



# Independent Stock Idea

February 2, 2010

rating: buy  
s&p 500: 1103

## Anadarko Petroleum (APC) Raise Net Present Value to \$64 from \$59 a Share

<i>Symbol</i>	APC	<i>Ebitda Next Twelve Months ending 12/31/10 (US\$m)</i>	6,150
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	40
<i>Price (US\$/sh)</i>	66.34	<i>Natural Gas and Oil Production/Ebitda (%)</i>	96
<i>Pricing Date</i>	2/2/10	<i>Adjusted Reserves/Production NTM</i>	9.1
<i>Shares (mm)</i>	494	<i>EV/Ebitda</i>	7.6
<i>Market Capitalization (US\$m)</i>	32,800	<i>PV/Ebitda</i>	7.4
<i>Debt (US\$m)</i>	14,000	<i>Undeveloped Reserves (%)</i>	30
<i>Enterprise Value (EV) (US\$m)</i>	46,700	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	28.91
<i>Present Value (PV) (US\$m)</i>	45,600	<i>Present Value Proven Reserves(US\$/boe)</i>	19.25
<i>Net Present Value (US\$/share)</i>	64	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.21
<i>Debt/Present Value</i>	0.31	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.85
<i>McDep Ratio - EV/PV</i>	1.03	<i>Price/Earnings Next Twelve Months</i>	78
<i>Dividend Yield (%/year)</i>	0.5	<i>Indicated Annual Dividend (US\$/sh)</i>	0.36
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$75 a barrel and natural gas, \$8 a million btu.			
For historical analysis of APC since 2003 see <a href="http://www.mcdep.com/lapc.htm">www.mcdep.com/lapc.htm</a>			

### Summary and Recommendation

Analyzing fourth quarter results released late February 1, we raise estimated Net Present Value (NPV) to \$64 a share from \$59 for buy-recommended **Anadarko Petroleum (APC)**. APC stock has appreciated beyond NPV to a McDep Ratio of 1.03, perhaps helped by exciting exploration potential, most recently the Lucius discovery in the deep Gulf of Mexico. Latest financial results exceeded our expectations modestly for unlevered cash flow (Ebitda), but enough to trigger an increase in projections for 2010 (see table Next Twelve Months Operating and Financial Estimates). As a result, we raise NPV to a higher level more in line with cash flow and reserve life in an industry context (see table Functional Cash Flow and Present Value). NPV anticipates a normal amount of enhancement to proven reserves, but not unusual exploration success. Anadarko's drilling appears highly promising at the same time it is very expensive and there is a long time lag before new discoveries produce cash flow. Meanwhile, the trend for oil, 50% of the value in APC, continues up with futures prices for the next six years at \$86 a barrel compared to the 40-week average of \$82 (see chart Six-Year Commodity Price Meter).

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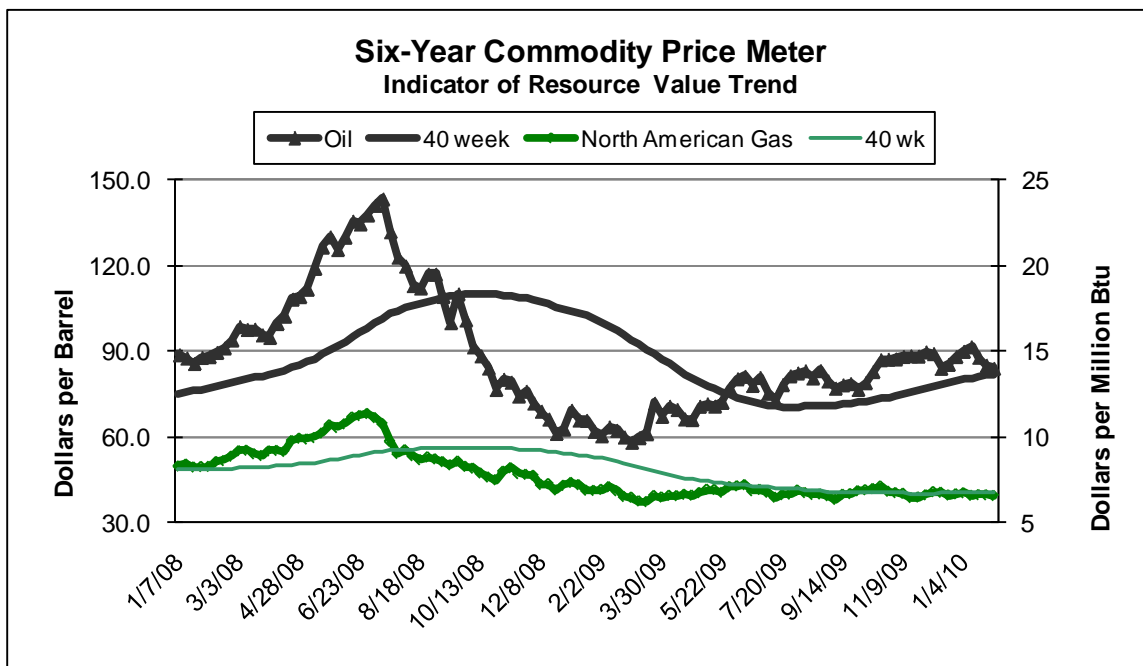
Anadarko Petroleum Corporation									
Next Twelve Months Operating and Financial Estimates									
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Next Twelve Months
	12/31/08	9/30/09	12/31/09	2009	3/31/10	6/30/10	9/30/10	12/31/10	12/31/10
<b>Volume</b>									
Natural gas (bcf)	202	197	191	<b>809</b>	187	189	191	191	<b>758</b>
Natural Gas (mmcf)	2,197	2,144	2,076	<b>2,217</b>	2,076	2,076	2,076	2,076	<b>2,076</b>
Days	92	92	92	<b>365</b>	90	91	92	92	<b>365</b>
Oil (mmb)	19	24	22	<b>86</b>	21	22	22	22	<b>87</b>
Oil (mbd)	203	259	237	<b>235</b>	237	237	237	237	<b>237</b>
Total gas & oil (bcf)	314	340	322	<b>1,323</b>	315	318	322	322	<b>1,277</b>
Total gas & oil (mmcf)	3,415	3,698	3,498	<b>3,625</b>	3,498	3,498	3,498	3,498	<b>3,498</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.95	3.39	4.16	<b>3.99</b>	5.53	5.45	5.64	6.12	<b>5.69</b>
Company (\$/mcf)	5.21	3.02	4.06	<b>3.53</b>	5.39	4.69	4.85	5.26	<b>5.05</b>
Oil (\$/bbl)									
WTI Cushing	58.45	68.22	76.09	<b>61.70</b>	75.89	75.77	77.37	78.64	<b>76.92</b>
Company	47.51	58.22	65.28	<b>53.36</b>	65.11	65.00	66.38	67.47	<b>66.00</b>
Total gas & oil (\$/mcf)	6.18	5.83	6.83	<b>5.61</b>	7.61	7.19	7.38	7.69	<b>7.47</b>
<b>Revenue (\$mm)</b>									
Natural Gas	1,053	596	775	<b>2,855</b>	1,007	886	927	1,005	<b>3,825</b>
Oil	887	1,387	1,423	<b>4,570</b>	1,389	1,402	1,447	1,471	<b>5,709</b>
Other	1,870	757	218	<b>1,072</b>					<b>-</b>
Total	3,810	2,740	2,417	<b>8,497</b>	2,396	2,288	2,374	2,476	<b>9,534</b>
<b>Expense (\$mm)</b>									
Exploration and Production	1,333	1,121	1,346	<b>4,335</b>	1,485	1,418	1,472	1,535	<b>5,911</b>
Other	21	60	60	<b>240</b>	60	60	60	60	<b>240</b>
Total	1,354	1,181	1,406	<b>4,575</b>	1,545	1,478	1,532	1,595	<b>6,151</b>
Exploration	329	229	294	<b>1,112</b>	294	294	294	294	<b>1,176</b>
Deprec., Deplet., & Amort.	739	909	884	<b>3,555</b>	884	884	884	884	<b>3,536</b>
<b>Ebit</b>	286	38	228	<b>(97)</b>	367	300	354	417	<b>1,439</b>
Interest	180	121	198	<b>595</b>	198	198	198	198	<b>792</b>
<b>Ebt</b>	106	(83)	30	<b>(692)</b>	169	102	156	219	<b>647</b>
Income Tax	37	(29)	11	<b>(242)</b>	59	36	55	77	<b>226</b>
<b>Net Income (\$mm)</b>	69	(54)	20	<b>(450)</b>	110	67	101	142	<b>420</b>
<b>Shares (millions)</b>	460	493	494	<b>469</b>	494	494	494	494	<b>494</b>
Per share (\$)	0.15	(0.11)	0.04	<b>(0.96)</b>	0.22	0.13	0.21	0.29	<b>0.85</b>
Ebitda Margin (E&P)	69%	57%	61%	<b>58%</b>	62%	62%	62%	62%	<b>62%</b>
Tax Rate	35%	35%	35%	<b>35%</b>	35%	35%	35%	35%	<b>35%</b>



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Anadarko Petroleum Corporation					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	2,470	9.4	8.5	21,000	46%
Oil	3,440	8.7	6.6	22,600	50%
Downstream and Minerals	240		8.3	2,000	4%
	6,150	9.1	7.4	45,600	100%
Debt (US\$mm)					14,000
Net Present Value (US\$mm)					31,600
Shares (mm)					494
Net Present Value - Standard Estimate (US\$/sh)					64
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					71





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