

Rating: Buy  
S&P 500: 1199

## **Anadarko Petroleum Corporation** **Clean Fuel Supplier**

<i>Symbol</i>	APC	<i>Ebitda Next Twelve Months ending 6/30/06 (US\$m)</i>	4,750
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	51
<i>Price (US\$/sh)</i>	76.09	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	5/27/05	<i>Adjusted Reserves/Production NTM</i>	12.3
<i>Shares (mm)</i>	239	<i>EV/Ebitda</i>	4.7
<i>Market Capitalization (US\$m)</i>	18,200	<i>PV/Ebitda</i>	6.6
<i>Debt (US\$m)</i>	4,400	<i>Undeveloped Reserves (%)</i>	36
<i>Enterprise Value (EV) (US\$m)</i>	22,600	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	30.10
<i>Present Value (PV) (US\$m)</i>	31,400	<i>Present Value Proven Reserves(US\$/boe)</i>	13.26
<i>Net Present Value (US\$/share)</i>	113	<i>Present Value Proven Reserves(US\$/mcfe)</i>	2.21
<i>Debt/Present Value</i>	0.14	<i>Earnings Next Twelve Months (US\$/sh)</i>	8.53
<i>McDep Ratio - EV/PV</i>	0.72	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	0.9	<i>Indicated Annual Dividend (US\$/sh)</i>	0.72

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.

### **Summary and Recommendation**

Displaying the lowest McDep Ratio, **Anadarko Petroleum Corporation (APC)** appears most out of favor among buy-recommended large independent natural gas producers. After a pullback from recent stock price highs, natural gas producers appear timely as the clean commodity has lagged oil price for two years. A hot summer or recent action in European natural gas markets could spark a change to more realistic commodity price. We see potential appreciation of 49% to our estimate of net present value subject to normal risk.

### **Present Value Low Relative to Cash Flow**

Estimated originally on a discounted cash flow basis assuming \$40 oil, present value looks low relative to next twelve months cash flow (see table Functional Cash Flow and Present Value). The company's cash flow multiple for North American Natural Gas is lower than that indicated by our current correlation with adjusted reserve life index for thirty producers by about 0.6. The company's cash flow multiple for the Oil segment is lower than that indicated by our current correlation with adjusted reserve life index for thirty producers by about 0.5.

### **Cash Flow Rising with Commodity Price**

A dynamic measure, projected cash flow is updated frequently with latest futures quotes (see table Next Twelve Months Operating and Financial Estimates). Recent quarterly results also influence projections. Volume changes are muted if reserves do not change. Part of the opportunity in Anadarko may be that the upgrading of assets with the sale of short-life properties last year has shifted the quarterly trends and investors are waiting for the new pattern to be more obvious.

**Please see disclosures on the final page.**

**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	2,420	12.2	7.4	18,000	57%
Oil	2,330	12.4	5.8	13,400	43%
	4,750	12.3	6.6	31,400	100%
Debt (US\$mm)					4,400
Net Present Value (US\$mm)					27,000
Shares (mm)					239
Net Present Value (US\$/sh)					113

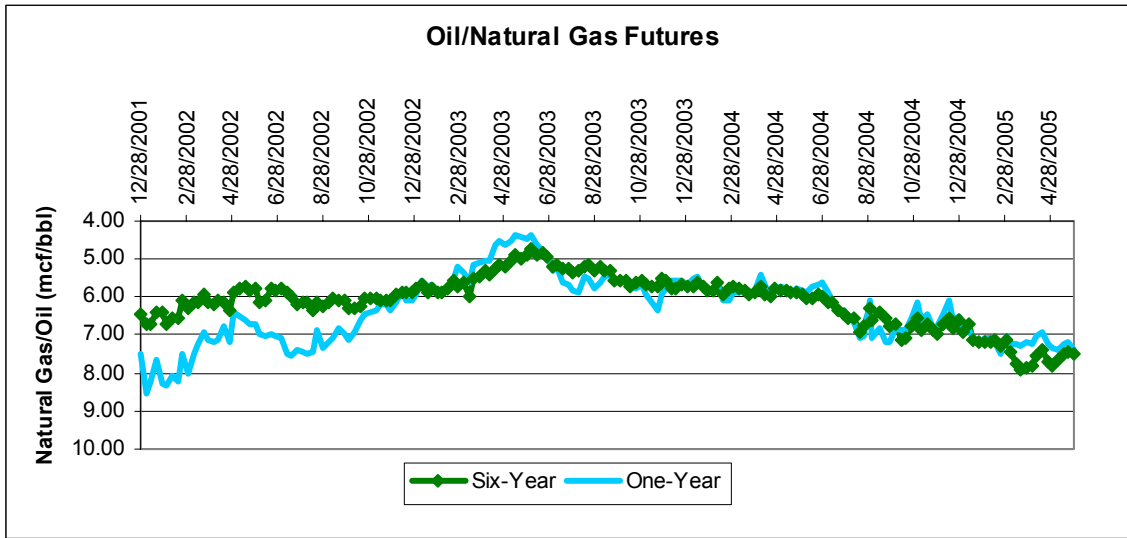
**Anadarko Petroleum Corporation**  
**Next Twelve Months Operating and Financial Estimates**

	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Next</i>
	<i>12/31/04</i>	<i>2004</i>	<i>3/31/05</i>	<i>6/30/05</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005E</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>Twelve</i>
										<i>Months</i>
<b>Volume</b>										
Natural Gas (mmcf)	1,641	1,741	1,454	1,454	1,454	1,454	1,454	1,454	1,454	1,454
Oil (mbd)	223	230	213	190	190	190	196	190	190	190
Total gas & oil (bcf)	274	1,142	246	236	239	239	959	233	236	947
<b>Price</b>										
Natural gas (\$/mcf)										
Henry Hub (\$/mmbtu)	7.10	6.15	6.27	6.83	6.43	7.11	6.66	7.94	6.84	7.08
Company (\$/mcf)	6.10	5.30	5.54	6.04	5.69	6.28	5.76	7.02	6.05	6.08
Oil (\$/bbl)										
WTI Cushing	48.31	41.44	49.65	51.05	51.57	52.68	51.24	52.78	52.47	52.38
Worldwide	42.15	33.92	42.37	43.57	44.01	44.96	43.70	45.04	44.78	44.70
Total gas & oil (\$/mcf)	6.52	5.31	6.25	6.48	6.32	6.72	6.41	7.13	6.58	6.65
<b>Revenue (\$mm)</b>										
Natural Gas	921	3,375	725	777	740	817	3,059	893	778	3,228
Oil	865	2,855	812	753	769	786	3,121	770	774	3,100
Other	(184)	(164)	(7)	(7)	(7)	(7)	(29)	(7)	(7)	(29)
Total	1,602	6,067	1,530	1,523	1,502	1,596	6,151	1,656	1,545	6,299
<b>Expense</b>										
Fixed	191	766	191	191	191	191	762	191	191	762
Variable	191	766	191	197	195	207	789	215	200	815
<b>Ebitda (\$mm)</b>	1,219	4,535	1,149	1,142	1,124	1,206	4,621	1,259	1,162	4,750
Deprec., Deplet., & Amort.	355	1,447	324	324	324	324	1,296	324	324	1,296
Hedging and other	-	9	19	32	32	40	123		38	110
<b>Ebit</b>	864	3,079	806	787	768	842	3,202	935	800	3,344
Interest	92	352	52	52	52	52	208	52	52	208
<b>Ebt</b>	772	2,727	754	735	716	790	2,994	883	748	3,136
Income Tax	270	954	264	257	250	276	1,048	309	262	1,098
<b>Net Income (\$mm)</b>	502	1,773	490	478	465	513	1,946	574	486	2,038
<b>Shares (millions)</b>	246	251	239	239	239	239	239	239	239	239
Per share (\$)	2.04	7.05	2.05	2.00	1.95	2.15	8.14	2.40	2.03	8.53
Ebitda Margin	76%	75%	75%	75%	75%	76%	75%	76%	75%	75%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%

**Commodity Price Discount Spells Opportunity**

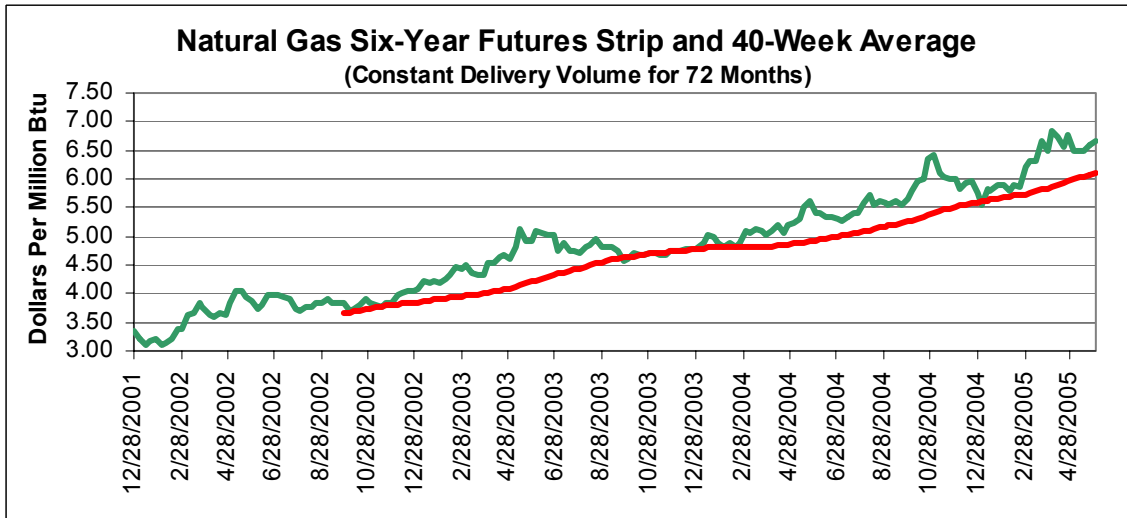
Oil price has increased to more than 7 times natural gas price. We expect the ratio for the next decade to average 5 times as was signaled briefly two years ago (see chart Oil/Natural Gas Futures).

Please see disclosures on the final page.



Rising futures prices for natural gas in Europe dramatize unrecognized value in the natural gas resources of buy-recommended producers. Futures prices at the U.K. National Balancing Point are setting new records exceeding \$12 a million btu for first quarter 2006, 58% more than for the U.S. We believe that level would be more realistic for the U.S. as well, and we note that Atlantic gas markets are newly linked through liquefied natural gas trading.

Despite not keeping up with oil, U.S. natural gas has been rising on a well-defined trend underway for at least the past 4½ years (see chart Natural Gas Six-Year Futures Strip and 40-Week Average). Whether the trend continues at the same rate or it quickens, buy-recommended natural gas producers are likely to continue their favorable stock price trend as well.



Please see disclosures on the final page.

**Buy Oil and Gas Producers at Mid Decade**

Multi-fold gain potential for oil and gas price over the years ahead justifies investment in recommended oil and gas producers, in our opinion. A McDep Ratio of 1.0 implies that a stock would be priced at present value assuming a constant real oil price of US\$40 (see table Rank by McDep Ratio).

**Rank by McDep Ratio: Market Cap and Debt to Present Value**

	Symbol/ Rating		Price (\$/sh) 27-May 2005	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>								
Encana Corporation	ECA	B	35.43	909	32,200	38.50	0.19	0.94
Unocal Corporation	UCL	B	57.56	273	15,700	65.00	0.19	0.91
XTO Energy Inc.	XTO	B	30.94	366	11,330	36.00	0.19	0.89
Occidental Petroleum Corp.	OXY	B	73.52	406	29,900	87.00	0.14	0.87
CNOOC Limited (19%)	CEO	B	54.29	78	4,240	67.00	-	0.81
Burlington Resources	BR	B	51.43	389	20,000	67.00	0.12	0.79
Devon Energy Corporation	DVN	B	46.55	496	23,100	63.00	0.16	0.78
Anadarko Petroleum Corp.	APC	B	76.09	239	18,200	113.00	0.14	0.72
<i>Total or Median</i>						<i>155,000</i>	<i>0.15</i>	<i>0.84</i>

Kurt H. Wulff, CFA

**Disclaimer:** This analysis was prepared by Kurt Wulff doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

McDep does no investment banking business. McDep is not paid by covered companies including revenue from advertising, trading, consulting, subscriptions or research service. McDep shall not own more than 1% of outstanding stock in a covered company. No one at McDep is on the Board of Directors at a covered company nor is anyone at a covered company on the Board of Directors of McDep.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

**Certification:** I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

**Research Methodology/Ratings Description:** McDep Associates is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.

**Please see disclosures on the final page.**