

Rating: Buy
 S&P 500: 1219

Chevron Corporation Astute Acquisition

<i>Symbol</i>	CVX	<i>Ebitda Next Twelve Months ending 6/30/06 (US\$mm)</i>	38,610
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	10
<i>Price (\$/sh)</i>	60.94	<i>Natural Gas and Oil Production/Ebitda (%)</i>	76
<i>Pricing Date</i>	8/16/05	<i>Adjusted Reserves/Production NTM</i>	9.3
<i>Shares (mm)</i>	2,256	<i>EV/Ebitda</i>	4.2
<i>Market Capitalization (\$mm)</i>	137,000	<i>PV/Ebitda</i>	6.0
<i>Debt (\$mm)</i>	27,000	<i>Undeveloped Reserves (%)</i>	29
<i>Enterprise Value (EV) (\$mm)</i>	164,000	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	28.00
<i>Present Value (PV) (\$mm)</i>	230,000	<i>Present Value Proven Reserves(\$/boe)</i>	15.30
<i>Net Present Value (\$/share)</i>	90	<i>Present Value Proven Reserves(\$/mcf)</i>	2.50
<i>Debt/Present Value</i>	0.12	<i>Earnings Next Twelve Months (US\$/sh)</i>	8.50
<i>McDep Ratio - EV/PV</i>	0.71	<i>Price/Earnings Next Twelve Months</i>	7
<i>Dividend Yield (%/year)</i>	3.0	<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.

Summary and Recommendation

Buy-recommended **Chevron (CVX)** won buy-recommended **Unocal (UCL)** in a bidding battle with buy-recommended **CNOOC (CEO)**. The deal is now final and the astute acquisition buttresses net present value for CVX at \$90 a share implying 45% appreciation from current stock price. Investors can put large amounts of capital into mega cap energy stocks like CVX for attractive exposure to rising resource value while taking little financial risk, in our opinion. Appreciation potential looks competitive with independent producers in our latest round of higher present value estimates because we have also boosted expectations for the refining, or downstream, business. Perhaps now that the Unocal deal is final, investors can focus on the merits of the combined company without short-term transaction concerns.

Chevron Corporation Functional Cash Flow and Present Value

	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	3,800	6.5	5.3	20,000	9%
Rest of World Natural Gas	2,130	12.3	9.4	20,000	9%
Oil	23,480	9.0	5.3	125,000	54%
Downstream	9,200		7.1	65,000	28%
	38,610	9.3	6.0	230,000	100%
Debt (US\$mm)					27,000
Net Present Value (US\$mm)					203,000
Shares (mm)					2,256
Net Present Value (US\$/sh)					90

Please see disclosures on the final page.

Financial Projections Include Unocal after August 10, 2005

There may be a transition period when the reported results are not fully representative of ongoing operations. Cash flow for the next twelve months, our primary measure of current operations, is understated for valuation purposes because it includes less than 11 months of contributions from Unocal. The third quarter results to be reported in October will include only partial contributions from Unocal.

Chevron										
Next Twelve Months Operating and Financial Estimates										
	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</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	1,621	1,881	2,146	1,814	2,146	2,146	2,079
Overseas (or Int'l)	2,107	2,072	2,155	2,151	2,751	3,317	2,597	3,317	3,317	3,174
Total	3,725	3,944	3,755	3,772	4,632	5,463	4,411	5,463	5,463	5,254
Oil (mbd)	1,792	1,850	1,785	1,792	1,882	1,969	7,115	1,969	1,969	1,947
Total gas & oil (mmb)	222	915	217	220	244	265	946	259	262	1,030
Price										
Natural gas (\$/mcf)										
Henry Hub (\$/mmbtu)	7.10	6.15	6.27	6.76	8.06	9.93	7.75	10.47	8.63	9.27
U.S. (or North America)	6.05	5.52	5.76	6.31	7.52	9.18	7.36	9.67	7.97	8.62
Overseas (or Int'l)	2.89	2.68	2.95	3.01	3.01	3.21	3.06	3.21	3.21	3.17
Total	4.26	4.03	4.15	4.43	4.84	5.55	4.83	5.75	5.08	5.32
Oil (\$/bbl)										
WTI Cushing	48.31	41.44	49.65	53.05	63.14	67.18	58.26	67.78	67.32	66.36
Worldwide	37.61	34.21	39.98	44.90	53.43	57.25	49.21	58.57	58.16	56.88
Total gas & oil (\$/bbl)	34.51	31.57	36.06	40.14	46.34	49.69	43.48	50.95	49.41	49.14
NY Harbor 3-2-1 (\$/bbl)	5.72	7.74	6.17	10.59	14.06	10.48	10.33	9.77	12.73	11.76
Revenue (\$mm)										
Natural Gas										
U.S. (or North America)	901	3,769	829	931	1,302	1,812	4,874	1,868	1,557	6,539
Overseas (or Int'l)	560	2,025	572	589	762	980	2,903	958	969	3,669
Total	1,461	5,794	1,402	1,520	2,064	2,791	7,777	2,826	2,526	10,208
Oil	6,201	23,097	6,423	7,321	9,251	10,371	33,367	10,378	10,421	40,423
Other	35,030	126,383	33,783	39,502	39,502	40,302	153,088	40,302	40,302	160,407
Total	42,692	155,274	41,607	48,343	50,817	53,464	194,231	53,506	53,249	211,037
Expense (\$mm)										
Production	3,262	11,991	3,424	3,541	4,778	5,702	17,446	5,723	5,594	21,798
Other	32,469	118,017	32,453	37,590	37,202	38,002	145,247	38,002	38,002	151,207
Ebitda (\$mm)										
Exploration and Production	4,400	16,900	4,400	5,300	6,537	7,461	23,698	7,482	7,353	28,832
Other	2,561	8,367	1,329	1,911	2,300	2,300	7,841	2,300	2,300	9,200
Total Ebitda	6,961	25,267	5,729	7,211	8,837	9,761	31,538	9,782	9,653	38,032
Exploration	275	697	153	139	200	200	692	200	200	800
Deprec., Deplet., & Amort.	1,283	4,945	1,334	1,320	1,600	1,800	6,054	1,800	1,800	7,000
Other non cash										
Ebit	5,403	19,625	4,242	5,752	7,037	7,761	24,792	7,782	7,653	30,232
Interest	112	405	107	104	200	270	681	270	270	1,010
Ebt	5,291	19,220	4,135	5,648	6,837	7,491	24,111	7,512	7,383	29,222
Income Tax	1,852	6,727	1,447	1,977	2,393	2,622	8,439	2,629	2,584	10,228
Net Income (\$mm)										
Exploration and Production	2,227		2,379	2,772						
Other	1,151		546	1,060						
Unallocated	61		(237)	(161)						
Total	3,439	12,493	2,688	3,671	4,444	4,869	15,672	4,883	4,799	18,995
Shares (millions)	2,110	2,123	2,100	2,086	2,170	2,256	2,163	2,256	2,256	2,235
Per share (\$)	1.63	5.89	1.28	1.76	2.05	2.16	7.25	2.16	2.13	8.50
Ebitda Margin (E&P)	57%	58%	56%	60%	58%	57%	58%	57%	57%	57%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%

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Unocal Acquisition Well-Timed

Among peer executives, Chairman David O'Reilly of Chevron has been outspoken that the outlook for oil had changed from the complacent view of the past twenty years. He then had the courage to pursue a major transaction to act on that belief. The commodity markets have ratified Mr. O'Reilly's timing. When CVX bid for UCL in the spring, the average six-year futures price for oil was \$53 a barrel. When the deal closed in August, the average six-year futures price for oil was almost \$62. By our work, the Chevron bid was in line with estimated net present value of Unocal at \$65 a share when we were assuming a long-term oil price of \$40 a barrel. Before the deal closed we increased our estimate of net present value of Unocal to \$85 a share assuming a long-term oil price of \$50 a barrel. Chevron got a bargain.

Meanwhile it seems Chevron stock has underperformed in recent months contributing to a McDep Ratio lower than peers. Though it may be possible that a valuation gap persists, it seems unlikely that it would widen. Thus, Chevron looks like a stock that ought to do at least as well as peers in a group that has promising prospects.

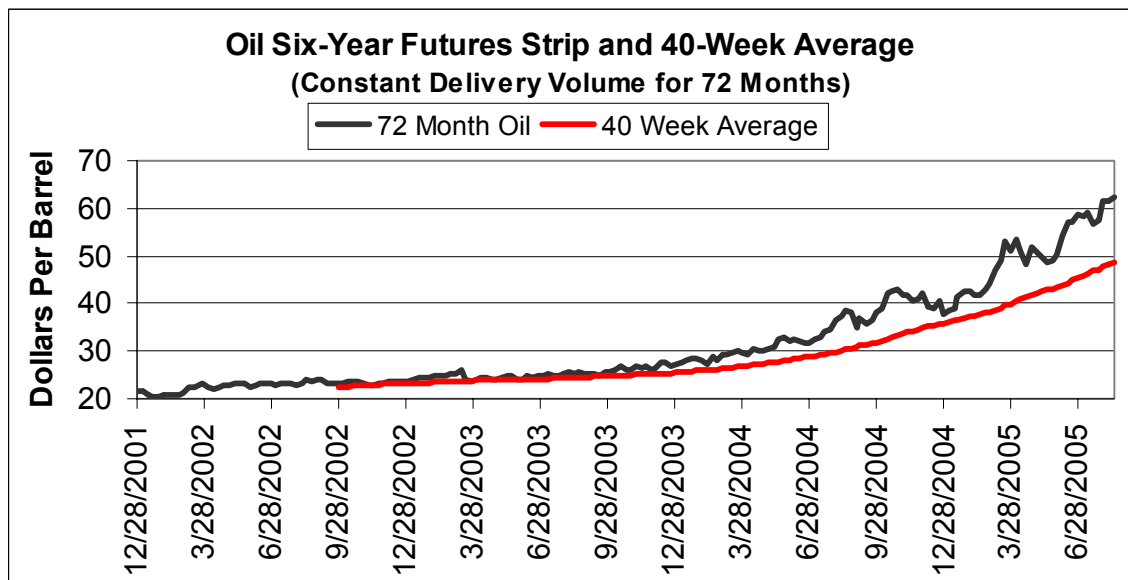
Oil and Gas Producers
Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/</i>		<i>Price</i>		<i>Market</i>	<i>Net</i>	<i>Debt/</i>	
	<i>Rating</i>		<i>(\$/sh)</i>	<i>Shares</i>	<i>Cap</i>	<i>Present</i>	<i>Present</i>	<i>McDep</i>
			<i>16-Aug</i>	<i>(mm)</i>	<i>(\$mm)</i>	<i>Value</i>	<i>Value</i>	<i>Ratio</i>
			<i>2005</i>			<i>(\$/sh)</i>		
Mega Cap								
BP plc	BP	B	68.76	3,545	244,000	82.00	0.10	0.86
Total S.A.	TOT	B	128.27	1,182	152,000	160.00	0.12	0.83
Exxon Mobil Corporation	XOM	B	59.07	6,370	376,000	74.00	0.04	0.81
Royal Dutch Shell plc	RDS-A	B	65.85	3,372	222,000	84.00	0.11	0.81
Chevron Corporation	CVX	B	60.94	2,256	138,000	90.00	0.12	0.72
	<i>Total or Median</i>				<i>1,132,000</i>		<i>0.11</i>	<i>0.81</i>

Oil Price Continues in Long-Term Uptrend

How high can it go? The historical parallel with the late 1970s suggests oil price could be higher. The trend seems well-defined and there is no obvious limit. The summer peak consumption period may be well along, but the northern hemisphere winter peak is not far away.

In any event there is a cushion in our analysis. The futures market is above \$60. Our present value calculations use \$50. Chevron's McDep Ratio of 0.72 implies that Chevron stock may be priced for just \$36 a barrel.



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