

Rating: Buy  
 S&P 500: 1235

## **Anadarko Petroleum Corporation**

### **Natural Gas Jumps**

<i>Symbol</i>	APC	<i>Ebitda Next Twelve Months ending 9/30/06 (US\$mm)</i>	6,420
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	57
<i>Price (US\$/sh)</i>	94.18	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	9/9/05	<i>Adjusted Reserves/Production NTM</i>	12.5
<i>Shares (mm)</i>	238	<i>EV/Ebitda</i>	4.2
<i>Market Capitalization (US\$mm)</i>	22,400	<i>PV/Ebitda</i>	5.9
<i>Debt (US\$mm)</i>	4,200	<i>Undeveloped Reserves (%)</i>	36
<i>Enterprise Value (EV) (US\$mm)</i>	26,700	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	41.16
<i>Present Value (PV) (US\$mm)</i>	37,600	<i>Present Value Proven Reserves(US\$/boe)</i>	15.88
<i>Net Present Value (US\$/share)</i>	140	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.65
<i>Debt/Present Value</i>	0.11	<i>Earnings Next Twelve Months (US\$/sh)</i>	12.10
<i>McDep Ratio - EV/PV</i>	0.71	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	0.8	<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**

Since raising our estimated net present value of buy-recommended **Anadarko (APC)** on August 2, estimated next twelve months cash flow (NTM Ebitda) jumps 19%. NTM natural gas price is up 26% over the same time while stock price has gained 6%. The stock has 49% appreciation potential to net present value that we hold at \$140 a share. Understandably, investors are always nervous about commodity price that can change unpredictably. In our view the trend in commodity price has been orderly and can continue rising for several more years as long as that is the case. Hurricane Katrina seems to solidify pricing prospects for the next few months leading to the peak winter energy consumption period.

### **Most Undervalued Large Cap Natural Gas Producer**

Anadarko has about 60% of resource value concentrated on the clean fuel, natural gas (see table [Functional Cash Flow and Present Value](#)). Estimated annual cash flow of more than \$6.4 billion is driven by the latest closing futures quotes at the Henry Hub reference point for natural gas that have reached \$10.68 a million btu (see table [Next Twelve Months Operating and Financial Estimates](#)).

The straight forward interpretation of our analysis leads to the ranking of Anadarko as most undervalued among peer stocks (see table [Rank by McDep Ratio](#)). There are qualitative distinctions among companies that are not measured by the McDep Ratio. Moreover the quantitative differences are small compared to the industry opportunity that all the peer companies face as we see it. It is possible that Anadarko may not be as statistically undervalued as we measure, but it is unlikely that Anadarko is statistically overvalued relative to peers. All of that supports the attractiveness of a fully invested position in the recommended stock.

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**Anadarko Petroleum Corporation**  
**Functional Cash Flow and Present Value**

	<i>NTM Ebitda</i> <i>(US\$mm)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$mm)</i>	
North American Natural Gas	3,630	12.4	6.2	22,500	60%
Oil	2,790	12.5	5.4	15,000	40%
	6,420	12.5	5.8	37,500	100%
Debt (US\$mm)					4,200
Net Present Value (US\$mm)					33,300
Shares (mm)					238
Net Present Value (US\$/sh)					140

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

	<i>Q4</i> <i>12/31/04</i>	<i>Year</i> <i>2004</i>	<i>Q1</i> <i>3/31/05</i>	<i>Q2</i> <i>6/30/05</i>	<i>Q3E</i> <i>9/30/05</i>	<i>Q4E</i> <i>12/31/05</i>	<i>Year</i> <i>2005E</i>	<i>Q1E</i> <i>3/31/06</i>	<i>Q2E</i> <i>6/30/06</i>	<i>Q3E</i> <i>9/30/06</i>	<i>Next</i> <i>Twelve</i> <i>Months</i> <i>9/30/06</i>
<b>Volume</b>											
Natural Gas (mmcf)	1,641	<b>1,741</b>	1,454	1,434	1,434	1,434	<b>1,439</b>	1,434	1,434	1,434	<b>1,434</b>
Oil (mbd)	223	<b>230</b>	213	188	188	188	<b>194</b>	188	188	188	<b>188</b>
Total gas & oil (bcf)	274	<b>1,142</b>	246	233	236	236	<b>950</b>	231	233	236	<b>935</b>
<b>Price</b>											
Natural gas (\$/mcf)											
Henry Hub (\$/mmbtu)	7.10	<b>6.15</b>	6.27	6.76	8.56	11.84	<b>8.36</b>	12.28	9.33	9.26	<b>10.68</b>
Company (\$/mcf)	6.10	<b>5.30</b>	5.54	6.25	7.92	10.96	<b>7.23</b>	11.36	8.63	8.56	<b>9.17</b>
Oil (\$/bbl)											
WTI Cushing	48.31	<b>41.44</b>	49.65	53.05	63.20	65.25	<b>57.79</b>	66.28	66.78	67.17	<b>66.37</b>
Worldwide	42.15	<b>33.92</b>	42.37	43.05	51.29	52.95	<b>47.29</b>	53.79	54.20	54.51	<b>53.86</b>
Total gas & oil (\$/mcf)	6.52	<b>5.31</b>	6.25	6.41	7.88	9.58	<b>7.82</b>	9.85	8.46	8.45	<b>9.49</b>
<b>Revenue (\$mm)</b>											
Natural Gas	921	<b>3,375</b>	725	758	971	1,343	<b>3,797</b>	1,362	1,046	1,050	<b>4,801</b>
Oil	865	<b>2,855</b>	812	737	887	916	<b>3,352</b>	910	927	943	<b>3,696</b>
Other	(184)	<b>(164)</b>	(7)	96	96	96	<b>279</b>	96	96	96	<b>382</b>
Total	1,602	<b>6,067</b>	1,530	1,590	1,954	2,354	<b>7,428</b>	2,368	2,069	2,088	<b>8,879</b>
<b>Expense</b>											
Fixed	191	<b>766</b>	191	215	215	215	<b>837</b>	215	215	215	<b>862</b>
Variable	191	<b>766</b>	191	215	268	326	<b>999</b>	327	282	285	<b>1,220</b>
<b>Ebitda (\$mm)</b>	1,219	<b>4,535</b>	1,149	1,159	1,375	1,718	<b>5,401</b>	1,729	1,476	1,492	<b>6,415</b>
Deprec., Deplet., & Amort.	355	<b>1,447</b>	324	333	333	333	<b>1,323</b>	333	333	333	<b>1,332</b>
Hedging and other	-	<b>9</b>	19	-	91	114	<b>224</b>	120	109	110	<b>454</b>
<b>Ebit</b>	864	<b>3,079</b>	806	826	951	1,271	<b>3,854</b>	1,276	1,034	1,049	<b>4,629</b>
Interest	92	<b>352</b>	52	50	50	50	<b>202</b>	50	50	50	<b>200</b>
<b>Ebt</b>	772	<b>2,727</b>	754	776	901	1,221	<b>3,652</b>	1,226	984	999	<b>4,429</b>
Income Tax	270	<b>954</b>	264	272	315	427	<b>1,278</b>	429	344	350	<b>1,550</b>
<b>Net Income (\$mm)</b>	502	<b>1,773</b>	490	505	586	794	<b>2,374</b>	797	639	649	<b>2,879</b>
<b>Shares (millions)</b>	246	<b>251</b>	239	238	238	238	<b>238</b>	238	238	238	<b>238</b>
Per share (\$)	2.04	<b>7.05</b>	2.05	2.12	2.46	3.33	<b>9.97</b>	3.35	2.69	2.73	<b>12.10</b>
Ebitda Margin	76%	<b>75%</b>	75%	73%	70%	73%	<b>73%</b>	73%	71%	71%	<b>72%</b>
Tax Rate	35%	<b>35%</b>	35%	35%	35%	35%	<b>35%</b>	35%	35%	35%	<b>35%</b>

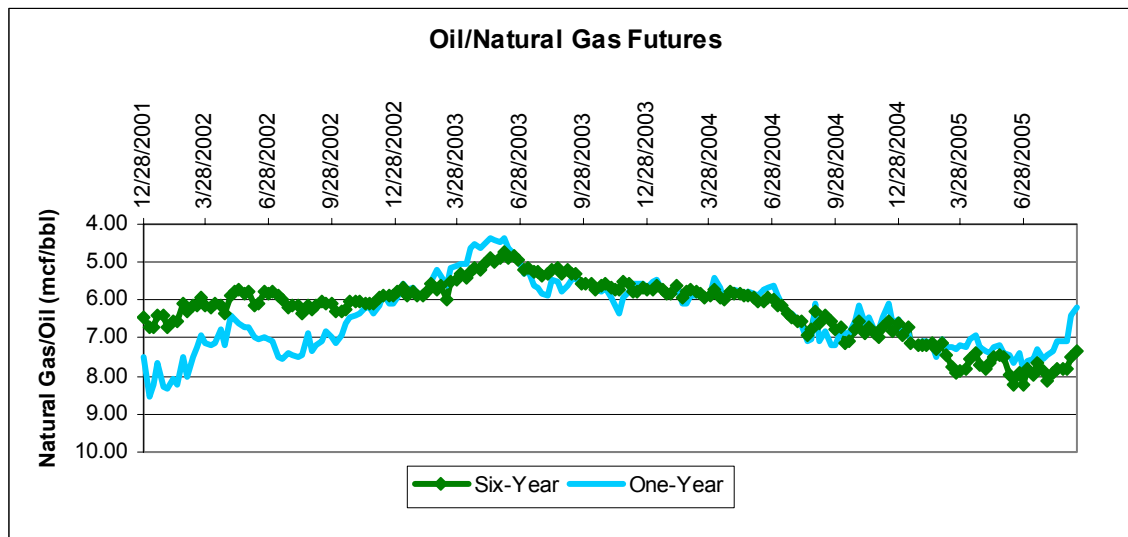
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**Rank by McDep Ratio: Market Cap and Debt to Present Value**

	Symbol/ Rating	Price (\$/sh) 9-Sep 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	50.68	892	45,200	51.00	0.16	0.99
Burlington Resources	BR B	75.36	385	29,000	86.00	0.09	0.89
XTO Energy Inc.	XTO B	40.70	372	15,150	48.00	0.17	0.87
CNOOC Limited (29%)	CEO B	70.27	119	8,380	84.00	0.01	0.84
Devon Energy Corporation	DVN B	64.50	471	30,400	86.00	0.15	0.79
Occidental Petroleum Corp.	OXY B	85.85	406	34,900	120.00	0.11	0.75
Anadarko Petroleum Corp.	APC B	94.18	238	22,400	140.00	0.11	0.71
	<i>Total or Median</i>			459,000		0.12	0.86

**Natural Gas Price Potential**

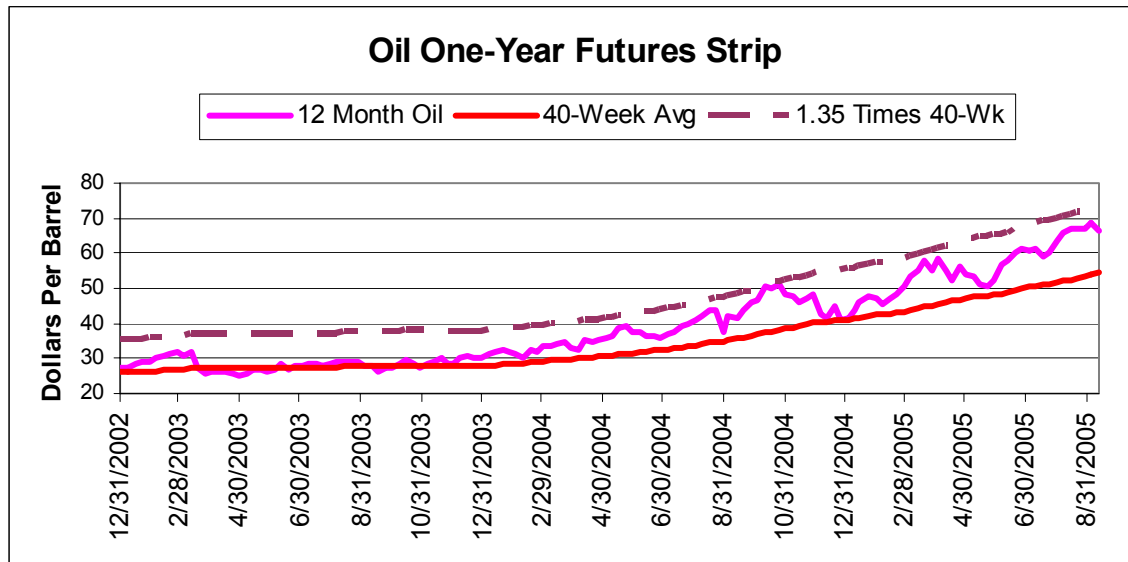
One-year natural gas has made strong gains in the past few weeks (see chart [Oil/Natural Gas Futures](#)). Similar gains for six-year futures may lie ahead. In a cold winter, or on a regular basis in a cleaner energy economy, natural gas may be priced at the oil price divided by 5.



**Oil Contained within the Price Channel**

Thanks to the pending release of oil from strategic storage, the temporary crude oil supply disruption caused by Hurricane Katrina did not send price above the channel between a lower bound of the 40-week moving average and an upper bound of 1.35 times the moving average (see chart [Oil One-Year Futures Strip](#)). While oil price continues to trend upward, the current price already implies strong investment returns for buy recommendations. The denominator of the McDep Ratio presumes a long-term real oil price of \$50 a barrel.

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