What can we expect from high oil prices?
——Evaluation of Chevron Corp.

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Abstract. Chevron Corp. (NYSE: CVX) is one of the market leads of the energy oil and gas industry. The company primarily consists of two parts: upstream and downstream. The upstream is responsible for producing, processing, transporting crude oil, while the downstream operations includes refining it into petroleum products, manufacturing and marketing the commodity to the world. This paper mainly use the SWOT analysis to comprehensively access the Chevron company and its stock performance.

Keywords: Chevron Corp; oil prices; stock performance.

1. Introduction

Recently, the price of the gas reached a new high level, and raised a high attention in the community. Some of my friends were complaining about it, and I wondered why the gas price went up so high recently, since people needed the oil to fulfill their daily needs for transportation.

Furthermore, when I was participating in the summer camp B-BAY in UC Berkeley, one of the professors was claiming that among the several companies he listed, Chevron was always the most unsustainable company, and it would bring up a new plan to address it, which aroused my curiosity to investigate it further. Based on research, Chevron created the Renewable Energy Group to manufacture lower carbon intensity fuels in order to improve the environment. Regarding both of the things that happened recently, I decided to evaluate Chevron for this report.

In this study, I will mainly use the SWOT analysis to comprehensively access the Chevron company and its stock performance.

2. Company Analysis

2.1 SWOT Table (Summary)

| Strength                          | 1. It is one of the biggest energy oil and gas companies in the world by market capitalization.  
|                                  | 2. It has a strong balance sheet and low dividend breakeven. |
| Weakness                         | 1. Stock price correlated with the price of crude oil.  
|                                  | 2. Net cash for investing and financing activities remained negative for these years.  
|                                  | 3. Because of the environmental issues of oil, it has a high risk factor of sustainability. |
| Opportunity                      | 1. It partners with local communities and other companies to boost economics.  
|                                  | 2. It has a wide range of operating developments all over the world. |
| Threat                           | 1. It has several competitors in the industry. |
2.2 SWOT Detailed Information

2.2.1 Strength:
1. Chevron is one of only two oil and gas supermajors to be headquartered in the United States, along with fellow Dividend Aristocrat Exxon Mobil.
2. Based on the analysis of its stock price, CVX has lowered net debt ratio from 22.7% to 15.6% in 2021, which demonstrates its liquidity that it can utilize more of its available assets for other aspects such as developing and refining. In addition, the increased quarterly dividend per share is 4% in 2021, indicating the stock is worth buying, which provides welfare to its stockholders. What's more, the total revenues and other income remained high, which was $162.465B in 2021, reflecting its high profitability. Despite the fact that the pandemic indeed struck its revenues in the last two years, because of the declining demand, the revenues are consistently growing up and recovering.

2.2.2 Weakness:
1. Looking at the stock price comparison of CVX and crude oil, they are highly correlated. Except in the recent, the CVX stock price increased in a larger scale than that of crude oil for the reason that the Renewable Energy Group benefited it more from earning.
2. Net Cash Used for Investing and Financing Activities remained negative in these years despite it gradually climbing up. For one thing, it could easily result in losing the foundation in the subsidiaries and affiliates, in which Chevron manages its investments, and losing trust. For another, despite the higher dividend I mentioned above, the cash dividend - common stock session has always been the biggest portion of the negative capital.
3. Chevron has reached 38 total ESG (Environmental, Social and Governance) rise scores, and a higher than category average controversy level. Based on the data, the environmental issues seem to always be one of the biggest problems that hinders the oil company.

2.2.3 Opportunity:
1. Chevron has partnered with Pertamina to reach a net zero emission target and increase renewable energy, which provides an opportunity for Chevron to deal with its environmental issues, and bring back the trust in consumers. Additionally, Chevron partnered with local communities such as Engineergirl.org to help educate and encourage the next generation of innovators, which strengthen its local economies and help drive sustainable and scale impact in the communities.
2. For its targeting producers and consumers, Chevron has reached a wide range of countries all over the world. From the producer's side, in Angola, Chevron has signed an agreement to extend the Block 0 concession for 20 years with Chevron’s affiliate, Cabinda Gulf Oil Company Limited. Plus, in Japan, it announced the signing of a binding Sale and Purchase Agreement with Hokkaido Gas Co., Ltd. for the delivery of about a half million tons of LNG over a period of five years, starting in 2022. On the other hand, from the consumers’ sides, it announced an agreement to acquire Neste Oyj’s Group III base oil business, including its related sales and marketing business, and brand Nexbase in Finland. In a nutshell, all of these developments outside of its own companies offered the possibility to expand its market to embrace a brighter future.

2.2.4 Threats:

2.2.4.1 The Competitors:
1. CVS:
   a. Revenue: $162.465B
   b. Net Income: $15.63B
   c. Market Cap: $226.21B
   d. Gross Margin: 18.04%
   e. P/E Ratio: 13.61
   f. EPS: $5.95
   g. Price/Sale: 1.35
   h. Return on Equity: 20.09%
2. BP (BP)
   a. Revenue: $69.506B
   c. Market Cap: $90.62B
   d. Gross Margin: 26.87%
   e. P/E Ratio: 14
   f. EPS: $2.86
   g. Price/Sale: 0.53
   h. Return on Equity: -15.6%

3. Exxon Mobil (XOM)
   a. Revenue: $285.64B
   b. Net Income: $17.85B
   c. Market Cap: $356.95B
   d. Gross Margin: 24.10%
   e. P/E Ratio: 11.4
   f. EPS: $5.39
   g. Price/Sale: 0.89
   h. Return on Equity: 23.2%

4. Royal Dutch Shell (RDS-B)
   a. Revenue: $261.5B
   b. Net Income: $20.6B
   c. Market Cap: $89.76B
   d. Gross Margin: 26.59%
   e. P/E Ratio: 10.72
   f. EPS: $5.14
   g. Price/Sale: 0.64
   h. Return on Equity: 11.82%

### 2.2.4.2 Relative Valuation

<table>
<thead>
<tr>
<th>Name</th>
<th>Gross Margin</th>
<th>P/E</th>
<th>EPS</th>
<th>Price/Sale</th>
<th>ROE</th>
</tr>
</thead>
<tbody>
<tr>
<td>CVX</td>
<td>18.04%</td>
<td>13.61</td>
<td>$5.95</td>
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<td>20.09%</td>
</tr>
<tr>
<td>BP</td>
<td>26.87%</td>
<td>14</td>
<td>$2.86</td>
<td>0.53</td>
<td>-15.6%</td>
</tr>
<tr>
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<td>24.10%</td>
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<td>$5.39</td>
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### 2.2.4.3 Discussion

To summarize the overall oil market, the several tycoons basily operate the same; however, there are still a few differences.

The lower gross margin of CVX indicates its less efficiently run and financially unstable than others, which might be one of the shortages Chevron faces and needs to deal with. Because of its inefficient use of raw materials and labors, it is expected to have a worse performance than other companies.

However, the EPS of CVX reached the first place among its competitors, indicating that despite the inefficient use of raw materials and labors, Chevron can still make a huge profit from each of its shares.
Last but not least, the price/sale ratio of CVX also remained high, which demonstrates its second inefficient use of the investors’ funds to drive revenue. As investors, we do not like to see that happen.

3. Industry Analysis

3.1 SWOT Table (Summary)

<table>
<thead>
<tr>
<th>Strength</th>
<th>1. Crude oil has been the most actively traded commodity in the world.</th>
</tr>
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</table>
| Weakness | 1. The fluctuation of stock price is highly correlated with the price of crude oil.  
2. The environmental issues led by the industry such as increasing greenhouse gas, water pollution, and toxic substances are pressing. |
| Opportunity | 1. The industry can expand its market to renewable energy plans. |
2. The inflation of crude oil poses a huge hit on the industry.  
3. The expansion of the EV market persecutes the oil industry. |

3.2 SWOT Detailed Information

3.2.1 Strength:

1. The crude oil is one of the world’s most actively traded commodities because of its high demand, and valuable energy source. According to market research by IBISWorld, a leading business intelligence firm, the total revenues for the oil and gas drilling sector came to approximately $2.1 trillion in 2021.

3.2.2 Weakness:

1. In upstream, the earnings are closely tied to crude oil and natural gas market prices. The external factors Chevron is unable to control, such as global economic conditions, technology advancements, competing fuel prices, natural and human cause, and regional supply interruptions, and government policies. All of these inhibit the company’s production capacity, and increase its risks in operating.

2. In downstream, the earnings are closely aligned with margins on refining, manufacturing and marking of products like jet fuel, diesel, and gasoline. In addition to volatile supply-and-demand balance in regions, these pitfalls strongly affected the oil industries.

3. Most importantly, the environmental issues such as emission of greenhouse gases, water pollution, and highly toxic substances produced by the refining process all contribute to the drawbacks of the oil industries.

3.2.3 Opportunity:

1. Since crude oil is always uncontrollable, the only opportunity for the oil industry is to provide more environmentally-friendly products, to cooperate with other companies to build up a green program, and to promote its renewable energy plans that will be executed successfully in the future.

3.2.4 Threat:

1. One of the well-known threats has always been the pandemic, which resulted in lower global demand for oil. Even though the commodity prices for the majority of our products have largely recovered, the resurgence of variants of virus still impacted the demand for its products like jet fuel.
2. The inflation has led to an increase of oil price, which also lowers the demand for the oil, affecting the profits of the oil industry.

3. Most importantly, the U.S. is undergoing the period of transforming from fuel-driven cars into electric cars. President Biden's goal is 50% of new car sales to be EV's by 2030. By doing so, the oil industry would lose a majority of its target consumers.

4. Conclusion

In the short term, because of the rising oil price and the newly proposed Renewable Energy Group plan, Chevron is still able to earn a profit. However, in the long term, because of the uncontrollability of crude oil prices, pressing environmental issues, and the competitive EV market, CVX is not looking good. All elements add up, investors should see potential growth in the short term but not in the long term.

Reference


