

Rating: Buy  
S&P 500: 1350

## **Anadarko Petroleum Corporation**

### **Financial Risk Declines**

<i>Symbol</i>	APC	<i>Ebitda Next Twelve Months ending 9/30/07 (US\$mm)</i>	6,770
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	46
<i>Price (US\$/sh)</i>	41.40	<i>Natural Gas and Oil Production/Ebitda (%)</i>	96
<i>Pricing Date</i>	10/4/06	<i>Adjusted Reserves/Production NTM</i>	11.5
<i>Shares (mm)</i>	463	<i>EV/Ebitda</i>	6.7
<i>Market Capitalization (US\$mm)</i>	19,200	<i>PV/Ebitda</i>	9.0
<i>Debt (US\$mm)</i>	26,000	<i>Undeveloped Reserves (%)</i>	37
<i>Enterprise Value (EV) (US\$mm)</i>	45,200	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	28.29
<i>Present Value (PV) (US\$mm)</i>	60,700	<i>Present Value Proven Reserves(US\$/boe)</i>	17.32
<i>Net Present Value (US\$/share)</i>	75	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.89
<i>Debt/Present Value</i>	0.43	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.42
<i>McDep Ratio - EV/PV</i>	0.74	<i>Price/Earnings Next Twelve Months</i>	12
<i>Dividend Yield (%/year)</i>	1.7	<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**

Financial risk for buy-rated **Anadarko Petroleum (APC)** declines as \$4 billion and more of proceeds from the sale of Canadian and other properties reduce our ratio of Debt/Present Value to 0.42 from 0.46. Investors who pay attention to financial leverage can now own about 8% more stock for the same portfolio representation in unlevered present value. Along with the lower risk, estimated Net Present Value (NPV) declines to \$75 from \$77 a share. The McDep Ratio remains low at 0.74 implying unlevered appreciation potential of some 35% to a McDep Ratio of 1.0. The sale of Canadian natural gas reserves is part of the debt reduction promised after the recently completed acquisitions of Kerr-McGee and Western Gas Resources. Meanwhile, the stock market seems to value oil resources in APC as though the price were about \$45 a barrel when the futures price for delivery over the next six year is \$64. The stock market and the futures market seem closer to the same mind on natural gas while we believe that the natural gas resources in Anadarko are more valuable than the stock market or the futures market suggest. Nonetheless, short-term earnings may be sensitive to low natural gas price, particularly in the Rockies where Anadarko has increased its concentration.

Kurt H. Wulff, CFA

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

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

	<i>Q3</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next Twelve Months</i>
	<i>9/30/05</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>9/30/07</i>
<b>Volume</b>									
Natural Gas (mmcf)	1,382	1,375	1,787	2,199	<b>1,684</b>	2,199	2,199	2,199	<b>2,199</b>
Oil (mbd)	196	218	254	289	<b>238</b>	289	289	289	<b>289</b>
Total gas & oil (bcf)	235	244	304	362	<b>1,136</b>	354	358	362	<b>1,436</b>
Total gas & oil (mmcf)	2,558	2,683	3,308	3,933	<b>3,113</b>	3,933	3,933	3,933	<b>3,933</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	8.56	6.81	6.58	5.76	<b>7.03</b>	7.90	7.33	7.55	<b>7.13</b>
Company (\$/mcf)	7.15	6.26	5.73	5.01	<b>5.88</b>	7.56	7.02	7.23	<b>6.13</b>
Oil (\$/bbl)									
WTI Cushing	62.52	70.47	70.42	61.46	<b>66.42</b>	64.18	66.04	67.16	<b>64.71</b>
Worldwide	48.51	60.17	60.56	52.86	<b>56.99</b>	55.19	56.80	57.76	<b>55.65</b>
Total gas & oil (\$/mcf)	7.69	7.89	7.70	6.65	<b>7.71</b>	7.85	7.70	7.87	<b>7.70</b>
<b>Revenue (\$mm)</b>									
Natural Gas	936	732	930	1,001	<b>3,612</b>	1,344	1,261	1,313	<b>4,919</b>
Oil	875	1,194	1,412	1,405	<b>4,954</b>	1,436	1,494	1,536	<b>5,870</b>
Other	(55)		65	65	<b>193</b>	65	65	65	<b>260</b>
Total	1,756	1,926	2,408	2,472	<b>8,759</b>	2,844	2,820	2,914	<b>11,049</b>
<b>Expense</b>									
Fixed	226	241	366	491	<b>1,356</b>	491	491	491	<b>1,964</b>
Variable	226	241	491	507	<b>1,497</b>	600	594	617	<b>2,317</b>
<b>Ebitda (\$mm)</b>									
Exploration and Production	1,303	1,444	1,486	1,409	<b>5,776</b>	1,688	1,670	1,740	<b>6,508</b>
Other			65	65	<b>130</b>	65	65	65	<b>260</b>
<b>Ebitda (\$mm)</b>	1,303	1,444	1,551	1,474	<b>5,906</b>	1,753	1,735	1,805	<b>6,768</b>
Deprec., Deplet., & Amort.	334	362	481	600	<b>1,803</b>	600	600	600	<b>2,400</b>
Hedging and other		5	40	34	<b>92</b>	30	26	24	<b>114</b>
<b>Ebit</b>	969	1,077	1,030	840	<b>4,012</b>	1,124	1,109	1,181	<b>4,254</b>
Interest	50	51	253	455	<b>810</b>	455	455	455	<b>1,820</b>
<b>Ebt</b>	919	1,026	777	385	<b>3,202</b>	669	654	726	<b>2,434</b>
Income Tax	322	359	272	135	<b>1,121</b>	234	229	254	<b>852</b>
<b>Net Income (\$mm)</b>	597	667	505	250	<b>2,081</b>	435	425	472	<b>1,582</b>
Shares (millions)	476	463	463	463	<b>463</b>	463	463	463	<b>463</b>
Per share (\$)	1.26	1.44	1.09	0.54	<b>4.49</b>	0.94	0.92	1.02	<b>3.42</b>
Ebitda Margin	74%	75%	64%	60%	<b>67%</b>	62%	62%	62%	<b>61%</b>
Tax Rate	35%	35%	35%	35%	<b>35%</b>	35%	35%	35%	<b>35%</b>

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	3,090	11.8	10.7	33,000	54%
Oil	3,420	11.1	7.5	25,700	42%
Downstream	260		7.7	2,000	3%
	6,770	11.5	9.0	60,700	100%
Debt (US\$mm)					26,000
Net Present Value (US\$mm)					34,700
Shares (mm)					463
Net Present Value - Standard Estimate (US\$/sh)					75
Net Present Value - Approximation by Correlation (US\$/sh)					68

**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.**