



# Occidental Petroleum Corporation (OXY)

Updated November 10<sup>th</sup>, 2023 by Aristofanis Papadatos

## Key Metrics

|                             |      |  |       |                                  |           |
|-----------------------------|------|--|-------|----------------------------------|-----------|
| <b>Current Price:</b>       | \$61 | <b>5 Year CAGR Estimate:</b>               | -5.8% | <b>Market Cap:</b>               | \$52.8 B  |
| <b>Fair Value Price:</b>    | \$65 | <b>5 Year Growth Estimate:</b>             | -9.0% | <b>Ex-Dividend Date:</b>         | 12/7/2023 |
| <b>% Fair Value:</b>        | 93%  | <b>5 Year Valuation Multiple Estimate:</b> | 1.4%  | <b>Dividend Payment Date:</b>    | 1/16/2024 |
| <b>Dividend Yield:</b>      | 1.2% | <b>5 Year Price Target</b>                 | \$41  | <b>Years Of Dividend Growth:</b> | 2         |
| <b>Dividend Risk Score:</b> | C    | <b>Retirement Suitability Score:</b>       | F     | <b>Rating:</b>                   | 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 \$52.8 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 8<sup>th</sup>, 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 72% 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 November, Occidental reported (11/7/23) financial results for the third quarter of fiscal 2023. Its average realized prices of oil grew 10% and its average realized gas prices jumped 41% over the prior quarter. As a result, earnings-per-share grew 74% sequentially, from \$0.68 to \$1.18. 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 above average oil prices that have resulted from the sanctions of western countries on Russia.

In 2022, Occidental reduced its debt by 37% thanks to its record free cash flows. It has also redeemed 15% of the preferred stock of Berkshire. Berkshire has acquired a 26% stake in Occidental and has requested approval to buy a stake of up to 50%. This has raised speculation that Berkshire may acquire Occidental but we view it as overvalued and hence we do not expect an acquisition around current stock prices. On May 6<sup>th</sup>, 2023, in the annual meeting of Berkshire, Buffett stated that he does not intend to acquire Occidental.

## Growth on a Per-Share Basis

| Year                      | 2013   | 2014   | 2015   | 2016    | 2017   | 2018   | 2019   | 2020    | 2021   | 2022   | 2023          | 2028          |
|---------------------------|--------|--------|--------|---------|--------|--------|--------|---------|--------|--------|---------------|---------------|
| <b>EPS</b>                | \$6.96 | \$4.83 | \$0.12 | -\$1.01 | \$0.89 | \$5.01 | \$1.45 | -\$3.91 | \$2.55 | \$9.35 | <b>\$4.60</b> | <b>\$2.87</b> |
| <b>DPS</b>                | \$2.45 | \$2.80 | \$2.94 | \$3.01  | \$3.05 | \$3.10 | \$3.14 | \$0.82  | \$0.04 | \$0.52 | <b>\$0.72</b> | <b>\$1.00</b> |
| <b>Shares<sup>1</sup></b> | 796.0  | 770.6  | 763.7  | 764.2   | 766.4  | 755.4  | 809.5  | 918.7   | 972.7  | 1002.0 | <b>950.0</b>  | <b>850.0</b>  |

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 (vs. 2019). 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 -9% 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.

<sup>1</sup> In millions

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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  | <b>13.3</b> | <b>14.2</b> |
| Avg. Yld. | 2.2% | 3.0% | 4.0% | 4.2% | 4.7% | 4.1% | 6.0% | 4.3% | 0.1% | 0.9% | <b>1.2%</b> | <b>2.5%</b> |

Occidental is currently trading at 13.3 times its expected earnings this year. This earnings multiple is marginally lower than the 10-year average price-to-earnings ratio of 14.2 of the stock. If the stock trades at its average valuation level in five years, it will enjoy a 1.4% annualized gain thanks to the expansion of its valuation level.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

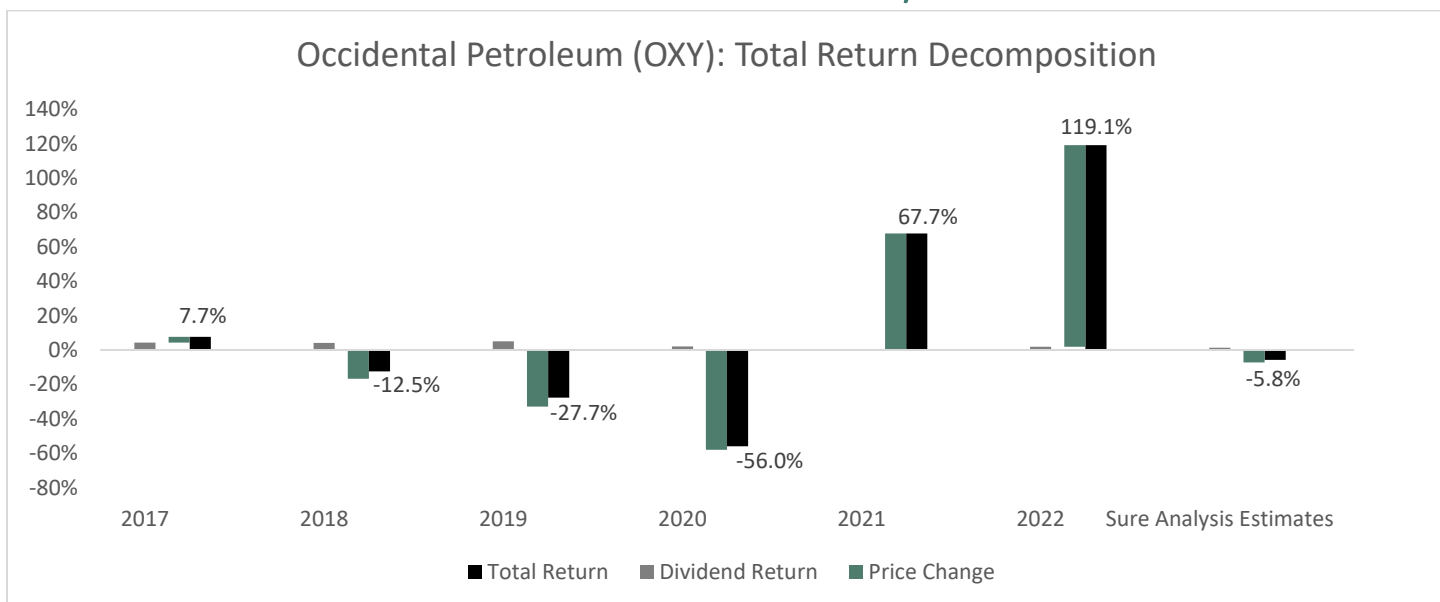
| Year   | 2013  | 2014  | 2015 | 2016 | 2017 | 2018  | 2019 | 2020 | 2021 | 2022 | 2023         | 2028         |
|--------|-------|-------|------|------|------|-------|------|------|------|------|--------------|--------------|
| Payout | 27.6% | 58.0% | ---  | ---  | 343% | 61.9% | 217% | ---  | 1.6% | 5.6% | <b>15.7%</b> | <b>34.9%</b> |

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 -5.8% per year on average over the next five years, as its 1.2% dividend and a 1.4% valuation tailwind may be offset by a -9% decline of earnings-per-share. We expect the stock to offer poor long-term returns. The 10-year return of the stock (-36% vs. +143% of the S&P 500) is indicative of the risk of the stock. 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          | 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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