

Chevron Corporation (CVX)

\$86.39 (As of 08/19/20)

Price Target (6-12 Months): **\$92.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 08/20/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

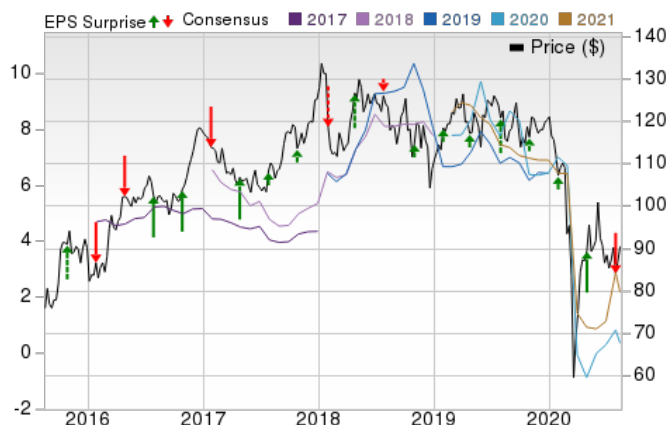
Growth: D

Momentum: B

Summary

Shares of Chevron have lost 28.3% year to date, less than the Zacks Oil & Gas International Integrated industry's decline of 39.9% during the same period. While the company reported a big Q2 loss, it vowed to keep its dividend and reported impressive U.S. production growth thanks to strength in the Permian Basin. Chevron's proposed Noble Energy takeover deal is anticipated to expand its footprint in the DJ Basin and the Permian Basin along with cash-generating offshore assets in Israel. However, Chevron is not immune to commodity price crash, forcing it to cut capex and suspend buybacks. The company's high oil price sensitivity is a concern too. 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.

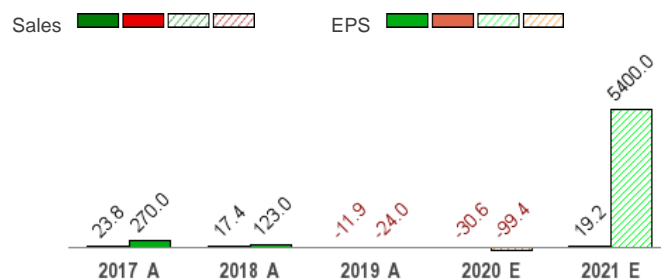
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$125.27 - \$51.60
20 Day Average Volume (sh)	8,630,108
Market Cap	\$161.3 B
YTD Price Change	-28.3%
Beta	1.24
Dividend / Div Yld	\$5.16 / 6.0%
Industry	Oil and Gas - Integrated - International
Zacks Industry Rank	Top 46% (116 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-71.0%
Last Sales Surprise	-34.1%
EPS F1 Est- 4 week change	-94.6%
Expected Report Date	11/06/2020
Earnings ESP	0.0%
P/E TTM	31.1
P/E F1	2,159.8
PEG F1	432.0
P/S TTM	1.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	30,270 E	30,476 E	31,755 E	32,194 E	121,206 E
2020	31,501 A	13,494 A	25,517 E	28,257 E	101,706 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	\$0.66 E	\$0.60 E	\$0.85 E	\$0.89 E	\$2.20 E
2020	\$1.29 A	-\$1.59 A	\$0.08 E	\$0.40 E	\$0.04 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 08/19/2020. The reports text is as of 08/20/2020.

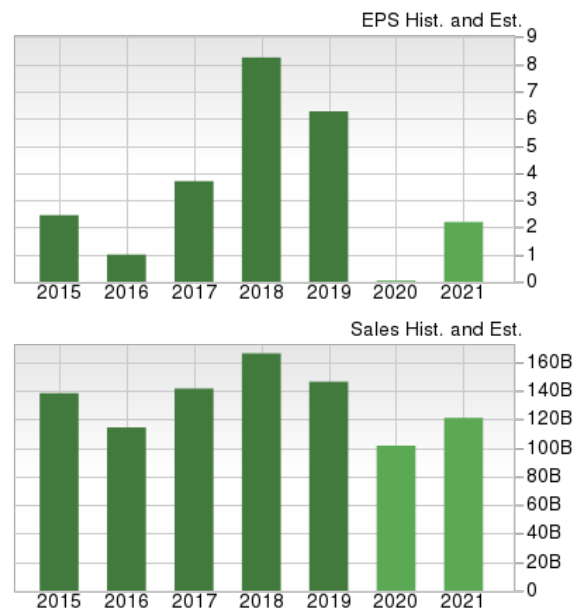
Overview

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 36-largest company in the S&P 500 Index. 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 \$160 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 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, thanks to expansion in the lucrative Permian Basin. Driven by robust output in the showpiece region, Chevron's U.S. production in the second quarter increased 10.4% from the year-earlier level to 991 MBOE/d.
- ▲ Chevron is set to acquire Noble Energy for \$5 billion. Should the buyout go through, the addition of Noble Energy's assets is anticipated to expand Chevron's presence in the DJ Basin of Colorado and the Permian Basin across West Texas and New Mexico. The takeover is also estimated to generate potential annual cost savings of \$300 million within a year of the deal's closing. The company will have access to Noble Energy's low-cost, proven reserves along with cash-generating offshore assets in Israel – particularly the flagship Leviathan natural gas project - thereby boosting its footing in the Mediterranean.
- ▲ As of Jun 30, the San Ramon, CA-based company had \$6.9 billion in cash and cash equivalents and total debt of \$34.1 billion, with a debt-to-total capitalization ratio of a modest 20.2%. The company also carries high investment grade rating of AA from S&P, which translates into low borrowing rates.
- ▲ In view of the historic oil market crash and the coronavirus-induced demand destruction for oil, Chevron expects to spend \$14 billion for the year, compared to its previously lowered estimate of \$16 billion and 30% less than its initial projection. The company is also targeting \$1 billion in operating cost cuts. Meanwhile, Chevron said that it would keep paying shareholders a quarterly dividend of \$1.29.

Chevron is set to acquire Noble Energy for \$5 billion which is anticipated to expand its presence in the DJ Basin and the Permian Basin.

Reasons To Sell:

- ▼ Oil prices recently fell to historic lows the historic oil market crash and the coronavirus-induced demand destruction for oil. In conjunction with the crude collapse, Chevron stock have been sold off together with a host of other energy sector names. The supermajor – with 61% oil-weighted production – is highly exposed to oil price fluctuations. As expected, Chevron's upstream segment bore the brunt of the commodity price plunge. In the most recent quarter, the E&P division incurred a loss of \$6.1 billion against profit of \$3.5 billion in the year-ago period.
- ▼ Chevron has suspended its \$5-billion share buyback program to weather the bearish environment. Moreover, due to the cut in capital expenditure, the company's Permian production by this year end is predicted to see a 20% drop from the earlier guidance to 125,000 barrels of oil equivalent per day. This might hamper Chevron's earnings and cash flows.
- ▼ 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.
- ▼ While the price slump greatly impacted the results of Chevron's upstream unit for obvious reasons, the downstream numbers were also dragged down by lower utilization due to a collapse in consumption for jet fuel and gasoline. In the second quarter, Chevron's downstream segment incurred a loss of \$1 billion, compared to earnings of \$729 million last year. The deterioration primarily underlined a fall in refined products sales margins and severance payments.

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Last Earnings Report

Chevron Q2 Loss Wider Than Expected

Chevron reported adjusted second-quarter loss per share of \$1.59. The Zacks Consensus Estimate was of a loss of 93 cents, while the company earned \$1.77 per share in the year-ago period. The underperformance reflects sharply lower oil and natural gas price realizations, plus decline in refined products margins.

The company generated revenue of \$13.5 billion. The sales figure missed the Zacks Consensus Estimate of \$20.5 billion and was down 65.3% year over year.

Chevron also wrote down the value of its assets by \$1.8 billion due to weaker commodity price expectations. Further, the company incurred \$780 million in severance costs.

Meanwhile, Chevron said that it would keep paying shareholders a quarterly dividend of \$1.29 despite the difficult operating environment.

Segment Performance

Upstream: Chevron's production of crude oil and natural gas decreased 3.1% from the year-earlier level to 2,988 thousand oil-equivalent barrels per day/MBOE/d (61% liquids) – the first time in seven quarters quarter where volumes fell below 3 million barrels per day. The decline reflects output curtailment in reaction to the coronavirus-induced commodity price collapse, and the impact of asset dispositions. This was partly offset by improved production in a number of properties.

The U.S. output rose 10.4% year over year to 991 MBOE/d while the company's international operations (accounting for 67% of the total) was down 8.6% to 1,997 MBOE/d. At \$19 per barrel, the Chevron's average realized liquids prices in the U.S. were 63.5% below the year-earlier levels while prices overseas were down 66.1%.

The dual pressure of slumping oil and gas realizations and lower production meant that, Chevron's upstream segment incurred a loss of \$6.1 billion against profit of \$3.5 billion in the year-ago period.

Downstream: Chevron's downstream segment incurred a loss of \$1 billion, compared to earnings of \$729 million last year. The deterioration primarily underlined a fall in refined products sales margins and severance payments.

Cash Flows, Capital Expenditure

America's No. 2 energy producer behind ExxonMobil recorded a meager \$100 million in cash flow from operations, down from \$8.7 billion a year ago. The plunge in cash flow could be attributed to falling lower price realizations in the upstream business.

In the second quarter, Chevron paid \$2.4 billion in dividends.

The company spent \$3.3 billion in capital and exploratory expenditures during the quarter, down from the year-ago period's \$5.3 billion. More than 75% of the total outlays pertained to upstream projects.

Balance Sheet

As of Jun 30, the San Ramon, CA-based company had \$6.9 billion in cash and cash equivalents and total debt of \$34.1 billion, with a debt-to-total capitalization ratio of about 20.2%.

Quarter Ending 06/2020

Report Date	Jul 31, 2020
Sales Surprise	-34.13%
EPS Surprise	-70.97%
Quarterly EPS	-1.59
Annual EPS (TTM)	2.78

Recent News

Chevron Invests in Seattle-Based Nuclear Fusion Start-Up

On **Aug 12**, Chevron announced an investment in Zap Energy, a nuclear fusion start-up company, which is building a next-generation modular nuclear reactor to lower carbon emissions. This strategic move comes when most energy players were dealing with continuous pressure from investors to cut down on emissions, devote more resources and time toward generating low-carbon energy and explain the impact of their fossil fuel production on climate change. Founded in 2018, this Seattle-based entity's objective is to research and build nuclear reactors and further achieve low cost, flexible and commercially scalable fusion. The company's technology uses sheared flows to confine and compress the plasma used in fusion process.

Chevron sees fusion technology as a promising low-carbon future energy source. Further, management believes that investing in fusion will provide an opportunity to the company to concentrate more on a diversified portfolio of low-carbon energy resources with an ability to offer communities across the globe an easy access to reasonably priced, dependable and ever-cleaner energy.

Chevron Inks \$5B Acquisition Deal With Noble Energy

On **Jul 20** Chevron Corporation has reached an agreement to acquire Noble Energy in an all-stock deal worth \$5 billion. The buyout of Noble Energy's assets is anticipated to expand Chevron's presence in the DJ Basin of Colorado and the Permian Basin across West Texas and New Mexico. Particularly, Noble Energy has a total of 92,000 acres in the United States' number one basin, Permian. The acquisition will also generate potential annual cost savings of \$300 million within a year of the deal's closing. Further, this transaction will expand Chevron's international footprint. The company will have access to Noble Energy's low-cost, proven reserves along with cash-generating offshore assets in Israel, especially the flagship Leviathan natural gas project, thereby boosting its base in the Mediterranean. Lest we forget, Chevron will also gain Noble Energy's interests in its midstream partnership, Noble Midstream Partners LP.

Valuation

Chevron shares are down 28.3% in the year-to-date period and 26.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil-Energy sector are down 39.9% and 35.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 37.6% and 31.3%, respectively.

The S&P 500 index is up 4.7% in the year-to-date period and 15.6% in the past year.

The stock is currently trading at 1.41X forward 12-month sales, which compares to 0.57X for the Zacks sub-industry, 0.73X for the Zacks sector and 3.72X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.94X and as low as 0.82X, with a 5-year median of 1.39X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$92 price target reflects 1.50X F12M sales.

The table below shows summary valuation data for CVX

Valuation Multiples - CVX					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	1.41	0.57	0.73	3.72
	5-Year High	1.94	0.87	1.47	3.72
	5-Year Low	0.82	0.55	0.59	2.53
	5-Year Median	1.39	0.75	0.99	3.05
EV/EBITDA TTM	Current	5.28	3.77	4.37	12.83
	5-Year High	14.38	9.88	10.48	12.85
	5-Year Low	2.72	2.85	3.05	8.25
	5-Year Median	8.02	6.05	6.49	10.91
P/B TTM	Current	1.2	0.82	1.06	4.55
	5-Year High	1.7	1.48	1.55	4.56
	5-Year Low	0.71	0.51	0.52	2.83
	5-Year Median	1.41	1.21	1.32	3.75

As of 08/19/2020

Industry Analysis Zacks Industry Rank: Top 46% (116 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Royal Dutch Shell PLC (RDS.A)	Outperform	2
BP p.l.c. (BP)	Neutral	4
Eni SpA (E)	Neutral	3
Equinor ASA (EQNR)	Neutral	3
Gazprom Neft OAO (GZPFY)	Neutral	3
Repsol SA (REPPY)	Neutral	4
TOTAL S.A. (TOT)	Neutral	3
Exxon Mobil Corporation (XOM)	Neutral	3

Industry Comparison Industry: Oil And Gas - Integrated - International				Industry Peers		
	CVX	X Industry	S&P 500	RDS.A	TOT	XOM
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	C	-	-	B	A	C
Market Cap	161.31 B	13.25 B	23.61 B	118.75 B	101.71 B	177.42 B
# of Analysts	5	2	14	3	5	6
Dividend Yield	5.97%	3.58%	1.65%	3.58%	6.56%	8.29%
Value Score	B	-	-	A	A	B
Cash/Price	0.04	0.31	0.07	0.30	0.35	0.07
EV/EBITDA	5.20	2.51	13.36	2.89	3.52	5.30
PEG Ratio	431.95	7.68	2.99	6.15	114.67	NA
Price/Book (P/B)	1.20	0.70	3.16	0.74	0.98	0.95
Price/Cash Flow (P/CF)	3.97	2.64	12.71	2.72	3.69	6.21
P/E (F1)	1,963.41	22.36	21.82	30.73	28.28	NA
Price/Sales (P/S)	1.37	0.47	2.47	0.44	0.61	0.80
Earnings Yield	0.05%	-0.34%	4.37%	3.25%	3.53%	-0.76%
Debt/Equity	0.23	0.55	0.76	0.55	0.59	0.25
Cash Flow (\$/share)	21.74	6.76	6.94	11.18	10.59	6.76
Growth Score	D	-	-	D	C	F
Hist. EPS Growth (3-5 yrs)	48.09%	15.07%	10.44%	15.07%	1.13%	-6.05%
Proj. EPS Growth (F1/F0)	-99.30%	-87.66%	-5.97%	-75.50%	-68.45%	-114.37%
Curr. Cash Flow Growth	16.70%	3.73%	5.22%	3.73%	0.31%	-28.10%
Hist. Cash Flow Growth (3-5 yrs)	2.67%	-1.55%	8.52%	-0.82%	-3.48%	-10.50%
Current Ratio	1.14	1.25	1.33	1.24	1.31	0.93
Debt/Capital	18.40%	36.28%	44.50%	35.28%	37.28%	19.92%
Net Margin	-7.41%	-5.82%	10.13%	-4.22%	-1.75%	3.24%
Return on Equity	3.61%	2.85%	14.67%	6.16%	7.12%	2.09%
Sales/Assets	0.49	0.55	0.51	0.68	0.63	0.61
Proj. Sales Growth (F1/F0)	-30.58%	-21.63%	-1.54%	-28.39%	-45.75%	-31.67%
Momentum Score	B	-	-	A	A	A
Daily Price Chg	-1.42%	-0.39%	-0.38%	-0.39%	0.33%	-1.11%
1 Week Price Chg	4.09%	0.88%	1.09%	0.88%	1.41%	-0.55%
4 Week Price Chg	-5.11%	-5.11%	2.23%	-7.11%	3.17%	-3.78%
12 Week Price Chg	-8.00%	-3.92%	6.91%	-7.76%	4.91%	-9.26%
52 Week Price Chg	-26.71%	-35.53%	2.28%	-45.91%	-20.42%	-39.82%
20 Day Average Volume	8,630,108	146,448	1,899,976	5,365,278	2,101,677	19,473,836
(F1) EPS Est 1 week change	-86.59%	0.00%	0.00%	32.00%	7.30%	8.49%
(F1) EPS Est 4 week change	-94.57%	-2.25%	1.70%	80.00%	28.44%	29.20%
(F1) EPS Est 12 week change	237.50%	0.00%	3.08%	98.00%	62.59%	60.08%
(Q1) EPS Est Mthly Chg	203.04%	50.74%	0.83%	462.50%	120.51%	50.74%

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	D
Momentum Score	B
VGM Score	C

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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