



Occidental Petroleum Corporation (OXY)

Updated May 14th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	\$63	5 Year CAGR Estimate:	-4.3%	Market Cap:	\$56.4 B
Fair Value Price:	\$45	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	6/10/2024
% Fair Value:	139%	5 Year Valuation Multiple Estimate:	-6.3%	Dividend Payment Date:	7/15/2024
Dividend Yield:	1.4%	5 Year Price Target	\$45	Years Of Dividend Growth:	3
Dividend Risk Score:	C	Retirement Suitability Score:	F	Rating:	Sell

Overview & Current Events

Occidental Petroleum is an international oil and gas exploration and production company with operations in the U.S., the Middle East, and Latin America. It has a market capitalization of \$56.4 billion. While the company also has a midstream and a chemical segment, it is much more sensitive to the price of oil than the integrated oil majors. That's why Occidental was more severely affected than its integrated peers by the downturn in the oil market between mid-2014 and 2016. Due to that downturn, the company reported negligible earnings in 2015 and posted a loss in 2016.

On August 8th, 2019, Occidental acquired Anadarko. Occidental pursued that acquisition thanks to the promising asset base of Anadarko in the Permian, which has enhanced the already strong presence of Occidental in the area, and high synergies. However, that was a huge acquisition, as the \$38 billion value of the deal is 67% of the current market cap of Occidental. Occidental secured \$10 billion in funding from Berkshire Hathaway (BRK.A) in exchange for preferred shares, which receive an 8% annual dividend.

In early May, Occidental reported (5/7/24) financial results for the first quarter of fiscal 2024. Its average realized prices of oil and gas dipped -4% and -14%, respectively, over the prior quarter. As a result, earnings-per-share decreased -15% sequentially, from \$0.74 to \$0.63. Due to its high debt load, Occidental is extremely sensitive to oil and gas prices and thus it is one of the greatest beneficiaries in its sector from the above average oil prices that have resulted from the sanctions of western countries on Russia.

In 2022, Occidental reduced its debt by 37% thanks to its record free cash flows. It has also redeemed 15% of the preferred stock of Berkshire. Berkshire has acquired a 28% stake in Occidental and has requested approval to buy a stake of up to 50%. This has raised speculation that Berkshire may acquire Occidental but we view it as overvalued and hence we do not expect an acquisition around current stock prices. On May 6th, 2023, in the annual meeting of Berkshire, Buffett stated that he does not intend to acquire Occidental.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$4.83	\$0.12	-\$1.01	\$0.89	\$5.01	\$1.45	-\$3.91	\$2.55	\$9.35	\$3.70	\$3.20	\$3.20
DPS	\$2.80	\$2.94	\$3.01	\$3.05	\$3.10	\$3.14	\$0.82	\$0.04	\$0.52	\$0.72	\$0.88	\$1.16
Shares¹	770.6	763.7	764.2	766.4	755.4	809.5	918.7	972.7	1002.0	950.1	920.0	850.0

The pandemic has subsided and hence Occidental has decent growth prospects ahead. It doubled its output in the Permian in 2017-2019 and expects to double it again until the end of this year (vs. 2019). The reserve replacement ratio of 137% in 2023, which boosted reserves from 3.8 to 4.0 billion barrels, bodes well for future growth of output. However, we note the high debt load of the company and its resultant sensitivity to prices. As long as the oil price remains high, Occidental will keep thriving. Nevertheless, we expect the oil price to deflate in the upcoming years, partly due to a record number of renewable energy projects that are under development, and thus we expect the earnings-

¹ In millions

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per-share of Occidental to remain flat in 2029 vs. 2024. While we may miss a portion of the upside of the stock, we prefer to remain conservative due to its excessive downside whenever the next downcycle of the oil price shows up.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	19.5	---	---	---	15.0	36.0	---	10.8	6.4	16.6	19.7	14.2
Avg. Yld.	3.0%	4.0%	4.2%	4.7%	4.1%	6.0%	4.3%	0.1%	0.9%	1.2%	1.4%	2.6%

Occidental is currently trading at 19.7 times its expected earnings this year. This earnings multiple is much higher than the 10-year average price-to-earnings ratio of 14.2 of the stock. If the stock trades at its average valuation level in five years, it will incur a -6.3% annualized drag due to the contraction of its valuation level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

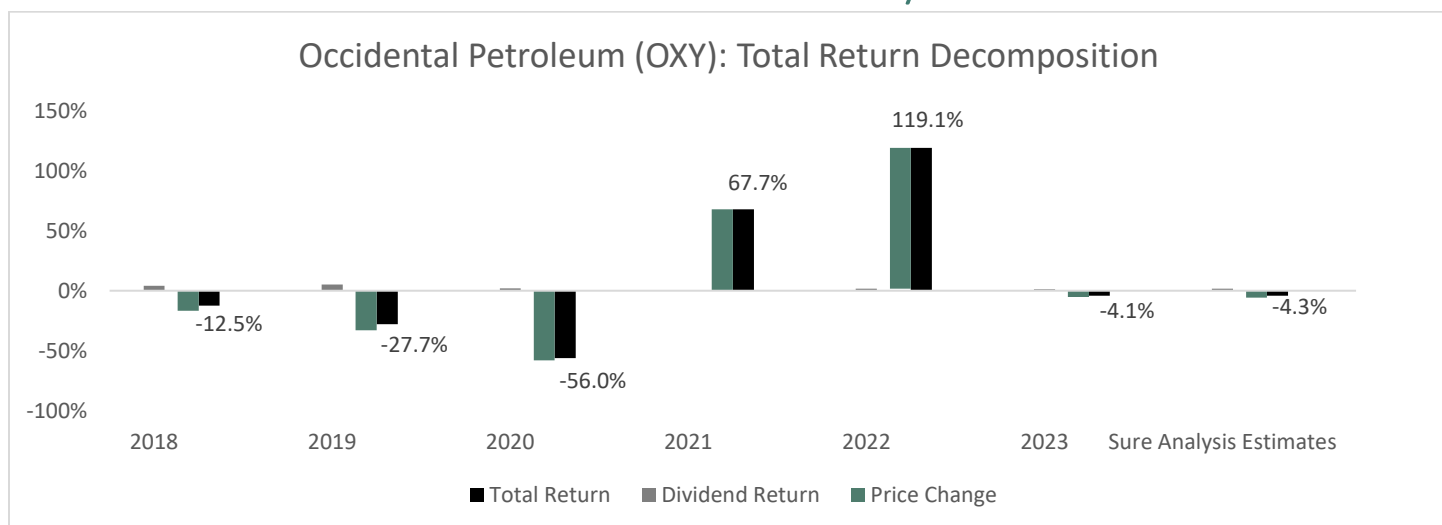
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	58.0%	---	---	343%	61.9%	217%	---	1.6%	5.6%	19.5%	27.5%	36.3%

Before the pandemic, Occidental had raised its dividend for 17 consecutive years at an 11% average annual rate. However, the pandemic caught Occidental off-guard, with a huge debt pile, and thus led to a -99% dividend cut in 2020. Moreover, Occidental is very sensitive to the gyrations of oil prices. The company's reliance on oil prices was displayed in the Great Recession, when its earnings-per-share fell -58%, from \$8.98 in 2008 to \$3.79 in 2009. We reiterate that the company is more sensitive to oil prices than its "supermajor" peers like Exxon Mobil (XOM), partly due to its high debt load. Due to its weak balance sheet, Occidental is essentially a leveraged bet for high oil prices in the future. Therefore, only those who have strong confidence in a sustained environment of high oil prices should consider this stock.

Final Thoughts & Recommendation

Due to its upstream nature and its takeover of Anadarko, which greatly increased interest expense, Occidental is extremely sensitive to the price of oil. Thanks to high oil prices, which have resulted from the war in Ukraine, Occidental has become highly profitable and is reducing its debt load at a fast pace. However, we expect the stock to return -4.3% per year on average over the next five years, as its 1.4% dividend may be offset by a -6.3% valuation headwind. We expect the stock to offer poor long-term returns. The 10-year return of the stock (-32% vs. +177% of the S&P 500) is indicative of the risk of the stock. 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	19,312	12,480	10,090	12,508	17,824	20,911	17,809	25,956	36,634	28,257
Gross Profit	8,248	2,132	633	3,087	7,431	7,019	2,844	7,850	17,645	10,109
Gross Margin	42.7%	17.1%	6.3%	24.7%	41.7%	33.6%	16.0%	30.2%	48.2%	35.8%
SG&A Exp.	1,503	1,270	1,330	546	585	893	864	863	945	1,083
Operating Profit	6,045	483	(1,036)	1,095	5,117	2,983	(1,258)	4,665	13,665	6,414
Op. Margin	31.3%	3.9%	-10.3%	8.8%	28.7%	14.3%	-7.1%	18.0%	37.3%	22.7%
Net Profit	616	(7,829)	(574)	1,311	4,131	(667)	-14,831	2,322	13,304	4,696
Net Margin	3.2%	-62.7%	-5.7%	10.5%	23.2%	-3.2%	-83.3%	8.9%	36.3%	16.6%
Free Cash Flow	2,680	(2,513)	553	1,262	2,694	759	901	7,661	12,460	6,063
Income Tax	1,685	(1,330)	(662)	17	1,477	861	(2,172)	915	813	1,733

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	56,259	43,409	43,109	42,026	43,854	107,190	80,064	75,036	72,609	74,008
Cash & Equivalents	3,789	3,201	2,233	1,672	3,033	3,032	2,008	2,764	984	1,426
Acc. Receivable	4,206	2,970	3,989	4,145	4,893	4,233	2,115	4,208	4,281	3,195
Inventories	1,052	986	866	1,246	1,260	1,581	1,898	1,846	2,059	2,022
Total Liabilities	21,300	19,059	21,612	21,454	22,524	72,958	61,491	54,709	42,524	43,659
Accounts Payable	5,229	3,069	3,926	4,408	4,885	4,910	2,987	3,899	4,029	3,646
Long-Term Debt	6,838	8,305	9,819	9,828	10,317	38,588	36,185	29,028	19,146	19,001
Total Equity	34,959	24,350	21,497	20,572	21,330	24,470	8,811	10,565	20,323	21,963
D/E Ratio	0.20	0.34	0.46	0.48	0.48	1.13	1.95	1.43	0.64	0.63

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.0%	-15.7%	-1.3%	3.1%	9.6%	-0.9%	-15.8%	3.0%	18.0%	6.4%
Return on Equity	1.6%	-26.4%	-2.5%	6.2%	19.7%	-2.9%	-89.1%	24.0%	86.1%	15.5%
ROIC	1.3%	-21.0%	-1.8%	4.2%	13.3%	-1.3%	-23.3%	4.5%	27.0%	9.5%
Shares Out.	770.6	763.7	764.2	766.4	755.4	809.5	918.7	958.8	1002	961
Revenue/Share	24.72	16.30	13.21	16.33	23.35	25.83	19.39	27.07	36.56	29.41
FCF/Share	3.43	(3.28)	0.72	1.65	3.53	0.94	0.98	7.99	12.44	6.31

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

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