Rating: Buy
S&P 500: 1276

Chevron Corporation
Momentum Break

Symbol	CVX	*Ebitda Next Twelve Months ending 3/31/07 (US$mm)*	38,532
Rating	Buy	*North American Natural Gas/Ebitda (%)*	6
Price ($/sh)	55.32	*Natural Gas and Oil Production/Ebitda (%)*	75
Pricing Date	3/7/06	*Adjusted Reserves/Production NTM*	10.7
Shares (mm)	2236	*EV/Ebitda*	3.8
Market Capitalization ($mm)	124,000	*PV/Ebitda*	5.6
Debt ($mm)	24,000	*Undeveloped Reserves (%)*	30
Enterprise Value (EV) ($mm)	147,000	*Natural Gas and Oil Ebitda ($/boe)*	29.20
Present Value (PV) ($mm)	214,000	*Present Value Proven Reserves($/boe)*	12.90
Net Present Value ($/share)	85	*Present Value Proven Reserves($/mcfe)*	2.10
Debt/Present Value	0.11	*Earnings Next Twelve Months (US$/sh)*	8.66
McDep Ratio - EV/PV	0.69	*Price/Earnings Next Twelve Months*	6
Dividend Yield (%/year)	3.3	*Indicated Annual Dividend (US$/sh)*	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 Corporation (CVX)** has the potential for another burst of positive stock price momentum following an indecisive trend. Commodity price momentum is positive for crude oil, the source of 58% of our estimate of fundamental value of $85 a share. While we continue to envision $150 in 2010, six-year oil futures currently trade at $65 a barrel. Considering that our estimate of present value presumes $50 oil, CVX's stock price at a McDep Ratio of 0.69 implies the stock may be priced for crude oil as low as $35 a barrel. In contrast, recent price momentum has been unfavorable for refinery margin and natural gas, the main sources of the rest of the company's fundamental value. Latest disclosures of oil and gas reserves along with plans for production growth fit our analytical framework for the company. Finally, Chevron's low financial risk, 0.11 ratio of debt to present value, can help investors weather the times when stock price declines rather than gains.

Reserves Point to Future Production

In its presentation to analysts on March 7, management outlined more than 3% per year volume growth generated from a long list of major supply projects. Asia Pacific, the Caspian and Africa account for most of the gains from 2005 to 2007. The acquisition of Unocal in the second half of last year contributes to those increments.

Imminent gains may be signaled where reserves are large and life index is long. In rest of world natural gas Asia Pacific leads in size with longer than average life (see table Production and Reserves, 2005). Main contributors are the Unocal properties and Chevron's North West Australia liquefied natural gas resources.

Chevron Corporation
Production and Reserves, 2005

	2005 Production (bcf or mmb)	12/31/2005 Proven Reserves Developed (bcf or mmb)	Undeveloped (bcf or mmb)	Weighted (bcf or mmb)	Weighted Life Index (years)	NTM Adjusted R/P (years)
North American Natural Gas						
California	39	251	53	278	7.1	
Gulf of Mexico	215	977	194	1,074	5.0	
Other U.S.	350	2,794	159	2,874	8.2	
Total	604	4,022	406	4,225	7.0	6.8
Rest of World Natural Gas						
Africa	42	1,346	1,845	2,269	54.0	
Asia Pacific	434	4,819	3,804	6,721	15.5	
Indonesia	77	449	197	548	7.1	
Other International	315	2,453	1,125	3,016	9.6	
Caspian	79	2,314	473	2,551	32.3	
Venezuela	2	85	96	133	66.5	
Total	949	11,466	7,540	15,236	16.1	13.1
Oil						
California	79	809	156	887	11.2	
Gulf of Mexico	41	177	156	255	6.2	
Other U.S.	45	474	59	504	11.2	
Africa	114	945	869	1,380	12.1	
Asia Pacific	103	534	295	682	6.6	
Indonesia	74	439	140	509	6.9	
Other International	89	416	157	495	5.6	
Caspian	50	1,611	328	1,775	35.5	
Venezuela - Hamaca	14	196	239	316	22.5	
Venezuela - Boscan	41	405		405	10.0	
Canada Oil Sands	12	146		146	12.5	
	661	6,152	2,399	7,352	11.1	10.6

The company apparently has ambitious plans for world trade in clean fuel. In a startling chart, management shows Chevron advancing from 14th in the world in LNG in 2005 to 5th in 2015!

In oil the Caspian leads on both size and life. The company's Tengiz field in Kazakhstan continues to expand while Unocal's Azerbaijan participation would contribute a step increase in 2007.

The life index looking back on 2005 is artificially high compared to the life index looking ahead to the next twelve months. That is because 2005 production does not include a full year of Unocal volume, but ending reserves do include the full amount for Unocal.

Under oil, we add reserves for two projects not included in the standard tables in Chevron's Form 10-K filed with the Securities and Exchange Commission. The Boscan project is technically a service contract where CVX does not actually own the reserves. Oil sands is technically a mining project rather than conventional production. The additions are necessary because management includes Boscan and oil sands in its citing of total production.

Our regular distinction between North American Natural Gas and Rest of World reflects the different pricing conditions in the two geographic areas. In the U.S and Canada natural gas is priced primarily on a monthly index basis that is almost completely short-term market sensitive. In the rest of the world natural gas is priced primarily on indices that respond more slowly to changing market conditions. The rest of the world is currently lagging the U.S. and Canada despite recent short term declines in North America. The catch-up is underway helped lately by contrasting cold weather.

Oil is priced similarly around the world. We take account of differences in taxation by normalizing cash flow.

Adjusted Reserves/Production Increases to 10.7 from 9.7 Years

Normally we summarize a company's reserve position in adjusted life index. The longer the life the higher our estimated present value, or the market's assessment of enterprise value, can be as a multiple of next twelve months cash flow (see table Functional Cash Flow and Present Value).

Chevron Corporation
Functional Cash Flow and Present Value

	NTM Ebitda (US$mm)	*Adjusted R/P*	*PV/ Ebitda*	*Present Value (US$mm)*	
North American Natural Gas	2,250	6.8	5.8	13,000	6%
Rest of World Natural Gas	2,810	13.1	7.5	21,000	10%
Oil	23,870	10.6	5.2	125,000	58%
Downstream	9,600		5.7	55,000	26%
	38,530	10.7	5.6	214,000	100%
Debt (US$mm)					24,000
Net Present Value (US$mm)					190,000
Shares (mm)					2,236
Net Present Value - Standard Estimate (US$/sh)					85
Net Present Value - Approximation by Correlation (US$/sh)					92

Chevron's index increases by a full year from that in our most recent published analysis in January. Much of the increase is our own doing with the added reserves for Boscan and oil sands. We also restored arbitrary reductions we made previously when reported reserves exceeded 20 years in some geographic segments. The changes do not prompt a revision to present value, but contribute to maintaining a cushion between our official estimate and the approximation by correlation with 30 companies.

Potential for Positive Surprise

Forward estimates complete the summary detail for valuing Chevron (see table Next Twelve Months Operating and Financial Estimates). Futures prices drive the estimates of production cash flow and earnings. There may be potential for positive surprise on the cost side as Unocal synergies unfold and hurricane penalties hopefully do not recur.

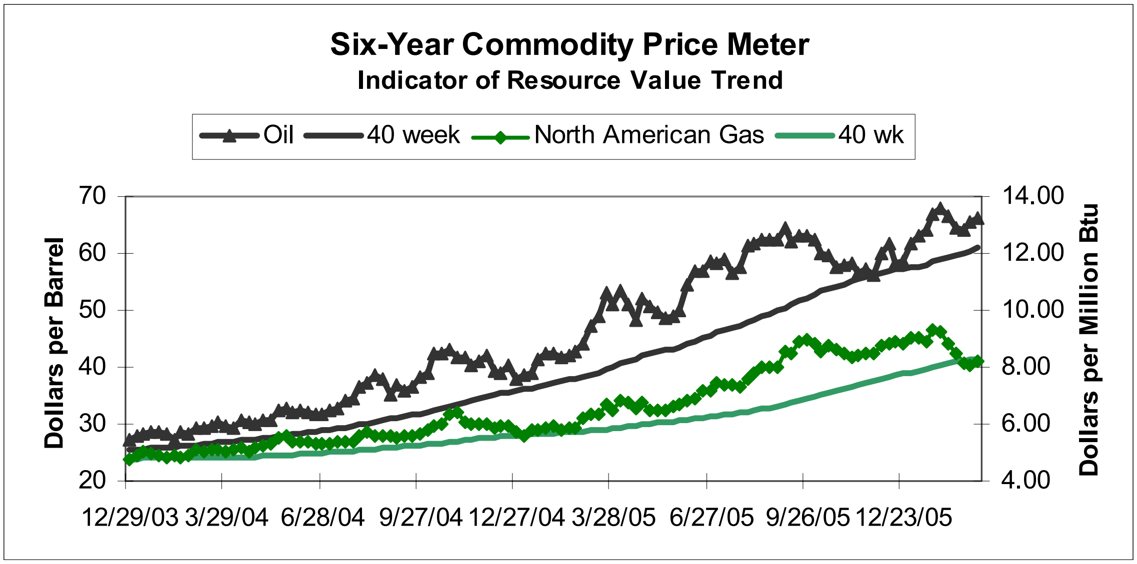
Chevron
Next Twelve Months Operating and Financial Estimates

	Q4 12/31/05	***Year 2005***	*Q1E 3/31/06*	*Q2E 6/30/06*	*Q3E 9/30/06*	*Q4E 12/31/06*	***Year 2006E***	*Q1E 3/31/07*	***Next Twelve Months 3/31/07***
Volume									
Natural gas (bcf)									
U.S. (or North America)	151	**596**	153	155	156	156	**621**	153	**621**
Overseas (or Int'l)	303	**948**	288	291	294	294	**1,168**	288	**1,168**
Total	453	**1,545**	441	446	451	451	**1,789**	441	**1,789**
Natural Gas (mmcfd)									
U.S. (or North America)	1,638	**1,634**	1,700	1,700	1,700	1,700	**1,700**	1,700	**1,700**
Overseas (or Int'l)	3,289	**2,599**	3,200	3,200	3,200	3,200	**3,200**	3,200	**3,200**
Total	4,927	**4,233**	4,900	4,900	4,900	4,900	**4,900**	4,900	**4,900**
Days	92	**365**	90	91	92	92	**365**	90	**365**
Oil (mmb)	171	**661**	171	173	175	175	**694**	171	**694**
Oil (mbd)	1,862	**1,811**	1,900	1,900	1,900	1,900	**1,900**	1,900	**1,900**
Total gas & oil (mmb)	247	**919**	245	247	250	250	**992**	245	**992**
Total gas & oil (mbd)	2,683	**2,517**	2,717	2,717	2,717	2,717	**2,717**	2,717	**2,717**
Price									
Natural gas ($/mcf)									
Henry Hub ($/mmbtu)	13.00	**8.65**	8.97	6.76	7.31	8.64	**7.92**	10.31	**8.26**
U.S. (or North America)	10.22	**7.43**	7.05	5.31	5.75	6.69	**6.20**	7.98	**6.43**
Overseas (or Int'l)	3.50	**3.19**	3.68	3.86	4.05	4.45	**4.01**	4.68	**4.26**
Total	5.73	**4.83**	4.85	4.36	4.64	5.23	**4.77**	5.82	**5.01**
Oil ($/bbl)									
WTI Cushing	60.02	**56.31**	63.12	63.79	66.10	67.18	**65.05**	67.70	**66.20**
Worldwide	50.70	**47.48**	54.12	54.70	56.68	58.00	**55.89**	59.25	**57.15**
Total gas & oil ($/bbl)	45.71	**42.28**	46.59	46.13	48.01	50.00	**47.69**	51.94	**49.01**
NY Harbor 3-2-1 ($/bbl)	9.06	**10.63**	4.93	8.56	9.01	8.18	**7.67**	8.93	**8.67**
Revenue ($mm)									
Natural Gas									
U.S. (or North America)	1,540	**4,432**	1,079	822	899	1,047	**3,847**	1,222	**3,989**
Overseas (or Int'l)	1,059	**3,022**	1,058	1,124	1,193	1,311	**4,686**	1,347	**4,975**
Total	2,599	**7,454**	2,137	1,946	2,092	2,358	**8,533**	2,569	**8,964**
Oil	8,685	**31,387**	9,255	9,457	9,907	10,139	**38,758**	10,132	**39,636**
Other	42,510	**159,359**	42,510	42,510	42,510	43,310	**170,840**	43,310	**171,640**
Total	53,794	**198,200**	53,902	53,913	54,509	55,807	**218,131**	56,010	**220,239**
Expense									
Production	4,484	**15,941**	4,538	4,544	4,842	5,091	**19,014**	5,192	**19,668**
Other	39,878	**151,658**	40,110	40,110	40,110	40,910	**161,240**	40,910	**162,040**
Ebitda ($mm)									
Exploration and Production	6,800	**22,900**	6,854	6,859	7,158	7,407	**28,278**	7,508	**28,932**
Other	2,632	**7,701**	2,400	2,400	2,400	2,400	**9,600**	2,400	**9,600**
Total Ebitda	9,432	**30,601**	9,254	9,259	9,558	9,807	**37,878**	9,908	$\boxed{\textbf{38,532}}$
Exploration	274	**688**	274	274	200	200	**948**	200	**874**
Deprec., Deplet., & Amort.	1,725	**5,913**	1,725	1,725	1,725	1,800	**6,975**	1,800	**7,050**
Other non cash	900								
Ebit	6,533	**22,200**	7,255	7,260	7,633	7,807	**29,955**	7,908	**30,608**
Interest	135	**482**	135	135	135	270	**675**	270	**810**
Ebt	6,398	**21,718**	7,120	7,125	7,498	7,537	**29,280**	7,638	**29,798**
Income Tax	2,239	**7,601**	2,492	2,494	2,624	2,638	**10,248**	2,673	**10,429**
Net Income ($mm)									
Exploration and Production	3,250	**11,724**					**-**		
Other	879	**3,064**					**-**		
Unallocated	30	**(672)**					**-**		
Total	4,159	**14,116**	4,628	4,632	4,873	4,899	**19,032**	4,965	**19,369**
Shares (millions)	2,236	**2,158**	2,236	2,236	2,236	2,236	**2,236**	2,236	**2,236**
Per share ($)	1.86	**6.54**	2.07	2.07	2.18	2.19	**8.51**	2.22	**8.66**
Ebitda Margin (E&P)	60%	**59%**	60%	60%	60%	59%	**60%**	59%	**60%**
Tax Rate	35%	**35%**	35%	35%	35%	35%	**35%**	35%	**35%**

Futures Favor Oil

Not only does there appear to be a wide gap between the price of oil reflected in Chevron's stock price and the quote for six-year oil futures, but also the trend in oil price continues to look favorable. The current quote trades above the 40-week average as it has for several years (see chart Six-Year Commodity Price Meter).

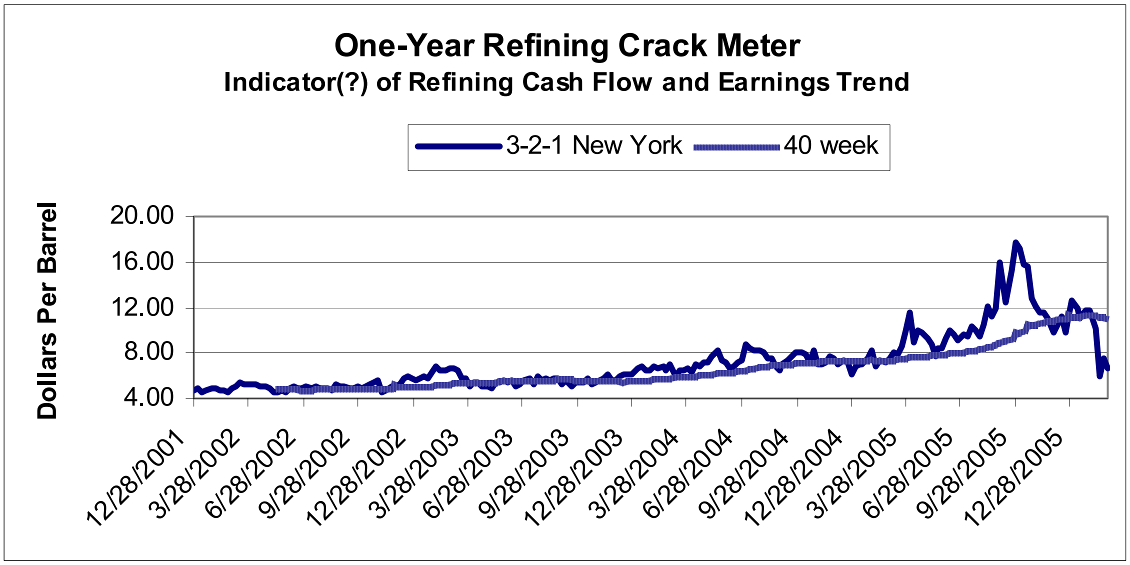
The futures market does not think as highly of natural gas as we believe is justified. During the past several years six-year and one-year natural gas has traded between about oil divided by 5 and oil divided by 8. Natural gas and refined oil deliver the same heating value when the natural gas price is the oil price divided by 5. We believe that 5 is the long-term norm. Yet six-year natural gas is priced currently at oil divided by 8, the low end of the range. The present situation appears to offer temporary relief for consumers while an adjustment to higher long term price is underway.



Futures Confused on Refining

Futures investors have even more difficulty anticipating refining margin, or crack, the difference between the prices of heating oil and gasoline compared to crude oil. There are no publicly quoted six-year futures for refining crack and the one-year data is sketchy. For a brief period at the end of each month trading in crude oil for the next month closes while trading in heating oil and gasoline remains open. Moreover, gasoline is not always publicly quoted for the eleventh or twelfth month. Further, the crack widely quoted applies primarily to simpler refineries that run light, sweet crude while most refining investment is geared to the more intensive processing of heavy, sour crude.

In the absence of an obvious commodity market quote, we rely on our judgment as to the outlook for refining and downstream operations. The main consideration is that the trend to cleaner fuel that favors natural gas also favors more intensive refining. Not only must refined products be cleaner, they must also be derived increasingly from heavy oil. The world capacity to produce light oil apparently peaked in 2004 when Saudi Arabia reached its limits of light oil producing capacity.



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Research Methodology/Ratings Description: McDep Associates is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.