



Independent Stock Idea

February 3, 2009

rating: hold
s&p 500: 839

BP plc (BP)

Cash Flow Balance at \$50 to \$60 Oil in 2009

<i>Symbol</i>	BP	<i>Ebitda Next Twelve Months ending 12/31/09 (US\$m)</i>	30,000
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	5
<i>Price (US\$/sh)</i>	42.29	<i>Natural Gas and Oil Production/Ebitda (%)</i>	81
<i>Pricing Date</i>	2/3/09	<i>Adjusted Reserves/Production NTM</i>	9.8
<i>Shares (mm)</i>	3119	<i>EV/Ebitda</i>	6.6
<i>Market Capitalization (US\$m)</i>	131,900	<i>PV/Ebitda</i>	9.9
<i>Debt (US\$m)</i>	64,900	<i>Undeveloped Reserves (%)</i>	45
<i>Enterprise Value (EV) (US\$m)</i>	196,800	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	17.20
<i>Present Value (PV) (US\$m)</i>	295,700	<i>Present Value Proven Reserves(US\$/boe)</i>	13.40
<i>Net Present Value (US\$/share)</i>	74	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.23
<i>Debt/Present Value</i>	0.22	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.58
<i>McDep Ratio - EV/PV</i>	0.67	<i>Price/Earnings Next Twelve Months</i>	12
<i>Dividend Yield (%/year)</i>	7.9	<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, \$10 a million btu.			
For historical analysis of BP since 2004 see www.mcdep.com/1bp.htm			

Summary and Recommendation

Estimated Net Present Value (NPV) of \$74 a share is more than 70% above stock price for moderate-debt, hold-rated **BP plc (BP)**. Released today, fourth quarter results displayed lower unlevered cash flow (Ebitda) driven by crude oil and natural gas prices (see table [Next Twelve Months Operating and Financial Estimates](#)). Our valuation capitalizes the future year's cash flow at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) for natural gas and oil, and to an industry multiple for downstream. Latest calculations result in NPV concentrated 23% on natural gas, 62% on oil and 16% on downstream (see table [Functional Cash Flow and Present Value](#)). Pointing to expected oil price recovery, futures prices for the next six years averaged \$60 a barrel recently (see charts [Six-Year Commodity Price Meter](#) and [Six-Year and One-Year Natural Gas and Oil Futures](#)). Chief Executive Tony Hayward expects cash flow to be balanced in 2009 within an oil price range of \$50 to \$60 a barrel. Should oil price surprise on the downside, we see room to reduce capital spending while maintaining the dividend, which offers an annual yield of 7.9% on current stock price.

Kurt H. Wulff, CFA



Independent Stock Idea

February 3, 2009

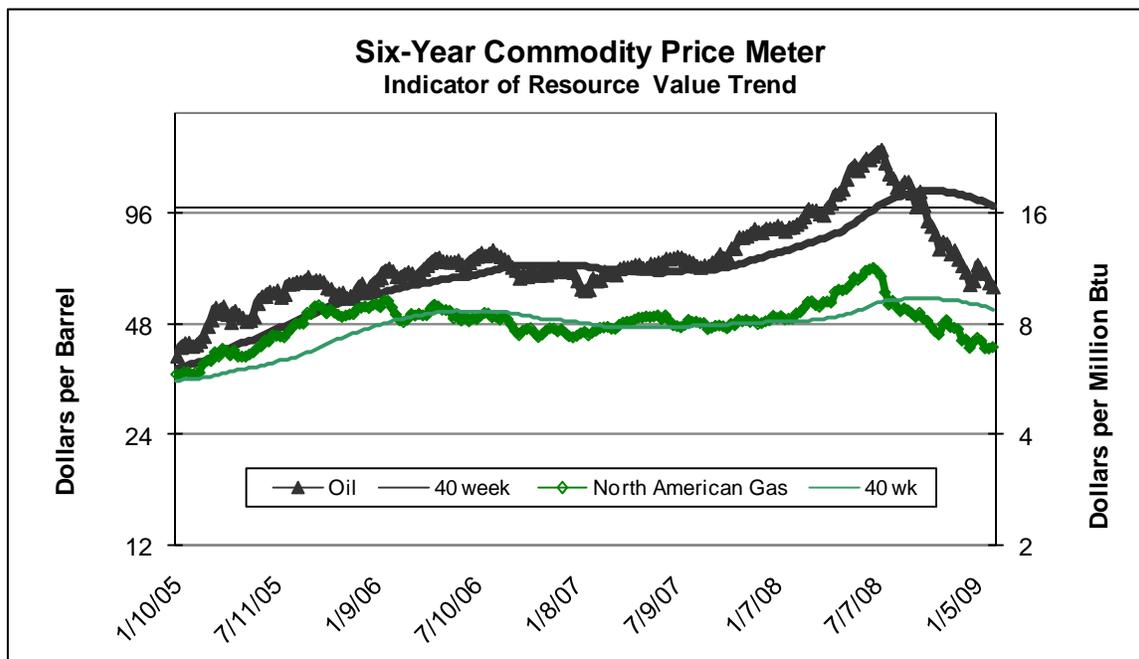
BP plc									
Next Twelve Months Operating and Financial Estimates									
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Next Twelve Months
	12/31/07	9/30/08	12/31/08	2008	3/31/09	6/30/09	9/30/09	12/31/09	12/31/09
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	2,183	2,094	2,243	2,157	2,243	2,243	2,243	2,243	2,243
Overseas (or Int'l)	6,154	5,917	6,370	6,194	6,315	6,108	5,917	6,370	6,177
Total	8,337	8,011	8,613	8,357	8,558	8,351	8,160	8,613	8,420
Days	92	92	92	366	90	91	92	92	365
Oil (mbd)	2,469	2,469	2,469	2,455	2,469	2,469	2,469	2,469	2,469
Total gas & oil (mmb)	355	350	359	1,407	351	351	352	359	1,413
Total gas & oil (mbd)	3,859	3,804	3,905	3,844	3,895	3,861	3,829	3,905	3,872
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.97	10.25	6.95	9.04	5.06	4.70	5.00	5.72	5.12
U.S. (or North America)	5.41	7.88	3.89	6.77	3.79	3.52	3.75	4.29	3.84
Overseas (or Int'l)	4.62	6.00	5.50	5.74	5.59	5.88	6.00	5.50	5.74
Total	4.83	6.49	5.08	6.00	5.12	5.25	5.38	5.18	5.23
Oil (\$/bbl)									
WTI Cushing	90.67	117.99	58.45	99.59	40.97	45.90	49.75	52.08	47.18
Worldwide	82.72	111.47	52.09	90.95	36.52	40.91	44.34	46.41	42.08
Total gas & oil (\$/bbl)	63.37	86.01	44.15	71.11	34.39	37.51	40.05	40.78	38.20
NY Harbor 3-2-1 (\$/bbl)	8.19	11.84	5.10	9.86	8.63	8.34	5.90	5.39	7.06
BP Refining Indicator	5.68	8.03	5.20						
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	1,087	1,518	803	5,343	765	718	773	884	3,141
Overseas (or Int'l)	2,618	3,265	3,223	12,971	3,177	3,270	3,265	3,223	12,936
Total	3,705	4,783	4,025	18,314	3,942	3,988	4,039	4,107	16,076
Oil	18,790	25,320	11,832	81,731	8,114	9,192	10,071	10,543	37,920
Other	59,448	74,726	45,236	267,009	45,236	45,236	45,236	45,236	180,946
Total	81,942	104,829	61,094	367,053	57,293	58,417	59,346	59,886	234,942
Expense									
Production	13,222	16,597	10,602	55,402	6,631	7,193	7,658	7,928	29,409
Other	58,192	71,346	43,257	257,489	43,923	43,466	43,694	44,151	175,234
Ebitda (\$mm)									
Exploration and Production	9,273	13,506	5,256	44,642	5,426	5,931	6,349	6,592	24,298
Other	1,256	3,379	1,979	9,520	1,314	1,771	1,542	1,085	5,712
Total Ebitda	10,529	16,885	7,235	54,162	6,739	7,702	7,892	7,678	30,010
Exploration	201	232	239	882	239	239	239	239	956
Deprec., Deplet., & Amort.	3,020	2,707	2,700	11,062	2,700	2,700	2,700	2,700	10,800
Other non cash									
Ebit	7,308	13,946	4,296	42,218	3,800	4,763	4,953	4,739	18,254
Interest	333	283	265	1,157	265	265	265	265	1,060
Ebt	6,975	13,663	4,031	41,061	3,535	4,498	4,688	4,474	17,194
Income Tax	2,441	4,782	1,411	14,371	1,237	1,574	1,641	1,566	6,018
Net Income (\$mm)									
Exploration and Production	8,264	11,900	4,259	38,904					
Other	90	1,549	644	3,541					
Unallocated	(3,820)	(4,568)	(2,283)	(15,755)					
Total	4,534	8,881	2,620	26,690	2,298	2,924	3,047	2,908	11,176
Shares (millions)	3,163	3,124	3,119	3,133	3,119	3,119	3,119	3,119	3,119
Per share (\$)	1.43	2.84	0.84	8.52	0.74	0.94	0.98	0.93	3.58
Ebitda Margin (E&P)	41%	45%	33%	45%	45%	45%	45%	45%	45%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



Independent Stock Idea

February 3, 2009

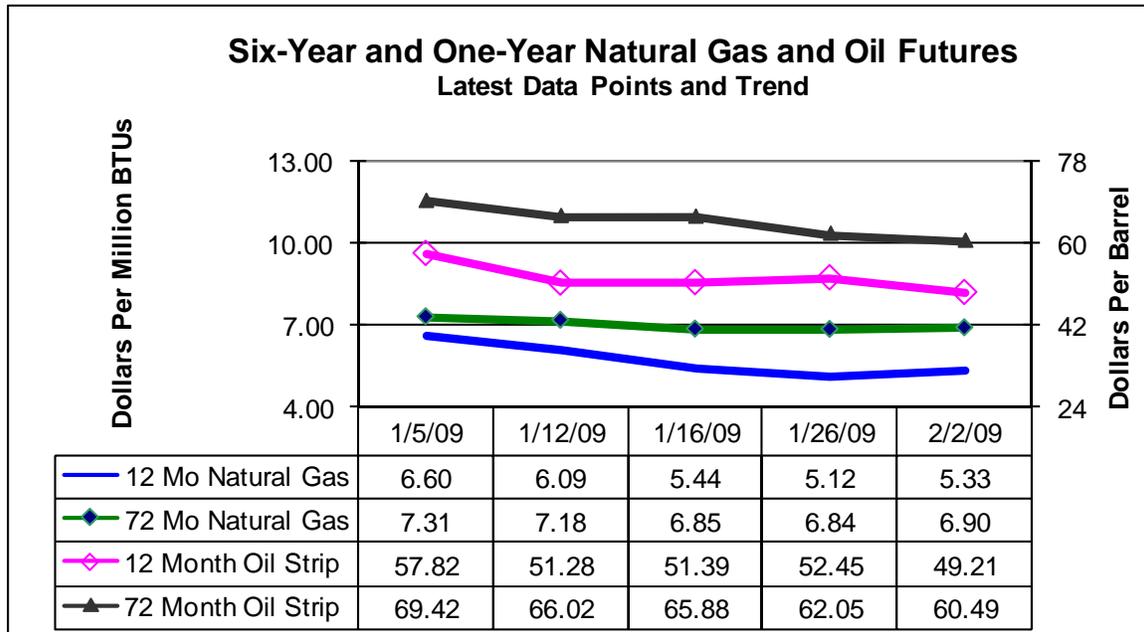
BP plc					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
North American Natural Gas	1,410	15.7	17.0	24,000	8%
Rest of World Natural Gas	5,820	8.8	7.4	43,000	15%
Oil	17,070	9.3	10.7	183,000	62%
Downstream	5,710		8.1	46,000	16%
	30,010	9.8	9.9	296,000	100%
Debt (US\$mm)					64,900
Net Present Value (US\$mm)					230,800
Shares (mm)					3,119
Net Present Value - Standard Estimate (US\$/sh)					74
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					77





Independent Stock Idea

February 3, 2009



Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC. 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 LLC 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.