

A Financial Analysis and Valuation of Chevron Corporation

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Abstract: With the continuous development of the global economy, the demand for energy continues to grow, and the market size of oil and gas as an important source of energy continues to expand, and the growth potential of the oil and gas market in the future is still huge. As an internationally renowned energy company, Chevron occupies an important position in the global oil and gas market. Firstly, the financial indicator analysis method is used to compare the financial data in 2023 with the other three energy companies to obtain its financial strength with strong asset liquidity, high solvency and strong profitability. Secondly, from the aspects of profitability, development ability and valuation, it is concluded that Chevron has strong market competitiveness, large room for stock price growth, and greater investment opportunities. Finally, it is concluded that Chevron has a high investment value, but it still faces certain risks and challenges, and it is necessary to pay attention to the impact of international oil price fluctuations on the company's performance and should pay close attention to its risk factors and take corresponding measures to face it positively.

Keywords: Chevron Corporation, Energy Industry, Performance Evaluation, Financial Valuation

1. Introduction

Chevron is one of the world's largest energy companies, founded in 1879 as Chevron Texaco and renamed Chevron Corporation in 2005, headquartered in San Ramon, California, with operations in more than 180 countries. Chevron has a sales network in China, with lubricant production plants in Tianjin and Shanghai, and its Chevron G&F lubricants, DELO and Chevron Techron are trusted by consumers for their excellent quality and performance [1].

Chevron's operations cover all aspects of the oil and gas industry: exploration, production, refining, marketing, transportation, petrochemicals, power generation, and more. In industries such as oil, gas, petrochemicals, and chemicals, Chevron is a global leader. The upstream business includes the primary exploration, development, production and transportation of crude oil and natural gas. Processing, liquefaction, transportation and regasification are related to LNG; transportation of crude oil through major international oil export pipelines; Transportation, storage and marketing of natural gas and a natural gas liquefaction plant. The downstream business mainly includes the refining of crude oil into petroleum products; marketing of crude oil and refined oil. Lubricant; manufacturing and marketing of renewable fuels; transportation of crude oil and refined products by pipelines, ships, motorized equipment and trams. Manufacture and sale of commercial petrochemicals, industrial plastics, and fuel and lubricant additives.

Chevron was the pioneer of the "hydrocracking" and "isomeric dewaxing" base oil production processes, and today the "hydrogenation" process is widely used in the base oil production and refining industries [2]. With the advantages of an integrated industrial chain, Chevron is one of the few lubricant manufacturers in the world that can achieve end-to-end supply from base oil to additives.

As of December 2023, Chevron's operating revenue for the past quarter was \$48,933. Chevron's revenue for the last 12 months was \$196913. Chevron reported third-quarter earnings last month that beat market expectations, backed by positive news on improving global demand and increased U.S. oil field production, with explosive growth in both profit and sales. Chevron reported third-quarter earnings last month that beat market expectations, backed by positive news on improving global demand and increased U.S. oil field production, with explosive growth in both profit and sales. Among them, net profit was \$11.2 billion and earnings per share were \$5.66, almost double that of last year. Moreover, the company's cash flow surged to a record \$15.3 billion in the third quarter, well above the previous quarter, underscoring its financial strength.

U.S. energy company Chevron Inc. (NYSE: CVX) remains in a strong cash position for fiscal year 2023 as it pays nearly \$11 billion in dividends to shareholders. In addition to this, its dividends have continued to grow over the past 37 years. The company is currently offering a quarterly dividend of \$1.63 per share, with a dividend yield of 3.93% as of April 28.

According to Insider Monkey's Q4 2023 database, 71 hedge funds hold shares in Chevron Corporation (NYSE: CVX), down slightly from 72 in the previous quarter. The total value of these shares is more than \$21.6 billion. Warren Buffett's Berkshire Hathaway was the company's major shareholder in the fourth quarter.

2. Performance Evaluation

2.1. Liquidity

Table 1: Liquidity ratios of Chevron and its competitors in 2023.

Company Names	Current ratio	Quick ratio	Cash ratio
Chevron	1.27	1.01	0.25
Marathon Oil	1.59	1.13	0.5
Senko Energy	1.44	0.88	0.18
Cenovus	1.56	0.91	0.36

Data Source: Nasdaq.

The current ratio is a measure of a company's ability to repay its short-term debts. It is generally believed that a reasonable current ratio is 2, and it is believed that if the current ratio is less than 1, its liquidity will be poor. The current ratios of the four companies are all greater than 1 and less than 2, indicating that the ability to repay short-term debts is still relatively high [3].

The quick ratio complements the current ratio and is more straightforward and credible than the current ratio. The minimum quick ratio that is generally considered reasonable is 1 [4]. The quick ratios of Chevron and Marathon are both greater than 1 at 1.01 and 1.13, and Chevron's value is closest to 1, indicating that its short-term solvency is high, and the risk is small. However, the value of Marathon crude oil company is too high compared to 1, indicating that it occupies too much capital in liquid assets, which will increase the opportunity cost of enterprise investment. The quick ratios of Senko Energy and Cenovus are less than 1 at 0.88 and 0.91, indicating that their short-term debt repayment risks are relatively high.

If the current ratio is high, but the liquidity of current assets is low, the short-term solvency of the enterprise is still not high. To measure a company's ability to repay short-term debt, the current ratio

and quick ratio should be combined. As Table 1 shown, Chevron's current ratio of 1.27 is greater than 1 and less than 2, and its quick ratio of 1.01 is greater than 1 but close to 1, indicating that it is more liquid. Marathon Crude Oil has a current ratio of 1.59 greater than 1 and less than 2, and a current ratio of 1.13 greater than 1 but too high, and its liquidity is weaker than Chevron. Senko Energy and Cenovus have current ratios of 1.44 and 1.56, both greater than 1 and less than 2, and quick ratios of 0.88 and 0.91, both greater than 0.5 and less than 1, and the liquidity of both companies is poor.

The cash ratio is the best indicator of a company's ability to pay its current liabilities directly. It is generally considered that 0.2 or more is good. Chevron, Marathon and Cenovus have cash ratios of 0.25, 0.5 and 0.36, all of which are greater than 0.2, indicating that the three companies have strong liquidity capabilities. However, the high ratio between Marathon and Cenovus means that its liquid assets are not being used wisely, resulting in low profitability of cash-like assets, which are too high and will lead to an increase in their opportunity cost. Senko Energy's cash ratio of 0.18 is less than 0.2, indicating its poor liquidity.

In summary, Chevron has higher short-term solvency, less risk, stronger liquidity and strong liquidity than the other three companies.

2.2. Solvency

Table 2: Solvency ratios of Chevron and its competitors in 2023.

Company Names	Total debt ratio	Long-term debt ratio	Time-interest-earned
Chevron	0.62	0.08	64.1
Marathon Oil	0.29	0.29	0.01
Senko Energy	0.49	0.13	9.36
Cenovus	0.53	0.13	8.51

Data Source: Nasdaq.

The debt-to-asset ratio is a measure of a company's ability to use creditors to provide funds for its business activities [5]. It is generally believed that the appropriate level of asset-liability ratio is 0.4~0.6. The asset-liability ratios of Senko Energy and Cenovus are 0.49 and 0.53, and the asset-liability ratio of Chevron is 0.62, which is slightly higher, but it is about a reasonable asset-liability ratio, indicating that these three companies have sufficient funds, less debt, less debt repayment risk, financial stability, and relatively strong business management ability. The asset-liability ratio of Marathon Crude Oil Company is 0.29, and its asset-liability ratio is too low, indicating that it has more abundant funds, less debt, less debt repayment risk, less financial risk, and can better cope with market changes and economic fluctuations. However, it also means that its ability to use external funds is poor and too conservative, which may lead to its interest pre-tax deduction not being effectively utilized, and not making full use of creditors' capital for business activities.

The long-term debt ratio is one of the indicators that reflect the long-term solvency of an enterprise. It is generally considered that less than 0.2 is appropriate [6]. As Table 2 shown, Chevron's long-term debt ratio is 0.08, and Senko Energy's and Cenovus's long-term debt ratios are both 0.13. The long-term debt ratio of Marathon Crude Oil Company is 0.29, which is a high index, indicating that its long-term debt repayment ability is weak and its dependence on long-term debt is high.

The interest coverage ratio is used to measure a company's ability to pay interest on its liabilities. The ideal multiple is more than 1.5 times. Chevron's interest coverage ratio of 64.1 is well above 1.5, indicating that it has a strong ability to pay interest on its debts, has a strong long-term solvency, provides a degree of security in repaying debt and interest, and has sufficient surpluses to cover the interest expenses involved in its debt payable. The interest coverage ratios of Senko Energy and Cenovus are 9.36 and 8.51, both higher than 1.5, indicating that the long-term solvency is also strong.

Marathon's interest coverage ratio is 0.01, well below 1.5, indicating that it will face the risk of losses and reduced security and stability of debt repayment.

In summary, Chevron has a lower solvency and a slightly greater financial risk than Senko Energy and Cenovus. However, compared with the above two companies, Chevron has a stronger long-term solvency and a stronger ability to pay interest on its debts, and its assets that can be used to repay non-current liabilities are more guaranteed, and there is sufficient surplus to cover the interest expenses involved in its debts payable.

2.3. Profitability

Table 3: Profitability ratios of Chevron and its competitors in 2023.

Company Names	Gross Profit margin	Net Profit margin	Asset Turnover
Chevron	0.27	0.11	0.75
Marathon Oil	0.13	0.07	1.73
Senko Energy	0.59	0.17	0.55
Cenovus	0.21	0.08	0.97

Data Source: Nasdaq.

Gross profit margin is one of the important indicators to measure the profit level of a company. It is generally believed that in the energy industry, more than 0.2 is good. The gross profit margins of Chevron, Senko Energy and Cenovus are 0.27, 0.59 and 0.21 respectively, indicating that the gross profit of the three companies is high, and the total profit will also increase. However, the gross profit margin of Marathon Crude Oil Company is 0.13, which is low, indicating that its gross profit is not high, and there may be inflated costs and hidden revenues, and its profitability is weak.

Net profit margin is used to measure the ability of a company to obtain sales revenue in a certain period. It is generally believed that more than 0.1 is good in the energy industry. As Table 3 shown, the net profit margins of Chevron and Senko Energy are 0.11 and 0.17 respectively, indicating that the two companies have a high proportion of sales revenue converted into net profit, high operating efficiency and strong profitability. Although the net profit margins of Marathon Crude Oil Company and Cenovus are 0.07 and 0.08, they are generally considered to be poor below 0.03, and compared with Chevron and Senko Energy, the profitability of these two companies is not bad but relatively weak.

The asset turnover ratio reflects the management quality and utilization efficiency of all assets of the enterprise. It is generally considered appropriate between 0.8 and 1. Chevron's asset turnover ratio is 0.75, close to 0.8, and Cenovus's asset turnover ratio is 0.97, indicating that the two companies have a faster total asset turnover, stronger sales capacity, and higher asset utilization efficiency. The asset turnover ratio of Marathon Crude Oil Company is 1.73, indicating that it has strong asset management efficiency, fast total asset turnover, strong sales capacity and high asset utilization efficiency. Senko Energy's asset turnover ratio is 0.55, which is a low indicator, indicating that its asset utilization efficiency is weak, which may mean that the company is not fully utilizing existing assets or has redundant and idle assets.

To sum up, compared with Marathon Crude Oil Company and Cenovus, Chevron Company is relatively reasonable in terms of asset turnover speed and utilization efficiency, and its gross profit margin is higher than that of the two companies, and the business operation is good, the operating efficiency is high, and the profitability is relatively strong. Compared with Senko Energy, Chevron's business operation and operating efficiency are slightly weaker than the latter, but they are also in the better category, and its asset turnover speed and utilization rate are much better than the latter, and its profitability is stronger.

3. Valuation

In terms of profitability, Chevron's forward earnings per share of 12.95 (see Table 4) are higher than Senko Energy and Cenovus's 3.95 and 2.01, indicating that its dividend distribution sources are sufficient. The asset appreciation ability is strong, the profitability is strong, the shareholder value is high, and the market competitiveness is strong. However, it is smaller than Marathon Crude Oil Company's 19.29, which can continue to enhance its profitability by increasing operating income, reducing costs, and optimizing capital structure. Chevron's annual gross profit margin was 26.83% (see Table 5), quarterly gross margin was 28.50%, annual net profit margin was 10.85% (see Table 6), and quarterly net profit margin was 4.62%, all of which were higher than Marathon Crude Oil Company's 13.35%, 10.13%, 6.52%, and 4.00%, and its Cenovus annual gross profit margin was 59.28%, indicating that its products are more competitive in the market, and higher cost control capabilities mean that there may be higher return potential and stronger profitability [7]. However, the annual gross profit margin and annual net profit margin of Senko Energy are 59.28% and 16.90%, which can continue to enhance its profitability by increasing the added value of products, expanding the market, and strengthening marketing.

Table 4: Financial forecast analysis in 2023.

	Chevron	Marathon Oil	Senko Energy	Cenovus
Ticker symbol	CVX	MPC	SU	CVE
Share price	\$162.08	\$197.01	\$39.15	\$20.75
TTM EPS	13.6	23.53	3.77	1.55
NTM EPS	12.95	19.29	3.95	2.01
EPS growth rate	-4.78%	-18.00%	4.77%	29.68%
Revenue growth rate	-2.75%	-8.17%	3.51%	-1.34%
TTM P/E ratio	11.92	8.37	10.38	13.38
NTM P/E ratio	12.52	10.21	9.91	10.32
PEG	(2.49)	(0.47)	2.18	0.45
GP/A	20.19%	23.04%	32.87%	20.39%

Data Source: Nasdaq.

In terms of developing capacity, Chevron's earnings per share growth rate and earnings growth rate of -4.78% and -2.75% are higher than the values of Marathon Crude Oil Company of -18.0% and -8.17%, indicating that its operating situation and management capabilities are strong, and its development ability is strong, and its stock price has more room to rise in the future [8]. However, Chevron's earnings per share growth rate and earnings growth rate are smaller than Senko Energy's 4.77% and 3.51% and Cenovus's 29.68% and -1.34%, and it can continue to enhance its development capabilities by strengthening financial management, improving product quality, expanding market share, and establishing risk management strategies. Chevron's GP/A value of 20.19% is smaller than that of the three companies of 23.04%, 32.87% and 20.39%, and it can continue to enhance its development capabilities by increasing sales, improving asset utilization, and optimizing capital structure.

Table 5: Annual gross profit margin of Chevron and its competitors from 2020 to 2023.

	12/31/2023	12/31/2022	12/31/2021	12/31/2020
CVX	26.83%	27.82%	27.40%	23.39%
MPC	13.35%	14.53%	8.31%	5.80%

Table 5: (continued).

SU	59.28%	61.52%	60.98%	56.76%
CVE	21.06%	23.91%	22.17%	8.70%

Data Source: Nasdaq.

Table 6: Annual net profit margin of Chevron and its competitors from 2020 to 2023.

	12/31/2023	12/31/2022	12/31/2021	12/31/2020
CVX	10.85%	15.05%	10.04%	-5.87%
MPC	6.52%	8.18%	8.12%	-14.08%
SU	16.90%	15.56%	10.53%	-17.51%
CVE	7.87%	9.64%	1.27%	-17.56%

Data Source: Nasdaq.

In terms of valuation, the energy sector currently trades at a forward P/E ratio of 12.2. Chevron's forward P/E ratio of 12.52 is closest to the industry level, indicating that it is less risky, more stable and reliable [9]. However, the forward P/E ratios of Marathon Crude Oil Company, Senko Energy Company and Cenovus are all lower than 12.2 and 10.21, 9.91 and 10.32 respectively, indicating that there are potential risks, fierce competition in the industry, declining market share, possible financial problems of the company, the company may lose money, and the prospects of the market are not very good. Chevron, Marathon and Cenovus have PEG values of -2.49, -0.47 and 0.45 all less than 1, and the stock prices are all undervalued, and there are investment opportunities, among which Chevron has a lower value than the other two companies, indicating that the possibility of future stock price increases is greater, and the investment opportunities are greater. However, Senko Energy's PEG value of 2.18 is greater than 1, and the stock price is overvalued, indicating that the market has high expectations for its future growth, and its reasonable growth expectations should be considered from other aspects.

4. Strategy and Risks

Strategy: In 1999, Chevron established its business objectives to be the oil company with the highest shareholder return and to guarantee a return on operating capital of at least 12%. To this end, the company has launched a "4+1" strategy, which is to pursue excellent operational performance, relentlessly reduce costs, wise and efficient working capital, adjust investment portfolios to pursue profitable growth, and strengthen the development of corporate organizational capabilities [10]. Chevron has established a strategic partnership with Tuhu to provide more high-quality and high-standard services for car owners.

Geopolitical Risks: May have a significant impact on global crude oil markets and price changes, and political instability and positive changes in the legal and regulatory environment may pose challenges to Chevron's business operations and profitability.

M&A risk: Chevron had planned to acquire Hess but faced the risk of not being able to complete it within the expected timeframe. This can have a negative impact on the company, such as not being able to realize the expected benefits of the acquisition, disrupting the company's current plans or operations.

Market risk: With the continuous change of the global energy market and the intensification of competition, it may pose challenges to the operation and development of the company. Chevron is constantly adapting its strategy and business model to market changes, and if the company fails to

successfully develop resources, its business scope will be reduced, and the company's operations may be disrupted by natural or human causes beyond its control.

Financial risk: A decline in Chevron's price-to-earnings ratio will result in a decrease in returns. High gross and net profit margins may indicate a company's competitive advantage, but it can also mean higher operational risk.

In summary, while pursuing its strategic goals, Chevron also faces certain risks and challenges. To maintain their competitive advantage and ability to sustain themselves, companies need to pay close attention to market dynamics and risk factors and take appropriate measures to respond to them.

5. Conclusion

This paper analyzes Chevron's business investment from the perspective of corporate accounting and financial management.

Firstly, from the perspective of performance evaluation, from the aspects of asset liquidity, solvency, and profitability, through the analysis of financial indicators such as current ratio, long-term debt ratio, and gross profit margin, it is concluded that Chevron has a high ability to repay debts, strong liquidity.

Secondly, from the perspective of asset evaluation and estimation, from the perspective of profitability, through the analysis of financial indicators such as gross profit margin and net profit margin, it is concluded that Chevron can effectively control costs, has high return potential, and has strong profitability; From the perspective of development ability, through the analysis of financial indicators such as revenue growth rate and GP/A value, it is concluded that Chevron's operation and management capabilities are strong and development capabilities are strong; From the valuation aspect, through the index analysis of the forward P/E ratio and PEG value, it is concluded that the risk is lower and the investment opportunity is greater.

Finally, from the perspective of asset valuation strategy and risk, it is concluded that Chevron is facing certain risks and challenges while pursuing its strategic goals. Companies need to pay close attention to market dynamics and risk factors and take appropriate measures to deal with them.

The comprehensive analysis shows that Chevron is a competitive energy company with excellent financial position, profitability and future value. However, the company still needs to pay attention to the issues of costs and expenses, product quality, etc., to further improve profitability and development capabilities. For investors, Chevron has a high investment value, but it is necessary to pay attention to the impact of international oil price fluctuations on the company's performance and should consider the limitations of industry risks and growth potential.

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