

Date:

2/23/2014

Analyst Name:

Bertelsen and Sedlacek

## CIF Stock Recommendation Report (Spring 2014)

Company Name and Ticker: Chevron Corp. (CVX.N)

### Section (A) Investment Summary

<b>Recommendation Buy:</b> Yes <b>No</b>		<b>Target Price:</b> \$129.58 (+15%)	<b>Stop-Loss Price:</b> \$101.41 (-10%)
<b>Sector:</b> Energy	<b>Industry:</b> Oil and Gas	<b>Market Cap (in Billions):</b> \$216.70B	<b># of Shrs. O/S (in Millions):</b> 1,923.17M
<b>Current Price:</b> \$112.68	<b>52 WK Hi:</b> \$127.82	<b>52 WK Low:</b> \$109.27	<b>EBO Valuation:</b> \$113.97
<b>Morningstar (MS) Fair Value Est.:</b> \$130.00	<b>MS FV Uncertainty:</b> Low	<b>MS Consider Buying:</b> \$104.00	<b>MS Consider Selling:</b> \$162.50
<b>EPS (TTM):</b> \$11.08	<b>EPS (FY1):</b> \$11.11	<b>EPS (FY2):</b> \$11.14	<b>MS Star Rating:</b> ****
<b>Next Fiscal Yr. End Year:</b> 2014 <b>Month:</b> December	<b>Last Fiscal Qtr. End: Less Than 8 WK:</b> <b>Y</b> N	<b>If Less Than 8 WK, next Earnings Ann. Date:</b> April21-25	<b>Analyst Consensus Recommendation:</b> 2.74 (Outperform)
<b>Forward P/E:</b> 10.11	<b>Mean LT Growth:</b> 5.37%	<b>PEG:</b> 1.88	<b>Beta:</b> 0.98
<b>% Inst. Ownership:</b> 64.39%	<b>Inst. Ownership- Net Buy:</b> Yes	<b>Short Interest Ratio:</b> 2.20	<b>Short as % of Float:</b> 0.7%
<b><u>Ratio Analysis</u></b>	<b><u>Company</u></b>	<b><u>Industry</u></b>	<b><u>Sector</u></b>
<b>P/E (TTM)</b>	10.17	31.50	14.96
<b>P/S (TTM)</b>	0.97	1.12	1.56
<b>P/B (MRQ)</b>	1.5	2.28	1.65
<b>P/CF (TTM)</b>	6.06	15.31	8.01
<b>Dividend Yield</b>	3.55	2.01	4.33
<b>Total Debt/Equity (MRQ)</b>	0.12	58.83	45.13
<b>Net Profit Margin (TTM)</b>	9.69	4.36	7.37
<b>ROA (TTM)</b>	8.80	4.13	6.59

ROE (TTM)	15.00	10.79	12.90
-----------	-------	-------	-------

<p><b><u>Investment Thesis</u></b></p> <p>Chevron is an American-based, multinational oil, gas, and petroleum corporation. It is considered one of the six “supermajor” companies; having vertically integrated their entire supply chain so that they control every aspect of the refining process.</p> <p><b>Pros</b></p> <ul style="list-style-type: none"> <li>• 2014 growth expected to be strong due to startup of various projects, most notably the Gordon LNG project</li> <li>• Growing reserves in regions such as the Gulf of Mexico and Western Australia</li> <li>• Capital applied to multiple LNG projects will allow access to more resources, leading to cash flow growth</li> <li>• Appears slightly undervalued based on EBO implied valuations</li> </ul> <p><b>Cons</b></p> <ul style="list-style-type: none"> <li>• Nations becoming more protective of natural resources and becoming loyal to their domestic energy companies, leading to difficulty in production growth</li> <li>• Returns damaged due to currency appreciation and cost inflation</li> <li>• Litigation stemming from Chevron’s former Ecuadorian operations that will likely last for many years, costing millions</li> <li>• Stock price volatile in comparison to the energy sector; short term moving average falls below long term multiple times per quarter</li> </ul>	<p><b><u>Company Profile:</u></b> Chevron is a major player in the worldwide energy market, ranking 11<sup>th</sup> on the Fortune Global 500 list of world’s biggest companies.</p>
	<p><b><u>Fundamental Valuation:</u></b> By using a 2 year growth rate, the price of Chevron stock was \$113.97. This value is set to remain relatively steady to \$134.65 in 2025. After sensitivity analysis, it was determined that using a discount rate of 11% would offset the artificially low beta of 0.98.</p>
	<p><b><u>Relative Valuation:</u></b> The forward P/E was the only valuation matrix that had a median value within the 52-week price range for Chevron. Several outliers played a role in this inconsistency, with 4 of the 6 metrics indicating that Chevron was indeed undervalued.</p>
	<p><b><u>Revenue and Earnings Estimates:</u></b> The analysts’ estimates for both revenue and earnings were decreased in the past year as earnings announcements approached. Bearish sentiment was standard for a majority of the analysts, especially in terms of earnings per share.</p>
	<p><b><u>Analyst Recommendations:</u></b> Recommendations indicated that CVX was a 2.09 on the 5 point scale, indicating a bullish sentiment, despite revenue and earnings estimates that spoke the contrary. Some bear s disagree, stating that current litigations and a changing energy landscape lead to a no-buy or hold for CVX.</p>
	<p><b><u>Institutional Ownership:</u></b> Institutional ownership is at 70.49%, with top 10 institutions accounting for 27.72% of shares. Vanguard, holding 5.39% of shares, has increased their holdings by 1.98% over the past year.</p>
	<p><b><u>Short Interest:</u></b> Chevron, as of January 31<sup>st</sup>, had a short interest ratio of 2.20, which is significantly lower than ExxonMobil’s or ConocoPhillips’ ratings of 3.37 and 3.38.</p>
	<p><b><u>Stock Price Chart:</u></b> In the more recent price charts, CVX underperforms compared to the energy sector and S&amp;P500 as a whole. In terms of the 5-year price chart, Chevron performs better than the sector, but still struggling in terms of the S&amp;P500 index.</p>

## **Company Description**

The Chevron Corporation was founded in 1879. Currently headquartered in San Ramon, CA, Chevron provides, “petroleum, chemicals, mining, energy services, and power generation operations” (LexisNexis). However, Upstream and Downstream are its only reported operations (LexisNexis). The upstream oil sector involves the exploration and production portion: “...[it] includes the searching for potential underground or underwater crude oil and natural gas fields, drilling of exploratory wells, and subsequently drilling and operating the wells that recover and bring the crude oil and/or raw natural gas to the surface” (Investopedia). The downstream operations involve “refining crude oil and distributing the by-products down to the retail level. By-products can include gasoline, natural gas liquids, diesel and a variety of other energy sources” (Investopedia). Chevron uses subsidiaries including Chevron U.S.A. Inc. (CUSA) and Chevron Transport Corporation Ltd. (CTC) to, “processes, transports, and markets crude oil, natural gas, and petroleum products under the Chevron, Texaco, and Caltex brands” (LexisNexis). In addition, Chevron operations consist of, “coal mining, power generation, and cash management and debt financing activities” (LexisNexis). Chevron also engages in the manufacturing and marketing of, “commodity petrochemicals, plastics for industrial applications, and fuel and lubricant oil additives” (LexisNexis).

## **Recent Headlines**

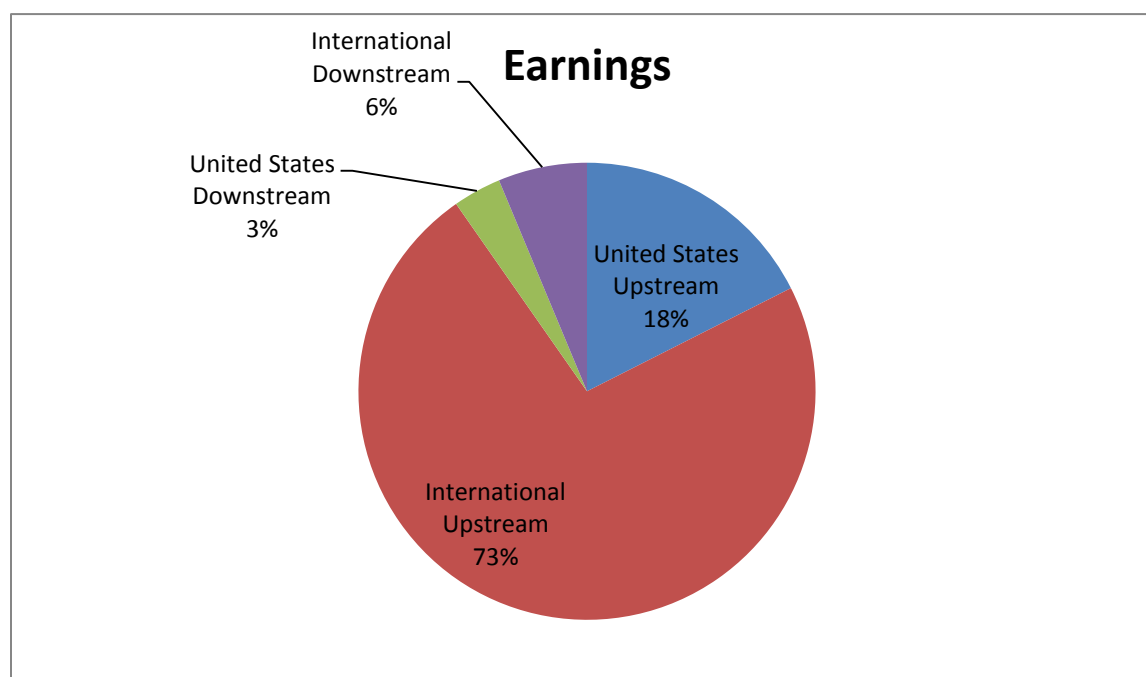
Chevron shut down its seven well pads after a deadly explosion in Dunkard, Pennsylvania. These oil producing wells were involved in fracking stage of oil operations: “Fracking is a part of the drilling process that involves shooting millions of gallons of water, sand, and chemicals into the well hole to fracture the shale and allow the gas to escape” (Pittsburgh Post-Gazette). Chevron continues to investigate the explosion and claims that the leak from the well presents no danger to the community or the environment.

## **Major Business Units and % breakdown of revenue/earnings**

## Earnings by Major Operating Area

<i>Millions of dollars</i>	2013	2012	2011
<b>Upstream</b>			
United States	\$ 4,044	\$ 5,332	\$ 6,512
International	16,765	18,456	18,274
<b>Total Upstream</b>	<b>20,809</b>	<b>23,788</b>	<b>24,786</b>
<b>Downstream</b>			
United States	787	2,048	1,506
International	1,450	2,251	2,085
<b>Total Downstream</b>	<b>2,237</b>	<b>4,299</b>	<b>3,591</b>
<b>All Other</b>	<b>(1,623)</b>	<b>(1,908)</b>	<b>(1,482)</b>
<b>Net Income Attributable to Chevron Corporation<sup>1,2</sup></b>	<b>\$ 21,423</b>	<b>\$ 26,179</b>	<b>\$ 26,895</b>
<sup>1</sup> Includes foreign currency effects:	\$ 474	\$ (454)	\$ 121

<sup>2</sup> Income net of tax, also referred to as "earnings" in the discussions that follow.



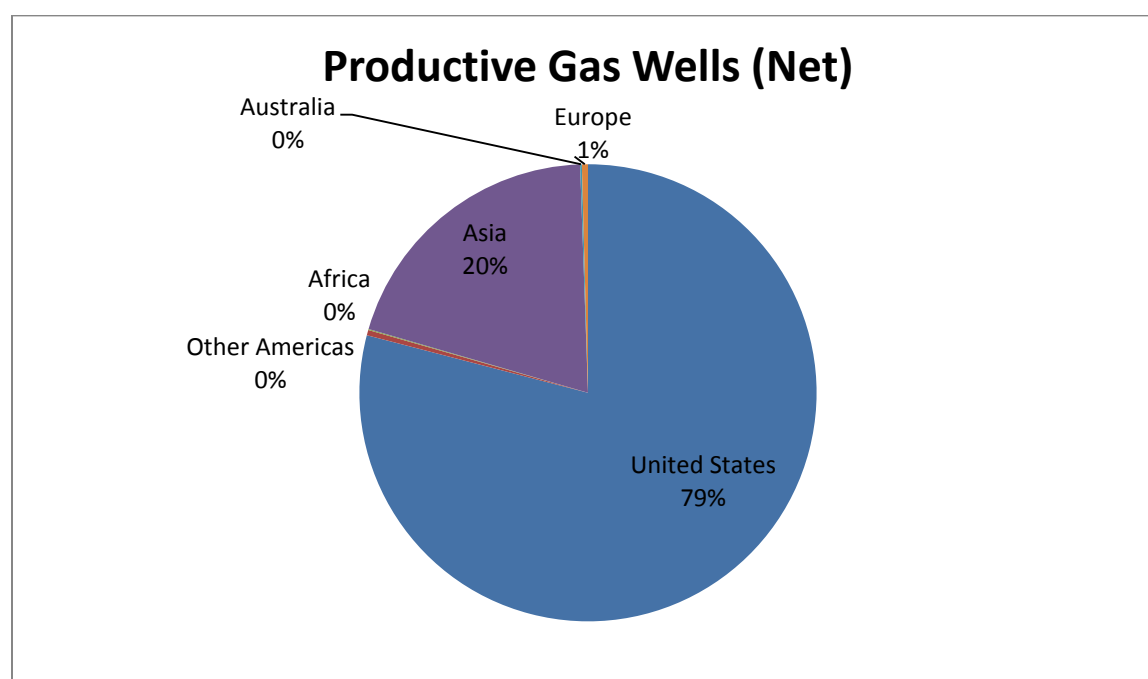
The majority of earnings came from upstream operations. The majority of upstream operations occurred internationally and produced \$16.765 billion in earnings. Upstream operations in the United States attributed to only \$4.044 billion in earnings. Earnings for the upstream segment, "... are closely aligned with industry prices for crude oil and natural gas" (10-K). Downstream

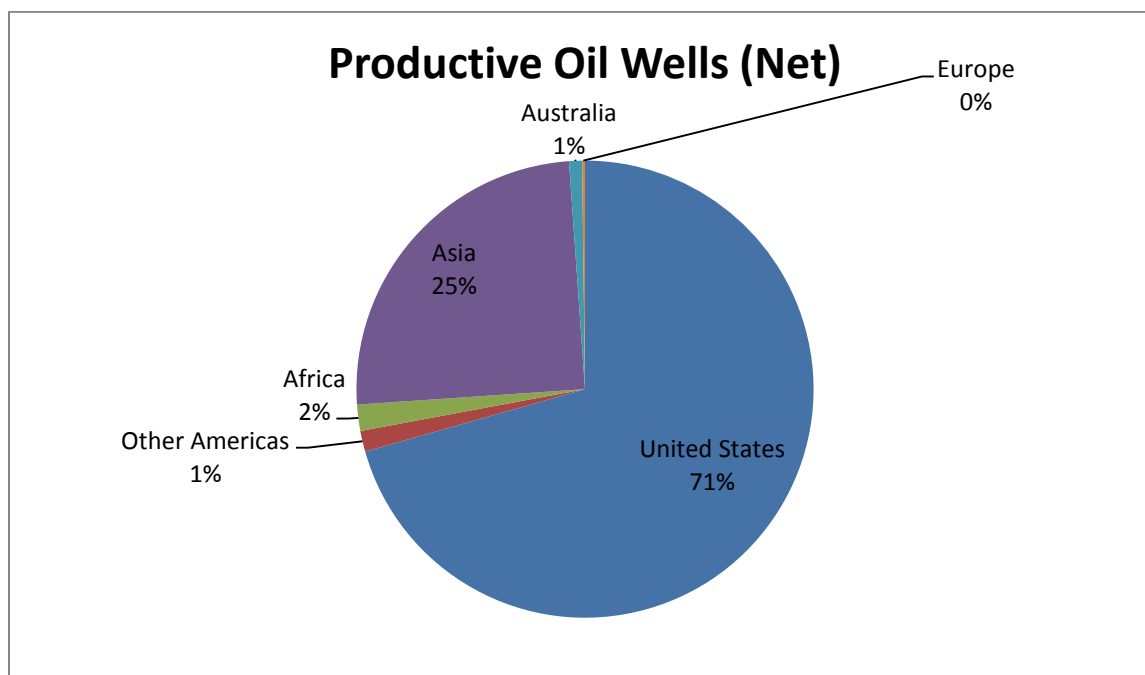
operations in the United States and internationally were closer in terms of revenue. The downstream operations in the United States generated earnings of \$787 million and 1.450 billion internationally. All other operations were negative towards earnings. Earnings for the downstream segment are closely related, "...to margins on the refining, manufacturing and marketing of products that include gasoline, diesel, jet fuel, lubricants, fuel oil, fuel and lubricant additives, and petrochemicals" (10-K). The all other category in earnings represents, "mining operations, power and energy services, worldwide cash management and debt financing activities, corporate administrative functions, insurance operations, real estate activities, alternative fuels, and technology companies" (10-K).

## % breakdown of domestic and international business

Productive Oil and Gas Wells at December 31, 2013

	Productive Oil Wells		Productive Gas Wells	
	Gross	Net	Gross	Net
United States	50,533	33,068	14,217	7,740
Other Americas	1,042	690	60	37
Africa	2,608	870	17	7
Asia	13,530	11,693	3,318	1,953
Australia	808	428	69	12
Europe	373	95	173	42
Total Consolidated Companies	68,894	46,844	17,854	9,791
Affiliates	1,364	476	7	2
Total Including Affiliates	70,258	47,320	17,861	9,793
Multiple completion wells included above	952	677	413	372





The United States currently has the most active oil and natural gas wells. Asia has the second largest amount of active oil and natural gas wells while the other regions of Australia, Other Americas, Europe, and Australia have significantly less. Although the majority of business could take place in the United States as determined by earnings; most of Chevron's earnings are derived internationally.

### **Business Model**

Chevron engages in business in Angola, Argentina, Australia, Azerbaijan, Bangladesh, Brazil, Cambodia, Canada, Chad, China, Colombia, Democratic Republic of the Congo, Denmark, Indonesia, Kazakhstan, Myanmar, the Netherlands, Nigeria, Norway, the Partitioned Zone between Saudi Arabia and Kuwait, the Philippines, Republic of the Congo, Singapore, South Africa, South Korea, Thailand, Trinidad and Tobago, the United Kingdom, the United States, Venezuela, and Vietnam (10-K). Earnings and profitability of the company are derived mostly from upstream and downstream operations. In order for Chevron to maintain a long-term sustainable advantage in the upstream business segments, "...the company must develop and replenish an inventory of projects that offer attractive financial returns for the investment required". In order to be profitable Chevron's management must routinely monitor, "... developments in the financial and credit markets, the level of worldwide economic activity, and the implications for the company of movements in prices for crude oil and natural gas" (10-K).

## Management Strategy

Management's strategy overall goal is to create value for shareholders and achieve continued positive financial returns from its operations. In upstream operations the company's strategies are, "... to grow profitably in core areas and build new legacy positions. In the downstream, the strategies are to deliver competitive returns and grow earnings across the value chain" (10-K). In addition, Chevron also takes measures to allow for the success of the upstream and downstream strategies by utilizing, "...technology across all its businesses to differentiate performance, and to invest in profitable renewable energy and energy efficiency solutions" (10-K).

## Brands

Chevron currently has fourteen different brands. These brands include retail convenience stores, extended life auto coolant, seven types of oil fuel, slogans, oils, motor oil, (gasoline's, motor oils, and industrial lubricants), and fuel additives

EXTRAMILE	Retail Convenience Store
TEXACO	Extended Life Coolant
STARCARD	Oil Fuel
REVTEX	Oil Fuel
VORTEX	Oil Fuel
STAR MART	Oil Fuel
XPRESS LUBE	Oil Fuel
URSA	Oil Fuel
CALTEX	Oil Fuel
HUMAN ENERGY	Slogan
PARALUX	Oils
HAVOLINE	Motor Oil
CHEVRON	Gasolines, Motor Oils & Industrial Lubricants
TECHRON	Fuel Additives

## Major Competitors

Chevron's major competitors in the upstream activities are ConocoPhillips, Royal Dutch Shell PLC, Exxon Mobil and BP PLC. Chevron's main competitors in downstream activities are ExxonMobil Corporation, Valero Energy Corporation, Royal Dutch Shell PLC, Phillips 66 Company, and Marathon Petroleum Company

## **Sensitivity to the business cycle & Macroeconomic movement**

Chevron like the Energy Sector as a whole is sensitive to the business cycle. The industry works in a more cyclical fashion. Weather and seasons play critical role with Chevron's gasoline and cause an increase in demand for gasoline in the summer and a decrease in demand during the winter. Moreover, when people buy less at the pump it is reflected in less storage and transportation which in turn leads to less drilling and exploration. One exception to this cyclical fashion is Chevron's Natural gas. Natural gas sees a spike in demand during the colder months as people use it to heat their homes. Because of cyclical nature of the energy industry their earnings are also exposed to volatility.

With all signs pointing to the economy being in a stage of early to medium growth in the business cycle investing in the energy industry appears bleak: "Energy sector stocks also have lagged during the early phase, as inflationary pressures—and thus energy prices—tend to be very low during a recovery from recession. Each of these three sectors has failed to outperform the market in every early-cycle phase since 1962" (Fidelity). Unfortunately, the energy sector gains most of its success during the late portion of the business cycle meaning that 2014 may not be the year to invest in energy stocks: "the energy sector has seen the most convincing patterns of outperformance in the late cycle, with high average (14%) and median (12%) relative performance along with a high cycle hit rate (83%)" (Fidelity).

## **Significant Merger/acquisition or major restructure in recent years**

Chevron's most recent acquisition came in February of 2011 when it acquired

Atlas Energy. Atlas Energy is based in Pittsburgh and is involved in natural gas and oil extraction and the transportation of resources (10-K). In addition, Atlas has a pipeline division and was an attractive buy for Chevron.

## **Significant pending litigations:**

Chevron currently faces on-going litigation in Ecuador. The legal case stems from past operations that contaminated the Ecuadorian Amazon rainforest (Morning Star).

The plaintiffs in this case have claimed damages exceeding \$27 billion

## **Major risk factors:**

The major risk factors for Chevron are changing commodity prices, business decline if the company does not find and successfully extract resources, operations being interrupted by natural or human factors, and general safety risks in operating in the crude oil and natural gas industry (10-K).



REVENUE			EARNINGS PER SHARE		
Periods	2012	2013	Periods	2012	2013
March	58996.0	54534.0	March	3.27019	3.1781
June	60517.0	55585.0	June	3.66364	2.77006
September	58044.0	58503.0	September	2.67991	2.56499
December	58737.0	54334.0	December	3.71101	2.56861
Note: Units in Millions of U.S. Dollars			Note: Units in U.S. Dollars		

Revenue has been declining over the past two years from 236.294 billion in 2012 to 222.956 billion in 2013. Compared to 2012 numbers revenue was lower in three of the four quarters in 2013. Also, revenue reported in June and September was among the highest for both 2012 and 2013. This is most likely due to the cyclical nature of the energy industry. Earnings was very similar to revenue. Earnings per share have also been declining over the past two years. In 2012 earnings per share totaled to \$13.32475 and slipped to 11.08176 in 2013. The earnings per share in each of 2013's quarters was lower than the earnings per share numbers reported for 2012. However, unlike revenue earnings per share highs and lows were irregular.

### **(B-3) Most Recent Quarterly Earnings Release**

According to the Chevron 2013 4Q Earnings Press Release, Chevron “reported earnings of \$4.9 billion (\$2.57 per share – diluted) for the fourth quarter 2013, compared with \$7.2 billion (\$3.70 per share – diluted) in the 2012 fourth quarter.

Full-year 2013 earnings were \$21.4 billion (\$11.09 per share – diluted), down 18 percent from \$26.2 billion (\$13.32 per share – diluted) in 2012.

Sales and other operating revenues in the fourth quarter 2013 were \$54 billion, compared to \$56 billion in the year-ago period.”

**Earnings Summary Fourth Quarter**

<i>Millions of dollars</i>	2013	2012	2013	2012
Earnings by Business Segment				
<i>Upstream</i>	\$4,852	\$6,858	\$20,809	\$23,788
<i>Downstream</i>	390	925	2,237	4,299
All Other	(312)	(538)	(1,623)	(1,908)
<b>Total <sup>(1)(2)</sup></b>	<b>\$4,930</b>	<b>\$7,245</b>	<b>\$21,423</b>	<b>\$26,179</b>
	\$202	\$(131)	\$474	\$(454)

*(1) Includes foreign  
currency effects*

Source: Chevron 2013 4Q Earnings Press Release

**1) When was the company's most recent earning release?**

Chevron's most recent earnings release was January 31, 2014 to report earnings for its fourth quarter.

**2) In that earnings report, was reported revenue a (1) beat, (2) match, or (3) miss from consensus estimate?****3) Likewise, was reported earnings a (1) beat, (2) match, or (3) miss from consensus estimate?**

In the earnings report, reported revenue and earnings missed from the consensus estimate.

**4) What did the management attribute the beat/miss to?**

Chairman and CEO, John Watson, attributed its miss in earnings and revenue to, ““Global crude oil prices and refining margins were generally lower in 2013 than 2012,” (Press release). Watson also attributed the miss to, “...lower gains on asset sales and higher expenses, resulted in lower earnings” (Press release).

**5) Did the management provide guidance about their current quarter and their outlook for the year? What were the key points of the guidance?**

Management highlights its healthy cash flow, funding of projects, and new resource opportunities when discussing their outlook for the year. John Watson also claims that, “major capital projects currently under construction are expected to deliver significant production growth and shareholder value in the years ahead” (press release). The projects that Watson is referring to are the LNG projects in Australia, Vaca Muerta Shale in Argentina, the Kitimat LNG Project in Canada, and investments in downstream activities in Texas.

**6) How did the stock react to that earnings release?**

Following the earnings release Chevron's stock price dropped \$4.82.

## Section (C) Fundamental Valuation (EBO)

[illegible]

**Inputs (provide below input values used in your analysis)**

**EPS forecasts (FY1 & FY2):** FY1: 11.11; FY2: 11.14

**Long-term growth rate:** 5.37%

**\*\*\* Indicate next to the number if you made an adjustment to the consensus LTG estimate.**

**Justify at the bottom of this panel how you derive the adjusted value, if any \*\*\***

**Book value /share (along with book value and number of shares outstanding):**

**Book value:** 136524

# of shares outstanding: 1947

**Book value / share:** 70.131

**Dividend payout ratio:** 36.29%

**Next fiscal year end:** 2014

**Current fiscal month:** 2

Target ROE: \_\_\_\_\_ 17.1% \_\_\_\_\_

\*\*\* Indicate next to the number if you made an adjustment to the target ROE estimate.

Justify at the bottom of this panel how you derive the adjusted value, if any \*\*\*

Discount rate \_\_\_\_\_ 9.38% \_\_\_\_\_

Input for discount rate:

Risk-free rate: \_\_\_\_\_ 3.69% \_\_\_\_\_

Beta: \_\_\_\_\_ 0.98 \_\_\_\_\_

Market risk premium: \_\_\_\_\_ 5.81% \_\_\_\_\_

## Output

Above normal growth period chosen: \_\_\_\_\_ 2 \_\_\_\_\_

\*\*\* Justify at the bottom of this panel your choice of abnormal growth period \*\*\*

EBO valuation (Implied price from the spreadsheet): \_\_\_\_\_ \$113.97 \_\_\_\_\_

According to the EBO valuation model, Chevron has a stock price estimate of \$120.25 at the end of the 2014 fiscal year, which is on the high side of the 52-week range of \$109.27-\$127.83. When we focus attention further down the road on the EBO model, it depicts a stock price of \$113.97 in 2015, a drop of 5.22%. I feel like this would be the correct time to make our EBO valuation, as the stock price is expected to remain relatively stable from 2015 throughout 2019.

Even though the valuation appears to be extremely accurate and reflective of the current and possible future market conditions, a soft spot could be attributed to the valuation of the company, especially because it is at the end of a struggling fourth quarter that was plagued with winter storms and a decreased demand for oil and petroleum products worldwide. Other than that, I believe the market risk premium and beta both accurately reflect the position of Chevron as of today.

## Sensitivity Analysis

1) Explain the input values used in sensitivity analysis. Compare the fundamental values obtained here in relation to the value from the base case

EBO valuation would be (you can include more than one scenario in each of the following):

\_\_\_\_\_ \$113.36 \_\_\_\_\_ if changing above normal growth period to \_\_\_\_\_ 3 years \_\_\_\_\_

\_\_\_\_\_ \$114.80 \_\_\_\_\_ if changing growth rate from mean (consensus) to the highest estimate \_\_\_\_\_ 6.8% \_\_\_\_\_

\_\_\_\_\_ 111.27 \_\_\_\_\_ if changing growth rate from mean (consensus) to the lowest estimate \_\_\_\_\_ 3.3% \_\_\_\_\_

\_\_\_\_\_ \$96.61 \_\_\_\_\_ if changing discount rate to \_\_\_\_\_ 11% \_\_\_\_\_

\_\_\_\_\_ \$113.97 \_\_\_\_\_ **if changing target ROE to** \_\_\_\_\_ 17.1% \_\_\_\_\_

The sensitivity analysis confirmed my hypothesis that the inputs we used in the fundamental valuation were very accurate and a good representation of Chevron at this point in the business cycle. The biggest change in EBO came from changing the discount rate to 11%, which I did to offset the beta of 0.98, which I believe is slightly low in this post-recession, energy sector-slump where it is riskier to invest in oil and petroleum companies. The rest of the estimates range from \$111.27 to \$114.80, which is a very tight correlation.

## Section (D) Relative Valuation

6		Please read "Stock Recommendation Guidelines" document carefully													
7															
8															
9		CVX.N													
10															
11															
12															
13		Ticker	Name	Mkt Cap	Current Price	Mean FY2 Earnings Estimate (next fiscal year)	Forward P/E	Mean LT Growth Rate	PEG	P/B (MRQ)	ROE 5 yr ave	Value Ratio	P/S TTM	P/CF TTM	
14	1	XOM	ExxonMobil	\$ 415,139.00	\$ 95.37	\$ 7.75	12.31	3.57%	3.45	2.28	14.24%	0.16	0.97	15.31	
15	2	PTR	PetroChina Co Ltd ADR	\$ 191,439.00	\$ 105.41	\$ 12.42	8.49	6.90%	1.23	1.06	13.53%	0.08	0.60	4.69	
16	3	COP	ConocoPhillips	\$ 79,239.38	\$ 64.68	\$ 6.13	10.55	5.10%	2.07	0.57	10.79%	0.05	1.36	5.12	
17	4	BP	BP PLC	\$ 154,222.09	\$ 49.81	\$ 4.68	10.64	2.65%	4.02	1.21	13.60%	0.09	0.39	3.94	
18															
19		CVX.N	Chevron Corp	\$ 216,703.09	\$ 112.68	\$ 11.14	10.11	5.37%	1.88	2.28	14.24%	0.16	0.97	6.06	
20															
21			Implied Price based on:				P/E		PEG	P/B		Value	P/S	P/CF	
22	1	XOM	ExxonMobil				\$137.09		\$206.21	\$112.68		\$112.68	\$112.68	\$284.68	
23	2	PTR	PetroChina Co Ltd ADR				\$94.55		\$73.58	\$52.39		\$55.14	\$69.70	\$87.21	
24	3	COP	ConocoPhillips				\$117.54		\$123.77	\$28.17		\$37.18	\$157.98	\$95.20	
25	4	BP	BP PLC				\$118.56		\$240.26	\$59.80		\$62.61	\$45.30	\$73.26	
26															
27			High				\$137.09		\$240.26	\$112.68		\$112.68	\$157.98	\$284.68	
28			Low				\$94.55		\$73.58	\$28.17		\$37.18	\$45.30	\$73.26	
29			Median				\$118.05		\$164.99	\$56.09		\$58.87	\$91.19	\$91.20	
30															

**ExxonMobil Corp.:** XOM is the largest oil refiner in the world, managing a daily capacity of 6.3 million barrels. It is the third largest company in the world by revenue and second largest publicly traded company in terms of market capitalization, due to its standing as an oil “supermajor.”

**PetroChina Co Ltd:** PTR is a Chinese oil and gas company, and is China’s top oil producer. It is a subsidiary of China National Petroleum Corporation, which is a state-owned entity.

**BP PLC:** Formerly British Petroleum, BC is a British oil and gas company that is the fifth-largest company in the world based off of revenues. They are a “supermajor” as well, vertically integrating themselves so that they control their entire supply chain, from exploration to shipping.

**ConocoPhillips:** COP was created through the merger of Conoco Inc. and Phillips Petroleum Co. It is an American multinational energy company specializing in oil exploration and production throughout the world.

- 1) Discuss various valuation multiples of your stock and its peers. Comment if any of these stocks have multiples far off from the others and explain whether it makes sense.

The most similar valuation multiple between these competitors and Chevron is the forward P/E ratio, the highest being 12.31% and the lowest 8.49%. Chevron’s forward P/E ratio is 10.11, which is ever-so slightly lower than its current P/E of 10.17.

In terms of the PEG ratio, a lower value could indicate a stock is underpriced, but a higher value indicates stronger growth forecast. Chevron has a PEG ratio of 1.88, which is less than three out of four of the competitors. This is despite having the second-highest mean LT growth rate of 5.37%, which could indicate that growth is expected to remain stable throughout the next couple of years.

Chevrons P/B ratio was not listed on Reuters, and in an effort to keep all of the information from one source, the industry average was used instead. However, Morningstar lists Chevrons P/B ratio at 1.5, the second highest only behind ExxonMobil's 2.28. The energy sector as a whole is expected to have low P/B ratios, as their daily operations call for more infrastructure capital than, say, a financial company.

The P/S ratio is another good indicator of a stock's performance. Chevron's P/S ratio is 0.9, which is on the higher side in comparison to companies like PTR and BP. These figures are still low in comparison to the market as a whole, indicating that investors are paying fewer dollars for each dollar of sales. This only works on profitable firms, though, since sales is a very arbitrary metric to value a firm's stock on.

Finally, the P/CF ratio is taken into account. Besides ExxonMobil's huge ratio of 15.31, the rest of the comparables have P/CF ratios all close to Chevrons of 6.06.

**2) Discuss the various implied prices of your stock derived from peers' ("Comparables") multiples. Compare these implied prices to current price and 52-week high and low. How different are the prices derived from the various valuation metrics? Note any valuation metrics that seem to yield outlier prices and explain whether it makes sense.**

Due to the nature of these companies being vastly different, I feel like it is appropriate to compare Chevrons implied price with the implied price based on the other two "supermajor" energy companies listed, namely ExxonMobil and BP. The most appropriate metrics will be the forward P/E ratio and the P/S ratio, as they seem to have the least standard deviation from Chevron's actual stock price.

The median of the implied price based on the forward P/E ratios is \$118.05, which is only \$5.37 more than the current trading price. The PEG median of \$164.99 is substantially greater than the current trading price of \$112.68, with the low and high's nowhere near this figure. The outlier for this value set was BP's implied price of \$240.26, more than double the current trading price. This results directly from BP's low growth rate of only 2.65%.

The P/B ratio yielded inaccurate estimates as well, the median being \$56.09, half of the current price. This could be due to the fact that Reuters did not have the P/B ratio for most energy companies listed, and in accordance with consistency, the industry average was used instead. There is a low outlier in ConocoPhillips, which gave an implied price of \$28.17,

which could be explained by an abnormally low price-to-book ratio compared to the industry average.

In terms of the P/S ratio, the median value was \$91.19, which is \$21.49 less than the current trading price. This value is one of the more accurate implied prices, however, and contains only one outlier in BP, with a P/B ratio of 0.39 compared to the industry average of 2.28.

The final valuation metric used is the P/CF ratio, which gives a median implied price of \$91.20, very similar to the P/S ratio estimate, and seemingly more accurate than the P/B or PEG ratios. As stated before, ExxonMobil is the outlier here, with a P/CF ratio three times that of the other firms.



## Section (E) Revenue and Earnings Estimates

### HISTORICAL SURPRISES

Sales and Profit Figures in US Dollar (USD)  
Earnings and Dividend Figures in US Dollar (USD)

Estimates vs Actual	Estimate	Actual	Difference	Surprise %
<b>SALES (in millions)</b>				
Quarter Ending Dec-13	64,930.80	56,158.00	8,772.77	13.51
Quarter Ending Sep-13	58,408.20	58,503.00	94.84	0.16
Quarter Ending Jun-13	56,006.80	57,369.00	1,362.21	2.43
Quarter Ending Mar-13	67,725.80	56,818.00	10,907.81	16.11
Quarter Ending Dec-12	68,640.30	60,552.00	8,088.27	11.78
<b>Earnings (per share)</b>				
Quarter Ending Dec-13	2.57	2.57	0.00	0.11
Quarter Ending Sep-13	2.71	2.57	0.14	5.25
Quarter Ending Jun-13	2.96	2.77	0.19	6.30
Quarter Ending Mar-13	3.08	3.18	0.10	3.37
Quarter Ending Dec-12	3.03	3.27	0.24	7.75

Source: <http://www.reuters.com>

Throughout the previous five quarters, Chevron has developed a pattern of surprising the market in both the revenue and earnings categories. Although they have beat analysts' estimates in terms of sales revenue twice, when they underperformed, it was substantial. On three occasions, they missed analysts' estimates by over \$8 billion. Their greatest positive surprise occurred in the quarter ending June 2013, where they outperformed estimates by \$1.36 billion.

Chevron also surprised the market in terms of earnings per share, but it was not as drastic of a miscalculation. They met the analyst on one occasion, underperformed twice, and over performed twice. This shows that Chevron can maintain consistency and predictability in terms of earnings per share, which is good news for shareholders. The most apparent outlier in terms of EPS was a positive surprise, where Chevron beat the estimate of \$3.03/share by 7.75% (\$3.27/share).

According to the 2-year price chart, the negative surprises did not affect the stock price negatively if it occurred during the quarter ending December, possibly due to the fact that the

entire sector lags post-recession, and the demand for oil and petroleum products is low in the winter.

#### CONSENSUS ESTIMATES ANALYSIS

Sales and Profit Figures in US Dollar (USD)  
Earnings and Dividend Figures in US Dollar (USD)

	# of Estimates	Mean	High	Low	1 Year Ago
<b>SALES (in millions)</b>					
Quarter Ending Mar-14	3	58,589.00	64,442.50	52,597.50	53,388.80
Quarter Ending Jun-14	3	59,765.10	64,442.50	53,688.80	56,786.30
Year Ending Dec-14	7	232,927.00	257,770.00	202,458.00	258,674.00
Year Ending Dec-15	7	233,717.00	259,946.00	179,378.00	269,335.00
<b>Earnings (per share)</b>					
Quarter Ending Mar-14	14	2.74	3.21	2.53	3.01
Quarter Ending Jun-14	14	2.77	3.21	2.33	3.17
Year Ending Dec-14	20	11.11	12.31	9.70	12.26
Year Ending Dec-15	19	11.14	13.16	9.35	13.37
LT Growth Rate (%)	3	5.37	6.80	3.30	0.08

Source: <http://www.reuters.com>

#### Revenue

The percent difference between the high estimate and mean for the quarter ending March 2014 is 9.99% and the low estimate percent difference for the same quarter is -10.23%. For the quarter ending June 2014, the percent difference between high and mean is 7.83%, while the percent difference between low and mean is -10.17%. The percent difference between the high and mean for the year ending December 2014 is 10.67%, and the low estimate percent difference being -13.08%. For the year ending December 2015, the percent difference between the high estimate and mean estimate is 11.22%, while the percent difference between low and mean is -23.25%.

The percent difference between the high estimate and consensus mean in terms of earnings per share for the quarter ending March 2014 is 17.15%, with the percent difference between low and

mean being -7.66%. For the quarter ending June 2014, the percent difference between high and mean consensus is 15.88%, and the percent difference between low and mean is -15.88%. The percent difference between the high estimate and mean for the year ending December 2014 is 10.80, with the percent difference between low and mean being -12.69%. For the year ending December 2015, the percent difference between high and mean consensus is 18.13%, and the percent difference between low and mean is -16.07%.

While the percent differences for both revenue and earnings per share are both large, showing a great deal of uncertainty between analysts and the market, the difference in earnings per share estimates was slightly larger, notably for the year ending December 2015.

The number of analysts providing LT growth estimates (3) is the same as those providing quarterly sales estimates, and less than the number of yearly sales analysts. This number is significantly lower than any of the earnings per share analysts, the lowest on that being 14 estimates.

#### CONSENSUS ESTIMATES TREND

Sales and Profit Figures in US Dollar (USD)

Earnings and Dividend Figures in US Dollar (USD)

	Current	1 Week Ago	1 Month Ago	2 Month Ago	1 Year Ago
<b>SALES (in millions)</b>					
Quarter Ending Mar-14	58,589.00	58,589.00	60,089.50	60,642.90	53,388.80
Quarter Ending Jun-14	59,765.10	59,765.10	60,638.80	61,827.80	56,786.30
Year Ending Dec-14	232,927.00	230,807.00	236,485.00	242,171.00	258,674.00
Year Ending Dec-15	233,717.00	233,717.00	243,051.00	250,768.00	269,335.00
<b>Earnings (per share)</b>					
Quarter Ending Mar-14	2.74	2.74	2.87	2.94	3.01
Quarter Ending Jun-14	2.77	2.77	2.91	2.98	3.17
Quarter Ending Dec-14	11.11	11.10	11.57	11.88	12.26
Quarter Ending Dec-15	11.14	11.10	11.53	12.01	13.37

Source: <http://www.reuters.com>

After reviewing the consensus estimates trends for both revenue and earnings per share, it seems that the analysts become more pessimistic in the long run in terms of revenue, and pessimistic about earnings per share as a whole.

The only values that trended up towards current estimates were the quarterly sales amounts. The revenue estimates for the year(s) ending December 2014 and 2015 both declined by around \$30 billion, which could explain why the percent difference between high and mean estimates for these two dates were so large.

## ESTIMATES REVISIONS SUMMARY

Number Of Revisions:	Last Week		Last 4 Weeks	
	Up	Down	Up	Down
<b>Revenue</b>				
Quarter Ending Mar-14	0	0	1	1
Quarter Ending Jun-14	0	0	1	1
Year Ending Dec-14	0	0	0	4
Year Ending Dec-15	0	0	0	4
<b>Earnings</b>				
Quarter Ending Mar-14	0	1	1	11
Quarter Ending Jun-14	1	0	1	10
Year Ending Dec-14	0	1	2	16
Year Ending Dec-15	0	0	2	12

Source: <http://www.reuters.com>

While there are hardly any analysts that revised their estimates in the last week, a majority of analysts revised down in the last 4 weeks for both revenue and earnings. It is safe to say that the general consensus among analysts pointed to the fact that Chevron would have lower-than-expected revenue and earnings per share, as evidenced by the widespread down revisions. Earnings had slightly more up revisions in the last 4 weeks, but those are negligible in comparison to the downgrades.

### Consensus Earnings Revisions

Revision Date	Revision Type	Revision Up/Down	Current	Previous	% Change	# of Analysts Reporting
2/18	Down	0/12	\$2.74	\$2.74	-0.04	15
2/17	Down	1/11	\$2.74	\$2.75	-0.22	15
2/12	Down	1/12	\$2.75	\$2.76	-0.36	16
2/6	Down	1/11	\$2.76	\$2.76	-0.07	16
2/5	Down	1/11	\$2.76	\$2.78	-0.79	15
2/3	Down	2/9	\$2.78	\$2.86	-2.69	15
1/31	Down	3/6	\$2.86	\$2.88	-0.59	15

1/24	Up	4/6	\$2.88	\$2.87	+0.24	15
------	----	-----	--------	--------	-------	----

Source: <http://www.cnbc.com>

Chevron's most recent quarterly earnings report came in on January 31<sup>st</sup>, 2014, while the next is expected April 21-25<sup>th</sup>, 2014. Earnings estimates and revisions all pointed to a successful fourth quarter for Chevron, but once the report came out on the 31<sup>st</sup>, they were heavy downward estimates for the entire month approaching the release of their annual report on February 21<sup>st</sup>, 2014. After the sub-par fourth quarter, earnings per share estimates sank from \$2.87 to \$2.74 in a matter of weeks, reflecting analysts' bearish attitude towards Chevrone's ability to handle the winter season and predict idiosyncratic risk effectively. The highest consensus revision was only -2.69% on February 3<sup>rd</sup>, and the lowest occurring three days later at -0.07%.

Share prices fell 2% after the -2.69% revisions, but continued steady growth until the 10-K was released on February 21<sup>st</sup>, which resulted in another 2% drop in price. Although these drops do not seem significant, they do show a lack in their ability to make a steady profit, after their fourth-quarter profits fell by 32%.

## Section (F) Analysts' Recommendations

### ANALYST RECOMMENDATIONS AND REVISIONS

1-5 Linear Scale	Current	1 Month Ago	2 Month Ago	3 Month Ago
(1) BUY	7	7	7	6
(2) OUTPERFORM	6	6	7	9
(3) HOLD	9	9	9	8
(4) UNDERPERFORM	0	0	0	0
(5) SELL	0	0	0	0
No Opinion	0	0	0	0
Mean Rating	2.09	2.09	2.09	2.09

Source: <http://www.reuters.com>

Over the past three months analyst opinions have remained constant with a mean rating of 2.09. This mean rating is more bullish rather than bearish. Over the past three months all ratings have been in the buy to hold range on Reuters. However, the majority of analysts have selected to hold Chevron stock. Three months ago there were six buy ratings, nine outperform ratings, and eight hold ratings. Two months ago there were seven buy ratings, seven outperform ratings, and nine hold ratings. A month ago there were seven buy ratings, six outperform ratings, and nine hold ratings. Moreover, the consistency in mean rating suggests convergence.

Morning Star's analysts have similar stock selections to Reuters. Morning Star Analyst's had two ratings in buy, one in outperform, and three hold ratings for Chevron. The bulls at Morning Star are saying that investments in Liquefied Natural Gas (LNG) projects will allow for reserve and cash flow growth, specifically pointing to the Gorgon LNG project (Morningstar). Also, they find that Chevron's past exploration success will benefit them in the future in locations such as Western Australia and the Gulf of Mexico (Morning Star). The bears at Morning Star worry that production numbers will be hard to raise due to nations becoming more protective of their natural resources, cost inflation and currency appreciation will hurt Chevron's returns, and ongoing legal action involving stopped Ecuadorean operations could have significant monetary penalties.

Lastly, Chevron's stock has received a downgrade in the last month. On January 31<sup>st</sup>, 2014 Chevron's stock was downgraded from a strong buy to a buy by Poorstan.

**(F-2) Most Recent One Month Analysts Upgrades/Downgrades from CNBC**

<b>Revision Date</b>	<b>Current Recommendation</b>	<b>Previous Recommendation</b>	<b>Firm</b>	<b>Last Revision</b>
January 31, 2014	Buy	Strong Buy	Poorstan	3 months ago

Downgrades					
<u>Company Name/Symbol ^</u>	<u>Revision Date</u>	<u>Current</u>	<u>Previous</u>	<u>Broker Reporting</u>	<u>Last Revision</u>
Alacer Gold Corp (ASR)	1/31/14	UNDERPERFORM	HOLD	Vtbcap	11 months ago*
Atlantic Power Corp (ATP)	1/31/14	SELL	HOLD	Tdsi	3 year ago*
Atlantic Power Corp (AT)	1/31/14	SELL	HOLD	Tdsi	1 year ago*
Carbo Ceramics Inc (CRR)	1/31/14	SELL	HOLD	Guggel	3 weeks ago
Chevron Corp (CVX)	1/31/14	BUY	STRONG BUY	Poorstan	3 months ago
First Majestic Silve ... (FR)	1/31/14	BUY	STRONG BUY	Goepel	4 months ago
Hanger Inc (HGR)	1/31/14	HOLD	STRONG BUY	Stephens	1 year ago*

The latest reported earnings for Chevron were on January 31, 2014 and the next earnings is scheduled to be reported between April 21 and April 25. There was only one downgrade in the past three months for Chevron and no upgrades. The downgrade was a “one grade” move from strong buy to buy and was done by Poorstan. There was not a clustering of up-or down-grades. However, this downgrade came out on the same day that earnings were reported for Chevron’s fourth quarter. This downgrade coincided with a \$4.81 drop in Chevron’s stock price.



## Section (G) Institutional Ownership

CVX					
Ownership Activity		# of Holders	% Beg. Holders	Shares	% Shares
Shares Outstanding				1,923,183,145	100.00%
# of Holders/Total Shares Held/% Shares		2,231	105.09%	1,238,337,627	64.39%
# New Positions		166	7.82%		
# Closed Positions		58	2.73%		
# Increased Positions		878	41.36%		
# Decreased Positions		872	41.07%		
Beg. Total Inst. Positions		2,123	100.00%	1,256,810,647	65.35%
# Net Buyers/3 Mo. Net Chg		6	50.17%	-18,473,020	-0.96%
Ownership Information		% Outstanding			
% Institutional Ownership		70.49			
Top 10 Institutions % Ownership		27.72%			
Mutual Fund % Ownership		32.65%			
5%/Insider Ownership		0.05%			
Float %		100.00%			
> 5% Ownership					
Holder Name		% Change	% Outstanding	Report Date	
Vanguard Group, Inc.		1.98%	5.39%	12/31/2013	
State Street Corp		-1.72%	5.37%	12/31/2013	
Chevron Corporation Employee Savin		NA	4.67%	12/31/09	

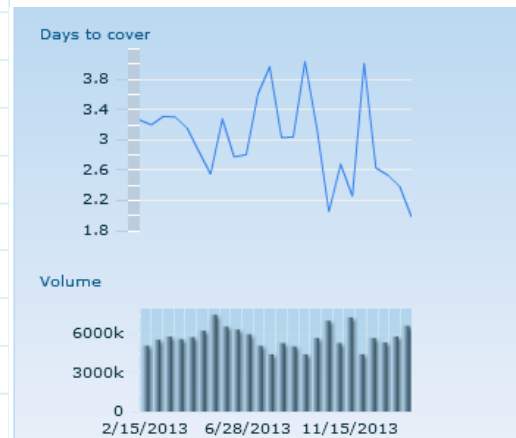
Institutions on a net basis have decreasing ownership in Chevron. Over the past three months institutional ownership has decreased by 18,473,020 shares. However, this change is not substantial because it makes up only a 0.96% decrease to the 1,923,183,145 shares outstanding. Chevron has a 70.49% institutional ownership which is sizable. In addition, one-third of the institutional ownership is from mutual funds and nearly 28% is top 10 institutions.

Institutions with at least 4% institutional ownership is 15.43%. The top institutional owner of Chevron's outstanding stock is Vanguard Group, Inc. (5.39%). In the last three months Vanguard Group, Inc. has increased its shares by 1.98%. The next leading institutional owner is a hedge fund, State Street Corp. State Street Corp has 5.37% of the shares outstanding for Chevron. State Street Corp has experienced a decrease of 1.72% of the shares outstanding during the last 3 months. The third largest institutional owner of Chevron's outstanding stock is Chevron Corporation Employee Savings Investment Plan is a 401k plan sponsored by Chevron. The Chevron Corporation Employee Savings Investment Plan owns 4.67% of shares outstanding.

## Section (H) Short Interest

### Chevron (CVX)

Settlement Date	Short Interest	Avg Daily Share Volume	Days To Cover
1/31/2014	13,209,890	6,659,626	1.983578
1/15/2014	13,865,826	5,818,358	2.383117
12/31/2013	13,583,536	5,366,378	2.531230
12/13/2013	15,040,229	5,719,225	2.629767
11/29/2013	17,931,281	4,463,891	4.016962
11/15/2013	16,524,240	7,320,903	2.257131
10/31/2013	14,261,197	5,319,915	2.680719
10/15/2013	14,420,238	7,047,200	2.046237
9/30/2013	17,894,338	5,707,020	3.135496
9/13/2013	17,929,280	4,440,112	4.038024
8/30/2013	15,357,534	5,053,569	3.038948
8/15/2013	16,115,745	5,321,843	3.028226
7/31/2013	17,701,814	4,463,738	3.965693
7/15/2013	18,421,997	5,107,651	3.606745
6/28/2013	16,878,049	6,010,583	2.808055
6/14/2013	17,658,978	6,360,888	2.776181
5/31/2013	21,661,966	6,611,336	3.276488
5/15/2013	19,168,016	7,518,667	2.549390
4/30/2013	17,948,782	6,296,318	2.850679
4/15/2013	18,189,212	5,765,987	3.154570
3/28/2013	18,545,824	5,621,320	3.299194
3/15/2013	19,262,845	5,814,605	3.312838
2/28/2013	17,842,428	5,577,082	3.199241
2/15/2013	16,661,669	5,110,485	3.260291



Chevron Corporation (CVX) Short Interest - NASDAQ.com

## ConocoPhillips (COP)

Settlement Date	Short Interest	Avg Daily Share Volume	Days To Cover
1/31/2014	20,941,069	5,548,669	3.774071
1/15/2014	22,156,491	4,757,386	4.657283
12/31/2013	21,068,547	4,435,355	4.750138
12/13/2013	21,372,680	5,292,911	4.037982
11/29/2013	22,040,316	4,302,828	5.122286
11/15/2013	23,803,675	4,362,694	5.456187
10/31/2013	24,996,805	4,362,017	5.730561
10/15/2013	25,051,925	5,071,521	4.939726
9/30/2013	26,755,201	5,008,110	5.342375
9/13/2013	26,484,538	4,819,561	5.495218
8/30/2013	25,789,890	5,096,934	5.059883
8/15/2013	25,740,062	5,450,302	4.722685
7/31/2013	25,195,624	5,732,536	4.395197
7/15/2013	27,421,395	7,380,838	3.715214
6/28/2013	26,586,822	5,716,933	4.650539
6/14/2013	24,786,389	5,381,278	4.606041
5/31/2013	23,988,156	6,396,302	3.750316
5/15/2013	26,579,244	8,292,859	3.205076
4/30/2013	21,986,083	6,746,534	3.258871
4/15/2013	21,949,218	5,701,789	3.849532
3/28/2013	22,621,788	6,118,415	3.697328
3/15/2013	24,103,010	5,988,136	4.025127
2/28/2013	24,104,944	6,944,230	3.471219
2/15/2013	22,753,145	10,948,073	2.078279



Chevron Corporation (CVX) Short Interest - NASDAQ.com

## ExxonMobil (XOM)

Settlement Date	Short Interest	Avg Daily Share Volume	Days To Cover
1/31/2014	51,371,091	13,584,987	3.781460
1/15/2014	56,985,162	10,757,086	5.297453
12/31/2013	56,057,092	13,390,327	4.186387
12/13/2013	54,478,428	12,203,622	4.464120
11/29/2013	54,382,121	10,338,467	5.260173
11/15/2013	56,449,925	14,304,308	3.946358
10/31/2013	49,636,521	12,238,947	4.055620
10/15/2013	41,843,343	12,805,906	3.267504
9/30/2013	40,767,515	12,912,433	3.157230
9/13/2013	40,574,088	10,730,495	3.781194
8/30/2013	39,523,329	12,596,764	3.137578
8/15/2013	41,604,471	12,100,934	3.438121
7/31/2013	48,311,941	10,370,549	4.658571
7/15/2013	47,711,871	11,338,729	4.207868
6/28/2013	46,774,479	16,673,246	2.805361
6/14/2013	43,893,334	12,509,065	3.508922
5/31/2013	42,974,709	13,631,694	3.152558
5/15/2013	44,808,639	11,471,919	3.905941
4/30/2013	48,205,022	14,338,185	3.362003
4/15/2013	40,701,145	12,607,462	3.228338
3/28/2013	38,186,261	12,685,240	3.010291
3/15/2013	40,503,994	13,718,596	2.952488
2/28/2013	35,376,774	12,928,577	2.736324
2/15/2013	35,966,855	12,160,869	2.957589



Chevron Corporation (CVX) Short Interest - NASDAQ.com

**Chevron (CVX)**

<b>Avg Vol (3 month)</b>	<b>Avg Vol (10 day)</b>	<b>Shares Outstanding</b>	<b>Float</b>
6,234,380	7,140,660	1.92B	1.92B
<b>Shares Short (January 31, 2014)</b>	<b>Short Ratio (January 31, 2014)</b>	<b>Short % of Float (January 31, 2014)</b>	<b>Shares Short (January 31, 2014)</b>
13.21M	2.20	0.70%	13.87M

Source: <http://finance.yahoo.com>**Conoco Phillips (COP)**

<b>Avg Vol (3 month)</b>	<b>Avg Vol (10 day)</b>	<b>Shares Outstanding</b>	<b>Float</b>
5,136,250	5,873,470	1.23B	1.22B
<b>Shares Short (January 31, 2014)</b>	<b>Short Ratio (January 31, 2014)</b>	<b>Short % of Float (January 31, 2014)</b>	<b>Shares Short (2 weeks prior)</b>
20.94M	4.10	1.70%	22.16M

Source: <http://finance.yahoo.com>**Exxon Mobil (XOM)**

<b>Avg Vol (3 month)</b>	<b>Avg Vol (10 day)</b>	<b>Shares Outstanding</b>	<b>Float</b>
12,597,300	12,814,500	4.34B	4.32B
<b>Shares Short (January 31, 2014)</b>	<b>Short Ratio (January 31, 2014)</b>	<b>Short % of Float (January 31, 2014)</b>	<b>Shares Short (2 weeks prior)</b>
51.37M	4.30	1.20%	56.99M

Source: <http://finance.yahoo.com>

The last reported earnings for Chevron were January 31, 2014. The next earnings are scheduled to be reported between April 21 and April 25. Chevron is currently experiencing declining short interest statistics trends as reported by the NASDAQ's short interest table. Recently, the days to cover has fallen from just over 4 days in November, 29<sup>th</sup>, 2013 to 1.98 on January 31<sup>st</sup>, 2014. The declining short interest positions are a bullish indicator (Nasdaq). In addition, the overall declining short interest statistics is relatively consistent over the course of the year with a few spikes in July, September, and November. This yearly trend also indicates a more bullish stock. However, none of these spikes came directly after earnings were reported, but rather a month after. The trend following earnings was higher days to cover before earnings released and lower days to cover following the release of the earnings report. This was consistent with all earnings releases. The short interest for the first quarter and the third quarter had lower short interest before earnings released and higher short interest after earnings was reported. The stock price also went up following the earnings reports for the first and third quarters. The second quarter saw higher short interest before earnings was reported and lower after earnings were reported. The stock price went down following the earnings reports for the second quarter.

January 31<sup>st</sup> is the most recent date reported for the short ratio. Chevron's current short ratio is 2.20. Therefore, it takes sellers 2.20 days to cover their entire positions if the price of the stock begins to rise. Moreover, the short interest rate is low and indicates a more bullish signal. The days to cover for Conoco Phillips and Exxon Mobil for the most recent month are 3.77 and 3.78 respectively. The days to cover for Chevron's competitors are therefore more bearish than Chevron. Conoco Phillips and Exxon Mobil also appear more bearish with higher short ratios, 4.10 and 4.30 respectively.

## Section (I) Stock Charts

### CVX 3-Month Price Chart – CVX/S&P500/Energy Sector



Source: <http://www.reuters.com>

### CVX 1-Year Price Chart – CVX/S&P500/Energy Sector



Source: <http://www.reuters.com>



## CVX 5-Year Price Chart – CVX/S&P500/Energy Sector



Source: <http://www.reuters.com>

Recently, Chevron has been underperforming in relation to both the energy sector and the S&P 500 as a whole. In the latter half of 2013, Chevron struggled to compete with other companies such as ExxonMobil and ConocoPhillips, partially due to the lower global crude oil prices in 2013 compared to 2012. According to the 1-year price chart, Chevron fell below the energy sector as a whole. This could be explained by a decrease in their oil and natural gas reserves by approximately 1.3% for the fiscal year 2013.

Chevron fell far below the S&P500 and the energy sector in the 3-month price chart as it came time for them to report 4<sup>th</sup> quarter earnings, which were below analysts' estimates. Their price continued to fall after their disappointing annual report was released February 21<sup>st</sup>.

In terms of the 5-year price chart, Chevron is shown to outperform the entire energy sector, which itself underperformed relative to the S&P500. Due to the fact that energy is a lagging sector post-recession, this explains why the sector as a whole underperformed over a 5-year time horizon.

#### (I-4) Technical Indicators (“Moving Average” and “Relative Strength Index” from

##### CVX 6-Month 10- and 50-day Moving Average Price Chart



Source: <http://www.finance.yahoo.com>

##### CVX 2-Year 50- and 200-day Moving Average Price Chart



Source: <http://www.finance.yahoo.com>

After reviewing the 6-month moving average chart for Chevron, it is evident that the energy sector has been on a downward trend recently. It appears that Chevron stock has been more volatile than usual, with two separate instances in the past 6 months where the 10-day moving average falls below the 50-day, indicating bearish sentiment and a sell-off attitude. The chart,

however, shows growth in the latter half of February, which could be a sign of improvement as the 10-day MA approaches and attempts to overtake the 50-day MA line.

The 2-year chart with the 50 and 200-day moving averages tells a slightly different story. Both lines are trending upwards steadily with the market, with the 50-day higher than the 200-day for most of 2013. However, there are 4 instances where the short-term 50-day line goes below the 200-day average, once again indicating bearish sentiment towards Chevron.

These technical indicators are crucial in understanding and complementing the fundamental stock analysis, and double-checking for any errors or finding new “soft spots” in the research and data compilation.

## References

Chevron Corporation. Financial Data & Charts.

<http://finance.yahoo.com/q?s=CVX>

Chevron Corporation. Financial Data & Charts.

<http://www.reuters.com/finance/stocks/overview?symbol=CVX.N>

Chevron Corporation Statement of Earnings (Quarterly).

<http://investor.chevron.com/phoenix.zhtml?c=130102&p=irol-reportsother>

Chevron Corporation . 10-K SEC Filing.

<http://investor.chevron.com/phoenix.zhtml?c=130102&p=irol-sec>

Fidelity Investments. – Business Cycle Analysis

<https://www.fidelity.com/viewpoints/how-to-use-business-cycle>

IbusWorld Industry Reports

<http://clients1.ibisworld.com/reports/us/industry/default.aspx?entid=103>

LexisNexis Academic

<http://www.lexisnexis.com/hottopics/lnacademic/>

Morningstar Analysis. FIN438 Class Resource.

“Upstream.” Investopedia.

<http://www.investopedia.com/terms/u/upstream.asp>