

Chevron Corporation (CVX)

\$117.51 (As of 01/09/20)

Price Target (6-12 Months): **\$125.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/15/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: A

Summary

Shares of Chevron have gained 3.6% over the past year, 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, thanks to planned expansion in the lucrative Permian Basin. Chevron's well economics in the West Texas shale play also continues to improve as the company has been able to achieve a 40% reduction in its development and production expenses since 2015. However, the continued drop in Chevron's downstream unit earnings (partly attributable to a fall in domestic refined products sales margins) is a concern. Moreover, the energy supermajor's massive \$10-\$11 billion impairment charge is expected to increase its gearing. Hence, investors are advised to wait for a better entry point.

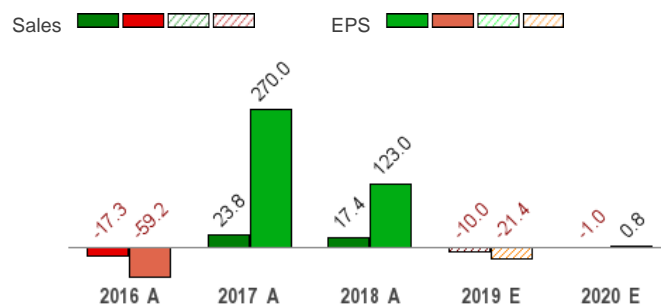
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$127.34 - \$110.17
20 Day Average Volume (sh)	5,563,553
Market Cap	\$222.2 B
YTD Price Change	-2.5%
Beta	1.02
Dividend / Div Yld	\$4.76 / 4.1%
Industry	Oil and Gas - Integrated - International
Zacks Industry Rank	Bottom 21% (201 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.2%
Last Sales Surprise	-7.5%
EPS F1 Est- 4 week change	2.5%
Expected Report Date	01/31/2020
Earnings ESP	7.6%
P/E TTM	16.1
P/E F1	18.0
PEG F1	2.9
P/S TTM	1.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	37,504 E	37,419 E	38,713 E	38,094 E	148,054 E
2019	35,200 A	38,850 A	36,116 A	38,767 E	149,623 E
2018	37,764 A	42,236 A	43,987 A	42,352 A	166,339 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.61 E	\$1.60 E	\$1.65 E	\$1.54 E	\$6.53 E
2019	\$1.39 A	\$2.27 A	\$1.59 A	\$1.57 E	\$6.48 E
2018	\$1.90 A	\$1.78 A	\$2.11 A	\$2.06 A	\$8.25 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 01/09/2020. The reports text is as of 01/10/2020.

Overview

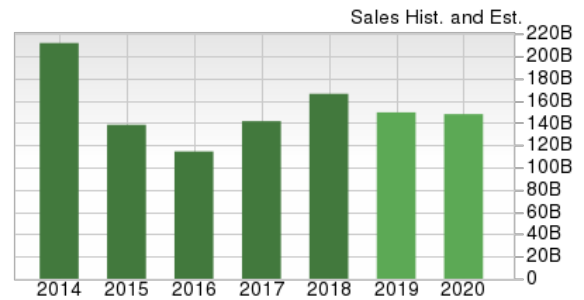
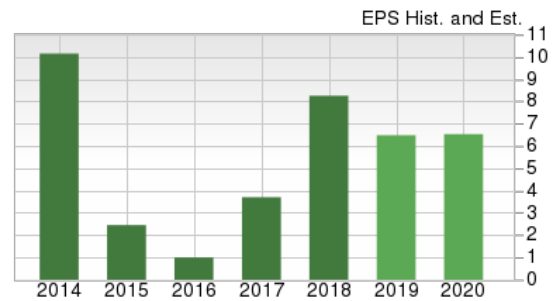
Founded in 1897, San Ramon, CA-based Chevron Corporation is one of the largest publicly traded oil and gas companies in the world, based on proved reserves. It is engaged in oil and gas exploration and production, refining and marketing of petroleum products, manufacturing of chemicals, and other energy-related businesses. Chevron, in its present form, resulted from the 2001 merger between Texaco and Chevron Corporation. In Aug 2005, the company acquired Unocal for \$18.4 billion.

Chevron's key assets are focused on the United States, Australia, most of South America, and eastern and central Asia. The company also operates in western Africa. Chevron divides its operations into two main segments: Upstream and Downstream.

Upstream: Chevron has extensive upstream operations in all major hydrocarbon-producing regions of the world. The company is primarily involved in the acquisition, development and exploitation of crude oil and natural gas properties. Chevron's upstream activities also consist of liquefied natural gas (LNG) liquefaction, transportation and regasification work; oil and gas midstream operations; as well as a gas-to-liquids project. As of the end of 2018, the company had proved reserves of approximately 12.1 billion barrels of oil-equivalent, of which more than 53% were liquids. Last year, Chevron replaced 136% of its volumes. Worldwide daily production for 2018 averaged 2,930 thousand oil-equivalent barrels (liquids - 59%). This segment contributed nearly 78% of the company's 2018 earnings.

Downstream: This segment comprises Chevron's worldwide portfolio of refining, marketing, distribution and chemical assets. The company – through its wholly-owned and affiliated refineries – has a capacity to process nearly 1.6 million barrels of crude oil per day. Chevron has nearly 13,000 retail sites worldwide that market refined products under the Chevron, Texaco, and Caltex brands. This segment accounted for about 22% of the company's 2018 earnings.

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).



Reasons To Buy:

- ▲ Production at Chevron, the nation's largest oil and gas producer, remains strong. The company's 2018 production was 2,930 thousand oil-equivalent barrels per day (MBOE/d), up 7.4% from a year ago and up 13% over the 2017 output. Chevron's substantial Permian holdings of 2.2 million net acres have already realized production growth of 71% in the past year with Chevron targeting output of 900,000 barrels per day in 2023. Investors should also note that Chevron's total upstream production of crude oil and natural gas in the third quarter increased 2.6% compared with last year's corresponding period to 3,033 thousand oil-equivalent barrels per day/MBOE/d (60% liquids) – the fourth successive quarter where volumes exceeded 3 million barrels per day. 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.
- ▲ Chevron's free cash flow has gone up significantly. In 2018, the company generated \$30.6 billion of cash from operating activities while shelling out \$13.8 billion on capital expenditures for record free cash flow of \$16.8 billion. During the same period, Chevron paid out \$8.5 billion as cash dividends to its shareholders. In other words, the company's dividend appears safe for the foreseeable future. Using \$4.76 as the dividends to be received over 2019 and based on 1.9 billion diluted shares outstanding, the total payout comes to a little over \$9 billion annually, much lower than the free cash flow.
- ▲ Chevron's total debt is currently around \$32.9 billion, down from \$36.1 billion, a year-ago. Importantly, the company's debt ratio was than 17.4% as of Sep 30, 2019.
- ▲ 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 2018 oil reserve replacement ratio (RRR) of 136% is indicative the company's ability to add proved reserves to its reserve base in excess to the amount of oil and gas produced.

Free cash flow, or cash available to pay for dividends and share buybacks, rose to \$16.8 billion last year from \$6.9 billion in 2017.

Reasons To Sell:

- ▼ The continued drop in Chevron's downstream segment earnings (partly attributable to a fall in domestic refined products sales margins) is a concern. In the most recent quarter, income from the refining division came in at \$828 million, almost 40% lower than the profit of \$1.4 billion in the year-ago period. For full year 2018, profits slumped 27% to \$3.8 billion.
- ▼ Chevron targets to have grown volume by 4–7% in 2019. This is largely 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 would take an impairment charge (on certain oil and gas assets) in the range of \$10 to \$11 billion in the fourth quarter, the company recently confirmed. 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.

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

Last Earnings Report

Chevron Q3 Earnings Top on Production Gains

Chevron reported adjusted third-quarter earnings per share of \$1.59, above the Zacks Consensus Estimate of \$1.47. The beat was driven by strong production, which increased almost 3% from the third quarter of 2018.

However, the bottom line was below the year-earlier quarter's earnings of \$2.11 per share due to lower oil and natural gas price realizations, together with weak refined products sales margins in the U.S.

Quarterly revenue of \$36.1 billion missed the Zacks Consensus Estimate of \$39.1 billion and was down 17.9% year over year.

Quarter Ending 09/2019

Report Date	Nov 01, 2019
Sales Surprise	-7.53%
EPS Surprise	8.16%
Quarterly EPS	1.59
Annual EPS (TTM)	7.31

Segment Performance

Upstream: Chevron's total production of crude oil and natural gas increased 2.6% compared with last year's corresponding period to 3,033 thousand oil-equivalent barrels per day/MBOE/d (60% liquids) – the fourth successive quarter where volumes exceeded 3 million barrels per day. The U.S. output rose 12.4% year over year to 934 MBOE/d but the company's international operations (accounting for 69% of the total) fell 1.2% to 2,099 MBOE/d.

Apart from the shale assets in the prolific Permian Basin, the strong output could be attributed to contribution from its Wheatstone LNG development in Australia, partially offset by normal field declines and the impact of asset dispositions.

However, the rise in production was more than offset by lower oil and gas realizations, the result being a 20% fall in Chevron's upstream segment profit – from \$3.4 billion in the year-earlier quarter to \$2.7 billion.

Downstream: Chevron's downstream segment achieved earnings of \$828 million, 39.7% lower than the profit of \$1.4 billion last year. The decline primarily underlined a fall in domestic refined products sales margins, absence of gains from asset sales and higher operating expenses in the United States.

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 \$7.9 billion in cash flow from operations, down from \$9.6 billion a year ago. The decrease in cash flow could be attributed to falling price realizations in the upstream business.

In the third quarter, Chevron paid \$2.2 billion in dividends and repurchased \$1.8 billion worth of shares.

The company spent nearly \$5 billion in capital expenditures during the quarter, edging down from the year-ago period's \$5.1 billion. Roughly 86% of the total outlays pertained to upstream projects.

Balance Sheet

As of Sep 30, the San Ramon, CA-based company had \$11.7 billion in cash and cash equivalents and total debt of \$32.9 billion, with a debt-to-total capitalization ratio of about 17.4%.

Recent News

Chevron Australia Inks Acquisition Deal With Puma Energy

On **Dec 18**, Chevron's Australian subsidiary announced that it has signed a conditional share sale agreement to acquire Puma Energy Holdings Pty Ltd in an all-stock deal worth \$288 million.

Chevron's acquisition deal comes four years after it exited Australia's retail fuel market by selling its stake in Caltex in a \$4.62 billion transaction. The transaction will help its Australian business to acquire a stable network of petrol stations and fuel distribution ventures, together with storage and import terminals in the country and provide a base for sustainable earnings growth. Chevron's executive vice president for Downstream & Chemicals, Mark Nelson, feels that this deal will build on the company's strong history of partnership in Australia and its global experience in fuels and convenience marketing and supply.

The transaction is expected to close by the second quarter of 2020 and is dependent on pending approvals and customary conditions.

Chevron Makes FID on Anchor Field, Focuses on Gulf of Mexico

On **Dec 12**, Chevron announced the approval Gulf of Mexico's (GoM) Anchor project. This final investment decision (FID) marks the industry's first deepwater high-pressure development. Located roughly 140 miles off the coast of Louisiana and 5,000 feet under water, this Anchor project is estimated to churn out 75,000 barrels of crude oil and 28 million cubic feet of natural gas per day while the recoverable reserves are likely to surpass 440 million barrels. While Chevron is the chief operator of the project with 62.86% working interest, its co-owner TOTAL S.A. holds 37.14% stake. Stage one of the initial development of the project worth \$5.7 billion will comprise seven-well subsea development and semi-submersible floating production units. The field is scheduled to come online in 2024.

Valuation

Chevron shares are up 4.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil-Energy sector are down 4.9% and 5.7%, respectively, over the past year.

The S&P 500 index is up 24.3% in the past year.

The stock is currently trading at 18.26X forward 12-month earnings, which compares to 14.62X for the Zacks sub-industry, 15.03X for the Zacks sector and 18.82X 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 21.44X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$125 price target reflects 19.41X 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	18.26	14.62	15.03	18.82
	5-Year High	93.19	23.38	32.45	19.34
	5-Year Low	10.93	11.02	11.28	15.17
	5-Year Median	21.44	15.22	18.7	17.44
P/S F12M	Current	1.52	0.78	0.9	3.49
	5-Year High	1.94	0.88	1.44	3.49
	5-Year Low	0.96	0.57	0.66	2.54
	5-Year Median	1.4	0.76	0.99	3
EV/EBITDA TTM	Current	6.51	5.27	5.09	11.99
	5-Year High	14.34	9.83	10.22	12.86
	5-Year Low	4.19	3.95	4.55	8.48
	5-Year Median	8.12	6.1	6.5	10.67

As of 01/09/2020

Industry Analysis Zacks Industry Rank: Bottom 21% (201 out of 254)



Top Peers

BP p.l.c. (BP)	Neutral
Occidental Petroleum Corporation (OXY)	Neutral
Phillips 66 (PSX)	Neutral
Royal Dutch Shell PLC (RDS.A)	Neutral
TOTAL S.A. (TOT)	Neutral
Exxon Mobil Corporation (XOM)	Neutral
ConocoPhillips (COP)	Underperform
Eni SpA (E)	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	A	-	-	A	A	B
Market Cap	222.20 B	18.58 B	23.84 B	132.29 B	241.05 B	295.16 B
# of Analysts	5	2	13	6	4	5
Dividend Yield	4.05%	2.23%	1.79%	6.26%	5.36%	4.99%
Value Score	B	-	-	A	A	B
Cash/Price	0.05	0.18	0.04	0.18	0.09	0.02
EV/EBITDA	5.78	4.79	13.88	5.04	4.80	6.26
PEG Ratio	2.88	2.03	2.02	1.35	2.34	2.21
Price/Book (P/B)	1.42	1.10	3.33	1.32	1.25	1.50
Price/Cash Flow (P/CF)	6.37	4.61	13.76	4.62	5.72	7.42
P/E (F1)	18.00	14.46	18.76	12.79	11.72	21.35
Price/Sales (P/S)	1.46	0.68	2.63	0.46	0.65	1.09
Earnings Yield	5.56%	6.92%	5.32%	7.83%	8.53%	4.69%
Debt/Equity	0.16	0.40	0.72	0.66	0.40	0.13
Cash Flow (\$/share)	18.43	7.98	6.94	8.43	10.44	9.40
Growth Score	B	-	-	B	B	C
Hist. EPS Growth (3-5 yrs)	18.28%	4.89%	10.56%	9.06%	4.28%	-4.63%
Proj. EPS Growth (F1/F0)	0.98%	5.01%	7.46%	5.01%	14.57%	35.00%
Curr. Cash Flow Growth	33.57%	13.08%	14.83%	29.56%	3.19%	13.08%
Hist. Cash Flow Growth (3-5 yrs)	-0.22%	-0.18%	9.00%	0.91%	1.21%	-4.38%
Current Ratio	1.12	1.16	1.23	1.17	1.15	0.78
Debt/Capital	13.77%	28.33%	42.99%	39.73%	28.33%	11.63%
Net Margin	8.70%	4.37%	11.08%	1.66%	5.51%	5.43%
Return on Equity	8.89%	8.89%	17.16%	10.67%	9.71%	7.45%
Sales/Assets	0.60	0.66	0.55	1.00	0.92	0.76
Proj. Sales Growth (F1/F0)	-1.05%	0.00%	4.16%	2.78%	2.15%	1.79%
Momentum Score	A	-	-	B	C	C
Daily Price Chg	-0.16%	-0.05%	0.39%	0.33%	-0.02%	0.77%
1 Week Price Chg	0.59%	0.63%	-0.30%	2.56%	1.90%	0.63%
4 Week Price Chg	-1.09%	6.11%	2.38%	5.41%	3.32%	-0.82%
12 Week Price Chg	1.87%	8.84%	6.40%	3.18%	2.61%	2.38%
52 Week Price Chg	3.58%	-1.04%	22.97%	-4.28%	-2.55%	-3.18%
20 Day Average Volume	5,563,553	99,128	1,610,101	7,245,941	2,599,993	13,232,946
(F1) EPS Est 1 week change	1.62%	0.00%	0.00%	0.00%	0.00%	0.44%
(F1) EPS Est 4 week change	2.47%	0.00%	0.00%	2.63%	0.00%	-2.55%
(F1) EPS Est 12 week change	-20.34%	-6.37%	-0.50%	-15.33%	-1.63%	-27.92%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	B
Momentum Score	A
VGM Score	A

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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