



Independent Stock Idea

February 2, 2010

rating: buy
s&p 500: 1103, intraday

BP plc (BP) Credibility Reestablished

<i>Symbol</i>	BP	<i>Ebitda Next Twelve Months ending 12/31/10 (US\$mm)</i>	45,500
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	4
<i>Price (US\$/sh)</i>	55.60	<i>Natural Gas and Oil Production/Ebitda (%)</i>	78
<i>Pricing Date</i>	2/2/10	<i>Adjusted Reserves/Production NTM</i>	9.5
<i>Shares (mm)</i>	3162	<i>EV/Ebitda</i>	5.2
<i>Market Capitalization (US\$mm)</i>	175,800	<i>PV/Ebitda</i>	6.9
<i>Debt (US\$mm)</i>	59,200	<i>Undeveloped Reserves (%)</i>	45
<i>Enterprise Value (EV) (US\$mm)</i>	235,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	24.30
<i>Present Value (PV) (US\$mm)</i>	312,200	<i>Present Value Proven Reserves(US\$/boe)</i>	13.60
<i>Net Present Value (US\$/share)</i>	80	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.27
<i>Debt/Present Value</i>	0.19	<i>Earnings Next Twelve Months (US\$/sh)</i>	6.19
<i>McDep Ratio - EV/PV</i>	0.75	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	6.0	<i>Indicated Annual Dividend (US\$/sh)</i>	3.36
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 BP since 2004 see www.mcdep.com/lbp.htm			

Summary and Recommendation

Buy-recommended **BP plc (BP)** offers unlevered appreciation potential of 33% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$80 a share. Fourth quarter results released today disclosed unlevered cash flow (Ebitda) exceeding our expectations of three months ago in the upstream business and in the downstream (see table [Next Twelve Months Operating and Financial Estimates](#)). NPV appears well supported by cash flow and reserve life in our valuation in an industry context (see table [Functional Cash Flow and Present Value](#)). Under Chief Executive Tony Hayward, BP has delivered more consistent results after a string of difficulties. Following rising volume in 2009 there may be a modest decline in 2010 before growth resumes in 2011. Meanwhile the trend for oil, 63% of the value in BP, continues up with futures prices for the next six years at \$85 a barrel compared to the 40-week average of \$82 (see chart [Six-Year Commodity Price Meter](#)). BP stock is also above its 200-day average of \$53 a share, which defines an uptrend by that measure. Income investors may appreciate a dividend yield of 6% a year.

Kurt H. Wulff, CFA



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BP plc									
Next Twelve Months Operating and Financial Estimates									
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Next Twelve Months
	12/31/08	9/30/09	12/31/09	2009	3/31/10	6/30/10	9/30/10	12/31/10	12/31/10
Volume									
Natural Gas (mmcf)									
U.S.	2,243	2,278	2,313	2,316	2,313	2,313	2,313	2,313	2,313
Overseas (or Int'l)	6,370	5,753	6,255	6,169	6,432	6,241	5,753	6,255	6,169
Total	8,613	8,031	8,568	8,485	8,745	8,554	8,066	8,568	8,482
Days	92	92	92	365	90	91	92	92	365
Oil (mbd)	2,460	2,532	2,577	2,535	2,577	2,577	2,577	2,577	2,577
Total gas & oil (mmb)	358	356	368	1,441	363	364	361	368	1,457
Total gas & oil (mbd)	3,896	3,871	4,005	3,949	4,035	4,003	3,921	4,005	3,991
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.95	3.39	4.16	3.99	5.53	5.45	5.64	6.12	5.69
U.S.	3.89	2.73	3.69	3.07	4.90	4.83	4.34	4.22	4.57
Overseas (or Int'l)	5.50	2.84	3.68	3.32	3.67	3.66	3.74	3.80	3.72
Total	5.08	2.81	3.68	3.25	3.99	3.98	3.91	3.91	3.95
Oil (\$/bbl)									
WTI Cushing	58.45	68.22	76.09	61.70	75.89	75.77	77.37	78.64	76.92
Worldwide	52.09	62.77	70.01	56.79	69.83	69.71	71.19	72.36	70.78
Total gas & oil (\$/bbl)	44.13	46.89	52.92	43.44	53.26	53.38	54.83	54.93	54.10
NY Harbor 3-2-1 (\$/bbl)	5.10	9.45	5.22	8.34	6.92	9.63	8.41	4.65	7.40
BP Refining Indicator	5.20	3.42	1.49						
Revenue (\$mm)									
Natural Gas									
U.S.	803	572	785	2,593	1,019	1,017	924	899	3,859
Overseas (or Int'l)	3,223	1,504	2,116	7,481	2,123	2,079	1,979	2,187	8,367
Total	4,025	2,076	2,901	10,074	3,142	3,096	2,903	3,085	12,227
Oil	11,789	14,622	16,598	52,547	16,196	16,348	16,879	17,156	66,578
Other	45,280	51,158	54,137	183,517	54,137	54,137	54,137	54,137	216,550
Total	61,094	67,856	73,636	246,138	73,475	73,582	73,919	74,378	295,354
Expense (\$mm)									
Production	10,523	8,395	10,156	35,278	10,636	10,689	10,858	11,087	43,270
Other	43,301	48,372	52,964	173,438	50,707	51,448	51,352	52,964	206,471
Ebitda (\$mm)									
Exploration and Production	5,292	8,303	9,343	27,343	8,702	8,750	8,902	9,108	35,462
Other	1,979	2,786	1,174	10,079	3,430	2,689	2,786	1,174	10,079
Total Ebitda	7,271	11,088	10,517	37,422	12,132	11,439	11,687	10,282	45,541
Exploration	239	378	272	1,116	300	300	300	300	1,200
Deprec., Deplet., & Amort.	2,700	3,148	3,200	12,479	3,300	3,300	3,300	3,300	13,200
Other non cash									
Ebit	4,332	7,562	7,045	23,827	8,532	7,839	8,087	6,682	31,141
Interest	265	266	252	1,110	252	252	252	252	1,008
Ebt	4,067	7,296	6,793	22,717	8,280	7,587	7,835	6,430	30,133
Income Tax	1,423	2,554	2,377	7,951	2,898	2,656	2,742	2,251	10,547
Net Income (\$mm)									
Exploration and Production	4,259	6,278	7,083						
Other	644	1,071	15						
Unallocated	(2,260)	(2,606)	(2,683)						
Total	2,643	4,743	4,415	14,766	5,382	4,932	5,093	4,180	19,586
Shares (millions)	3,147	3,156	3,162	3,157	3,162	3,162	3,162	3,162	3,162
Per share (\$)	0.84	1.50	1.40	4.68	1.70	1.56	1.61	1.32	6.19
Ebitda Margin (E&P)	33%	50%	48%	44%	45%	45%	45%	45%	45%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

Please see disclosures on the final page.

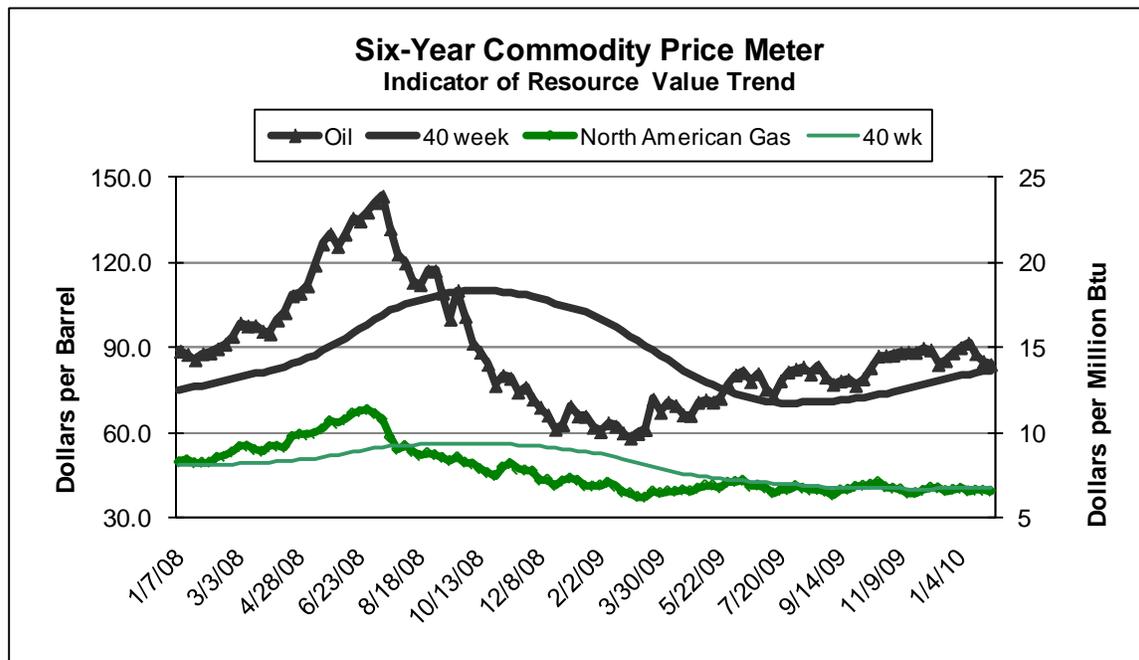
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BP plc					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
North American Natural Gas	1,740	14.0	10.9	19,000	6%
Rest of World Natural Gas	3,770	9.7	7.2	27,000	9%
Oil	29,950	8.7	6.5	196,000	63%
Downstream	10,080		6.9	70,000	22%
	45,540	9.5	6.9	312,000	100%
Debt (US\$mm)					59,200
Net Present Value (US\$mm)					253,000
Shares (mm)					3,162
Net Present Value - Standard Estimate (US\$/sh)					80
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					91





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