

## Occidental Petroleum(OXY)

**\$32.93** (As of 03/04/20)

Price Target (6-12 Months): **\$35.00**

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:D

Value: C

Growth: C

Momentum: F

### Summary

Occidental Petroleum reported wider-than-expected loss in the fourth quarter but sales beat estimates. The company is gaining from rising oil production from the Permian Basin and expanding in this region through acquisitions and joint ventures. Occidental continues to divest lower-margin assets and utilize proceeds to lower debt thereby strengthening balance sheet. The decision to cut Western Midstream stake will allow it to operate as a stand-alone business and enable the company to focus more on core operations. Shares of Occidental have outperformed its industry in the past three months. However, Occidental — similar to other oil and gas companies — faces the risk of cost overruns and interruptions due to delays in drilling and approvals. Moreover, fluctuation in commodity prices is adversely impacting the company's operations.

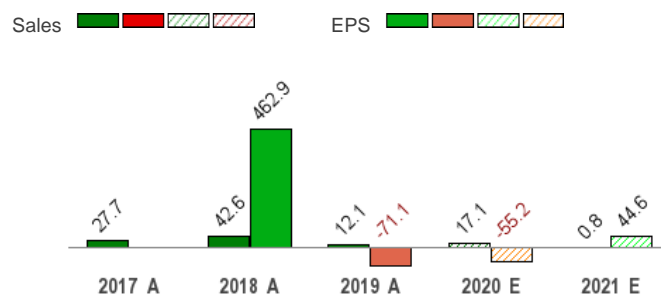
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$68.83 - \$29.64
20 Day Average Volume (sh)	12,208,743
Market Cap	\$29.5 B
YTD Price Change	-20.1%
Beta	1.05
Dividend / Div Yld	\$3.16 / 9.6%
Industry	<a href="#">Oil and Gas - Integrated - United States</a>
Zacks Industry Rank	Top 33% (83 out of 255)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-233.3%
Last Sales Surprise	3.6%
EPS F1 Est- 4 week change	-56.6%
Expected Report Date	05/04/2020
Earnings ESP	0.0%
P/E TTM	20.3
P/E F1	50.7
PEG F1	10.1
P/S TTM	1.4

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	6,328 E	6,289 E	6,378 E	6,481 E	25,060 E
2020	6,269 E	6,040 E	6,123 E	6,086 E	24,862 E
2019	4,089 A	4,476 A	5,871 A	6,796 A	21,232 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.29 E	\$0.24 E	\$0.27 E	\$0.32 E	\$0.94 E
2020	\$0.17 E	\$0.21 E	\$0.25 E	\$0.25 E	\$0.65 E
2019	\$0.84 A	\$0.97 A	\$0.11 A	-\$0.30 A	\$1.45 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 03/04/2020. The reports text is as of 03/05/2020.

## 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. At 2019-end, Occidental's preliminary worldwide proved reserves totaled 3.82 billion BOE compared with 2.7 billion BOE at the end of 2018. As of Dec 31, 2019, the company's proved reserves consisted of approximately 51.5% oil, 19.3% NGL and 29.2% gas.

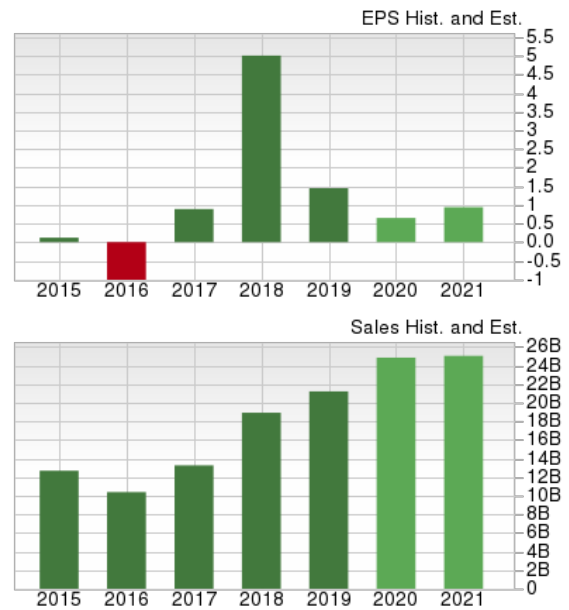
**Oil and Gas:** This segment explores, develops, produces and markets crude oil, natural gas liquids (NGL), condensate and natural gas. The company has operations in the U.S. (Colorado, New Mexico, North Dakota and Texas) as well as international locations such as Colombia, Oman, Qatar and the United Arab Emirates (UAE). Revenues from the segment were \$13,423 million in 2019.

**Chemical:** This segment works under the company's wholly-owned subsidiary, Occidental Chemical Corporation (OxyChem), having operations in 22 sites in the United States and at two international sites in Canada and Chile. It manufactures and markets polyvinyl chloride resins, chlorine and caustic soda. Revenues from the segment were \$4,102 million in 2019.

**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. Segment revenues in 2019 were \$4,132 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 \$1,264 million.

Occidental completed the acquisition of Anadarko Petroleum during the third quarter. As a result of the buyout, Occidental gained control over the operations of Western Midstream Partners, LP ("WES"), and net sales from WES is added with Midstream and Marketing.



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## Reasons To Buy:

- ▲ Occidental Petroleum's continued focus on the Permian Resources has been beneficial for the company. Permian production grew 90.4% year over year to 476,000 barrels of oil equivalent per day (boe/d) in the fourth 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 first-quarter 2020 production from this region in the range of 457,000-465,000 boe/d. In the past three months, Occidental's shares have lost 15.6%, narrower than its industry's decline of 18.4%.

The company incurred had capital expenditures of \$7.2 billion in 2019 and this metric is expected to decline to the range of \$5.2-\$5.4 billion in 2020, without sacrificing production level due to its industry-leading capital intensity. Since the price of commodities is fluctuating, the company might consider to lower expenditure further if the prices does not improve from the current levels.

- ▲ Occidental completed acquisition of Anadarko Petroleum, 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. The company has already achieved 60% of its \$2 billion synergy target since closing the acquisition, including \$799 million of overhead synergies, \$83 million of operating synergies and \$323 million of capital synergies.

Occidental expects to produce 1,360-1,390 Mboed in 2020, courtesy of contribution from acquired Anadarko assets and its legacy assets. Joint venture with Ecopetrol to develop unconventional reservoirs will further strengthen the company's position in Permian. Occidental's focus on high-return assets will also help it to boost production levels. It has hedged 350,000 barrels of oil per day (BOPD) of expected 2020 production to safeguard against fluctuating 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 9.58%, which is higher than the Zacks S&P 500 composite's 2.04%. In 2019, it returned a total of \$2.86 billion to its shareholders, comprising \$2.62 billion dividend and \$237 million via share repurchase. Incidentally, the company has returned \$36.8 billion to its shareholders since 2002.

- ▲ 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. Since the closure of the Anadarko acquisition, the company announced divestitures totaling \$10.2 billion and repaid nearly 32% debt raised for Anadarko acquisition.

The company aims to divest \$15 billion non-core assets and will continue to lower its debt level in 2020 by utilizing its free cash flow and the sale proceeds to strengthen its balance sheet. The company is also working to divest Western Midstream Partners (WES) units and lower its stake in WES to nearly 50% in 2020. Occidental gained control on WES after acquisition of Anadarko.

Investments to strengthen its infrastructure, focus on the Permian region, increase in high-margin production, cost management and Anadarko acquisition will boost performance.

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## 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.
- ▼ 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.
- ▼ 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.
- ▼ 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.

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'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 Q4 Loss Wider Than Expected, Sales Beat

Occidental Petroleum Corporation reported fourth-quarter 2019 loss of 30 cents per share, wider than the Zacks Consensus Estimate of a loss of 9 cents. The company had recorded earnings of \$1.22 per share in the prior-year quarter.

#### Total Revenues

Occidental's total revenues were \$6,796 million, beating the Zacks Consensus Estimate of \$6,558 million by 3.6%. The top line also increased 41.5% from \$4,802 million in the year-ago quarter. The year-over-year improvement was driven by higher oil and gas revenues.

#### Production & Sales

Occidental's average daily net oil, liquids and gas production volume — including the acquired Anadarko assets — expanded to 1,402 thousand barrels of oil equivalent per day (Mboe/d) from 700,000 Mboe/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 in the fourth quarter was 476 Mboe/d, which exceeded the midpoint of the guidance by 22 Mboe/d.

In the quarter under review, total sales volume was 1,400 Mboe/d compared with 702 Mboe/d recorded in the year-ago period.

#### Realized Prices

Realized prices for crude oil in the fourth quarter increased 0.2% year over year to \$56.21 per barrel on a worldwide basis. Worldwide realized NGL prices decreased 22.3% from the prior-year quarter to \$17.78 per barrel. Nonetheless, worldwide natural gas prices were up 7.9% from the year-ago quarter to \$1.63 per thousand cubic feet.

#### Highlights of the Release

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

Selling, general and administrative, as well as other operating expenses in the fourth quarter were \$337 million, up 108% from \$162 million in the year-ago quarter.

Interest expenses in the reported quarter were \$434 million compared with \$99 million in the year-ago period. The higher interest expenses were due to increase in debt levels to fund the acquisition of Anadarko.

In 2019, Occidental's management — which continues to increase the value of its shareholders — returned \$2,624 million through dividend payments compared with \$2,374 million a year ago.

#### Financial Position

As of Dec 31, 2019, Occidental had cash and cash equivalents of 3,032 million compared with \$3,033 million in the corresponding period of 2018.

As of Dec 31, 2019, the company had a long-term debt (net of current portion) of \$38,537 million compared with \$10,201 million in the comparable period of 2018. The increase in debt level was due to the loan taken by the company to fund the acquisition of Anadarko. The company has been taking steps to lower debt level. Occidental lowered debt by nearly \$2 billion in the fourth quarter.

In fourth-quarter 2019, cash from operations was \$1,764 million, down from \$2,500 million in the prior-year period.

In fourth-quarter 2019, Occidental's total capital expenditure was \$2,171 million, up 62.3% from \$1,337 million invested in the year-ago period.

#### Guidance

Occidental expects first-quarter 2020 production in the range of 1,375-1,395 Mboe/d. Production from Permian Resources is expected in the range of 457-465 Mboe/d. International production is expected within 238-242 Mboe/d.

Occidental expects 2020 production in the range of 1,360-1,390 Mboe/d. Production from Permian Resources is expected in the range of 465-475 Mboe/d. International production is expected in the band of 242-250 Mboe/d.

The company expects exploration expense to be \$75 million for the first quarter and \$325 million for 2020.

Quarter Ending **12/2019**

Report Date	<b>Feb 27, 2020</b>
Sales Surprise	<b>3.63%</b>
EPS Surprise	<b>-233.33%</b>
Quarterly EPS	<b>-0.30</b>
Annual EPS (TTM)	<b>1.62</b>

## 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.

## Valuation

Occidental Petroleum shares are down 27.5% in the last six months period, and 50.2% over the trailing 12-month period. Stocks in the Zacks sub-industry was down 16.8% and the Zacks Oil & Energy sector is also down by 15.6%, in the last six months period. Over the past year, the Zacks sub-industry and the sector are down 41% and 27.1% respectively.

The S&P 500 index is up 5.3% in the last six months period and up 11.7% in the past year.

The stock is currently trading at 4.09X of trailing 12-month Cash flow, which compares to 3.75X for the Zacks sub-industry, 2.89X for the Zacks sector and 15.39X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.18X and as low as 3.95X with a 5-year median of 11.03X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$35 price target reflects 4.34X 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	4.09	3.75	2.89	15.39
	5-Year High	17.18	14.63	9.13	22.67
	5-Year Low	3.95	3.47	2.89	11.78
	5-Year Median	11.03	8.35	5.95	16.39
P/S F12M	Current	1.18	1.3	0.7	3.16
	5-Year High	5.12	2.56	1.45	3.43
	5-Year Low	1.13	1.3	0.67	2.54
	5-Year Median	3.55	2.13	0.99	3.01
EV/EBITDA TTM	Current	8.62	5.12	4.38	10.93
	5-Year High	28.64	10.53	10.26	12.88
	5-Year Low	4.25	3.56	4.38	8.49
	5-Year Median	12.18	5.65	6.52	10.79

As of 3/4/2020

## Industry Analysis Zacks Industry Rank: Top 33% (83 out of 255)



## Top Peers

Apache Corporation (APA)	Neutral
Canadian Natural Resources Limited (CNQ)	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
<b>VGM Score</b>	<b>D</b>	-	-	<b>D</b>	<b>B</b>	<b>C</b>
Market Cap	29.48 B	543.91 M	22.29 B	9.48 B	6.23 B	6.45 B
# of Analysts	9	4	13	9	8	8
Dividend Yield	9.60%	0.67%	1.97%	3.98%	2.21%	2.47%
<b>Value Score</b>	<b>C</b>	-	-	<b>B</b>	<b>B</b>	<b>B</b>
Cash/Price	0.12	0.10	0.05	0.03	0.30	0.13
EV/EBITDA	10.39	3.47	13.20	5.29	6.11	3.66
PEG Ratio	9.81	3.23	1.94	NA	2.32	3.23
Price/Book (P/B)	1.20	0.87	3.05	2.12	1.05	0.53
Price/Cash Flow (P/CF)	4.11	4.65	12.16	3.52	2.98	2.15
P/E (F1)	49.05	16.15	17.58	NA	13.02	25.15
Price/Sales (P/S)	1.39	1.28	2.45	1.48	0.91	1.24
Earnings Yield	1.97%	6.16%	5.69%	-0.48%	7.69%	3.95%
Debt/Equity	1.61	0.33	0.70	1.92	0.73	0.45
Cash Flow (\$/share)	8.02	1.40	7.01	7.13	5.46	3.78
<b>Growth Score</b>	<b>C</b>	-	-	<b>D</b>	<b>B</b>	<b>C</b>
Hist. EPS Growth (3-5 yrs)	37.32%	44.03%	10.85%	-73.25%	-11.79%	NA
Proj. EPS Growth (F1/F0)	-55.25%	-3.22%	6.26%	NA	-9.51%	-57.00%
Curr. Cash Flow Growth	-8.32%	-8.32%	6.03%	-13.04%	12.10%	-1.12%
Hist. Cash Flow Growth (3-5 yrs)	-2.26%	-16.17%	8.52%	-17.03%	-17.32%	-6.25%
Current Ratio	1.25	1.26	1.23	1.06	2.00	1.22
Debt/Capital	53.50%	24.54%	42.57%	65.71%	42.04%	31.16%
Net Margin	-2.94%	-6.55%	11.69%	-55.42%	-5.18%	9.25%
Return on Equity	4.82%	1.07%	16.66%	0.03%	8.33%	5.02%
Sales/Assets	0.26	0.30	0.54	0.31	0.44	0.25
Proj. Sales Growth (F1/F0)	17.10%	1.27%	3.94%	-0.84%	-3.96%	-1.52%
<b>Momentum Score</b>	<b>F</b>	-	-	<b>F</b>	<b>F</b>	<b>F</b>
Daily Price Chg	-0.18%	0.27%	3.75%	0.56%	2.98%	0.37%
1 Week Price Chg	-22.27%	-11.66%	-12.06%	-12.25%	-22.56%	-18.10%
4 Week Price Chg	-21.82%	-15.61%	-7.42%	-13.05%	-30.54%	-33.31%
12 Week Price Chg	-12.28%	-20.10%	-4.61%	18.09%	-30.57%	-35.69%
52 Week Price Chg	-50.25%	-50.25%	7.38%	-23.22%	-43.38%	-51.90%
20 Day Average Volume	12,208,743	307,393	2,456,671	4,360,398	8,021,023	20,183,276
(F1) EPS Est 1 week change	-44.49%	-3.95%	0.00%	-286.21%	-3.94%	-29.89%
(F1) EPS Est 4 week change	-56.63%	-10.69%	-0.06%	-286.21%	-34.10%	-37.98%
(F1) EPS Est 12 week change	-52.60%	3.03%	-0.41%	-218.35%	-12.43%	41.45%
(Q1) EPS Est Mthly Chg	-57.19%	-3.85%	-0.27%	96.64%	-41.96%	-48.61%

## 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	C
Momentum Score	F
VGM Score	D

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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