

Chevron Corporation (CVX)

\$94.62 (As of 04/29/20)

Price Target (6-12 Months): **\$81.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 04/02/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:C

Value: F

Growth: B

Momentum: D

Summary

This year so far, Chevron has seen its stock price decline precipitously. Since the beginning of 2020, shares of the integrated energy major have plunged more than 20% with crude prices primarily hovering around the lowly \$10 per barrel mark. The supermajor – with 61% oil-weighted production – presents a weak profile in a struggling sector. In fact, the historic oil price crash has forced Chevron to cut capital spending and suspend buybacks to preserve its cash flows. Worryingly, the company's Permian production by this year end is predicted to see a 20% drop from the earlier guidance due to lower capital expenditure. The continued drop in downstream segment earnings and weak reserve replacement ratio are concerns too. Given these headwinds, the company is perceived as a risky bet that ordinary investors should exit.

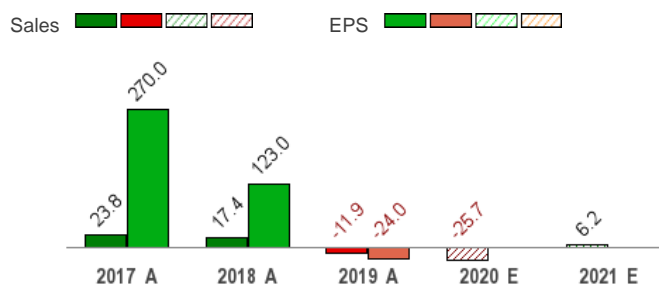
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$127.00 - \$51.60
20 Day Average Volume (sh)	13,818,427
Market Cap	\$176.7 B
YTD Price Change	-21.5%
Beta	1.17
Dividend / Div Yld	\$5.16 / 5.5%
Industry	Oil and Gas - Integrated - International
Zacks Industry Rank	Bottom 12% (223 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.4%
Last Sales Surprise	-8.8%
EPS F1 Est- 4 week change	-3,594.1%
Expected Report Date	05/01/2020
Earnings ESP	2.3%
P/E TTM	14.0
P/E F1	NA
PEG F1	NA
P/S TTM	1.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	28,023 E	28,325 E	29,763 E	30,079 E	115,578 E
2020	29,878 E	20,255 E	23,075 E	25,477 E	108,831 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	-\$0.35 E	-\$0.13 E	-\$0.02 E	\$0.09 E	\$0.90 E
2020	\$0.64 E	-\$0.73 E	-\$0.58 E	-\$0.28 E	-\$0.90 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 04/29/2020. The reports text is as of 04/30/2020.

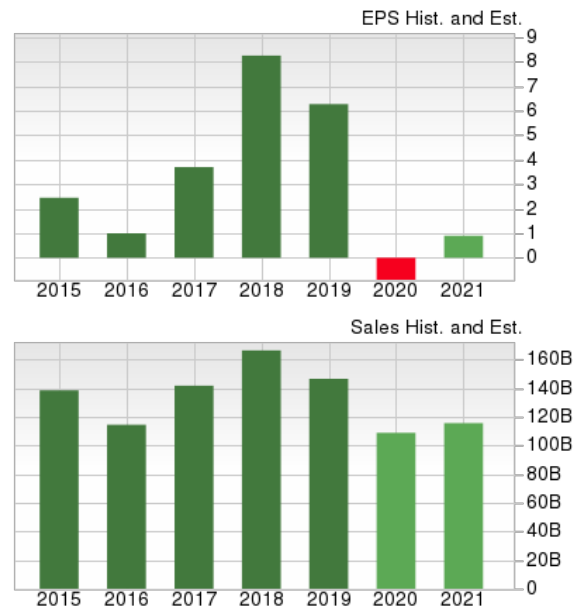
Overview

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 32-largest company in the S&P 500 Index (as of Mar 27). 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 \$135 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 Sell:

- ▼ Oil prices recently fell below \$20 a barrel for the first time since 2002 as tensions between Russia and Saudi Arabia combined with continued panic over the spreading coronavirus sent the commodity crashing. 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 – presents a weak profile in a struggling sector.
- ▼ 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.
- ▼ Even the 'Big Oil' companies like Chevron doesn't seem to be immune to this historic oil price crash. Chevron 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.
- ▼ 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.

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

Risks

- 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 \$23.7 billion, sequentially down from \$25 billion. Importantly, the company's year-end debt-to-capitalization was 15.7%, improving from 17.3% at the end of the third-quarter.
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Last Earnings Report

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%.

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

Recent News

Chevron Divests Energy Assets in Azeri Oil Field to MOL

On **Apr 16** Chevron sold its Azerbaijan oil assets to energy company MOL Hungarian Oil and Gas Plc in a \$1.57-billion deal. The deal involves the sale of a 9.57% interest in the Azeri-Chirag-Deepwater Gunashli ("ACG") oil fields (including interests in the Western Export Route Pipeline) and 8.9% interest in the Baku-Tbilisi-Ceyhan ("BTC") oil pipeline located in Azerbaijan. The deal provides Chevron with the much-needed cash at a time when oil is facing a historic slump.

ACG churned out 20,000 barrels of oil equivalent per day last year. The sale is an integral part of Chevron's disinvestment target of generating \$5 billion to \$10 billion (before tax proceeds) between 2018 and 2020.

The field's large reserves and hopes of major discoveries were expected to aid Europe diversify from Russian oil and gas. However, such beliefs faded after no large discoveries were made. Eventually, most U.S. companies either abandoned the project or were taken over by rivals, while support from the United States receded as they started redirecting their focus on the development of domestic shale fields.

The purchase is expected to transform MOL's upstream segment into an international business and strengthen its position in the core CIS region as half of the company's upstream production would now come from outside Central and Eastern Europe.

Valuation

Chevron shares are down 21.5% in the year-to-date period and 19.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil-Energy sector are down 36% and 39.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 41.1% and 43%, respectively.

The S&P 500 index is down 11.4% in the year-to-date period and 2.6% in the past year.

The stock is currently trading at 1.59X forward 12-month sales, which compares to 0.63X for the Zacks sub-industry, 0.69X for the Zacks sector and 3.21X 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 Underperform recommendation indicates that the stock will perform worse than the market. Our \$81 price target reflects 1.36X 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	1.59	0.63	0.69	3.21
	5-Year High	1.94	0.88	1.46	3.44
	5-Year Low	0.82	0.56	0.58	2.54
	5-Year Median	1.39	0.76	1	3.01
EV/EBITDA TTM	Current	4.38	3.8	3.84	10.45
	5-Year High	14.38	9.89	10.41	12.87
	5-Year Low	2.72	2.86	3.06	8.27
	5-Year Median	8.02	6.03	6.53	10.78
P/B TTM	Current	1.23	0.76	0.75	3.78
	5-Year High	1.7	1.48	1.62	4.55
	5-Year Low	0.71	0.51	0.51	2.84
	5-Year Median	1.41	1.21	1.32	3.64

As of 04/29/2020

Industry Analysis Zacks Industry Rank: Bottom 12% (223 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
BP p.l.c. (BP)	Neutral	3
ConocoPhillips (COP)	Neutral	3
Eni SpA (E)	Neutral	3
Occidental Petroleum Corporation (OXY)	Neutral	3
Royal Dutch Shell PLC (RDS.A)	Neutral	3
Exxon Mobil Corporation (XOM)	Neutral	3
Phillips 66 (PSX)	Underperform	5
TOTAL S.A. (TOT)	Underperform	5

Industry Comparison Industry: Oil And Gas - Integrated - International				Industry Peers		
	CVX	X Industry	S&P 500	BP	RDS.A	XOM
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	3	3
VGM Score	C	-	-	B	C	D
Market Cap	176.65 B	9.77 B	20.82 B	85.86 B	153.52 B	200.86 B
# of Analysts	7	2	14	6	3	7
Dividend Yield	5.45%	4.63%	2.07%	9.83%	8.41%	7.33%
Value Score	F	-	-	B	B	C
Cash/Price	0.04	0.27	0.06	0.34	0.18	0.02
EV/EBITDA	5.47	2.91	12.12	4.21	3.56	5.62
PEG Ratio	NA	13.11	2.51	248.10	13.11	NA
Price/Book (P/B)	1.23	0.66	2.74	0.85	0.81	1.01
Price/Cash Flow (P/CF)	4.35	2.81	11.23	3.09	3.40	7.02
P/E (F1)	NA	31.66	19.26	372.15	65.53	NA
Price/Sales (P/S)	1.21	0.43	2.16	0.31	0.44	0.76
Earnings Yield	-0.95%	-0.11%	5.03%	-0.55%	-0.11%	-2.04%
Debt/Equity	0.16	0.43	0.72	0.64	0.43	0.13
Cash Flow (\$/share)	21.74	6.76	7.01	8.23	11.18	6.76
Growth Score	B	-	-	A	C	D
Hist. EPS Growth (3-5 yrs)	30.90%	10.51%	10.88%	15.88%	9.69%	-3.14%
Proj. EPS Growth (F1/F0)	-114.31%	-87.89%	-6.94%	-104.86%	-100.91%	-142.98%
Curr. Cash Flow Growth	16.70%	2.84%	5.92%	-1.45%	3.73%	-28.10%
Hist. Cash Flow Growth (3-5 yrs)	2.67%	-1.76%	8.55%	0.30%	-0.82%	-10.50%
Current Ratio	1.07	1.16	1.23	1.12	1.16	0.78
Debt/Capital	14.03%	29.93%	43.90%	39.19%	29.93%	11.69%
Net Margin	2.00%	2.00%	11.15%	-1.19%	4.50%	5.41%
Return on Equity	8.29%	7.63%	16.47%	8.30%	8.45%	5.11%
Sales/Assets	0.58	0.69	0.54	0.94	0.87	0.74
Proj. Sales Growth (F1/F0)	-25.72%	-18.07%	-1.52%	-30.37%	-29.79%	-26.23%
Momentum Score	D	-	-	F	F	F
Daily Price Chg	5.24%	4.51%	2.91%	5.26%	5.58%	5.54%
1 Week Price Chg	-0.18%	-0.17%	-1.74%	-0.17%	-1.27%	1.18%
4 Week Price Chg	38.01%	11.11%	21.33%	4.35%	7.65%	26.46%
12 Week Price Chg	-14.20%	-33.83%	-16.28%	-32.49%	-28.22%	-24.34%
52 Week Price Chg	-19.68%	-40.97%	-7.57%	-40.97%	-39.40%	-39.67%
20 Day Average Volume	13,818,427	94,092	2,658,107	16,651,754	7,787,994	35,925,388
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-673.33%	0.00%	0.00%
(F1) EPS Est 4 week change	-3,594.12%	-40.00%	-6.32%	-119.20%	-103.28%	-390.58%
(F1) EPS Est 12 week change	-112.46%	-97.22%	-12.93%	-104.38%	-100.68%	-128.02%
(Q1) EPS Est Mthly Chg	-188.10%	-157.14%	-11.84%	-1,070.00%	-405.88%	-150.98%

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	F
Growth Score	B
Momentum Score	D
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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