

Rating: Buy  
S&P 500: 1198

## **Chevron Corporation**

### **Lower Net Present Value to \$85 a Share**

<i>Symbol</i>	CVX	<i>Ebitda Next Twelve Months ending 9/30/06 (US\$m)</i>	37,510
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	11
<i>Price (\$/sh)</i>	57.38	<i>Natural Gas and Oil Production/Ebitda (%)</i>	76
<i>Pricing Date</i>	10/28/05	<i>Adjusted Reserves/Production NTM</i>	9.6
<i>Shares (mm)</i>	2256	<i>EV/Ebitda</i>	4.2
<i>Market Capitalization (\$mm)</i>	129,000	<i>PV/Ebitda</i>	5.9
<i>Debt (\$mm)</i>	29,000	<i>Undeveloped Reserves (%)</i>	29
<i>Enterprise Value (EV) (\$mm)</i>	158,000	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	28.20
<i>Present Value (PV) (\$mm)</i>	221,000	<i>Present Value Proven Reserves(\$/boe)</i>	14.60
<i>Net Present Value (\$/share)</i>	85	<i>Present Value Proven Reserves(\$/mcf)</i>	2.40
<i>Debt/Present Value</i>	0.13	<i>Earnings Next Twelve Months (US\$/sh)</i>	8.31
<i>McDep Ratio - EV/PV</i>	0.72	<i>Price/Earnings Next Twelve Months</i>	7
<i>Dividend Yield (%/year)</i>	3.1	<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)** offers 48% appreciation potential to estimated net present value of \$85 a share, revised from \$90 a share. After hurricane interruptions, we project a rebound in natural gas and oil volume and downstream profits though not to levels previously projected. The pace of production restoration has been much delayed by the slow repair of infrastructure facilities generally in the hands of financially weak partnerships and utilities. Taking account of latest quarterly results, our correlation of 30 companies indicates net present value about \$2 a share lower than estimated. Chevron is a low risk, cheap stock that promises rewards to patient investors large and small while the company fulfills a vital role in the global supply of clean energy.

### **Cash Flow and Reserve Life Point to Present Value**

McDep analysis presumes that fundamental value is measured by the projection of cash flows far into the future and discounting them to the present at a rate of return, currently 7% a year before inflation. Next Twelve Months (NTM) cash flow represents the volumes and costs that form the base for future projections. Reserve life index tells how long cash flow will last. NTM cash flow and reserve life are the two main variables in our correlation by function for about 30 companies. Net present value indicated by the current combined correlation is about \$2 a share lower than our ongoing standard estimate for the company (see table Functional Cash Flow and Present Value).

**Please see disclosures on the final page.**

**Chevron Corporation**  
**Functional Cash Flow and Present Value**

	<i>NTM Ebitda</i> <i>(US\$m)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$m)</i>	
North American Natural Gas	4,050	7.0	4.9	20,000	9%
Rest of World Natural Gas	2,600	12.4	7.7	20,000	9%
Oil	21,700	9.3	5.3	116,000	52%
Downstream	9,160	7.1	7.1	65,000	29%
	37,510	9.6	5.9	221,000	100%
Debt (US\$m)					29,000
Net Present Value (US\$m)					192,000
Shares (mm)					2,256
Net Present Value (US\$/sh)					85
Over (-)/ Under (+) Correlation (US\$/sh)					(2)

**Cash Flow by Quarter Depends on Latest Results and Futures Prices**

Cash flow for the next year is projected from a base through the latest reported quarter (see table Next Twelve Months Operating and Financial Estimates). Company disclosures provide the clues for future volumes and costs as well as geographic and quality differences in price. Futures prices from the New York Mercantile Exchange determine industry benchmarks for the next year.

**Industry Conditions Support Long-Term Price Expectation**

Present value estimates that form the denominator of the McDep Ratio and change only occasionally for all companies, most recently in early August, are tied to expected constant real long-term prices. Recent futures price for oil delivered over the next six years at \$58 a barrel exceeds our long-term expectation of \$50. One-year futures for natural gas exceed our long-term expectation while six-year futures for natural gas also have appreciation potential, in our opinion.

**Oil and Gas Commodity and Stock Price**  
 Friday, October 28, 2005

	<i>Units</i>	<i>Futures Price</i>		<i>McDep Ratio</i>
		<i>Six-Year</i>	<i>One-Year</i>	<i>Denominator</i>
<b>Crude Oil</b>	\$/barrel	58.57	61.96	50
<b>Natural Gas</b>	\$/million btu	8.57	11.47	10
<b>Oil Refining</b>	\$/barrel		13.29	10
	<i>Stocks</i>			<i>Median</i>
	<b>Mega Cap</b>			0.77
	<b>CVX</b>			0.72

Source: McDep Associates, Bloomberg, New York Mercantile Exchange, Yahoo and company disclosures

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**Chevron**  
 Next Twelve Months Operating and Financial Estimates

	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</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>9/30/06</i>	<i>9/30/06</i>
<b>Volume</b>											
Natural Gas (mmcf)											
U.S. (or North America)	1,618	<b>1,872</b>	1,600	1,621	1,676	1,676	<b>1,644</b>	2,000	2,000	2,000	<b>1,918</b>
Overseas (or Int'l)	2,107	<b>2,072</b>	2,155	2,151	2,785	3,300	<b>2,601</b>	3,300	3,300	3,300	<b>3,300</b>
Total	3,725	<b>3,944</b>	3,755	3,772	4,461	4,976	<b>4,245</b>	5,300	5,300	5,300	<b>5,218</b>
Oil (mbd)	1,792	<b>1,850</b>	1,785	1,792	1,805	1,900	<b>7,127</b>	1,900	1,900	1,900	<b>1,900</b>
Total gas & oil (mmb)	222	<b>915</b>	217	220	234	251	<b>923</b>	251	253	256	<b>1,011</b>
<b>Price</b>											
Natural gas (\$/mcf)											
Henry Hub (\$/mmbtu)	7.10	<b>6.15</b>	6.27	6.76	8.56	13.36	<b>8.74</b>	13.20	10.56	10.56	<b>11.92</b>
U.S. (or North America)	6.05	<b>5.52</b>	5.76	6.31	7.34	11.35	<b>7.74</b>	11.22	8.97	8.97	<b>10.07</b>
Overseas (or Int'l)	2.89	<b>2.68</b>	2.95	3.01	3.13	3.49	<b>3.18</b>	3.66	3.84	4.04	<b>3.76</b>
Total	4.26	<b>4.03</b>	4.15	4.43	4.71	6.13	<b>4.95</b>	6.51	5.78	5.90	<b>6.08</b>
Oil (\$/bbl)											
WTI Cushing	48.31	<b>41.44</b>	49.65	53.05	62.52	61.62	<b>56.71</b>	61.79	62.15	62.16	<b>61.93</b>
Worldwide	37.61	<b>34.21</b>	39.98	44.90	53.94	53.57	<b>48.25</b>	54.51	54.83	54.84	<b>54.43</b>
Total gas & oil (\$/bbl)	34.51	<b>31.57</b>	36.06	40.14	46.45	48.47	<b>43.05</b>	49.61	48.44	48.66	<b>48.79</b>
NY Harbor 3-2-1 (\$/bbl)	5.72	<b>7.74</b>	6.17	10.59	16.70	11.73	<b>11.30</b>	12.23	13.62	12.83	<b>12.60</b>
<b>Revenue (\$mm)</b>											
Natural Gas											
U.S. (or North America)	901	<b>3,769</b>	829	931	1,132	1,750	<b>4,642</b>	2,019	1,633	1,650	<b>7,053</b>
Overseas (or Int'l)	560	<b>2,025</b>	572	589	802	1,059	<b>3,022</b>	1,087	1,154	1,225	<b>4,525</b>
Total	1,461	<b>5,794</b>	1,402	1,520	1,934	2,808	<b>7,664</b>	3,107	2,788	2,876	<b>11,578</b>
Oil	6,201	<b>23,097</b>	6,423	7,321	8,958	9,363	<b>32,065</b>	9,321	9,480	9,586	<b>37,751</b>
Other	35,030	<b>126,383</b>	33,783	39,502	43,565	44,365	<b>161,214</b>	44,365	44,365	44,365	<b>177,458</b>
Total	42,692	<b>155,274</b>	41,607	48,343	54,456	56,536	<b>200,942</b>	56,793	56,633	56,826	<b>226,787</b>
<b>Expense (\$mm)</b>											
Production	3,262	<b>11,991</b>	3,424	3,541	4,491	5,132	<b>16,589</b>	5,260	5,180	5,276	<b>20,847</b>
Other	32,469	<b>118,017</b>	32,453	37,590	41,737	42,076	<b>153,856</b>	42,076	42,076	42,076	<b>168,303</b>
<b>Ebitda (\$mm)</b>											
Exploration and Production	4,400	<b>16,900</b>	4,400	5,300	6,400	7,040	<b>23,140</b>	7,168	7,088	7,185	<b>28,482</b>
Other	2,561	<b>8,367</b>	1,329	1,911	1,828	2,289	<b>7,357</b>	2,289	2,289	2,289	<b>9,155</b>
Total Ebitda	6,961	<b>25,267</b>	5,729	7,211	8,228	9,329	<b>30,497</b>	9,457	9,377	9,474	<b>37,637</b>
Exploration	275	<b>697</b>	153	139	122	200	<b>614</b>	200	200	200	<b>800</b>
Deprec., Deplet., & Amort.	1,283	<b>4,945</b>	1,334	1,320	1,534	1,800	<b>5,988</b>	1,800	1,800	1,800	<b>7,200</b>
Other non cash				900							
<b>Ebit</b>	5,403	<b>19,625</b>	4,242	5,752	5,672	7,329	<b>22,995</b>	7,457	7,377	7,474	<b>29,637</b>
Interest	112	<b>405</b>	107	104	136	270	<b>617</b>	270	270	270	<b>1,080</b>
<b>Ebt</b>	5,291	<b>19,220</b>	4,135	5,648	5,536	7,059	<b>22,378</b>	7,187	7,107	7,204	<b>28,557</b>
Income Tax	1,852	<b>6,727</b>	1,447	1,977	1,937	2,471	<b>7,832</b>	2,515	2,488	2,521	<b>9,995</b>
<b>Net Income (\$mm)</b>											
Exploration and Production	2,227		2,379	2,772	3,323						
Other	1,151		546	1,060	579						
Unallocated	61		(237)	(161)	(304)						
Total	3,439	<b>12,493</b>	2,688	3,671	3,598	4,588	<b>14,546</b>	4,672	4,620	4,682	<b>18,562</b>
<b>Shares (millions)</b>	2,110	<b>2,123</b>	2,100	2,086	2,194	2,256	<b>2,167</b>	2,256	2,256	2,170	<b>2,234</b>
Per share (\$)	1.63	<b>5.89</b>	1.28	1.76	1.64	2.03	<b>6.71</b>	2.07	2.05	2.16	<b>8.31</b>
Ebitda Margin (E&P)	57%	<b>58%</b>	56%	60%	59%	58%	<b>58%</b>	58%	58%	58%	<b>58%</b>
Tax Rate	35%	<b>35%</b>	35%	35%	35%	35%	<b>35%</b>	35%	35%	35%	<b>35%</b>

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**Buy Mega Cap Energy Stocks**

Energy is necessary for world economic growth and clean energy provides a better quality of life. Mega Cap major oil companies are among the leading global suppliers of clean energy. Headquartered in the U.K., France and the U.S., buy recommendations also offer political diversification. McDep Ratios that compare Enterprise Value with Present Value of energy and other businesses imply that the stock market undervalues the fundamental prospects. Stocks are ranked in descending order of McDep Ratio connoting “buy low, sell high” (see table Rank by McDep Ratio).

Kurt H. Wulff, CFA

**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>Cap</i>	<i>Net</i> <i>Present</i> <i>Value</i>	<i>Debt/</i> <i>Present</i> <i>Value</i>	<i>McDep</i> <i>Ratio</i>
			<i>28-Oct</i> <i>2005</i>	<i>(mm)</i>	<i>(\$mm)</i>	<i>(\$/sh)</i>	<i>Value</i>	
<b>Mega Cap</b>								
BP plc	BP	B	66.46	3,501	233,000	77.00	0.11	0.88
Total S.A.	TOT	B	123.88	1,182	147,000	160.00	0.12	0.80
Exxon Mobil Corporation	XOM	B	56.31	6,303	355,000	74.00	0.04	0.77
Royal Dutch Shell plc	RDS-A	B	61.62	3,352	207,000	84.00	0.10	0.76
Chevron Corporation	CVX	B	57.38	2,256	129,000	85.00	0.13	0.72
<i>Total or Median</i>					<i>1,071,000</i>		<i>0.11</i>	<i>0.77</i>

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