Chevron Corporation (CVX)

$94.39 (As of 03/03/20)

Price Target (6-12 Months): **$100.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 03/04/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:B
	Value: B | Growth: A | Momentum: F	

Summary

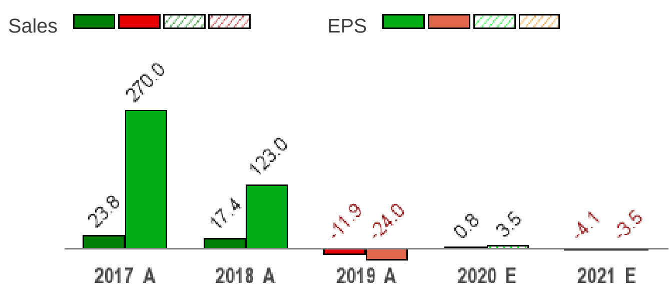
Shares of Chevron have gained 8.4% year to date, outperforming the Zacks Oil & Gas International Integrated industry's decline of 3.2% during the same period. The company's existing project pipeline is among the best in the industry, targeting volume growth of around 4-7% in 2019 thanks to planned expansion in the Permian Basin.Chevron's well economics in the Permian also continues toimprove as the company has been able to achieve a 40% reduction in its development and production costs since 2015. However, the continued drop in Chevron's downstream segment earnings is a concern. Moreover, the supermajor's reserve replacement ratio of 44% is indicative its inability to add proved reserves to its reserve base to the amount of oil and gas produced. Hence, investors are advised to wait for a better entry point.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$127.34 - $90.11**
20 Day Average Volume (sh)	**8,567,236**
Market Cap	**$177.4 B**
YTD Price Change	**-21.7%**
Beta	**1.04**
Dividend / Div Yld	**$5.16 / 5.5%**
Industry	**Oil and Gas - Integrated - International**
Zacks Industry Rank	**Bottom 16% (213 out of 255)**
Last EPS Surprise	**1.4%**
Last Sales Surprise	**-8.8%**
EPS F1 Est- 4 week change	**-7.1%**
Expected Report Date	**04/24/2020**
Earnings ESP	**0.7%**
P/E TTM	**14.0**
P/E F1	**14.5**
PEG F1	**2.3**
P/S TTM	**1.2**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	36,973 E	36,819 E	38,066 E	37,600 E	141,686 E
2020	36,834 E	37,166 E	38,599 E	38,246 E	147,713 E
2019	35,200 A	38,850 A	36,116 A	36,350 A	146,516 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$1.36 E	$1.49 E	$1.58 E	$1.49 E	$6.26 E
2020	$1.59 E	$1.68 E	$1.73 E	$1.67 E	$6.49 E
2019	$1.39 A	$2.27 A	$1.59 A	$1.49 A	$6.27 A

*Quarterly figures may not add up to annual.

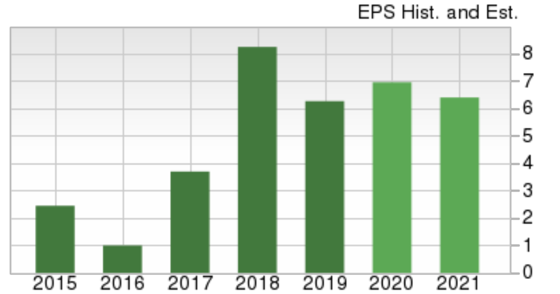
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/03/2020. The reports text is as of 03/04/2020.

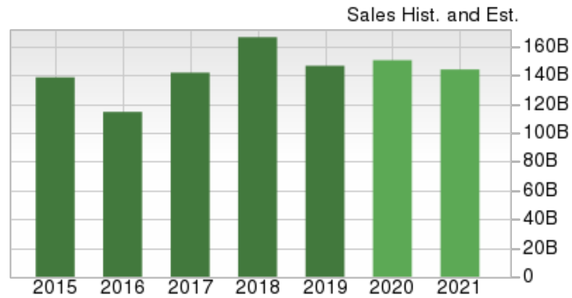
Overview

Chevron is one of the largest publicly traded oil and gas companies in the world with operations that span almost every corner of the globe. A component of the Dow Jones Industrial Average, San Ramon, CA-based Chevron is fully integrated, meaning it participates in every aspect related to energy – from oil production, to refining and marketing. The company generates more than $146 billion in annual revenues and produces in excess of three million barrels per day of oil equivalent. Chevron currently churns out oil and natural gas at a 61/39 ratio. As of the end of 2019, the company had proved reserves of approximately 12.6 billion barrels of oil-equivalent.

While the energy sector downturn since mid-2014 has significantly impacted Chevron's stock price, it is still the 25-largest company in the S&P 500 Index (as of Feb 25). With its relatively low-risk energy business structure, robust financial health, and ample free cash flows, Chevron remains well positioned to navigate the weak oil and gas prices.

Being an integrated firm engaged in all aspects of the oil and gas business, Chevron often finds itself in the crossfire of political debates over climate change policy. Notwithstanding these distractions, Chevron has improved its cash from operations, allowing management to raise the dividend regularly. One of only two energy stocks on the list of Dividend Aristocrats, the supermajor's balance sheet is reasonably healthy indicating that the dividend should remain safe going forward.





Chevron has a market cap of around $185 billion and divides its operations into two main segments: Upstream (exploration & production) and Downstream (refining). In 2019, these two segments generated 51% and 49%, respectively, of the total earnings of the company. Chevron's other activities include transportation (pipelines, shipping) and chemicals (handled by Chevron Phillips Chemicals Company, a 50/50 joint venture with partner Phillips 66). Chevron's current oil and gas development project pipeline is among the best in the industry - projected to grow its output by 3% this year and at a 3-4% CAGR from 2018 until 2023. This production growth will primarily come from Chevron's showpiece Permian Basin assets, where it has substantial holdings of 2.2 million net acres.

Reasons To Buy:

Chevron has been able to achieve a 40% reduction in its Permian Basin development and production costs since 2015.

- Chevron seems one of the best-placed global integrated oil companies to achieve sustainable production ramp-up. The company's 2019 production was a record 3,058 thousand oil-equivalent barrels per day (MBOE/d), up 4.4% from a year ago. Investors should also note the company expects to grow its output by 3% this year and at a 3-4% CAGR from 2018 until 2023.

- This production growth will primarily come from Chevron's showpiece Permian Basin assets, where it has substantial holdings of 2.2 million net acres. The company realized production increase of 154 MBOE/d in 2019 with Chevron targeting output of 900 MBOE/d barrels per day in 2023. During the fourth quarter, volumes from the world's hottest shale play jumped by 36% to 514 MBOE/d.

- Chevron's well economics in the Permian also continues to show improvement as the company has been able to achieve a 40% reduction in its development and production costs since 2015. Thanks to its successful cost control initiatives, the company has lowered its break-even price for oil to an industry-leading $51 per barrel.

- Chevron maintained its dividend growth streak, marking the 33rd consecutive year of payout hike. The company hiked its dividend by 10 cents to $1.29 per share, giving investors a reason to cheer.

- In 2019, the company generated $27.3 billion of cash from operating activities ($30.6 billion in 2018) while shelling out $14.1 billion on capital expenditures ($13.8 billion in 2018) for free cash flow of $13.2 billion (a record $16.8 billion in 2018). During the same period, Chevron paid out $9 billion as cash dividends to its shareholders. In other words, despite the lower free cash flow, the company's dividend appears safe for the foreseeable future. Chevron's total debt is currently $27 billion, down from $34.5 billion a year ago. Importantly, the company's year-end debt ratio was 16%, improving from 18% at year-end 2018.

Reasons To Sell:

Weakness in Chevron's downstream operations and massive capital expenditures could lower its profitability.

- The continued drop in Chevron's downstream segment earnings is a concern. In the most recent quarter, income from the refining division came in at $672 million, almost 22% lower than the profit of $859 million in the year-ago period. For full year 2019, profits slumped 34% to $2.5 billion.

- Over the past few years, oil and gas supermajors have struggled to replace reserves as new energy resources become less accessible. Given their large asset bases, achieving growth in the production of oil and natural gas has been a challenge for many years. In this context, Chevron's 2019 oil reserve replacement ratio (RRR) of just 44% is indicative of the company's inability to add proved reserves to its reserve base to the amount of oil and gas produced.

- Chevron targets to grow its output by 3% this year and at a 3-4% CAGR from 2018 until 2023. This is partly dependent on few big projects. However, sudden and unforeseen damage may reduce the company's planned net increase in output. In particular, Chevron's high-profile Gorgon LNG development in Australia is suffering from mechanical issues that may restrict its ramp-up.

- Chevron took an impairment charge (on certain oil and gas assets) of $10 billion in the fourth quarter. While this charge is unlikely to have any material impact on underlying cash-flow, it is expected to increase Chevron's gearing, i.e. the ratio between debt and market capitalization.

- In 2019, Chevron ended its attempt to buy Anadarko Petroleum, after it decided not to compete with Occidental Petroleum's offer. While the termination of the deal triggered a break-up fee of $1 billion to Chevron, the acquisition would have given it access to potentially lucrative Permian Basin acreage, LNG operations in Mozambique, as well as attractive deepwater areas in the Gulf of Mexico. In particular, the company lost the chance to significantly augment its substantial Permian holdings of 2.2 million net acres.

Last Earnings Report

Quarter Ending	12/2019
Report Date	Jan 31, 2020
Sales Surprise	-8.78%
EPS Surprise	1.36%
Quarterly EPS	1.49
Annual EPS (TTM)	6.74

Chevron Q4 Earnings Top on Production Gains

Chevron reported adjusted fourth-quarter earnings per share of $1.49, above the Zacks Consensus Estimate of $1.47. The beat was driven by strong production from the Permian Basin.

However, the bottom line was below the year-earlier quarter's earnings of $2.06 per share due to lower oil and natural gas price realizations.

The company, which recently raised its quarterly dividend from $1.19 to $1.29, generated revenue of $36.4 billion. The sales figure missed the Zacks Consensus Estimate of $39.8 billion and was down 14.2% year over year.

Chevron announced that it added 494 million barrels of oil-equivalent in proved reserves in 2019, primarily from LNG projects in Australia and deepwater assets in the Gulf of Mexico.

Segment Performance

Upstream: Chevron's production of crude oil and natural gas remained essentially unchanged from the year-earlier level at 3,078 thousand oil-equivalent barrels per day/MBOE/d (61.5% liquids) – the fifth successive quarter where volumes exceeded 3 million barrels per day.

Contribution from the shale assets in the prolific Permian Basin were offset by normal field declines, turnarounds and the impact of asset dispositions. The fourth-quarter average production from the showpiece Permian Basin was 514 MBOE/d, up 36% year over year.

The U.S. output rose 16.3% year over year to 998 MBOE/d but the company's international operations (accounting for 68% of the total) fell 6.5% to 2,080 MBOE/d. For the full-year 2019, Chevron's worldwide production averaged a record 3,058 MBOE/d, reflecting an increase of 4.4% from 2,930 MBOE/d a year ago.

Despite flat production volumes, Chevron's upstream segment incurred a massive loss of $6.7 billion, compared with the year-ago profit of $3.3 billion. Apart from asset impairment charges, the nosedive to a loss could be blamed on significantly lower oil and gas realizations.

Downstream: Chevron's downstream segment achieved earnings of $672 million, 21.8% lower than the profit of $859 million last year. The decline primarily underlined a fall in international refined products sales margins and planned turnaround activities.

Cash Flows, Capital Expenditure

America's No. 2 energy producer behind ExxonMobil delivered a soft cash flow performance this quarter – an important gauge for the oil and gas industry – with $5.6 billion in cash flow from operations, down from $9.1 billion a year ago. The decrease in cash flow could be attributed to falling lower price realizations in the upstream business.

The company's cash flow for the full-year 2019 was $27.3 billion, down 10.8% from 2018.

In the fourth quarter, Chevron paid $2.3 billion in dividends and repurchased $1.1 billion worth of shares. For the full-year 2019, the company shelled out $9 billion in dividends, and bought back $4 billion of its shares.

The company spent just over $6 billion in capital expenditures during the quarter, edging up from the year-ago period's $5.8 billion. More than 83% of the total outlays pertained to upstream projects. In 2019, capital spending amounted to $21 billion.

Balance Sheet

As of Dec 31, the San Ramon, CA-based company had $5.7 billion in cash and cash equivalents and total debt of $27 billion, with a debt-to-total capitalization ratio of about 15.8%.

Recent News

Chevron Targets $75-$80B Shareholder Returns Over 5 Years

At its recently held annual investor meeting in New York Chevron outlined a five-year strategic plan. In particular, the company projects a total return to shareholders through dividends and share buybacks of $75-80 billion even without a spike in oil prices. This is substantial, given the San Ramon, CA-based integrated firm's current market value of $180 billion. In order to achieve the massive returns target, Chevron will rely on 'disciplined capital spending, improved cost efficiency, and continued cash flow growth'.

The company is looking to save $2 billion on the back of tight rein on costs and stronger margins. Meanwhile, Chairman and CEO Michael Wirth aims to keep its capital expenditure flat within the range of $19 billion to $22 billion through 2024. Based on this, the supermajor expects to grow adjusted operating cash flow per share at a 9% CAGR and improve adjusted free cash flow ('FCF') per share by 100%.

Chevron's focus on short-cycle, lower-risk projects – in the Permian Basin, Kazakhstan, and deepwater Gulf of Mexico – should lead to solid earnings and cash flow growth. This will help the company in generating over 10% returns on capital by 2024 at just $60 Brent prices - up more than 300 basis points.

Chevron's enormous acreage in the Permian Basin - America's top shale formation – will position it well to meet the objectives earmarked. At an annual budgeted capital expenditure of around $4.5 billion, the company targets to ramp up production from the unconventional play to 1.2 million barrels a day by the mid-2020s, following which, output is set to flatten out through 2040. While a number of smaller, debt-laden Permian operators (who relied on borrowings to finance drilling) are struggling to make profits, Chevron, with its sheer scale and high-quality acreage, is largely immune to these issues.

Valuation

Chevron shares are down 21.6% in the year-to-date period and 23.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil-Energy sector are down 23.7% and 21.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 31.3% and 29.4%, respectively.

The S&P 500 index is down 7.1% in the year-to-date period and 31.3% in the past year.

The stock is currently trading at 13.75X forward 12-month earnings, which compares to 11.38X for the Zacks sub-industry, 11.98X for the Zacks sector and 17.66X for the S&P 500 index.

Over the past five years, the stock has traded as high as 93.19X and as low as 10.93X, with a 5-year median of 21.22X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $100 price target reflects 14.6X F12M earnings.

The table below shows summary valuation data for CVX

Valuation Multiples - CVX

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.75	11.38	11.98	17.66
	5-Year High	93.19	23.38	32.4	19.34
	5-Year Low	10.93	11.02	11.27	15.18
	5-Year Median	21.22	15.16	18.49	17.46
P/S F12M	Current	1.19	0.59	0.72	3.26
	5-Year High	1.94	0.88	1.45	3.43
	5-Year Low	0.96	0.57	0.67	2.54
	5-Year Median	1.39	0.76	0.99	3.01
EV/EBITDA TTM	Current	4.35	4.19	4.38	10.93
	5-Year High	14.34	9.83	10.26	12.88
	5-Year Low	4.19	3.95	4.38	8.49
	5-Year Median	8.11	6.23	6.52	10.79

As of 03/03/2020

Industry Analysis **Zacks Industry Rank:** Bottom 16% (213 out of 255)

Top Peers

BP p.l.c. **(BP)**	Neutral
ConocoPhillips **(COP)**	Neutral
Eni SpA **(E)**	Neutral
Occidental Petroleum Corporation **(OXY)**	Neutral
Royal Dutch Shell PLC **(RDS.A)**	Neutral
TOTAL S.A. **(TOT)**	Neutral
Exxon Mobil Corporation **(XOM)**	Neutral
Phillips 66 **(PSX)**	Underperform

Industry Comparison Industry: Oil And Gas - Integrated - International

Industry Peers

	CVX Neutral	X Industry	S&P 500	BP Neutral	RDS.A Neutral	XOM Neutral
VGM Score	B	-	-	A	A	D
Market Cap	177.39 B	13.16 B	21.37 B	108.39 B	177.55 B	217.11 B
# of Analysts	6	2.5	13	6	4	7
Dividend Yield	5.47%	3.00%	2.04%	7.83%	7.27%	6.78%
Value Score	B	-	-	A	A	B
Cash/Price	0.03	0.23	0.05	0.25	0.14	0.01
EV/EBITDA	5.49	3.97	12.65	4.22	3.97	6.03
PEG Ratio	2.40	1.78	1.87	1.21	1.77	1.91
Price/Book (P/B)	1.23	0.92	2.96	1.08	0.93	1.09
Price/Cash Flow (P/CF)	4.34	3.47	11.68	3.82	3.93	7.59
P/E (F1)	15.02	10.85	16.98	10.85	8.85	16.78
Price/Sales (P/S)	1.21	0.51	2.44	0.38	0.50	0.82
Earnings Yield	6.88%	8.75%	5.87%	9.21%	11.31%	5.96%
Debt/Equity	0.16	0.40	0.70	0.64	0.43	0.13
Cash Flow ($/share)	21.74	6.76	7.01	8.36	11.18	6.76
Growth Score	A	-	-	A	B	D
Hist. EPS Growth (3-5 yrs)	30.90%	12.78%	10.85%	15.88%	9.69%	-3.14%
Proj. EPS Growth (F1/F0)	3.48%	13.86%	6.36%	-0.28%	22.96%	35.87%
Curr. Cash Flow Growth	16.70%	11.11%	6.07%	0.78%	3.73%	-28.10%
Hist. Cash Flow Growth (3-5 yrs)	2.67%	-1.24%	8.52%	0.75%	-0.82%	-10.50%
Current Ratio	1.07	1.16	1.23	1.12	1.16	0.78
Debt/Capital	14.03%	29.26%	42.57%	39.19%	29.93%	11.69%
Net Margin	2.00%	1.70%	11.57%	1.42%	4.50%	5.41%
Return on Equity	8.29%	6.10%	16.66%	9.80%	8.45%	5.11%
Sales/Assets	0.58	0.69	0.54	0.97	0.87	0.74
Proj. Sales Growth (F1/F0)	0.82%	0.00%	4.01%	4.22%	-6.10%	1.99%
Momentum Score	F	-	-	D	B	F
Daily Price Chg	-2.28%	-0.96%	-2.60%	-0.96%	-1.94%	-4.79%
1 Week Price Chg	-14.37%	-13.07%	-12.06%	-11.51%	-10.45%	-13.01%
4 Week Price Chg	-11.66%	-15.32%	-10.01%	-12.55%	-14.89%	-14.46%
12 Week Price Chg	-19.93%	-17.49%	-7.46%	-13.75%	-23.36%	-25.72%
52 Week Price Chg	-23.44%	-25.32%	2.54%	-25.32%	-29.53%	-36.03%
20 Day Average Volume	8,567,236	71,563	2,406,738	11,429,338	6,045,702	25,464,572
(F1) EPS Est 1 week change	-8.01%	0.00%	0.00%	0.00%	0.00%	-3.52%
(F1) EPS Est 4 week change	-7.14%	-4.67%	-0.06%	-10.04%	2.26%	-9.13%
(F1) EPS Est 12 week change	2.26%	-9.70%	-0.39%	-2.13%	-2.60%	-8.81%
(Q1) EPS Est Mthly Chg	-15.21%	-3.40%	-0.45%	-12.98%	1.87%	-24.39%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	A
Momentum Score	F
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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