



Independent Stock Idea

November 4, 2008

rating: hold
s&p 500: 998 intraday

Anadarko Petroleum (APC) Acquisition Value

<i>Symbol</i>	APC	<i>Ebitda Next Twelve Months ending 9/30/09 (US\$mm)</i>	5,690
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	48
<i>Price (US\$/sh)</i>	34.80	<i>Natural Gas and Oil Production/Ebitda (%)</i>	94
<i>Pricing Date</i>	11/4/08	<i>Adjusted Reserves/Production NTM</i>	10.1
<i>Shares (mm)</i>	468	<i>EV/Ebitda</i>	5.9
<i>Market Capitalization (US\$mm)</i>	16,300	<i>PV/Ebitda</i>	8.3
<i>Debt (US\$mm)</i>	17,400	<i>Undeveloped Reserves (%)</i>	33
<i>Enterprise Value (EV) (US\$mm)</i>	33,700	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	28.25
<i>Present Value (PV) (US\$mm)</i>	47,300	<i>Present Value Proven Reserves(US\$/boe)</i>	18.22
<i>Net Present Value (US\$/share)</i>	64	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.04
<i>Debt/Present Value</i>	0.37	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.13
<i>McDep Ratio - EV/PV</i>	0.71	<i>Price/Earnings Next Twelve Months</i>	31
<i>Dividend Yield (%/year)</i>	2.1	<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.			
Estimated present value presumes a long-term price for oil of US\$75 a barrel and natural gas, \$10 a million btu.			
For historical analysis of APC since 2003 see www.mcdep.com/1apc.htm			

Summary and Recommendation

Hold-rated **Anadarko Petroleum (APC)** offers unlevered appreciation potential of 41% to estimated net present value (NPV) of \$64 a share. On October 28, we reset NPV from \$100 a share on the basis of a long-term oil price assumption of \$75 a barrel, down from \$100. Patience may be necessary as APC stock price remains below the 200-day average of \$61. Released last night, third quarter results displayed strength in unlevered cash flow (Ebitda) driven by crude oil and natural gas prices. Futures prices now look lower for the next four quarters (see table Next Twelve Months Operating and Financial Estimates). Projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) supports NPV (see table Functional Cash Flow and Present Value). Asked on the quarterly call what he thought about prospective acquisitions, Chief Financial Officer Al Walker stated he would rather buy back Anadarko stock than acquire another company or an asset priced at a premium to APC. That is good rationale for investors to continue holding Anadarko stock with its attractive value concentrated 53% on North American natural gas.

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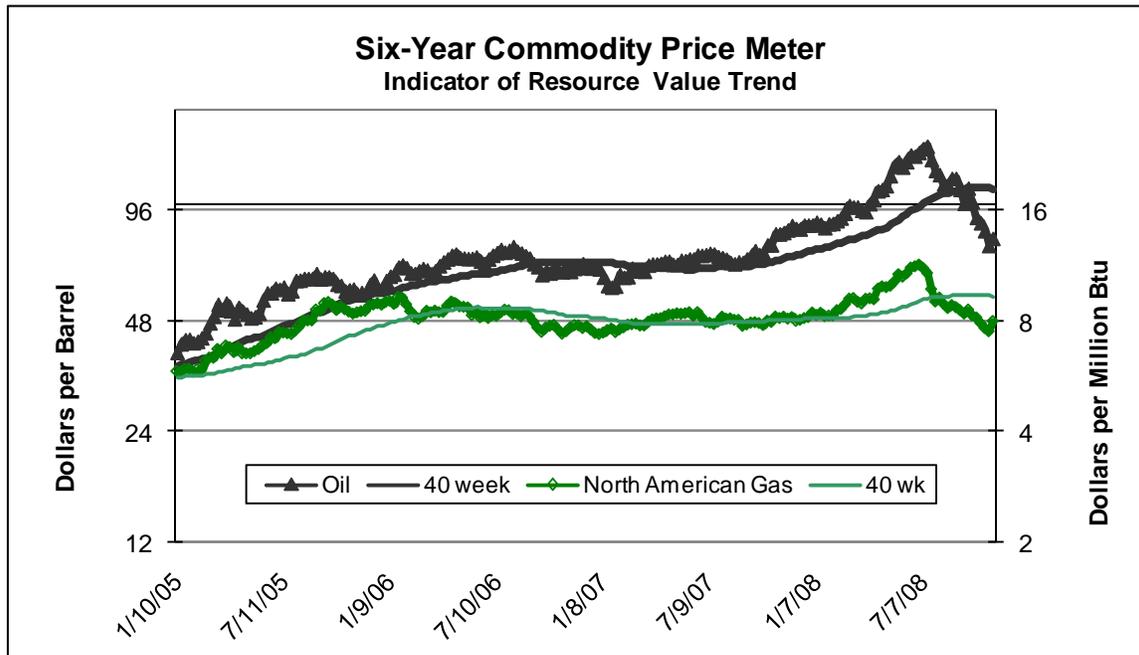
Anadarko Petroleum Corporation									
Next Twelve Months Operating and Financial Estimates									
	Q3	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	Next Twelve Months
	9/30/07	6/30/08	9/30/08	12/31/08	2008E	3/31/09	6/30/09	9/30/09	9/30/09
Volume									
Natural gas (bcf)	151	170	183	183	731	179	181	183	728
Natural Gas (mmcf)	1,637	1,869	1,994	1,994	1,998	1,994	1,994	1,994	1,994
Days	92	91	92	92	366	90	91	92	365
Oil (mmb)	22	21	20	20	83	20	20	20	80
Oil (mbd)	237	236	220	220	226	220	220	220	220
Total gas & oil (bcf)	281	299	305	305	1,228	298	302	305	1,210
Total gas & oil (mmcf)	3,059	3,285	3,314	3,314	3,356	3,314	3,314	3,314	3,314
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.16	10.93	10.25	6.93	9.03	7.11	7.10	7.39	7.13
Company (\$/mcf)	4.70	9.88	8.36	5.65	7.83	5.80	6.39	6.66	6.13
Oil (\$/bbl)									
WTI Cushing	75.48	123.97	117.99	68.14	102.01	65.30	67.42	69.39	67.57
Company	68.64	111.11	106.56	61.54	91.76	58.98	60.89	62.67	61.03
Total gas & oil (\$/mcf)	7.83	13.60	12.10	7.49	10.85	7.40	7.89	8.16	7.74
NY Harbor 3-2-1 (\$/bbl)	12.64	14.94	11.84	5.40	9.94	5.31	10.44	8.40	7.39
Revenue (\$mm)									
Natural Gas	708	1,680	1,534	1,037	5,725	1,040	1,160	1,221	4,458
Oil	1,497	2,386	2,157	1,246	7,597	1,168	1,219	1,268	4,901
Other	826	(1,280)	2,459		874	-	-	-	-
Total	3,030	2,786	6,149	2,283	14,196	2,208	2,379	2,489	9,359
Expense (\$mm)									
Exploration and Production	1,625	2,395	2,585	1,301	8,490	1,259	1,356	1,419	5,335
Other	65	90	90	90	370	90	90	90	360
Total	1,690	2,485	2,675	1,391	8,860	1,349	1,446	1,509	5,695
Exploration	253	264	429	200	1,136	200	200	200	800
Deprec., Deplet., & Amort.	655	795	844	840	3,289	840	840	840	3,360
Ebit	1,006	1,426	1,346	351	4,379	309	406	469	1,535
Interest	214	151	180	180	725	180	180	180	720
Ebt	792	1,275	1,166	171	3,654	129	226	289	815
Income Tax	277	446	408	60	1,279	45	79	101	285
Net Income (\$mm)									
	515	829	758	111	2,375	84	147	188	530
Shares (millions)									
	468	471	468	468	470	468	468	468	468
Per share (\$)	1.10	1.76	1.62	0.24	5.06	0.18	0.31	0.40	1.13
Ebitda Margin (E&P)	74%	59%	70%	57%	64%	57%	57%	57%	57%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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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	2,710	10.2	9.2	25,000	53%
Oil	2,620	9.9	7.8	20,400	43%
Downstream	360		5.6	2,000	4%
	5,690	10.1	8.3	47,400	100%
Debt (US\$mm)					17,400
Net Present Value (US\$mm)					30,000
Shares (mm)					468
Net Present Value - Standard Estimate (US\$/sh)					64
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					65





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