



Independent Stock Idea

July 31, 2009

rating: buy
s&p 500: 984 intraday

Chevron Corporation (CVX) Strength in Tough Times

<i>Symbol</i>	CVX	<i>Ebitda Next Twelve Months ending 6/30/10 (US\$mm)</i>	29,100
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	4
<i>Price (\$/sh)</i>	67.88	<i>Natural Gas and Oil Production/Ebitda (%)</i>	85
<i>Pricing Date</i>	7/31/09	<i>Adjusted Reserves/Production NTM</i>	9.8
<i>Shares (mm)</i>	1992	<i>EV/Ebitda</i>	5.8
<i>Market Capitalization (\$mm)</i>	135,000	<i>PV/Ebitda</i>	7.7
<i>Debt (\$mm)</i>	32,000	<i>Undeveloped Reserves (%)</i>	36
<i>Enterprise Value (EV) (\$mm)</i>	168,000	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	25.30
<i>Present Value (PV) (\$mm)</i>	226,000	<i>Present Value Proven Reserves(\$/boe)</i>	16.50
<i>Net Present Value (\$/share)</i>	97	<i>Present Value Proven Reserves(\$/mcf)</i>	2.70
<i>Debt/Present Value</i>	0.14	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.86
<i>McDep Ratio - EV/PV</i>	0.74	<i>Price/Earnings Next Twelve Months</i>	14
<i>Dividend Yield (%/year)</i>	4.0	<i>Indicated Annual Dividend (US\$/sh)</i>	2.72
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, \$8 a million btu.			
For historical analysis of CVX since 2002 see www.mcdep.com/lcvx.htm			

Summary and Recommendation

Buy-rated **Chevron (CVX)** offers unlevered appreciation potential of 39% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$97 a share. On July 14 we reduced NPV from \$98 when we reduced estimated Present Value of North American Natural Gas by 20%. Released today, second quarter results were more than our estimate for unlevered cash flow (Ebitda) from three months ago despite the lower downstream results and lower natural gas price outside North America. Ebitda margin for production increased unexpectedly (see table [Next Twelve Months Operating and Financial Estimates](#)). Past excess volatility in downstream cash flow appears to have been cleared up by accounting improvements (see chart [Downstream Cash Flow](#)). Meanwhile, the currently stronger oil production segment drives 70% of NPV (see table [Functional Cash Flow and Present Value](#)). Upstream volume appears to be trending upward (see chart [Volume per Share, Debt-Adjusted](#)). Production cash flow generally tracks the industry (see chart [Cash Flow per Barrel](#)). Pointing to possible further gains, futures prices for the next six years for oil crossed the 40-week average into an uptrend at the end of May (see chart [Six-Year Commodity Price Meter](#)). Finally, we restored our buy rating on Chevron on July 28 to profit from energy growth with inflation protection and deflation resistance.

Kurt H. Wulff, CFA



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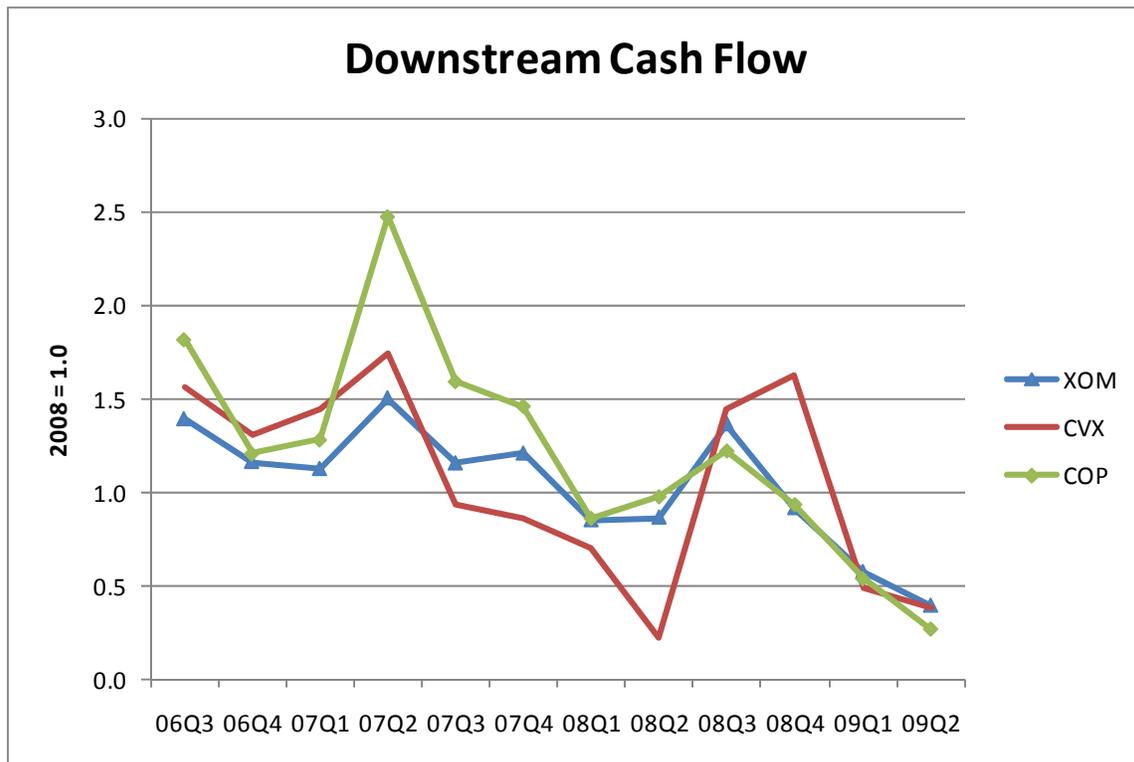
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Chevron									
Next Twelve Months Operating and Financial Estimates									
									Next
	Q2	Q1	Q2	Q3E	Q4E	Year	Q1E	Q2E	Twelve
	6/30/08	3/31/09	6/30/09	9/30/09	12/31/09	2009E	3/31/10	6/30/10	Months
									6/30/10
Volume									
Natural Gas (mmcf)									
U.S.	1,588	1,379	1,395	1,395	1,395	1,391	1,395	1,395	1,395
Rest of World	3,621	3,642	3,593	3,618	3,493	3,586	3,642	3,593	3,586
Total	5,209	5,021	4,988	5,013	4,888	4,977	5,037	4,988	4,981
Days	91	90	91	92	92	365	90	91	365
Oil (mbd)	1,783	1,826	1,839	1,839	1,839	1,836	1,839	1,839	1,839
Total gas & oil (mmb)	241	240	243	246	244	973	241	243	974
Total gas & oil (mbd)	2,651	2,663	2,670	2,675	2,654	2,665	2,679	2,670	2,669
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	10.93	4.90	3.50	3.78	4.69	4.22	5.65	5.61	4.93
U.S.	9.84	4.14	3.27	3.53	4.29	3.81	5.16	5.12	4.52
Rest of World	5.44	4.21	3.73	3.97	4.09	4.00	4.17	4.21	4.11
Total	6.78	4.19	3.60	3.85	4.15	3.95	4.44	4.47	4.22
Oil (\$/bbl)									
WTI Cushing	123.97	42.96	59.52	67.06	71.33	60.22	73.86	75.58	71.96
Worldwide	111.37	38.81	53.18	59.91	64.14	54.12	67.21	68.78	64.99
Total gas & oil (\$/bbl)	88.22	34.51	43.35	48.41	52.09	44.64	54.49	55.71	52.66
NY Harbor 3-2-1 (\$/bbl)	14.94	9.18	9.49	9.14	5.49	8.32	5.38	8.52	7.13
Revenue (\$mm)									
Natural Gas									
U.S.	1,422	514	415	453	550	1,933	648	650	2,302
Rest of World	1,793	1,380	1,220	1,320	1,315	5,235	1,365	1,378	5,378
Total	3,214	1,894	1,635	1,774	1,866	7,168	2,013	2,028	7,680
Oil	18,065	6,378	8,900	10,137	10,851	36,265	11,123	11,509	43,621
Other	61,709	27,859	29,671	29,671	30,471	117,671	30,471	30,471	121,083
Total	82,989	36,130	40,205	41,581	43,187	161,103	43,607	44,008	172,383
Expense (\$mm)									
Production	10,001	3,912	4,510	6,193	6,613	21,228	6,831	7,040	26,676
Other	61,193	26,747	28,794	28,362	29,342	113,244	29,358	29,594	116,656
Ebitda (\$mm)									
Exploration and Production	11,278	4,359	6,024	5,717	6,104	22,204	6,306	6,498	24,624
Other	517	1,112	877	1,309	1,129	4,427	1,112	877	4,427
Total Ebitda	11,795	5,471	6,901	7,026	7,232	26,631	7,418	7,375	29,051
Exploration	307	381	438	438	438	1,695	438	438	1,752
Deprec., Deplet., & Amort.	2,275	2,867	3,099	3,099	3,099	12,164	3,099	3,099	12,396
Other non cash									
Ebit	9,213	2,223	3,364	3,489	3,695	12,772	3,881	3,838	14,903
Interest	-	8	6	6	6	26	6	6	24
Ebt	9,213	2,215	3,358	3,483	3,689	12,746	3,875	3,832	14,879
Income Tax	3,225	775	1,175	1,219	1,291	4,461	1,356	1,341	5,208
Net Income (\$mm)									
Exploration and Production	7,248	1,269	1,995						
Other	(693)	462	288						
Unallocated	(567)	(291)	(100)						
Total	5,989	1,440	2,183	2,264	2,398	8,285	2,519	2,491	9,671
Shares (millions)									
Per share (\$)	2.90	0.72	1.10	1.14	1.20	4.16	1.26	1.25	4.86
Ebitda Margin (E&P)	53%	53%	57%	48%	48%	51%	48%	48%	48%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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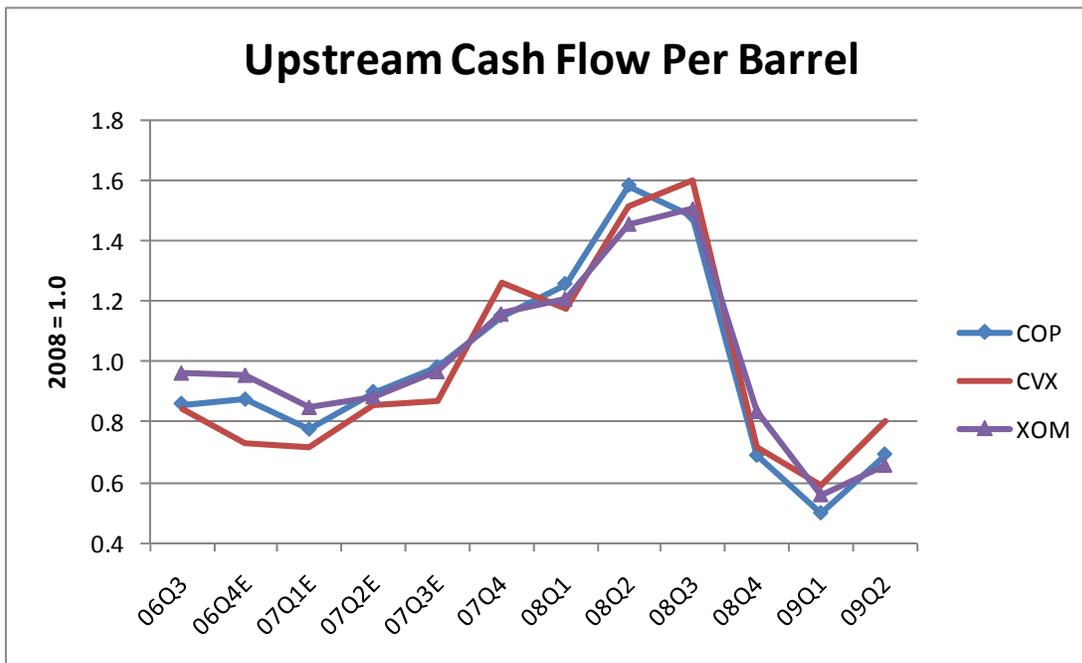
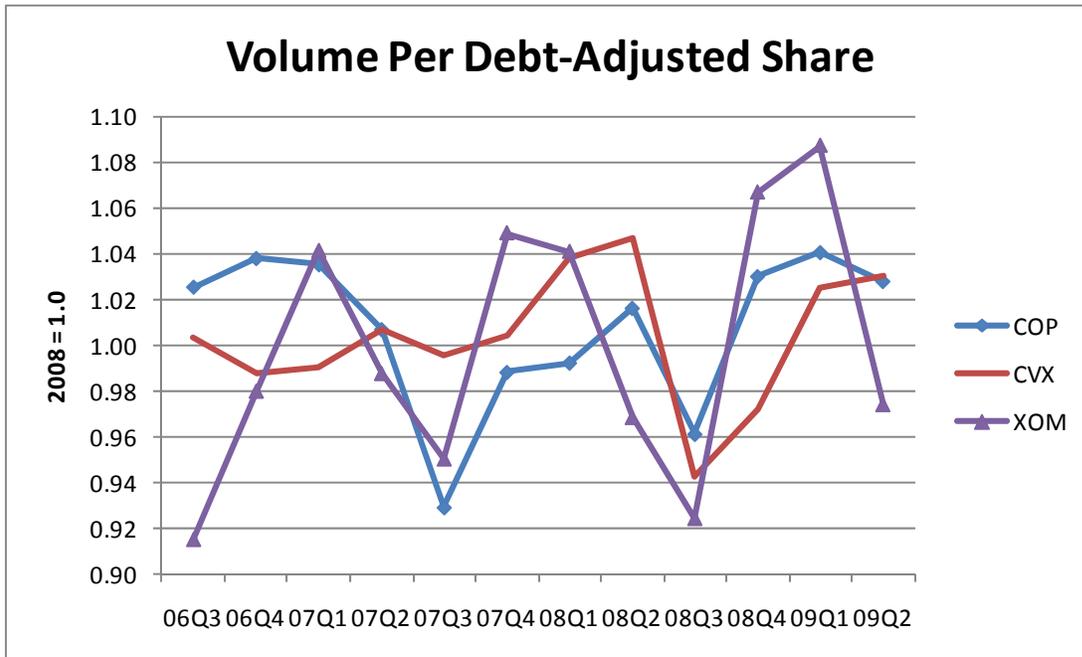


Chevron Corporation					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	1,100	5.8	8.2	9,000	4%
Rest of World Natural Gas	2,580	11.9	8.5	22,000	10%
Oil	20,940	9.6	7.5	157,000	70%
Downstream	4,430		8.4	37,000	16%
	29,050	9.8	7.7	225,000	100%
Debt (US\$mm)					32,000
Net Present Value (US\$mm)					193,000
Shares (mm)					1,992
Net Present Value - Standard Estimate (US\$/sh)					97
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					103



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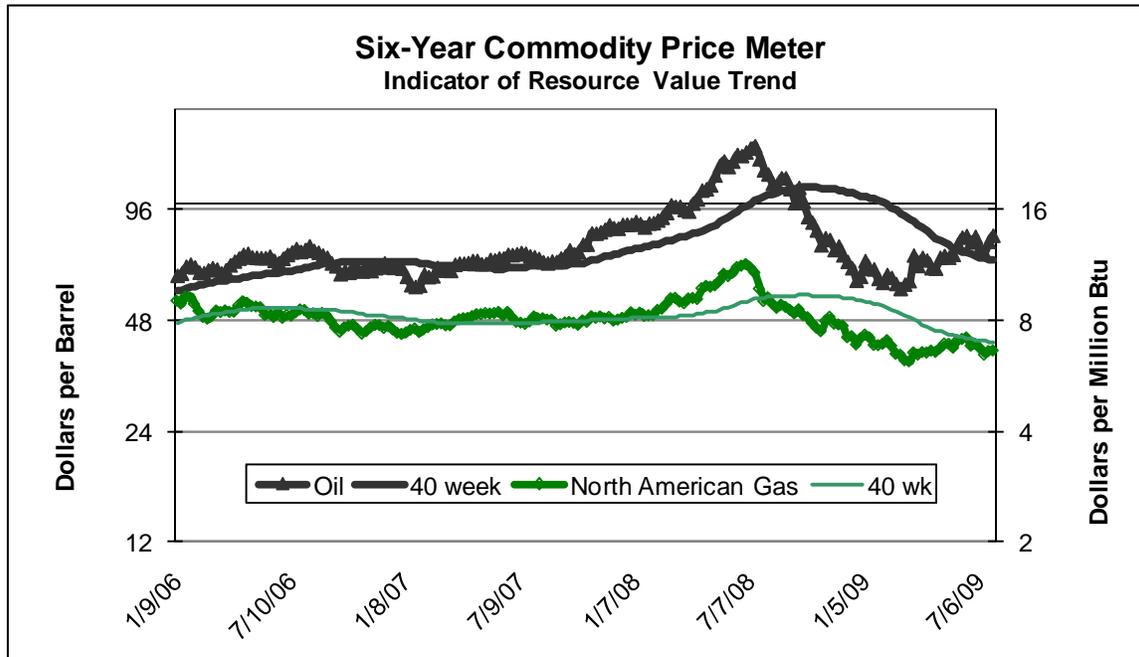
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