

Occidental Petroleum(OXY)

\$13.40 (As of 08/20/20)

Price Target (6-12 Months): **\$14.00**

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: B

Growth: F

Momentum: D

Summary

Occidental Petroleum is presently focusing on maintaining the production base and lowering outstanding debts through the proceeds of non-core assets sales. To preserve liquidity, the company has lowered capital expenditure, dividend rate and identified ways to reduce expenses. Permian Basin exposure continues to boost total production volumes. The company recently signed a deal to sell some non-core assets, which will assist the company to achieve its 2020 divestiture target. However, 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 cancellation of the African asset divestment deal will be a setback and can adversely impact its plans to lower debts.

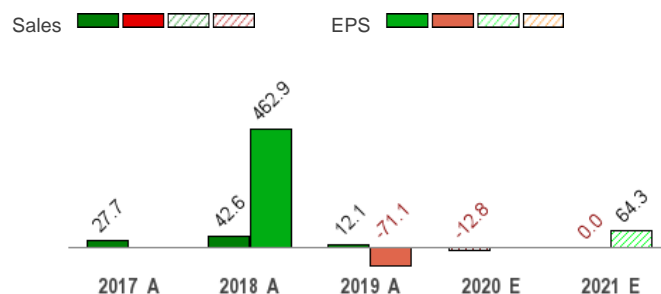
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$48.85 - \$9.00
20 Day Average Volume (sh)	22,385,230
Market Cap	\$12.5 B
YTD Price Change	-67.5%
Beta	1.87
Dividend / Div Yld	\$0.04 / 0.3%
Industry	Oil and Gas - Integrated - United States
Zacks Industry Rank	Bottom 27% (184 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-6.0%
Last Sales Surprise	-23.6%
EPS F1 Est- 4 week change	1.9%
Expected Report Date	11/02/2020
Earnings ESP	0.0%
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,542 E	4,670 E	4,827 E	4,946 E	18,527 E
2020	6,451 A	2,976 A	4,363 E	4,517 E	18,521 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	-\$0.38 E	-\$0.33 E	-\$0.24 E	-\$0.19 E	-\$1.14 E
2020	-\$0.52 A	-\$1.76 A	-\$0.57 E	-\$0.42 E	-\$3.19 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 08/20/2020. The reports text is as of 08/21/2020.

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.

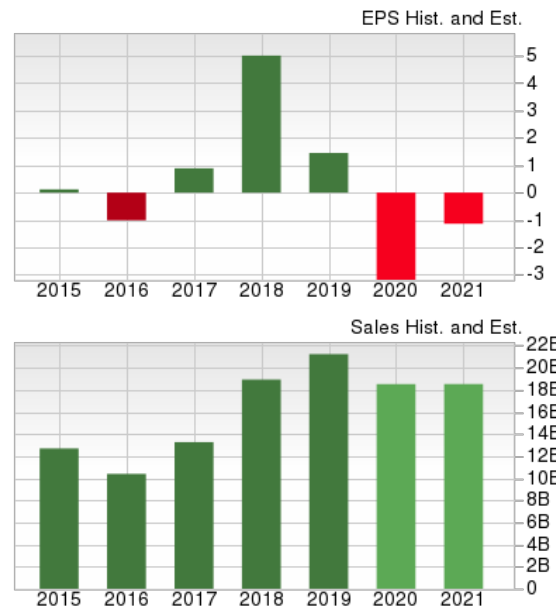
Oil and Gas: This segment explores, develops, produces and markets crude oil, natural gas liquids (NGL), condensate and natural gas. The company has operations in the U.S. (Colorado, New Mexico, North Dakota and Texas) as well as international locations such as Colombia, Oman, Qatar and the United Arab 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 60.9% year over year to 465,000 barrels of oil equivalent per day (boe/d) for the second quarter, courtesy of improved well performance and development activity. The company's core development area in the Permian region has been 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's investment plans and production growth support the cash flow generation capacity of the company.
- ▲ 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.

Investments to strengthen infrastructure, focus on the Permian region, divestiture of non-core assets, cost management and the Anadarko acquisition will boost its performance.

For 2020, the company's total production is expected in the range of 1,300,000-1,430,000 Boe/d and production volumes from Permian resources are expected within 421,000-431,000 Boe/d. At present, it is emphasizing on maintaining base production levels and navigating through the turbulent period led by the pandemic.

- ▲ 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.

The company has targeted to divest non-core assets worth \$2 billion in 2020, which will help it to fund growth projects and redeem debts. The company recently signed an agreement to sell some of the Wyoming, Colorado, and Utah Land Grant assets to Orion Mine Finance for nearly \$1.33 billion. This will help Occidental to achieve its divestment target. This deal is expected to close in the fourth quarter of 2020. Occidental also plans to divest another \$2-\$3 billion in first-half 2021. The company prefers to wait for serious buyers who will ensure that Occidental will get the full value of its assets, rather than those that are willing to purchase the assets at a discount.

- ▲ 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. 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 quarterly 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. The company reduced 2020 capital expenditure by more 50% to \$2.4-\$2.6 billion.

In addition, it achieved \$1.1-billion overhead and operating expense synergy target one year ahead of schedule, as well as achieved \$1.2 billion in additional cost savings in 2020. All these measures will boost the company's liquidity. It expects more than two-thirds of the additional operating cost savings to be permanent, even when it returns to normalized activity levels. Second-quarter domestic operating expenses were below the guidance of \$4.69 per BOE due to extensive cost management and strong production.

Reasons To Sell:

- ▼ At second quarter-end, Occidental's total debt to capital was 62.9%, up from 53.5% at the end of fourth-quarter 2019. The company exited the second quarter with a long-term debt of \$36,774 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, declining demand trends and the termination of its deal with TOTAL will likely aggravate problems and can cause difficulty in the accumulation of the necessary funds to repay debts that are due in the next couple of years.
 - ▼ At second quarter-end, cash and cash equivalents of the company was \$1,135 million compared with the current debt of \$2,880 million. The times interest earned ratio of Occidental at second quarter-end was (7.1), down substantially 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 declined 70.5%, wider than the industry's fall of 40.5%.
 - ▼ 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.

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

Last Earnings Report

Occidental Q2 Loss Wider Than Expected, Sales Miss

Occidental Petroleum Corporation reported second-quarter 2020 loss of \$1.76 per share, wider than the Zacks Consensus Estimate of a loss of \$1.66. The company recorded earnings of 97 cents per share in the prior-year quarter.

Total Revenues

Occidental's total revenues were \$2,976 million, which lagged the Zacks Consensus Estimate of \$3,894 million by 23.6%. The top line also decreased 33.5% from \$4,476 million in the year-ago quarter. The year-over-year decline was due to lower contribution from all segments.

Segment Details

Oil and Gas revenues for the quarter were \$2,040 million, down 24.9% year over year.

Chemical revenues for the quarter were \$846 million, down 15.2% year over year.

Midstream & Marketing revenues for the quarter were \$204 million, down 77.6% year over year.

Production & Sales

Occidental's total production volume for the second quarter was 1,406 thousand barrels of oil equivalent per day (Mboe/d), which exceeded the midpoint of the guidance by 36 Mboe/d. The strong production volumes were attributed to higher volumes from the Permian Resources region. Permian Resources production for the second quarter was 465 Mboe/d, which exceeded the upper end of the guidance by 5% and was up 60.9% year over year.

For the quarter under review, total sales volume was 1,416 Mboe/d, up 104.6% from 692 Mboe/d recorded in the year-ago period.

Realized Prices

Second-quarter realized prices for crude oil decreased 60.7% year over year to \$23.17 per barrel on a worldwide basis. Worldwide realized NGL prices decreased 56.7% from the prior-year quarter to \$7.79 per barrel. Worldwide natural gas prices improved 6.8% from the year-ago quarter to \$1.10 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. Crude oil hedges provided some support to the company amid the falling commodity prices.

It is aggressively managing cost and implementing ways to lower expenditure. Occidental achieved 2020 annualized run rate of \$1.5 billion of total overhead savings, including \$900 million of synergies and \$600 million of additional cost reduction. Courtesy of cost management and strong production, domestic operating expenses for the second quarter were \$4.69 boe compared with \$11.16 boe registered in the year ago quarter.

Interest expenses for the reported quarter were \$310 million compared with \$153 million in the year-ago period. Higher interest expenses were due to an increase in debt levels to fund the acquisition of Anadarko.

Financial Position

As of Jun 30, 2020, Occidental had cash and cash equivalents of \$1,011 million compared with \$3,032 million in the corresponding period of 2019.

As of Jun 30, 2020, the company had a long-term debt (net of current portion) of \$36,034 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.

For second-quarter 2020, cash from operations was \$365 million, down from \$2,013 million in the prior-year period. For second-quarter 2020, Occidental's total capital expenditure was \$375 million, down 69% from \$1,211 million invested in the year-ago period.

Guidance

Occidental expects third-quarter production in the range of 1,200-1,250 Mboe/d and Permian Resource production in the band of 392-408 Mboe/d. It expects 2020 production in the range of 1,300-1,330 Mboe/d and Permian Resource production within 421-431 Mboe/d.

The company expects exploration expenses for the third quarter and 2020 to be \$25 million and \$120 million, respectively. To preserve liquidity amid the unprecedented economic crisis as a result of the novel coronavirus pandemic, Occidental decided to spend in the range of \$0.7-\$0.8 billion in second-half 2020 and \$2.4-\$2.6 billion in 2020.

Quarter Ending 06/2020

Report Date	Aug 10, 2020
Sales Surprise	-23.57%
EPS Surprise	-6.02%
Quarterly EPS	-1.76
Annual EPS (TTM)	-2.47

Recent News

Occidental to Sell \$1.33B Assets as Part of Divestment Goal - Aug 19, 2020

Occidental Petroleum announced that it has entered into an agreement to divest its Wyoming, Colorado, and Utah Land Grant assets to Orion Mine Finance (Orion) for nearly \$1.33 billion. This deal, which is expected to close in fourth-quarter 2020, includes the company's 4.5 million mineral acres and 1 million fee surface acres. The agreement does not include nearly 2.5 million mineral acres derived from the land grant in Colorado, including Occidental's core DJ Basin position.

Valuation

Occidental Petroleum shares are down 68% in the year to date period, and 70.5% over the trailing 12-month period. Stocks in the Zacks sub-industry was down 46.5% and the Zacks Oil & Energy sector was down by 36.8%, in the year to date period. Over the past year, the Zacks sub-industry and the sector are down 40.5% and 31.7% respectively.

The S&P 500 index is up 5.1% in the year to date period and up 16.2% in the past year.

The stock is currently trading at 2.01X of trailing 12-month Cash flow, which compares to 3.47X for the Zacks sub-industry, 3.84X for the Zacks sector and 15.83X 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 11.03X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$14 price target reflects 2.1X 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	2.01	3.47	3.84	15.83
	5-Year High	17.18	14.63	9.28	22.73
	5-Year Low	1.18	1.64	1.6	11.7
	5-Year Median	11.03	6.36	5.77	16.37
P/S F12M	Current	0.67	1.39	0.71	3.71
	5-Year High	5.12	2.56	1.47	3.71
	5-Year Low	0.41	0.88	0.59	2.53
	5-Year Median	3.41	1.97	0.99	3.05
EV/EBITDA TTM	Current	8.8	6.25	4.33	12.81
	5-Year High	28.81	10.58	10.48	12.85
	5-Year Low	4.23	3.35	3.05	8.25
	5-Year Median	12.06	5.7	6.49	10.91

As of 8/20/2020

Industry Analysis Zacks Industry Rank: Bottom 27% (184 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Antero Midstream Corporation (AM)	Neutral	3
ConocoPhillips (COP)	Neutral	3
Devon Energy Corporation (DVN)	Neutral	3
Equitrans Midstream Corporation (ETRN)	Neutral	4
Hess Corporation (HES)	Neutral	3
Marathon Oil Corporation (MRO)	Neutral	3
Rattler Midstream LP (RTLRL)	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)	3	-	-	3	3	3
VGM Score	D	-	-	D	C	C
Market Cap	12.46 B	785.50 M	23.46 B	41.58 B	14.79 B	4.35 B
# of Analysts	9	5	14	8	6	8
Dividend Yield	0.30%	0.00%	1.65%	4.33%	2.08%	0.00%
Value Score	B	-	-	B	C	B
Cash/Price	0.08	0.13	0.07	0.18	0.10	0.11
EV/EBITDA	8.00	3.08	13.34	2.91	8.05	3.08
PEG Ratio	NA	0.29	3.00	NA	NA	NA
Price/Book (P/B)	0.91	1.02	3.12	1.32	2.01	0.39
Price/Cash Flow (P/CF)	1.67	4.07	12.60	4.07	7.97	1.46
P/E (F1)	NA	10.05	21.61	NA	NA	NA
Price/Sales (P/S)	0.56	1.54	2.44	1.54	2.73	1.07
Earnings Yield	-23.81%	-3.47%	4.43%	-1.86%	-3.47%	-22.69%
Debt/Equity	2.71	0.26	0.76	0.47	1.19	0.49
Cash Flow (\$/share)	8.02	1.53	6.93	9.53	6.04	3.78
Growth Score	F	-	-	D	D	F
Hist. EPS Growth (3-5 yrs)	76.86%	106.96%	10.44%	137.06%	NA	NA
Proj. EPS Growth (F1/F0)	-319.70%	-77.42%	-5.53%	-119.92%	-75.26%	-267.16%
Curr. Cash Flow Growth	-8.32%	-9.26%	5.20%	-10.21%	7.85%	-1.12%
Hist. Cash Flow Growth (3-5 yrs)	-2.26%	-16.17%	8.52%	-7.49%	-16.17%	-6.25%
Current Ratio	0.85	1.59	1.33	2.69	1.99	1.32
Debt/Capital	61.17%	27.04%	44.50%	32.05%	54.39%	33.00%
Net Margin	-54.47%	-36.89%	10.13%	8.49%	-58.62%	-16.03%
Return on Equity	-8.97%	-5.37%	14.67%	3.72%	-8.81%	-3.67%
Sales/Assets	0.21	0.29	0.51	0.40	0.26	0.21
Proj. Sales Growth (F1/F0)	-12.77%	-10.41%	-1.54%	-49.99%	-18.85%	-41.09%
Momentum Score	D	-	-	F	B	A
Daily Price Chg	-3.04%	-1.29%	-0.59%	-2.22%	-0.72%	-3.84%
1 Week Price Chg	-5.24%	5.99%	1.09%	6.58%	1.41%	5.40%
4 Week Price Chg	-20.33%	4.16%	1.91%	-4.18%	-5.68%	-4.34%
12 Week Price Chg	-1.76%	13.44%	6.82%	-9.86%	-0.62%	-3.33%
52 Week Price Chg	-70.02%	-46.77%	1.47%	-25.81%	-24.72%	-55.06%
20 Day Average Volume	22,385,230	428,870	1,873,576	6,685,038	2,052,787	22,776,842
(F1) EPS Est 1 week change	-4.44%	0.00%	0.00%	-7.92%	0.00%	0.00%
(F1) EPS Est 4 week change	1.92%	2.86%	1.79%	-25.75%	2.86%	1.57%
(F1) EPS Est 12 week change	22.09%	17.96%	3.35%	43.48%	32.13%	13.83%
(Q1) EPS Est Mthly Chg	13.23%	8.70%	0.42%	14.01%	0.99%	8.70%

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	F
Momentum Score	D
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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