

A Financial Analysis and Valuation of Occidental Petroleum Corporation

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Abstract. Oil has always been an important political and strategic resource in a country. In recent times, the significant changes in the international situation and the mergers and acquisitions of American oil giants have intensified the changes in the oil industry, directly leading to fluctuations in American oil stock prices. Therefore, this article collects financial data from Occidental Petroleum Corporation in recent years and conducts comparative analysis to explore the development prospects of Occidental Petroleum Corporation and some changes in the petroleum industry. Research has found that Occidental Petroleum Corporation has good development prospects based on its own oil production capacity and environmentally friendly technology development, and its stock price may experience a significant increase. In addition, various macro factors such as the Russia Ukraine war and changes in the international situation may lead to a shock to the US oil industry and make a decrease in overall profits for it.

Keywords: Financial Analysis, Oil Industry, Strategy, Risk Assessment.

1. Introduction

Petroleum has always been an extremely popular energy source from its discovery to extraction. Its discovery started the Industrial Revolution and provided a stable source of energy for machinery and driving industrial processes. The oil industry which is accompanied with Petroleum produced many profound and far-reaching impacts on various aspects of the world. Economically, the petroleum industry has created a large number of job opportunities, providing energy to businesses and reducing costs. In politics, oil resources are important political resources, and the production sites of oil will attract the strategic layout of the country [1]. Similarly, it is also a tool for playing games between countries. In daily life, petroleum derived plastics provide great convenience, serving as both containers and materials for various tools. In 2024, due to the control of the Hussar armed forces over the situation in the Middle East, the Russia Ukraine war is coming to an end, and some Asian countries are starting to use their own currencies for settlement, among other external factors, which have had a significant impact on the US oil industry [2]. This article will analyze the current financial situation of Occidental Petroleum Corporation (OXY) in the US oil industry and predict the future market of the US oil industry.

Occidental Petroleum Corporation is a renowned international oil and gas exploration and production company which founded in 1920. As one of the main participants in the current US energy industry, Occidental Petroleum companies are involved in various aspects of the oil and gas industry, including exploration, development, production, and marketing of crude oil, natural gas, and related products. The company's business spans different regions around the world and it is an important participant in the global energy market. The current total production of Occidental petroleum company is 1.23 million barrels, far exceeding the median of 8000 barrels. In addition, as of December 31, 2023, Occidental Petroleum Company's global proven reserves totaled 4 billion barrels of oil equivalent. Its annual income is \$28,257,000, ranking 4th. Next, this article will analyze Occidental Petroleum by using various ratios.

2. Performance Evaluation

2.1. Liquidity

Table 1 provides the different liquidity ratios for four companies as of March 23, 2023.

Table 1. Liquidity ratios of OXY and its competitors

	OXY	XOM	CVX	EOG
Current Ratio	91.55%	147.91%	127.49%	243.86%
Quick Ratio	69.45%	109.45%	100.80%	212.56%
Cash Ratio	15.59%	48.33%	25.49%	129.55%

Firstly, it is obvious that OXY company ranks lowest with 91.55% in the current ratio, while EOG company ranks highest with 243.86%. XOM company and CVX company rank second and third in the current ratio with 147.91% and 127.49%, respectively. Next, in Quick Ratio, EOG Company still ranked first with a high score of 212.56%, while XOM Company and CVX Company ranked in the middle with 109.45% and 100.80%, respectively. OXY Company also ranks last with 69.45%. Finally, Cash Ratio ranked last with OXY company at 15.59%, while EOG ranked first with a number close to eight times that of OXY company. In summary, based to this data table, OXY Company has poor liquidity, far lower than other companies which is the same type. EOG Company has a stable liquidity and ranks ahead of other companies.

Liquidity is an important component of financial markets and economic operations, and is crucial for the effective operation of the market and investor confidence [3]. Generally, a company which has poor liquidity because of these reasons such as poor business decisions, declining profitability, high debt, changes in the economic environment, industry factors, poor management, and so on. Not all acquisitions will have beneficial results for the company, which may also bring risks [4]. As for OXY company, the main reason of poor liquidity is its successive acquisitions of Anadarko Petroleum Corp (APC) and CrownRock. In 2019, OXY Company surpassed Chevron Company to acquire Anadarko Petroleum for \$38 billion. To complete this acquisition transaction, Occidental Petroleum Corporation plans to issue \$11-13 billion worth of bonds to raise acquisition funds, which are planned to be issued in 10 installments. Meanwhile, Warren E. Buffett who is Current Chairman and CEO of Berkshire Hathaway Inc also invested \$20 billion in this acquisition.

However, this transaction can be said to be bad, as the 2019 interim report released by Occidental Petroleum company showed that the company's revenue was \$8.565 billion, a year-on-year increase of 7.65%, but its net profit was \$1.266 billion, a decrease of 18.64%. As of the close of the US stock market on Thursday, OXY stocks were at \$47.08, up 2.35%, while Anadarko Oil Company was at \$72.32, up 0.84%. Even worse, in the following year of 2020, due to the sharp drop in oil prices caused by the pandemic, OXY company's original planned to expand oil production to make up for the deficit fell through. It made OXY company have to reduce expenses. After several years of adjustment, the stability of the OXY company's balance sheet was finally maintained, but until now, OXY Company's liquidity is still worse than that of similar companies.

2.2. Profitability

Table 2. Profitability ratios of OXY and its competitors

	OXY	XOM	CVX	EOG
Gross Margin	60%	31%	27%	87%
Operating Margin	22%	13%	13%	40%
Pre Tax Margin	23%	16%	15%	40%
Profit Margin	17%	11%	11%	31%

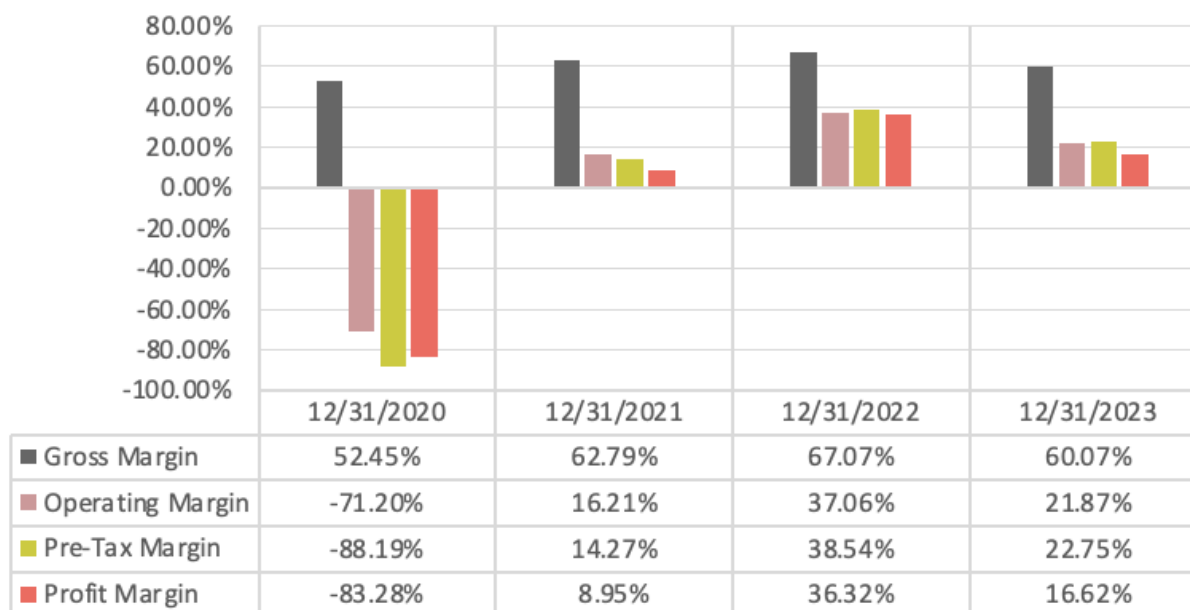


Fig. 1 OXY company's profitability ratios (Photo/Picture credit: Original)

Table 2 and Figure 1 give information about profit margins. Table 2 shows various data on profit margins for OXY and other three companies as of December 31, 2023. Figure 1 shows the different profit margins of OXY in different years.

It can be seen that OXY Company ranks second with a gross profit margin of 60%, XOM Company and CVX Company rank third and fourth with 31% and 27% respectively, while EOG Company ranks first with 87%. As for the other profit margin indices in this chart, they are all arranged in the same order. For example, OXY company ranks second among peers with 22% operating margin. In addition, it is obvious that OXY Company's gross profit margin has remained stable at around 60% in recent years. The other three indices, Operating Margin, Pre Tax Margin, and Profit Margin, experienced a trend of first increasing and then decreasing from 2020 to 2023. In 2020, all three data were negative and hovered between -70 and -90, peaking at nearly 40% in 2022 and finally decreasing in 2023. In summary, OXY company's profit data ranks in the middle among peers. As for gross profit margin, OXY Company has maintained a high production profitability for a long time. However, the other three profit ratios show that OXY Company's initial total revenue and operating income were very low, even reaching negative levels in early years.

Profitability ratios are financial metrics used to evaluate a company's ability to generate profits relative to its revenue, assets, equity, or other measures. These ratios provide insight into how efficiently a company is utilizing its resources to generate profits and are important for investors, creditors, and management in assessing a company's financial performance [5]. Now analyze the specific reasons for the change in profitability ratios. Compared to peers, OXY Company actually has a strong ability to create profits and its gross profit has not changed much in these years. It is because that the oil industry is a capital intensive industry, So the more capital there is, the lower the cost of production will be [6]. OXY Company focused on oil extraction, and its oil development costs are naturally relatively low, so it has been able to maintain a relatively high level for many years.

As for Operating Margin, Pre Tax Margin, and Profit Margin, they are related to the company's net profit. There are two main reasons for OXY company's lower net profit. Firstly, due to the acquisition as mentioned above, OXY company has acquired a large amount of debt and it needs to allocate some of its profits to repay the debt, which has resulted in a significant decrease in the company's net profit. More importantly, the sharp drop in oil prices in 2020 will inevitably have a direct impact on the net profit of OXY company which specializing in oil. In 2022, OXY Company's net profit reached its peak also because of oil prices. Due to the conflict between Russia and Ukraine and the Nord Stream pipeline was bombed. Europe's oil demand cannot be fulfillment, which leading to an increase in world oil prices. So the net profit of OXY Company has also increased accordingly.

In 2023, the oil price remains at the level of 60-90 US dollars per barrel, so OXY Company still maintains a good profit level.

2.3. Investment

The information provided in this chart is the three investment ratios of four companies in 2023. Investment rate can help investors evaluate the performance of their investments. For example, the rate of return (ROI) shows the relationship between the returns generated by an investment and the amount invested, while the dividend yield of a stock shows the returns that investors receive from dividends. By comparing the investment rates of different investments, investors can determine which investments perform better and make corresponding decisions [7]. The results of Pre-Tax ROE, After-Tax ROE, and Dividend Yield are shown in Table 3, as follows.

Table 3. Investment ratios of OXY and its competitors

	OXY	XOM	CVX	EOG
Pre-Tax ROE	21.25%	25.77%	18.38%	34.49%
After-Tax ROE	16%	18%	13%	27%
Dividend Yield	1.40%	3.42%	4.19%	2.96%

From the Pre-Tax ROE perspective, EOG company ranked first with 34.49%, followed by XOM company ranked second with 25.77%. OXY, is not much different from XOM, ranking third with 21.25%, while Chevron ranks last with 18%. Then, tax ROE and Pre-Tax ROE have similar ranks. The only difference between them is taxation, So it is not need to be go into further detail.

For value stocks, dividends are a more important thing for investors. It is because compared to growth stocks, the stock prices of value stocks generally do not have much room for improvement, So value stocks often offer more dividends to attract investors. In this graph, it is clear that OXY has the lowest dividend yield of only 1.40%, while other companies far surpass OXY, with CVX ranking first with 4.19%.

In short, OXY Company's return on shareholder equity is at an intermediate level, but its actual cash return is much lower than other companies of the same type. The main reason for this situation is similar to mentioned before. The company owes a lot of debt and needs to rely on cash to repay the debt, which has to reduce the cash returns received by shareholders.

3. Valuation

3.1. Forecast

This section analyzes the future situation of the company from some predictive data. This section uses OXY company's annual and quarterly EPS data for prediction. EPS (Earnings Per Share) is one of the important indicators for analyzing a company's profitability. It refers to the earnings per common share of a company over a certain period of time. EPS ratio refers to the ratio between earnings per share and stock price, used to measure the relationship between earnings per common share and stock price [8]. OXY's forecasted revenue and share price are shown through the following Table 4 and Table 5.

Table 4. OXY's quarterly earnings forecast in 2024

Fiscal Quarter End	Consensus EPS (Forecast)	High EPS (Forecast)	Low EPS (Forecast)
Mar-24	0.62	0.93	0.36
Jun-24	0.82	1.15	0.4
Sep-24	0.97	1.32	0.4
Dec-24	1.06	1.51	0.47
2024 year in total	3.47	4.91	1.63

Table 5. OXY's quarterly forecasted and actual earnings in 2023

Fiscal Quarter End	Consensus EPS (Forecast)	Earnings Per Share (Actual)
Mar-23	1.3	1.09
Jun-23	0.7	0.68
Sep-23	0.89	1.18
Dec-23	0.74	0.74
2023 year in total	3.63	3.69

From Table 5, it can be seen that compared to the volatile situation in 2023, OXY Company will experience a stable upward phase in 2024, The forecast EPS reaching its peak at 1.06 in December 2024 from 0.62 in March 2024. In 2023, the highest EPS in September was \$1.18, while the lowest was \$0.68 in July. From scattered data alone, the difference between the two years is actually not significant. But from accurate calculations, it seems that the predicted annual data of 3.47 for 2024 is still lower than the annual data of 3.69 for 2023. This indicates that based solely on the predicted data, OXY Company will experience a phase of net revenue decline in 2024.

This paper analyzes OXY company's EPS based on various events that occurred from 2023 to 2024. Firstly, the end of the pandemic in 2023 has led to a global industrial recovery, resulting in an increase in oil prices. In 2023, global demand for oil had set new historical records. According to data from the International Energy Agency OPEC, and the US Energy Information Agency, oil demand has exceeded 100 million barrels per day. In addition, global natural gas and coal consumption have also set new records, with coal demand reaching 8.536 billion tons. However, From the perspective of supply and demand, the demand for oil will decrease in 2024 and global industry development will slow down. So from a macro perspective, the expected revenue of most US oil companies may decline in 2024. It is normal for OXY Company's expected EPS to slightly decrease in 2024.

Furthermore, it is important to note that both the increase and decrease in EPS cannot directly indicate the improvement of the company's business performance. Because EPS is influenced by various factors, such as the company increasing its profits, the speed at which the company repurchases or issues stocks is lower than the speed at which profits increase, and the company reducing dividends distributed to shareholders [9]. So it need to analyze with other information. According to OXY company's press release, OXY Company maintained a stable dividend of \$0.18 throughout 2023. In the first quarter of 2024, OXY announced an increase in dividend to \$0.22. On an annual basis, the dividend is \$0.88 per share at the new rate, compared to the previous annual rate of \$0.72 per share.

Overall, although OXY 's expected revenue may slightly decline in 2024. The dividends it provides to investors are still increasing, indicating that OXY company's profitability is still improving. From this information, it can be seen that an optimistic attitude can be maintained towards the future of OXY.

3.2. Strategy & Risks

There are two major events that occurred in OXY Company in 2023, the first one is the acquisition of Crown Rock which is mentioned before, and another one is the further research on carbon neutrality.

Then, this section provides some detailed information about OXY company's acquisition of Crown Rock, which is worth approximately \$12 billion and generates immediate free cash flow retention. Crown Rock is a well-positioned asset for OXY company. Because it can expand the OXY company's scale in the Midland Basin. In addition, Crown Rock's development-ready inventory high-grades Occidental's premier Permian Basin portfolio and increases low-break even inventory. This effectively improves the production capacity of OXY Company, resulting in the following benefits: firstly, it complexes and enhancements OXY company's Premier Permian portfolio with the addition of approximately 170 thousand barrels of oil equivalent per day of high-margin, lower-decline

unconventional production in 2024, as well as approximately 1700 undeveloped locations. Secondly, it increases OXY company's Permian unconventional sub-\$40 break-even inventory by 33%. Thirdly, Crown Rock's over 94000 net acres of premium stacked pay assets and supporting infrastructure are well positioned alongside OXY company's legacy Midland Basin business. The fourth and most important point is that it increased the OXY company's cash flow, along with proceed from a new \$4.5- \$6.0 billion divestiture program, which will enable OXY company to reduce its debt principal by at least \$4.5 billion within 12 months and expect to retain its investment grade credit rates. It was through this acquisition that OXY Company was able to announce an increase in its dividend from \$0.18 to \$0.22\$. In summary, in 2023, OXY company's acquisition of Crown rock was a profitable decision that resolved many of OXY company's oil source and liquidity issues.

Finally, the article expand on the explanation of OXY Company's development on carbon neutrality. In recent years, OXY Company has not only increased its share of oil development and extraction in the United States, but also participated in other tracks, focusing on the development of environmentally friendly oil. The company's ultimate plan is to produce net zero emission oil, which will reduce carbon dioxide in the atmosphere, in an amount equivalent to the carbon dioxide generated during crude oil production, transportation, refining and product use. OXY Company wants to achieves this goal through the development of carbon capture. Carbon capture refers to the use of various technologies and methods to remove carbon dioxide (CO₂) from the atmosphere, reduce its concentration in the atmosphere, purify the collected CO₂, and finally invest it in new production activities for utilization [10]. This technology not only enables OXY company to increase environmental protection, but also enables OXY company to provide similar services to high emission enterprises or regions. It allowed OXY company to earn profits from other products rather than oil. It also increases the diversity of the company's revenue sources and enhances its risk resistance ability. According to a series of announcements released in 2023, OXY company has put a lot of effort into the field of carbon neutrality, such as its subsidiaries had announced the development of carbon capture and storage centers in Texas, carbon management projects in the United Arab Emirates, Acquire Carbon Engineering, which is focused on the global deployment of large-scale Direct Air Capture (DAC) technology that captures carbon dioxide out of the atmosphere and so on. Through the efforts of these years, OXY Company's carbon emission technology is at the forefront of the world. It makes OXY company have more competitive advantages when competing with similar companies and zero emission oil also can reduce the taxes that OXY company pays for environmental protection.

4. Conclusion

In summary, OXY Company is a company with extremely promising development prospects. Although its acquisition of Anadarko in 2020 caused OXY Company to experience a liquidity crisis, Fortunately, the positive impact on the oil industry in recent years has enabled OXY Company to maintain its balance sheet. From the perspective of this article, I believe that the current stock price of OXY Company is undervalued, because both the development of its oil business and the advancement of its carbon capture technology are the support points for its stock price growth. In the coming years, OXY Company's development will only become better and more competitive and it will have many opportunities for stock prices to soar. Of course, there are several risks that need to be considered: Firstly, due to poor liquidity, OXY Company is currently unable to provide investors with higher dividend returns, which may result in investors bearing certain opportunity costs. On the other hand, due to various external factors, such as the end of the Russia Ukraine war, the US presidential election, and various unexpected events in oil and gas transportation, it is possible to quickly lower oil prices, lower the profits of oil companies, it may causes a decline in OXY company's performance.

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