COMPANY PROFILE

Chevron Corporation

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COMPANY OVERVIEW

Chevron Corporation (Chevron or 'the company') is one of the leading integrated energy companies in the world. The company is engaged in exploring, producing and transporting crude oil and natural gas. It is also involved in refining, marketing and distributing, and transporting fuels and lubricants; manufacturing and selling petrochemicals and additives; and also developing and deploying technologies that enhance business value in every aspect of the company’s operations. Chevron operates its business through three segments: Downstream; Upstream and All Others. The company is engaged in producing refined products, lubricants, and other petroleum products. It has operations in various countries including the US. Chevron is headquartered in San Ramon, California.

The company recorded revenues of $110,215 million during the financial year ended December 2016 (FY2016), a decrease of 15.2% as compared to FY2015. The net loss of the company was $497 million in FY2016, as compared to a net profit of $4,587.0 million in FY2015.

KEY FACTS

Head Office	Chevron Corporation 6001 Bollinger Canyon Road San Ramon California San Ramon California USA
Phone	1 925 842 1000
Fax	
Web Address	www.chevron.com
Revenue / turnover (USD Mn)	110,484.0
Financial Year End	December
Employees	55,200
New York Stock Exchange Ticker	CVX

SWOT ANALYSIS

Chevron Corporation (Chevron or 'the company') is one of the leading integrated energy companies in the world. It is involved in almost every aspect of the energy industry: from exploring, producing, transporting, and refining crude oil and natural gas; to marketing petroleum products; to manufacturing and selling petrochemical products, and generating power. Chevron's presence across the energy value chain provides the company with opportunities to optimize its business while minimizing business risks. However, compliance with changing greenhouse gas emission (GHG) norms could have a material impact on the company's operations and financial results.

Strength Wide Geographic Presence Presence across the Energy Value Chain Strong Reserve and Well Base	**Weakness** Legal Proceedings Decline in Financial Performance
Opportunity Rising Demand for Natural Gas in the US Rising Global Energy Demand	**Threat** Political, Economic and Regulatory Instability Regulation of Greenhouse Gas Emissions Disruptions in Operations due to Natural Factors

Strength

Wide Geographic Presence

Chevron has wide presence across various regions. The company's revenue stream is diversified in terms of geographies. The company divides its geographic divisions as US and international. In the US, the company's major business operations are concentrated in California, the Gulf of Mexico, Colorado, Louisiana, Michigan, New Mexico, Ohio, Oklahoma, Pennsylvania, Texas, West Virginia, and Wyoming. In Africa, the company performs its business activities in Angola, Democratic Republic of the Congo, Liberia, Mauritania, Morocco, Nigeria, Republic of the Congo, Sierra Leone and South Africa.

Also, in Asia, the company is engaged in upstream activities which are situated in Azerbaijan, Bangladesh, Cambodia, China, Indonesia, Kazakhstan, the Kurdistan Region of Iraq, Myanmar, the Partitioned Zone located between Saudi Arabia and Kuwait, the Philippines, Russia, Thailand, and Vietnam. In Europe, the company operates the upstream operations in Denmark, Norway, Poland, Romania, and the UK. Chevron also has upstream operations in other countries like Australia, Argentina, Brazil, Canada, Colombia, Greenland, New Zealand, Suriname, Trinidad and Tobago, and Venezuela.

In FY2016, the company generated 43.5% of the total sales and operating revenues from the US, and the remaining 56.5% of its revenues were generated from its international operations. The company's global operations and regional brand identity gives it competitive advantage over its competitors and also indicates that the company has a wider scope in increasing its revenues by utilizing its global presence. Further, its worldwide presence reduces exposure to economic conditions or political stability in any one country or region.

Presence across the Energy Value Chain

Chevron operates in a wide range of businesses worldwide and commands presence across the energy value chain. The company engages in fully integrated petroleum operations, chemicals operations, power generation, and energy services. Chevron operates across the energy value chain through its three segments: Downstream, Upstream, and All Others.

Exploration and production (upstream) operations consist of exploring for, developing and producing crude oil and natural gas. Chevron's downstream operations undertake refining of crude oil into petroleum products; marketing of crude oil and refined products; transporting crude oil and refined products; and manufacturing and marketing of commodity petrochemicals, plastics for industrial uses and fuel and lubricant oils. Refining, marketing, and transportation (downstream) operations transport crude oil, natural gas, and petroleum products by pipeline, marine vessel, motor equipment, and rail car.

Also, the company operates the processing, liquefaction, transportation and regasification associated with LNG; transportation of crude oil by major international oil export pipelines; transporting, storage and marketing of natural gas; and a gas-to-liquids plant. Chevron also operates in other energy related businesses which include power generation businesses and alternative fuels.

Chevron's presence across the energy value chain provides the company with opportunities to optimize its business while minimizing business risks.

Strong Reserve and Well Base

Chevron had a strong reserve base. During FY2016, the company's total oil-equivalent net proved reserves totaled 11.1 billion barrels including 8.4 billion barrels of consolidated operations and 2.7 billion barrels of affiliated operations, respectively. Also, the total liquid proved reserve reached 6.3 billion barrels. Moreover, the company had a wide number of gross and net productive wells in FY2016. The total number of net productive oil wells (including affiliates) totaled 46,968, out of which 31,679 are present in the US and 12,937 are present in Asia. Also, the total number of net productive gas wells reached 6,101 out of which 3,633 are present in the US and 2,352 in Asia in FY2016.

Chevron's vast reserves and the number of productive wells provide the company with higher efficiency, increasing the competitive advantage in the market.

Weakness

Legal Proceedings

Chevron is subject to various legal proceedings in due course of its business. For instance, in 2016, Chevron received a Notice of Violation (NOV) from the California Air Resources Board (CARB) alleging that for compliance years 2011-2015, Chevron failed to deduct some exported volumes of fuel from the sales that must be reported under the state’s Low Carbon Fuel Standard (LCFS) program. The allegation is that Chevron purchased and retired more LCFS credits than were required. Chevron and CARB are negotiating a potential resolution of the alleged violation. Resolution of this NOV may result in the payment of a civil penalty of $100,000 or more.

Also in 2016, Chevron received a proposal from California’s Bay Area Air Quality Management District (BAAQMD) seeking to collectively resolve certain NOVs issued in 2013-2015 to Chevron’s Richmond refinery and to Chevron’s Richmond, California and San Jose, California marketing terminals. Chevron and the BAAQMD are negotiating a potential combined resolution of the 2013-2015 NOVs. Collective resolution of these NOVs may result in the payment of a civil penalty of $100,000 or more.

Moreover, in 2016, Chevron received a proposal from California’s South Coast Air Quality Management District (SCAQMD) seeking to collectively resolve certain NOVs issued in 2012 and 2013 to Chevron’s El Segundo refinery. Subsequently, the SCAQMD provided notice to Chevron that it was also seeking to resolve certain NOVs issued to the refinery in 2014. Chevron and the SCAQMD are negotiating a potential combined resolution of the 2012-2014 NOVs. Collective resolution of these NOVs may result in the payment of a civil penalty of $100,000 or more.

Such legal issues harm the market value of the company and also hamper its reputation.

Decline in Financial Performance

Chevron is currently experiencing decline in its overall performance as measured by various financial metrics. For instance, during FY2016, the company's revenues declined by 15.2% to record $110,215 million. This was primarily due to lower crude oil volumes, and lower refined product and crude oil prices. As a result of this, Chevron witnessed a decline of over 89.1% in its overall profit at the end of the year. Similarly, cash provided by operating activities in FY2016 was $12.8 billion, compared with $19.5 billion in FY2015 and $31.5 billion in FY2014.

Furthermore, the company's total debt and capital lease obligations were $46.1 billion at December 31, 2016, up from $38.5 billion at year-end 2015. Also, the company's debt ratio of 24.1% in FY2016 was higher than FY2015 and FY2014 as the company took on more debt to finance its ongoing investment program, partially offset by a higher stockholders' equity balance. Moreover, the company's interest coverage ratio in FY2016 was 2.6, which is lower than FY2015 and FY2014 due to lower income.

Thus, sustained decline in financial performance in near term could negatively impact the company's capital expenditure program as well as overall business growth in long term.

Opportunity

Rising Demand for Natural Gas in the US

Natural gas is estimated to be the most important energy source for the future in the US. The abundance of natural gas, its cheapness coupled with its environmental soundness and multiple applications across all sectors will enable natural gas to continue to play an increasingly important role in meeting demand for energy in the US. Further, the growing shale gas production has spurred an increase in the usage of natural gas in industrial and electric power sectors.

According to the Energy Information Administration (EIA) estimates, the US total natural gas consumption averaged 75.1 billion cubic feet/day (Bcf/d) in 2016 which is expected to increase by 0.3 Bcf/d (0.4%) in 2017 and by 1.5 Bcf/d (2%) in 2018. Increases in industrial sector consumption drive total consumption growth in 2017 and 2018. Industrial sector consumption of natural gas increased by 1.9% in 2016 and it is forecast to rise by 0.6% in 2017 and by 1.9% in 2018 as new projects in the fertilizer and chemicals sectors come online. Also, EIA expects residential and commercial natural gas consumption to increase by 6% and by 5.2%, respectively, in 2017. Further, in 2018, it is estimated that residential and commercial consumption are both projected to be roughly unchanged from 2017 levels.

Chevron is an integrated energy company primarily engaged in exploring, developing and producing crude oil and natural gas; processing, liquefaction, transportation and regasification associated with liquefied natural gas; and transporting, storage and marketing of natural gas. Therefore, increasing demand for natural gas in the US provides an opportunity to Chevron to scale-up its sales and increase its efficiency.

Rising Global Energy Demand

The demand for energy is expected to grow in the future. According to company reports, the global energy demand will increase 25% between 2015 and 2040, driven by population growth and economic expansion. At the same time, energy efficiency gains and increased use of renewable energy sources and lower carbon fuels, such as natural gas, are expected to help reduce by half the carbon intensity of the global economy. During the period, the world's population will increase by about two billion people and emerging economies will continue to expand significantly. Most growth in energy demand will occur in developing nations that are not part of the Organization for Economic Co-operation and Development (OECD).

Additionally, natural gas is expected to be the fastest-growing major fuel source from 2015 to 2040, meeting about 40% of global energy demand growth. Global natural gas demand is expected to rise about 45% from 2015 to 2040, with about 45% of that increase in the Asia Pacific region. In total, about 60% of the growth in natural gas supplies is expected to be from unconventional sources. At the same time, conventionally-produced natural gas is likely to remain the cornerstone of supply, meeting about two-thirds of global demand in 2040. Worldwide LNG trade will expand significantly, likely reaching more than 2.5 times the level of 2015 by 2040, with much of this supply expected to meet rising demand in Asia Pacific.

Similarly, nuclear power is projected to grow significantly, as many nations are likely to expand nuclear capacity to address rising electricity needs as well as energy security and environmental issues. Total renewable energy is likely to reach about 15% of total energy by 2040, with biomass, hydro and geothermal contributing a combined share of more than 10%. Total energy supplied from wind, solar and biofuels is expected to increase rapidly, growing over 200% from 2015 to 2040, when they will be about 4% of world energy.

Therefore, growing demand for energy represents an opportunity for Chevron to capitalize on this market and to improve its profits.

Threat

Political, Economic and Regulatory Instability

The company's operations, particularly exploration and production, can be affected by changing economic, regulatory and political environments in the various countries in which it operates. As has occurred in the past, actions could be taken by governments to increase public ownership of the company's partially or wholly owned businesses or to impose additional taxes or royalties. In certain locations, governments have proposed or imposed restrictions on the company's operations, export and exchange controls, burdensome taxes, and public disclosure requirements that might harm the company's competitiveness or relations with other governments or third parties. In other countries, political conditions have existed that may threaten the safety of employees and the company's continued presence in those countries, and internal unrest, acts of violence or strained relations between a government and the company or other governments may adversely affect the company's operations.

These developments have, at times, significantly affected the company's related operations and results and are carefully considered by management when evaluating the level of current and future activity in such countries. In addition, changes in national or state environmental regulations, including those related to the use of hydraulic fracturing, could adversely affect the company's current or anticipated future operations and profitability.

Regulation of Greenhouse Gas Emissions

Due to the increasing focus on issues concerning climate change, the role of human activity in it, and potential mitigation through regulation by various governments could have a material impact on the company's operations and financial results. International agreements and national or regional legislation and regulatory measures to limit greenhouse emissions (GHG) are currently in various stages of discussion or implementation. These and other GHG emissions-related laws, policies, and regulations may result in substantial capital, compliance, operating, and maintenance costs. The level of expenditure required to comply with these laws and regulations is uncertain and is expected to vary depending on the laws enacted in each jurisdiction, the company's activities in it, and market conditions.

GHG emissions that could be regulated include those arising from the company's exploration and production of crude oil and natural gas; the upgrading of production from oil sands into synthetic oil; power generation; the conversion of crude oil and natural gas into refined products; the processing, liquefaction, and regasification of natural gas; and the transportation of crude oil, natural gas, and related products. Material price increases or incentives to conserve or use alternative energy sources could reduce demand for products the company currently sells and adversely influence Chevron' sales volumes, revenues, and margins.

Disruptions in Operations due to Natural Factors

Chevron operates in both urban areas and remote and sometimes inhospitable regions. The company's operations and facilities are therefore subject to disruption from either natural or human causes beyond its control, including hurricanes, floods and other forms of severe weather, war, civil unrest and other political events, fires, earthquakes, system failures, cyber threats and terrorist acts. Any of these disruptions could result in suspension of operations or harm to people or the natural environment.

Moreover, Chevron's refining operations are subject to significant hazards and risks inherent in refining operations and in transporting and storing crude oil, intermediate products, and refined products. These hazards and risks include, pipeline ruptures and spills, fires, and explosions, among others. Any of the foregoing could result in production and distribution difficulties and disruptions, environmental pollution, personal injury or wrongful death claims and other damage to company's properties and the properties of others. There is also risk of mechanical failure and equipment shutdowns both in general and following unforeseen events.

All such factors adversely impact the company's operations and financials.