DSR STOCK CARD

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OCCIDENTAL PETROLEUM (OXY)

Business Model

Occidental Petroleum is an independent exploration and production company with operations in the United States, Latin America, and the Middle East. At the end of 2018, the company reported net proven reserves of 2.8 billion barrels of oil equivalent. Net production averaged 658 thousand barrels of oil equivalent per day in 2018, at a ratio of 77% oil and natural gas liquids and 23% natural gas.

The Company in a Nutshell

- At $50/bbl, OXY can still grow its business and keep up with its dividend policy.
- OXY is among the largest acreage holders across the Midland and Delaware basins.
- OXY shows impressive production at a low cost in New Mexico.

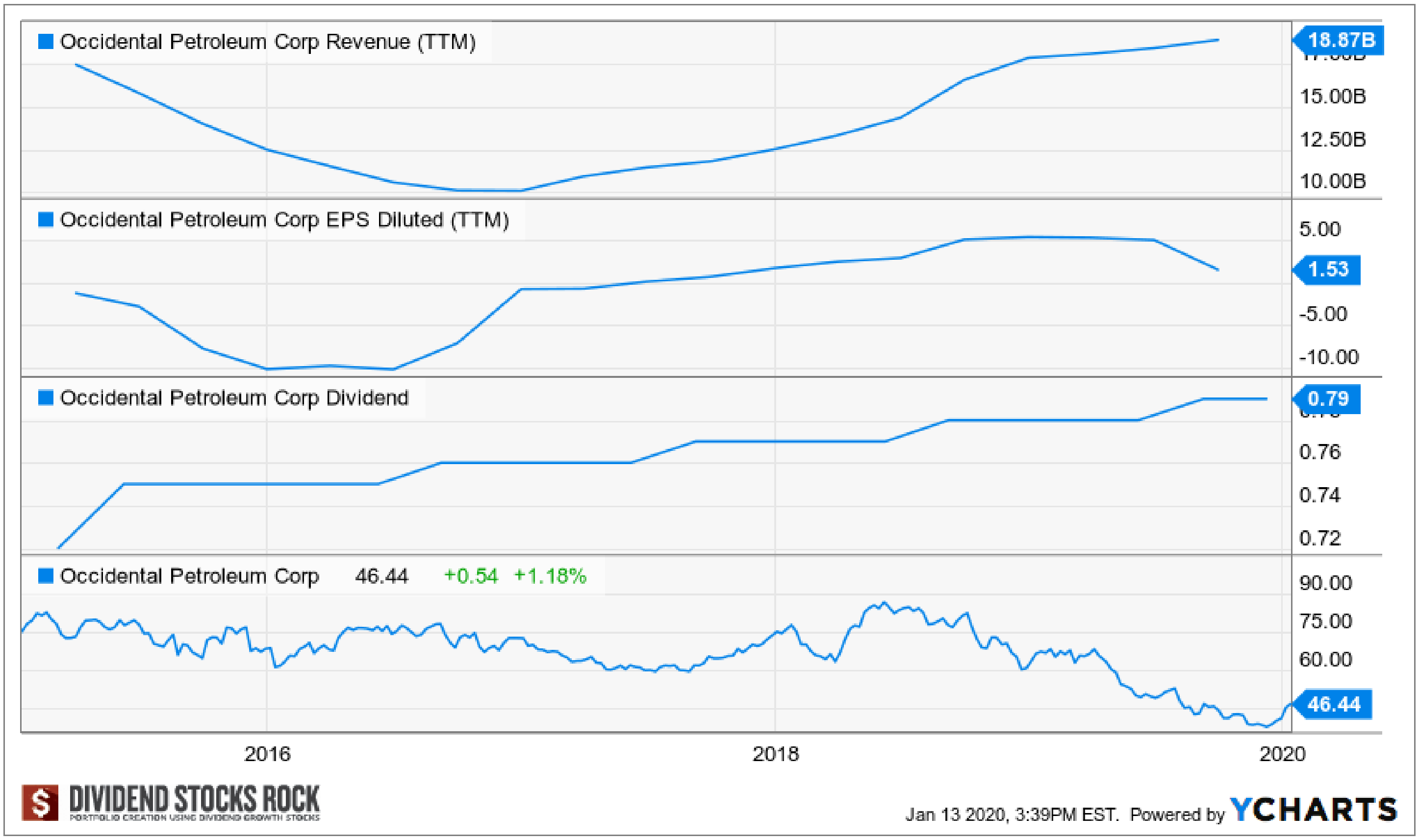
Investment Thesis

Oil companies that have kept their dividend growth policy alive in the past 5 years are not legion. OXY is one of them. With a yield over 7%, this is definitely a good candidate for income-seeking investors. Its strong position in the Permian allows OXY to grow both its business and its dividend with a relatively low oil price. Unfortunately, if the oil barrel remains around $50-$60 per barrel, OXY (along with other players) won't invest much to grow its business in the long term. It will remain highly dependent on the low-cost production of its asset in Permian. OXY's other assets don't benefit from low cost production advantage. In our view, OXY is a stable dividend payer, but offers modest growth opportunities as long as the oil barrel price remains low.

VALUATION

Dividend Growth Rate Years 1-10: 2%　　**Terminal Dividend Growth Rate:** 2%

	Discount Rate (Horizontal)		
Margin of Safety	**9.00%**	**10.00%**	**11.00%**
20% Premium	$55.25	$48.35	$42.98
10% Premium	$50.65	$44.32	$39.39
Intrinsic Value	$46.05	$40.29	$35.81
10% Discount	$41.44	$36.26	$32.23
20% Discount	$36.84	$32.23	$28.65



Potential Risks

According to management, the oil price could go down as low as $40 a barrel and OXY will maintain both its production and dividend. We tend to agree as it didn't fail its shareholders during the latest oil bust. However, such a low price will prevent OXY to buy back shares or invest in future projects. At DSR, we are not fans of companies maintaining the status quo without offering growth perspectives. The other major problem is that the market doesn't like the merger with Anadarko in a $55B deal. Investors are concerned by the level of debt, and financial analysts issued concerns around the expected synergies to be created. JP Morgan thinks it will destroy value rather than creating it.

Dividend Growth Perspective

OXY has demonstrated its financial strength by keeping its dividend growth streak alive during the latest oil bust between 2014 and 2016. Oil prices will remain a topic of concern going forward, but OXY has a neutral cash flow operation model at $50/bbl. We expect the company to grow its payouts by 2% going forward. Therefore, it could be a good pick for income seeking investors, but don't expect more than the stock yield.