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Jul 08, 2020

Occidental Petroleum(OXY)

$17.15 (As of 07/07/20)

Price Target (6-12 Months): **$18.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 12/16/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**2-Buy**
	Zacks Style Scores:	VGM:B
	Value: C | Growth: B | Momentum: C	

Summary

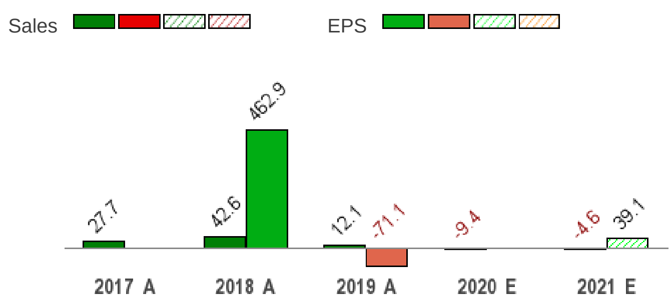
Occidental Petroleum's Permian Basin exposure and strong production volumes from the region continue to boost its performance. To preserve liquidity, the company has lowered capital expenditure, dividend rate and identified new ways to further reduce expenses. Occidental utilized proceeds from lower-margin asset sales to repay debt. However, this debt reduction strategy is not going to work in the present low commodity price scenario as it is difficult to determine the true value of assets. The cancellation of agreement to sell some African assets is also not going to help the company. Shares of Occidental have underperformed the industry in the past 12 months. It faces the risk of cost overruns and interruptions due to delays in drilling and approvals. High debt level amid declining commodity prices and demand is a headwind.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$54.05 - $9.00
20 Day Average Volume (sh)	35,634,328
Market Cap	$15.4 B
YTD Price Change	-58.4%
Beta	1.95
Dividend / Div Yld	$0.04 / 0.2%
Industry	[Oil and Gas - Integrated - United States]()
Zacks Industry Rank	Top 23% (58 out of 252)
Last EPS Surprise	-4.0%
Last Sales Surprise	23.5%
EPS F1 Est- 4 week change	11.1%
Expected Report Date	07/29/2020
Earnings ESP	0.2%
P/E TTM	66.0
P/E F1	NA
PEG F1	NA
P/S TTM	0.7

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	4,422 E	4,559 E	4,731 E	5,014 E	18,334 E
2020	6,451 A	3,919 E	4,337 E	4,487 E	19,226 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	-$0.67 E	-$0.62 E	-$0.56 E	-$0.48 E	-$2.13 E
2020	-$0.52 A	-$1.52 E	-$0.92 E	-$0.68 E	-$3.50 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.

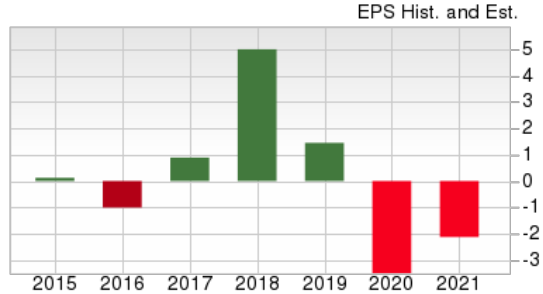
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/07/2020. The reports text is as of 07/08/2020.

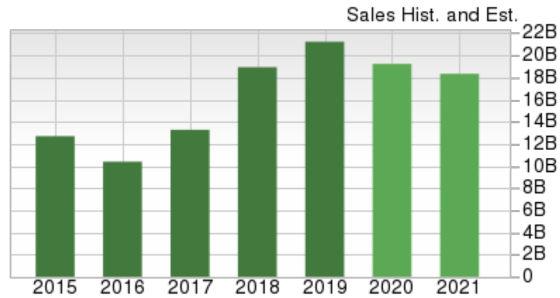
Overview

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.

Reasons To Buy:

▲ Occidental Petroleum's continued focus on the Permian resources has been beneficial for the company. Permian production grew 81.6% year over year to 474,000 barrels of oil equivalent per day (boe/d) in the first 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.

Investments to strengthen infrastructure, focus on the Permian region, shut down of non-economic production, cost management and the Anadarko acquisition will boost its performance.

▲ Occidental's acquisition of Anadarko Petroleum has expanded its operation in the Permian Basin. The combined company will have a production capacity of 1.3 million boe/d and is expected to be accretive to free cash flow. The company is trying to make use of its organic assets in the best possible manner in this unprecedented economic crisis. The company has decided to shut non-economic production.

To preserve liquidity, it reduced 2020 capital expenditure budget by more 50% to $2.4-$2.6 billion. In addition to achieving $1.1-billion overhead and operating expense synergy target one year ahead of schedule, the company also identified $1.2 billion in operating and overhead cost reductions to be realized in 2020. All these measures will boost the company's liquidity.

Taking into consideration choppy commodity prices and demand, the company has decided to withdraw its full-year guidance but provided second-quarter production view of 1,340,000-1,400,000 barrels of oil equivalents per day (BOEPD). Domestic assets are expected to contribute 1,054,000-1,104,000 to total production.

▲ 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.

To preserve liquidity amid coronavirus-induced crisis, the board of directors decided to slash quarterly dividend by 86% to 11 cents from the present level of 79 cents. The company decided to reduce its quaterly dividend again, lowering the same to 1 cent from 11 cents. The decision to lower dividend twice will reduce the dividend outlay by nearly $2.8 billion annually.

▲ Occidental Petroleum has taken initiatives to safeguard its interest amid the falling commodity prices. The company has the ability to quickly reduce activity in this low price environment, while preserving the integrity of valuable assets. It also maintains flexibility so that it can ramp up production when the appropriate opportunity comes.

Occidental, which is a low-cost operator and possesses high-quality assets in different locations across the globe, has a competitive advantage over peers. The company's strong domestic presence will lead to opportunities when the market conditions improve.

Reasons To Sell:

> 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.

- At first quarter-end, Occidental's total debt to capital was 55.9%, up from 53.5% at the end of fourth-quarter 2019. The company exited the first quarter with a long-term debt of $36,826 million, down from $39,391 million at 2019-end. Occidental is trying to lower debts from the balance sheet. In the 2021 to 2022 time period, the company will have to repay debt worth $11.1 billion. However, the current commodity price scenario and declining demand trends, lower probability of selling non-core assets will hinder Occidental's debt reduction. The termination of deal with TOTAL will likely aggravate problems and lower its possibility of accumulating the necessary funds to repay debts that are due in the next couple of years.

  At first quarter-end, cash and cash equivalents of the company was $2,021 million compared with its current debts of $2,464 million. The times interest earned ratio of Occidental at the end of first quarter was (1.1), down from 1.2% at the end of fourth-quarter 2019. The negative ratio clearly indicates that the company will find it difficult to fulfill debt obligations in the near term.

- 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. In the past 12 months, Occidental's shares have lost 65.5%, wider than the industry's decline of 43.9%.

- 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.

  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 Q1 Loss Wider Than Expected, Revenues Top

Quarter Ending	03/2020
Report Date	May 05, 2020
Sales Surprise	23.48%
EPS Surprise	-4.00%
Quarterly EPS	-0.52
Annual EPS (TTM)	0.26

Occidental Petroleum Corporation reported first-quarter 2020 loss of 52 cents per share, wider than the Zacks Consensus Estimate of a loss of 50 cents. The company had recorded earnings of 84 cents per share in the prior-year quarter.

Total Revenues

Occidental's total revenues were $6,451 million, beating the Zacks Consensus Estimate of $5,224 million by 23.5%. The top line also increased 57.8% from $4,089 million in the year-ago quarter. The year-over-year improvement was driven by higher oil and gas revenues.

Production & Sales

Occidental's total production volume in the first quarter was 1,416 thousand barrels of oil equivalent per day (Mboe/d), which came ahead of the guided range of 1,375-1,395 Mboe/d. The strong production volumes were attributed to higher volumes from the Permian Resources region. Permian Resources production in the first quarter was 474 Mboe/d, which exceeded the midpoint of the guided range by 13 Mboe/d.

In the quarter under review, total sales volume was 1,417 Mboe/d compared with 713 Mboe/d recorded in the year-ago period.

Weak Realized Prices

Realized prices for crude oil in the first quarter decreased 10.5% year over year to $47.08 per barrel on a worldwide basis. Worldwide realized NGL prices decreased 29.3% from the prior-year quarter to $12.82 per barrel. Worldwide natural gas prices were also down 14.8% from the year-ago quarter to $1.32 per thousand cubic feet.

Highlights of the Release

Occidental, similar to other oil and gas companies, was adversely impacted by a steep decline in oil prices and significant drop in demand. Crude oil hedges provided some support to the company amid the falling commodity prices.

Selling, general and administrative expenses in the first quarter were $260 million, up 85.7% from $140 million in the year-ago period.

Interest expenses in the reported quarter were $352 million compared with $98 million in the year-ago period. The higher interest expenses were due to an increase in debt levels to fund the acquisition of Anadarko.

Financial Position

As of Mar 31, 2020, Occidental had cash and cash equivalents of $2,021 million compared with $3,032 million in the corresponding period of 2019.

As of Mar 31, 2020, the company had a long-term debt (net of current portion) of $36,058 million compared with $38,537 million on Dec 31, 2019. The increase in debt level was due to the loan taken by the company to fund the acquisition of Anadarko. It has been taking steps to lower debt level. The company lowered long-term debt by $2.5 billion in the first quarter.

In first-quarter 2020, cash from operations was $1,414 million, down from $1,832 million in the prior-year period.

In first-quarter 2019, Occidental's total capital expenditure was $1,293 million, up 2.7% from $1,259 million invested in the year-ago period.

Guidance

To preserve liquidity amid the unprecedented economic crisis as a result of the novel coronavirus pandemic, Occidental decided to lower 2020 capital expenditure by more than 50% to the range of $2.4-$2.6 billion.

The company continues to carry out cost-saving initiatives, and identified $1.2 billion in operating and overhead cost reductions to be realized in 2020.

Occidental decided to withdraw its 2020 guidance on account of the market disruption caused by the spread of the novel coronavirus.

Recent News

Occidental to Cut Dividend Again to Preserve Liquidity - May 29, 2020

In the wake of falling oil prices, Occidental Petroleum Corporation announced that the board of directors has decided to slash quarterly dividend again to preserve liquidity amid weak commodity prices and demand. The new quarterly dividend will be 1 cent down from the prior rate of 11 cents. The new dividend will be payable on Jul 15 to shareholders on record as of Jun 15, 2020.

Earlier in March 2020, the company slashed quarterly dividend by 86% to 11 cents for the first time in three decades to ensure enough liquidity to service its debts.

Occidental, TOTAL Cancel Deal for Remaining Africa Assets - May 18, 2020

Occidental Petroleum and TOTAL S.A. canceled the remaining part of the deal for Africa assets. Notably, the deal was signed between the two companies on May 5, 2019. TOTAL had entered into the deal with Occidental to acquire Anadarko's assets in Africa (Algeria, Ghana, Mozambique, South Africa) for a total value of $8.8 billion.

TOTAL has already acquired Mozambique and South African assets from Occidental. However, Algerian authorities disapproved the sale of Occidental's assets in the country to TOTAL. TOTAL has also decided not to acquire Occidental's Ghana assets. The discontinuation of the said agreement will now allow Occidental to look for a third party to sell its Ghana assets. Nonetheless, Occidental has decided to retain and operate the Algerian assets. Due to the deal cancellation, Occidental will face difficulties but TOTAL will be able to preserve liquidity in these difficult times.

Valuation

Occidental Petroleum shares are down 58.4% in the year to date period, and 65.5% over the trailing 12-month period. Stocks in the Zacks sub-industry was down 43% and the Zacks Oil & Energy sector was down by 37.6%, in the year to date period. Over the past year, the Zacks sub-industry and the sector are down 43.9% and 40.5% respectively.

The S&P 500 index is down 1.1% in the year to date period and up 7.2% in the past year.

The stock is currently trading at 1.98X of trailing 12-month Cash flow, which compares to 2.55X for the Zacks sub-industry, 3.09X for the Zacks sector and 22.06X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.18X and as low as 1.18X with a 5-year median of 11.04X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $18 price target reflects 2.07X 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	1.98	2.55	3.09	22.06
	5-Year High	17.18	14.53	9.26	22.62
	5-Year Low	1.18	2.55	3.09	11.69
	5-Year Median	11.04	8.44	5.99	16.47
P/S F12M	Current	0.82	1.4	0.73	3.5
	5-Year High	5.12	2.56	1.44	3.5
	5-Year Low	0.41	1.3	0.66	2.54
	5-Year Median	3.43	2.16	0.99	3.01
EV/EBITDA TTM	Current	6.52	44.26	3.73	11.71
	5-Year High	28.81	10.55	10.48	12.81
	5-Year Low	4.23	3.59	3.73	8.24
	5-Year Median	12.06	5.66	6.67	10.75

As of 7/7/2020

Industry Analysis **Zacks Industry Rank:** Top 23% (58 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
Antero Midstream Corporation **(AM)**	Neutral	3
ConocoPhillips **(COP)**	Neutral	2
Devon Energy Corporation **(DVN)**	Neutral	2
Equitrans Midstream Corporation **(ETRN)**	Neutral	3
Hess Corporation **(HES)**	Neutral	2
Marathon Oil Corporation **(MRO)**	Neutral	3
Rattler Midstream LP **(RTLR)**	Neutral	3
Cactus, Inc. **(WHD)**	Neutral	3

Industry Comparison Industry: Oil And Gas - Integrated - United States

Industry Peers

	OXY	X Industry	S&P 500	COP	HES	MRO
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	2	2	3
VGM Score	B	-	-	C	B	B
Market Cap	15.44 B	213.31 M	21.64 B	43.58 B	14.85 B	4.40 B
# of Analysts	9	6	14	7	6	8
Dividend Yield	0.23%	0.00%	1.92%	4.13%	2.07%	3.59%
Value Score	C	-	-	B	C	B
Cash/Price	0.14	0.16	0.07	0.18	0.13	0.17
EV/EBITDA	8.26	3.53	12.68	3.00	7.92	3.00
PEG Ratio	NA	0.25	2.88	NA	NA	NA
Price/Book (P/B)	0.72	0.72	3.01	1.39	1.82	0.37
Price/Cash Flow (P/CF)	2.14	4.12	11.66	4.27	8.00	1.47
P/E (F1)	NA	9.76	21.31	NA	NA	NA
Price/Sales (P/S)	0.65	1.35	2.30	1.39	2.37	0.84
Earnings Yield	-20.41%	-3.45%	4.43%	-1.94%	-3.45%	-24.78%
Debt/Equity	1.71	0.20	0.76	0.47	1.07	0.46
Cash Flow ($/share)	8.02	1.53	6.94	9.53	6.04	3.78
Growth Score	B	-	-	D	B	C
Hist. EPS Growth (3-5 yrs)	42.32%	65.86%	10.90%	89.40%	NA	NA
Proj. EPS Growth (F1/F0)	-341.61%	-83.26%	-9.72%	-121.93%	-75.61%	-284.17%
Curr. Cash Flow Growth	-8.32%	-9.26%	5.51%	-10.21%	7.85%	-1.12%
Hist. Cash Flow Growth (3-5 yrs)	-2.26%	-16.17%	8.55%	-7.49%	-16.17%	-6.25%
Current Ratio	1.18	1.57	1.30	2.16	2.19	1.32
Debt/Capital	54.06%	25.02%	44.46%	32.11%	51.78%	31.51%
Net Margin	-13.86%	-13.86%	10.62%	11.51%	-45.64%	4.98%
Return on Equity	1.24%	1.57%	15.75%	10.02%	-5.06%	1.90%
Sales/Assets	0.25	0.29	0.55	0.45	0.29	0.26
Proj. Sales Growth (F1/F0)	-9.45%	-8.04%	-2.57%	-47.69%	-13.43%	-37.74%
Momentum Score	C	-	-	B	A	A
Daily Price Chg	-5.67%	-2.42%	-1.54%	-2.38%	-2.28%	-4.95%
1 Week Price Chg	0.51%	1.07%	3.66%	3.54%	6.21%	6.62%
4 Week Price Chg	-26.01%	-15.02%	-6.66%	-16.43%	-16.14%	-27.29%
12 Week Price Chg	15.10%	19.01%	7.04%	19.25%	25.28%	31.06%
52 Week Price Chg	-65.43%	-59.43%	-6.88%	-32.14%	-22.06%	-58.86%
20 Day Average Volume	35,634,328	542,362	2,385,506	6,644,873	2,237,025	29,079,158
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	11.08%	3.93%	0.00%	24.43%	19.66%	6.91%
(F1) EPS Est 12 week change	-5.91%	-18.28%	-8.21%	15.66%	43.61%	-18.69%
(Q1) EPS Est Mthly Chg	17.08%	5.85%	0.00%	7.80%	22.96%	6.93%

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	C
Growth Score	B
Momentum Score	C
VGM Score	B

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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