

2017

Andeavor Stock Analysis Report



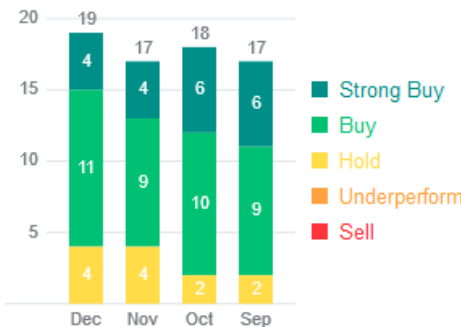
Chelsea Anthony, Kandace Barnes, La
Wonda Houston and Shirrelle Matlock
BUS 5243, Dr. Lin Zou, Texas Woman's
University
12/5/2017

Investment Summary

From the last one year “Energy” Sector was one of the best performers in the S&P 500, this sector provides approximately 24% returns to the investors from last year. With the news of the OPEC who has decided to cut the deal of extra supply of the crude oil, its price has stabilized at \$50 per barrel. In June, U.S. West Texas Intermediate (WTI) fell to nearly \$42 a barrel - the lowest in ten months. Since then, the contract has risen about 30%. In fact, WTI hit a more than two-year high of above \$55 recently. Now the investors have hopes of recovery of US Energy’s department inventory release which show multiple week of strong draws in the domestic crude stockpiles, points to slowdown in shale output as well.

From the few years weak demand of the oil and gas in the market and higher supply of it make the prices very low in the international market. It was very difficult to make the strategic decision for the investors to put money in this sector and plan prospectus. However, prices appear to be recovering, Brent crude was up around 90 percent in 2016, to just over US\$50 per barrel. As an effect, even as corporations start to vision new investments in reserve growth as more attractive, the upstream oil and gas division must go cautiously. Continuing price improvements will most likely be slow, and supply may be forced by the cutbacks in reserve development projects over the last few years. After rebalancing the demand and supply of the Oil prices it is expected to come on same place and that number is would on positive forecast for the industry, because it is still not over \$100, so same \$50 to \$55 has appears to be equilibrium price for oil and it is positive for the industry forecast. So, it has recommended for the “**Andeavor**” to Strong buy at this moment for the long-term returns.

Last Price \$107.58		Day Change ↑0.61 0.57%		Fair Value Estimate Premium	Open Price \$ 107.22	Day Range 107.00-110.49	52-Week Range 75.11-112.21	Yield 2.12%	Market Cap 16.8 bil
After Hours : 107.58 0.00 0.00% As of Tue 12/05/2017 5:10 PM EST USD				Volume 2.5 mil	Avg Vol. 1.3 mil	Forward P/E 12.1	Price/Book 1.8	Price/Sales 0.5	Price/Cash Flow 10.8

Previous Close 106.97	Recommendation Trends > 
Open 107.22	
Bid 0.00 x 0	
Ask 0.00 x 0	
Day's Range 107.00 - 110.49	
52 Week Range 75.11 - 112.21	
Volume 2,460,783	Recommendation Rating > 
Avg. Volume 1,268,164	

Company Info Andeavor 19100 RIDGEWOOD PKWY SAN ANTONIO TX 78259 USA www.andeavor.com P: 210-626-6000 F: 210-283-2003	Market Cap 16.924B
	Beta 1.11
	PE Ratio (TTM) 38.92
	EPS (TTM) 2.76
	Earnings Date N/A
	Forward Dividend & Yield 2.36 (2.26%)
	Ex-Dividend Date 2017-11-29
	1y Target Est 123.28

Industry Classification: ANDV NAICS Petroleum Refineries (324110) Petroleum Products (except Lubricating Oil and Petroleum Refining (2911))

Business Description

Andeavor is a large independent company performing in the energy sector, primarily in the refining and marketing of petroleum products. The company formerly known as Tesoro Corporation, adopted a name change after its successful acquisition of Western Refining on June 1, 2017. The management team is currently under the leadership of Chairman, President and Chief Executive Officer Gregory J. Goff. It is headquartered in San Antonio, Texas and operates 10 refineries with a combined capacity of approximately 1.2 million barrels per day in the mid-continent and western United States. It's retail footprint includes more than 3,200 retail stations

marketed under the well-known brands of ARCO®, SUPERAMERICA®, Shell®, Exxon®, Mobil®, Tesoro®, USA Gasoline(TM) and Giant® (Andeavor, 2017).

Andeavor sells transportation fuels to various customers, as well as purchases crude oil and other feedstocks from within and outside of the United States. This can include the Middle East, South America, western Africa, Canada, and other locations (Andeavor, 2017). Their product line portfolio includes gasoline, gasoline blendstocks, jet fuels, diesel fuel, heavy fuel oils and residual products in bulk and export opportunities to certain foreign markets (Andeavor, 2017). Now as Andeavor, the company evokes a journey towards making a difference, a promise to keep improving, and keep delivering ever-greater value to its stakeholders (Andeavor, 2017).

Market Power

Andeavor is recognized globally as a leader in petroleum production and innovation. Currently listed as #117 for the Forbes Fortune 500, the stock is trading at \$107.58 and up 0.57% (Yahoo Finance, 2017). In the industry of oil and gas, the market can become unbalanced if there is a sudden shift in demand, causing volatility. Refined product values and crude oil prices are generally set by the global market balances (Andeavor, 2017). If refineries have market power, they realize that changes in its own level of supply will affect the market price. So, if producing more output reduces the price, the refineries will maximize its profits by producing less than it would if it were a price-taker and forcing the market price to increase to balance demand with the new lower level of supply. Therefore, it sells less gasoline while earning a higher price for each gallon it sells (University of California Energy Institute, 2004).

Competitors

Andeavor Competitors		
Anadarko Petroleum Corp	APC	Midstream
Chevron Corp	CVX	Refining, Marketing & Transportation
ConocoPhillips	COP	R & M
Devon Energy Corp	DVN	Marketing & midstream
Dupont E I De Nemours & Co	DD	Performance Materials
Exxon Mobil Corp	XOM	Downstream
Marathon Oil Corp	MRO	Refining & transport
Occidental Petroleum Corp	OXY	Oil & Gas
Occidental Petroleum Corp	OXY	Midstream & marketing
Sunoco Lp	SUN	Refining & Supply
Valero Energy Corp	VLO	Refining
Southwestern Energy Co	SWN	Midstream Services
Lyondellbasell Industries N.v.	LYB	Refining
Hess Corp	HES	Refining marketing & shipping
Oneok Inc	OKE	Energy Services
Qep Resources, Inc.	QEP	Marketing & other

Marathon Petroleum Corp	MPC	Refining & Marketing
Honeywell International Inc	HON	Specialty Materials
Chemours Co	CC	Total
Green Plains Partners Lp	GPP	Total
Quaker Chemical Corporation	KWR	Total
NL Industries Inc	NL	Total

(Source: CSI Market)

Value Chain

Andeavor believes in a principals-based approach to conducting business and creating shared value for its key stakeholders. According to Greg Goff, “Andeavor's integrated value chain is well positioned to meet our goals to grow annual EBITDA by \$1.4 billion to a total of \$4.5 billion in 2020” (Thomas Reuters, 2017). In marketing, Andeavor is focusing on high value, branded distribution channels, adding new retail sites to the network and implementing store improvements to enhance its convenience store position (Andeavor, 2017). In logistics, it minimizes its transportation costs by focusing on a stable, fee-based business. Value is achieved through the optimization by the existing asset base, pursuing organic expansion opportunities and growing through strategic acquisitions across three business lines: Terminalling and Transportation, Gathering and Processing, and Wholesale (Andeavor, 2017). Lastly, in refining, Andeavor invests in high return capital projects designed to enhance the feedstock flexibility, improve yields and lower costs (Andeavor, 2017).

Competitive Rivalry (High)

The intensity of competition for the oil and gas industry continues to remain high. The competition can include local refining, marketing and logistics companies, small independently owned businesses and integrated multi-national companies (Tesoro Corporation, 2016). The price of crude oil from domestic and foreign sources is prone to market volatility (Andeavor, 2017). The competitors which engage in the both the exploration and the production of crude oil will have an advantage when factors arise and effect the market environment (Tesoro Corporation, 2016).

Threats of Substitutes(Low)

The popularity of switching to alternative energy sources by the United States is steadily gaining support which could adversely affect Andeavor's products and profitability (Tesoro Corporation, 2016). For example, automobile companies have changed the consumer's demand for gasoline-dependent vehicles. Cities have adopted the culture by installing electric car charging stations and now, they are allowing bike-sharing companies to compete for consumers. Although this is the current consumer trend, it is important for refineries to meet governmental environmental regulations which makes the threat to transportation fuels low.

Buying Power (Low)

Consumers have options and looking for retailers which meet their price demand. The lower the better is the consumer mindset. In outlets, like national supermarkets or wholesale retail chains, gasoline prices can be lower since consumers participate in membership and fuel rewards programs to receive savings. Therefore, only the market can change the price of crude oil and not the consumer.

Supplier Power (High)

Revenue is not limited to just crude oil sales, suppliers are using other means to generate income. Andeavor is growing its convenience store footprint in non-fuel income with 3,124 retail stores. According to Greg Goff, chairman and CEO of Andeavor, “Our business delivered strong results across our integrated value chain during the quarter...which brings more secure and profitable earnings to the portfolio” (Kress, 2017). This action could potentially contribute \$10 million of annual net earnings and \$25 million of annual EBITDA (Kress, 2017).

Threat of New Entrants (Low)

There is a low threat of new entry because many will face high barriers. The upfront start-up costs are very expensive and there are numerous hurdles to complete before approval is granted. The actual timeline for large capital projects is significantly hindered due to numerous regulations with environmental, political and legal uncertainties (Tesoro Corporation, 2017).

Strengths

Andeavor’s first strength is that they have recently begun to build a new oil gathering pipeline. By doing so, they increased their presence in the Southwest. It is expected to make a \$150 million in profit for the company. The second strength is they have created a strong brand within its company that includes refineries, logistics, and marketing by positioning their company with product, a means to transport, market, and even sale the product keeps the money in house. At the same time, they can bring in revenue with each by outsourcing. Finally, the last strength is their strategic positioning throughout all but 7 states, this is optimal for Andeavor because of their distribution power which them gives a strong hold in the fuel market.

Weaknesses

One of the major weaknesses of Andeavor is the constant fluctuating gas prices and volatility of the market. Since the market is dependent on the economy, it is a major factor in the

industry. When the economy is good, the fuel costs are lower but, when the economy turns bad fuels costs rise. The second weakness is the possibility of Andeavor depleting their fuel sources. A depletion of oil would not only hurt Andeavor but, could bankrupt them as their product they would suffer irreparably. The last weakness is their lack of expansion on a large scale globally. By not having a strong presence globally they could potentially miss out on the revenue that a global company could achieve.

Opportunities

The first opportunity that Andeavor has is to take portions of their profit to test advanced technologies in the fuel industry. They have the supplies in abundance and the advancement could make them far surpass their competition. The second opportunity is an expansion of their presence to the remaining 7 states for dominance in the United States. The last opportunity for Andeavor is possible expansion of their logistics beyond fuel to other markets as this would be a worthy expansion due to their presence across the U.S.

Threats

The first threat is rules and guidelines constantly being instituted by the government and regulatory agencies. The introduction of new rules and guidelines usually require changes which equals increased cost. The second threat Andeavor faces is they have competition in every aspect of their company. Fuel production has strong competition with companies such as Phillips 66 and Chevron. When it comes to logistics, their competition are companies like Western Gas Partner and Kunlun Energy. As for marketing, the number of companies is plentiful and overwhelming. The last threat that Andeavor has is the unpredictability of the climate. This year, the United States experienced several natural disasters, one of which was Hurricane Harvey. It

devastated the country with massive flooding, paralyzing the fuel industry and their production abilities.

Regardless of the SWOT analysis, Andeavor is a solid company with the right diversification and forward-thinking approach to remain premier fuel provider in the United States.

References

- Andeavor (n.d.). In Andeavor. Retrieved from <http://www.andeavor.com/about/>
- Andeavor. (2017). 2017 Quarterly earnings report. Retrieved from <http://ir.andeavor.com/phoenix.zhtml?c=79122&p=quarterlyearnings>
- Biscardini, G, Morrison, R., Barson, D. (2017). *2017 Oil and gas trends*. Retrieved from <https://www.strategyand.pwc.com/trend/2017-oil-and-gas-trends>
- Chaudhury, N. (2017). *Oil and gas industry outlook November 2017*. Retrieved from <http://www.nasdaq.com/article/oil-gas-industry-outlook-november-2017-cm872707>
- CSIMarket.com. (2017). Andeavor (TSO). Retrieved from <https://csimarket.com/stocks/competition.php?&code=TSO>
- Fortune 500. (n.d.). Andeavor. Retrieved from <http://fortune.com/fortune500/tesoro/>
- <http://financials.morningstar.com/company-profile/c.action?t=ANDV®ion=usa&culture=en-US>
- Kress, M. (2017). Andeavor zooms in on retail business. Retrieved from <https://csnews.com/andeavor-zooms-retail-business>
- Morningstar, Inc. (2017). Andeavor. Retrieved from <http://financials.morningstar.com/company-profile/c.action?t=ANDV®ion=usa&culture=en-US>
- Tesoro Corporation. (2016). 2016 Annual report. Retrieved from <http://ir.andeavor.com/phoenix.zhtml?c=79122&p=irol-reportsannual>
- Thomas Reuters. (2017). Andeavor and andeavor logistics outline 2018-2019 plan at investor day and analyst day. Retrieved from <https://www.benzinga.com/pressreleases/17/12/tr10871444/andeavor-and-andeavor-logistics-outline-2018-2020-plan-at-investor-an>

University of California Energy Institute (2004). Market power in california's gasoline market.

Retrieved from http://www.energy.ca.gov/reports/2004-05-28_600-04-004.PDF

Yahoo Finance. (n.d.). Andeavor. Retrieved from

<https://finance.yahoo.com/quote/ANDV?p=ANDV>