Chevron Corp

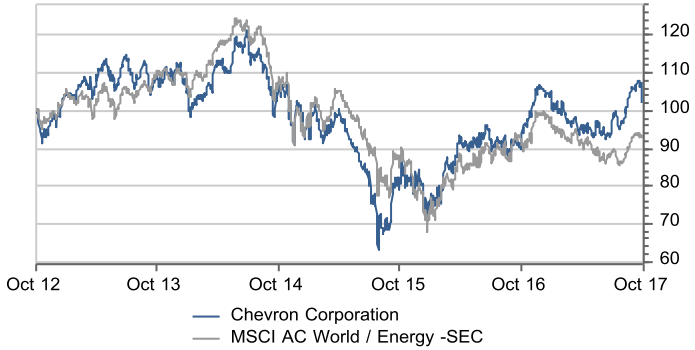
Dividend Conviction List Member

Isin / FactSet Code	**US1667641005 / CVX-US**	Market cap (in EUR mn)	**185 762**	52-week high	**120.89**	Rating	**BUY**
Sector	**Energy**	Market cap (in local curr. mn)	**215 158**	52-week low	**100.95**	12-month target price	**122.00**
Industry	**Oil Gas & Consumable Fuels**	Local currency	**USD**	YTD return%	**-3.53**	Last price (27/10/17)	**113.54**
Benchmark	**MSCI AC World / Energy -SEC**	Free-float	**100%**	12-month return%	**13.63**	Potential upside	**7%**

Investment Case:

- Chevron has more leverage to oil prices than peers as its upstream production is roughly two-thirds oil.
- Management targets production to grow 1.0–1.5% per year through FY20. Asset sales (USD 5–10 bn in 2016–17, USD 2.8 bn in FY16), as well as moderation in spending (capex cut from USD 34 bn in FY15 to USD 22.4 bn in FY16 and USD ~19 bn guided in FY17E), should allow Chevron to return to positive FCF (cash-flow neutrality expected by FY17 at USD 50 per barrel Brent prices). This would, in turn, secure dividend payments.
- Disposal of lower margin assets, higher margin contribution from Permian, Gorgon and Wheatstone coming online and opex efficiencies should provide further earnings support in the medium-term. FY17E opex is guided to be USD 1.5–2.0 bn below FY16.
- Our target price of USD 122.00 implies 24.6x P/E on FY18E EPS, with FY18E EPS growth of 21.5% and FY17E/18E dividend yield of ~3.8%/3.9%.

Five-year Performance vs. Benchmark (rebased to 100)



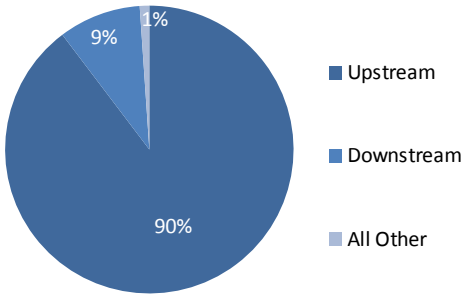
Sources: SGPB, FactSet

Company Description:

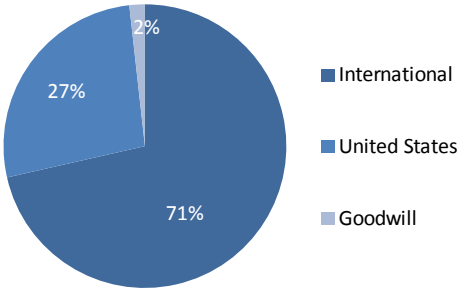
Chevron is one of the world's top-five super-major integrated oil & gas companies. It conducts upstream operations globally (USD 2.5 bn loss in FY16) and downstream operations (USD 3.4 bn earnings) mainly in the US and Asia-Pacific (refineries). Its FY16 upstream production was 2.59 mn barrels of oil equivalent (boe) per day.

Capital Expenditure Breakdown: FY16

(FY ending December)



Asset Breakdown: FY16



Sources: SGPB, FactSet

Recent Developments Analysis:

- Chevron's 3Q17 adjusted EPS of USD 0.85 (Reported: USD 1.03) was below consensus of USD 0.98. Cash flow from operations of USD 5.4 bn was also below consensus of USD 6.5 bn. However, cash flow was impacted by USD 600 mn of pension contribution during the quarter. Capex was flat QoQ at USD 4.5 bn and in line with consensus.
- The upstream segment posted earnings of USD 489 mn, below consensus of USD 1.01 bn. The US upstream segment posted a loss of USD 26 mn in line with consensus, while the International segment reported profit of USD 515 mn vs. consensus of USD 1.08 bn. Net oil-equivalent production reached 2.72 mn boe/day (8% YoY), above consensus of 2.77 mn boe/day. Production growth was led by Gorgon, Angola LNG, St. Malo, Alder and Permian. Downstream earnings of USD 1.81 bn, was 42.5% above consensus of USD 1.27 bn. This was driven by a strong performance from the International segment which reported earnings of USD 1.17 bn vs. consensus at USD 589 mn.
- Chevron maintained FY17 production growth outlook of 4.0–9.0%, excluding asset sales vs. 6.2% consensus. Capex guidance was maintained at USD 19 bn.

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DESCRIPTION			VALUATION					GROWTH				PROFITABILITY			BALANCE SHEET		
FactSet Code	Company	Cap (mn€)	EV/EBITDA (e)		P/E (e)		Div. Yield	Sales Growth		EPS Growth		EBITDA Margin	Net Margin	ROE	Net Debt/ EBITDA		Net Debt/ Equity
			FY1x	FY2x	FY1x	FY2x	FY1%	FY1%	FY2%	FY1%	FY2%	FY1%	FY1%	FY1%	FY0x	FY1x	FY0x
XOM-US	**Exxon Mobil Corporation**	306 228	9.4	8.7	23.9	21.1	3.7	19.1	5.7	48.2	13.1	15.5	5.5	8.4	1.7	0.9	0.23
RDSA-NL	**Royal Dutch Shell Plc Class A**	219 144	6.9	6.2	17.8	15.7	6.0	12.7	4.8	74.9	13.0	16.2	5.0	7.5	2.6	1.3	0.39
BP-GB	**BP p.l.c.**	111 642	6.4	5.7	23.1	17.2	6.0	15.6	10.4	93.9	34.2	11.6	2.4	5.8	3.2	1.5	0.33
OXY-US	**Occidental Petroleum Corporatio**	42 940	11.0	9.0	90.8	47.4	4.7	25.9	10.6	nm	91.7	41.5	5.1	2.7	2.3	1.6	0.35
DVN-US	**Devon Energy Corporation**	16 279	7.4	6.7	21.5	17.5	0.7	8.0	7.2	nm	23.4	27.2	6.6	12.2	3.3	2.1	1.38
		Average:	**8.2**	**7.3**	**35.4**	**23.8**	**4.2**	**16.3**	**7.7**	**72.3**	**35.1**	**22.4**	**4.9**	**7.3**	**2.6**	**1.5**	**0.54**
CVX-US	**Chevron Corporation**	185 762	8.4	7.0	27.9	22.9	3.8	17.9	5.3	nm	21.5	21.9	5.8	5.3	2.8	1.2	0.27

na=Not available, nm=Not meaningful
Financial terms detailed in glossary
Sources: SGPB, FactSet

Risks To Our Investment Case:

- With 66% of upstream production in FY16 being oil, a further decline in crude oil price would materially impact earnings and the share price.
- Chevron is exposed to technical issues and project delays, which could hamper investor sentiment (as was the case with recent troubles at the Big Foot project in the Gulf of Mexico). Cost overruns are negative as well in a context of capex reduction.
- Regulations govern all stages of Chevron's operations, from exploration to refining. Regulatory changes through limitation in reserve-exploration rights and/or increase in operating costs could have a material impact on the group's activities.
- Like other international companies, Chevron is exposed to exogenous geopolitical events and environmental risks. These could limit its ability to exploit its reserves.

Business Quality Review:

- Chevron's global asset base is attractive, especially its low-royalty Permian acreage (33% YoY increase in 2Q17 production).
- With major projects coming online (Gorgon LNG, Permian Basin ramp-up) we expect an improvement in the production growth and margins.
- While dividend was financed by debt in FY16, Chevron's balance sheet remains healthy with a 22.2% net debt/equity ratio at 3Q17-end (2Q17: 22.7%).

Dividend Policy:

- Consensus expects FY17 dividend per share to reach USD 4.33 (3.8% yield, no scrip option). This would be a slight increase versus the USD 4.29 dividend per share paid in FY16.
- The company remains committed to maintain and grow dividend (29 years of consecutive increase in DPS).
- With a strong balance sheet and with cash flow break-even expected for FY17, we believe the dividend is secured.

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Financial Terms And Acronyms

BV (Book Value): is the total value of net assets of a company.

BV/S (Book Value Per Share): is the total value of the net assets of a company divided by the total number of outstanding shares.

C/I (Cost Income Ratio): is used for valuing banks. It shows a company's costs in relation to its income.

CAGR (Compound Annual Growth Rate): is a term used for the geometric progression ratio that provides a constant rate of return over a specific time period.

CAPEX (Capital Expenditure): is the fund used by the company to acquire or upgrade the physical assets such as property, industrial buildings or equipment. The most capital intensive industries include oil, telecom and utilities.

CAR (Capital Adequacy Ratio): is a measure of a bank's capital. It is expressed as a percentage of a bank's risk-weighted credit exposures.

CET I (Common Equity Tier I Ratio) : is a measure of the bank's common equity capital as a percentage of risk-weighted assets. It is generally compared to a defined benchmark stipulated by the regulatory authority to determine whether a bank is sufficiently capitalised.

COMBINED RATIO: It represents the total of acquisition and administrative expenses, and claims and insurance benefits incurred, divided by net premiums earned.

DIVIDEND PER SHARE (DPS): Dividend per share or DPS (total dividend paid out divided by the total number of shares) expressed as a percentage of current stock price.

EBIT (Earnings Before Interest and Taxes): profit before taking into account interest payments and income taxes.

EBIT Margin: Ratio that expresses EBIT as a percentage of total sales (EBIT/Sales*100)

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation): profit before taking into account interest payments, income taxes and non-cash operating expenses (depreciation and amortisation).

EPS (Earnings Per Share): is the division of total net profit by the number of shares.

EQUITY is the difference between the value of the assets and the cost of the liabilities.

EV (Enterprise Value) is a measure of a company's value, often used as an alternative to straightforward market capitalisation. It is calculated as (market cap + debt + minority interest + preferred shares) − total cash − cash equivalents.

FCF (Free Cash Flow): represents the difference between operating cash flow and capital expenditures.

FFO (Funds from Operations): measures a REIT's operating performance. It is net income plus gains (minus losses) from property sale and purchase. FFO per share is often used in place of earnings per share when analysing REITs.

FY0: Realised year, **FY1**: Current unrealised year, **FY2**: next year, **FY17E:** Fiscal year 2017 estimation

GOODWILL: is an intangible asset that arises as a result of the acquisition of one company by another company for a premium value.

GROSS INCOME: gross profit calculated as a company's total sales minus its cost of goods sold (COGS) that corresponds to labour and production costs.

GROSS MARGIN: expresses gross income as a percentage of total sales.

LIKE FOR LIKE (LFL) GROWTH: is a measure of growth in sales, adjusted for new or divested businesses.

Loan-to-deposit (L/D) ratio: Loans/Deposits. This helps in assessing a bank's liquidity, lending capacity and balance sheet quality.

LTV (Loan-To-Value Ratio): is a financial term used to express the ratio of a loan to the value of an asset purchased.

NAV (Net Asset Value): is similar to book value and is also called per investment unit. NAV is the marked-to-market value of the company's property investments less liabilities.

ND (Net Debt): is calculated as a company's total debt minus cash and other similar liquid assets.

NET MARGIN: is a financial ratio which measures the profitability of the net income of a company.

NI (Net Income or Bottom Line): represents a company's total earnings (or profit) which is calculated by adjusting revenues for the costs, depreciation, interest, taxes and other expenses.

NIM: Net Interest Margin

NON-PERFORMING LOANS (NPL) RATIO: NPLs/Loans. This indicates the percentage of the loans that are non-performing or are in stressed segments.

OPERATING MARGIN: See definition of EBIT Margin.

ORGANIC GROWTH: is the growth rate that a company can achieve by increasing its output and enhancing sales, excluding any profits or growth from takeovers or M&A activities.

P/E or PER (Price Earnings Ratio): reflects the trading price of a share in relation to the expected earnings.

P/BV (Price To Book Value): expresses the share price with regard to the accounting value of the company.

PAYOUT RATIO: is the proportion of earnings paid out as dividends to shareholders and typically expressed as a percentage.

PROFIT WARNING: is the announcement made by the company before its earnings release indicating the investors that its earnings would not meet the analysts' expectations.

RWA (Risk Weighted Assets): is a measure of the bank's assets, weighted according to their risk. It involves the risk weighting of both on and off-balance-sheet exposures.

REVENUE GROWTH: Illustrates the growth of sales over a given period.

ROA (Return on assets): a financial ratio that is calculated as net income divided by total assets and shows how profitable a company is relative to its total assets.

ROC (Return on invested capital): a profitability ratio which is calculated as net income minus dividends divided by total invested capital.

ROE (Return On Equity): The amount of net income returned as a percentage of shareholders' equity. Return on equity measures a corporation's profitability by disclosing how much profit a company generates with the money shareholders have invested.

TBV (Tangible Book Value): is the book value excluding intangible assets.

TBV/S (Tangible Book Value Per Share): allows to estimate the accounting value of a company by measuring its stockholders' equity per share. Formula: Re-valued Net Assets/Total Shares of Company.

WACC (Weighted Average Cost of Capital): also referred to as the firm's cost of capital, it is the rate that a company is expected to pay on an average to all its security holders to finance its assets.

WORKING CAPITAL: is the difference between a company's current assets and current liabilities and shows whether the company has sufficient short-term assets to cover its short-term debts.

Appendix

Investment Rating Definitions:

Buy Stock that is expected to outperform its MSCI sector index over a 12-month investment horizon.

Neutral Stock that is expected to perform in line with its MSCI sector index over a 12-month investment horizon.

Sell Stock that is expected to underperform its MSCI sector index over a 12-month investment horizon.

Restricted Covered stock that is not rated or assigned a target price as the Societe Generale group has a capital market transaction with that company.

Termination Stock is subject to be deleted from the SGPB recommended universe and will no longer be followed. In this case, a coverage termination alert is issued.

Recommended Universe Principle:

The Recommended Universe is made of companies from the Investment Universe as defined by Societe Generale Private Banking guidelines. Members are chosen by Equity Solutions. There are no lower nor upper limits on the number of stocks in the Recommended Universe. There is no specific constraint in term of geographical or industry representation. A company from the recommended universe can be subject to a rating change, as decided by the Equity Solutions expert covering the company. When a stock is downgraded to a Sell rating, it is still followed for at least 3-month, after which Equity Solutions issues a coverage termination alert.

Product Risk Rating:

The product category of single equity, stock, share is rated at '4'.

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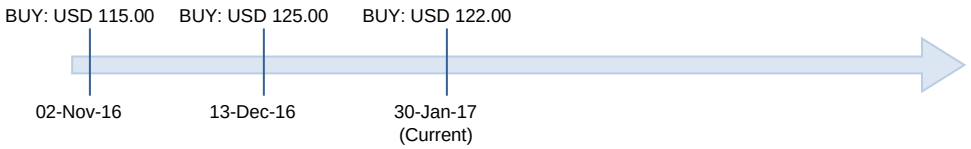
Risk Levels	Losses
0 - Lowest Risk	There is a 95% probability that the product will not depreciate in value in one year.
1 - Low Risk	There is a 95% probability that the product will not lose more than 5% of its value in one year.
2 - Medium Risk	There is a 95% probability that the product will not lose more than 15% of its value in one year.
3 - High Risk	There is a 95% probability that the product will not lose more than 30% of its value in one year.
4 - Highest Risk	There is a minimum of 5% probability that the product will lose more than 30% of its value in one year.

1Y Target Price:



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SG acted as financing joint mandated lead manager with Royal Dutch Shell PLC for the acquisition of BG Group PLC.

SG acted as joint bookrunner in BP Plc's bond issue (dual tranche: 8yr, 12yr).

SG acted as joint bookrunner in BP Capital Markets' bond issue (Long 7y EUR benchmark).

SG acted as passive bookrunner in Occidental Petroleum bond issue (10y and 30y).

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R0: Lowest Risk
R1: Low Risk
R2: Medium Risk
R3: High Risk
R4: Highest Risk

These internal indicators are based on the Value at Risk 95% 1 year (VaR). The VaR corresponds to the maximum amount that the portfolio being considered could lose in normal market conditions over a given period with a given probability (past performances and simulations of performance shall not be considered as a reliable indicator of future performance). If the VaR 95% 1 year is y%, this means that there is a 95% probability that the portfolio will not lose more than y% of its value in one year.

Potential risks in case of an investment Risk of loss of the total amount invested, volatility risk, risk linked to small and mid capitalization, credit risk, counterpart risk, issuer's risk, liquidity risk, risk linked to discretionary management, change risk, market risk.

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