**Andeavor (ANDV)**

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# Introduction

Andeavor Inc. (NYSE: ANDV | price: $110.29) is an American oil refinery company headquartered in San Antonio, Texas producing an average of 1.2 million barrels per day. Andeavor generates revenue in three ways: Marketing, Logistics, and Refining. In general, Andeavor makes money by buying crude oil, refining it, and selling it to its marketing partners Arco, Shell, Mobil, and Superamerica. Andeavor also has the infrastructure to transport natural gas and oil via trucks, ships, and pipelines.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Price ($): | 110.29 | Beta: | 1.02 |  | 2016A | 2017A |  |  |
| Price Target ($): | 132.37 | WACC: | 5.93 | Revenue (mil) | 24,582 | 34,975 |  |  |
| 52 WK H-L ($): | 121.17-75.11 | M-Term Rev. Gr Rate Est: | 5 | % Growth | 11% | 9% |  |  |
| Market Cap (mil): | 1,687 | M-Term EPS Gr Rate Est: | 3 | EBITDA | 2,332 | 2,546 |  |  |
| Float (mil): | 1,543.50 |  |  |  |  |  |  |  |
| Short Interest (%): | 2.98 | Debt/EBITDA (TTM): | 3.01 | EPS | 6.19 | 10.91 |  |  |
| Avg. Daily Vol (mil): | 1.8 | ROA (%) | 6.24 | P/Cash Flow | 7.10 | 11.55 |  |  |
| Dividend ($): | 2.36 | ROE (%) | 20.00 | P/E | 14.8 | 21.25 |  |  |
| Yield (%): | 1.57 | ROIC (%) | 10.22 | EV/EBITDA | 5.92 9.8 9.8 | 9.8 |  |  |

# Investment Thesis

In recent years oil prices have stabilized. Due to the large amount of supply saturating the market, our thesis revolves around the concept that the price of oil will stay within the range of $50-$70 for the foreseeable future. Because these prices are so stable, we view the profits in the energy industry to found not by the companies that drill the oil, and thus have their revenues tied to the commodities market. By refining the product, it moves into a market with more differentiation. With the price of oil remaining so stable, it keeps the profit margins on the refinery side. This is because oil is the largest input into the expense equation.

The incoming economic contraction will have little effect on the performance of this company. This is due to the inelastic nature of its product. People will always need to put gasoline into their cars, it is part of the necessity spending segment of the economy, rather than the consumer discretionary segment. If the slowdown causes the price of oil to drop further, as it has historically, this will be an added benefit to the company, as it will further increase margins.

The general trend toward green energy and oil product disruption is not a real concern for us considering our investment horizon. The chances of the entire oil and energy industry becoming

obsolete and useless within the next five years are next to zero. In the very long run (40+ years), the stock will perform very poorly unless it reinvents itself off the oil business, oil being a scarce resource that will be completely consumed at some point in the future. Currently it is estimated that the world will run out of oil sometime in the 2060’s. Because of this time frame, it does not affect our DCF models, as by the time the model reaches that value, the cash flow from that period is already approaching zero.

The reason we chose Andeavor over its peers is because it is relatively inexpensive compared to its peers. It is the standout value stock within the peer group. In addition, Andeavor also does all its business west of the Mississippi, which is where there is the most population growth, and thus the most rising demand for oil. In an industry with high barriers to entry, having the infrastructure already in place puts Andeavor in a better position to capitalize on rising demand. Based on our valuations, we are very confident in the upside that it represents.

# Valuation

A Monte Carlo Valuation with 1 million simulated trials was created. The results of the simulation indicated a 66.2% chance of the stock increasing from its current price and an expected stock price of $125.14. In addition, we are 90% confident that the stock will land somewhere between $75 and $208 a year from now.

A 2-stage FCFF Valuation gave an estimate of $176.00. This is running under the assumption that oil prices will remain relatively constant into the future. A P/E Multiples model gave an estimate of $128.00, using the peer group shown below. By taking a 34/33/33 (Monte Carlo, FCFF, and P/E respectively) weighted sum-of-the-parts, we give a price target of $142.94.

# Risks

**Oil Price Volatility:** Andeavor makes money when oil prices are around $50-$70. If oil prices dip below this range and Andeavor has not forward contracted this risk. On the other hand, if Andeavor has all its future oil locked up in forward contracts, it will not become more profitable when oil prices become super favorable. In addition, Andeavor does about roughly 1/3 of its business in natural gas, which is slowly replacing oil. Therefore, Andeavor is positioned well given the current industry trends.

**Supply and Demand Movement:** Andeavor generates more revenue when the demand for oil is high and the cost to supply crude oil is low. Therefore, if the cost to supply crude increases or demand decreases dramatically, Andeavor will generate significantly less revenue.

**Rapid Changes in Technology:** If a highly cost effective non-gasoline powered car came into popular demand, this would significantly decrease oil demand and thus decrease Andeavor’s profits. However, many forecasts see an increase oil consumption until 2022, followed by a decrease. We see increasing demand as well as no new additions to supply as super favorable conditions in the industry in the next 5 years.

# Management

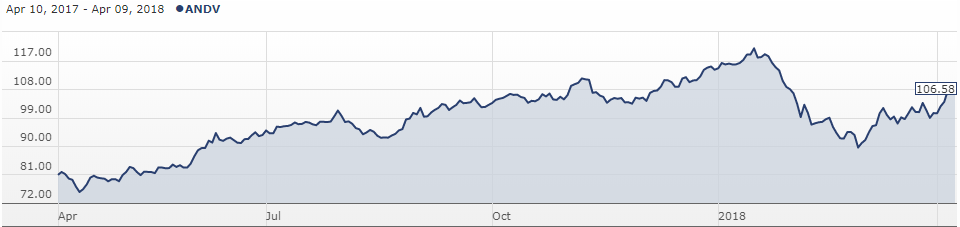
We believe that the management team at Andeavor is top class. All members of management have made their careers in energy, and many of them have been with the company for a very long time. Many come from ConocoPhillips, a large energy company that maintains a healthy trade relationship with Andeavor. Compensation is excellent, and has scaled with tenure, and performance. This management has much to do with our optimism toward future profits. One possible issue of the team however is its age. The average age of the management team is 66. Because of this, there may be an issue of turnover at some point in the future. For our investment purposes, we do not see this as a concern, as we do not see this happening within the next two years.

Gregory J. Goff- President, CEO, and Chairman of the Board: Goff has been the Chairman since 2014, and the President and CEO since 2010. He has spent his entire career in the energy industry and knows it in and out. Before holding his positions at Andeavor, he was part of senior management at ConocoPhillips, an integrated energy company which happens to be a supplier, and customer of Andeavor. He currently holds 612,657 shares of Andeavor, with options for an additional 44,570 shares.

#### Steven Sterin - Executive Vice President and Chief Financial Officer for Andeavor. He is also President, Chief Financial Officer and a member of the Board of Directors for Andeavor Logistics GP, LLC. He joined Andeavor in 2014, bringing nearly 20 years of financial leadership to his role. As EVP and Chief Financial Officer, Mr. Sterin has over 10 years of large public company CFO experience.

Michael J.Morrison - Senior Vice President, Marketing for Andeavor. He joined Andeavor in 2016, bringing more than 30 years of experience in the downstream business to his role. Prior to Andeavor, He was the Global Crude Oil Trading Lead and Lead Executive for the London office of Phillips66. He has also held several leadership positions within marketing, strategy, commercial supply and trading logistics, optimization and specialty products at Conoco, ConocoPhillips, and Phillips66.

**1 Year Stock Chart**

**Peer Comparison**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Name | Ticker | Market Cap  (bil) | Revenue(mil) | EBITDA | P/E | Dividend Yield |
| Andeavor | ANDV | 16.87 | 34,975 | 2,546 | 9.9 | 1.62 |
| Phillips 66 | PSX | 46.7 | 102,354 | 5,311 | 9.9 | 2.9 |
| Valero Energy Corp | VLO | 42.6 | 93,980 | 5,585 | 10.5 | 3.5 |
| Marathon Energy | MPC | 35.0 | 74,733 | 5,767 | 10.7 | 1.5 |
| Neste Corp | NTOIY | 17.3 | 11,689 | 1,501 | 15.3 | 3.15 |
| Peer Average |  | 31.694 | 63,546.2 | 4,142 | 11.26 | 2.534 |

**Ownership**

|  |  |  |
| --- | --- | --- |
| % of Shares Held by All Insider Owners: |  | 2% |
| % of Shares held by Institutional & Mutual Fund Owners: |  | 98% |

**Top 5 Shareholders**

|  |  |  |
| --- | --- | --- |
| Holder | Shares | Percent |
| [Vanguard Mid Cap Index I](http://library.morningstar.com.proxy.uwec.edu/fund/quote?t=FOUSA00J83) | 3635652 | 2.36% |
|  |  |  |
| Vanguard Total Stock Mkt Idx | 3625841 | 2.36% |
|  |  |  |
| [Vanguard 500 Index Inv](http://library.morningstar.com.proxy.uwec.edu/fund/quote?t=FOUSA00FS1) | 2532375 | 1.65% |
|  |  |  |
| [Energy Select Sector SPDR® ETF](http://library.morningstar.com.proxy.uwec.edu/ETF/quote?t=FEUSA00009) | 1966945 | 1.36% |
|  |  |  |
| [JHancock Disciplined Value I](http://library.morningstar.com.proxy.uwec.edu/fund/quote?t=FOUSA00GGB) | 2074167 | 1.35% |
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