

Rating: Buy  
 S&P 500: 1198

## **Anadarko Petroleum**

### **Long Life for Free**

<i>Symbol</i>	APC	<i>Ebitda Next Twelve Months ending 9/30/06 (US\$mm)</i>	6,400
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	60
<i>Price (US\$/sh)</i>	90.69	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	10/28/05	<i>Adjusted Reserves/Production NTM</i>	12.5
<i>Shares (mm)</i>	238	<i>EV/Ebitda</i>	4.1
<i>Market Capitalization (US\$mm)</i>	21,600	<i>PV/Ebitda</i>	5.9
<i>Debt (US\$mm)</i>	4,400	<i>Undeveloped Reserves (%)</i>	36
<i>Enterprise Value (EV) (US\$mm)</i>	26,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	41.11
<i>Present Value (PV) (US\$mm)</i>	37,700	<i>Present Value Proven Reserves(US\$/boe)</i>	15.92
<i>Net Present Value (US\$/share)</i>	140	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.65
<i>Debt/Present Value</i>	0.12	<i>Earnings Next Twelve Months (US\$/sh)</i>	12.18
<i>McDep Ratio - EV/PV</i>	0.69	<i>Price/Earnings Next Twelve Months</i>	7
<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**

Buy-recommended **Anadarko Petroleum (APC)** offers 54% appreciation potential to estimated net present value of \$140 a share. Taking account of latest quarterly results, our correlation of 30 companies indicates net present value about \$17 a share higher than estimated. Since the company sold short-life natural gas and oil properties in 2004, investors seem to be reacting negatively to the lower current production with little recognition of the longer-life of the new resource portfolio. Reserve life (Adjusted Reserves/Production) is the longest of peers at 12.5 years. That should be worth a higher unlevered market cash flow life (EV/Ebitda). Because Anadarko's market cash flow life of just 4.1 years is practically no higher than the median 4.0 of large cap independent producer peers, we suggest that investors get APC's long-life advantage for free.

### **Cash Flow and Reserve Life Point to Present Value**

McDep analysis presumes that fundamental value is measured by the projection of cash flows far into the future and discounting them to the present at a rate of return, currently 7% a year before inflation. Next Twelve Months (NTM) cash flow represents the volumes and costs that form the base for future projections. Reserve life index tells how long cash flow will last. NTM cash flow and reserve life are the two main variables in our correlation by function for about 30 companies. Net present value indicated by the current combined correlation is about \$17 a share higher than our ongoing standard estimate for the company (see table Functional Cash Flow and Present Value).

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

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

	<i>NTM Ebitda</i> <i>(US\$m)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$m)</i>	
North American Natural Gas	3,840	12.9	5.9	22,500	60%
Oil	2,560	12.0	5.9	15,200	40%
	6,400	12.5	5.9	37,700	100%
Debt (US\$m)					4,400
Net Present Value (US\$m)					33,300
Shares (mm)					238
Net Present Value (US\$/sh)					140
Over (-)/ Under (+) Correlation (US\$/sh)					17

**Cash Flow by Quarter Depends on Latest Results and Futures Prices**

Cash flow for the next year is projected from a base through the latest reported quarter (see table [Next Twelve Months Operating and Financial Estimates](#)). Company disclosures provide the clues for future volumes and costs as well as geographic and quality differences in price. Futures prices from the New York Mercantile Exchange determine industry benchmarks for the next year.

**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>Q3</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	1,382	1,382	<b>1,413</b>	1,382	1,382	1,382	<b>1,382</b>
Oil (mbd)	223	<b>230</b>	213	188	196	196	<b>198</b>	196	196	196	<b>196</b>
Total gas & oil (bcf)	274	<b>1,142</b>	246	233	235	235	<b>950</b>	230	233	235	<b>934</b>
<b>Price</b>											
Natural gas (\$/mcf)											
Henry Hub (\$/mmbtu)	7.10	<b>6.15</b>	6.27	6.76	8.56	13.36	<b>8.74</b>	13.20	10.56	10.56	<b>11.92</b>
Company (\$/mcf)	6.10	<b>5.30</b>	5.54	6.07	7.15	11.15	<b>7.52</b>	11.02	8.82	8.81	<b>10.24</b>
Oil (\$/bbl)											
WTI Cushing	48.31	<b>41.44</b>	49.65	53.05	62.52	61.62	<b>56.71</b>	61.79	62.15	62.16	<b>61.93</b>
Worldwide	42.15	<b>33.92</b>	42.37	44.43	48.51	47.81	<b>45.74</b>	47.94	48.22	48.23	<b>48.05</b>
Total gas & oil (\$/mcf)	6.52	<b>5.31</b>	6.25	6.51	7.69	9.87	<b>7.58</b>	9.81	8.60	8.60	<b>9.22</b>
<b>Revenue (\$mm)</b>											
Natural Gas	921	<b>3,375</b>	725	758	936	1,460	<b>3,878</b>	1,412	1,142	1,154	<b>5,167</b>
Oil	865	<b>2,855</b>	812	760	875	862	<b>3,309</b>	846	860	870	<b>3,438</b>
Other	(184)	<b>(164)</b>	(7)	72	(55)		<b>10</b>				-
Total	1,602	<b>6,067</b>	1,530	1,590	1,756	2,322	<b>7,198</b>	2,257	2,002	2,023	<b>8,604</b>
<b>Expense</b>											
Fixed	191	<b>766</b>	191	215	226	226	<b>859</b>	226	226	226	<b>906</b>
Variable	191	<b>766</b>	191	215	226	368	<b>1,000</b>	352	288	293	<b>1,301</b>
<b>Ebitda (\$mm)</b>	1,219	<b>4,535</b>	1,149	1,159	1,303	1,727	<b>5,339</b>	1,679	1,488	1,503	<b>6,398</b>
Deprec., Deplet., & Amort.	355	<b>1,447</b>	324	333	334	334	<b>1,325</b>	334	334	334	<b>1,336</b>
Hedging and other		<b>9</b>	19			106	<b>125</b>	106	95	95	<b>402</b>
<b>Ebit</b>	864	<b>3,079</b>	806	826	969	1,288	<b>3,889</b>	1,239	1,058	1,074	<b>4,660</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	919	1,238	<b>3,687</b>	1,189	1,008	1,024	<b>4,460</b>
Income Tax	270	<b>954</b>	264	272	322	433	<b>1,290</b>	416	353	358	<b>1,561</b>
<b>Net Income (\$mm)</b>	502	<b>1,773</b>	490	505	597	805	<b>2,397</b>	773	655	666	<b>2,899</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	2.51	3.38	<b>10.06</b>	3.25	2.75	2.80	<b>12.18</b>
Ebitda Margin	76%	<b>75%</b>	75%	73%	74%	74%	<b>74%</b>	74%	74%	74%	<b>74%</b>
Tax Rate	35%	<b>35%</b>	35%	35%	35%	35%	<b>35%</b>	35%	35%	35%	<b>35%</b>

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**Industry Conditions Support Long-Term Price Expectation**

Present value estimates that form the denominator of the McDep Ratio and change only occasionally for all companies, most recently in early August, are tied to expected constant real long-term prices. Recent futures price for oil delivered over the next six years at \$58 a barrel exceeds our long-term expectation of \$50. One-year futures for natural gas exceed our long-term expectation while six-year futures for natural gas also have appreciation potential, in our opinion.

**Oil and Gas Commodity and Stock Price**  
**Friday, October 28, 2005**

	<u>Units</u>	<u>Futures Price</u>		<u>McDep Ratio</u>
		<u>Six-Year</u>	<u>One-Year</u>	<u>Denominator</u>
<b>Crude Oil</b>	\$/barrel	58.57	61.96	50
<b>Natural Gas</b>	\$/million btu	8.57	11.47	10
	<u>Stocks</u>			<u>Median</u>
	<b>Independent Producer - Large Cap</b>			0.77
	<b>APC</b>			0.69

Source: McDep Associates, Bloomberg, New York Mercantile Exchange, Yahoo and company disclosures

**Buy Independent Natural Gas and Oil Producers**

Energy is necessary for world economic growth and clean energy provides a better quality of life. Independent natural gas and oil producers are among the leading global suppliers of clean energy. Headquartered in China, Canada and the U.S., buy recommendations also offer political diversification. McDep Ratios that compare Enterprise Value with Present Value of energy and other businesses imply that the stock market undervalues the fundamental prospects. Stocks are ranked in descending order of McDep Ratio connoting “buy low, sell high” (see table Rank by McDep Ratio).

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

	<u>Symbol/</u>	<u>Rating</u>	<u>Price</u>	<u>Shares</u>	<u>Market</u>	<u>Net</u>	<u>Debt/</u>	<u>McDep</u>
			<u>(\$/sh)</u>		<u>Cap</u>	<u>Present</u>	<u>Present</u>	<u>Ratio</u>
			<u>28-Oct</u>	<u>(mm)</u>	<u>(\$mm)</u>	<u>Value</u>	<u>Value</u>	
			<u>2005</u>			<u>(\$/sh)</u>		
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>								
XTO Energy Inc.	XTO	B	43.26	370	16,010	48.00	0.20	0.92
Encana Corporation	ECA	B	45.78	876	40,100	51.00	0.20	0.92
Burlington Resources	BR	B	71.85	381	27,400	86.00	0.09	0.85
CNOOC Limited (29%)	CEO	B	64.44	119	7,690	84.00	0.01	0.77
Devon Energy Corporation	DVN	B	60.40	471	28,400	86.00	0.15	0.75
Anadarko Petroleum Corp.	APC	B	90.69	238	21,600	140.00	0.12	0.69
Occidental Petroleum Corp.	OXY	B	76.90	406	31,200	120.00	0.11	0.68
			<i>Total or Median</i>		172,000		0.12	0.77

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