



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

CVX - NYSE - as of	7/28/17	\$108.12
Price Target		NA
52-Week Range	\$97.53 -	\$119.00
Shares Outstanding (mm)		1,893.0
Market Cap. (\$mm)		\$204,672.7
1-Mo. Average Daily Volume		5,436,968
Institutional Ownership		64.2%
Net Debt/Total Capital	Q2'17	20.1%
ROE	FY'16	-0.3%
Book Value / Share	Q2'17	\$77.23
Price / Book Value		1.4x
Dividend & Yield	\$4.32	4.0%
LTM EBITDA Margin		18.9%

Earnings / Share FY 12/31

		Prior	Current	Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	(\$0.39)		\$1.41	A	--
2Q	(\$0.79)		\$0.77	A	--
3Q	\$0.68	\$1.15	\$0.85	--	--
4Q	\$0.22	\$1.30	\$1.00	--	--
Year	(\$0.27)	\$4.77	\$4.03	\$5.90	\$5.70
P/E	NM		26.8x		19.0x

Revenue (\$Bil)

		Prior	Current	Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	\$23.6		\$33.4	A	--
2Q	\$29.3		\$34.5	A	--
3Q	\$30.1	\$35.7	\$35.4	--	--
4Q	\$31.5	\$36.6	\$36.2	--	--
Year	\$114.5	\$139.9	\$139.5	\$156.0	\$155.3

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.

Energy

Analyst: Joel Havard
 J.J.B. Hilliard, W.L. Lyons, LLC
 502.588.1833 / jhavard@hilliard.com
 Institutional Sales Desk: George Moorin
 502.588.9141 / GMoorin@hilliard.com
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Chevron Corp

CVX – NYSE — Neutral-2

Q2'17 Shows Improvement but Misses Consensus; Reduce Estimates

Investment Highlights

- CVX reported Q2'17 EPS of \$0.77 vs. (\$0.79) a year ago, missing consensus of \$0.87. Excluding impairments and gains of approximately \$270M net, EPS would have been \$0.91.
- Q2 upstream production was 2,743 Mboepd, up 8.5% yr/yr, exceeding our forecast by 58 Mboepd. Average realized pricing of \$38.35/Boe was up 11.6% yr/yr but down 5.7% sequentially. Downstream volume of 1,654 Mboepd was 7.3% lower yr/yr but 55 Mboepd above our forecast, despite maintenance delays in Thailand and South Africa. Operating and S,G&A expenses were down an average of 7.5% yr/yr, partially mitigating a 19.9% increase in commodity purchase expense. Combined exploration and Capex outlays were down fractionally.
- We maintain our forecast for ~4% yr/yr upstream production growth for 2017, but are reducing our pricing outlook for the second half of 2017 and next year, with downstream output ~5% lower this year on the pending sale of the South Africa refinery.
- We are thus reducing our 2017 EPS estimate from \$4.77 to \$4.03 and our 2018 estimate from \$5.90 to \$5.70.
- We maintain our opinion that the shares are reasonably valued at current levels and our Neutral-2 rating.

Note Important Disclosures on Pages 5-6
Note Analyst Certification on Page 5

ADDITIONAL DISCUSSION

Headline total earnings of \$1,450B in Q2 were somewhat disappointing, but when adjusted for the impact of asset impairments and sales gains, would have been \$1,720B, just ahead of our \$1,714B forecast. Downstream segment net income exceeded our outlook by ~\$127M, with USA and international both ahead of our forecast. The intra-period pullback in commodity prices hurt upstream segment net income for Q2, however, resulting in a shortfall to our forecasts of ~\$70M for USA operations and ~\$200M on the international side. The net effect of the charges mentioned earlier made up the rest of the difference.

Preliminary balance sheet data indicate the company reduced debt by ~\$2.3B in Q2, although net debt to total capitalization ticked up to 20.1% from 19.8% at Q1'17. Management has stated that current levels are acceptable, but with approximately \$13B in long-term debt maturing over the next two years, we anticipate net debt to total capitalization continues to trend lower.

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 cyclicity 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.

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	Q1'17	Q2'17p	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	31,524	32,877	34,150	34,810	133,361	148,830
Income from equity affiliates	7,098	4,684	576	752	555	778	2,661	1,150	1,316	1,000	1,100	4,566	4,000
Other income	4,378	3,868	(93)	686	426	577	1,596	747	287	290	290	1,614	2,500
Total Revenues	211,970	138,477	23,553	29,282	30,140	31,497	114,472	33,421	34,480	35,440	36,200	139,541	155,330
Expenses:													
Purchased crude oil and products	119,671	69,751	11,225	15,278	15,842	16,976	59,321	17,506	18,325	18,750	18,990	73,571	80,390
Operating expenses	25,285	23,034	5,404	5,054	4,666	5,144	20,268	4,656	4,703	4,820	4,960	19,139	20,600
Selling, general and administrative expenses	4,494	4,443	998	1,033	1,109	1,544	4,684	870	950	1,140	1,220	4,180	4,530
Exploration expenses	1,985	3,340	370	214	258	191	1,033	144	125	380	250	899	1,440
Depreciation, depletion and amortization	16,793	21,037	4,403	6,721	4,130	4,203	19,457	4,194	5,311	5,070	5,090	19,665	20,600
Taxes other than on income	12,540	12,030	2,864	2,973	2,962	2,869	11,668	2,871	3,065	3,040	3,050	12,026	12,880
Interest	-	-	-	79	64	58	201	51	48	80	80	259	249
Pre-Tax Inc.	31,202	4,842	(1,711)	(2,070)	1,109	512	(2,160)	3,129	1,953	2,160	2,560	9,802	14,641
Income taxes	11,892	132	(1,004)	(607)	(192)	74	(1,729)	430	487	540	640	2,097	3,660
%	38.1%	2.7%	58.7%	29.3%	-17.3%	14.5%	80.0%	13.7%	24.9%	25.0%	25.0%	21.4%	25.0%
Net income including noncontrolling interests (Net Inc. attributable to noncontrolling interests)	19,310 (69)	4,710 (123)	(707) (18)	(1,463) (7)	1,301 (18)	438 (23)	(431) (66)	2,699 (17)	1,466 (16)	1,620 (18)	1,920 (20)	7,705 (71)	10,981 (100)
Net Income	19,241	4,587	(725)	(1,470)	1,283	415	(497)	2,682	1,450	1,602	1,900	7,634	10,881
Shares Outstanding	1,897.9	1,875.0	1,869.8	1,872.0	1,883.3	1,890.0	1,872.8	1,895.4	1,893.0	1,895.5	1,898.0	1,895.5	1,907.5
EPS - fully diluted	\$10.14	\$2.45	(\$0.39)	(\$0.79)	\$0.68	\$0.22	(\$0.27)	\$1.41	\$0.77	\$0.85	\$1.00	\$4.03	\$5.70
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					0.9x	1.3x
Margin Analysis													
Operating margin	14.7%	3.5%	-7.3%	-6.8%	3.9%	1.8%	-1.7%	9.5%	5.8%	6.3%	7.3%	7.2%	9.6%
Net Margin	9.1%	3.3%	-3.1%	-5.0%	4.3%	1.3%	-0.4%	8.0%	4.2%	4.5%	5.2%	5.5%	7.0%
Rate of Change Analysis													
Revenues	-7.4%	-34.7%	-31.8%	-27.4%	-12.2%	7.7%	-17.3%	41.9%	17.8%	17.6%	14.9%	21.9%	11.3%
Pre-tax Inc.	-13.1%	-84.5%	-158.9%	-251.9%	-60.2%	nm	-144.6%	nm	nm	94.8%	400.0%	-553.8%	49.4%
EPS - operating	-8.6%	-75.8%	nm	nm	-37.5%	-170.8%	nm	nm	nm	24.1%	355.9%	-1617.6%	41.6%
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%					69.8%	18.6%
Shares Out.	-1.8%	-1.2%					-0.1%					1.2%	0.6%
Working Cap.	-506.3%	-15.8%					274.3%					-60.5%	-33.6%
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.	4/24- announce sale of Bangladesh ops; 6/19- USSC denies appeal of Ecuador suit				

notes:

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	Q1'17	Q2'17p	Q3'17E	Q4'17E	FY'17E	FY'18E
Net Income	33,615	16,551	1,781	(1,470)	1,283	415	(497)	2,682	1,450	1,602	1,900	7,634	10,881
Depreciation, Depletion & Amortization	17,297	18,048	4,403	6,721	4,130	4,203	19,457	4,194	5,311	5,070	5,090	19,665	20,600
(Increase) / Decrease in Working Capital	(3,625)	460	(3,879)	5,108	(2,323)	(5,624)	(6,718)	(1,000)	2,154	(96)	(76)	5,547	(263)
Operating Cash Flow	47,287	35,059	2,305	10,359	3,090	(1,006)	12,242	5,876	8,915	6,576	6,914	32,846	31,218
(Capex / Acquisitions)	(35,407)	(29,504)	(5,566)	(4,469)	(4,065)	(4,009)	(18,109)	(3,315)	(4,538)	(5,250)	(4,800)	(17,903)	(18,350)
Asset Sales / (Adjustments)	5,729	5,739	82	1,288	839	568	2,777	2,087	400	150	150	2,787	3,487
(Dividends)	(7,928)	(7,992)	(2,000)	(2,002)	(2,005)	(2,025)	(8,032)	(2,029)	(2,044)	(2,047)	(2,069)	(8,189)	(8,672)
Free Cash Flow	9,681	3,302	(5,179)	5,176	(2,141)	(6,472)	(11,122)	2,619	2,733	(571)	195	9,541	7,682
ST Debt Drawn (Repaid) - net	3,431	(335)	3,802	(3,443)	510	1,261	2,130	(3,928)	40	571	-	(3,317)	500
LT Debt Issued	4,000	11,091	-	6,924	-	-	6,924	3,994	-	-	(150)	3,844	(3,840)
(LT Debt Repaid)	(43)	(32)	(14)	(766)	(32)	(782)	(1,594)	(966)	(2,340)	(1,690)	(1,690)	(6,686)	(5,000)
Shares Issued (Repurchased) - net	(4,412)	211	123	139	97	291	650	245	-	-	-	245	245
Net Cash Flow	12,657	14,237	(1,268)	8,030	(1,566)	(5,702)	(3,012)	1,964	433	(1,690)	(1,645)	3,627	(413)
EBITDA	\$ 47,995	\$ 25,879	\$ 2,692	\$ 4,651	\$ 5,239	\$ 4,715	\$ 17,297	\$ 7,374	\$ 7,312	\$ 7,310	\$ 7,730	\$ 29,726	\$ 35,490
margin	22.6%	18.7%	11.4%	15.9%	17.4%	15.0%	15.1%	22.1%	21.2%	20.6%	21.4%	21.3%	22.8%
EBITDA / Share	\$25.29	\$13.80	\$1.44	\$2.48	\$2.78	\$2.49	\$9.24	\$3.89	\$3.86	\$3.86	\$4.07	\$15.68	\$18.61
yr/yr change	-2.5%	-45.4%	-63.1%	-44.0%	-26.3%	46.6%	-33.1%	170.2%	55.5%	38.6%	63.3%	69.8%	18.6%
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	Q1'17	Q2'17p	Q3'17E	Q4'17E	FY'17E	FY'18E
Cash & Equivalents	13,215	11,332	8,879	8,764	7,672	7,001	7,001	6,994	4,775	5,840	7,030	7,030	12,410
Accounts & Notes Receivable	16,736	12,860	12,459	13,490	12,522	14,092	14,092	13,754	13,790	14,180	14,480	14,480	15,530
Inventory - Crude Oil, Petroleum Products	4,321	4,025	4,172	3,680	3,231	2,720	2,720	3,315	3,330	3,350	3,370	3,370	3,710
Inventory - Materials, Supplies & Other	2,184	2,309	2,336	2,747	2,745	2,699	2,699	2,606	2,620	2,630	2,640	2,640	2,900
Other Current Assets	5,776	4,821	3,867	3,790	2,703	3,107	3,107	2,899	2,900	2,900	2,900	2,900	2,900
Total Current Assets	42,232	35,347	31,713	32,471	28,873	29,619	29,619	29,568	27,415	28,900	30,420	30,420	37,450
LT Receivables & Investments	29,729	29,522	30,002	30,209	32,446	32,735	32,735	33,372	33,540	33,710	33,880	33,880	34,050
Net P, P&E	183,173	188,396	189,940	184,685	183,439	182,186	182,186	180,296	181,200	182,110	183,020	183,020	187,600
Goodwill & Intangibles	4,593	4,588	4,588	4,581	4,581	4,581	4,581	4,543	4,540	4,540	4,540	4,540	4,540
Other LT Assets	6,299	8,250	7,599	9,532	10,524	10,957	10,957	11,332	11,390	11,450	11,510	11,510	11,570
Total Assets	266,026	266,103	263,842	261,478	259,863	260,078	260,078	259,111	254,599	260,710	263,370	263,370	275,210
ST Debt	3,790	4,928	9,630	5,530	6,057	10,840	10,840	8,297	8,340	8,380	8,420	8,420	8,840
Accounts Payable	19,000	13,516	12,696	13,416	12,205	13,986	13,986	13,078	14,480	14,880	15,200	15,200	15,530
Other ST Liabilities	9,136	8,020	6,836	5,981	6,482	6,959	6,959	7,051	7,050	7,050	7,050	7,050	7,050
Current Liabilities	31,926	26,464	29,162	24,927	24,744	31,785	31,785	28,426	29,870	30,310	30,670	30,670	31,420
LT Debt	23,960	33,584	32,635	39,487	39,462	35,193	35,193	36,864	34,524	33,410	31,570	31,570	23,480
Deferred credits and other noncurrent obligations	23,549	23,465	23,330	22,712	22,288	21,553	21,553	21,515	21,620	21,730	21,840	21,840	21,950
Noncurrent deferred income taxes	21,920	20,689	19,592	18,342	17,817	17,516	17,516	17,276	17,360	17,450	17,540	17,540	17,630
Noncurrent employee benefit plans	8,412	7,935	7,573	7,617	7,534	7,216	7,216	7,145	7,180	7,220	7,260	7,260	7,300
Other LT Liabilities	68	80	74	68	66	93	93	95	75	80	80	80	85
Total Liabilities	109,835	112,217	112,366	113,153	111,911	113,356	113,356	111,321	110,629	110,200	108,960	108,960	101,865
Shareholder's Equity	156,191	153,886	151,476	148,325	147,952	146,722	146,722	147,790	146,203	150,510	154,410	154,410	173,345
Book Value per share	\$ 82.30	\$ 82.07	\$ 81.01	\$ 79.23	\$ 78.56	\$ 77.63	\$ 78.34	\$ 77.97	\$ 77.23	\$ 79.40	\$ 81.35	\$ 81.46	\$ 90.88
Current Ratio	1.3x	1.3x	1.1x	1.3x	1.2x	0.9x	0.9x	1.0x	0.9x	1.0x	1.0x	1.0x	1.2x
Total Debt/Cap.-Net of Cash	7.9%	14.1%	17.2%	18.8%	19.6%	20.2%	20.2%	19.8%	20.1%	18.7%	17.0%	17.0%	9.7%
ROE: DuPont	12.3%	3.0%	-1.9%	-4.0%	3.5%	1.1%	-0.3%	1.8%	1.0%	1.1%	1.2%	4.9%	6.3%

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.



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017

Other Disclosures

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