



Independent Stock Idea

August 2, 2011

rating: buy
s&p 500: 1287

Chevron (CVX) **Raise NPV to \$170 from \$154 on Cash Flow Margin**

<i>Symbol</i>	CVX	<i>Ebitda Next Twelve Months ending 6/30/12 (US\$m)</i>	56,100
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	2
<i>Price (\$/sh)</i>	105.38	<i>Natural Gas and Oil Production/Ebitda (%)</i>	88
<i>Pricing Date</i>	8/1/11	<i>Adjusted Reserves/Production NTM</i>	8.5
<i>Shares (mm)</i>	2009	<i>EV/Ebitda</i>	4.3
<i>Market Capitalization (\$mm)</i>	212,000	<i>PV/Ebitda</i>	6.6
<i>Debt (\$mm)</i>	27,000	<i>Undeveloped Reserves (%)</i>	36
<i>Enterprise Value (EV) (\$mm)</i>	239,000	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	50.00
<i>Present Value (PV) (\$mm)</i>	369,000	<i>Present Value Proven Reserves(\$/boe)</i>	31.60
<i>Net Present Value (\$/share)</i>	170	<i>Present Value Proven Reserves(\$/mcf)</i>	5.30
<i>Debt/Present Value</i>	0.07	<i>Earnings Next Twelve Months (US\$/sh)</i>	13.40
<i>McDep Ratio - EV/PV</i>	0.65	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	3.0	<i>Indicated Annual Dividend (US\$/sh)</i>	3.12
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, \$8 a million btu.			
For historical analysis of CVX since 2002 see www.mcdep.com/1cvx.htm			

Summary and Recommendation

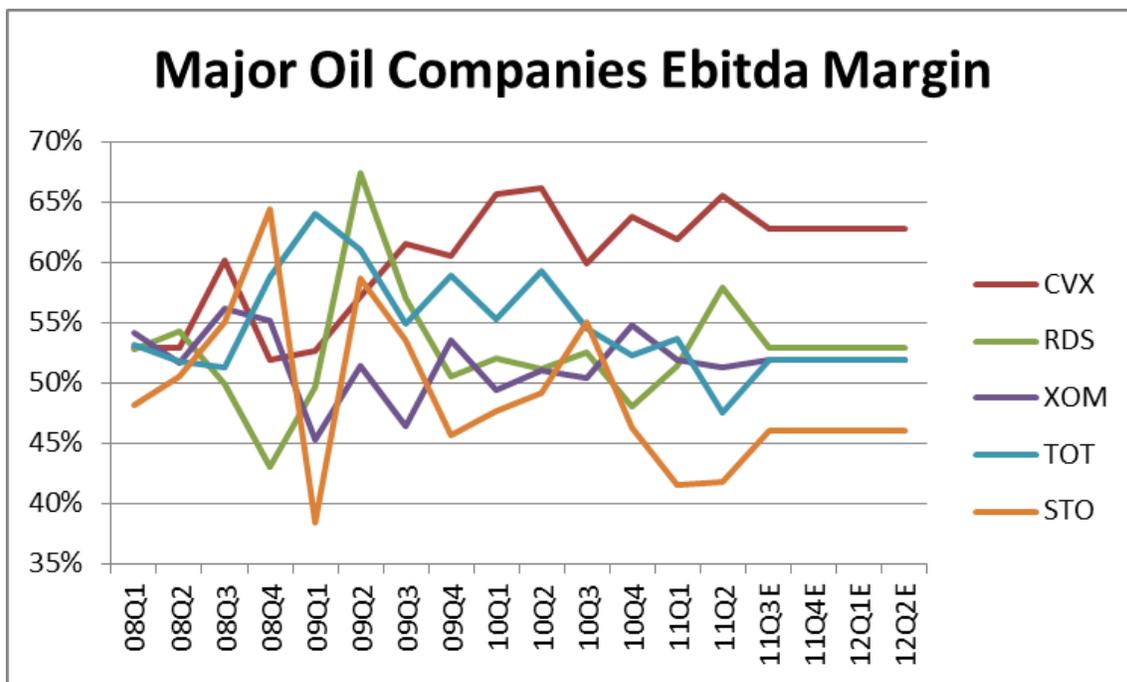
Buy-rated **Chevron (CVX)** offers unlevered appreciation potential of 54% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$170 a share. We raise NPV from \$154 on a further gain in cash flow margin indicated in second quarter results reported on July 29. Chevron has surged above its competitors to generate cash flow at 63% of production revenue compared to a median 52% (see chart [Ebitda Margin](#) on page 2). Chevron's higher concentration on oil production helps probably because oil price has gone up and natural gas price is depressed (see tables [Functional Cash Flow and Present Value](#) on page 2 and [Next Twelve Months Operating and Financial Results](#) on page 3). Management believes its emphasis on cost reduction and high volume wells is important. The company is a leader in the Gulf of Mexico where it has begun to resume drilling after losing a year while Federal authorities devised more regulations. Chevron is well-represented in the Marcellus natural gas trend in Pennsylvania. That exposure includes Utica shale acreage in Ohio that CVX Exploration chief George Kirkland declares is too early to "hype", making a light-hearted reference to publicity from an out-spoken independent producer. In Australia, the giant Gorgon liquefied natural gas project is about 25% complete on its way to contributing to an acceleration in oil and gas volume growth beginning in 2015. Financial strength is high with debt at an exceptionally low 0.07 ratio to present value. A dividend boost of 8% in June raises indicated annual yield to 3.0%.

Kurt H. Wulff, CFA



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Chevron Corporation					
Functional Cash Flow and Present Value					
				<i>Present</i>	
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Value</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>(US\$mm)</i>	
North American Natural Gas	1,310	4.8	7.6	10,000	3%
Rest of World Natural Gas	4,730	11.7	7.6	36,000	10%
Oil	43,470	7.9	6.6	289,000	78%
Downstream	6,610		5.1	34,000	9%
	56,120	8.5	6.6	369,000	100%
Debt (US\$mm)					27,000
Net Present Value (US\$mm)					342,000
Shares (mm)					2,009
Net Present Value - Standard Estimate (US\$/sh)					170
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					174



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Chevron									
Next Twelve Months Operating and Financial Estimates									
									<i>Next Twelve Months</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>6/30/10</i>	<i>3/31/11</i>	<i>6/30/11</i>	<i>9/30/11</i>	<i>12/31/11</i>	<i>2011E</i>	<i>3/31/12</i>	<i>6/30/12</i>	<i>6/30/12</i>
Volume									
Natural Gas (mmcf)									
U.S.	1,317	1,270	1,299	1,299	1,299	1,292	1,299	1,299	1,299
Rest of World	3,699	3,826	3,670	3,748	3,733	3,744	3,826	3,670	3,754
Total	5,016	5,096	4,969	5,047	5,032	5,036	5,125	4,969	5,057
Oil (mbd)	1,910	1,910	1,866	1,866	1,866	1,877	1,866	1,866	1,866
Total gas & oil (mbd)	2,746	2,759	2,694	2,707	2,705	2,716	2,720	2,694	2,709
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	4.09	4.11	4.32	4.31	4.33	4.27	4.60	4.54	4.44
U.S.	4.01	4.04	4.35	4.34	4.27	4.25	4.53	4.47	4.40
Rest of World	4.40	5.03	5.49	5.49	5.49	5.37	5.49	5.49	5.49
Total	4.30	4.78	5.19	5.19	5.17	5.09	5.25	5.22	5.21
Oil (\$/bbl)									
WTI Cushing	77.85	94.10	102.55	95.77	95.89	97.08	97.15	98.40	96.80
Worldwide	72.13	94.75	107.34	100.25	100.37	100.66	101.69	103.00	101.32
Total gas & oil (\$/bbl)	58.02	74.42	83.92	78.79	78.87	78.98	79.64	80.97	79.56
NY Harbor 3-2-1 (\$/bbl)	12.13	17.69	27.68	31.74	28.87	26.50	27.67	29.24	29.38
Revenue (\$mm)									
Natural Gas									
U.S.	481	462	514	519	510	2,005	535	528	2,092
Rest of World	1,481	1,732	1,833	1,893	1,885	7,344	1,911	1,833	7,523
Total	1,962	2,194	2,348	2,412	2,395	9,349	2,446	2,361	9,615
Oil	12,538	16,288	18,227	17,210	17,231	68,956	17,267	17,491	69,200
Other	38,505	41,860	48,373	48,373	49,173	187,778	49,173	49,173	195,892
Total	53,004	60,341	68,948	67,995	68,799	266,083	68,887	69,025	274,707
Expense									
Production	4,906	7,032	7,079	7,294	7,295	28,699	7,328	7,379	29,296
Other	36,766	40,465	46,166	46,819	47,572	181,023	47,484	47,410	189,286
Ebitda (\$mm)									
Exploration and Production	9,593	11,450	13,496	12,329	12,331	49,606	12,386	12,473	49,519
Other	1,738	1,395	2,207	1,554	1,601	6,756	1,689	1,763	6,606
Total Ebitda	11,331	12,844	15,703	13,882	13,932	56,362	14,075	14,236	56,125
Exploration	212	168	422	422	422	1,434	422	422	1,688
Deprec., Deplet., & Amort.	3,141	3,126	3,257	3,257	3,257	12,897	3,257	3,257	13,028
Ebit	7,978	9,550	12,024	10,203	10,253	42,031	10,396	10,557	41,409
Interest	17	-	-	-	-	-	-	-	-
Ebt	7,961	9,550	12,024	10,203	10,253	42,031	10,396	10,557	41,409
Income Tax	2,786	3,343	4,208	3,571	3,588	14,711	3,639	3,695	14,493
Net Income (\$mm)									
Exploration and Production	4,435	5,977	6,845						
Other	844	622	1,138						
Unallocated	(104)	(391)	(167)						
Total	5,175	6,208	7,816	6,632	6,664	27,320	6,757	6,862	26,916
Shares (millions)									
Per share (\$)	2.58	3.09	3.89	3.30	3.32	13.60	3.36	3.42	13.40
Ebitda Margin (E&P)	66%	62%	66%	63%	63%	63%	63%	63%	63%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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