1000.0	1050.0

The pandemic has subsided and hence Occidental has decent growth prospects ahead. It doubled its output in the Permian in 2017-2019 and expects to double it again over the next five years, from 300,000 to 600,000 barrels per day. However, we note the high debt load of the company and its resultant sensitivity to prices. As long as the oil price remains high, Occidental will keep thriving. Nevertheless, we expect the oil price to deflate after the end of the war and thus we expect the earnings-per-share of Occidental to revert towards a mid-cycle level around \$3.00. We have raised our mid-cycle level from \$2.40 to \$3.00 thanks to the steep reduction of debt and hence interest expense.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	12.4	12.8	19.5	---	---	---	15.0	36.0	---	10.8	21.3	14.2
Avg. Yld.	3.0%	2.2%	3.0%	4.0%	4.2%	4.7%	4.1%	6.0%	4.3%	0.1%	0.8%	1.8%

¹ In millions

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Occidental is currently trading at 21.3 times its mid-cycle earnings-per-share of \$3.00. This earnings multiple is higher than the 10-year average price-to-earnings ratio of 14.2 of the stock. If the stock reverts to its average valuation level over the next five years, it will incur a -7.8% annualized drag due to the contraction of its valuation level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	37.0%	27.6%	58.0%	---	---	343%	61.9%	217%	---	1.6%	17.3%	25.5%

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

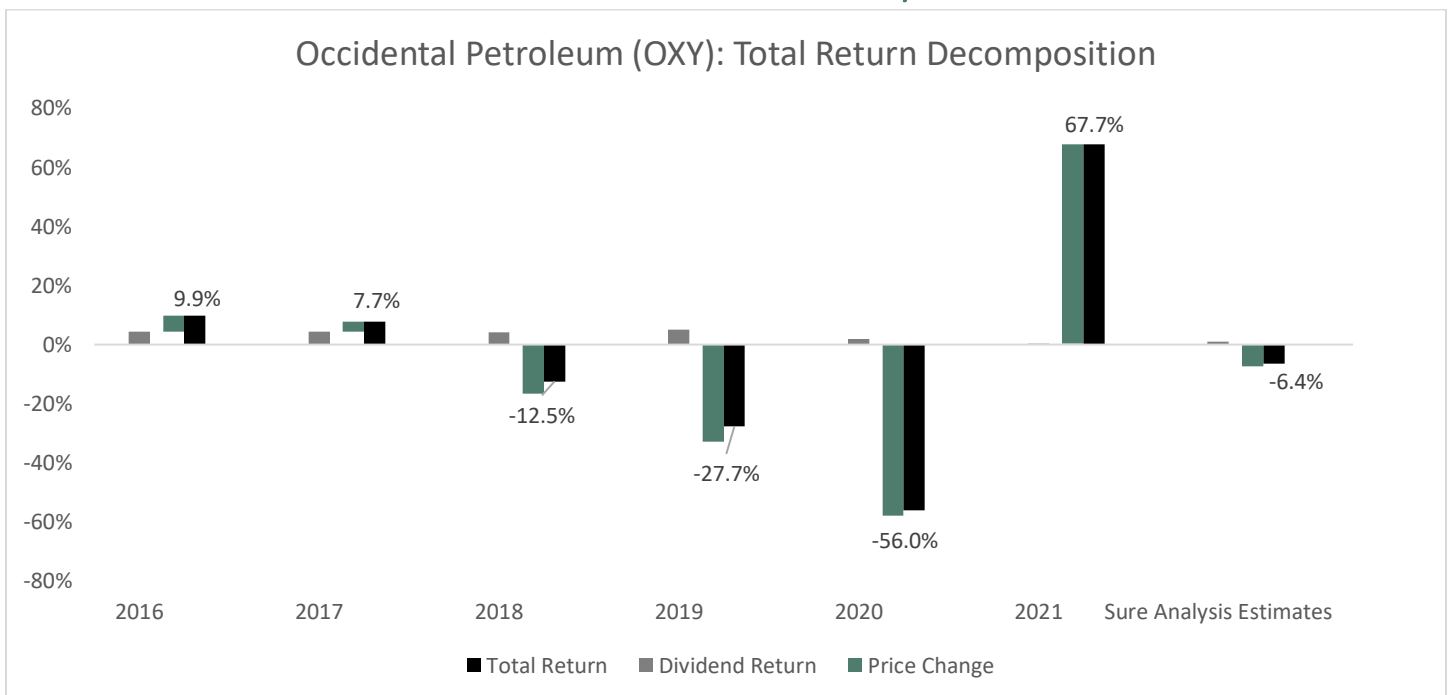
However, the coronavirus crisis caught the company off-guard, with an excessive debt pile. As a result, Occidental cut its dividend by -99% in 2020.

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), partly due to its high debt load. Due to its leveraged balance sheet, Occidental has essentially become a leveraged bet for high oil prices in the future. Therefore, only the investors who have strong confidence in a sustained environment of high oil prices 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. Thanks to rally of oil and gas prices to 13-year highs, which has resulted from the invasion of Russia in Ukraine, Occidental has become highly profitable and is trying to reduce its debt load at a fast pace. However, we expect poor returns over the next five years. If commodity prices remain high, the stock could maintain its positive short-term momentum, but it could also offer poor long-term returns. The 5-year return of the stock (+5% vs. +67% of the S&P 500) is indicative of the risk of the stock. We rate shares as a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	20,100	20,170	19,312	12,480	10,090	12,508	17,824	20,911	17,809	25,956
Gross Profit	9,985	9,470	8,248	2,132	633	3,087	7,431	7,019	2,844	7,850
Gross Margin	49.7%	47.0%	42.7%	17.1%	6.3%	24.7%	41.7%	33.6%	16.0%	30.2%
SG&A Exp.	1,366	1,544	1,503	1,270	1,330	546	585	893	864	863
Operating Profit	7,909	7,222	6,045	483	(1,036)	1,095	5,117	2,983	(1,258)	4,665
Op. Margin	39.3%	35.8%	31.3%	3.9%	-10.3%	8.8%	28.7%	14.3%	-7.1%	18.0%
Net Profit	4,598	5,903	616	(7,829)	(574)	1,311	4,131	(667)	-14,831	2,322
Net Margin	22.9%	29.3%	3.2%	-62.7%	-5.7%	10.5%	23.2%	-3.2%	-83.3%	8.9%
Free Cash Flow	3,438	5,570	2,680	(2,513)	553	1,262	2,694	759	901	7,661
Income Tax	2,659	3,214	1,685	(1,330)	(662)	17	1,477	861	(2,172)	915

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	64,210	69,443	56,259	43,409	43,109	42,026	43,854	107,190	80,064	75,036
Cash & Equivalents	1,592	3,393	3,789	3,201	2,233	1,672	3,033	3,032	2,008	2,764
Acc. Receivable	4,916	5,674	4,206	2,970	3,989	4,145	4,893	4,233	2,115	4,208
Inventories	1,344	1,200	1,052	986	866	1,246	1,260	1,581	1,898	1,846
Total Liabilities	24,162	26,071	21,300	19,059	21,612	21,454	22,524	72,958	61,491	54,709
Accounts Payable	4,708	5,520	5,229	3,069	3,926	4,408	4,885	4,910	2,987	3,899
Long-Term Debt	7,623	6,939	6,838	8,305	9,819	9,828	10,317	38,588	36,185	29,028
Total Equity	40,016	43,126	34,959	24,350	21,497	20,572	21,330	24,470	8,811	10,565
D/E Ratio	0.19	0.16	0.20	0.34	0.46	0.48	0.48	1.13	1.95	1.43

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	7.4%	8.8%	1.0%	-15.7%	-1.3%	3.1%	9.6%	-0.9%	-15.8%	3.0%
Return on Equity	11.8%	14.2%	1.6%	-26.4%	-2.5%	6.2%	19.7%	-2.9%	-89.1%	24.0%
ROIC	10.1%	12.0%	1.3%	-21.0%	-1.8%	4.2%	13.3%	-1.3%	-23.3%	4.5%
Shares Out.	805.5	796.0	770.6	763.7	764.2	766.4	755.4	809.5	918.7	972.7
Revenue/Share	24.81	25.07	24.72	16.30	13.21	16.33	23.35	25.83	19.39	27.07
FCF/Share	4.24	6.92	3.43	(3.28)	0.72	1.65	3.53	0.94	0.98	7.99

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

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