

Chevron Corporation (NYSE: CVX)

Sector: Oil & Gas



Target Price	Current Price	52 Week High	52 Week Low	P/E	Market Cap.	Dividend Yield	Beta
\$264.54	\$91.99	\$118.91	\$69.58	19.99	\$173.1B	4.65%	1.28

Business Description

Chevron Corporation is a vertically integrated energy company. The company is heavily involved in each part of the oil and natural gas industry, including exploration and production, transportation, and refining. It is separated into three segments: Upstream, Downstream, and Alternative Energy. Chevron's Upstream segment builds and operates oil and natural gas production facilities worldwide. Its Downstream segment takes the raw materials and refines it into usable energy, chemicals, and products for commercial use. Finally, the Alternative Energy segment is focused on developing and building renewable energy assets.

Industry Trends

The oil and gas industry has faced disruption during the past year due to a rapid decline in energy prices. Brent Crude Oil prices have decreased from above \$100/barrel in June of 2014 to \$40/barrel in November of 2015 due to supply outpacing demand over that time. New technology has lowered the cost of hydraulic fracturing and shale oil production, which has caused the United States and Canada to vastly increase overall supply. The Organization of Petroleum Exporting Countries (OPEC) has maintained a steady increase in supply as well, while demand has not increased nearly fast enough to keep up. With the current low prices, many smaller exploration and production companies are at risk of bankruptcy. In addition, large, integrated oil companies are decreasing capital expenditures on new production facilities to maintain cash flow. As a result, the overall supply of oil may slow in the coming years, which may increase its price in the medium term.

Investment Thesis

Chevron is positioned to maintain profitability and free cash flow at any oil price due to its vertically integrated business model and valuable asset base. The company's upstream segment is highly sensitive to energy prices, but its downstream operations serve as a natural hedge to price declines due to higher margins on refined products. It is also becoming more cost efficient, lowering capital expenditures, and shifting its portfolio of assets to adjust to lower prices. Management has continually stressed that maintaining and growing its dividend is its top priority. In short, Chevron's operations are sustainable in a low oil price environment. That being said, due to bankruptcy of smaller oil companies and decreasing capital expenditures of larger companies, it is unlikely for oil to stay at \$40/barrel for long. If oil prices rise in the near future, Chevron's profitability (and stock price) will thrive.

5-Year Stock Performance



Competitive Analysis

Chevron's major competitors include ExxonMobil, British Petroleum, Royal Dutch Shell, and a variety of smaller, independent energy companies. During oil crashes, integrated oil companies are much better positioned for success -- ExxonMobil and Chevron are the only large, integrated domestic oil companies. In comparison to ExxonMobil, Chevron is set to grow faster with a rebound in the price of energy due to the development of its Wheatstone and Gorgon natural gas facilities. In addition, Chevron is more focused on returning value to shareholders with a dividend yield of 4.75% vs. 3.64% for ExxonMobil.

Valuation Assumptions

WACC: 10%
Terminal FCF Growth Rate: 3%
Net Income Growth Rate: 11%

Key Financials

ROA: 12.87%
ROE: 26.13%
Net Income Margin: 12.78%
5-Year CAGR – Net Income: 12.78%

Risks

Our investment thesis faces the following risks:

- Continued decrease in oil prices will hurt profitability
- Energy regulation and failure to adapt to alternative energy sources
- Unexpected delays to new projects

Corporate Social Responsibility

ESG Score: 52.28 (Industry Avg. 51.59)
Environmental Disclosure Score: 44.63 (Industry Avg. 44.35)
Social Disclosure Score: 64.06 (Industry Avg. 52.34)
Governance Disclosure Score: 55.36 (Industry Avg. 66.37)

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Sources: Bloomberg, Yahoo! Finance

