



COMPANY SPOTLIGHT:

Occidental Petroleum Corp.

COMPANY DESCRIPTION

Headquartered in Houston, TX, Occidental Petroleum is an international oil/gas exploration and production company with operations in the US, Latin America and the Middle East. The company operates three segments: oil/gas exploration, chemicals, and midstream/marketing.

With the company for over 35 years, Vicki Hollub became CEO in 2016.

COMPANY HIGHLIGHTS AND FINANCIALS

Occidental Petroleum is the largest producer of oil in the Permian Basin (New Mexico and Texas). Since 2013 they have been reorganizing their asset base focusing on acquiring low cost, high return assets in the Permian Basin. This included spinning off their California oil/gas assets into a separate company, selling their non-core assets in the Middle East and North Dakota, further concentrating their effort in the lucrative Permian Basin. This strategy has strengthened the company's profitability potential even if oil/gas markets come under pricing pressure. Occidental Petroleum also operates a chemicals segment, accounting for 35% of sales, manufacturing basic chemicals and vinyls.

KEY POINTS

- :: One of the largest Exploration and Production companies by market cap.
- :: Good financial health with over \$1.2 billion in cash and Net Debt to Capital of 50%.
- :: Compelling upside as valuations and growth remain attractive.
- :: Consistent and growing dividend with a yield of 4.46%.

VALUATION AND RISKS

Occidental Petroleum is trading in line with their historical valuations and below fair value based on scenario analysis of free cash flow growth. Occidental has a dividend yield of 4.46% and generates over \$1.3 billion in free cash flow, giving them the flexibility to continue to raise their dividend over time. The company forecasts their cash dividend will be raised if West Texas Intermediate (WTI) crude oil stays over \$50 per barrel with the current dividend maintained at a price above \$40.00 per barrel. On a free cash flow basis, we expect the company to grow cash flow in the mid-single digits over the next decade, due to the company's shift to higher margin assets. Modeling our conservative assumption places a price of \$80 on shares which is almost a 20%

increase based on the share price as of the date of this report. If our conservative assumptions turn out to still be overly optimistic, we feel there is a margin of safety built into the current price based on the company's strong cash flow generation and balance sheet.

As we continue to monitor our investment in Occidental Petroleum, we would like to see continued discipline in regards to capital spending and their amount of leverage while continuing to grow their dividend. Continued focus on the company's revenue breakdown and operating margins will be areas to monitor closely.

Weighing the potential rewards and risks, we are optimistic that Occidental Petroleum will be a good long-term investment.

—Patrick Mason, Investment Analyst, Cairn Investment Group



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