



Chevron Corporation (CVX)

Updated July 29th, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	\$159	5 Year CAGR Estimate:	-0.9%	Market Cap:	\$298 B
Fair Value Price:	\$193	5 Year Growth Estimate:	-9.0%	Ex-Dividend Date:	8/17/23
% Fair Value:	82%	5 Year Valuation Multiple Estimate:	4.0%	Dividend Payment Date:	9/11/23
Dividend Yield:	3.8%	5 Year Price Target	\$121	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 \$298 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 July, Chevron reported (7/28/23) financial results for the second quarter of fiscal 2023. Its production grew 2% over the prior year's quarter thanks to 11% production growth in the Permian, to a new all-time high. Refining margins remained near record levels thanks to the sanctions of western countries on Russia but oil and gas prices fell sharply. As a result, earnings-per-share declined -47%, from \$5.82 to \$3.08. Chevron has announced a massive share repurchase program of \$75 billion, enough to reduce the share count by 25%. 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	\$13.80	\$8.61
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	1900	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 cyclicity 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	11.5	14.0
Avg. Yld.	3.2%	3.5%	4.4%	4.3%	3.9%	4.0%	4.0%	5.8%	5.1%	3.6%	3.8%	5.3%

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 11.5. 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 4.0% 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%	43.8%	74.3%

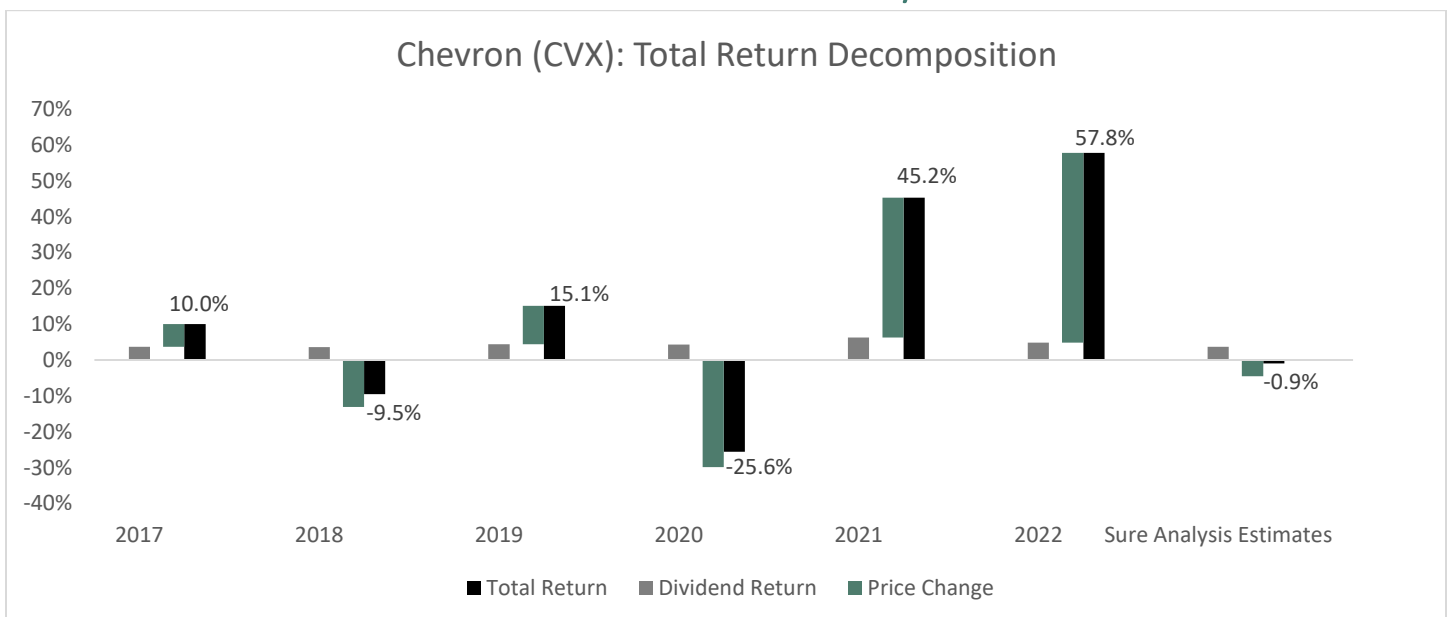
As a commodity producer, Chevron is vulnerable to any downturn in the price of oil, particularly given that it is the most leveraged oil major to the oil price. The oil major issued debt in 2020 to defend its dividend amid the pandemic but it has recovered strongly from that crisis and the payout ratio 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 price of oil, which has resulted from the war in Ukraine and the deep production cuts of OPEC, Chevron is likely to post almost record earnings this year. However, due to the high cyclical nature of the energy sector, we expect the price of oil to deflate in the upcoming years. We expect the stock to offer a -0.9% average annual return over the next five years, as its 3.8% dividend and its 4.0% annualized valuation tailwind may be offset by a -9.0% annual decline of earnings-per-share. We maintain our 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	48309	73982
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	4014	4312
Operating Profit	27213	19726	-3710	-5471	3128	14446	100	-6977	16180	39655
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	15625	35465
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	21131	37600
Income Tax	14308	11892	132	-1729	-48	5715	2691	-1892	5950	14066

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	5640	17678
Acc. Receivable	21622	16736	12860	14092	15353	15050	13325	1147	18419	20456
Inventories	6380	6505	6334	5419	5585	5704	5848	5676	6305	8,247
Goodwill & Int.	4639	4593	4588	4581	4531	4518	4463	4402	4,385	4,722
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	18955
Long-Term Debt	20334	27750	38469	46033	38763	34459	26973	43870	30920	23339
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	0.15

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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