

Rating: Buy
S&P 500: 1190

Chevron Corporation

Reduce Present Value to \$70 a Share

<i>Symbol</i>	CVX	<i>Ebitda Next Twelve Months ending 6/30/06 (US\$m)</i>	32,350
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	9
<i>Price (\$/sh)</i>	53.32	<i>Natural Gas and Oil Production/Ebitda (%)</i>	70
<i>Pricing Date</i>	5/25/05	<i>Adjusted Reserves/Production NTM</i>	9.6
<i>Shares (mm)</i>	2311	<i>EV/Ebitda</i>	4.6
<i>Market Capitalization (\$mm)</i>	123,000	<i>PV/Ebitda</i>	5.8
<i>Debt (\$mm)</i>	25,000	<i>Undeveloped Reserves (%)</i>	29
<i>Enterprise Value (EV) (\$mm)</i>	148,000	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	22.40
<i>Present Value (PV) (\$mm)</i>	187,000	<i>Present Value Proven Reserves(\$/boe)</i>	11.40
<i>Net Present Value (\$/share)</i>	70	<i>Present Value Proven Reserves(\$/mcf)</i>	1.90
<i>Debt/Present Value</i>	0.13	<i>Earnings Next Twelve Months (US\$/sh)</i>	6.68
<i>McDep Ratio - EV/PV</i>	0.79	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	3.4	<i>Indicated Annual Dividend (US\$/sh)</i>	1.80

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.

Includes Unocal for all of Next Twelve Months except for earnings where Unocal is included only in 2006.

Summary and Recommendation

Despite our change in estimated net present value to \$70 a share from \$76, buy-recommended **Chevron Corporation (CVX)** offers mega cap opportunity at a lower McDep Ratio than peers. The main risk may be that Chevron is comparably valued relative to buy-recommended peers that also offer rising profits in natural gas, crude oil and oil products. We think there is a good chance that Chevron stock can recover in stock price relative to peers particularly as favorable results unfold and the **Unocal (UCL)** acquisition is completed by year end. Meanwhile the new present value estimate includes the impact of Unocal and gives belated recognition to lower-than-expected reported reserves for 2004. The stock has 31% appreciation potential to net present value that corresponds to a long-term oil price of \$40 a barrel.

Project Next Twelve Months on Pro-Forma Basis

The proposed exchange ratio of 1.03 shares of Chevron stock for 75% of the shares of Unocal plus \$65 for the remaining 25% is expected to be effective by the end of 2005. Assuming the deal is complete at the beginning of 2006, projections for the next twelve months ended June 30, 2006 include half a year of Unocal (see table Next Twelve Months Operating and Financial Performance).

For comparative valuation purposes we annualize cash flow and production at the rate for the second quarter of next year. That gives us a more consistent basis to compare multiples of cash flow and reserve life for Chevron plus Unocal to those of other companies. Estimates for the expanded company are consistent with the current correlation for 30 companies (see tables Functional Cash Flow and Present Value).

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Chevron
Next Twelve Months Operating and Financial Estimates

	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Next Twelve Months</i>
	<i>12/31/04</i>	<i>2004</i>	<i>3/31/05</i>	<i>6/30/05</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005E</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>6/30/06</i>
Volume										
Natural Gas (mmcf)										
U.S. (or North America)	1,618	1,872	1,600	1,584	1,568	1,552	1,576	2,091	2,070	1,818
Overseas (or Int'l)	2,107	2,072	2,155	2,098	1,961	2,090	2,076	3,176	3,119	2,582
Total	3,725	3,944	3,755	3,682	3,529	3,643	3,652	5,267	5,189	4,400
Oil (mbd)	1,792	1,850	1,785	1,776	1,767	1,758	1,772	1,927	1,917	1,842
Total gas & oil (mmb)	222	915	217	217	217	218	869	252	253	940
Price										
Natural gas (\$/mcf)										
Henry Hub (\$/mmbtu)	7.10	6.15	6.27	6.85	6.52	7.13	6.69	7.93	6.86	7.11
U.S. (or North America)	6.05	5.52	5.76	6.29	5.99	6.55	6.15	7.14	6.17	6.49
Overseas (or Int'l)	2.89	2.68	2.95	2.99	2.97	3.06	2.99	3.36	3.34	3.22
Total	4.26	4.03	4.15	4.41	4.31	4.55	4.35	4.86	4.47	4.57
Oil (\$/bbl)										
WTI Cushing	48.31	41.44	49.65	50.26	49.98	51.43	50.33	51.43	51.17	51.01
Worldwide	37.61	34.21	39.98	40.47	40.25	41.42	40.53	42.21	42.00	41.49
Total gas & oil (\$/bbl)	34.51	31.57	36.06	36.87	36.66	37.79	36.84	38.13	37.28	37.48
NY Harbor 3-2-1 (\$/bbl)	5.72	7.74	6.17	11.13	8.84	6.17	8.08	6.74	9.50	7.81
Revenue (\$mm)										
Natural Gas										
U.S. (or North America)	901	3,769	829	907	864	936	3,537	1,344	1,163	4,307
Overseas (or Int'l)	560	2,025	572	570	536	588	2,266	959	948	3,030
Total	1,461	5,794	1,402	1,477	1,400	1,524	5,803	2,303	2,111	7,338
Oil	6,201	23,097	6,423	6,541	6,544	6,700	26,207	7,321	7,329	27,893
Other	35,030	126,383	33,783	33,783	33,783	33,783	135,131	33,783	33,783	135,131
Total	42,692	155,274	41,607	41,801	41,726	42,006	167,140	43,407	43,222	170,361
Expense (\$mm)										
Production	3,262	11,991	3,424	3,463	3,448	3,404	13,740	3,684	3,647	14,184
Other	32,469	118,017	32,453	31,488	31,488	31,488	126,917	31,488	31,488	125,951
Ebitda (\$mm)										
Exploration and Production	4,400	16,900	4,400	4,555	4,496	4,819	18,270	5,940	5,792	21,047
Other	2,561	8,367	1,329	2,295	2,295	2,295	8,214	2,295	2,295	9,180
Total Ebitda	6,961	25,267	5,729	6,850	6,790	7,114	26,484	8,235	8,087	30,226
Exploration	275	697	153	200	200	200	753	200	200	800
Deprec., Deplet., & Amort.	1,283	4,945	1,334	1,334	1,334	1,334	5,336	1,730	1,730	6,128
Other non cash										
Ebit	5,403	19,625	4,242	5,316	5,256	5,580	20,395	6,305	6,157	23,298
Interest	112	405	107	107	107	107	428	200	200	614
Ebt	5,291	19,220	4,135	5,209	5,149	5,473	19,967	6,105	5,957	22,684
Income Tax	1,852	6,727	1,447	1,823	1,802	1,916	6,988	2,137	2,085	7,939
Net Income (\$mm)										
Exploration and Production	2,227		2,379							
Other	1,151		546							
Unallocated	61		(237)							
Total	3,439	12,493	2,688	3,386	3,347	3,558	12,979	3,968	3,872	14,745
Shares (millions)	2,110	2,123	2,100	2,100	2,100	2,100	2,100	2,311	2,311	2,207
Per share (\$)	1.63	5.89	1.28	1.61	1.59	1.69	6.18	1.72	1.68	6.68
Ebitda Margin (E&P)	57%	58%	56%	57%	57%	59%	57%	62%	61%	60%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%

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Chevron Corporation
Functional Cash Flow and Present Value

	<i>NTM Ebitda</i> <i>(US\$mm)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$mm)</i>	
North American Natural Gas	2,830	6.7	5.7	16,000	9%
Overseas Natural Gas	1,990	13.1	7.5	15,000	8%
Oil	18,350	9.2	5.4	99,000	53%
Downstream	9,180		6.2	57,000	30%
	32,350	9.6	5.8	187,000	100%
Debt (US\$mm)					25,000
Net Present Value (US\$mm)					162,000
Shares (mm)					2,311
Net Present Value (US\$/sh)					70

Note: Ebitda and Production annualized at 2006 second quarter rate pro forma for Unocal.

Crude Oil Production Looks Good

Chevron is 53% a crude oil producer. The price outlook for the commodity appears favorable.

Refining Crack Looks Good

Chevron is 30% a downstream company. The refining margin appears to be in a rising trend also.

Natural Gas Looks Good

With Unocal, Chevron is 17% a natural gas producer, 9% North American and 8% overseas. The outlook for natural gas appears even better than for oil. The North American commodity price has lagged for three years, but is still twice the overseas price. Though it is not too important for Chevron directly, we are watching with fascination the rapidly strengthening natural gas futures in Europe apparently coincident with the beginning of trading in carbon emissions permissions.

Buy Oil and Gas Producers at Mid Decade

Multi-fold gain potential for oil and gas price over the years ahead justifies investment in recommended oil and gas producers, in our opinion. A McDep Ratio of 1.0 implies that a stock would be priced at present value assuming a constant real oil price of US\$40 (see table Rank by McDep Ratio).

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

	<i>Symbol/</i>	<i>Rating</i>	<i>Price</i> <i>(\$/sh)</i>	<i>Shares</i>	<i>Market</i>	<i>Net</i>	<i>Debt/</i>	<i>McDep</i>
			<i>25-May</i>	<i>(mm)</i>	<i>Cap</i>	<i>Present</i>	<i>Present</i>	<i>Ratio</i>
			<i>2005</i>		<i>(\$mm)</i>	<i>Value</i>	<i>Value</i>	
Mega Cap								
Shell Transport and Trading Co. plc	SC	B	53.01	1,587	84,000	56.00	0.14	0.95
BP plc	BP	B	60.70	3,574	217,000	64.00	0.13	0.95
Exxon Mobil Corporation	XOM	B	55.68	6,421	358,000	60.00	0.06	0.93
Royal Dutch Petroleum	RD	B	59.36	2,018	120,000	66.00	0.14	0.91
Total S.A.	TOT	B	111.80	1,192	133,000	126.00	0.15	0.90
Chevron Corporation	CVX	B	53.32	2,311	123,000	70.00	0.13	0.79
		<i>Total or Median</i>			<i>1,035,000</i>		<i>0.13</i>	<i>0.92</i>

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