



Independent Stock Idea

October 31, 2008

rating: hold
s&p 500: 963 intraday

Chevron Corporation (CVX) Oil in the Stock Market at \$59 a Barrel

| | | | |
|--|----------|---|--------|
| <i>Symbol</i> | CVX | <i>Ebitda Next Twelve Months ending 9/30/09 (US\$m)</i> | 33,000 |
| <i>Rating</i> | Hold | <i>North American Natural Gas/Ebitda (%)</i> | 5 |
| <i>Price (\$/sh)</i> | 73.70 | <i>Natural Gas and Oil Production/Ebitda (%)</i> | 76 |
| <i>Pricing Date</i> | 10/31/08 | <i>Adjusted Reserves/Production NTM</i> | 9.6 |
| <i>Shares (mm)</i> | 2206 | <i>EV/Ebitda</i> | 5.8 |
| <i>Market Capitalization (\$mm)</i> | 163,000 | <i>PV/Ebitda</i> | 7.4 |
| <i>Debt (\$mm)</i> | 28,000 | <i>Undeveloped Reserves (%)</i> | 37 |
| <i>Enterprise Value (EV) (\$mm)</i> | 190,000 | <i>Natural Gas and Oil Ebitda (\$/boe)</i> | 26.50 |
| <i>Present Value (PV) (\$mm)</i> | 244,000 | <i>Present Value Proven Reserves(\$/boe)</i> | 16.60 |
| <i>Net Present Value (\$/share)</i> | 98 | <i>Present Value Proven Reserves(\$/mcf)</i> | 2.80 |
| <i>Debt/Present Value</i> | 0.11 | <i>Earnings Next Twelve Months (US\$/sh)</i> | 7.03 |
| <i>McDep Ratio - EV/PV</i> | 0.78 | <i>Price/Earnings Next Twelve Months</i> | 10 |
| <i>Dividend Yield (%/year)</i> | 3.5 | <i>Indicated Annual Dividend (US\$/sh)</i> | 2.60 |
| 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. | | | |
| Estimated present value presumes a long-term price for oil of US\$75 a barrel and natural gas, \$10 a million btu. | | | |
| For historical analysis of CVX since 2002 see www.mcdep.com/1cvx.htm | | | |

Summary and Recommendation

Hold-rated **Chevron (CVX)** offers unlevered appreciation potential of 28% to estimated net present value (NPV) of \$98 a share. On October 28, we reset NPV from \$135 a share on the basis of a long-term oil price assumption of \$75 a barrel, down from \$100. Patience may be necessary as CVX stock price remains below the 200-day average of \$87. Released today, third quarter results displayed strength in unlevered cash flow (Ebitda) driven by crude oil and natural gas prices. Futures prices now look lower for the next four quarters (see table [Next Twelve Months Operating and Financial Estimates](#)). Projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) supports NPV (see table [Functional Cash Flow and Present Value](#)). Reported cash flow from downstream operations in the latest quarter reversed “timing effects” that were adverse in the previous quarter (see chart [Oil and Gas Downstream Cash Flow](#)). Stock repurchase continues as a tax efficient means for Chevron to acquire oil and gas in the stock market without paying an acquisition premium (see chart [Common Shares Outstanding](#)). Chevron stock offers oil and gas resources as though the long-term oil price were \$59 a barrel (McDep Ratio of 0.78 times \$75 long-term oil price for calculating NPV).

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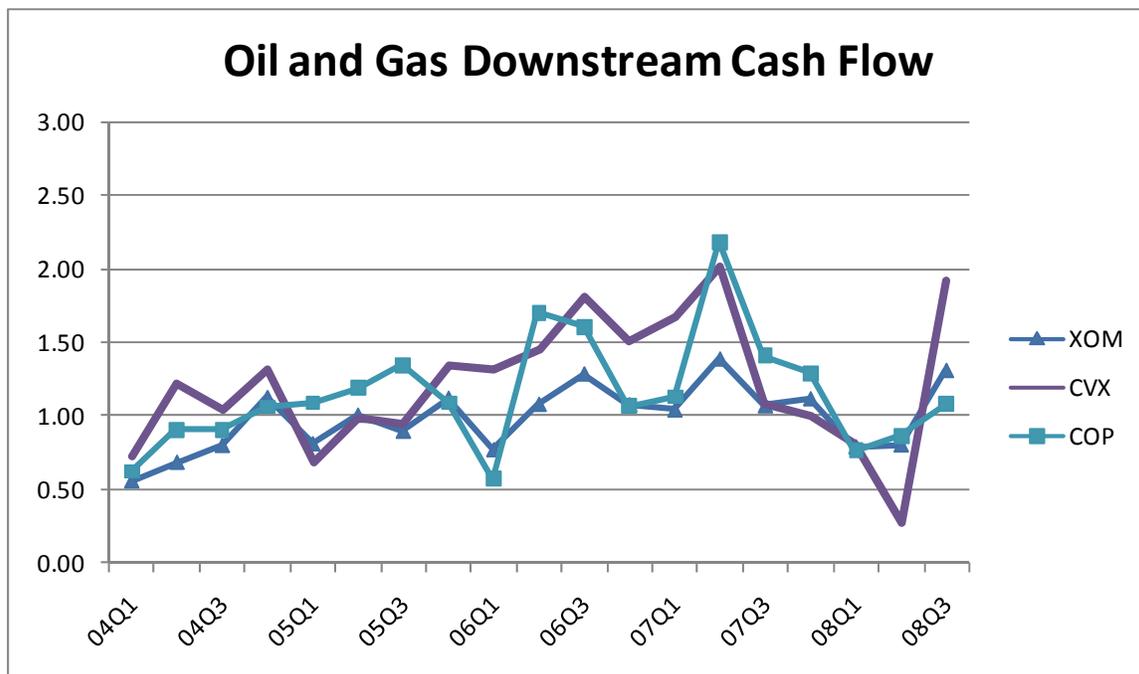
| Chevron | | | | | | | | | |
|--|---------|---------|---------|----------|----------------|---------|---------|---------|--------------------------|
| Next Twelve Months Operating and Financial Estimates | | | | | | | | | |
| | Q3 | Q2 | Q3 | Q4E | Year | Q1E | Q2E | Q3E | Next Twelve Months |
| | 9/30/07 | 6/30/08 | 9/30/08 | 12/31/08 | 2008E | 3/31/09 | 6/30/09 | 9/30/09 | 9/30/09 |
| Volume | | | | | | | | | |
| Natural Gas (mmcf) | | | | | | | | | |
| U.S. | 1,695 | 1,588 | 1,431 | 1,431 | 1,528 | 1,431 | 1,431 | 1,431 | 1,431 |
| Rest of World | 3,288 | 3,621 | 3,618 | 3,408 | 3,603 | 3,768 | 3,621 | 3,618 | 3,603 |
| Total | 4,983 | 5,209 | 5,049 | 4,839 | 5,132 | 5,199 | 5,052 | 5,049 | 5,034 |
| Days | 92 | 91 | 92 | 92 | 366 | 90 | 91 | 92 | 365 |
| Oil (mbd) | 1,760 | 1,783 | 1,766 | 1,766 | 1,770 | 1,766 | 1,766 | 1,766 | 1,766 |
| Total gas & oil (mbd) | 2,591 | 2,651 | 2,608 | 2,573 | 2,625 | 2,633 | 2,608 | 2,608 | 2,605 |
| Price | | | | | | | | | |
| Natural gas (\$/mcf) | | | | | | | | | |
| Henry Hub (\$/mmbtu) | 6.16 | 10.93 | 10.25 | 6.65 | 8.96 | 6.65 | 6.67 | 6.97 | 6.73 |
| U.S. | 5.43 | 9.84 | 8.64 | 5.50 | 7.92 | 5.51 | 5.52 | 5.77 | 5.58 |
| Rest of World | 3.78 | 5.44 | 5.37 | 5.37 | 5.25 | 4.83 | 5.44 | 5.37 | 5.25 |
| Total | 4.34 | 6.78 | 6.30 | 5.41 | 6.04 | 5.02 | 5.46 | 5.48 | 5.34 |
| Oil (\$/bbl) | | | | | | | | | |
| WTI Cushing | 75.48 | 123.97 | 117.99 | 67.52 | 101.86 | 64.23 | 65.80 | 67.22 | 66.19 |
| Worldwide | 66.96 | 111.37 | 105.15 | 60.57 | 90.83 | 58.42 | 59.86 | 61.14 | 60.01 |
| Total gas & oil (\$/bbl) | 53.84 | 88.22 | 83.41 | 51.76 | 73.05 | 49.10 | 51.11 | 52.03 | 51.00 |
| NY Harbor 3-2-1 (\$/bbl) | 12.64 | 14.94 | 11.84 | 5.71 | 10.02 | 5.31 | 10.44 | 8.40 | 7.47 |
| Revenue (\$mm) | | | | | | | | | |
| Natural Gas | | | | | | | | | |
| U.S. | 847 | 1,422 | 1,137 | 725 | 4,429 | 709 | 719 | 760 | 2,914 |
| Rest of World | 1,143 | 1,793 | 1,787 | 1,684 | 6,920 | 1,638 | 1,793 | 1,787 | 6,902 |
| Total | 1,990 | 3,214 | 2,925 | 2,408 | 11,349 | 2,347 | 2,512 | 2,548 | 9,815 |
| Oil | 10,842 | 18,065 | 17,084 | 9,841 | 58,845 | 9,286 | 9,619 | 9,934 | 38,680 |
| Other | 42,341 | 61,709 | 58,858 | 59,658 | 229,516 | 59,658 | 59,658 | 59,658 | 238,631 |
| Total | 55,173 | 82,989 | 78,867 | 71,907 | 299,709 | 71,291 | 71,789 | 72,139 | 287,126 |
| Expense (\$mm) | | | | | | | | | |
| Production | 6,416 | 10,001 | 9,404 | 5,880 | 33,113 | 5,584 | 5,823 | 5,991 | 23,278 |
| Other | 40,226 | 61,193 | 55,095 | 57,708 | 221,709 | 58,081 | 57,518 | 57,518 | 230,824 |
| Ebitda (\$mm) | | | | | | | | | |
| Exploration and Production | 6,416 | 11,278 | 10,605 | 6,370 | 37,080 | 6,049 | 6,308 | 6,491 | 25,218 |
| Other | 2,114 | 517 | 3,763 | 1,950 | 7,806 | 1,577 | 2,140 | 2,140 | 7,806 |
| Total Ebitda | 8,530 | 11,795 | 14,368 | 8,320 | 44,887 | 7,626 | 8,448 | 8,630 | 33,024 |
| Exploration | 295 | 307 | 271 | 271 | 1,102 | 271 | 271 | 300 | 1,113 |
| Deprec., Deplet., & Amort. | 2,495 | 2,275 | 2,449 | 2,449 | 9,388 | 2,449 | 2,449 | 2,449 | 9,796 |
| Other non cash | | | | | | | | | |
| Ebit | 5,740 | 9,213 | 11,648 | 5,600 | 34,397 | 4,906 | 5,728 | 5,881 | 22,115 |
| Interest | 22 | - | - | - | - | - | - | - | - |
| Ebt | 5,718 | 9,213 | 11,648 | 5,600 | 34,397 | 4,906 | 5,728 | 5,881 | 22,115 |
| Income Tax | 2,001 | 3,225 | 4,077 | 1,960 | 12,039 | 1,717 | 2,005 | 2,058 | 7,740 |
| Net Income (\$mm) | | | | | | | | | |
| Exploration and Production | 3,431 | 7,248 | 6,182 | | | | | | |
| Other | 480 | (693) | 1,901 | | | | | | |
| Unallocated | (194) | (567) | (512) | | | | | | |
| Total | 3,717 | 5,989 | 7,571 | 3,640 | 22,358 | 3,189 | 3,723 | 3,823 | 14,375 |
| Shares (millions) | | | | | | | | | |
| Per share (\$) | 1.75 | 2.90 | 3.70 | 1.78 | 10.86 | 1.56 | 1.82 | 1.87 | 7.03 |
| Ebitda Margin (E&P) | 50% | 53% | 53% | 52% | 53% | 52% | 52% | 52% | 52% |
| Tax Rate | 35% | 35% | 35% | 35% | 35% | 35% | 35% | 35% | 35% |



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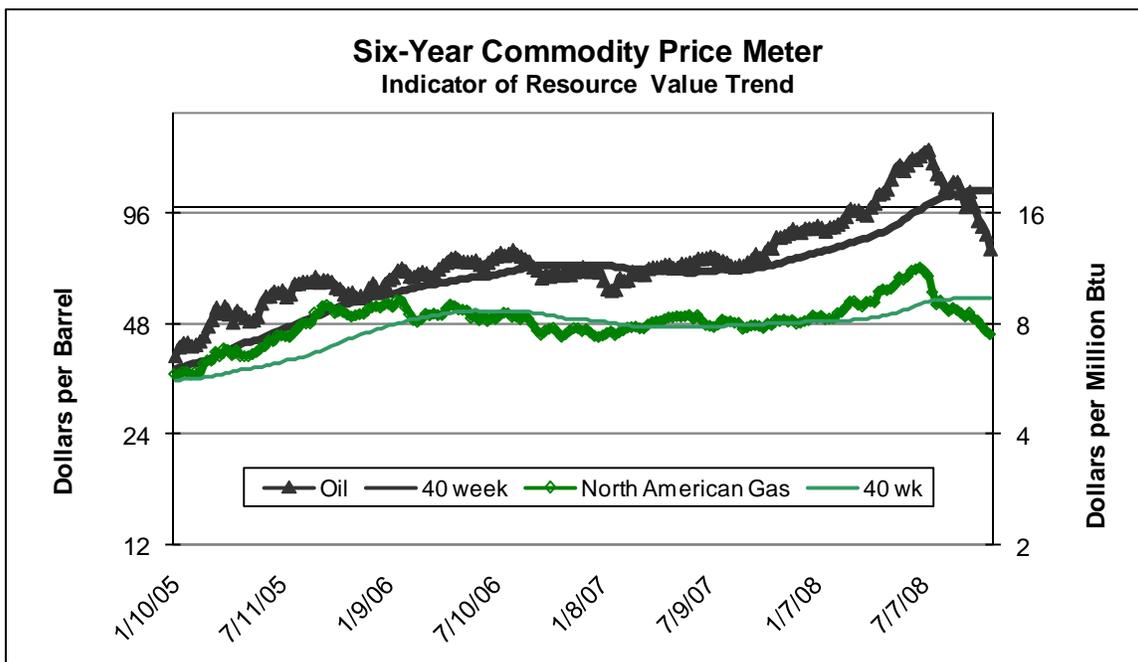
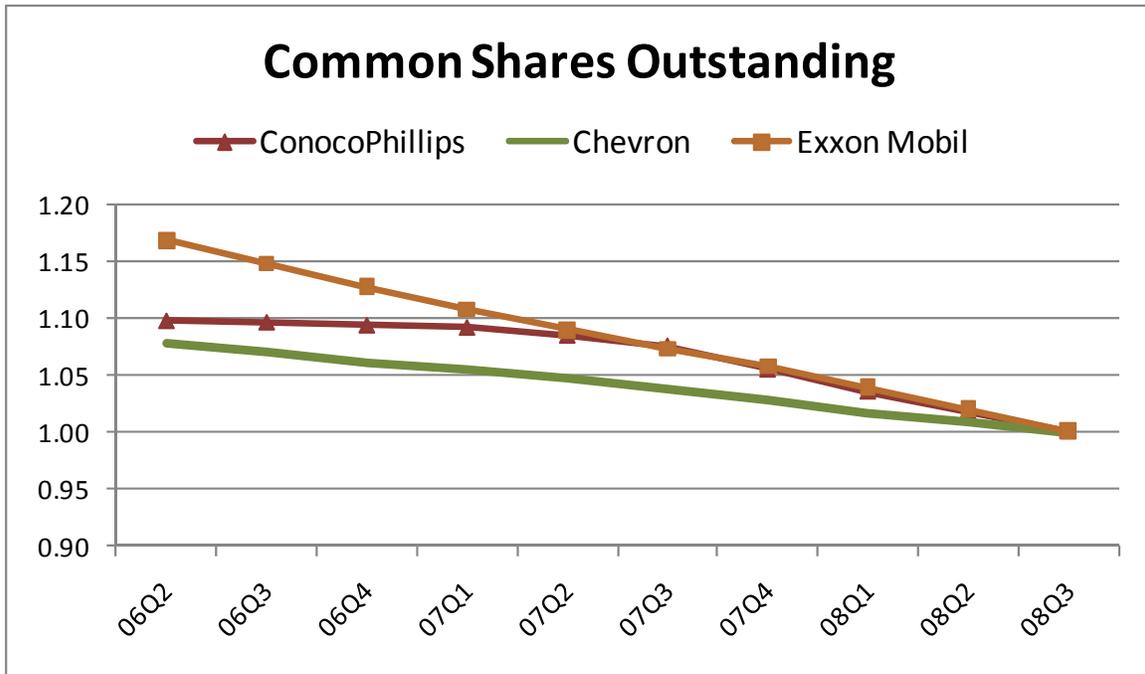
| Chevron Corporation | | | | | |
|---|-------------------|-----------------|---------------|-----------------|---------|
| Functional Cash Flow and Present Value | | | | | |
| | <i>NTM Ebitda</i> | <i>Adjusted</i> | <i>PV/</i> | <i>Present</i> | |
| | <i>(US\$mm)</i> | <i>R/P</i> | <i>Ebitda</i> | <i>Value</i> | |
| | | | | <i>(US\$mm)</i> | |
| North American Natural Gas | 1,520 | 6.6 | 7.2 | 11,000 | 5% |
| Rest of World Natural Gas | 3,590 | 11.0 | 8.4 | 30,000 | 12% |
| Oil | 20,100 | 9.6 | 8.1 | 163,000 | 67% |
| Downstream | 7,810 | | 5.1 | 40,000 | 16% |
| | 33,020 | 9.6 | 7.4 | 244,000 | 100% |
| Debt (US\$mm) | | | | | 28,000 |
| Net Present Value (US\$mm) | | | | | 216,000 |
| Shares (mm) | | | | | 2,206 |
| Net Present Value - Standard Estimate (US\$/sh) | | | | | 98 |
| NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh) | | | | | 97 |





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