

Occidental Petroleum(OXY)

\$40.08 (As of 02/03/20)

Price Target (6-12 Months): **\$43.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/16/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

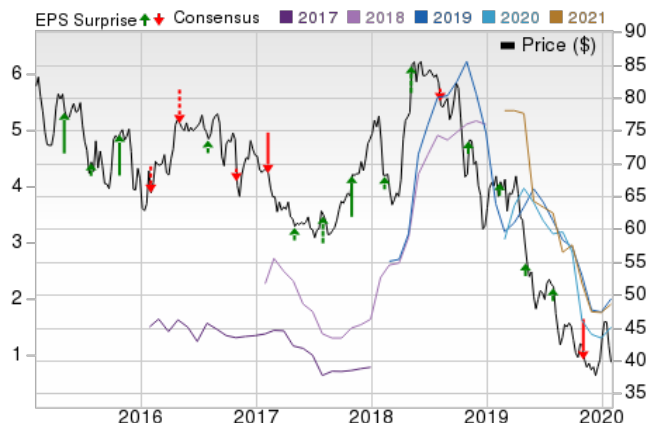
Growth: D

Momentum: A

Summary

Shares of Occidental have outperformed its industry in the past month. Occidental is gaining from rising oil production from the Permian Basin. Moreover, acquisitions and joint ventures will further expand its operations in the region. Occidental's decision to divest lower-margin assets and utilize proceeds to lower debt will allow the company to strengthen balance sheet. The decision to cut Western Midstream stake will allow it to operate as a stand-alone business and enable Occidental to focus more on core operations. However, Occidental — similar to other oil and gas companies — faces the risk of cost overruns and interruptions due to delays in drilling and approvals. High debts related to the Anadarko acquisition is a concern. Moreover, fluctuation in commodity prices is adversely impacting the company's operations.

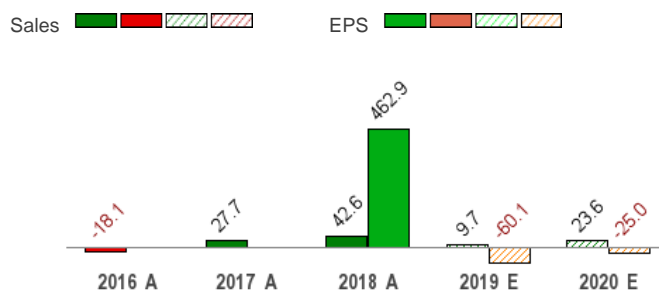
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$68.83 - \$37.25
20 Day Average Volume (sh)	10,112,390
Market Cap	\$35.8 B
YTD Price Change	-2.7%
Beta	0.91
Dividend / Div Yld	\$3.16 / 7.9%
Industry	<u>Oil and Gas - Integrated - United States</u>
Zacks Industry Rank	Top 10% (25 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-73.2%
Last Sales Surprise	3.2%
EPS F1 Est- 4 week change	12.1%
Expected Report Date	02/27/2020
Earnings ESP	46.2%
P/E TTM	12.8
P/E F1	26.7
PEG F1	5.3
P/S TTM	1.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	6,544 E	6,381 E	6,423 E	6,448 E	25,681 E
2019	4,089 A	4,476 A	5,871 A	6,431 E	20,777 E
2018	3,825 A	4,083 A	6,176 A	4,802 A	18,934 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.40 E	\$0.34 E	\$0.38 E	\$0.37 E	\$1.50 E
2019	\$0.84 A	\$0.97 A	\$0.11 A	\$0.14 E	\$2.00 E
2018	\$0.92 A	\$1.10 A	\$1.77 A	\$1.22 A	\$5.01 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 02/03/2020. The reports text is as of 02/04/2020.

Overview

Founded in 1920, Houston, TX-based Occidental Petroleum Corporation is an integrated oil and gas company, with significant exploration and production exposure. The company is also a producer of a variety of basic chemicals, petrochemicals, polymers and specialty chemicals. The company conducts its operations through three segments: Oil and Gas, Chemical, and Midstream and Marketing. AAt 2018-end, Occidental's preliminary worldwide proved reserves totaled 2.75 billion BOE compared with 2.6 billion BOE at the end of 2017. As of Dec 31, 2018, the company's proved reserves consisted of approximately 57% oil, 18% NGL and 25% gas.

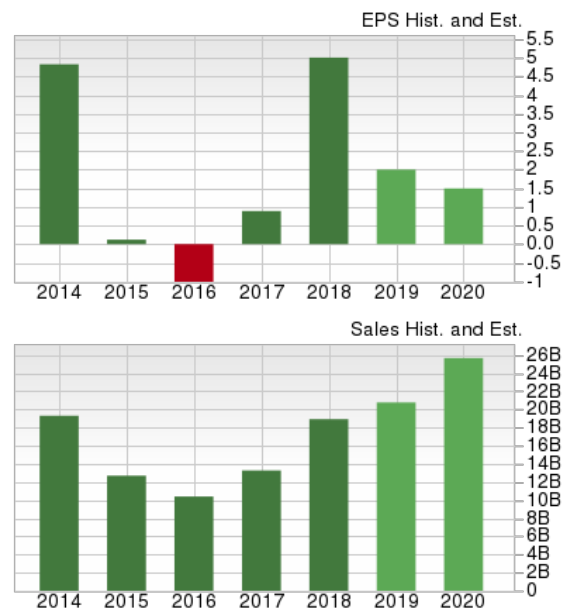
Oil and Gas: This segment explores, develops, produces and markets crude oil, natural gas liquids (NGL), condensate and natural gas. The company has operations in the U.S. (Colorado, New Mexico, North Dakota and Texas) as well as international locations such as Colombia, Oman, Qatar and the United Arab Emirates (UAE). Second-quarter revenues from the segment were \$2,718 million.

Chemical: This segment works under the company's wholly-owned subsidiary, Occidental Chemical Corporation (OxyChem), having operations in 22 sites in the U.S. It manufactures and markets polyvinyl chloride resins, chlorine and caustic soda. Revenues from the segment were \$10,441 million in 2018.

Midstream and Marketing: This segment encompasses operations that gather, treat, process, transport, store, trade and market crude oil, natural gas, NGL, condensates and carbon dioxide. It also offers these services to third parties. The segment operates in Colorado, Louisiana, New Mexico, Oklahoma and Texas in the U.S., Canada, the UAE and Qatar. Segment revenues in 2018 were \$3,656 million.

Corporate and Eliminations is a secondary segment consisting of cash and restricted cash, certain corporate receivables and property, plant and equipment. Corporate and Eliminations lowered the segment's revenues by \$930 million.

Occidental completed the acquisition of Anadarko Petroleum during the third quarter. As a result of the buyout, Occidental added a WES Midstream operating segment, which includes the operations of Western Midstream Partners, LP (WES).



Reasons To Buy:

- ▲ Occidental Petroleum's continued focus on the Permian Resources has been beneficial for the company. Legacy Permian production grew 33.3% year over year to 300,000 barrels of oil equivalent per day (boe/d) in the third quarter, courtesy of improved well performance and development activity. The company's core development area in the Permian region is recording strong results. Production from this region is expected to improve further from the current levels, thanks to the new wells added in this region. Occidental Petroleum expects fourth-quarter 2019 production from this region in the range of 449,000-459,000 boe/d. In the past month, Occidental's shares have lost 11.1%, narrower than its industry's decline of 13.9%.

The company incurred had capital expenditures of \$4.97 billion in 2018 compared with \$3.59 billion in 2017. In 2019, its capital expenditure is projected to be \$9 billion. The metric is expected to decline to the range of \$5.3-\$5.5 billion in 2020 due to deleveraging commitments of the company.

- ▲ Occidental completed acquisition of Anadarko Petroleum for \$38 billion, which will further expand its operation in the resource-rich Permian Basin. Occidental also assumed the debts of Anadarko, per the agreement. The combined company will have a production capacity of 1.3 million boe/d and is expected to be accretive to free cash flow within a year of the acquisition. The combined company will generate \$3.5 billion of free cash flow through \$2.0 billion of annual cost synergies and \$1.5 billion of annual capital reductions. Joint venture with Ecopetrol to develop unconventional reservoirs will further strengthen company's position in Permian.

Occidental expects to produce 1,335-1,365 Mboed in 2020, courtesy of contribution from acquired Anadarko assets and its legacy assets. Occidental's focus on high-return assets will also help it to boost production levels. Occidental has increased its 2020 volume of hedged oil production by 50,000 barrels of oil per day (BOPD) to 350,000 BOPD, representing a significant portion of 2020 oil production. These hedges will safeguard Occidental's production against ongoing fluctuation in commodity prices.

- ▲ Occidental Petroleum has been a consistent payer of dividend, thanks to its strong performance, driven by consistent growth in production and cash flow levels. The company has increased its dividend per share for the last 16 consecutive years. Occidental's investment plans and production growth support the cash flow generation capacity of the company, which in turns helps in the distribution of regular dividend.

The company's current annual dividend rate of \$3.16 per share reflects a dividend yield of 7.88%, which is higher than the Zacks S&P 500 composite's 1.82%. In 2018, the company has returned a total of \$3.7 billion to its shareholders, comprising \$2.4 billion dividend and \$1.3 billion via share repurchase. Incidentally, the company has returned \$34 billion to its shareholders since 2002. In the first nine months of 2019, the company returned \$2,003 million to its shareholders through share buybacks and repurchases. The strong performance and growth of the company will enable it to restart opportunistic share buyback and increase its shareholders' value.

- ▲ Occidental Petroleum executed a strategic initiative to divest of lower-margin, lower-return oil and gas production, with the plan to replace it with higher-margin, higher-return production from the Permian Resources business. During 2018, Occidental divested its non-core midstream assets for a total consideration of \$2.6 billion. These assets include a domestic pipeline and export terminal.

During the third quarter, Occidental sold part of Anadarko's Africa assets to TOTAL for \$3.9 billion. The total valued of the deal is \$8.8 billion. The company also divested interest in Plains All American Pipeline for \$650 million. It is planning to divest assets worth \$10-\$15 billion, which will be utilized to lower debt level. The company lowered debt by \$4.9 billion during the third quarter using asset sales proceeds and free cash flow.

Reasons To Sell:

- ▼ Warren Buffett's Berkshire Hathaway's decision to invest \$10 billion in Occidental, in a bid to aid the latter to acquire Anadarko will substantially increase the debt level of Occidental. In addition, Berkshire Hathaway will receive 100,000 preferred shares that will accrue dividends at 8% annually. This is at a substantial premium compared with the current rate and therefore will further increase capital servicing costs of Occidental. The deal was formulated in such a manner that avoided the need of its shareholders' vote for approval.

The loan taken by Occidental to fund the Anadarko acquisition substantially increased its long-term debt. At the end of the third quarter, long-term debt of the company was \$47.6 billion compared with \$10.2 billion at 2018-end. Interest expenses at the end of the first nine months of 2019 were \$632 million compared with \$290 million in the corresponding period of 2018.

Competitive environment, fluctuating commodity prices, rising debt levels, risk of stringent federal, state, local and foreign laws as well as regulations are tailwinds for the company.

- ▼ Occidental Petroleum's businesses operate in a highly competitive environment, which could adversely affect its profitability and growth. The company faces intense competition from other oil and gas companies, which include state-owned foreign oil companies, major integrated oil companies and independent producers of oil and natural gas. In addition, the oil industry competes with other industries in meeting global energy requirements.

The sudden hike in global freight rates due to U.S. sanctions on Chinese supertankers could adversely impact margins of the company. The increase in prices may lower its profitability.

- ▼ Fluctuations in demand and prices of commodities may affect Occidental's results of operations. The company's practice is to remain exposed to market prices of commodities. If the price of commodities continues to remain soft, it will fail to realize full benefits from the improvement in production volumes from domestic and international assets.

Pre-tax income from the Midstream and Marketing segment declined year over year in the third quarter, primarily due to lower Midland-to-Gulf-Coast spreads.

- ▼ Like other oil and natural gas companies, Occidental Petroleum faces cost overruns and development interruptions due to delays in drilling and other approvals, property or border disputes, and equipment failures. These factors may impact the company's production growth and targeted returns. Exploration is inherently risky and is subject to delays due to unexpected geological conditions or finding reserves of lower-than-expected quality or quantity, which may result in significant losses.

Occidental's operations are subject to stringent federal, state, local and foreign laws and regulations related to improving or maintaining environmental quality. The company's compliance costs have generally increased over time and are expected to increase further in the future.

Last Earnings Report

Occidental Q3 Earnings Miss Estimates, Sales Beat

Occidental Petroleum Corporation reported third-quarter 2019 earnings of 11 cents per share, lagging the Zacks Consensus Estimate of 41 cents by 73.2%. The bottom line was also significantly lower than \$1.77 per share recorded in the prior-year quarter.

Total Revenues

Occidental's total revenues were \$5,871 million, beating the Zacks Consensus Estimate of \$5,690 million by 3.2%. However, the top line declined 4.9% from \$6,176 million in the year-ago quarter.

Production & Sales

Occidental's average daily net oil, liquids and gas production volume expanded to 1,155,000 barrels of oil equivalent per day (boe/d), which included the acquired Anadarko assets. The metric was 681,000 boe/d in the prior-year quarter.

This improvement in production volume was backed by higher drilling activity and solid output from the Permian Resources region. Permian Resources production improved 33% year over year.

In the quarter under review, total sales volume was 1,157,000 boe/d compared with 696,000 boe/d recorded in the year-ago period.

Realized Prices

Realized prices for crude oil in the third quarter dropped 10.2% year over year to \$56.26 per barrel on a worldwide basis. Worldwide realized NGL prices also decreased 49.4% from the prior-year quarter to \$14.96 per barrel. Moreover, worldwide natural gas prices were down 14.8% from the year-ago quarter to \$1.38 per thousand cubic feet.

The overall decline in realized prices of the commodities did not allow the company to realize full benefits of higher production and sales volumes in the reported quarter.

Highlights of the Release

Its acquisition deal with Anadarko Petroleum has progressed per expectation. This boosted total production in the third quarter and strengthened Occidental's presence in the resource-rich Permian Basin.

Selling, general and administrative, as well as other operating expenses in the third quarter were \$242 million, up 60.3% from \$151 million a year ago.

Interest expenses in the reported quarter were \$381 million compared with \$96 million in the year-ago period.

Occidental's management, which continues to increase the value of its shareholders, returned \$1,766 million in the first nine months of 2019 through dividend payments.

Financial Position

As of Sep 30, 2019, Occidental had cash and cash equivalents of 4,840 million compared with \$3,033 million on Dec 31, 2018.

As of Sep 30, 2019, the company had a long-term debt (net of current portion) of \$39,946 million compared with \$10,201 million on Dec 31, 2018. The increase in the debt level was due to the loan taken by the company to fund the acquisition of Anadarko.

In third-quarter 2019, cash from operations was \$2,478 million, up from \$2,404 million in the prior-year period.

In third-quarter 2019, Occidental's total capital expenditure was \$1,714 million, up from \$1,319 million invested in the year-ago period.

Guidance

Occidental expects fourth-quarter 2019 production in the range of 1,312,000-1,336,000 boe/d. Production from Permian Resources is expected in the range of 449,000-459,000 boe/d.

Quarter Ending **09/2019**

Report Date	Nov 04, 2019
Sales Surprise	3.18%
EPS Surprise	-73.17%
Quarterly EPS	0.11
Annual EPS (TTM)	3.14

Recent News

On **Jan 6, 2020**, Occidental Petroleum announced that it has taken a few strategic and financial initiatives that are directed to strengthen operations and financial conditions in 2020. The company also entered into several agreements with Western Midstream Partners, LP (WES). This will enable the latter to operate as a stand-alone midstream business.

Occidental has increased its 2020 volume of hedged oil production by 50,000 barrels of oil per day (BOPD) to 350,000 BOPD, representing a significant portion of 2020 oil production. These hedges will safeguard Occidental's production against ongoing fluctuation in commodity prices. Moreover, courtesy of the hedges, for every \$1 increase in oil prices, Occidental's free cash flow is expected to increase by \$260 million per annum.

On **Nov 13, 2019** Occidental announced that it entered in a Joint Venture agreement with Ecopetrol S.A. for the development of 97,000 acres of unconventional reservoirs in the Permian Basin. Per the joint venture agreement, Ecopetrol S.A., has acquired a 49% stake in Rodeo Midland Basin LLC and Occidental retained the remaining 51% interest. For the acquisition and closing of the transaction, Ecopetrol S.A. made an initial payment of nearly \$876.5 million.

Valuation

Occidental Petroleum shares are down 18.9% in the last six months period, and 40.4% over the trailing 12-month period. Stocks in the Zacks sub-industry was down 4.2% and the Zacks Oil & Energy sector is also down by 5.8%, in the last six months period. Over the past year, the Zacks sub-industry and the sector are down 30.5% and 19.2% respectively.

The S&P 500 index is up 14.9% in the last six months period and up 17.8% in the past year.

The stock is currently trading at 4.31X of trailing 12-month Cash flow, which compares to 3.97X for the Zacks sub-industry, 4.3X for the Zacks sector and 22.63X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.18X and as low as 4.02X with a 5-year median of 11.07X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$43 price target reflects 4.62X of our 12-month Cash flow.

The table below shows summary valuation data for OXY

Valuation Multiples - OXY					
		Stock	Sub-Industry	Sector	S&P 500
P/Cash Flow	Current	4.31	3.97	4.3	22.63
	5-Year High	17.18	14.63	9.13	22.67
	5-Year Low	4.02	3.47	4.3	11.78
	5-Year Median	11.07	8.49	5.91	16.27
P/S F12M	Current	1.39	1.49	0.8	3.43
	5-Year High	5.12	2.56	1.44	3.43
	5-Year Low	1.13	1.3	0.67	2.54
	5-Year Median	3.57	2.15	1	3
EV/EBITDA TTM	Current	10.19	5.48	4.69	11.95
	5-Year High	28.64	10.53	10.26	12.85
	5-Year Low	4.25	3.55	4.58	8.49
	5-Year Median	12.1	5.64	6.53	10.66

As of 2/3/2020

Industry Analysis Zacks Industry Rank: Top 10% (25 out of 254)



Top Peers

Canadian Natural Resources Limited (CNQ)	Outperform
Apache Corporation (APA)	Neutral
ConocoPhillips (COP)	Neutral
Concho Resources Inc. (CXO)	Neutral
Devon Energy Corporation (DVN)	Neutral
EOG Resources, Inc. (EOG)	Neutral
Hess Corporation (HES)	Neutral
Marathon Oil Corporation (MRO)	Neutral

Industry Comparison Industry: Oil And Gas - Integrated - United States				Industry Peers		
	OXY Neutral	X Industry	S&P 500	APA Neutral	DVN Neutral	MRO Neutral
VGM Score	C	-	-	C	C	B
Market Cap	35.80 B	601.02 M	23.66 B	10.36 B	8.14 B	9.13 B
# of Analysts	8	4	13	8	5	7
Dividend Yield	7.88%	0.63%	1.82%	3.63%	1.70%	1.74%
Value Score	C	-	-	B	A	B
Cash/Price	0.15	0.10	0.04	0.02	0.20	0.13
EV/EBITDA	9.18	3.62	13.87	5.53	4.08	3.14
PEG Ratio	5.50	2.24	1.97	NA	0.95	2.84
Price/Book (P/B)	1.15	0.85	3.24	1.32	1.24	0.75
Price/Cash Flow (P/CF)	3.87	4.48	13.40	3.39	4.25	3.13
P/E (F1)	27.48	16.35	18.48	NA	11.18	22.06
Price/Sales (P/S)	1.86	1.60	2.60	1.60	0.91	1.59
Earnings Yield	3.74%	6.12%	5.40%	-0.07%	8.92%	4.53%
Debt/Equity	1.54	0.27	0.72	1.07	0.66	0.40
Cash Flow (\$/share)	10.35	1.44	6.92	8.13	4.98	3.66
Growth Score	D	-	-	D	F	D
Hist. EPS Growth (3-5 yrs)	20.34%	22.03%	10.80%	-26.69%	-17.33%	NA
Proj. EPS Growth (F1/F0)	-25.28%	4.73%	7.46%	89.87%	42.66%	-29.13%
Curr. Cash Flow Growth	66.70%	46.49%	10.59%	30.02%	21.30%	48.68%
Hist. Cash Flow Growth (3-5 yrs)	-4.45%	-11.45%	8.55%	-19.35%	-12.36%	-6.73%
Current Ratio	1.33	1.30	1.21	1.03	1.72	1.06
Debt/Capital	54.06%	20.52%	42.91%	51.61%	39.63%	28.55%
Net Margin	6.34%	-5.76%	11.76%	-14.78%	16.00%	15.51%
Return on Equity	9.98%	1.46%	17.24%	1.08%	6.37%	5.56%
Sales/Assets	0.30	0.30	0.55	0.30	0.52	0.27
Proj. Sales Growth (F1/F0)	23.60%	4.37%	4.22%	3.19%	-3.44%	2.62%
Momentum Score	A	-	-	C	D	B
Daily Price Chg	0.91%	0.12%	0.67%	0.44%	-2.49%	0.88%
1 Week Price Chg	-5.92%	-6.27%	-2.60%	-8.47%	-9.31%	-4.69%
4 Week Price Chg	-11.03%	-19.38%	-0.76%	7.49%	-19.80%	-17.84%
12 Week Price Chg	3.09%	-12.63%	2.84%	15.56%	-5.99%	-5.67%
52 Week Price Chg	-40.83%	-41.78%	13.93%	-16.81%	-22.02%	-28.98%
20 Day Average Volume	10,112,390	228,705	1,915,782	6,567,173	5,897,410	12,252,230
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	12.06%	5.85%	0.00%	89.02%	11.64%	101.94%
(F1) EPS Est 12 week change	-1.90%	3.38%	-0.13%	76.70%	5.81%	228.42%
(Q1) EPS Est Mthly Chg	65.68%	19.56%	0.00%	3,300.00%	-6.31%	115.79%

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	C
Growth Score	D
Momentum Score	A
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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