Rating: Buy
S&P 500: 1211

ChevronTexaco
Raise Net Present Value to $76 a Share

Symbol	CVX	*Ebitda Next Twelve Months ending 3/31/06 (US$mm)*	26,400
Rating	Buy	*North American Natural Gas/Ebitda (%)*	8
Price ($/sh)	61.94	*Natural Gas and Oil Production/Ebitda (%)*	65
Pricing Date	2/25/05	*Adjusted Reserves/Production NTM*	11.7
Shares (mm)	2123	*EV/Ebitda*	5.7
Market Capitalization ($mm)	131,000	*PV/Ebitda*	6.8
Debt ($mm)	18,000	*Undeveloped Reserves (%)*	30
Enterprise Value (EV) ($mm)	149,000	*Natural Gas and Oil Ebitda ($/boe)*	19.80
Present Value (PV) ($mm)	179,000	*Present Value Proven Reserves($/boe)*	9.80
Net Present Value ($/share)	76	*Present Value Proven Reserves($/mcfe)*	1.60
Debt/Present Value	0.10	*Earnings Next Twelve Months (US$/sh)*	6.03
McDep Ratio - EV/PV	0.83	*Price/Earnings Next Twelve Months*	10
Dividend Yield (%/year)	2.6	*Indicated Annual Dividend (US$/sh)*	1.60

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.

Summary and Recommendation

We continue to recommend the common shares of **ChevronTexaco (CVX)** for mega cap participation in the rising profit opportunities in oil and gas production and refined products at a discounted valuation compared to mega cap peers. We raised our estimate of net present value to $76 a share from $62 on January 26, 2005 when we revised our estimate of long-term oil price to $40 a barrel constant real from $35. The new NPV matches the level previously calculated in a sensitivity illustration (see *Stock Idea*, ChevronTexaco, August 4, 2004). We see potential appreciation of 23% to our new estimate of net present value. Financial risk is low with a ratio of debt to present value of 0.10.

The Oiliest of Mega Caps

The company that originally discovered oil for Saudi Arabia is still the most concentrated on global oil resources among its peers (see table Present Value by Line of Business). The international companies no longer produce in Saudi Arabia, but ChevronTexaco has a diverse global production base on all continents except Antarctica. Management estimates that near half of incremental production of some 800,000 barrels daily over the next five years would come from "Big 5" projects in Angola, Kazakhstan, Nigeria, the Gulf of Mexico and Australia.

The Australian project, Gorgon, would actually be a liquefied natural gas venture. Though it may be more than five years away, it would contribute to rapid growth in overseas natural gas. There is little if any value in current estimates for Gorgon (see table Functional Cash Flow and Present Value). Angola and Nigeria also have LNG potential.

Present Value by Line of Business

	North Amer. Natural Gas (%)	*Over-seas Natural Gas (%)*	*Oil Prod'n (%)*	*Down-stream (%)*	*Total (US$mm)*
Exxon Mobil Corporation	10	17	38	35	374,000
Royal Dutch/Shell	3	17	35	45	264,000
BP plc	11	11	45	33	263,000
ChevronTexaco Corporation	7	7	53	32	179,000
Total S.A.	-	22	42	36	175,000

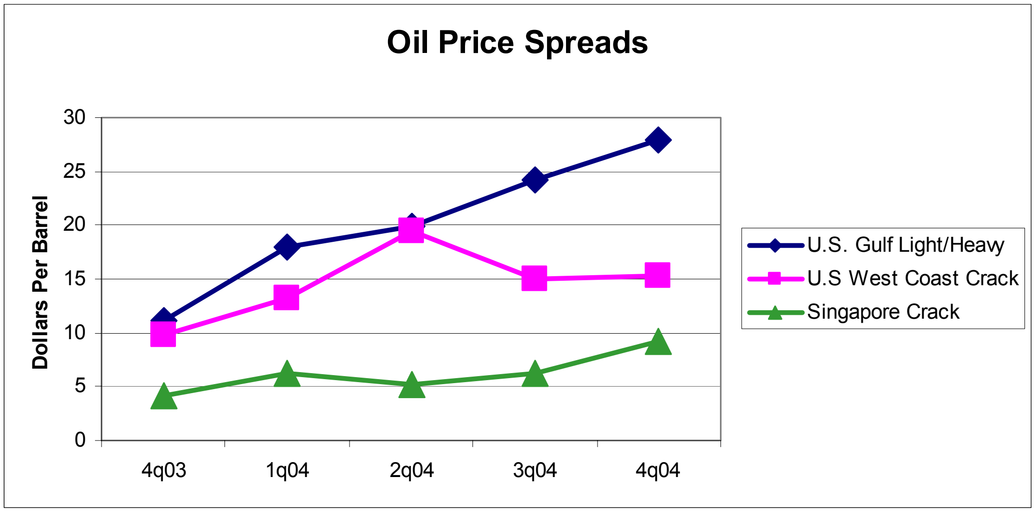
ChevronTexaco
Functional Cash Flow and Present Value

	NTM Ebitda (US$mm)	*Adjusted R/P*	*PV/ Ebitda*	*Present Value (US$mm)*	
North American Natural Gas	2,010	7.6	6.5	13,000	7%
Overseas Natural Gas	1,260	18.2	10.3	13,000	7%
Oil	13,930	11.2	6.8	95,000	53%
Downstream	9,180		6.3	58,000	32%
	26,380	11.7	6.8	179,000	100%
Debt (US$mm)					18,000
Net Present Value (US$mm)					161,000
Shares (mm)					2,123
Net Present Value (US$/sh)					76

Downstream Recovery Underway

Refining/marketing exposure is close to that of mega cap peers with proportionately more concentration in the U.S. and Asia. One of the benefits of the merger of Chevron and Texaco was to bring the Asian joint venture, Caltex, under common ownership. Management characterizes the company's downstream strength as concentrated in Asia, the U.S. West Coast, the U.S. Gulf Coast and Latin America and Sub-Saharan Africa.

Margins are improving to the point where new investment is becoming more attractive. The company reports industry prices that capture trends important to ChevronTexaco (see chart <u>Oil Price Spreads</u>). The top line is the difference between the prices of gasoline and fuel oil that points to the profit opportunity in a complex refinery such as the company's plant in Pascagoula, Mississippi. Crack spreads, the difference between product prices and crude oil, are improving on the West Coast and in Singapore.



Cash Flow Continues at a High Level

The N.Y. Harbor crack spread we display in our model is the most transparent, publicly available, forward looking indicator because the components are traded on the New York Mercantile Exchange. It may have some value in indicating a trend, but it is too parochial to be of much value in characterizing past profitability for global refiners (see table Next Twelve Months Operating and Financial Estimates). As a result, we project downstream cash flow (Ebitda – Other) at the average rate of the past two quarters rather than tracking the N.Y. Harbor futures.

We continue to use futures prices of crude oil and natural gas to project production cash flow not because we think futures are an accurate forecast, but because futures are widely quoted and serve as a useful reference. The futures curve is flattening rather than declining steeply as commodity investors increasingly accept the likely persistence of higher price than in the past.

We project modest volume decline for production operations reflecting recent experience. Yet, ChevronTexaco reports reserves that imply less volume decline than for competitors. There is a lot of money to be made in slowly declining production. Meanwhile, management expects that the large projects it is developing will produce higher future volumes.

Buy Oil and Gas Producers at Mid Decade

ChevronTexaco appears to have the most appreciation potential among mega cap peers (see table Rank by McDep Ratio). CVX's cash flow multiple, EV/Ebitda, is lower than that for three of its four peers while its adjusted reserve life is higher. In our calculation of present value of oil and gas production, a higher reserve life translates to higher present value relative to current cash flow.

Final reserves have not yet been reported for 2004 and the life index may decline slightly. Reserve reporting has become a contentious issue. Ironically, while the publicity appears superficially negative, the real story is just the opposite and the value of reserves is increasing sharply.

ChevronTexaco
Next Twelve Months Operating and Financial Estimates

	Q3 9/30/04	*Q4 12/31/04*	***Year 2004***	*Q1E 3/31/05*	*Q2E 6/30/05*	*Q3E 9/30/05*	*Q4E 12/31/05*	***Year 2005E***	*Q1E 3/31/06*	***Next Twelve Months 3/31/06***
Volume										
Natural Gas (mmcfd)										
U.S. (or North America)	1,813	1,618	**1,872**	1,618	1,602	1,586	1,570	**1,594**	1,570	**1,582**
Overseas (or Int'l)	1,914	2,107	**2,072**	2,170	2,098	1,975	2,105	**2,086**	2,170	**2,086**
Total	3,727	3,725	**3,944**	3,788	3,700	3,561	3,675	**3,680**	3,740	**3,668**
Oil (mmb)	168	165	**675**	161	162	163	162	**649**	159	**647**
Oil (mbd)	1,822	1,792	**1,850**	1,792	1,783	1,774	1,765	**1,779**	1,765	**1,772**
Total gas & oil (mmb)	225	222	**915**	218	218	218	219	**873**	215	**870**
Price										
Natural gas ($/mcf)										
Henry Hub ($/mmbtu)	5.75	7.10	**6.15**	6.15	6.08	6.25	6.67	**6.29**	7.18	**6.54**
U.S. (or North America)	5.28	6.05	**5.52**	5.65	5.58	5.75	6.17	**5.79**	6.68	**6.04**
Overseas (or Int'l)	2.59	2.89	**2.68**	2.89	2.95	2.92	2.85	**2.90**	2.79	**2.88**
Total	3.90	4.26	**4.03**	4.07	4.09	4.18	4.27	**4.15**	4.42	**4.24**
Oil ($/bbl)										
WTI Cushing	43.89	48.30	**41.44**	48.23	49.28	48.81	47.68	**48.50**	46.57	**48.08**
Worldwide	37.34	37.61	**34.21**	37.56	38.38	38.01	37.13	**37.77**	36.27	**37.45**
Total gas & oil ($/bbl)	33.80	34.51	**31.57**	34.13	34.81	34.77	34.16	**34.47**	33.72	**34.37**
NY Harbor 3-2-1 ($/bbl)	7.83	5.57	**8.39**	5.99	7.57	7.31	6.55	**6.86**	7.10	**7.13**
Revenue ($mm)										
Natural Gas										
U.S. (or North America)	881	901	**3,769**	823	813	840	890	**3,365**	943	**3,486**
Overseas (or Int'l)	456	560	**2,025**	564	563	531	552	**2,210**	544	**2,190**
Total	1,337	1,461	**5,794**	1,386	1,376	1,370	1,443	**5,575**	1,488	**5,676**
Oil	6,259	6,201	**23,097**	6,057	6,227	6,204	6,030	**24,518**	5,762	**24,223**
Other	33,119	35,030	**126,383**	35,030	35,030	35,030	35,030	**140,122**	35,030	**140,122**
Total	40,715	42,692	**155,274**	42,474	42,633	42,605	42,503	**170,215**	42,280	**170,021**
Expense										
Production	3,196	3,262	**11,991**	3,218	3,250	3,244	3,124	**12,836**	3,079	**12,697**
Other	31,090	32,469	**118,017**	32,736	32,736	32,736	32,736	**130,942**	32,736	**130,942**
Ebitda ($mm)										
Exploration and Production	4,400	4,400	**16,900**	4,225	4,353	4,330	4,349	**17,257**	4,170	**17,202**
Other	2,029	2,561	**8,367**	2,295	2,295	2,295	2,295	**9,180**	2,295	**9,180**
Total Ebitda	6,429	6,961	**25,267**	6,520	6,648	6,625	6,644	**26,437**	6,465	**26,382**
Exploration	173	275	**697**	275	275	275	275	**1,100**	275	**1,100**
Deprec., Deplet., & Amort.	1,219	1,283	**4,945**	1,283	1,283	1,283	1,283	**5,132**	1,283	**5,132**
Other non cash										
Ebit	5,037	5,403	**19,625**	4,962	5,090	5,067	5,086	**20,205**	4,907	**20,150**
Interest	107	112	**405**	112	112	112	112	**448**	112	**448**
Ebt	4,930	5,291	**19,220**	4,850	4,978	4,955	4,974	**19,757**	4,795	**19,702**
Income Tax	1,725	1,852	**6,727**	1,698	1,742	1,734	1,741	**6,915**	1,678	**6,896**
Net Income ($mm)										
Exploration and Production	2,324	2,227								
Other	612	1,151								
Unallocated	268	61								
Total	3,204	3,439	**12,493**	3,153	3,235	3,221	3,233	**12,842**	3,117	**12,806**
Shares (millions)	2,122	2,110	**2,123**	2,123	2,123	2,123	2,123	**2,123**	2,123	**2,123**
Per share ($)	1.51	1.63	**5.89**	1.49	1.52	1.52	1.52	**6.05**	1.47	**6.03**
Ebitda Margin (E&P)	58%	57%	**58%**	57%	57%	57%	58%	**57%**	58%	**58%**
Tax Rate	35%	35%	**35%**	35%	35%	35%	35%	**35%**	35%	**35%**

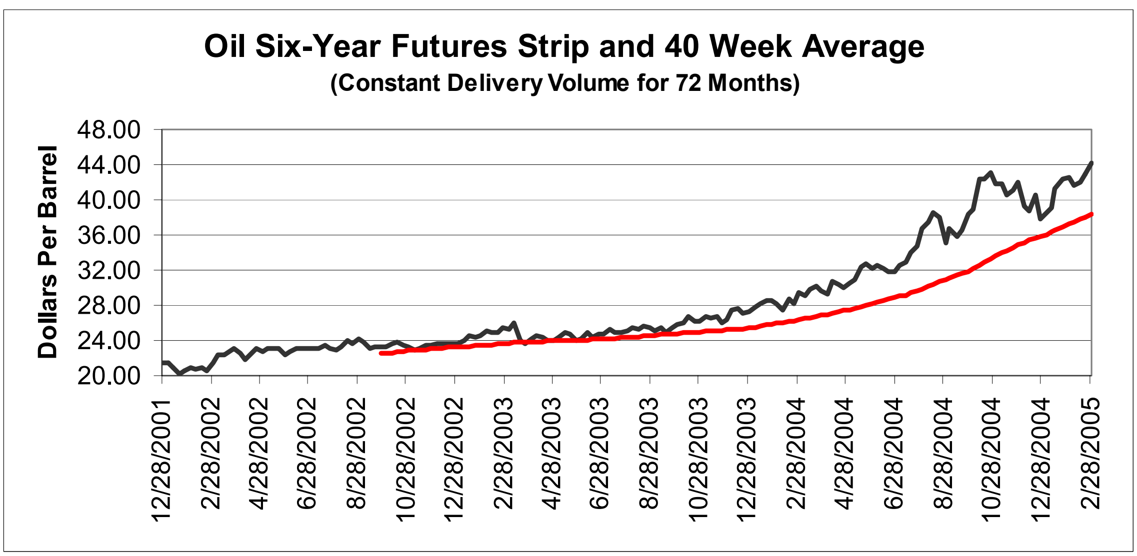
Considering the company's oily history it seems appropriate that Chairman David O'Reilly should address the strategic issues in world oil supply. In a speech on February 15 emphasizing the interdependence of the world energy economy, he called attention to the beginning of a bidding war with China and India for Middle East supplies. Adding our own perspective we witnessed high rates of energy demand growth in the U.S. leading up to the 1970s. When domestic oil production peaked, oil imports accelerated and price gained sharply. Now China's energy demand is growing rapidly as it did here forty years ago. In just the past few years China reached the limits of domestic supply and its imports have accelerated. Last year we saw the limits of international supply and price is reacting.

Oil and Gas Producers
Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/	Rating	Price ($/sh) 25-Feb 2005	Shares (mm)	Market Cap ($mm)	Net Present Value ($/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
Exxon Mobil Corporation	XOM	B	63.26	6,461	409,000	54.00	0.07	1.16
BP plc	BP	B	65.07	3,601	234,000	64.00	0.12	1.01
Shell Transport and Trading Co. plc	SC	B	56.59	1,587	90,000	55.90	0.16	1.01
Total S.A.	TOT	B	119.35	1,218	145,000	120.00	0.16	1.00
Royal Dutch Petroleum	RD	B	62.85	2,016	127,000	66.00	0.16	0.96
ChevronTexaco Corporation	CVX	B	61.94	2,123	132,000	76.00	0.10	0.83
Total or Median					*1,137,000*		*0.14*	*1.00*

By analogy with the previous cycle from 1964 to 1992 there may be three to five-fold gain potential remaining for oil and gas price over the next 5 to 13 years. In any event, a multi-year uptrend in the futures price of oil for continuous delivery over the next six years appears to be underway (see chart Oil Six-Year Futures Strip and 40 Week Average).

Kurt H. Wulff, CFA



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