



Chevron Corporation (CVX)

Updated January 30th, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	\$179	5 Year CAGR Estimate:	-1.9%	Market Cap:	\$347 B
Fair Value Price:	\$210	5 Year Growth Estimate:	-9.0%	Ex-Dividend Date:	2/15/23
% Fair Value:	85%	5 Year Valuation Multiple Estimate:	3.2%	Dividend Payment Date:	3/10/23
Dividend Yield:	3.4%	5 Year Price Target	\$131	Years Of Dividend Growth:	36
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Sell

Overview & Current Events

Chevron is the fourth-largest oil major in the world based on its market cap of \$347 billion, behind only Saudi Aramco, Shell (SHEL) and ExxonMobil (XOM). In 2019, 2021 and 2022, Chevron generated 78%, 84% and 79% 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, Chevron is more leveraged to the oil price, with a 57/43 production ratio. Moreover, as Chevron prices some natural gas volumes based on the oil price, nearly 75% of its 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 (1/27/23) financial results for the fourth quarter of fiscal 2022. Its production dipped -3% over the prior year's quarter due to the end of concessions in Asia, which more than offset high production growth in the Permian. However, Chevron greatly benefited from nearly record refining margins, which resulted from the sanctions of western countries on Russia for its invasion in Ukraine. As a result, the oil giant grew its earnings-per-share 60%, from \$2.56 to \$4.09, though it missed the analysts' consensus by \$0.20. Chevron raised its dividend by 6% and announced a massive share repurchase program of \$75 billion, enough to reduce the share count by 22%. However, we do not believe that this use of cash will enhance shareholder value around the peak of the cycle of the oil industry.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$11.09	\$10.14	\$2.45	-\$0.27	\$3.79	\$7.74	\$6.19	-\$0.20	\$8.13	\$18.83	\$15.00	\$9.36
DPS	\$3.90	\$4.21	\$4.28	\$4.29	\$4.32	\$4.48	\$4.76	\$5.16	\$5.31	\$5.68	\$6.04	\$6.40
Shares¹	1913	1880	1883	1892	1905	1914	1872	1911	1922	1920	1880	1750

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. Its output dipped -3% in 2022 but Chevron is likely to return to growth mode this year 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 four 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 nearly all-time high earnings-per-share expected this year, we expect a -9% average annual decrease of earnings-per-share over the next five years. Investors should not forget the dramatic cyclical nature of the oil industry.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	10.9	11.9	39.4	---	29.4	14.1	19.3	---	12.8	8.4	11.9	14.0
Avg. Yld.	3.2%	3.5%	4.4%	4.3%	3.9%	4.0%	4.0%	5.8%	5.1%	3.6%	3.4%	4.9%

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 11.9. This earnings multiple is lower than the 10-year average of 18.3 of the stock. We expect the stock to trade at an earnings multiple around 14.0 in 2028. If this proves correct, the stock will enjoy a 3.2% annualized gain in its returns over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	35.2%	41.5%	175%	---	114%	57.9%	76.9%	---	65.3%	30.2%	40.3%	68.3%

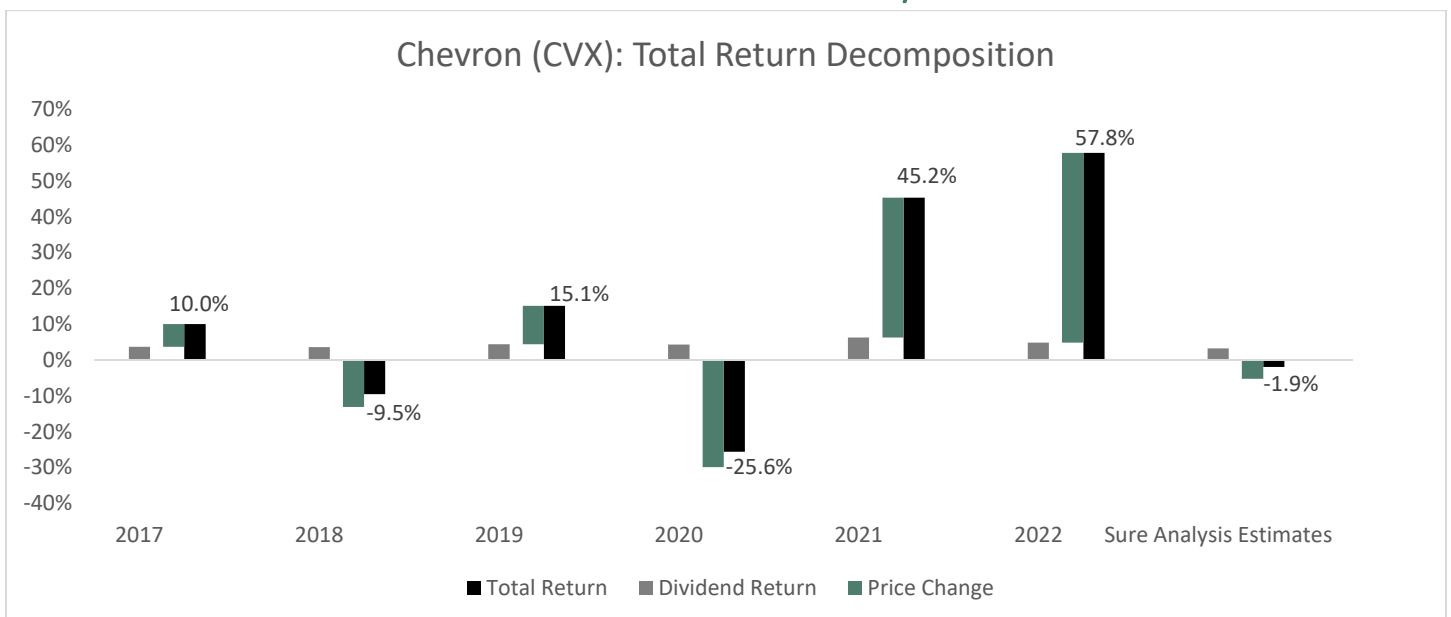
As a commodity producer, Chevron is vulnerable to any downturn in the price of oil, particularly given that it is the most leveraged oil major to the oil price. The oil major issued debt in 2020 to defend its dividend amid the pandemic but it has recovered strongly from that crisis and the payout ratio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

Chevron's main competitive advantage is its size and industry position. The company achieved record free cash flows in 2017-2019 and in 2021. Chevron has raised its dividend by 6.0% in each of the last two years and is likely to keep raising its dividend in the upcoming years, albeit at a modest pace. Chevron is a member of the exclusive Dividend Aristocrats list thanks to its 36 consecutive years of dividend increases. The only other Dividend Aristocrat in the oil industry is Exxon Mobil.

Final Thoughts & Recommendation

Chevron is one of the highest quality energy stocks on the market today. Thanks to the exceptionally high oil and gas prices and refining margins, which have resulted from the war in Ukraine, the stock has rallied 33% over the last 12 months, to an all-time high. We expect Chevron to post almost record earnings this year. However, due to the high cyclical nature of the energy sector, we expect oil and gas prices to deflate in the upcoming years. Overall, we expect Chevron to offer a -1.9% average annual return over the next five years, as its 3.4% dividend and its 3.2% annualized valuation tailwind may be offset by a -9% annual decline of earnings-per-share. The stock receives a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue (\$B)	220.16	200.49	129.93	110.22	134.67	158.90	139.87	94.47	155.61	235.7
Gross Profit	71274	64030	39137	31437	39560	44905	30534	24475	48,309	73,982
Gross Margin	32.4%	31.9%	30.1%	28.5%	29.4%	28.3%	21.8%	25.9%	31.0%	31.4%
SG&A Exp.	4510	4494	4443	4305	4110	3838	4143	4213	4,014	
Operating Profit	27213	19726	-3710	-5471	3128	14446	100	-6977	16,180	39,655
Op. Margin	12.4%	9.8%	-2.9%	-5.0%	2.3%	9.1%	0.1%	-7.4%	10.4%	16.8%
Net Profit	21423	19241	4587	-497	9195	14824	2924	-5543	15,625	35,465
Net Margin	9.7%	9.6%	3.5%	-0.5%	6.8%	9.3%	2.1%	-5.9%	10.0%	15.0%
Free Cash Flow	-2983	-3932	-10B	-5419	6934	16826	13198	1700	21,131	37,600
Income Tax	14308	11892	132	-1729	-48	5715	2691	-1892	5,950	14,066

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets (\$B)	253.75	266.03	264.54	260.08	253.81	253.86	237.43	239.79	239.54	257.7
Cash & Equivalents	16245	12785	11022	6988	4813	9342	5686	5596	5,640	17,678
Acc. Receivable	21622	16736	12860	14092	15353	15050	13325	1147	18,419	
Inventories	6380	6505	6334	5419	5585	5704	5848	5676	6,305	
Goodwill & Int.	4639	4593	4588	4581	4531	4518	4463	4402	4,385	
Total Liab. (\$B)	103.33	109.84	110.65	113.36	104.49	98.22	92.22	107.06	99.60	257.8
Accounts Payable	22815	19000	13516	13986	14565	13953	14103	10950	16454	
Long-Term Debt	20334	27750	38469	46033	38763	34459	26973	43870	30920	
Total Equity (\$B)	149.11	155.03	152.72	145.56	148.12	154.55	144.21	131.7	139.07	159.3
LTD/E Ratio	0.14	0.18	0.25	0.32	0.26	0.22	0.19	0.33	0.22	

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	8.8%	7.4%	1.7%	-0.2%	3.6%	5.8%	1.2%	-2.3%	6.5%	14.3%
Return on Equity	15.0%	12.7%	3.0%	-0.3%	6.3%	9.8%	2.0%	-4.0%	11.5%	23.8%
ROIC	13.4%	10.8%	2.4%	-0.3%	4.8%	7.8%	1.6%	-3.7%	9.0%	21.4%
Shares Out.	1913	1880	1883	1892	1905	1914	1872	1911	1922	1940
Revenue/Share	113.95	106.42	69.29	58.84	70.96	83.02	73.81	50.52	81.04	121.5
FCF/Share	-1.54	-2.09	-5.36	-2.89	3.65	8.79	6.96	0.91	11.01	19.38

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

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