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INITIATING COVERAGE

Key Metrics

CVX - NYSE - as of	4/21/17		$104.89
Price Target			NA
52-Week Range		$97.53 -	$119.00
Shares Outstanding (mm)			1893.1
Market Cap. ($mm)			$198,567.6
1-Mo. Average Daily Volume			6,391,944
Institutional Ownership			64.7%
Net Debt/Total Capital	Q4'16		20.2%
ROE	FY'16		-0.3%
Book Value / Share	Q4'16		$77.63
Price / Book Value			1.4x
Dividend & Yield		$4.32	4.1%
LTM EBITDA Margin			14.9%

Earnings / Share FY 12/31

	2016A	Prior 2017E	Current 2017E	Prior 2018E	Current 2018E
1Q	($0.39)	--	$0.85	--	--
2Q	($0.79)	--	$0.90	--	--
3Q	$0.68	--	$1.15	--	--
4Q	$0.22	--	$1.30	--	--
Year	($0.27)	--	$4.20	--	$5.80
P/E	NM		25.0x		18.1x

Revenue ($Bil)

	2016A	Prior 2017E	Current 2017E	Prior 2018E	Current 2018E
1Q	$23.6	--	$32.2	--	--
2Q	$29.3	--	$33.1	--	--
3Q	$30.1	--	$33.9	--	--
4Q	$31.5	--	$34.8	--	--
Year	$114.5	--	$134.0	--	$153.9

Company Description: *San Ramon, CA – based Chevron Corp. is a major international integrated oil, gas and chemical company with reserves and operations in 25 countries. In 2016 the company produced approximately 957 Mmboe (million barrels oil equivalent) from proved reserves of approximately 11,100 Mmboe, and processed more than 616 Mmboe of fuels and petrochemicals.*

Chevron Corp

CVX – NYSE — Neutral-2

Positioning for the Next Cycle

Investment Highlights

- We are inaugurating coverage on Chevron Corp. with a Neutral-2 rating.
- With the energy commodity price cycle turning up, we believe the company's reduced cost structure and the contribution of several major upstream projects over the next few years position the company for a recovery in upstream earnings that offsets margin compression in the downstream segment.
- Chevron's balance sheet and liquidity position remain among the strongest in the sector, at 20% net debt to total capitalization and ~1.6x debt / EBITDA. The company has traditionally operated with low leverage and has $11.8B of maturities through 2018, which could act to further de-lever the balance sheet.
- The dividend yield is ~0.5% above the 10-year average, but dividend growth has lagged historical trends the past two years. Despite recovering cash flows, however, we believe dividend growth will remain tempered near-term.
- The shares are trading near average historical multiples of Enterprise Value/Boe of proved reserves and EV/Boepd of production. However, by traditional financial valuation metrics of earnings and cash flows the shares are at premiums of ~40% vs. historical averages. We believe this is indicative of a stock trading at reasonable valuation levels, but not at a compelling initial entry point.

Note Important Disclosures on Pages 19-20
Note Analyst Certification on Page 19

HISTORICAL BACKGROUND &CURRENT STRUCTURE

Chevron Corp (CVX) traces its origins to the late 1870s, when one of its predecessor companies made the first oil strike in California, at Pico Canyon. Another was among the first refiners in the state and a pioneer in the employment of pipelines and steel hulled tankers. In the first years of the twentieth century, as part of Standard Oil, the company created the "service station" concept. In the more than 100 years since that time, the company has become an international producer (starting in Bahrain in 1932), refiner and distributor, with a presence in more than 20 countries.

Figure 1

Corporate History Highights

1879	Pacific Coast Oil Co formed
1900	acquired by Standard Oil (Iowa)
1911	spun out as Standard Oil of California
1926	adopts SOCAL name
1936	forms CALTEX jv with Texaco and Saudi Arabia
1977	reorganize subsidiaries under Chevron Corp name
1984	acquires Gulf Oil
2000	forms Chevron Phillips Chemical - 50/50 jv
2001	acquires Texaco
2005	acquires Unocal
2011	acquires Atlas Energy

Source: company filings

Today Chevron is among the 10 largest publicly-traded international integrated (i.e. combining both exploration and production, or upstream, with refining, distribution and marketing, or downstream) oil and gas companies in the world.

The company's **upstream segment** had 11.1 Bboe (billion barrels of oil equivalent) of proved reserves at year-end 2016, comprised of 50% liquids (crude oil, condensate and NGLs), 43% gas and 7% "synthetic oil" (i.e. bitumen / oil sands resources). The company produced 946.7 Mmboe (million barrels oil equivalent) in 2016, or 2.59 Mmboepd (million barrels oil equivalent per day), yielding a reserve life index (RLI) of 11.7 years.

The reserve replacement ratio was reported at 95% in 2016 (adjusting for divestitures), in line with the five-year average ratio of 98% and in keeping with the -0.2% pace of annual reserve growth over that time frame. For the second consecutive year, extensions and discoveries (organic growth) were led by activity in the Permian Basin, in which region the company added 195 Mmboe, or 80% of the year's growth. Purchases added 11 Mmboe while dispositions reduced total reserves by 126 Mmboe last year.

Figure 2

Geographic Segment Breakout - 2016

Segment	Proved Reserves (Mmboe)	%	Production (Mmboe)	%
Upstream:				
USA	2,025	18.2%	262.6	32.4%
International				
Other Americas	331	3.0%	58.5	7.2%
Africa	1,347	12.1%	150.3	18.5%
Asia	1,642	14.8%	275.1	33.9%
Australia / Oceania	2,244	20.2%	34.4	4.2%
Europe	177	1.6%	30.5	3.8%
Synthetic*	604	5.4%		
Equity Affiliates	2,752	24.7%	145.8	18.0%
Total	11,121		811.3	
Developed	6,903	62.1%		

* Synthetic production reflected in Other Americas

Source: company filings

The company's **downstream segment** consists of 10 refineries in eight locations with 1.8 Mmbpd of capacity. Four of those plants, representing 52% of capacity, are located in the USA. Facilities in Thailand, South Africa and Canada account for an additional 9%, 6% and 3% of capacity, respectively. Three additional international facilities controlled by equity affiliates represent the final 30% of CVX's refining capacity, the most significant of which is its South Korean operation, GS Caltex.

The company sold its Hawaiian refinery operations in November of last year and recently signed a sale agreement with China Petroleum & Chemical, or Sinopec, to divest its South African refinery assets for approximately $900M. A closing date for the transaction has not been announced. The Canadian refinery is under evaluation for possible divestiture.

Chevron manufactures and markets a full range of motor and aviation fuels, other distillates and by-products and lubricants. Fuels are marketed in the United States under the "Chevron" and "Texaco" brands through approximately 7,800 service stations, 325 of which are company-controlled. Internationally, the company's products are sold through approximately 6,000 service stations under the Chevron, Texaco and "Caltex" brands. Lubricant products are marketed worldwide under the three brands mentioned above, as well as *Havoline*, *Delo*, *Ursa*, and others.

The downstream segment also includes *Chevron Oronite*, a stand-alone manufacturer and marketer of specialty fuel additives, with 11 facilities around the world, including a new plant in Singapore.

Figure 3

Geographic Segment Breakout - 2016	Capacity (Mboe/d)	%	Production (Mboe/d)	Utilization %
Downstream:				
USA	963	52.5%	900	93.5%
International	330	18.0%	291	88.2%
Equity Affiliates	542	29.5%	497	91.7%
Total	1,835		1,688	92.0%

Source: company filings

Chevron's most significant **equity affiliate** is in Kazakhstan, via its Tengizchevroil (TCO) joint venture and interest in the Caspian Pipeline Consortium, which serves those operations. TCO alone has accounted for an average of 58% of equity affiliate income over the past five years.

In 2000, Chevron combined its chemical segment assets with those of Phillips Petroleum (now Phillips 66) in a 50/50 joint venture called Chevron Phillips Chemical Company, or CPChem. Headquartered in Houston, Texas, CPChem has 32 manufacturing operations worldwide, which generated sales in excess of $13.1B in 2013 and 2014. Sales declined to $9.3B in 2015 and $8.5B for 2016. Through that cyclical window, however, net margins ranged between 20.0% and 28.7% and the company has contributed an average of $1.2B to equity affiliate income over the past three years.

A 50%-owned equity affiliate, GS Caltex, is a petrochemical manufacturer in partnership with South Korea's second-largest refiner. The company has been the third-largest contributor to affiliate income each of the past three years, averaging over $500M. Petropiar and Petroboscan are the company's principal operations in Venezuela.

Figure 4

Equity Affiliate Income ($s MM)	CVX interest	2012	2013	2014	2015	2016
Tengizchevroil (TCO)	50%	4,614	4,957	4,392	1,939	1,380
Caspian Pipeline Consortium	15%	96	113	191	162	145
Petropiar	30%	55	339	26	180	326
Petroboscan	39%	229	300	186	219	(133)
Angola LNG	39%	(106)	(111)	(311)	(417)	(282)
Other Upstream		266	214	229	135	(193)
CPChem	50%	1,206	1,371	1,606	1,367	840
GS Caltex	50%	249	132	420	824	373
Caltex Australia - sold Q2'15		77	224	183	92	-
Other Downstream		203	(12)	176	183	205
Total		$ 6,889	$ 7,527	$ 7,098	$ 4,684	$ 2,661
% of total revenues		2.8%	3.3%	3.3%	3.4%	2.3%

Source: company filings

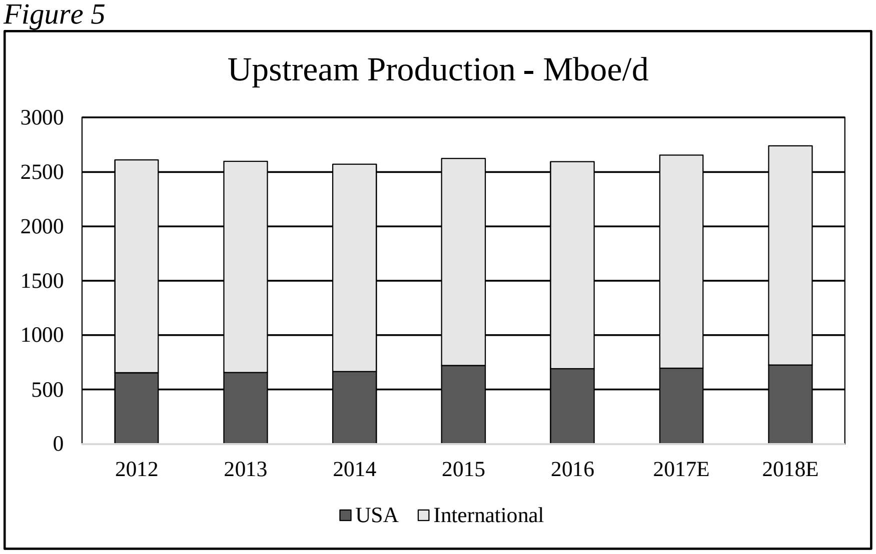
INVESTMENT THESIS

A number of major projects are coming on-line, positioning the company for rising production over the next few years.

Chevron has begun bringing a number of projects on-line in the past year that, combined with several additional major projects on the near horizon, we believe position the company for resumption of production growth over the intermediate term.

- Gorgon: This Australia LNG plant made its first shipment in Q1'16 with train 2 shipping initial production in Q3'16. Train 3 is anticipated to be activated in Q2'17. The project as a whole has an estimated ultimate production capacity of 2.6 Bcfpd and 20 Mbblpd of condensate with an economic life of 40 years.
- The Wheatstone Australia LNG train 1 is anticipated to ship mid-2017, with train 2 going active in late 2017 to early 2018. The fields served by Wheatstone are estimated to ultimately provide 1.6 Bcf/d of gas and 30 Mbblpd of condensate with a 30-year economic life.
- Tengizchevroil (TCO) is Chevron's 50% owned affiliate in Kazakhstan. In 2016 TCO produced 410 Mboepd net to CVX (88% liquids) and contributed $1.4B of Chevron's $2.7B of income from equity affiliates. TCO is pursuing a broad series of projects designed to expand production while maintaining output as reservoir pressure declines in existing assets with the potential to add new production sources. Under such titles as "FGP" (future growth project), "WPMP" (wellhead pressure management project) and "CAR" (capacity and reliability project), the company anticipates increasing production by ~260 Mboepd commencing by 2022. Notably, most of the liquids production from TCO is transported via the Caspian Pipeline Consortium, of which CVX owns a 15% interest. This asset has contributed an average of $166M to annual income from equity affiliates over the past three years.

Figure 5



Source: company filings, Hilliard Lyons forecasts

With a number of projects beginning to contribute, Chevron is guiding to 4% to 9% production growth for 2017, excluding 50-100 Mboe/d of potential divestitures.

Our forecast is for net production growth of 2% and 3% for 2017 and 2018, respectively, compared to a five-year average of -0.6%, including the impact of asset sales.

In January of 2016 the company brought initial production on line from its Chuandongbei, China operation and averaged 111 Mmcfpd for the year. By year-end 2016, the company had also produced first gas from the Alder extension of its UK offshore assets. Chevron also has several offshore development projects in varying stages of progress in the Gulf of Mexico which are anticipated to add approximately 180 Mboepd to production, potentially nearly doubling the region's 2016 output. The bulk of this production growth, however, is not slated to come on line until 2018. Additionally, the company is increasing its Capex focus on short-cycle unconventional development, particularly in the Permian Basin.

These anticipated production increases are partially offset by the likelihood of further divestitures, particularly the Bangladesh operations, which contributed ~4% of upstream production in 2016.

The company's assets in the "Partitioned Zone" (the border between Saudi Arabia and Kuwait) remain a wild card. The operation has been shut in since May 2015, pending resolution of inter-governmental disputes. The operation contributed ~80 Mboepd, or approximately 3% of volume in 2014 and while we believe the operation will be reactivated at some point, it remains unlikely in the nearer-tem given the current price environment and OPEC production curtailments.

The downstream segment has concluded a number of expansions, upgrades and maintenance projects over the past two years, which while leaving capacity relatively unchanged, have been aimed at improving profitability and costs. We view the segment in still a relatively transitional mode, with 2016 divestitures in New Zealand and Hawaii, the pending sale of the South Africa assets (representing ~10% of prior capacity) and the potential disposal of the Canada plant (another 3%).

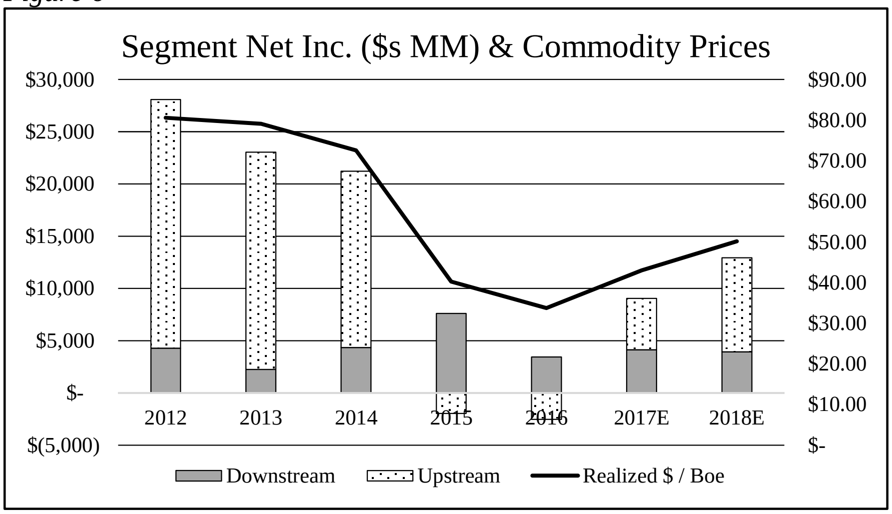
On the petrochemicals side, however, CPChem is concluding construction of its USGC (US Gulf Coast) project. The development is comprised of two 0.5M tons per year polyethylene units in Old Ocean, TX, scheduled to begin production by mid-2017, and a 1.5M ton per year ethane cracker in Cedar Bayou, TX, slated to open before year-end. Both facilities are positioned to take advantage of growing, competitively-priced regional feedstock sources. Given current market pricing, we calculate the facilities could add more than $1B of revenues.

We believe the commodity pricing recovery and the company's reduced cost structure will translate into improving upstream earnings, offsetting downstream margin compression.

Downstream net margins crested between mid-2014 and mid-2016, coincident with the collapse of commodity prices, with domestic margins averaging 5.1% in that period and international margins averaging 5.5%. With input costs rising once again, we are forecasting margins for the segment will recede toward historical norms of 2.1% in the USA and 2.4% internationally.

During the commodity price collapse, in contrast, upstream net margins (after intersegment eliminations) declined from their longer-term averages of 29.6% and 71.0% for US and international operations, respectively, to averages of -67.6% and 17.0%.

Figure 6



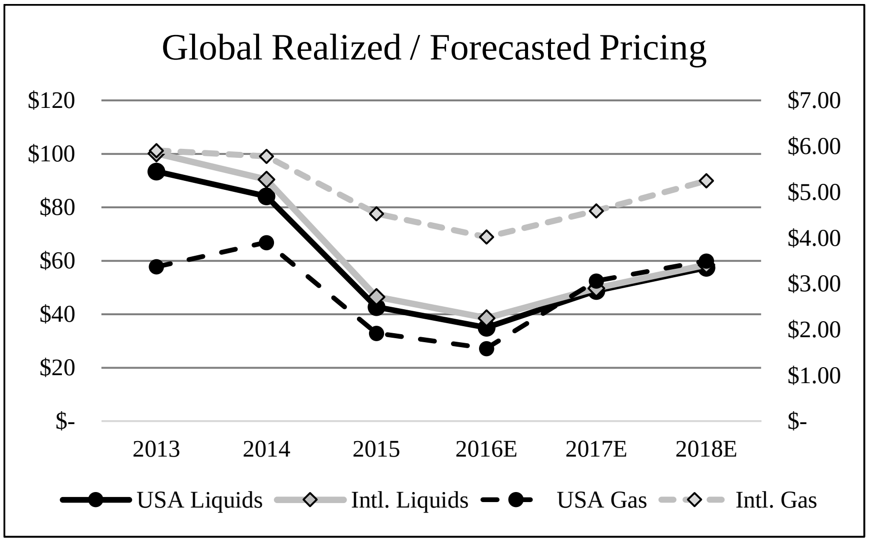
With commodity prices rising, we anticipate a compression of earnings from the downstream segment toward historical norms.

However, with increasing volumes and a reduced costs structure, we see an expansion of upstream earnings beginning to unfold.

Source: ThomsonOne, Hilliard Lyons forecasts

We are forecasting commodity prices will continue to recover toward marginal production costs over the next two years. For US commodity markets that entails crude moving back to $65/Bbl over the next two years with US gas climbing back into the mid-$3/Mcf range. Chevron's international crude production is generally tied to Brent, which has seen its historical premium to WTI shrink to nearly par. We are maintaining that relationship. Pricing of the company's international gas production is typically significantly higher than US gas pricing, more than two-fold the past five years, reflecting global supply/demand dynamics. Our forecast sees that recent premium moderating to 50%.

Figure 7



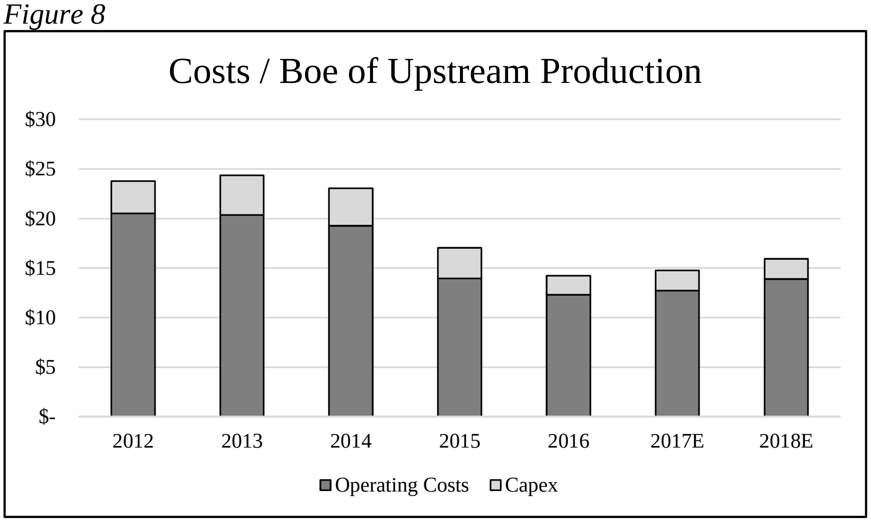
Source: ThomsonOne, Hilliard Lyons forecasts

Our crude forecast is for a WTI exit price of $55 per barrel for 2017 and $65/bbl for 2018, with Brent maintaining a modest premium to WTI.

Our gas outlook is for US prices to move through $3/Mcf this year and to average $3.50/Mcf in 2018. We have international pricing at a 50% premium to US, vs. the company's 10-year average premium of 74%.

Simultaneously, CVX has made significant strides in cost reductions. Since the cycle peak in 2012-2013, CVX has driven aggregated operating cost and Capex per Boe of production from an average of $20.45 and $3.63, respectively, to $12.30 and $1.91 for 2016, a reduction of more than 40%. With sector demand dynamics beginning to firm, however, the pace of yr/yr cost declines has been moderating for several quarters and was essentially flat sequentially in Q4'16 on a per-barrel basis. We are forecasting a more pronounced upturn in operating expense through 2017 and beyond as equipment and service providers begin to regain pricing power.

Figure 8



Source: company filings, Hilliard Lyons forecasts

Assigning all operating expenses, (ex-commodity purchases, which we attribute solely to downstream), we are forecasting costs per Boe will rise ~6% per year on average through 2018.

This follows a 42% reduction in costs between 2013 and 2016.

The balance sheet is more highly levered than has been the company's historical norm, but Chevron retains exceptional financial flexibility.

For most of the past decade, Chevron operated with a lean debt structure, primarily utilizing its short-term commercial paper capacity, which it rolled to long-term and subsequently paid off. As a result, the company was net debt-free (i.e. a larger cash balance than debt obligations) for five of the six years ended 2012. Beginning in 2011 and cresting in 2013 and 2014, however, Capex ramped up ~65% vs. the average of the prior several years, dictating a rise in debt to 20.2% of total capitalization by year-end 2016.

Figure 9

Debt Analysis

	2012	2013	2014	2015	2016	2017E	2018E
Cash & Equivalents	$ 21,913	$ 16,516	$ 13,215	$ 11,332	$ 7,001	$ 18,990	$ 19,700
Short-term Debt	$ 127	$ 374	$ 3,790	$ 4,928	$ 10,840	$ 11,040	$ 11,590
Long-term Debt	$ 11,966	$ 19,960	$ 23,960	$ 33,584	$ 35,193	$ 33,420	$ 28,280
Total Debt, Net	$ (9,820)	$ 3,818	$ 14,535	$ 27,180	$ 39,032	$ 25,470	$ 20,170
Net Debt / Total Capitalization	-6.5%	2.2%	7.9%	14.1%	20.2%	12.3%	9.4%
Effective Interest Rate	2.0%	1.4%	1.5%	1.5%	0.6%	0.8%	0.8%
Debt / EBITDA	0.2x	0.4x	0.5x	1.2x	1.6x	1.2x	0.9x
Net Interest Coverage	192.5x	127.4x	88.2x	10.8x	-9.7x	34.5x	49.1x
Liquidity	$ 56,700	$ 36,622	$ 33,803	$ 14,220	$ 8,936	$ 29,190	$ 36,120

Source: company filings, Hilliard Lyons forecasts

That ratio compares favorably to both Chevron's international integrated peers' average of 28.4% and the US E&P sector average of 88.0%. Additionally, on a debt to EBITDA basis, CVX has remained under 2.0x, vs. its peers' 7.7x and the sector average of 9.7x.

With Capex decelerating to more traditional levels, i.e. ~13% of revenues, and $11.8B of maturities through 2018, we believe the company's debt load will begin to decline over the next two years. With a $9.0B credit facility in place and recovering cash flows, we see ample liquidity for the current phase of the commodity cycle.

The company's outstanding publicly-traded bonds issued by Chevron Corporation and Texaco Capital are rated AA- by Standard and Poor's and Aa2 by Moody's. The company's U.S. commercial paper is rated A-1+ by Standard and Poor's and P-1 by Moody's.

CVX bears an attractive dividend yield, but growth has lagged historical norms.

The company has paid uninterrupted common dividends since 1926 and through 2016 had raised its annual dividend for 29 consecutive years, with the caveat that the quarterly rate was held at $1.07 between Q2'14 and Q4'16 when it was increased by a penny, a yr/yr increase of 0.2%. Over the past 10 years the annual dividend growth rate has averaged 7.5% while the five-year average is still 6.9%, despite that recent hiatus.

Figure 10

Dividend Metrics

	10-yr avg	*5-yr avg*	2014	2015	2016	2017E	2018E
Dividend			$ 4.21	$ 4.28	$ 4.29	$ 4.33	$ 4.55
Yield at Yr-end	*3.4%*	*3.7%*	3.8%	4.8%	3.6%		
Yr/Yr Div Change	*7.5%*	*6.9%*	7.9%	1.7%	0.2%	0.9%	5.0%
Coverage Ratio	*2.8x*	*1.9x*	2.4x	0.6x	-0.1x	1.0x	1.3x

Source: company filings, ThomsonOne, Hilliard Lyons forecasts

At the current annual dividend rate of $4.32/share, CVX is yielding 4.1%, among the highest in the oil & gas sector and the second highest yield in the Dow Jones Industrial Average. Of the 18 increases to the company's dividend over the past 20 years, more than half occurred with the second quarter declaration. Given the rate increase in Q4'16, however, we aren't counting on an additional hike this soon, but do believe modest annual growth will continue to remain a firm goal of management.

Our forecast is for another modest increase by year-end 2017, with a more substantial hike possible in 2018 as the dividend coverage ratio rises from approximately 1.0x this year to 1.3x, although that still compares weakly to the 10-year average ratio of 2.8x.

However, with the commodity recovery in early stages, valuation multiples are elevated versus historical and peer multiples, and likely to remain so through 2018, in our opinion.

CVX was trading at an Enterprise Value to proved reserves multiple (EV/Boe) of $23.33 at year-end. With the decline in the share price over the early months of this year, the current EV/Boe has pulled back to $20.31, in line with the five-year average, although still a double-digit premium to the longer-term average. Relative to its international integrated peers, however, (see figure 12, next page), the EV/Boe premium is over 40%. Similarly, on an Enterprise Value to production (EV/Boepd) basis, CVX is trading at a 3% discount to the five-year average and 10% premium to the longer-term average, but at a 19% premium to its peers.

Relative to traditional financial valuation metrics, the shares' premiums to historical averages are uniformly apparent. On an earnings basis, the current premium is 49% vs. the five-year average while the forecasted EV/EBITDA cash flow multiple is 11% above the medium-term average. Versus its peers, CVX is trading at premiums averaging 50% relative to current and forward EPS estimates.

Figure 11

Valuation Metrics

	10-yr avg	*5-yr avg*	FY'16	FY'17E	FY'18E
EV/Boe (proved reserves)	*$ 18.15*	*$ 20.22*	**$ 23.33**	$ 20.31	$ 20.10
LFY vs:	*29%*	*15%*			
CFY vs:	*12%*	*0%*			
EV (000)/Boepd (production)	*$ 76.97*	*$ 87.06*	**$ 100.03**	$ 84.48	$ 80.48
LFY vs:	*30%*	*15%*			
CFY vs:	*10%*	*-3%*			
P/E (CFY)	*13.2x*	*16.8x*	**nm**	25.0x	18.1x
CFY vs:	*89%*	*49%*			
EV/EBITDA	*5.5x*	*6.9x*	**13.0x**	7.7x	6.4x
LFY vs:	*135%*	*87%*			
CFY vs:	*39%*	*11%*			

Source: company filings, Hilliard Lyons forecasts

CVX does stack up favorably versus its international integrated peers with a 28% advantage on its long-term debt to total capitalization ratio and a 5% discount on an EV/EBITDA basis. However, we view the combination of these valuation metrics as reflective of a stock that may be priced reasonably at this stage of the energy cycle for current holders, but not at a compelling entry point for new investors.

Figure 12

Company	Tkr	Price 21-Apr-17	LFY Revs ($MM)	Mkt Cap ($MM)	Net Debt / EBITDA	LTD / Cap. (%)	P/E LFY	P/E CFY	P/E FFY	Est. 3-Yr Avg EPS Growth	EBITDA Margin (LFY)	EV / EBITDA (LFY)	Div. Yld.	Div. Payout (%)	30-day Avg. Vol.	LFY ROE (%)	5-Yr Avg ROE (%)	# Ests.	Reserves Mboe	% Liquids	EV $ / Boe Rsvs	EV $ / Boepd Prod
BP ADR	BP	$ 34.00	183,008	107,188	10.8x	35.0	41.5x	17.2x	13.0x	73%	7.1%	-	7.06%	293	5,975,754	2.7	10.7	10	17,561	59%	$ 8.09	$ 42.28
EXXON MOBIL	XOM	$ 80.69	226,094	334,582	5.3x	15.0	34.0x	20.6x	17.4x	32%	13.4%	11.7x	3.72%	127	11,919,300	5.8	16.0	26	19,974	53%	$ 18.71	$ 122.05
ROYAL DURCH SHELL ADR	RDS'A	$ 51.41	234,769	112,330	3.0x	31.0	40.8x	13.7x	11.2x	88%	12.6%	4.8x	7.31%	298	3,231,443	1.6	7.2	9	13,015	48%	$ 15.50	$ 54.87
TOTAL S A ADR	TOT	$ 49.94	70,160	125,006	4.7x	30.0	35.7x	11.5x	9.4x	94%	32.4%	7.9x	5.32%	190	1,974,023	3.7	8.7	6	10,911	50%	$ 14.43	$ 64.05
				avg:	6.0x	27.8	38.0x	15.7x	12.7x	72%	16.4%	8.1x	5.85%	227	5,775,130	3.5	10.7	13	15,365	52%	$ 14.18	$ 70.81
CHEVRON	CVX	$ 104.89	115,330	198,568	6.2x	20.0	97.1x	25.0x	18.1x	148%	15.1%	7.7x	4.12%	398	6,391,944	1.4	12.7	24	11,121	57%	$ 20.31	$ 84.48
				vs intl peers:	4%	-28%	156%	59%	42%	106%	-8%	-5%	-30%			-59%	19%		-28%	9%	43%	19%

Source: ThomsonOne, Company reports and Hilliard Lyons estimates

RECENT RESULTS

CVX reported Q4'16 upstream production of 2,669 Mboe, up 2.1% yr/yr and an increase of 1,156 Mboe, or 6.2% vs. Q3. Liquids accounted for 65% of production in Q4 vs. 66% a year ago and were down 30 Mboepd. Global realized pricing of $37.51/Boe was up 10.7% yr/yr, the first positive comp since Q3'14. US gas was the biggest gainer, up 28.6% yr/yr, while US and international crude both improved by an average of 14.5%. International gas was up only 2.0% yr/yr and was $0.11/Mcf softer sequentially.

Downstream throughput was 1,522 Mboe in Q4, down 10.4% yr/yr, attributable to a 21.3% decline in US volumes from the absence of volume from the Q2'16 sale of the Hawaii refinery and planned maintenance at the California plant in Q4. International volumes were up 2.5% yr/yr.

Total revenues were $31.52B in Q4, a 7.7% yr/yr increase and the first positive comp in more than two years. US and international upstream revenues were 2.9% and 12.0% higher yr/yr, respectively, while US and international downstream revenues improved 3.0% and 11.0%. Total expenses continued to decline yr/yr, by 1.7% in Q4, but did so at a moderating rate and were up 6.8% vs. Q3. Reflecting the rise in commodity prices, this trend was most marked in product purchases in the downstream segment, which increased 16.5% yr/yr.

As a result, segment earnings were improved, both yr/yr and sequentially, for US and international upstream but weaker yr/yr and sequentially for US and international downstream. Higher corporate charges, tax items and interest expense reduced earnings per share to $0.22 in Q4 from $0.68 in Q3, but marked improvement vs. the year-ago loss of $0.31/share.

Figure 13

Summary Segment Earnings

($s MM)	Q4'15	**2015**	Q3'16	Q4'16	**2016**
Upstream					
USA	(1,954)	**(4,055)**	(212)	121	**(2,054)**
International	593	**2,094**	666	809	**(483)**
Total	(1,361)	**(1,961)**	454	930	**(2,537)**
Downstream					
USA	496	**3,182**	523	-	**1,307**
International	515	**4,419**	542	357	**2,128**
Total	1,011	**7,601**	1,065	357	**3,435**
Other Corp. Exp, net	(238)	**(1,053)**	(236)	(872)	**(1,395)**
Total Earnings	(588)	**4,587**	1,283	415	**(497)**
EPS	$ (0.31)	**$ 2.45**	$ 0.68	$ 0.22	**$ (0.27)**

Source: company filings, Hilliard Lyons forecasts

The company funded $4.0B of Capex in Q4 and $191M of exploration, both figures marking multi-year lows, and $2.0B on the dividend, which was raised by $0.01 per share in the quarter. Debt was increased by $514M in the period, ending the year at $46.0B for a net debt to total capitalization ratio of 20.2% vs. 14.1% a year ago.

Results for Q1'17 are scheduled to be released April 28.

CORPORATE GOVERNANCE FACTORS

The board of directors has experienced some tumult over the past several months, with the October 2016 resignation of John Stumpf, then CEO of Wells Fargo, and more recent speculation that Jon Huntsman may be asked to fill the US ambassadorship to Russia for the new administration, although Gov. Huntsman is currently standing for reelection to the board on the 2017 ballot, scheduled for May 31. All other current board members, with the exception of Alexander Cummings, are also standing for reelection. Internally, Michael Wirth was named Vice-Chairman in January of this year, arguably bolstering the succession horizon.

Figure14

Name	Age*	Position	Since
Senior Management			
John Watson	60	CEO & Chairman	2010
Patricia Yarrington	60	CFO	2009
James Johnson	57	EVP Upstream	2015
Michael Wirth	56	EVP Midstream & Development, Vice-Chairman	2016
Pierre Breber	52	EVP Downstream & Chemicals	2016
Joseph Geagea	57	EVP Technology, Projects & Services	2015
Non-Employee Board Members			
Dr. Wanda Austin	62	former CEO of The Aerospace Corp	2016
Alexander Cummings, Jr.	59**	former EVP & CAO of Coca-Cola Co.	2014
Linnet Deily	71	former US Ambassador to WTO, finance	2006
Robert Denham	71	former CEO of Salomon Brothers	2004
Alice Gast	58	President of Imperial College London	2012
Enrique Hernandez, Jr.	61	CEO of Inter-Con Security Systems	2008
Jon Huntsman, Jr.	57	former US Ambassador to China, chemicals	2014
Charles Moorman IV	65	former CEO of Norfolk Southern	2012
Dr. Dambisa Moyo	48	economist: World Bank, Goldman Sachs	2016
Ronald Sugar	68	former CEO of Northrop Grumman	2005
Inge Thulin	63	CEO of 3M Company	2015

** as of 2017 annual proxy filing, ** as of 2016 proxy*

Source: company filings

Chevron's senior management team has been with the company an average of 35 years, all having first joined the company in the 1980s. Similarly, the company's relationship with its auditor, PwC, is over 80 years. Management compensation is driven by TSR (total shareholder return, i.e. share price return plus yield), by which measure the company has outperformed its peers on one-year, five-year and 10-year time frames.

Institutional ownership was 74.4% of outstanding shares as of the most recent filings, with the top ten holders accounting 35.7%. Insider ownership was reported at 0.7%.

Last year, Chevron saw what will hopefully prove the final and positive resolution of the long-running Lago Agrio, Ecuador environmental lawsuit with a ruling from the Second Circuit of the US Federal Court's unanimous ruling in Chevron's favor under RICO statutes. The original multi-billion dollar ruling of the Ecuadorean court was demonstrated and testified to by participants to have been a fraudulent construct from its inception in 2003.

Chevron remains exposed to legal actions pertaining to historical use of methyl tertiary butyl ether (or MTBE, a gasoline additive), the results of which are unquantifiable currently, but the apparent resolution of the Ecuador suit eliminates one particularly bizarre legal risk factor.

On April 20 of this year, the company lost an appeal of a contested $260M tax obligation in Australia. Management has stated that the company is reviewing the decision to determine any next steps, including the possibility of an appeal to the Australian High Court.

The company maintains various pension and other post-retirement benefit plans in the US and internationally. At year-end 2016 those plans were underfunded by a combined $4.7B compared to $4.5B at the end of 2015. Contributions to the plans totaled $1.1B in 2016 but are anticipated to decline to $0.6B for 2017.

SUITABILITY RATING

Our Suitability rating is 2 on a 1-to-4 scale (1 = most conservative, 4 = most aggressive). This reflects our favorable view of the company's long operating history, global diversification and competitive cost structure. This is balanced, however, against the pronounced cyclicality of the energy industry and still-challenging industry conditions.

CONSIDERATIONS AND RISKS

The energy production industry is highly capital intensive, highly competitive and is subject to a range of economic and operational risks. Foremost among these risks may be volatility in the underlying commodity pricing, which is subject to supply and demand fundamentals related to factors such as economic conditions, geopolitical events, weather patterns and logistical constraints. The industry is also subject to a range of regulatory risks, including changes in environmental and pollution policies, permitting requirements, and employee benefits obligations. The company also has potential exposure to ongoing legal challenges, the ultimate resolution of which cannot be quantified. Operating financial risks include success rates and costs related to expansion of production and the reserve base.

Additional information is available upon request.

Other stocks mentioned:	3M Company (MMM - $191.50)
	China Petroleum & Chemical (SNP - $80.84)
	Coca Cola Co. (KO - $43.07)
	Goldman Sachs Group (GS - $216.86)
	Norfolk Southern Corp. (NSC - $116.37)
	Northrup Grumman Corp. (NOC - $246.33)
	Phillips 66 (PSX - $76.35)
	Wells Fargo & Co (WFC - $53.00)

Chevron Corp (CVX)
Financial Model ($'s MM) FYE Dec.

Income Statement Analysis	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17E	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Sales and other operating revenue	**200,494**	**129,925**	23,070	27,844	29,159	30,142	**110,215**	30,790	31,620	32,320	33,090	**127,820**	**147,410**
Income from equity affiliates	**7,098**	**4,684**	576	752	555	778	**2,661**	800	900	1,000	1,100	**3,800**	**4,000**
Other income	**4,378**	**3,868**	(93)	686	426	577	**1,596**	600	600	600	600	**2,400**	**2,500**
Total Revenues	**211,970**	**138,477**	23,553	29,282	30,140	31,497	**114,472**	32,190	33,120	33,920	34,790	**134,020**	**153,910**
Expenses:													
Purchased crude oil and products	**119,671**	**69,751**	11,225	15,278	15,842	16,976	**59,321**	16,620	17,120	17,250	17,560	**68,550**	**80,990**
Operating expenses	**25,285**	**23,034**	5,404	5,054	4,666	5,144	**20,268**	4,990	5,090	5,080	5,170	**20,330**	**21,500**
Selling, general and administrative expenses	**4,494**	**4,443**	998	1,033	1,109	1,544	**4,684**	1,090	1,130	1,150	1,320	**4,690**	**4,800**
Exploration expenses	**1,985**	**3,340**	370	214	258	191	**1,033**	240	290	360	240	**1,130**	**1,400**
Depreciation, depletion and amortization	**16,793**	**21,037**	4,403	6,721	4,130	4,203	**19,457**	4,160	4,220	4,190	4,210	**16,780**	**17,500**
Taxes other than on income	**12,540**	**12,030**	2,864	2,973	2,962	2,869	**11,668**	2,850	2,890	2,870	2,890	**11,500**	**12,500**
Interest	**-**	**-**	-	79	64	58	**201**	80	80	80	80	**320**	**310**
Pre-Tax Inc.	**31,202**	**4,842**	(1,711)	(2,070)	1,109	512	**(2,160)**	2,160	2,300	2,940	3,320	**10,720**	**14,910**
Income taxes	**11,892**	**132**	(1,004)	(607)	(192)	74	**(1,729)**	540	575	735	830	**2,680**	**3,728**
%	**38.1%**	**2.7%**	58.7%	29.3%	-17.3%	14.5%	**80.0%**	25.0%	25.0%	25.0%	25.0%	**25.0%**	**25.0%**
Net income including noncontrolling interests	**19,310**	**4,710**	(707)	(1,463)	1,301	438	**(431)**	1,620	1,725	2,205	2,490	**8,040**	**11,183**
(Net Inc. attributable to noncontrolling interests)	**(69)**	**(123)**	(18)	(7)	(18)	(23)	**(66)**	(18)	(20)	(22)	(24)	**(84)**	**(100)**
Net Income	**19,241**	**4,587**	(725)	(1,470)	1,283	415	**(497)**	1,602	1,705	2,183	2,466	**7,956**	**11,083**
Shares Outstanding	**1,897.9**	**1,875.0**	1,869.8	1,872.0	1,883.3	1,890.0	**1,872.8**	1,892.5	1,895.0	1,897.5	1,900.0	**1,896.3**	**1,909.5**
EPS - fully diluted	**$10.14**	**$2.45**	($0.39)	($0.79)	$0.68	$0.22	**($0.27)**	$0.85	$0.90	$1.15	$1.30	**$4.20**	**$5.80**
Dividends to Common	**$4.21**	**$4.28**	$1.07	$1.07	$1.07	$1.08	**$4.29**	$1.08	*$1.08*	*$1.08*	*$1.09*	***$4.33***	***$4.55***
Dividend Coverage Ratio	**2.4x**	**0.6x**					**-0.1x**					***1.0x***	***1.3x***
Margin Analysis													
Operating margin	14.7%	3.5%	-7.3%	-6.8%	3.9%	1.8%	-1.7%	*7.0%*	*7.2%*	*8.9%*	*9.8%*	*8.2%*	*9.9%*
Net Margin	9.1%	3.3%	-3.1%	-5.0%	4.3%	1.3%	-0.4%	*5.0%*	*5.1%*	*6.4%*	*7.1%*	*5.9%*	*7.2%*
Rate of Change Analysis													
Revenues	-7.4%	-34.7%	-31.8%	-27.4%	-12.2%	7.7%	-17.3%	*36.7%*	*13.1%*	*12.5%*	*10.5%*	*17.1%*	*14.8%*
Pre-tax Inc.	-13.1%	-84.5%	-158.9%	-251.9%	-60.2%	nm	-144.6%	*nm*	*nm*	*165.1%*	*548.4%*	*-596.3%*	*39.1%*
EPS - operating	-8.6%	-75.8%	*nm*	*nm*	-37.5%	-170.8%	nm	*nm*	*nm*	*68.9%*	*491.1%*	*-1681.0%*	*38.3%*
Dividends	7.9%	1.7%	0.0%	0.0%	0.0%	0.9%	0.2%	*0.9%*	*0.9%*	*0.9%*	*0.9%*	*0.9%*	*5.0%*
EBITDDA / Share	-2.5%	-45.4%					-33.1%					*58.8%*	*16.8%*
Shares Out.	-1.8%	-1.2%					-0.1%					*1.3%*	*0.7%*
Working Cap.	-506.3%	-15.8%					274.3%					*-62.0%*	*-25.3%*
notes:	sold Dutch North Sea, Chad, pipeline assets for $0.7B	sold Caltex Australia for $1.6B	1/26- first gas Chuandongbei (China); 3/20- first Gorgon LNG shipment	4/21- announce sale of Hawaii refinery assets; 5/9- $6.8B debt issue	7/5- announce expansion project for TCO (Kazakhstan)	11/7- first gas Alder Field (UK)		3/2- $4.0B debt issue. 3/22- confirm sale agreement of South Africa refinery ops. 3/31- sell Indonesian geothermal ops.					

Source: Company reports and Hilliard Lyons estimates

Chevron Corp (CVX) - ($'s MM)

Cash Flow Analysis	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17E	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Net Income	**33,615**	**16,551**	1,781	(1,470)	1,283	415	**(497)**	1,602	1,705	2,183	2,466	**7,956**	**11,083**
Depreciation, Depletion & Amortization	**17,297**	**18,048**	4,403	6,721	4,130	4,203	**19,457**	4,160	4,220	4,190	4,210	**16,780**	**17,500**
(Increase) / Decrease in Working Capital	**(3,625)**	**460**	(3,879)	5,108	(2,323)	(5,624)	**(6,718)**	4,017	1,838	(80)	(87)	**5,688**	**(369)**
Operating Cash Flow	**47,287**	**35,059**	2,305	10,359	3,090	(1,006)	**12,242**	9,779	7,763	6,293	6,589	**30,424**	**28,214**
(Capex/ Acquisitions)	**(35,407)**	**(29,504)**	(5,566)	(4,469)	(4,065)	(4,009)	**(18,109)**	(4,750)	(5,000)	(5,250)	(4,800)	**(19,800)**	**(20,300)**
Asset Sales / (Adjustments)	**5,729**	**5,739**	82	1,288	839	568	**2,777**	150	150	150	150	**600**	**1,050**
(Dividends)	**(7,928)**	**(7,992)**	(2,000)	(2,002)	(2,005)	(2,025)	**(8,032)**	(2,044)	(2,047)	(2,049)	(2,071)	**(8,211)**	**(8,682)**
Free Cash Flow	**9,681**	**3,302**	(5,179)	5,176	(2,141)	(6,472)	**(11,122)**	3,135	867	(856)	(132)	**3,013**	**282**
ST Debt Drawn (Repaid) - net	**3,431**	**(335)**	3,802	(3,443)	510	1,261	**2,130**	-	-	856	132	**988**	**-**
LT Debt Issued	**4,000**	**11,091**	-	6,924	-	-	**6,924**	4,000	-	-	-	**4,000**	**(140)**
(LT Debt Repaid)	**(43)**	**(32)**	(14)	(766)	(32)	(782)	**(1,594)**	(1,690)	(1,690)	(1,690)	(1,690)	**(6,760)**	**(5,000)**
Shares Issued (Repurchased) - net	**(4,412)**	**211**	123	139	97	291	**650**	-	-	-	-	**-**	**-**
Net Cash Flow	**12,657**	**14,237**	(1,268)	8,030	(1,566)	(5,702)	**(3,012)**	5,445	(823)	(1,690)	(1,690)	**1,241**	**(4,858)**
EBITDA	**$ 47,995**	**$ 25,879**	$ 2,692	$ 4,651	$ 5,239	$ 4,715	**$ 17,297**	*$ 6,400*	*$ 6,600*	*$ 7,210*	*$ 7,610*	***$ 27,820***	***$ 32,720***
margin	**22.6%**	**18.7%**	11.4%	15.9%	17.4%	15.0%	**15.1%**	*19.9%*	*19.9%*	*21.3%*	*21.9%*	***20.8%***	***21.3%***
EBITDA / Share	**$25.29**	**$13.80**	$1.44	$2.48	$2.78	$2.49	**$9.24**	*$3.38*	*$3.48*	*$3.80*	*$4.01*	***$14.67***	***$17.13***
yr/yr change	**-2.5%**	**-45.4%**	-63.1%	-44.0%	-26.3%	46.6%	**-33.1%**	*134.9%*	*40.2%*	*36.6%*	*60.6%*	***58.8%***	***16.8%***
CF Multiple	**4.4x**	**6.5x**					**12.7x**						

Balance Sheet Analysis	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17E	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Cash & Equivalents	**13,215**	**11,332**	8,879	8,764	7,672	7,001	**7,001**	15,260	17,010	17,970	18,990	**18,990**	**19,700**
Accounts & Notes Receivable	**16,736**	**12,860**	12,459	13,490	12,522	14,092	**14,092**	12,880	13,250	13,570	13,920	**13,920**	**15,390**
Inventory - Crude Oil, Petroleum Products	**4,321**	**4,025**	4,172	3,680	3,231	2,720	**2,720**	2,730	2,740	2,750	2,760	**2,760**	**3,040**
Inventory - Materials, Supplies & Other	**2,184**	**2,309**	2,336	2,747	2,745	2,699	**2,699**	2,710	2,720	2,730	2,740	**2,740**	**3,010**
Other Current Assets	**5,776**	**4,821**	3,867	3,790	2,703	3,107	**3,107**	3,110	3,110	3,110	3,110	**3,110**	**3,110**
Total Current Assets	**42,232**	**35,347**	31,713	32,471	28,873	29,619	**29,619**	36,690	38,830	40,130	41,520	**41,520**	**44,250**
LT Receivables & Investments	**29,729**	**29,522**	30,002	30,209	32,446	32,735	**32,735**	32,900	33,060	33,230	33,400	**33,400**	**33,570**
Net P, P&E	**183,173**	**188,396**	189,940	184,685	183,439	182,186	**182,186**	183,100	184,020	184,940	185,860	**185,860**	**190,510**
Goodwill & Intangibles	**4,593**	**4,588**	4,588	4,581	4,581	4,581	**4,581**	4,580	4,580	4,580	4,580	**4,580**	**4,580**
Other LT Assets	**6,299**	**8,250**	7,599	9,532	10,524	10,957	**10,957**	11,010	11,070	11,130	11,190	**11,190**	**11,250**
Total Assets	**266,026**	**266,103**	263,842	261,478	259,863	260,078	**260,078**	268,280	271,560	274,010	276,550	**276,550**	**284,160**
ST Debt	**3,790**	**4,928**	9,630	5,530	6,057	10,840	**10,840**	10,890	10,940	10,990	11,040	**11,040**	**11,590**
Accounts Payable	**19,000**	**13,516**	12,696	13,416	12,205	13,986	**13,986**	13,520	13,910	14,250	14,610	**14,610**	**15,390**
Other ST Liabilities	**9,136**	**8,020**	6,836	5,981	6,482	6,959	**6,959**	6,960	6,960	6,960	6,960	**6,960**	**6,960**
Current Liabilities	**31,926**	**26,464**	29,162	24,927	24,744	31,785	**31,785**	31,370	31,810	32,200	32,610	**32,610**	**33,940**
LT Debt	**23,960**	**33,584**	32,635	39,487	39,462	35,193	**35,193**	37,500	35,810	34,980	33,420	**33,420**	**28,280**
Deferred credits and other noncurrent obligations	**23,549**	**23,465**	23,330	22,712	22,288	21,553	**21,553**	21,660	21,770	21,880	21,990	**21,990**	**22,100**
Noncurrent deferred income taxes	**21,920**	**20,689**	19,592	18,342	17,817	17,516	**17,516**	17,600	17,690	17,780	17,870	**17,870**	**17,960**
Noncurrent employee benefit plans	**8,412**	**7,935**	7,573	7,617	7,534	7,216	**7,216**	7,250	7,290	7,330	7,370	**7,370**	**7,410**
Other LT Liabilities	**68**	**80**	74	68	66	93	**93**	75	75	80	80	**80**	**85**
Total Liabilities	**109,835**	**112,217**	112,366	113,153	111,911	113,356	**113,356**	115,455	114,445	114,250	113,340	**113,340**	**109,775**
Shareholder's Equity	**156,191**	**153,886**	151,476	148,325	147,952	146,722	**146,722**	152,825	157,115	159,760	163,210	**163,210**	**174,385**
Book Value per share	**$ 82.30**	**$ 82.07**	$ 81.01	$ 79.23	$ 78.56	$ 77.63	**$ 78.34**	*$ 80.75*	*$ 82.91*	*$ 84.19*	*$ 85.90*	***$ 86.07***	***$ 91.32***
Current Ratio	**1.3x**	**1.3x**	1.1x	1.3x	1.2x	0.9x	**0.9x**	*1.2x*	*1.2x*	*1.2x*	*1.3x*	***1.3x***	***1.3x***
Total Debt/Cap.-Net of Cash	**7.9%**	**14.1%**	17.2%	18.8%	19.6%	20.2%	**20.2%**	*16.5%*	*14.6%*	*13.6%*	*12.3%*	***12.3%***	***9.4%***
ROE: DuPont	**12.3%**	**3.0%**	-1.9%	-4.0%	3.5%	1.1%	**-0.3%**	*1.0%*	*1.1%*	*1.4%*	*1.5%*	***4.9%***	***6.4%***

Source: Company reports and Hilliard Lyons estimates

Analyst Certification

I, Joel K. Havard, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Definitions of Ratings:
Buy - We believe the stock has significant total return potential in the coming 12 months.
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.
Neutral - We believe the stock is holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.
Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Definitions of Suitability:
1 - A large cap, core holding with a solid history.
2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks.
3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage.
4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

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	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	**# of Stocks Covered**	**% of Stocks Covered**	**Banking**	**No Banking**
Buy	36	30%	14%	86%
Hold/Neutral	71	58%	6%	94%
Sell	15	12%	7%	93%

As of 5 April 2017

Other Disclosures

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