



Occidental Petroleum Corporation (OXY)

Updated March 3rd, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	\$60	5 Year CAGR Estimate:	-4.8%	Market Cap:	\$53.7 B
Fair Value Price:	\$85	5 Year Growth Estimate:	-13.0%	Ex-Dividend Date:	3/9/2023
% Fair Value:	70%	5 Year Valuation Multiple Estimate:	7.3%	Dividend Payment Date:	4/17/2023
Dividend Yield:	1.2%	5 Year Price Target	\$42	Years Of Dividend Growth:	2
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 \$53.7 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 that 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 high synergies. However, that was a huge acquisition, as the \$38 billion value of the deal is 67% 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 late February, Occidental reported (2/27/23) financial results for the fourth quarter of fiscal 2022. Its average realized prices of oil and gas dipped -12% and -37%, respectively, vs. high levels in the third quarter. As a result, earnings-per-share decreased -34% sequentially, from \$2.44 to \$1.61. On the bright side, Occidental posted a reserve replacement ratio of 172% and thus it grew its reserves from 3.5 to 3.8 billion barrels of oil equivalent. Due to its high debt load, Occidental is extremely sensitive to oil and gas prices and thus it is one of the greatest beneficiaries in its sector from the high price of oil, which has resulted from the sanctions of western countries on Russia.

In 2022, Occidental reduced its debt by 37% thanks to its record free cash flows. This seems highly attractive to Warren Buffett. Berkshire Hathaway has acquired a 28% stake in Occidental and has requested approval to buy up to 50% of the company. This has raised speculation that Berkshire may acquire Occidental, fueling a steep rally of the latter. We view Occidental as overvalued and hence we do not expect an acquisition around current stock prices.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$6.96	\$4.83	\$0.12	-\$1.01	\$0.89	\$5.01	\$1.45	-\$3.91	\$2.55	\$9.35	\$6.00	\$2.99
DPS	\$2.45	\$2.80	\$2.94	\$3.01	\$3.05	\$3.10	\$3.14	\$0.82	\$0.04	\$0.52	\$0.72	\$1.00
Shares¹	796.0	770.6	763.7	764.2	766.4	755.4	809.5	918.7	972.7	1002.0	980.0	950.0

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 until the end of 2024. 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 in the upcoming years, partly due to a record number of renewable energy projects that are under development, and thus we expect the earnings-per-share of Occidental to decline by -13% per year on average over the next five years. While we may miss a portion of the upside of the stock, we prefer to remain conservative due to its excessive downside whenever the next downcycle of the oil price shows up.

¹ In millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	12.8	19.5	---	---	---	15.0	36.0	---	10.8	6.4	10.0	14.2
Avg. Yld.	2.2%	3.0%	4.0%	4.2%	4.7%	4.1%	6.0%	4.3%	0.1%	0.9%	1.2%	2.4%

Occidental is currently trading at 10.0 times its expected earnings this year. This earnings multiple is lower 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 enjoy a 7.3% annualized gain thanks to the expansion of its valuation level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

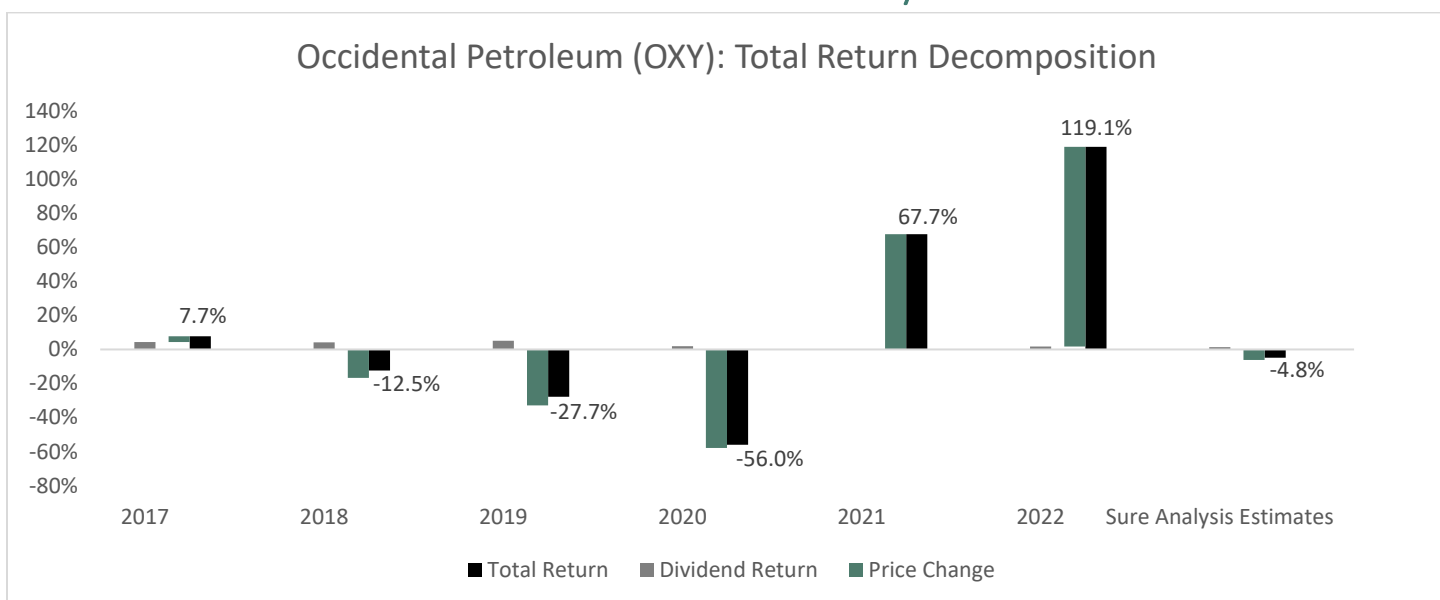
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	27.6%	58.0%	---	---	343%	61.9%	217%	---	1.6%	5.6%	12.0%	33.5%

Before the pandemic, Occidental had raised its dividend for 17 consecutive years at an 11% average annual rate. However, the pandemic caught Occidental off-guard, with a huge debt pile, and thus led to a -99% dividend cut 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 more sensitive to oil prices than its "supermajor" peers like Exxon Mobil (XOM), partly due to its high debt load. Due to its weak balance sheet, Occidental is essentially a leveraged bet for high oil prices in the future. Therefore, only those 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 greatly increased interest expense, Occidental is extremely sensitive to the price of oil. Thanks to high oil prices, which have resulted from the war in Ukraine, Occidental has become highly profitable and is reducing its debt load at a fast pace. However, we expect the stock to return -4.8% per year on average over the next five years, as its 1.2% dividend and a 7.3% valuation tailwind may be offset by a -13% decline of earnings-per-share. We expect the stock to offer poor long-term returns. The 10-year return of the stock (-24% vs. +156% 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	20,170	19,312	12,480	10,090	12,508	17,824	20,911	17,809	25,956	36,634
Gross Profit	9,470	8,248	2,132	633	3,087	7,431	7,019	2,844	7,850	17,645
Gross Margin	47.0%	42.7%	17.1%	6.3%	24.7%	41.7%	33.6%	16.0%	30.2%	48.2%
SG&A Exp.	1,544	1,503	1,270	1,330	546	585	893	864	863	945
Operating Profit	7,222	6,045	483	(1,036)	1,095	5,117	2,983	(1,258)	4,665	13,665
Op. Margin	35.8%	31.3%	3.9%	-10.3%	8.8%	28.7%	14.3%	-7.1%	18.0%	37.3%
Net Profit	5,903	616	(7,829)	(574)	1,311	4,131	(667)	-14,831	2,322	13,304
Net Margin	29.3%	3.2%	-62.7%	-5.7%	10.5%	23.2%	-3.2%	-83.3%	8.9%	36.3%
Free Cash Flow	5,570	2,680	(2,513)	553	1,262	2,694	759	901	7,661	12,460
Income Tax	3,214	1,685	(1,330)	(662)	17	1,477	861	(2,172)	915	813

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	69,443	56,259	43,409	43,109	42,026	43,854	107,190	80,064	75,036	72,609
Cash & Equivalents	3,393	3,789	3,201	2,233	1,672	3,033	3,032	2,008	2,764	984
Acc. Receivable	5,674	4,206	2,970	3,989	4,145	4,893	4,233	2,115	4,208	4,281
Inventories	1,200	1,052	986	866	1,246	1,260	1,581	1,898	1,846	2,059
Total Liabilities	26,071	21,300	19,059	21,612	21,454	22,524	72,958	61,491	54,709	42,524
Accounts Payable	5,520	5,229	3,069	3,926	4,408	4,885	4,910	2,987	3,899	4,029
Long-Term Debt	6,939	6,838	8,305	9,819	9,828	10,317	38,588	36,185	29,028	19,146
Total Equity	43,126	34,959	24,350	21,497	20,572	21,330	24,470	8,811	10,565	20,323
D/E Ratio	0.16	0.20	0.34	0.46	0.48	0.48	1.13	1.95	1.43	0.64

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	8.8%	1.0%	-15.7%	-1.3%	3.1%	9.6%	-0.9%	-15.8%	3.0%	18.0%
Return on Equity	14.2%	1.6%	-26.4%	-2.5%	6.2%	19.7%	-2.9%	-89.1%	24.0%	86.1%
ROIC	12.0%	1.3%	-21.0%	-1.8%	4.2%	13.3%	-1.3%	-23.3%	4.5%	27.0%
Shares Out.	796.0	770.6	763.7	764.2	766.4	755.4	809.5	918.7	958.8	1002
Revenue/Share	25.07	24.72	16.30	13.21	16.33	23.35	25.83	19.39	27.07	36.56
FCF/Share	6.92	3.43	(3.28)	0.72	1.65	3.53	0.94	0.98	7.99	12.44

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

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