

**Rating: Buy**  
S&P 500: 1278  
Intraday

## **Chevron Corporation** **Lagging a Little Lately**

<i>Symbol</i>	CVX	<i>Ebitda Next Twelve Months ending 6/30/07 (US\$m)</i>	37,830
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	7
<i>Price (\$/sh)</i>	65.81	<i>Natural Gas and Oil Production/Ebitda (%)</i>	75
<i>Pricing Date</i>	7/28/06	<i>Adjusted Reserves/Production NTM</i>	10.9
<i>Shares (mm)</i>	2206	<i>EV/Ebitda</i>	4.4
<i>Market Capitalization (\$mm)</i>	145,000	<i>PV/Ebitda</i>	5.7
<i>Debt (\$mm)</i>	22,000	<i>Undeveloped Reserves (%)</i>	30
<i>Enterprise Value (EV) (\$mm)</i>	167,000	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	29.00
<i>Present Value (PV) (\$mm)</i>	216,000	<i>Present Value Proven Reserves(\$/boe)</i>	12.90
<i>Net Present Value (\$/share)</i>	88	<i>Present Value Proven Reserves(\$/mcf)</i>	2.20
<i>Debt/Present Value</i>	0.10	<i>Earnings Next Twelve Months (US\$/sh)</i>	8.57
<i>McDep Ratio - EV/PV</i>	0.77	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	3.2	<i>Indicated Annual Dividend (US\$/sh)</i>	2.08

Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.

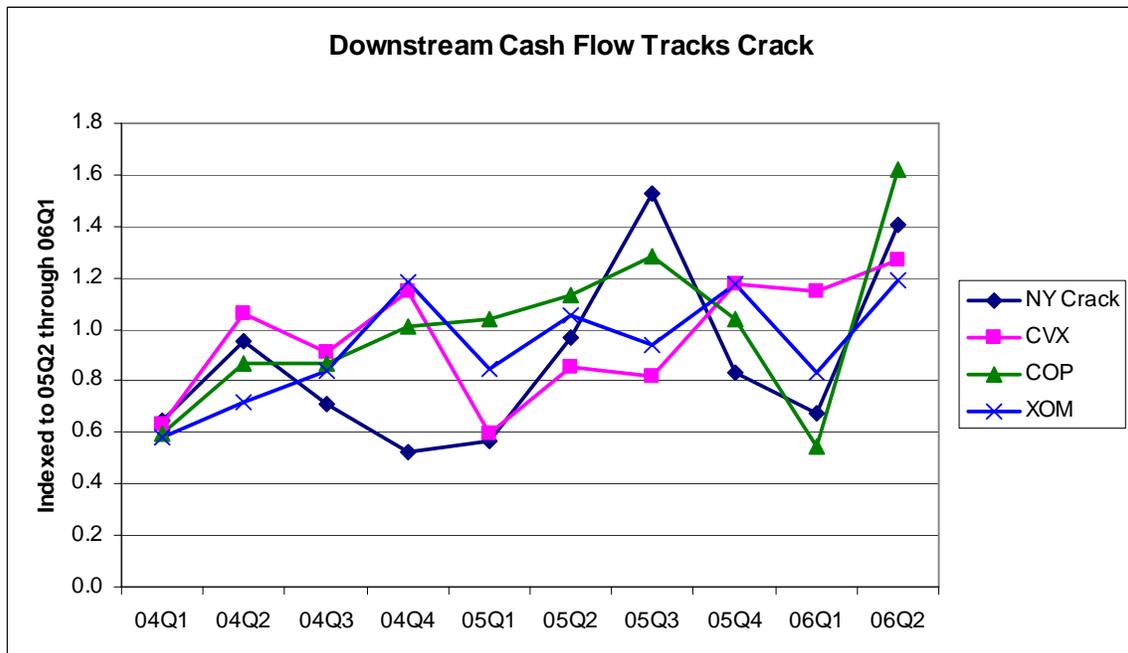
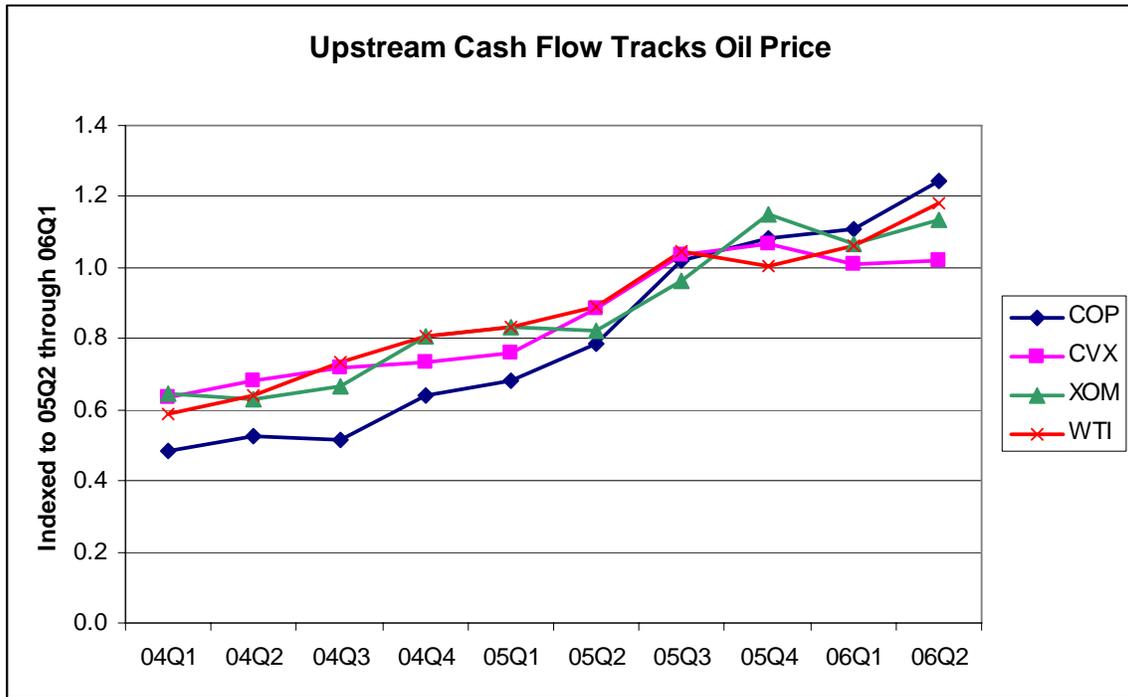
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

### **Summary and Recommendation**

Buy-recommended **Chevron Corporation (CVX)** offers 34% appreciation potential to net present value of \$88 a share that presumes a long-term oil price of \$60 a barrel. The estimate was revised from \$84 a share on June 6 when we revised our oil price from \$50 a barrel. The current quote for six-year oil futures is \$74. Our vision for oil price in 2010 is \$150. Our caution in raising NPV less than oil price reflected our concern that in some countries the company would not get its proportionate share of higher commodity price. In the second quarter of 2006 reported on July 28, Chevron's upstream cash flow is lagging a little, but over ten quarters the company is keeping up (see chart). The same observation holds for downstream cash flow and refining margin (see chart). Meanwhile, financial risk is minimal indicated by a 0.10 ratio of debt to present value. Thus, an investment in Chevron stock offers participation in the outlook for oil price, natural gas price and refining margin on terms that seem favorable to us.

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

	<i>Q2</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Next</i>
	<i>6/30/05</i>	<i>2005</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>Months</i>
								<i>6/30/07</i>
<b>Volume</b>								
Natural Gas (mmcf)								
U.S.	1,621	<b>1,634</b>	1,782	1,832	1,832	1,832	<b>1,820</b>	<b>1,832</b>
Rest of World	2,151	<b>2,599</b>	3,165	3,234	3,234	3,234	<b>3,217</b>	<b>3,234</b>
Total	3,772	<b>4,233</b>	4,947	5,066	5,066	5,066	<b>5,037</b>	<b>5,066</b>
Oil (mbd)	1,792	<b>1,811</b>	1,819	1,825	1,825	1,825	<b>1,824</b>	<b>1,825</b>
Total gas & oil (mbd)	2,421	<b>2,517</b>	2,644	2,669	2,669	2,669	<b>2,663</b>	<b>2,669</b>
<b>Price</b>								
Natural gas (\$/mcf)								
Henry Hub (\$/mmbtu)	6.76	<b>8.65</b>	8.97	6.81	6.71	8.82	<b>7.83</b>	<b>8.72</b>
U.S.	6.31	<b>7.43</b>	7.46	5.89	5.81	7.53	<b>6.66</b>	<b>7.46</b>
Rest of World	3.01	<b>3.19</b>	3.78	3.82	4.01	4.41	<b>4.01</b>	<b>4.48</b>
Total	4.43	<b>4.83</b>	5.11	4.57	4.66	5.54	<b>4.97</b>	<b>5.55</b>
Oil (\$/bbl)								
WTI Cushing	53.05	<b>56.31</b>	63.33	70.47	74.56	76.42	<b>71.19</b>	<b>76.72</b>
Worldwide	44.90	<b>47.48</b>	54.71	61.69	65.27	67.30	<b>62.29</b>	<b>67.86</b>
Total gas & oil (\$/bbl)	40.14	<b>42.28</b>	47.20	50.85	53.47	56.53	<b>52.05</b>	<b>56.94</b>
NY Harbor 3-2-1 (\$/bbl)	10.59	<b>10.63</b>	7.40	15.39	16.36	11.35	<b>12.62</b>	<b>14.60</b>
<b>Revenue (\$mm)</b>								
Natural Gas								
U.S.	931	<b>4,432</b>	1,196	982	978	1,270	<b>4,426</b>	<b>4,986</b>
Rest of World	589	<b>3,022</b>	1,077	1,124	1,193	1,313	<b>4,707</b>	<b>5,286</b>
Total	1,520	<b>7,454</b>	2,273	2,106	2,172	2,582	<b>9,133</b>	<b>10,271</b>
Oil	7,321	<b>31,387</b>	8,957	10,245	10,959	11,299	<b>41,461</b>	<b>45,201</b>
Other	39,502	<b>159,359</b>	43,394	41,185	41,185	41,985	<b>167,748</b>	<b>167,139</b>
Total	48,343	<b>198,200</b>	54,624	53,536	54,316	55,866	<b>218,342</b>	<b>222,612</b>
<b>Expense</b>								
Production	3,541	<b>15,941</b>	4,941	6,052	6,442	6,817	<b>24,253</b>	<b>27,242</b>
Other	37,590	<b>151,658</b>	40,834	38,355	38,785	39,585	<b>157,559</b>	<b>157,539</b>
<b>Ebitda (\$mm)</b>								
Exploration and Production	5,300	<b>22,900</b>	6,289	6,299	6,689	7,064	<b>26,341</b>	<b>28,230</b>
Other	1,911	<b>7,701</b>	2,560	2,830	2,400	2,400	<b>10,190</b>	<b>9,600</b>
Total Ebitda	7,211	<b>30,601</b>	8,849	9,129	9,089	9,464	<b>36,531</b>	<b>37,830</b>
Exploration	139	<b>688</b>	268	265	265	265	<b>1,063</b>	<b>1,060</b>
Deprec., Deplet., & Amort.	1,320	<b>5,913</b>	1,788	1,807	1,807	1,800	<b>7,202</b>	<b>7,207</b>
Other non cash			500	250				
<b>Ebit</b>	5,752	<b>22,200</b>	6,293	6,807	7,017	7,399	<b>27,516</b>	<b>29,563</b>
Interest	104	<b>482</b>	134	121	121	121	<b>497</b>	<b>484</b>
<b>Ebt</b>	5,648	<b>21,718</b>	6,159	6,686	6,896	7,278	<b>27,019</b>	<b>29,079</b>
Income Tax	1,977	<b>7,601</b>	2,156	2,340	2,414	2,547	<b>9,457</b>	<b>10,178</b>
<b>Net Income (\$mm)</b>								
Exploration and Production	2,772	<b>11,724</b>	3,458	3,272				
Other	1,060	<b>3,064</b>	733	1,092				
Unallocated	(161)	<b>(672)</b>	(188)	(18)				
Total	3,671	<b>14,116</b>	4,003	4,346	4,482	4,731	<b>17,562</b>	<b>18,902</b>
<b>Shares (millions)</b>	2,086	<b>2,158</b>	2,224	2,206	2,206	2,206	<b>2,210</b>	<b>2,206</b>
Per share (\$)	1.76	<b>6.54</b>	1.80	1.97	2.03	2.14	<b>7.95</b>	<b>8.57</b>
Ebitda Margin (E&P)	60%	<b>59%</b>	56%	51%	51%	51%	<b>52%</b>	<b>51%</b>
Tax Rate	35%	<b>35%</b>	35%	35%	35%	35%	<b>35%</b>	<b>35%</b>

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**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	2,260	6.3	6.2	14,000	6%
Rest of World Natural Gas	2,400	12.9	8.8	21,000	10%
Oil	23,570	11.1	5.2	123,000	57%
Downstream	9,600		6.0	58,000	27%
	37,830	10.9	5.7	216,000	100%
Debt (US\$mm)					22,000
Net Present Value (US\$mm)					194,000
Shares (mm)					2,206
Net Present Value - Standard Estimate (US\$/sh)					88
Net Present Value - Approximation by Correlation (US\$/sh)					92

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