CHEVRON
(NYSE: CVX)

Stock Focus List   Canadian Equity Buy List

February 8, 2016
Company Update

Rating	**BUY**
Investment Category	Growth & Income
Sector	Energy
Recommended Sector Weight	9%
Subsector	Integrated Energy
Price Movement	Below Average
Price	**$86.00**

Company Overview

The second-largest U.S. energy company and among the largest in the world, Chevron, based in San Ramon, Calif., primarily finds and produces oil and natural gas. It is also involved in the refining and marketing of oil and natural gas as well as petrochemicals. It was founded as Pacific Coast Oil in 1879 after being the first to discover oil in California. The name was changed to Chevron in 1977.

Revenues International	59%

Valuation & Earnings

52-Week Range	$112.93 – $69.58
Market Cap.	157.0bn.
LT EPS Growth Estimate	6%
Est. Earnings Date	April 29, 2016

	FY2015A	FY2016E	FY2017E
Earnings	3.41	3.25	5.25
P/E	25.2x	26.5x	16.4x
PEGY	2.3x	2.4x	1.5x

Dividends & Income

Dividend Outlook (1-Year)	Stable
Dividend/Yield	$4.28/5.0%
LT Dividend Growth Estimate	2%
5-Yr. Trailing Growth	8%
Last Change	7% / May 15, 2014
Paid Since	1912
Consecutive Years Increased	0
Payout Ratio ('16 Est. EPS)	132%
Dividends Paid	Mar, Jun, Sep, Dec

Debt Ratings

Standard & Poor's/Moody's	AA- /Aa1

Analyst Brian M Youngberg, CFA

INVESTMENT SUMMARY

We rate shares of Chevron a Buy. We believe Chevron offers reasonable growth potential in the long term and an attractive dividend at a good price. We see cash flow improving as it completes large projects and as it reduces its capital spending. Should oil prices rebound as we expect, Chevron should benefit more than peers given its larger focus on oil production. While dividend growth will be less than in the past, we see no risk of a cut.

Cash Flow Improvement Expected in 2017- The company will continue in 2016 to spend more on capital expenditures and the dividend than it takes in operationally, resulting in it continuing to rely on asset sales and debt to fund the shortfall. As it completes its mega-projects (most notably liquefied natural gas facilities in Australia), capital spending should decline significantly from recent levels. Reduced capital spending, mega-projects generating cash, and expected higher oil prices should prove positive for Chevron's financial flexibility.

Most Oil-Weighted of Peers Is a Positive in Longer Term - Chevron's production volumes are more weighted toward oil when compared with most peers, and future international natural gas projects will be priced using oil. Given its oil focus, Chevron earns more per barrel equivalent produced (including natural gas) than all of its peers. While oil prices are down, we view this positively over the longer term as we see oil eventually rising from current levels.

Attractive Dividend Yield but Increases Less Than in Past - Chevron pays an attractive dividend, and we expect modest increases over the longer term. Increases may not be every year as in the past.

Strong Financial Position - We view Chevron's financial position as arguably the best of the major integrated energy companies, critical in today's low-oil-price environment. It has nominal debt and strong credit ratings. We expect Chevron to use its cash on hand, asset sales and debt to help cover the dividend and its reduced capital spending plan. Capital spending in 2017 is expected to be about half of what it was as recently as 2013. We expect it can maintain its current credit ratings.

Valuation - We view the price as being attractive, with the stock generally trading near the mean for larger integrated oil companies. Relative to 2019, when we expect oil prices near our long-term outlook, shares are attractive. Should projects come to fruition over time as we expect they will, we see the potential for the relative valuation compared with peers to improve.

Risks - We believe the greatest risk to our Buy opinion would be a sustained fall in commodity prices, especially oil, as Chevron relies on oil production more than its larger peers. Other inherent risks include higher costs, operational risks, geopolitical risks, as well as adverse regulatory or legal decisions.

Please see important disclosure information on page 4 of this report.

RECENT NEWS AND ANALYSIS

02/03/16: Standard & Poor's lowered Chevron's credit rating to 'AA-' from 'AA'. The outlook is now Stable. The downgrade was one of several in the energy sector reflecting lower oil prices and their impact on cash flow.

01/29/16: Chevron reported fourth-quarter adjusted earnings per share (EPS) of $0.29 compared with $1.54 in the same quarter last year and $1.09 last quarter. Adjustments in each quarter reflect nonrecurring items, most notably gains/losses from asset sales and noncash impairment charges. Results were below the market consensus estimate of $0.45 and our estimate of $0.38. Earnings were expected to be down significantly with oil and natural gas prices down significantly and a slightly tougher refining environment. Results were disappointing, but operationally the company executed well, and the outlook for 2016 and beyond remains unchanged with improvement expected.

For the full year, adjusted earnings were $3.41, down from $9.46 in 2014. The impact of lower commodity prices was the main driver in the decline. We are lowering our 2016 EPS estimate to $2.75 from $4.25 to reflect changes in our commodity price assumptions, production volumes, refining margins, and costs. We are initiating our 2017 EPS estimate at $5.25, as we see it benefiting from expected higher commodity prices, further cost cutting, and higher production volumes from new mega-projects.

Guidance Update -
The company reiterated its plans for 2016 capital expenditures of $27 billion, but emphasized it could modestly reduce it further if prices stay near current levels. This compares with $34 billion in 2015 and $40 billion in 2014. It reiterated its guidance range of annual spending being in the range of $20 billion-$24 billion beginning in 2017. It sees 2016 production volumes being up from 2015 levels by a range of 0% to 4%, subject to various factors including timing of project start-ups, divestments and commodity prices. After having $11 billion in noncore asset divestments across 2014 and 2015, it is continuing to target $5 billion to $10 billion in 2016 and 2017.

Upstream (Exploration & Production) Quarter Overview -
Upstream reported an adjusted loss of $236 million compared with an adjusted profit of $2.3 billion in the same quarter last year and an adjusted profit of $59 million last quarter. The decrease from a year ago was entirely the result of significantly lower oil and natural gas prices. It was able to partially offset it with a 2% increase in production volumes and cost-cutting efforts.

U.S. operations reported a loss despite showing 7% production volume growth led by increases in the Gulf of Mexico and the Permian Basin. International earnings fell significantly, but remained profitable. Volumes rose 2%, despite lost volumes due to a disagreement between Saudi Arabia and Kuwait in the Neutral Partitioned Zone that they jointly operate and govern.

Downstream (Refining and Chemicals) Quarter Overview -
Downstream reported adjusted earnings of $1.0 billion compared with $1.2 billion in the same quarter last year and $2.2 billion last quarter. The lower results reflect reduced refining margins across the industry. Earnings were down from a year ago in both the U.S. and international segments.

COMPANY OUTLOOK

Our growth outlook for EPS is 6% per year on average over the longer term excluding changes in commodity prices. Actual earnings will be heavily subject to changes in prices. In the nearer term, we see 2016 earnings being below 2015 levels. While we see production volumes likely up and the company benefiting from further cost cutting, we see this being more than offset by lower average prices for the full year and likely tighter refining and chemical market conditions.

We see production volume growth of 2% in 2016 and then 4% in 2017 and 2018. After 2017, we expect more modest volume growth as capital spending declines and the company has fewer large projects coming on line. Spending will be increasingly focused on growing existing operations and projects.

We see three main growth drivers over the next three years: Offshore Gulf of Mexico, a pair of liquefied natural gas (LNG) mega-projects in Australia, and U.S. shale. The company has three Gulf of Mexico projects (Jack/St. Melo, Tubular Bells and Big Foot) that are scheduled to be operational by 2018. Its two primary LNG projects are in western Australia (Gorgon starting up in early 2016 and Wheatstone starting up in early 2017). In shale, the company is focused on oil in the Permian (Texas) and natural gas in the Marcellus (Pennsylvania), with nearer-term growth coming mostly from the Permian. Despite lower prices, the company is increasing its shale outlays in its most lucrative areas.

We do not expect it will generate sufficient operating cash flow to cover its dividend and reduced capital spending needs until at least 2017. In the meantime, we expect it will use cash on hand, cash from asset sales, and debt issuance to cover the shortfall. We do not expect any material acquisitions. Given its strong financial position, we do not view this as an issue. As it completes the LNG projects, overall spending should decrease and it should begin to generate significant cash flow; thus, these projects will go from being a large use of cash to a large source of cash.

INDUSTRY OUTLOOK

We see oil prices being in the range of $55 to $70 per barrel the majority of the time, although it will be above and below that at times. In the nearer term, we expect prices will be well below this range and remain volatile. We see prices higher later in 2016 than today, but prices in the

first half of the year could remain near current levels or be even lower. We see the average price in 2016 below the 2015 average of $49 per barrel, but higher than current levels. There are numerous factors that impact oil prices, and these factors are quite difficult to forecast. Key drivers in the price include global supply, global demand, the U.S. dollar (typically oil moves opposite the dollar), geopolitics, alternative energy sources, global economic conditions, and investor sentiment on oil prices.

We see natural gas prices being in the range of $3.50 to $4.50 per thousand cubic feet (mcf) most of the time. In the nearer term, prices will likely remain below this range given strong low-cost supply and plentiful inventory. Weather remains a key driver in the price. Over the longer term, we expect prices will rise due to continued growth for power generation and, eventually, liquefied natural gas (LNG) exports.

FINANCIAL POSITION

Chevron's credit ratings are 'AA-' by S&P and 'Aa1' by Moody's. S&P recently lowered it one notch, while Moody's could cut it in coming weeks. The strong ratings reflect its diversification and its strong financial base with about $27 billion in net debt ($39 billion in debt less $27 billion in cash) as of 12/31/15. Debt has risen lately as cash flow has been insufficient to cover capital spending and the dividend. It has covered this shortfall with debt and $11 billion in asset sales over 2014 and 2015. We expect this to continue through at least 2017, although reduced capital expenditure plans should reduce the need for asset sales (company is targeting $5 billion to $10 billion in 2016 and 2017). With capital spending slowing, new projects coming online, cost cutting, and likely higher commodity prices, we expect the company can be cash flow positive (operating cash flow exceeds capital needs and dividend payments) in 2018. It could be in 2017 if oil prices rise more than we expect.

PORTFOLIO CONSIDERATIONS

Chevron, a large-cap company that pays a dividend, is in the **Growth & Income** Investment Category. We recommend adding Chevron to an equity portfolio as part of the **Energy** sector, where we recommend a **9%** weighting. It is in the **Integrated Energy** subsector.

Chevron shares have **Below-Average** price movements, both up and down relative to the market, due to its integrated energy strategy, with oil prices impacting its business segments in different ways. Some benefit from higher oil prices, while some benefit from lower oil prices. This tends to smooth out performance. Shares of Chevron tend to decline less than many energy stocks when oil prices are falling, but also tend to rise less when oil prices are increasing.

BUSINESS SEGMENTS

Upstream (Exploration and Production; 21% of adjusted 2015 earnings) - Chevron produced 2.62 million barrels per day of oil and natural gas in 2015, a 2% increase from 2014. We project volumes will be up 2% in 2016, before growing 4% in 2017 and 2018 led by project start-ups. Volume growth will likely be modest after that, but it is heavily dependent on oil prices and capital spending. We expect much of the company's future production growth to come from shale in the Permian Basin (Texas), Angola, the Gulf of Mexico (U.S.), and Australia.

Approximately two-thirds of production is liquids (mostly oil), a higher ratio than peers that allows it to be more profitable per barrel of equivalent production. Its lower reliance on U.S. natural gas is a positive in our view.

Downstream (Refining, Marketing, Chemicals and Transportation; 79%) - Chevron owns interests in more than a dozen refineries with two million barrels per day in capacity, with more than one-half being located in the U.S. Its three main U.S. refineries are located in Richmond, Calif., El Segundo, Calif., and Pascagoula, Miss. Like its peers, Chevron continues to review its portfolio of refineries and is open to selling some of them. Capital spending will be focused mostly on maintenance of existing facilities, with no acquisitions expected. As to chemicals, Chevron and ConocoPhillips have a 50/50 joint venture, and it has operated well over time.

DIVIDEND OUTLOOK

After not increasing the dividend in 2015 (the first year without an increase in three decades), we view a nominal increase in 2016 as likely but not definite. However, we are conservatively showing a Stable 12-month dividend growth outlook. Our long-term outlook is for 2% average annual increases, less than in the past and probably less consistent.

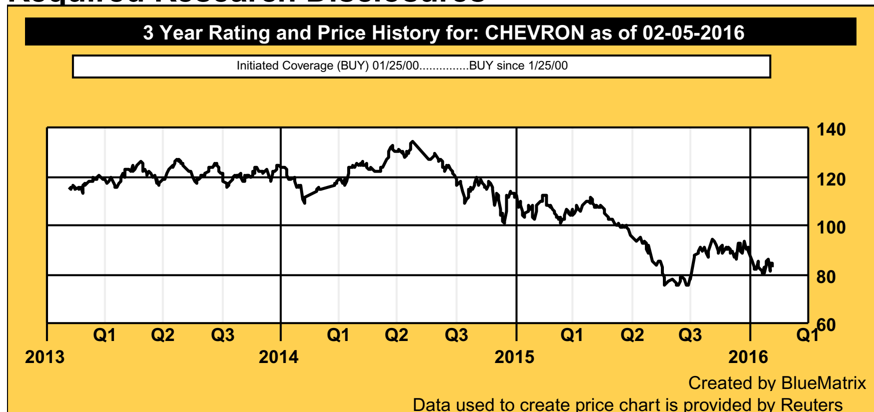
RECENT STOCK PERFORMANCE

Annualized Total Returns	1Yr	3Yrs	5Yrs
CHEVRON	(21)%	(7)%	0%
S&P Energy Index	(26)%	(8)%	(3)%
S&P 500 Index	(7)%	10%	10%

Price ending Feb 5, 2016
Source: FactSet. These are unmanaged indexes and cannot be invested in directly. Past performance does not assure future results.

Shares pulled back in early 2014 after fourth-quarter results were below expectations, before recovering with the sector through the second quarter. It declined beginning in mid-2014 as oil prices fell.

Required Research Disclosures



February 8, 2016	BUY	HOLD	SELL
Stocks	50%	49%	1%
Investment Banking Services	1%	4%	0%

The table lists the percent of stocks we follow globally in each of our rating categories. Investment banking services indicate the percentage of those companies that have been investment banking clients within the past 12 months.

Analyst Certification

I certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers; and no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report. Brian M Youngberg, CFA

Buy (B)	Hold (H)	Sell (S)	FYI (FI)	Under Review (UR)
Buy - Our opinion is to Buy this stock. We believe the valuation is attractive and total return potential is above average over the next 3-5 years compared with industry peers.	Hold - Our opinion is to keep this stock. We believe the stock is fairly valued and total return potential is about average over the next 3-5 years compared with industry peers. Or a special situation exists, such as a merger, that warrants no action.	Sell - Our opinion is to Sell this stock. We believe the stock is overvalued and total return potential is below average over the next 3-5 years compared with industry peers. In some cases we expect fundamentals to deteriorate considerably and/or a recovery is highly uncertain.	FYI - For informational purposes only; factual, no opinion.	Under Review – Our rating, estimates, and opinion for this company are under review and should not be relied upon for making investment decisions until updated.

- Initiated Coverage (BUY) 01/25/00...............BUY since 1/25/00
- Analysts receive compensation that is derived from revenues of the firm as a whole which include, but are not limited to, investment banking revenue.

Other Disclosures

- It is the policy of Edward Jones that analysts or their associates are not permitted to have an ownership position in the companies they follow directly or through derivatives.
- Information about research distribution is available through the Investments and Services link on www.edwardjones.com
- For U.S. clients only: Member SIPC --- For Canadian clients only: Member - Canadian Investor Protection Fund
- In general, Edward Jones analysts do not view the material operations of the issuer.
- Holders of shares of companies domiciled outside the country of residence of the holder are generally subject to a withholding tax on dividends paid by that company. Subject to certain conditions and limitations, these holders may be entitled to a partial refund of the withholding tax or the withholding taxes may be treated as foreign taxes eligible for a deduction or credit against the holder's tax liability. Holders should consult their own tax advisors regarding ownership of shares and the procedures for claiming a deduction, tax credit or a refund of the withholding tax. When investing in companies incorporated outside your own country of residence, an investor should consider all other material risks including currency risk, political risk, liquidity risk and accounting rules differences, which can adversely affect the value of your investment. Please consult your financial advisor for more information.
- Debt ratings should not be considered an indication of future performance.
- All the proper permissions were sought and granted in order to use any and all copyrighted materials/sources referenced in this document.
- Dividend Outlook (1-Year): Rising – We believe the dividend is likely to increase based on historical trends, the current payout ratio, and/or expected future earnings and cash flow; Stable – We believe the dividend is stable at the current level and is unlikely to increase or decrease; At Risk – We believe the dividend is at risk of being reduced or eliminated; No Dividend – This company does not pay a dividend.
- The Edward Jones' Research Rating referenced does not take into account your particular investment profile and is not intended as an express recommendation to purchase, hold or sell particular securities, financial instruments or strategies. You should contact your Edward Jones Financial Advisor before acting upon the Edward Jones Research Rating referenced.
- Investment Category: Growth & Income - Large-cap companies that pay a dividend, as well as REITs and utility companies; Growth – Small- and mid-cap companies, excluding REITs and utilities, as well as any large companies that do not pay a dividend; Aggressive- Micro-cap companies, companies with share prices below $4, stocks restricted by Research, and emerging-market stocks.
- Price Movement: Above Average - This stock will likely move up and down to a greater degree than the average stock in the S&P 500 Index. These companies are often growing faster than the average company and/or are in industries that are more sensitive to the economy; Average - This stock will likely move up and down to a similar degree as the average stock in the S&P 500 Index; Below Average - This stock will likely move up and down to a lesser degree than the average stock in the S&P 500 Index. These companies are often more mature, growing slower than the average company, and/or are in industries that are more defensive in nature and less sensitive to the economy.
- Dividends can be increased, decreased or totally eliminated at any point without notice.
- This opinion is based on information believed reliable but not guaranteed. The foregoing is for INFORMATION ONLY. Additional information is available on request. Past performance is no guarantee of future results.
- Our long-term earnings growth estimate is our expectation for growth over the course of a full economic cycle. This "normalized" figure avoids distortions which can occur if beginning- or ending-year results are impacted by one-time items or extreme peaks or troughs within the cycle.
- The S&P 500 Index is based on the average performance of 500 widely held common stocks. The S&P 500 Sector Indexes are subsets of the S&P 500 Index. These are unmanaged indexes and cannot be invested in directly. Past performance does not assure future results.