



Chevron Corporation (CVX)

Updated April 26th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	\$166	5 Year CAGR Estimate:	-2.2%	Market Cap:	\$306 B
Fair Value Price:	\$175	5 Year Growth Estimate:	-8.0%	Ex-Dividend Date:	5/16/24
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.1%	Dividend Payment Date:	6/10/24
Dividend Yield:	3.9%	5 Year Price Target	\$115	Years Of Dividend Growth:	37
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Sell

Overview & Current Events

Chevron is the fourth-largest oil major in the world based on its market cap of \$306 billion, behind only Saudi Aramco, Shell (SHEL) and ExxonMobil (XOM). In 2019, 2021, 2022 and 2023, Chevron generated 78%, 84%, 79% and 74% of its earnings from its upstream segment, respectively. While close industry peers BP and Total produce crude oil and natural gas at approximately equal ratios, Chevron is more leveraged to the oil price, with a 59/41 production ratio. Moreover, as Chevron prices some natural gas volumes based on the oil price, nearly 75% of its output is priced based on the oil price. As a result, Chevron is more leveraged to the oil price than the other oil majors.

On October 23rd, 2023, Chevron agreed to Acquire Hess (HES) for \$53 billion in an all-stock deal. Thanks to this deal, Chevron will purchase the highly profitable Stabroek block in Guyana and Bakken assets and thus it will greatly enhance its production and its free cash flow. As Chevron is fully valued, we view the all-stock deal as attractive for Chevron.

In late April, Chevron reported (4/26/24) financial results for the first quarter of fiscal 2024. The price of oil improved thanks to the Ukrainian crisis and the production cuts of OPEC and Russia while Chevron grew its production 12% thanks to its acquisition of PDC Energy, but gas prices decreased due to warm winter weather. As a result, earnings-per-share dipped -17% over the prior year's quarter, from \$3.55 to \$2.93, though they exceeded the analysts' consensus by \$0.03. Chevron will post strong production growth this year thanks to its recent acquisition of PDC Energy and its pending acquisition of Hess. The company has raised its dividend by 8% this year. We expect above-average earnings this year but we still expect oil prices to deflate in the upcoming years.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$10.14	\$2.45	-\$0.27	\$3.79	\$7.74	\$6.19	-\$0.20	\$8.13	\$18.83	\$13.13	\$12.50	\$8.24
DPS	\$4.21	\$4.28	\$4.29	\$4.32	\$4.48	\$4.76	\$5.16	\$5.31	\$5.68	\$6.04	\$6.52	\$6.80
Shares¹	1880	1883	1892	1905	1914	1872	1911	1922	1920	1868	2000	1900

Chevron invested heavily in growth projects for years but failed to grow its output for an entire decade, as oil projects take several years to start bearing fruit. However, Chevron is now in the positive phase of its investing cycle.

Chevron grew its output by 5% in 2017, 7% in 2018, 4% in 2019, 1% in 2020 due to the pandemic and 0.5% in 2021. Its output dipped -3% in 2022 but it grew 4% last year thanks to sustained growth in the Permian Basin and the acquisition of PDC Energy. The company has more than doubled the value of its assets in the Permian in the last five years thanks to new discoveries and technological advances. Chevron also learned its lesson from the previous downturn and now invests most of its funds in projects that begin delivering cash flows within two years. In addition, thanks to the high grading of its asset portfolio, Chevron can fund its dividend even at an oil price of \$40. The pending acquisition of Hess is likely to be a major growth driver in terms of output and earnings in the years ahead. Nevertheless, given the nearly all-time high earnings-per-share expected this year, we expect an -8% average annual decrease of earnings-per-share over the next five years. Investors should not forget the dramatic cyclicity of the oil industry.

¹ In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	11.9	39.4	---	29.4	14.1	19.3	---	12.8	8.4	12.2	13.3	14.0
Avg. Yld.	3.5%	4.4%	4.3%	3.9%	4.0%	4.0%	5.8%	5.1%	3.6%	3.8%	3.9%	5.9%

Chevron's stock valuation has fluctuated wildly over the past decade. This reflects the underlying volatility of its business model and profitability. When oil prices rise and Chevron's profits increase, its valuation multiple shrinks. Conversely, periods of falling oil prices result in a ballooning price-to-earnings ratio. Chevron is now trading at a price-to-earnings ratio of 13.3. This earnings multiple is lower than the 10-year average of 18.4 of the stock. We expect the stock to trade at an earnings multiple around 14.0 in 2029. If this proves correct, the stock will enjoy a 1.1% annualized gain in its returns over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	41.5%	175%	---	114%	57.9%	76.9%	---	65.3%	30.2%	46.0%	52.2%	82.6%

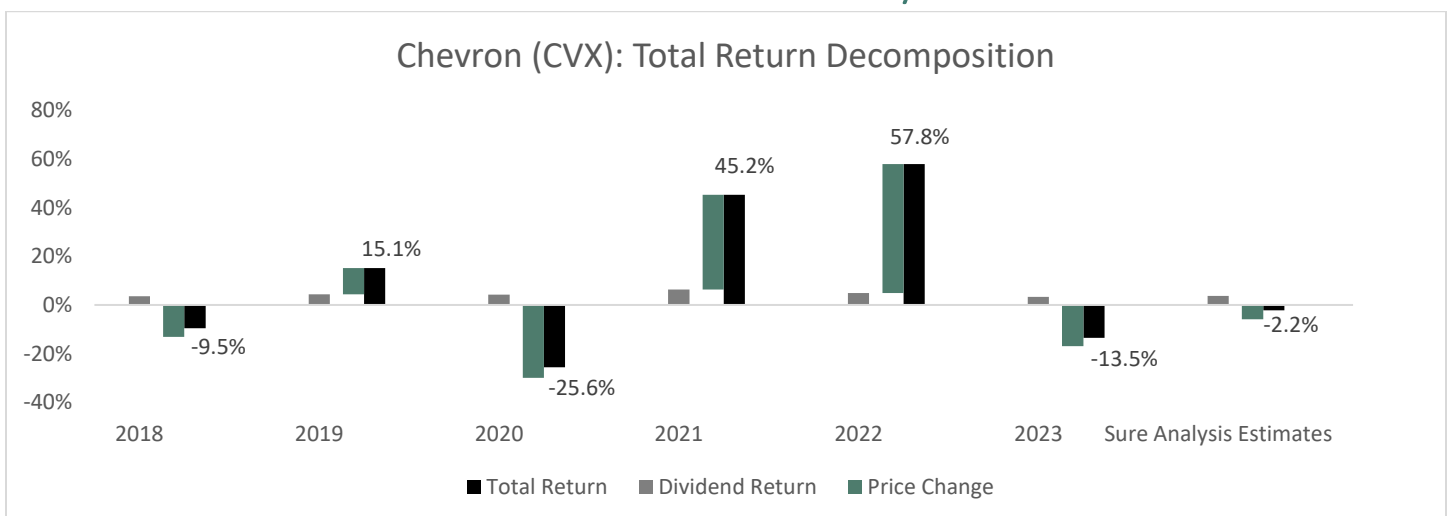
As a commodity producer, Chevron is vulnerable to any downturn in the price of oil, particularly given that it is the most leveraged oil major to the oil price. The oil major issued debt in 2020 to defend its dividend amid the pandemic but it has recovered strongly from that crisis and the payout ratio has become sustainable again.

Chevron's main competitive advantage is its size and industry position. The company achieved record free cash flows in 2021-2023. Chevron raised its dividend by 8% early this year and is likely to keep raising its dividend in the upcoming years, albeit at a modest pace. Chevron is a member of the exclusive Dividend Aristocrats list thanks to its 37 consecutive years of dividend increases. The only other Dividend Aristocrat in the oil industry is Exxon Mobil.

Final Thoughts & Recommendation

Chevron is one of the highest quality energy stocks. Thanks to the exceptionally high price of oil, which has resulted from the war in Ukraine and the deep production cuts of OPEC, Chevron is poised for another strong year. However, due to the high cyclicality of the energy sector, we expect the price of oil to deflate in the upcoming years. We expect the stock to offer a -2.2% average annual return over the next five years, as its 3.9% dividend and its 1.1% annualized valuation tailwind may be offset by an -8.0% annual decline of earnings-per-share. We maintain our sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue (\$B)	200.49	129.93	110.22	134.67	158.90	139.87	94.47	155.61	235.7	196.9
Gross Profit	64030	39137	31437	39560	44905	30534	24475	48309	73982	60391
Gross Margin	31.9%	30.1%	28.5%	29.4%	28.3%	21.8%	25.9%	31.0%	31.4%	30.7%
SG&A Exp.	4494	4443	4305	4110	3838	4143	4213	4014	4312	4141
Operating Profit	19726	-3710	-5471	3128	14446	100	-6977	16180	39655	26229
Op. Margin	9.8%	-2.9%	-5.0%	2.3%	9.1%	0.1%	-7.4%	10.4%	16.8%	13.3%
Net Profit	19241	4587	-497	9195	14824	2924	-5543	15625	35465	21369
Net Margin	9.6%	3.5%	-0.5%	6.8%	9.3%	2.1%	-5.9%	10.0%	15.0%	10.9%
Free Cash Flow	-3932	-10B	-5419	6934	16826	13198	1700	21131	37600	19780
Income Tax	11892	132	-1729	-48	5715	2691	-1892	5950	14066	8173

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets (\$B)	266.03	264.54	260.08	253.81	253.86	237.43	239.79	239.54	257.7	261.6
Cash & Equivalents	12785	11022	6988	4813	9342	5686	5596	5640	17678	8178
Acc. Receivable	16736	12860	14092	15353	15050	13325	1147	18419	20456	19921
Inventories	6505	6334	5419	5585	5704	5848	5676	6305	8247	8612
Goodwill & Int.	4593	4588	4581	4531	4518	4463	4402	4,385	4722	4722
Total Liab. (\$B)	109.84	110.65	113.36	104.49	98.22	92.22	107.06	99.60	97.47	99.70
Accounts Payable	19000	13516	13986	14565	13953	14103	10950	16454	18955	20423
Long-Term Debt	27750	38469	46033	38763	34459	26973	43870	30920	23339	20262
Total Equity (\$B)	155.03	152.72	145.56	148.12	154.55	144.21	131.7	139.07	159.3	161.0
LTD/E Ratio	0.18	0.25	0.32	0.26	0.22	0.19	0.33	0.22	0.15	0.13

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	7.4%	1.7%	-0.2%	3.6%	5.8%	1.2%	-2.3%	6.5%	14.3%	8.2%
Return on Equity	12.7%	3.0%	-0.3%	6.3%	9.8%	2.0%	-4.0%	11.5%	23.8%	13.3%
ROIC	10.8%	2.4%	-0.3%	4.8%	7.8%	1.6%	-3.7%	9.0%	21.4%	11.7%
Shares Out.	1880	1883	1892	1905	1914	1872	1911	1922	1940	1880
Revenue/Share	106.42	69.29	58.84	70.96	83.02	73.81	50.52	81.04	121.5	104.7
FCF/Share	-2.09	-5.36	-2.89	3.65	8.79	6.96	0.91	11.01	19.38	10.5

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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