Brokerage Research Digest

May 9, 2013

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Chevron Corporation	(CVX – NYSE)	$123.49*

Note: This report contains substantially new material. Subsequent reports will have changes highlighted.

Reason for Report: 1Q13 Earnings Update

Prev. Ed.: Feb 26, 2013; 4Q12 Earnings Update (broker material considered till Feb 8, 2013)

Brokers' Recommendations: Positive: 80.0% (12 firms); Neutral: 20.0% (3); Negative: 0.0% (0) **Prev. Ed.:** 12; 3; 0

Brokers' Target Price: $132.17 (↑ $5.00 from the last edition; 12 firms) **Brokers' Avg. Expected Return:** 7.0%

***NOTE: Though dated May 9, 2013, share price and broker material are as of May 3, 2013**

Note: A Flash Update was done on Apr 26, 2013; 1Q13 Earnings Release
A Flash Update was done on Apr 10, 2013; Chevron released 1Q13 Interim Update
A Flash Update was done on Mar 25, 2013; Chevron Makes Major Oil Discovery
A Flash Update was done on Mar 12, 2013; Chevron Aims 25% Volume Growth by 2017

Note: The tables below (Revenue, Margins, and Earnings per Share) contain material from fewer brokers than in the Valuation table. The extra figures in the Valuation table come from reports that did not have accompanying spreadsheet models.

Portfolio Manager Executive Summary

Chevron Corporation (CVX or the company) operates as an integrated energy company worldwide. The company's operations range from energy exploration and production to refining and retail marketing. Chevron's business development portfolio includes biofuels, hydrogen infrastructure, advanced battery systems, nano-materials and renewable energy.

Of the 15 firms covering the stock, 12 gave positive ratings and 3 firms assigned neutral ratings. None of the firms provided a negative rating. The target prices range from a low of $120.00 to a high of $148.00, with the average being $132.17.

In a consensus of brokerage opinions, CVX has one of the more promising sets of oil and gas prospects among the major integrated companies. Given the wide portfolio of new projects that could significantly boost production, reserves, earnings, cash flow, and stock valuation, the firms remain optimistic on the growth potential, going forward.

The following is a summarized opinion of the diverse brokerage viewpoints:

Positive or equivalent (80.0%; 12/15 firms): These firms maintained a positive outlook as they expect strong top-line growth, given a track record of solid operating performance. These firms believe that CVX has a good growth potential with strong near to long-term project backlog. The company has one of the most impressive portfolios of new development projects that could provide long-term production growth and reserve additions more economically than its major peers.

The firms continue to favor Chevron due to its above-average leverage to oil prices; least exposure to downstream and strong upstream long-term growth outlook. The firms expect good growth in output backed by the upcoming Gorgon and Wheatstone liquefied natural gas (LNG) projects in Western Australia. The firms also expect Chevron to invest in the Pacific Rim region and North America, including Gulf of Mexico as well as unconventional opportunities in oil and natural gas shale. The firms believe that the company will be able to cope up with market volatility in the coming quarters, based on its diverse business model, strong balance sheet and attractive dividend yield.

These firms believe that higher oil prices will enable Chevron to speed up dividend growth, increase share buybacks, and pursue accretive acquisitions. The company's large cash balance renders a protection against lower commodity prices and enables it to internally fund the major capital projects.

Neutral or equivalent (20.0%; 3/15 firms): These firms believe that given Chevron's low exposure to depressed U.S. natural gas, small refining footprint and superior upstream project pipeline, which is dominated by oil and oil-linked gas developments, the company is best positioned to benefit from the rise in oil prices.

However, the upside may be limited due to decreased access to resources at attractive terms. Also, the shares may have started to discount some of the potential damages from Ecuador, although the case will likely be tied up in an unpredictable court system for several years. A slowdown or contraction of the global economy could reduce the demand for energy, which may thereby lead to sales price cuts for crude oil, natural gas, refined products and chemicals, potentially reducing Chevron's profitability.

Overview

Based in San Ramon, Calif., Chevron Corporation (CVX or the company) is an integrated oil and gas company engaged in every aspect of the oil and gas industry, including exploration and production; refining, marketing and transportation; chemicals manufacturing and sales; and power generation. The company has petroleum operations in many countries in North America, South America, Europe, Africa, the Middle East, Central and Far East Asia, and Australia. Chevron develops and commercializes advanced energy technologies, including fuel cells, photo voltaics and advanced batteries, and is active in its research and development efforts to utilize hydrogen as a fuel for transportation and power. Additionally, the company is investing in the field of nanotechnology, evaluating a new class of molecular building blocks that may be potentially useful in many industries. In 2012, Chevron produced 2.61 million barrels of net oil-equivalent per day, 2.4% lower than the prior year. Approximately 75% of the total volume came from international operations. The company operates on a calendar-year basis. More information on Chevron is available at www.chevron.com.

The firms identified the following factors for evaluating investment merits of CVX:

Key Positive Arguments	Key Negative Arguments
Fundamentals • Excess cash enabling debt reduction and increase in dividend and acquisition ability. **Growth Opportunities** • Multi-year program of growth in oil and gas production over the next several years through a highly visible portfolio of projects. • Strong current and expected demand in the Asia-Pacific region, to which CVX has strong leverage. **Competitive Advantages** • Leading deepwater acreage position; best among its peers in four key deepwater exploration areas – Angola, Brazil, Nigeria, and the Gulf of Mexico. • Higher leverage to increasing crude oil prices than peers.	**Fundamentals** • Realizations lower the benchmark prices due to increased production of heavy-sour crude. • Oil-inclined asset portfolio. **Growth Impediments** • Large asset base in mature areas in the U.S. and Europe that suffer high decline rates. **Competitive Threats** • Above-average earnings volatility due to CVX's high leverage to oil prices. • Return on capital employed (ROCE) lags peers. • Organic volume growth lags peers. • Geographic and business segment diversity and LNG portfolio appear less broad than those of Chevron's peers. **Macro Issues** • Reduced demand for petroleum-based refined products • Risk from global economic weakness.

Long-Term Growth

Chevron's primary strategic objectives seek to balance growth with returns through improved performance in the base exploration and production (E&P) business and development of high-return projects, creation of a high-impact global natural gas business, development of refining and marketing (R&M) activities, portfolio management across the organization, and leverage of technology on a global basis.

The firms regard Chevron as an attractive long-term investment option, owing to its high accessibility to oil plays and less exposure to North America's natural gas market.

Chevron has a focused strategy of reserve acquisition and enhancement, balanced with managed-risk exploration drilling. In addition, the company is striding its way in a bid to upgrade the reliability and efficiency of its refining and marketing segment. The company follows a balanced strategy of growth through drilling and well-placed acquisitions.

Chevron's production growth outlook post 2014, remains attractive with the start up of Gorgon (first shipment expected in 2014) and Wheatstone (first shipment expected in 2016) LNG projects along with its Jack/St. Malo fields in the Gulf of Mexico (set to go on stream in 2014). The company has nine projects that are expected to be operational by 2013, with a combined peak net production of over 300 thousand barrels of net oil-equivalent per day (MBoed).

The bullish firms expect that the company's deep upstream project line-up would enable a decent per annum growth as Gorgon, Wheatstone, and the Lower Tertiary fields in the deepwater Gulf of Mexico come on stream between 2014 and 2017.

The 2011 acquisition of Atlas Energy allowed CVX to gain a strong foothold in the Marcellus shale play with a competitive cost structure, strong growth potential, and proximity to premier natural gas markets, which will likely benefit the company in the long run.

Target Price/Valuation

Provided below is the summary of valuation and ratings as compiled by the Zacks Digest:

Rating Distribution	
Positive	80.0%
Neutral	20.0%
Negative	0.0%
Average Target Price	$132.17↑
Digest High	$148.00↑
Digest Low	$120.00
No. of Firms with Target Price/Total	12/15

Risks to the price target include a decline in world economic growth and lower demand for oil and gas, merger integration risks, concentration risks associated with several large development projects, and geopolitical risks associated with international operations.

Recent Events

On **Apr 26, 2013**, Chevron reported weak 1Q13 results amid lower crude prices. Earnings per share (excluding adjustments for foreign-currency effects) came in at $3.05, below the Zacks Consensus Estimate of $3.08 and the previous year's $3.39. The integrated supermajor's quarterly revenues decreased 6.4% year over year to $56,818.0 million from $60,705.0 million, and was 5.4% below the Zacks Consensus Estimate of $60,078 million.

On **Apr 24, 2013**, Chevron announced an 11.1% increase in its quarterly dividend to $1.00 per share, or $4.00 per share annualized. The dividend is payable on Jun 10 to shareholders of record on May 17, 2013.

On **Apr 23, 2013**, Chevron announced the discovery of natural gas in the Elfin-1 exploration well by its Australian subsidiary, based in the Carnarvon Basin, offshore Western Australia.

The well is based in the WA-268-P permit block, which is estimated to hold roughly 132 feet of net gas. The well, about 106 miles to the northwest of Barrow Island, was drilled 3,570 feet deep into water and to a total depth of 11,909 feet.

On **Mar 28, 2013**, Chevron announced that its Australian subsidiaries inked binding long-term Sales and Purchase Agreements (SPAs) with the Japanese utility firm, Chubu Electric Power Company Inc.

Per the deal, Chevron, along with Apache Corporation and Kuwait Foreign Petroleum Exploration Company, will provide 1 million tons per annum (MTPA) of LNG to Chubu for up to 20 years.

On **Mar 25, 2013,** Chevron announced the discovery of oil at the Coronado prospect, located in the Gulf of Mexico. The Walker Ridge Block 98 Well No. 1 well – situated roughly 190 miles off the Louisiana coast, in water depth of around 6,127 feet – has been drilled to a depth of 31,866 feet.

On **Mar 22, 2013,** Chevron declared that Chevron Overseas (Congo) Limited, one of its affiliates will go forward for the development of Moho Bilondo "Phase 1 bis" and Moho Nord projects. The joint projects are based 46 miles away from the shore of Pointe-Noire, at a water depth of 1,500 to 4,000 feet.

On **Feb 28, 2013**, Chevron announced that it carried out a production test at the St. Malo PS003 well located in the deepwater Gulf of Mexico. The attempt was successful, with oil flow rate reported to be over 13,000 barrels per day.

On **Feb 7, 2013**, Chevron Australia Pty Ltd – an affiliate of Chevron Corporation – announced the discovery of natural gas in the Kentish Knock South-1 exploration well in the Exmouth Plateau area, offshore Western Australia.

Located in the WA-365-P permit block in the Carnarvon Basin, the well is estimated to hold approximately 246 feet of net gas pay in the upper Mungaroo Sands. The well, about 173 miles to the north of Exmouth, was drilled at 3,832 feet to a total depth of 10,056 feet.

The Australian unit of Chevron acts as the chief operator of the block with a 50% interest, while the remaining stake is owned by Royal Dutch Shell plc.

Revenue

Chevron operates through three main segments: Exploration and Production (or Upstream); Manufacturing, Products, and Transportation (or Downstream); and Other Businesses.

As per the Zacks Digest model, total revenue was $56,818.0 million in 1Q13 versus $60,705.0 million in 1Q12 and $60,552.0 million in 4Q12. The year over year (y-o-y) decrease was on the back of lower refined product sales volume.

Provided below is a summary of revenue as compiled by Zacks Digest:

Revenue ($ M)	1Q12A	4Q12A	1Q13A	2Q13E	2012A	2013E	2014E	2015E
Digest High	$60,705.0	$60,552.0	$56,818.0	$54,557.9	$241,909.0	$251,585.0 ↑	$239,006.0 ↑	$248,566.0
Digest Low	$60,705.0	$60,552.0	$56,818.0	$54,557.9	$241,909.0	$213,894.8 ↑	$174,642.7 ↓	$248,566.0
Digest Average	$60,705.0	$60,552.0	$56,818.0	$54,557.9	$241,909.0	$232,739.9↑	$206,824.4 ↑	$248,566.0
Y-o-Y Growth	*0.6%*	*0.9%*	*-6.4%*	*-12.9%*	*-4.6%*	*-3.8%*	*-11.1%*	*20.2%*
Q-o-Q Growth		*4.3%*	*-6.2%*	*-4.0%*				

Upstream

Chevron's total production of crude oil and natural gas increased by a marginal 0.5% from the year-earlier level to 2,645 thousand oil-equivalent barrels per day (MBOE/d). Volume gains in the U.S. and Nigeria as well as contribution from the newly bought Delaware Basin assets were somewhat negated by normal field declines and the continued shut-in of the Frade deepwater field in Brazil.

In the **US**, net oil-equivalent production was 664,000 barrels per day during the quarter, up by 2% or roughly 13,000 barrels per day from the 1Q12 level. The rise was aided significantly by projects that are on track in the Gulf of Mexico and purchase of Delaware Basin properties. The net liquids component of production was reported at 455,000 barrels per day, which remains almost the same as compared to 1Q12 whereas net natural gas output rose to 1.26 billion cubic feet per day, representing growth of 7%.

Internationally, the net oil-equivalent production was 1.98 million barrels per day in 1Q13, which was almost the same as the year-ago quarter. The net liquids component of output declined to 1.31 million barrels per day, representing a decrease of 2%, whereas net natural gas output grew to 4.05 billion cubic feet per day, representing growth of 5%.

Realized price

In the **U.S.**, average sales price per barrel of crude oil and natural gas liquids was approximately $94 in 1Q13, representing a decrease of 7.8% from $102 in 1Q12. The average sales price of natural gas was $3.11 per thousand cubic feet, representing an increase of 25.4% from $2.48 per thousand cubic feet in 1Q12.

Internationally, average sales price per barrel of crude oil and natural gas liquids in the reported quarter was $102, representing a decrease of 7.3% from $110 in 1Q12. The average price of natural gas was $6.07 per thousand cubic feet, representing an increase of 3.2% from 1Q12.

Downstream

In the quarter under review, the **U.S.** refined product sales volumes were 1.10 million barrels per day, reduced by 141,000 barrels per day as compared with 1Q12 level. Branded gasoline sales dropped to 500,000 barrels per day, representing a decrease of 1% as compared with 1Q12. Refinery crude input was 576,000 barrels per day in 1Q13, decreased 350,000 barrels from the 1Q12 level.

Internationally, the total refinery crude input of 818,000 barrels per day was up by 39,000 barrels per day as compared with 1Q12, owing to the consolidation of Star Petroleum Refining Company. The total refined product sales were reported at 1.45 million barrels per day in 1Q13, decreased by 73,000 barrels per day from 1Q12.

Outlook

The firms holding a positive view remain optimistic about Chevron's long-term E&P growth strategy, expected to be driven by projects like the Gorgon and Wheatstone LNG developments in Australia. They believe that the expected completion of Gorgon in 2014, along with other large projects worldwide, will aid in CVX's production growth and value creation.

The Zacks Digest model forecasts revenues of $232,739.9 million for 2013, $206,824.4 million for 2014 and $248,566.0 million for 2015, with a y-o-y decline of 3.8% in 2013, 11.1% in 2014 and y-o-y growth of 20.2% in 2015. The three-year compounded annual growth rate (CAGR) on realized 2012 revenues is projected at 0.9%.

Please refer to the Zacks Research Digest spreadsheet of CVX for specific revenue estimates.

Margins

Downstream

As per the Zacks Digest model, net income in 1Q13 was $ $701.0 million, against a net profit of $604.0 million in 1Q12 and income of $ $925.0 million in 4Q12.

Provided below is a summary of net income as compiled by Zacks Digest:

Margins	1Q12A	4Q12A	1Q13A	2Q13E	2012A	2013E	2014E	2015E
U.S.	$1,529.0	$1,363.0			$5,332.0	$4,651.0 ↓	$5,162.0 ↓	$5,772.0
International	$4,642.0	$4,095.0			$16,456.0	$17,831.0 ↑	$17,523.0 ↓	$17,903.0
Total E&P	$6,171.0	$5,458.0			$21,788.0	$22,483.0 ↑	$22,686.0 ↑	$23,675.0
US	$459.0	$331.0			$2,048.0	$1,175.0 ↓	$1,523.0 ↑	$1,639.0
International	$145.0	$594.0			$1,851.0			
Total R&M	$604.0	$925.0	$701.0	$1,321.8	$3,949.0	$3,703.4 ↑	$3,522.4 ↑	$3,838.0
Corporate and Other	($504.0)	($538.0)			($1,908.0)	($1,789.0)↑	($1,800.0)↑	($1,800.0)
Total Net Income	$6,271.0	$5,845.0	$6,055.0	$5,941.3	$23,812.3	$24,444.0 ↑	$25,241.7 ↑	$26,273.7

Please refer to the Zacks Research Digest spreadsheet of CVX for more details.

Earnings per Share

As per the Zacks Digest model, pro forma **EPS** in 1Q13 was $3.18, up 0.3% from $3.17 in 1Q12 and 6.3% from $2.99 in 4Q12. The results were impacted by higher profitability from the upstream segment of the international market coupled with the rise in tax benefit.

Provided below is a summary of EPS as compiled by Zacks Digest:

EPS	1Q12A	4Q12A	1Q13A	2Q13E	2012A	2013E	2014E	2015E
Zacks Consensus				**$3.06**		**$12.31**↑	**$12.26**↓	
Digest High	$3.17	$2.99	$3.18	$3.10	$12.10	$12.61↓	$14.60↑	$16.63
Digest Low	$3.17	$2.99	$3.18	$2.99	$12.09	$11.71↑	$8.79↓	$14.32
Digest Average	$3.17	$2.99	$3.18	$3.04	$12.10	$12.23↑	$12.01↓	$15.48
Y-o-Y Growth	*2.6%*	*16.0%*	*0.3%*	*-14.6%*	*-8.3%*	*1.1%*	*-1.8%*	*28.8%*
Q-o-Q Growth		*26.1%*	*6.3%*	*-4.4%*				

As per the Zacks Digest model, 1Q13 **net income** was $6,055.0 million, down 3.4% from $6,271.0 million in 1Q12 and up 3.6% from $5,845.0 million in 4Q12.

As per the Zacks Digest model, **shares outstanding** in 1Q13 were 1,944.0 million, representing decreases of 1.8% y-o-y and 0.4% sequentially.

Outlook

The bullish firms raised their earnings estimates for the coming quarters on the back of the expectation for higher volumes of production, increased margin of refining and also for the company's effort to reduce cost.

However, the firms with a neutral outlook expect earnings per share to decrease in 2013 and 2014 as they remain cautious regarding the decrease of oil prices in the near future, which might affect earnings as Chevron depends primarily on oil production.

The Zacks Digest model forecasts EPS of $12.23 for 2013, $12.01 for 2014, and $15.48 for 2015, with a y-o-y decline of 1.8% in 2014, but y-o-y growth of 1.1% in 2013 and 28.8% in 2015. The three-year CAGR on realized 2012 EPS is projected at 8.6%.

The highlights of the EPS table are as follows:

- 2013 forecasts (5 firms) range from $11.71 to $12.61; the average is $12.23.
- 2014 forecasts (5 firms) range from $8.79 to $14.60; the average is $12.01.
- 2015 forecasts (2 firms) range from $14.32 to $16.63; the average is $15.48.

The Zacks Digest model forecasts net income of $24,444.0 million for 2013, $25,241.7 million for 2014, and $26,273.7 million for 2015, with a y-o-y growth of 2.7% in 2013, 3.3% in 2014 and 4.1% in 2015. The three-year CAGR on realized 2012 net income is projected at 3.3%.

The Zacks Digest model projects shares outstanding at 1,937.1 million for 2013, 1,909.5 million for 2014, and 1,883.0 million for 2015, with a y-o-y decline of 1.4% in 2013, 1.4% in 2014, and 1.4% in 2015. The three-year CAGR on realized 2012 shares outstanding is projected at a negative 1.4%.

The firms expect EPS to increase in 2013 and 2015, with an increase in net income favored by a decrease in shares outstanding. EPS will likely move down in 2014, although net income is projected to increase favored by the fall in share count.

Please refer to the Zacks Research Digest spreadsheet of CVX for more extensive EPS figures.

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