



Independent Stock Idea

July 29, 2008

rating: buy
s&p 500: 1249 intraday

BP plc (BP) Control Dispute in Russia

| | | | |
|--|---------|--|--------|
| <i>Symbol</i> | BP | <i>Ebitda Next Twelve Months ending 6/30/09 (US\$mm)</i> | 61,600 |
| <i>Rating</i> | Buy | <i>North American Natural Gas/Ebitda (%)</i> | 5 |
| <i>Price (US\$/sh)</i> | 60.24 | <i>Natural Gas and Oil Production/Ebitda (%)</i> | 88 |
| <i>Pricing Date</i> | 7/29/08 | <i>Adjusted Reserves/Production NTM</i> | 10.0 |
| <i>Shares (mm)</i> | 3137 | <i>EV/Ebitda</i> | 4.2 |
| <i>Market Capitalization (US\$mm)</i> | 189,000 | <i>PV/Ebitda</i> | 6.4 |
| <i>Debt (US\$mm)</i> | 68,800 | <i>Undeveloped Reserves (%)</i> | 45 |
| <i>Enterprise Value (EV) (US\$mm)</i> | 257,700 | <i>Natural Gas and Oil Ebitda (US\$/boe)</i> | 39.30 |
| <i>Present Value (PV) (US\$mm)</i> | 395,000 | <i>Present Value Proven Reserves(US\$/boe)</i> | 19.50 |
| <i>Net Present Value (US\$/share)</i> | 104 | <i>Present Value Proven Reserves(US\$/mcfe)</i> | 3.25 |
| <i>Debt/Present Value</i> | 0.17 | <i>Earnings Next Twelve Months (US\$/sh)</i> | 9.94 |
| <i>McDep Ratio - EV/PV</i> | 0.65 | <i>Price/Earnings Next Twelve Months</i> | 6 |
| <i>Dividend Yield (%/year)</i> | 5.6 | <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\$100 a barrel and natural gas, \$14 a million btu | | | |
| For historical analysis of BP since 2004 see www.mcdep.com/1bp.htm | | | |

Summary and Recommendation

Buy-recommended **BP plc (BP)** offers unlevered appreciation potential of 53% to estimated net present value (NPV) of \$104 a share. On May 13 we raised NPV from \$84 a share on the basis of a long-term oil price assumption of \$100 a barrel, up from \$80. However, patience may be necessary as BP stock price has entered a downtrend defined by current quote below the 200-day average of \$69. Released today, second quarter results displayed strength in production driven by higher crude oil and natural gas price along with dampened downstream refining and marketing where higher price was not fully passed through to consumers. Projected volumes along with current futures prices promise a continuing high level of unlevered cash flow (Ebitda) (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](#)). Private Russian shareholders of 50/50 joint venture TNK-BP are vocally disputing BP's management control. BP Chief Executive Tony Hayward warns BP will not be intimidated by strong arm tactics. No one is challenging BP's ownership of the venture that may account for about 11% of our estimate of BP present value. Meanwhile long-term crude oil price continues in an uptrend where the latest quote of \$123 a barrel for delivery over the next six years is above the 40-week average of \$104 (see chart [Six-Year Commodity Price Meter](#)).

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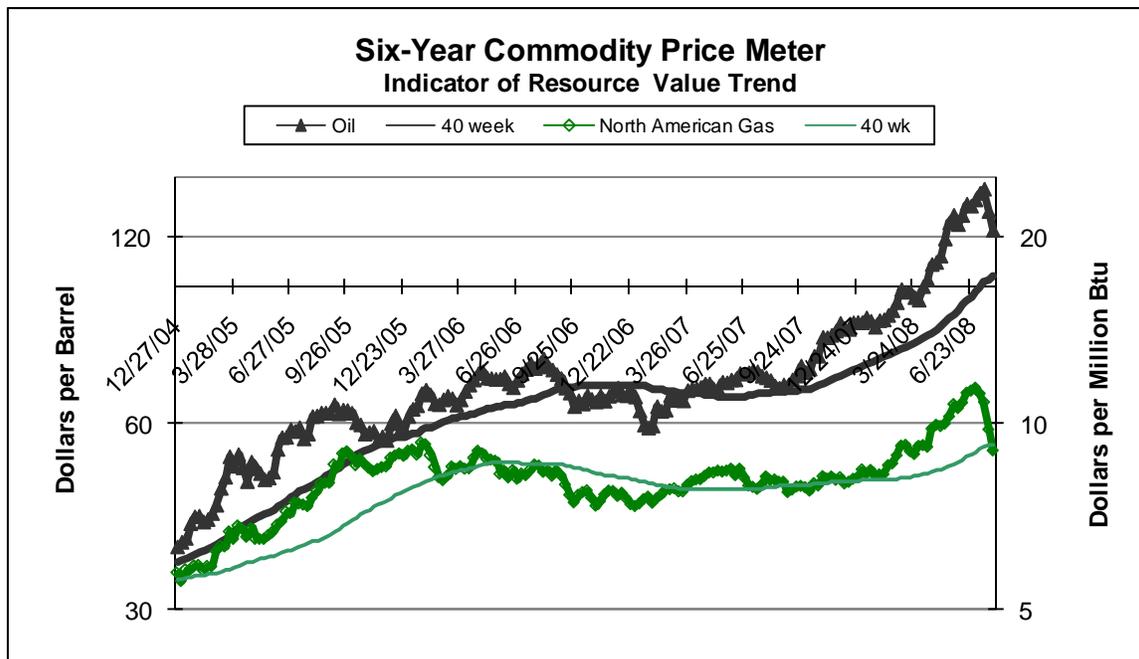
| BP plc | | | | | | | | | |
|--|----------------|----------------|----------------|----------------|-----------------|----------------|----------------|----------------|----------------|
| Next Twelve Months Operating and Financial Estimates | | | | | | | | | |
| | | | | | | | | | <i>Next</i> |
| | <i>Q2</i> | <i>Q1</i> | <i>Q2</i> | <i>Q3E</i> | <i>Q4E</i> | <i>Year</i> | <i>Q1E</i> | <i>Q2E</i> | <i>Twelve</i> |
| | <i>6/30/07</i> | <i>3/31/08</i> | <i>6/30/08</i> | <i>9/30/08</i> | <i>12/31/08</i> | <i>2008E</i> | <i>3/31/09</i> | <i>6/30/09</i> | <i>Months</i> |
| | | | | | | | | | <i>6/30/09</i> |
| Volume | | | | | | | | | |
| Natural Gas (mmcf) | | | | | | | | | |
| U.S. (or North America) | 2,165 | 2,149 | 2,140 | 2,140 | 2,140 | 2,142 | 2,140 | 2,140 | 2,140 |
| Overseas (or Int'l) | 5,694 | 6,315 | 6,108 | 5,693 | 6,154 | 6,083 | 6,315 | 6,108 | 6,066 |
| Total | 7,859 | 8,464 | 8,248 | 7,833 | 8,294 | 8,231 | 8,455 | 8,248 | 8,206 |
| Days | 91 | 91 | 91 | 92 | 92 | 366 | 90 | 91 | 365 |
| Oil (mbd) | 2,449 | 2,469 | 2,414 | 2,414 | 2,414 | 2,427 | 2,414 | 2,414 | 2,414 |
| Total gas & oil (mmb) | 342 | 353 | 345 | 342 | 349 | 1,389 | 344 | 345 | 1,380 |
| Total gas & oil (mbd) | 3,759 | 3,880 | 3,788 | 3,719 | 3,796 | 3,796 | 3,823 | 3,788 | 3,781 |
| Price | | | | | | | | | |
| Natural gas (\$/mcf) | | | | | | | | | |
| Henry Hub (\$/mmbtu) | 7.56 | 8.02 | 10.93 | 10.49 | 9.66 | 9.78 | 10.19 | 9.38 | 9.93 |
| U.S. (or North America) | 5.94 | 6.73 | 8.76 | 8.40 | 7.74 | 7.91 | 8.16 | 7.52 | 7.96 |
| Overseas (or Int'l) | 3.88 | 5.59 | 5.88 | 3.66 | 4.62 | 4.96 | 5.59 | 5.88 | 4.96 |
| Total | 4.45 | 5.88 | 6.63 | 4.95 | 5.43 | 5.73 | 6.24 | 6.31 | 5.74 |
| Oil (\$/bbl) | | | | | | | | | |
| WTI Cushing | 64.91 | 97.94 | 123.97 | 127.56 | 125.71 | 118.80 | 126.45 | 125.26 | 126.25 |
| Worldwide | 62.48 | 90.92 | 115.08 | 118.41 | 116.70 | 110.21 | 117.39 | 116.27 | 117.19 |
| Total gas & oil (\$/bbl) | 50.01 | 70.69 | 87.76 | 87.28 | 86.06 | 82.88 | 87.92 | 87.82 | 87.27 |
| NY Harbor 3-2-1 (\$/bbl) | 24.96 | 7.57 | 14.94 | 12.32 | 9.19 | 11.00 | 11.65 | 15.15 | 12.08 |
| BP Refining Indicator | 16.66 | | | | | | | | |
| Revenue (\$mm) | | | | | | | | | |
| Natural Gas | | | | | | | | | |
| U.S. (or North America) | 1,170 | 1,316 | 1,706 | 1,655 | 1,524 | 6,201 | 1,572 | 1,464 | 6,214 |
| Overseas (or Int'l) | 2,012 | 3,213 | 3,270 | 1,916 | 2,618 | 11,017 | 3,177 | 3,270 | 10,982 |
| Total | 3,183 | 4,529 | 4,976 | 3,570 | 4,142 | 17,218 | 4,749 | 4,734 | 17,196 |
| Oil | 13,924 | 20,428 | 25,278 | 26,295 | 25,914 | 97,915 | 25,500 | 25,540 | 103,249 |
| Other | 57,285 | 65,191 | 80,728 | 80,728 | 80,728 | 307,374 | 80,728 | 80,728 | 322,911 |
| Total | 74,392 | 90,148 | 110,982 | 110,593 | 110,784 | 422,507 | 110,977 | 111,002 | 443,356 |
| Expense (\$mm) | | | | | | | | | |
| Production | 10,267 | 13,453 | 15,877 | 15,682 | 15,778 | 60,791 | 16,637 | 16,649 | 64,747 |
| Other | 52,974 | 63,167 | 78,590 | 78,773 | 79,472 | 300,002 | 78,703 | 78,590 | 315,538 |
| Ebitda (\$mm) | | | | | | | | | |
| Exploration and Production | 6,839 | 11,503 | 14,377 | 13,439 | 13,525 | 52,845 | 13,612 | 13,623 | 54,200 |
| Other | 4,312 | 2,024 | 2,137 | 1,955 | 1,256 | 7,372 | 2,024 | 2,137 | 7,372 |
| Total Ebitda | 11,151 | 13,528 | 16,515 | 15,394 | 14,781 | 60,218 | 15,637 | 15,761 | 61,573 |
| Exploration | 155 | 293 | 118 | 250 | 250 | 911 | 250 | 250 | 1,000 |
| Deprec., Deplet., & Amort. | 2,535 | 2,782 | 2,873 | 2,873 | 2,873 | 11,401 | 2,873 | 2,873 | 11,492 |
| Other non cash | | | | | | | | | |
| Ebit | 8,461 | 10,453 | 13,524 | 12,271 | 11,658 | 47,906 | 12,514 | 12,638 | 49,081 |
| Interest | 251 | 337 | 272 | 272 | 272 | 1,153 | 272 | 272 | 1,088 |
| Ebt | 8,210 | 10,116 | 13,252 | 11,999 | 11,386 | 46,753 | 12,242 | 12,366 | 47,993 |
| Income Tax | 2,874 | 3,540 | 4,638 | 4,200 | 3,985 | 16,363 | 4,285 | 4,328 | 16,797 |
| Net Income (\$mm) | | | | | | | | | |
| Exploration and Production | 6,494 | 10,448 | 12,297 | | | 22,745 | | | |
| Other | 2,199 | 640 | 708 | | | 1,348 | | | |
| Unallocated | (3,356) | (4,513) | (4,391) | | | (8,904) | | | |
| Total | 5,337 | 6,575 | 8,614 | 7,799 | 7,401 | 30,389 | 7,957 | 8,038 | 31,195 |
| Shares (millions) | 3,198 | 3,146 | 3,137 | 3,137 | 3,137 | 3,139 | 3,137 | 3,137 | 3,137 |
| Per share (\$) | 1.67 | 2.09 | 2.75 | 2.49 | 2.36 | 9.68 | 2.54 | 2.56 | 9.94 |
| Ebitda Margin (E&P) | 40% | 46% | 48% | 45% | 45% | 46% | 45% | 45% | 45% |
| Tax Rate | 35% | 35% | 35% | 35% | 35% | 35% | 35% | 35% | 35% |



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|---|------------|----------|--------|----------|---------|
| Functional Cash Flow and Present Value | | | | | |
| | NTM Ebitda | Adjusted | PV/ | Present | |
| | (US\$mm) | R/P | Ebitda | Value | |
| | | | | (US\$mm) | |
| North American Natural Gas | 2,800 | 16.4 | 12.5 | 35,000 | 9% |
| Rest of World Natural Gas | 4,940 | 8.9 | 7.3 | 36,000 | 9% |
| Oil | 46,460 | 9.6 | 5.9 | 274,000 | 69% |
| Downstream | 7,370 | | 6.8 | 50,000 | 13% |
| | 61,570 | 10.0 | 6.4 | 395,000 | 100% |
| Debt (US\$mm) | | | | | 68,800 |
| Net Present Value (US\$mm) | | | | | 326,200 |
| Shares (mm) | | | | | 3,137 |
| Net Present Value - Standard Estimate (US\$/sh) | | | | | 104 |
| NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh) | | | | | 104 |





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Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was 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.

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