



CUBEWEALTH

# CHEVRON EQUITY REPORT

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JANUARY 8TH, 2020

# CHEVRON SUMMARY

BY THE NUMBERS

TICKER: CVX

PRICE: \$119.06

Chevron Corp (CVX) engages in integrated energy, chemicals, and petroleum operations worldwide. The company was formerly known as ChevronTexaco Corporation and changed its name to Chevron Corporation in 2005 and was originally founded in 1879 with its headquarters in San Ramon, California.

The company operates in two segments:

## 1. Upstream

a. Involved in the exploration, development, and production of crude oil and natural gas; processing, liquefaction, transportation, and regasification associated with liquefied natural gas; transportation of crude oil through pipelines; and transportation, storage, and marketing of natural gas, as well as operates a gas-to-liquids plant.

## 2. Downstream

a. Engages in refining crude oil into petroleum products; marketing crude oil and refined products; transporting crude oil and refined products through pipeline, marine vessel, motor equipment, and rail car; and manufacturing and marketing commodity petrochemicals, and fuel and lubricant additives, as well as plastics for industrial uses.

**3.9%**

DIVIDEND YIELD

**+14.2%**

2019 RETURN

**\$225B**

MARKET CAP

# ANALYSIS

CUBE is often asked why Chevron (CVX) is in the CUBEfolio and we'll discuss why in this report. First and foremost, CVX provides CUBE with exposure to the oil and gas industry whereby we are diversifying the portfolio and also getting a name that pays a near 4% dividend yield.

If we analyze the price of crude oil and where Chevron, and its peers, stand there is quite a disparity over the years. View the chart below and you'll notice that since the beginning of 2019 WTI crude has risen by 36.2% while CVX has only gained around 13.4%. We believe CVX and many of its peers should be trading at higher levels given the rise in oil.

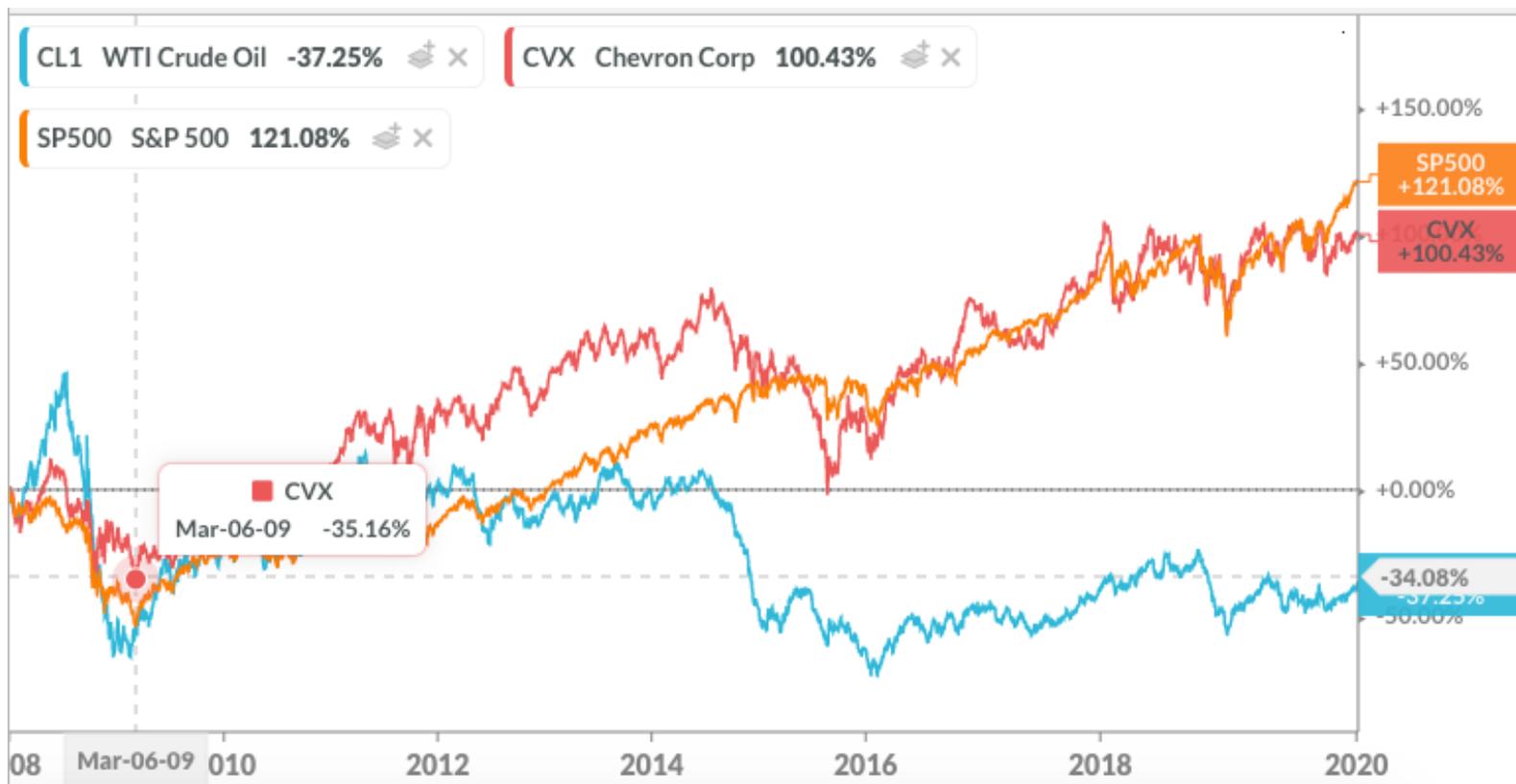


Over the last 5 years when compared to peers, CVX is also near the top when it comes to performance. WTI has gained about 25% since 2015 while CVX has gained about 37%. BP has been outperforming at around +51.7% while other giants like Conoco Phillips (COP), Exxon (XOM), Occidental (OXY), and Noble Energy (NBL) have returned 16.1%, -4.8%, -26.4%, and -38.9% over the same time frame.



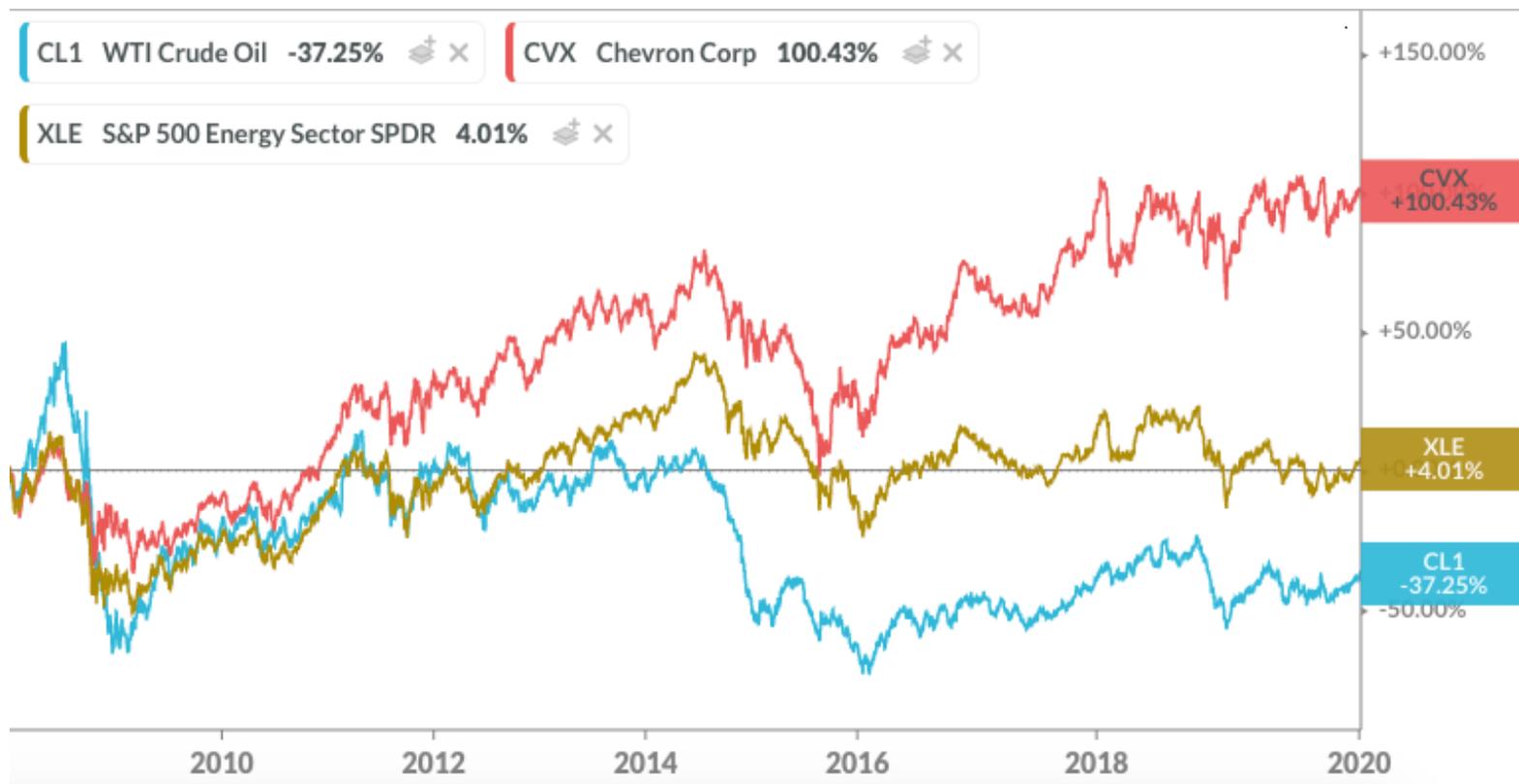
The oil & gas industry has not been an easy one to navigate by any means but we favor the U.S.-based Chevron as best in class. Throughout the last 5 years, CVX was only in the red in 2015 to early 2016 when oil collapsed to \$26 per barrel.

If we go back to 2008, we see how relatively well CVX handled the financial crisis. This chart is from Jan 1, 2008 to Jan 6, 2020. As we can see, CVX actually bottomed at about a 35% loss while the S&P500 was closer to a 54% loss. Until last year, CVX was actually neck and neck with the S&P500 but the recent stall in oil stocks and 30% gain in the S&P500 has since given the index the edge.



CUBE entered CVX as we see this recent lag as an opportunity because oil is also on the rise and we believe CVX can revert to the mean and close the gap a little bit. Mind you, CVX has seen these gains all while oil is down 37% over the last 12 years.

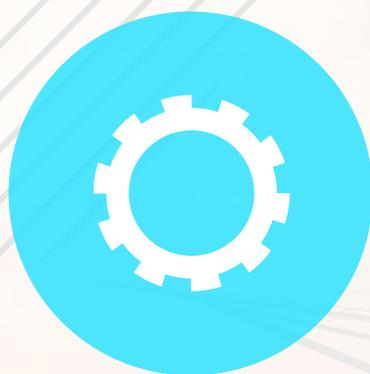
Below is one last performance comparison chart to help provide even more clarity as to why we favor CVX. If we pull up the same chart but this time replace the S&P500 with the XLE Energy ETF we see CVX's true outperformance – a whopping 96% over the last 12 years and this would be even more so if CVX wasn't a part of the XLE and essentially carrying it.



### HOLDINGS AND WEIGHTINGS as of 01/06/2020. Holdings

Symbol	Company Name	Index Weight
XOM	Exxon Mobil Corp	22.44%
CVX	Chevron Corp	20.12%
EOG	EOG Resources	4.82%
COP	ConocoPhillips	4.55%
SLB	Schlumberger Ltd	4.49%
PSX	Phillips 66	4.09%
KMI	Kinder Morgan Inc	3.89%
OXY	Occidental Petroleum	3.77%
MPC	Marathon Petroleum Corp.	3.54%
VLO	Valero Energy Corp	3.52%

# CUBE'S MAIN REASONS FOR HOLDING CVX



DIVERSIFY  
PORTFOLIO



DIVIDEND  
YIELD



FREE CASH  
FLOW

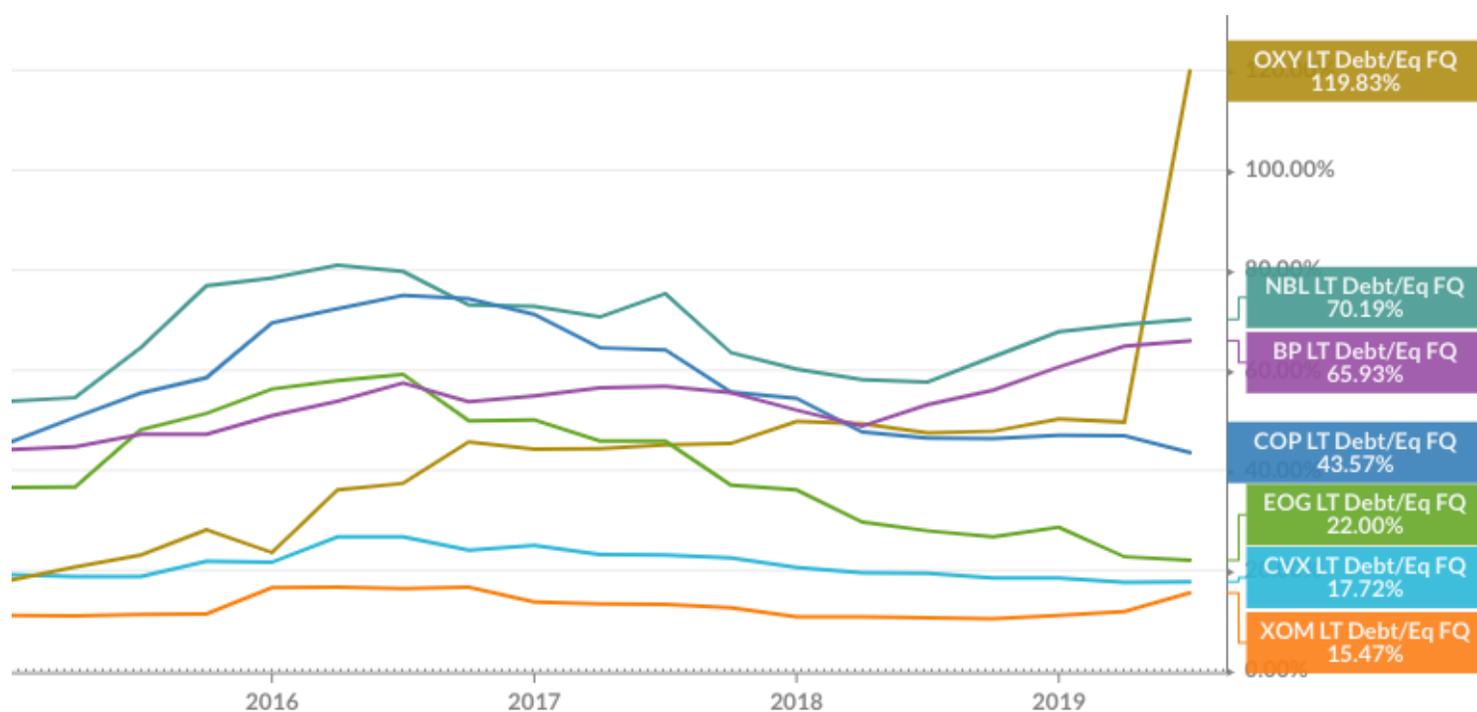
# FINANCIAL STATEMENTS

## BALANCE SHEET

	At September 30, 2019	At December 31, 2018
	(Millions of dollars)	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 11,697	\$ 9,342
Time deposits	—	950
Marketable securities	58	53
Accounts and notes receivable, net	12,966	15,050
Inventories		
Crude oil and petroleum products	3,722	3,383
Chemicals	480	487
Materials, supplies and other	1,749	1,834
Total inventories	5,951	5,704
Prepaid expenses and other current assets	3,316	2,922
<b>Total Current Assets</b>	<b>33,988</b>	<b>34,021</b>
Long-term receivables, net	1,584	1,942
Investments and advances	38,327	35,546
Properties, plant and equipment, at cost	338,699	340,244
Less: Accumulated depreciation, depletion and amortization	174,336	171,037
Properties, plant and equipment, net	164,363	169,207
Deferred charges and other assets	10,716	6,766
Goodwill	4,507	4,518
Assets held for sale	3,052	1,863
<b>Total Assets</b>	<b>\$ 256,537</b>	<b>\$ 253,863</b>
<b>LIABILITIES AND EQUITY</b>		
Short-term debt	\$ 7,795	\$ 5,726
Accounts payable	13,230	13,953
Accrued liabilities	6,523	4,927
Federal and other taxes on income	1,542	1,628
Other taxes payable	1,143	937
<b>Total Current Liabilities</b>	<b>30,233</b>	<b>27,171</b>
Long-term debt	25,056	28,733
Deferred credits and other noncurrent obligations	21,555	19,742
Noncurrent deferred income taxes	17,100	15,921
Noncurrent employee benefit plans	5,701	6,654
<b>Total Liabilities*</b>	<b>99,645</b>	<b>98,221</b>
Preferred stock (authorized 100,000,000 shares, \$1.00 par value, none issued)	—	—
Common stock (authorized 6,000,000,000 shares, \$0.75 par value; 2,442,676,580 shares issued at September 30, 2019, and December 31, 2018)	1,832	1,832
Capital in excess of par value	17,235	17,112
Retained earnings	183,783	180,987
Accumulated other comprehensive loss	(3,269)	(3,544)
Deferred compensation and benefit plan trust	(240)	(240)
Treasury stock, at cost (551,804,392 and 539,838,890 shares at September 30, 2019, and December 31, 2018, respectively)	(43,500)	(41,593)
<b>Total Chevron Corporation Stockholders' Equity</b>	<b>155,841</b>	<b>154,554</b>
Noncontrolling interests	1,051	1,088
<b>Total Equity</b>	<b>156,892</b>	<b>155,642</b>
<b>Total Liabilities and Equity</b>	<b>\$ 256,537</b>	<b>\$ 253,863</b>

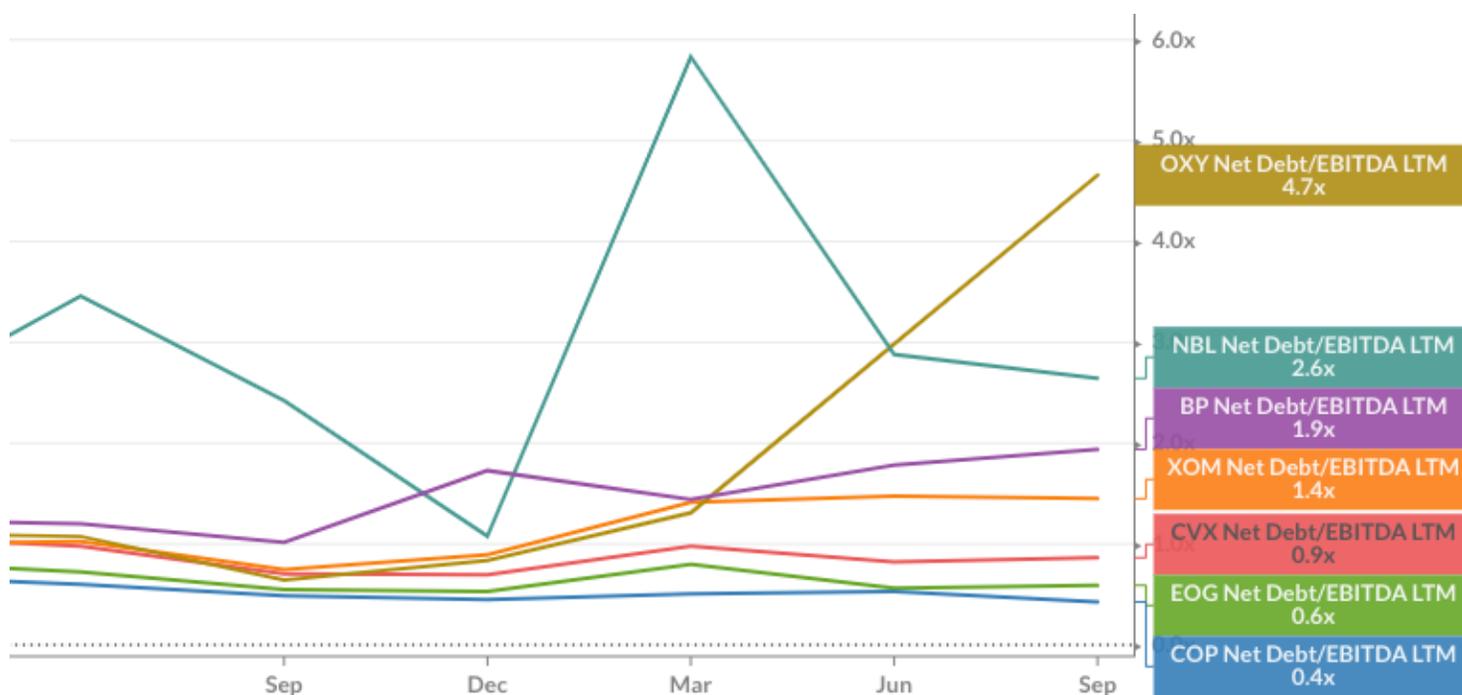
The first thing we notice with Chevron is that cash on a Y/Y basis has grown by roughly \$2.3B to a healthy \$11.7B. If we move further down the statement, we'll also see that the company has approximately \$7.8B in short-term debt due within a year and about \$25B in long-term debt.

Off the bat, you may be thinking these levels are high but in comparison to their business and their peers, CVX is actually in a pretty stable position.



Above is an image of CVX and their peers and their long-term debt to equity ratios. CVX currently stands at 17.7% vs. peers that are in the 40-70% range. OXY is in a unique position as their debt levels have recently skyrocketed due to their buyout of Anadarko which CVX originally made a bid for but did not want to counter. As a result, CVX actually received a \$1B breakup fee. If we look at OXY before the acquisition, their LT Debt to Equity ratio was still around 50%.

The following chart gives us an even better view as to how well the debt can be handled. The following ratio is Net Debt / EBITDA. This is taking the debt a company has, subtracting from it cash on hand to get net debt and dividing it by earnings before interest, taxes, depreciation, and amortization. Many times people use EBITDA as a proxy for operating cash flow but it doesn't apply as well for the oil and gas industry because of how capital intensive the industry is. Regardless, it is still of good use.



At a 0.9x net debt/EBITDA ratio, we can deduct that over the last twelve months CVX has brought in more in EBITDA than their net debt levels. This is a very healthy sign and one of the better ratios as OXY is near 4.7x, NBL is at 2.6x, and XOM is at 1.4x. Surprisingly, EOG and COP are at 0.6x and 0.4x, respectively.

# SOME OTHER KEY STATS

Net Debt / EBITDA - CAPEX

1.5x

Gives a better understanding for cash flow and how it can cover net debt after deducting for capital expenditures

Current Ratio

1.1x

Current Assets / Current Liabilities

Quick Ratio

0.8x

Compares the total amount of cash and cash equivalents + marketable securities + accounts receivable to the amount of current liabilities.

Cash Flow From Operation /  
Current Liabilities

1.0x

Another metric used to better understand how short term liabilities are handled by cash flow from operations. This means CVX brings in \$1 in operating cash flow for every \$1 in current liabilities.

# FINANCIAL STATEMENTS

## INCOME STATEMENT

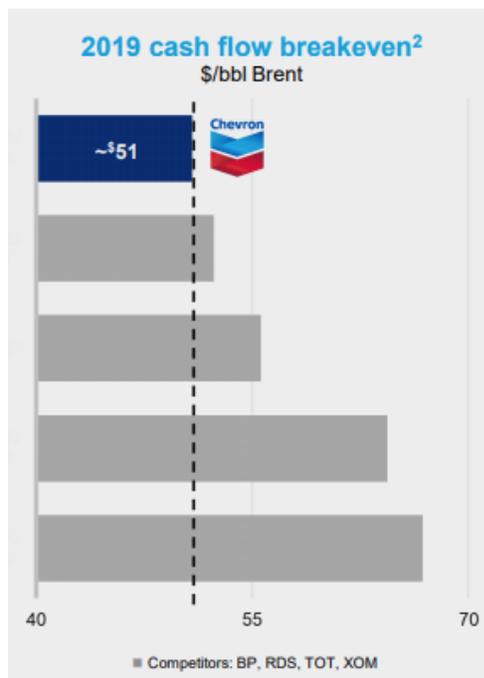
	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
(Millions of dollars, except per-share amounts)				
<b>Revenues and Other Income</b>				
Sales and other operating revenues	\$ 34,779	\$ 42,105	\$ 105,291	\$ 118,564
Income from equity affiliates	1,172	1,555	3,430	4,685
Other income (loss)	165	327	1,445	738
<b>Total Revenues and Other Income</b>	<b>36,116</b>	<b>43,987</b>	<b>110,166</b>	<b>123,987</b>
<b>Costs and Other Deductions</b>				
Purchased crude oil and products	19,882	24,681	60,420	70,658
Operating expenses	5,325	4,985	15,398	14,899
Selling, general and administrative expenses	954	1,018	3,014	2,758
Exploration expenses	168	625	498	960
Depreciation, depletion and amortization	4,361	5,380	12,789	14,167
Taxes other than on income	1,059	1,259	3,167	3,966
Interest and debt expense	197	182	620	558
Other components of net periodic benefit costs	121	158	319	344
<b>Total Costs and Other Deductions</b>	<b>32,067</b>	<b>38,288</b>	<b>96,225</b>	<b>108,310</b>
<b>Income Before Income Tax Expense</b>	<b>4,049</b>	<b>5,699</b>	<b>13,941</b>	<b>15,677</b>
<b>Income Tax Expense</b>	<b>1,469</b>	<b>1,643</b>	<b>4,429</b>	<b>4,540</b>
<b>Net Income</b>	<b>2,580</b>	<b>4,056</b>	<b>9,512</b>	<b>11,137</b>
Less: Net income (loss) attributable to noncontrolling interests	—	9	(22)	43
<b>Net Income Attributable to Chevron Corporation</b>	<b>\$ 2,580</b>	<b>\$ 4,047</b>	<b>\$ 9,534</b>	<b>\$ 11,094</b>
<b>Per Share of Common Stock:</b>				
<b>Net Income Attributable to Chevron Corporation</b>				
— Basic	\$ 1.38	\$ 2.13	\$ 5.06	\$ 5.84
— Diluted	\$ 1.36	\$ 2.11	\$ 5.02	\$ 5.79
<b>Weighted Average Number of Shares Outstanding (000s)</b>				
— Basic	1,880,607	1,900,717	1,885,931	1,899,044
— Diluted	1,893,928	1,917,474	1,899,193	1,916,562

# FINANCIAL STATEMENTS

## CASH FLOW

	Nine Months Ended September 30	
	2019	2018
(Millions of dollars)		
<b>Operating Activities</b>		
Net Income (Loss)	\$ 9,512	\$ 11,137
Adjustments		
Depreciation, depletion and amortization	12,789	14,167
Dry hole expense	137	596
Distributions less than income from equity affiliates	(1,897)	(2,526)
Net before-tax loss (gain) on asset retirements and sales	(106)	(560)
Net foreign currency effects	54	330
Deferred income tax provision	986	806
Net decrease (increase) in operating working capital	1,126	(1,882)
Decrease (increase) in long-term receivables	426	363
Net decrease (increase) in other deferred charges	(144)	(60)
Cash contributions to employee pension plans	(1,204)	(941)
Other	(22)	37
<b>Net Cash Provided by Operating Activities</b>	<b>21,657</b>	<b>21,467</b>
<b>Investing Activities</b>		
Capital expenditures	(9,906)	(9,801)
Proceeds and deposits related to asset sales and returns of investment	1,088	2,116
Net maturities of (investments in) time deposits	950	—
Net sales (purchases) of marketable securities	2	(51)
Net repayment (borrowing) of loans by equity affiliates	(970)	78
<b>Net Cash Used for Investing Activities</b>	<b>(8,836)</b>	<b>(7,658)</b>
<b>Financing Activities</b>		
Net borrowings (repayments) of short-term obligations	1,973	2,199
Proceeds from issuance of long-term debt	—	217
Repayments of long-term debt and other financing obligations	(3,868)	(5,227)
Cash dividends — common stock	(6,731)	(6,382)
Distributions to noncontrolling interests	(16)	(87)
Net sales (purchases) of treasury shares	(1,845)	337
<b>Net Cash Used for Financing Activities</b>	<b>(10,487)</b>	<b>(8,943)</b>
Effect of Exchange Rate Changes on Cash, Cash Equivalents and Restricted Cash	5	(68)
Net Change in Cash, Cash Equivalents and Restricted Cash	2,339	4,798
Cash, Cash Equivalents and Restricted Cash at January 1	10,481	5,943
<b>Cash, Cash Equivalents and Restricted Cash at September 30</b>	<b>\$ 12,820</b>	<b>\$ 10,741</b>

As we examine the income statement we actually see that on a Y/Y basis, CVX is experiencing negative growth. Much of this is because their average selling prices were much lower. For example, in the U.S. upstream segment the company's average sales price per barrel of crude oil and natural gas liquids was \$47 in Q3 2019, down from \$62 a year earlier. The average sales price of natural gas was \$0.95 per thousand cubic feet in Q3 2019, down from \$1.80 in last year's third quarter.



#### EARNINGS BY MAJOR OPERATING AREA

Upstream
United States
International
Total Upstream
Downstream
United States
International
Total Downstream
All Other <sup>(1)</sup>
<b>Total <sup>(2)</sup></b>

Three Months Ended September 30		Nine Months Ended September 30	
2019	2018	2019	2018
<b>\$ 727</b>	\$ 828	<b>\$ 2,371</b>	\$ 2,314
<b>1,977</b>	2,551	<b>6,939</b>	7,712
<b>2,704</b>	3,379	<b>9,310</b>	10,026
<b>389</b>	748	<b>1,071</b>	1,847
<b>439</b>	625	<b>738</b>	1,092
<b>828</b>	1,373	<b>1,809</b>	2,939
<b>(952)</b>	(705)	<b>(1,585)</b>	(1,871)
<b>\$2,580</b>	\$4,047	<b>\$ 9,534</b>	\$ 11,094

On the U.S. upstream business, the 24% price drop in crude Y/Y and the near 50% drop in nat gas was offset by higher production. Net oil-equivalent production of 934,000 barrels per day in third quarter 2019 was up 103,000 barrels per day from a year earlier. Net natural gas production increased 17% to 1.24 billion cubic feet per day, compared to Q3 2018. Q3 2019 unconventional net oil-equivalent production in the Permian Basin was 455,000 barrels per day, representing growth of 35% Y/Y.

The business segment to take the biggest hit was U.S. Downstream as earnings fell from \$748M to \$389M Y/Y, or a 48% drop Y/Y.

We also see that CVX experiences a cash flow breakeven on Brent at \$51 per barrel. Today Brent trades north of \$70.

As for the International Upstream business, the average sales price for crude oil and natural gas liquids in Q3 2019 was \$56 per barrel, down from \$69 a year earlier. The average sales price of natural gas was \$5.62 per thousand cubic feet in the quarter, compared with \$6.73 in last year's third quarter. Because production didn't increase, the pricing pressure Y/Y had a bigger impact. The net liquids component of oil-equivalent production decreased 3% to 1.10 million barrels per day in Q3 2019, while net natural gas production of 5.97 billion cubic feet per day was essentially unchanged, compared to last year's third quarter.

What makes CVX such a great company is that even with these headwinds Y/Y, cash flow from operations in the first nine months of 2019 was \$21.7B, compared with \$21.5 billion in the corresponding 2018 period. This could have been related to lower CAPEX but that wasn't the case either. Capital and exploratory expenditures in the first nine months of 2019 were \$15.0 billion, compared with \$14.3 billion in the corresponding 2018 period. It actually increased.



Overall for the quarter, the company reported Q3 GAAP EPS of \$1.36 missing estimates by \$0.18 on revenue of \$36.12B (-17.9% Y/Y) missing by \$1.57B.

The company plans on repurchasing another \$1.25B of stock in Q4 and the consensus is that CVX will hike their dividend. In the Q4 report, we should also expect a \$10-11B non-cash impairment charge in their U.S. shale holdings in Appalachia.

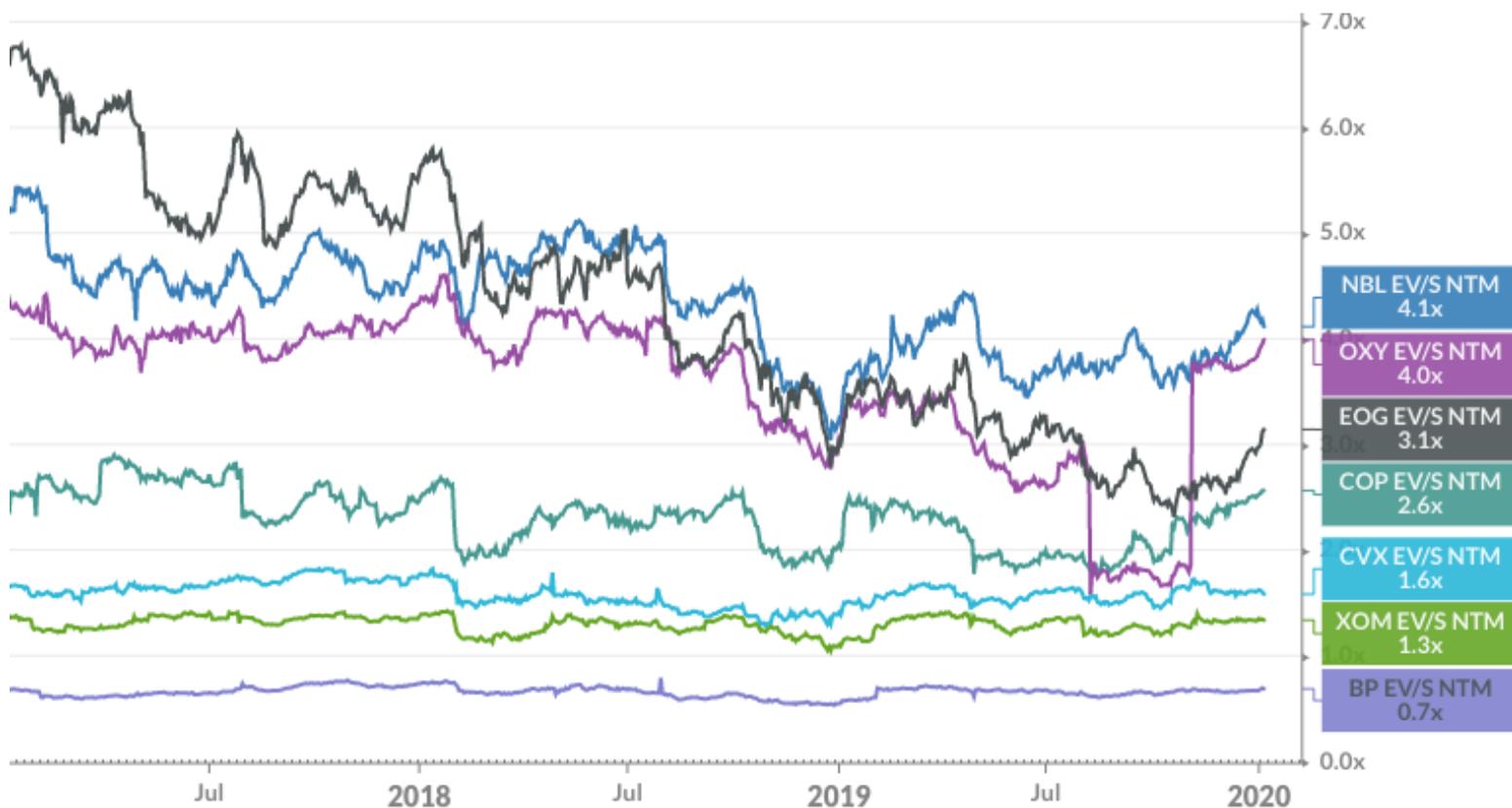
	<b>3Q19</b>
Earnings	<b>\$2.6 billion</b>
Earnings per diluted share	<b>\$1.36</b>
Earnings / EPS (excluding special items and FX) <sup>1</sup>	<b>\$2.9 billion / \$1.55</b>
Cash flow from operations / excl. working capital <sup>1</sup>	<b>\$7.8 billion / \$6.4 billion</b>
Debt ratio / Net debt ratio <sup>2</sup>	<b>17.4% / 11.9%</b>
Dividends paid	<b>\$2.2 billion</b>
Share repurchases	<b>\$1.25 billion</b>
YTD total C&E / YTD organic C&E	<b>\$15.0 billion / \$14.5 billion</b>

## 4Q 2019 outlook

<b>UPSTREAM</b>	<ul style="list-style-type: none"> <li>• <u>Full year</u> 2019 production growth (excluding asset sales) in the middle of the 4-7% range</li> <li>• <u>Full year</u> asset sales production impact (~30 MBOED)</li> <li>• Turnarounds (&gt;70 MBOED)</li> <li>• Exploration related inorganic C&amp;E (~\$120 million)</li> <li>• <u>Full year</u> TCO co-lending (&lt;\$2 billion)</li> </ul>
<b>DOWNSTREAM</b>	<ul style="list-style-type: none"> <li>• "High" refinery turnaround activity, includes SPRC refinery wide turnaround (once every five years)</li> </ul>
<b>CORPORATE</b>	<ul style="list-style-type: none"> <li>• \$430 million tax payment related to cash repatriation</li> <li>• \$1.25 billion of share repurchases</li> </ul>

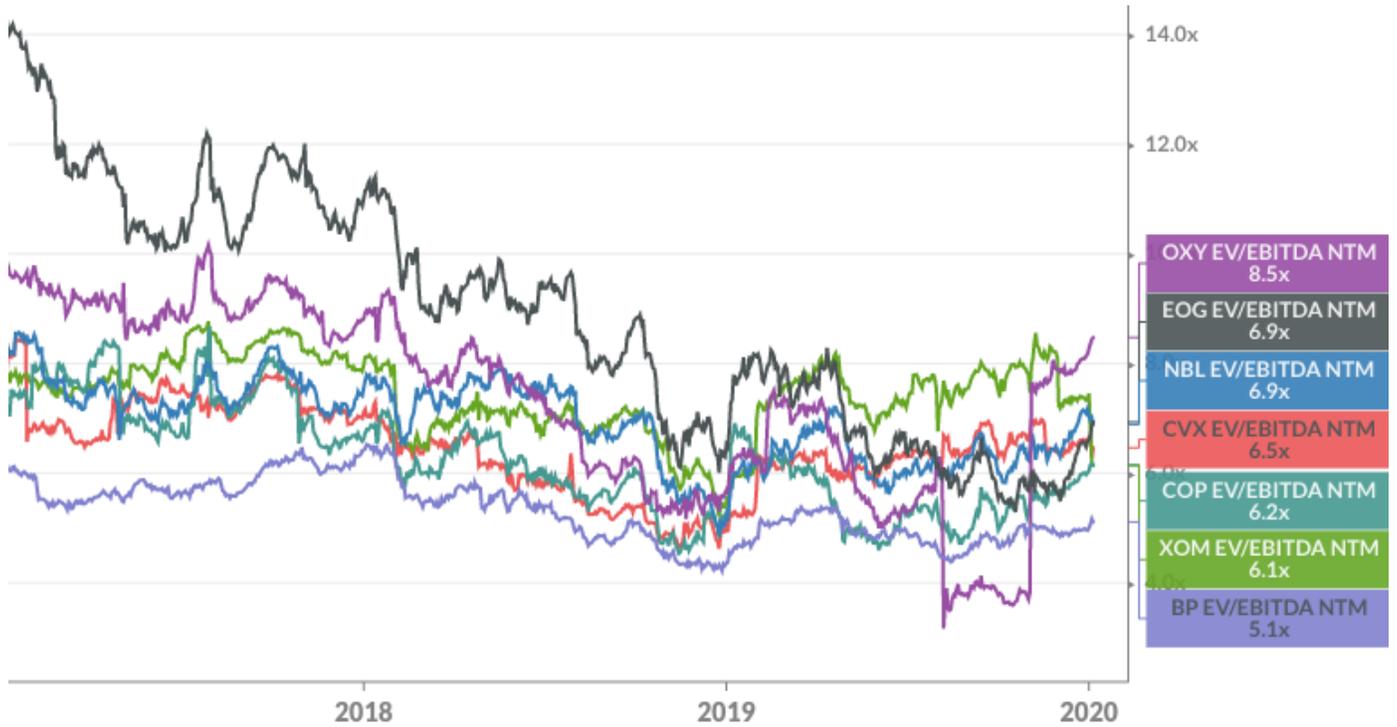
# FUNDAMENTAL ANALYSIS

On a forward enterprise value (market cap - debt + cash) to sales ratio, CVX falls towards the middle of the pack at 1.3x. Only Exxon (XOM) and BP are cheaper at 1.3x and 0.7x, while the other trade near 2.6-4.1x

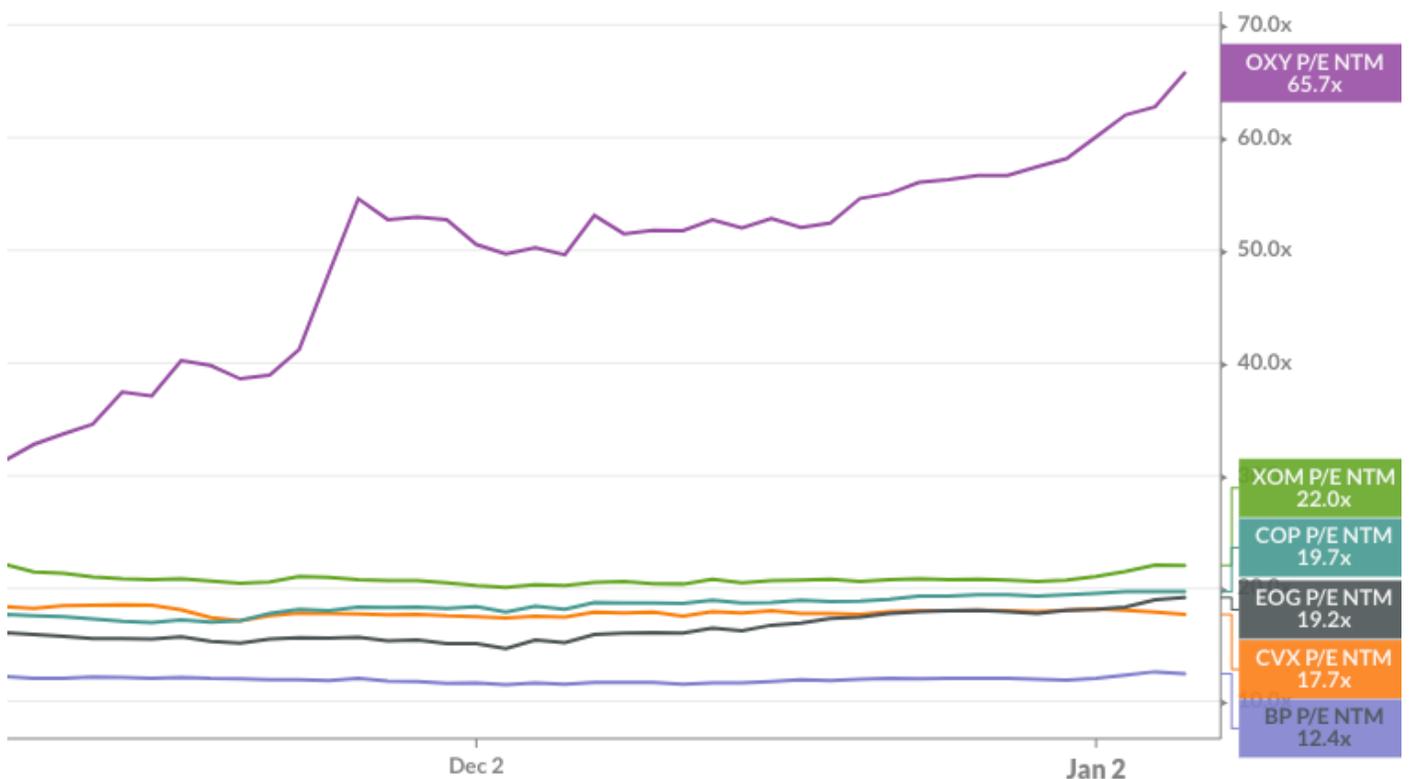


If we actually look over the last couple of the years, the whole group has come down considerably. Companies like EOG used to trade at roughly 7.0 forward EV/Sales. At these levels, CUBE feels the oil and gas industry is pretty attractive.

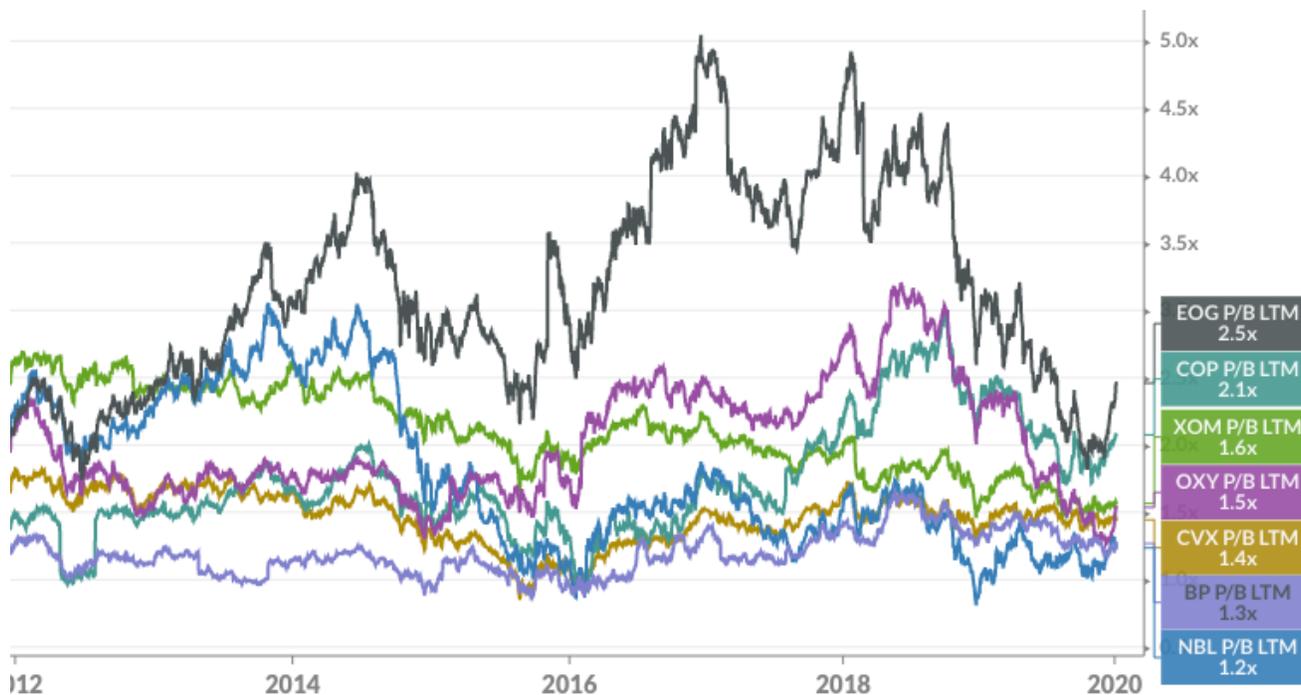
While sales are important, it's all about what makes it to the bottom line.  
From a forward EV/EBITDA standpoint, CVX is once again down the middle at a modest 6.5x.



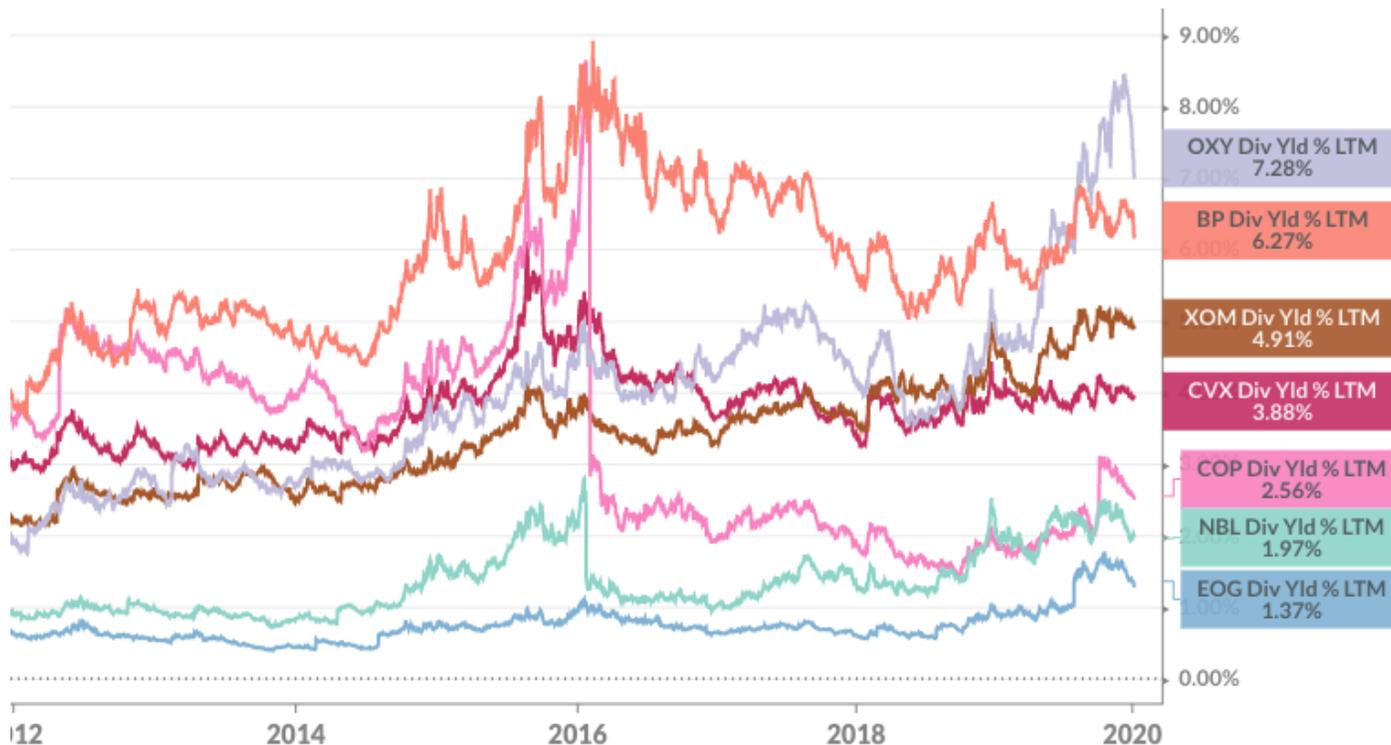
Moving to earnings, CVX is at 17.7x P/E which is slightly cheaper than the S&P500 today. Only BP is cheaper on a forward looking basis at 12.4x while OXY faces some profitability issues and is at whopping ~66x. A commonly named peer in XOM trades much higher at 22.0x



When looking at book value, CVX trades at 1.4x while BP and NBL trade at 1.3x and 1.2x. Aside from EOG and COP, they are all neck and neck and have come down considerably from 2018 levels which is why CUBE is finding this industry interesting at this point as these levels have held pretty well dating back to 2012.



While CUBE loves dividends, it is all about the risk/reward. We'd love to grab OXY at 7.3% but the debt burden is simply too large to ignore. We like CVX at nearly 4% given how reliable it is and the probability of seeing it increase year in and year out with sustainable cash flows.



# TECHNICAL ANALYSIS



CVX was rejected by its R1 resistance level of \$122.72 and is now testing its pivot point of \$119.21 which it actually closed slightly below. The next areas of support will be the 50DMA of \$118.62 and 200DMA and \$118.33. If these levels do hold, CVX should continue higher and try at the R1 level again. If not, CVX will most likely visit the S1 level of \$117. The stock is notorious for trading range bound in this area for the last few years but CUBE isn't purchasing CVX for capital appreciation, rather dividend collection.

# RECAP



Overall, CUBE favors CVX for its solid balance sheet, consistent outperformance vs. peers, healthy and stable dividend, portfolio diversity, and free cash flow growth even during tough environments.

While not mentioned, we were also a big fan of management's decision not to chase Anadarko and get into a bidding war with OXY. While we'd like to see management seek out opportunities that will add value to CVX shareholders, we are happy to see capital discipline by not overextending themselves. We expect CVX to continue to increase production as the company has grown its Permian Basin resources by 6.9B barrels from 2017-2019 to 16.2B barrels and growth should continue especially in this area. While share price appreciation is welcomed, we are using CVX as a diversifier for the CUBEFolio and a bond proxy that pays a 4% yield. We completely understand that oil has its risks and is susceptible to wild moves but that is why it only makes up 2.5% of the portfolio. With current prices above \$60 per barrel, cash flow should continue to come in strong in 2020 and set CVX up for greater buybacks and higher dividends.