

Rating: Buy
 S&P 500: 1244

Anadarko Petroleum Corporation Hackett Job

<i>Symbol</i>	APC	KMG	WGR	New APC
<i>Rating</i>	Buy			Buy
<i>Price (US\$/sh)</i>	44.90	70.50	61.00	44.90
<i>Pricing Date</i>	6/23/06			
<i>Shares (mm)</i>	464	231	76	464
<i>Market Capitalization (US\$mm)</i>	20,800	16,300	4,600	20,800
<i>Debt (US\$mm)</i>	4,400	4,500	600	30,400
<i>Enterprise Value (EV) (US\$mm)</i>	25,200	20,800	5,300	51,200
<i>Present Value (PV) (US\$mm)</i>	44,300	17,200	4,400	65,900
<i>Net Present Value (US\$/share)</i>	86	55	50	77
<i>Debt/Present Value</i>	0.10	0.26	0.15	0.46
<i>McDep Ratio - EV/PV</i>	0.57	1.21	1.19	0.77
<i>Dividend Yield (%/year)</i>	1.6	0.1	0.2	1.6
<i>Ebitda Next Twelve Months ending 6/30/07 (US\$mm)</i>	6,240	2,500	600	9,340
<i>North American Natural Gas/Ebitda (%)</i>	44	51	57	49
<i>Natural Gas and Oil Production/Ebitda (%)</i>	100	100	57	97
<i>Adjusted Reserves/Production NTM</i>	12.4	8.6	9.6	11.2
<i>EV/Ebitda</i>	4.0	8.4	8.8	5.5
<i>PV/Ebitda</i>	7.1	6.9	7.4	7.1
<i>Undeveloped Reserves (%)</i>	38	30	57	36
<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	38.89	26.00	29.70	35.96
<i>Present Value Proven Reserves(US\$/boe)</i>	18.09	17.80	16.30	18.00
<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.02	2.97	2.72	3.00
<i>Earnings Next Twelve Months (US\$/sh)</i>	6.37	3.81	3.81	6.24
<i>Price/Earnings Next Twelve Months</i>	7	18	16	7
<i>Indicated Annual Dividend (US\$/sh)</i>	0.72	0.10	0.10	0.72

Summary and Recommendation

Chief Executive James Hackett has secured agreements for buy-rated **Anadarko Petroleum (APC)** to acquire with borrowed funds both the venerable **Kerr-McGee (KMG)** and smaller **Western Gas Resources (WGR)** in transactions that would dilute APC's Net Present Value (NPV) to \$77 from \$86 a share. While deals are a sign of confidence in the prospects for oil and gas, we are disappointed that APC was not a seller rather than a buyer. Nonetheless the stock's McDep Ratio at the diluted value is still well within buy range at 0.77. Yet, because of the massive \$30 billion of debt the new entity would have initially, financial risk is now high. Investors need only 60% of the number of shares as previously for the same unlevered exposure to total present value, or half if unlevered exposure is measured by enterprise value. Moreover because Anadarko's McDep Ratio is now average among peers, rather than near lowest we would adjust the stock's unlevered weighting to average from over weight. Finally, on the new numbers, the stock offers 70% appreciation potential to NPV that presumes a long-term oil price

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of \$60 a barrel and natural gas of \$10 a million btu. The futures market is at \$70 for the next six years and our vision remains \$150 for 2010.

Kurt H. Wulff, CFA

Anadarko Petroleum Corporation
Next Twelve Months Operating and Financial Estimates

	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Next</i>
	<i>3/31/05</i>	<i>12/31/05</i>	<i>2005</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>Twelve</i>
									<i>Months</i>
									<i>6/30/07</i>
Volume									
Natural Gas (mmcf)	1,454	1,386	1,414	1,366	1,366	2,488	2,488	1,931	2,488
Oil (mbd)	213	198	199	191	191	297	297	244	297
Total gas & oil (bcf)	246	237	951	226	229	393	393	1,240	1,558
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.27	13.00	8.65	8.97	6.81	6.62	8.45	7.71	8.46
Company (\$/mcf)	5.54	9.94	7.45	7.62	5.78	5.76	7.35	6.58	7.26
Oil (\$/bbl)									
WTI Cushing	49.65	60.02	56.31	63.33	70.30	71.14	72.73	69.37	72.75
Worldwide	42.37	49.93	46.28	54.85	60.88	61.18	62.54	60.32	62.56
Total gas & oil (\$/mcf)	6.25	9.86	7.49	8.36	7.81	7.57	8.58	8.24	8.75
Revenue (\$mm)									
Natural Gas	725	1,425	3,844	948	728	1,302	1,662	4,640	6,593
Oil	812	909	3,357	943	1,058	1,672	1,709	5,382	6,782
Other	(7)	(90)	(79)	63		65	65	193	260
Total	1,530	2,245	7,121	1,954	1,786	3,039	3,436	10,215	13,635
Expense									
Fixed	191	224	856	258	258	491	491	1,498	1,963
Variable	191	224	856	258	216	491	590	1,555	2,333
Ebitda (\$mm)									
Exploration and Production	1,149	1,798	5,409	1,438	1,312	1,993	2,290	7,032	9,080
Other			-			65	65	130	260
Ebitda (\$mm)	1,149	1,798	5,409	1,438	1,312	2,058	2,355	7,162	9,340
Deprec., Deplet., & Amort.	324	352	1,343	360	360	650	650	2,020	2,600
Hedging and other	19		19	13	8	40	40	101	160
Ebit	806	1,446	4,047	1,065	944	1,368	1,665	5,041	6,580
Interest	52	49	201	51	51	532	532	1,166	2,128
Ebt	754	1,397	3,846	1,014	893	836	1,133	3,875	4,452
Income Tax	264	489	1,346	355	312	293	397	1,356	1,558
Net Income (\$mm)	490	908	2,500	659	580	543	737	2,519	2,894
Shares (millions)	478	468	473	464	464	464	464	464	464
Per share (\$)	1.03	1.94	5.28	1.42	1.25	1.17	1.59	5.43	6.24
Ebitda Margin	75%	80%	76%	74%	73%	68%	69%	70%	68%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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