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Chevron Cuts Spending to Protect Dividend; Will Other Oil Majors Follow?

By Amey Stone

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Investors weren't too happy with Chevron's (CVX) announcement that it is cutting capital spending more. The stock was down about 1.5% to $89.30 at 10:30 a.m. ET Tuesday.

But income investors should be please it seems to be doing everything in its power to protect its dividend, points out John Petrides, portfolio manager at Point View Wealth Management.

However, the budget cut, which affects spending in 2017 and 2018, raises questions about the sustainability of the recent rebound in crude prices — and points to risk for other energy sectors if more oil majors follow suit.

Petrides wrote to Barron's Tuesday:

CVX seems to be taking the responsible route, continuing to batten down the hatches, in an oil situation where the supply demand fundamentals are out of equilibrium. Clearly management seems committed to preserving the dividend for its shareholders. However, when a behemoth like Chevron cuts its capex, companies in the oil service industry should get nervous. Conoco Philips (COP) has already cuts its dividend. Investors will wait and see if Exxon Mobil (XOM) and British Petroleum (BP) follow Chevron's lead.

Chevron's announcement came as part of its annual day of analyst presentations. CEO John Watson also spoke about the importance of dividend growth and balance sheet strength.

Chevron has increased its dividend every year for the last 28 years, Watson pointed out. The company currently pays a quarter dividend of $1.07 per share for a dividend yield near 5%.