



# Independent Stock Idea

November 6, 2009

rating: buy  
s&p 500: 1069

## Anadarko Petroleum (APC) McDep Ratio above 1.0

<i>Symbol</i>	APC	<i>Ebitda Next Twelve Months ending 9/30/10 (US\$mm)</i>	5,820
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	37
<i>Price (US\$/sh)</i>	64.83	<i>Natural Gas and Oil Production/Ebitda (%)</i>	96
<i>Pricing Date</i>	11/6/09	<i>Adjusted Reserves/Production NTM</i>	8.9
<i>Shares (mm)</i>	494	<i>EV/Ebitda</i>	7.9
<i>Market Capitalization (US\$mm)</i>	32,000	<i>PV/Ebitda</i>	7.4
<i>Debt (US\$mm)</i>	14,000	<i>Undeveloped Reserves (%)</i>	30
<i>Enterprise Value (EV) (US\$mm)</i>	46,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	26.67
<i>Present Value (PV) (US\$mm)</i>	43,100	<i>Present Value Proven Reserves(US\$/boe)</i>	18.15
<i>Net Present Value (US\$/share)</i>	59	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.02
<i>Debt/Present Value</i>	0.32	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.03
<i>McDep Ratio - EV/PV</i>	1.07	<i>Price/Earnings Next Twelve Months</i>	63
<i>Dividend Yield (%/year)</i>	0.6	<i>Indicated Annual Dividend (US\$/sh)</i>	0.36
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, \$8 a million btu.			
For historical analysis of APC since 2003 see <a href="http://www.mcdep.com/lapc.htm">www.mcdep.com/lapc.htm</a>			

### Summary and Recommendation

Analyzing third quarter results released late November 2, we keep estimated Net Present Value (NPV) at \$59 a share for buy-recommended **Anadarko Petroleum (APC)**. APC stock has appreciated beyond NPV to a McDep Ratio of 1.07, perhaps helped by exciting exploration potential, especially offshore Africa. Our instinct on buy recommendations with McDep Ratios above 1.0 is to rebalance, if necessary, to reduce the weighting of the high McDep Ratio stock to below average among buy recommendations. We watch for a reversal in stock price uptrend as a potential trigger to a change in our recommendation. Latest financial results exceeded our expectations, helped in part by directing drilling to oil from natural gas. Pricing trends suggest rising cash flow in future quarters (see table [Next Twelve Months Operating and Financial Estimates](#)). NPV looks almost equally balanced between natural gas and oil (see table [Functional Cash Flow and Present Value](#)). Exploration activity should generate more news flow, hopefully positive. Finally, the trend in oil futures prices for the next six years appears positive with recent quotes above the 40-week average (see chart [Six-Year Commodity Price Meter](#)).

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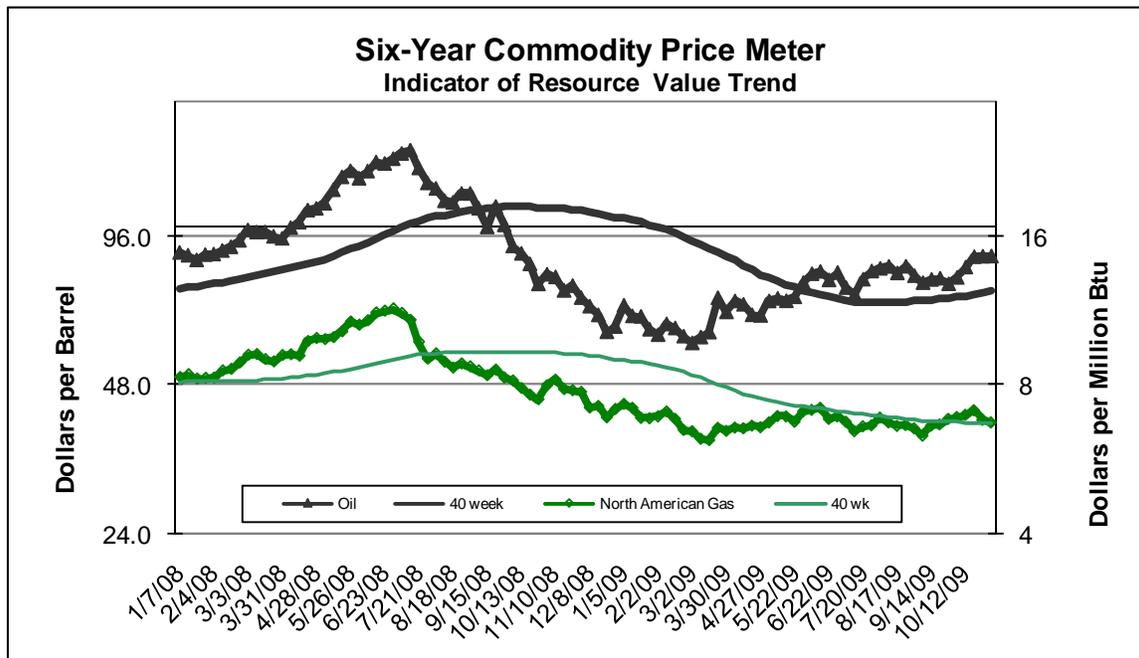
Anadarko Petroleum Corporation									
Next Twelve Months Operating and Financial Estimates									
									<i>Next Twelve Months</i>
	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>9/30/10</i>
	<i>9/30/08</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>2009E</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>9/30/10</i>	<i>9/30/10</i>
<b>Volume</b>									
Natural gas (bcf)	183	213	197	197	<b>815</b>	193	195	197	<b>783</b>
Natural Gas (mmcf)	1,994	2,336	2,144	2,144	<b>2,234</b>	2,144	2,144	2,144	<b>2,144</b>
Days	92	91	92	92	<b>365</b>	90	91	92	<b>365</b>
Oil (mmb)	20	21	24	22	<b>86</b>	22	22	22	<b>88</b>
Oil (mbd)	220	228	259	240	<b>235</b>	240	240	240	<b>240</b>
Total gas & oil (bcf)	305	337	340	330	<b>1,331</b>	323	326	330	<b>1,308</b>
Total gas & oil (mmcf)	3,314	3,704	3,698	3,584	<b>3,646</b>	3,584	3,584	3,584	<b>3,584</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	10.25	3.50	3.39	4.28	<b>4.02</b>	5.20	5.28	5.54	<b>5.07</b>
Company (\$/mcf)	8.36	3.05	3.02	3.81	<b>3.47</b>	4.63	4.54	4.77	<b>4.44</b>
Oil (\$/bbl)									
WTI Cushing	117.99	59.52	68.22	77.22	<b>61.98</b>	79.30	81.15	82.28	<b>79.99</b>
Company	106.56	49.97	58.22	65.89	<b>53.56</b>	67.67	69.25	70.21	<b>68.26</b>
Total gas & oil (\$/mcf)	12.10	5.00	5.83	6.69	<b>5.58</b>	7.30	7.35	7.55	<b>7.22</b>
<b>Revenue (\$mm)</b>									
Natural Gas	1,534	648	596	752	<b>2,831</b>	894	886	940	<b>3,471</b>
Oil	2,157	1,037	1,387	1,455	<b>4,602</b>	1,462	1,512	1,550	<b>5,979</b>
Other	2,459	60	757		<b>854</b>				<b>-</b>
Total	6,149	1,745	2,740	2,207	<b>8,287</b>	2,355	2,398	2,491	<b>9,450</b>
<b>Expense</b>	3,474	562	1,559	845	<b>3,756</b>	906	923	961	<b>3,635</b>
<b>Ebitda (\$mm)</b>									
Exploration and Production	2,585	1,123	1,121	1,302	<b>4,290</b>	1,390	1,415	1,469	<b>5,576</b>
Other	90	60	60	60	<b>240</b>	60	60	60	<b>240</b>
Total	2,675	1,183	1,181	1,362	<b>4,530</b>	1,450	1,475	1,529	<b>5,816</b>
Exploration	429	288	229	229	<b>1,047</b>	229	229	229	<b>916</b>
Deprec., Deplet., & Amort.	844	956	909	909	<b>3,580</b>	909	909	909	<b>3,636</b>
<b>Ebit</b>	1,346	(61)	38	224	<b>(102)</b>	312	337	391	<b>1,264</b>
Interest	180	203	121	121	<b>518</b>	121	121	121	<b>484</b>
<b>Ebt</b>	1,166	(264)	(83)	103	<b>(620)</b>	191	216	270	<b>780</b>
Income Tax	408	(92)	(29)	36	<b>(217)</b>	67	76	95	<b>273</b>
<b>Net Income (\$mm)</b>	758	(172)	(54)	67	<b>(403)</b>	124	140	176	<b>507</b>
<b>Shares (millions)</b>	468	477	493	493	<b>466</b>	493	493	495	<b>494</b>
Per share (\$)	1.62	(0.36)	(0.11)	0.14	<b>(0.86)</b>	0.25	0.28	0.36	<b>1.03</b>
Ebitda Margin (E&P)	70%	67%	57%	59%	<b>58%</b>	59%	59%	59%	<b>59%</b>
Tax Rate	35%	35%	35%	35%	<b>35%</b>	35%	35%	35%	<b>35%</b>



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Anadarko Petroleum Corporation					
Functional Cash Flow and Present Value					
				Present	
	NTM Ebitda	Adjusted	PV/	Value	
	(US\$mm)	R/P	Ebitda	(US\$mm)	
North American Natural Gas	2,140	9.1	9.7	20,800	48%
Oil	3,440	8.6	6.0	20,600	47%
Downstream and Minerals	240		8.3	2,000	5%
	5,820	8.9	7.5	43,400	100%
Debt (US\$mm)					14,300
Net Present Value (US\$mm)					29,100
Shares (mm)					494
Net Present Value - Standard Estimate (US\$/sh)					59
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					65





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