



Independent Stock Idea

November 2, 2009

rating: buy
s&p 500: 1036

Chevron Corporation (CVX) Raise Net Present Value to \$102 a Share from \$97

<i>Symbol</i>	CVX	<i>Ebitda Next Twelve Months ending 9/30/10 (US\$m)</i>	34,300
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	4
<i>Price (\$/sh)</i>	76.54	<i>Natural Gas and Oil Production/Ebitda (%)</i>	88
<i>Pricing Date</i>	10/30/09	<i>Adjusted Reserves/Production NTM</i>	9.7
<i>Shares (mm)</i>	2001	<i>EV/Ebitda</i>	5.4
<i>Market Capitalization (\$mm)</i>	153,000	<i>PV/Ebitda</i>	6.9
<i>Debt (\$mm)</i>	33,000	<i>Undeveloped Reserves (%)</i>	36
<i>Enterprise Value (EV) (\$mm)</i>	186,000	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	30.40
<i>Present Value (PV) (\$mm)</i>	237,000	<i>Present Value Proven Reserves(\$/boe)</i>	17.90
<i>Net Present Value (\$/share)</i>	102	<i>Present Value Proven Reserves(\$/mcf)</i>	3.00
<i>Debt/Present Value</i>	0.14	<i>Earnings Next Twelve Months (US\$/sh)</i>	6.72
<i>McDep Ratio - EV/PV</i>	0.78	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	3.6	<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/1cvx.htm			

Summary and Recommendation

Analyzing third quarter results released October 30, we raise estimated Net Present Value (NPV) to \$102 a share for buy-recommended **Chevron (CVX)** on lower operating cost and higher production (see table [Next Twelve Months Operating and Financial Estimates](#)). With the increase in NPV from \$97 a share, unlevered appreciation potential is 27% to a McDep Ratio of 1.0 where stock price would equal NPV. Concentration on oil moves up a notch to 71% in our valuation that capitalizes cash flow at multiples (PV/Ebitda) related to reserve life (Adjusted R/P) for natural gas and oil (see table [Functional Cash Flow and Present Value](#)). Greater emphasis on oil, which has had a stronger price trend than natural gas in recent years, helps CVX to a relatively better profit trend (see chart [Cash Flow \(Ebitda\) Margin](#)). The price trend indicators are positive with futures prices for the next six years for oil and gas above the 40-week average (see chart [Six-Year Commodity Price Meter](#)). On an historical note we thank Mr. David O'Reilly for his effectiveness in making money for shareholders and for his calm, empathic personal style in representing an industry that regularly faces political challenge. The affable Mr. O'Reilly steps down at year end after 10 years as Chief Executive and more than 40 years with Chevron.

Kurt H. Wulff, CFA



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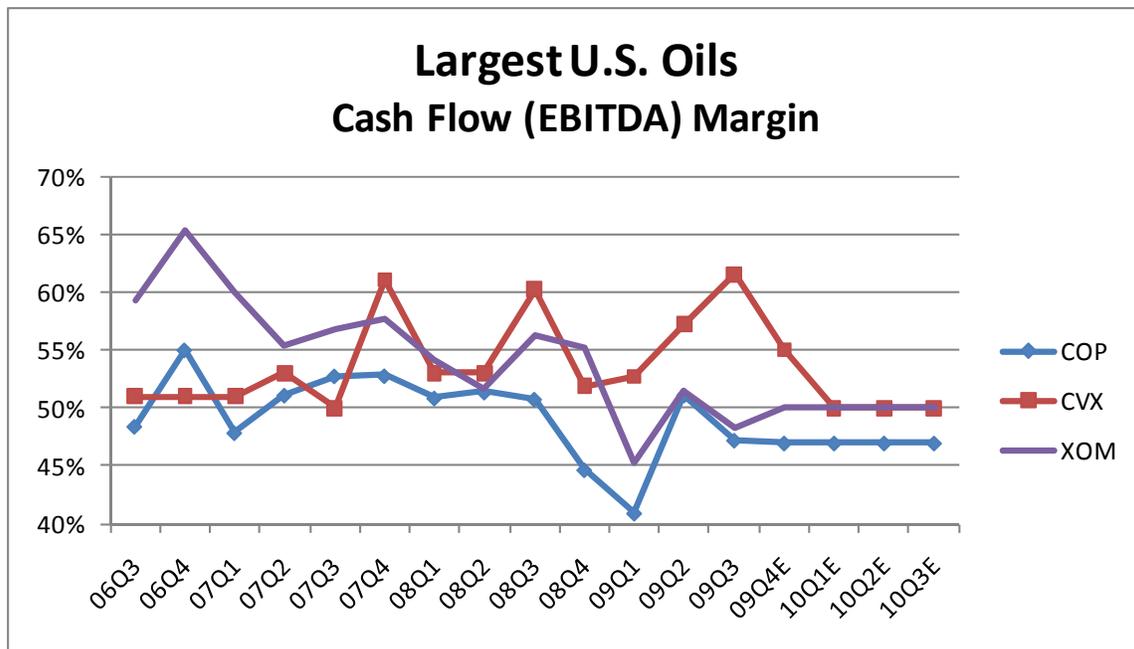
Chevron									
Next Twelve Months Operating and Financial Estimates									
	Q3	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	Next
	9/30/08	6/30/09	9/30/09	12/31/09	2009E	3/31/10	6/30/10	9/30/10	Twelve Months 9/30/10
Volume									
Natural Gas (mmcf)									
U.S.	1,431	1,395	1,420	1,420	1,404	1,420	1,420	1,420	1,420
Rest of World	3,618	3,593	3,475	3,493	3,550	3,642	3,593	3,475	3,550
Total	5,049	4,988	4,895	4,913	4,954	5,062	5,013	4,895	4,970
Days	92	91	92	92	365	90	91	92	365
Oil (mbd)	1,602	1,839	1,886	1,886	1,859	1,886	1,886	1,886	1,886
Total gas & oil (mmb)	225	243	249	249	980	246	248	249	991
Total gas & oil (mbd)	2,444	2,670	2,702	2,705	2,685	2,730	2,722	2,702	2,714
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	10.25	3.50	3.39	4.48	4.07	5.58	5.61	5.84	5.38
U.S.	8.64	3.27	3.28	4.24	3.73	5.27	5.31	5.52	5.08
Rest of World	5.37	3.73	3.92	4.19	4.01	4.25	4.29	4.32	4.27
Total	6.30	3.60	3.73	4.20	3.93	4.54	4.58	4.67	4.50
Oil (\$/bbl)									
WTI Cushing	117.99	59.52	68.22	77.69	62.10	80.00	81.52	82.60	80.45
Worldwide	105.15	53.18	62.28	70.92	56.56	73.03	74.42	75.40	73.44
Total gas & oil (\$/bbl)	81.95	43.35	50.24	57.09	46.42	58.88	60.01	61.10	59.27
NY Harbor 3-2-1 (\$/bbl)	11.84	9.49	9.45	7.51	8.91	7.63	10.46	10.27	8.97
Revenue (\$mm)									
Natural Gas									
U.S.	1,137	415	428	553	1,911	674	686	722	2,635
Rest of World	1,787	1,220	1,253	1,347	5,200	1,394	1,404	1,382	5,528
Total	2,925	1,635	1,682	1,901	7,111	2,068	2,090	2,104	8,163
Oil	15,498	8,900	10,806	12,305	38,389	12,396	12,772	13,083	50,557
Other	60,444	29,671	34,137	34,937	126,604	34,937	34,937	34,937	139,749
Total	78,867	40,205	46,625	49,143	172,103	49,402	49,800	50,124	198,469
Expense (\$mm)									
Production	7,323	4,510	4,806	6,393	19,621	7,232	7,431	7,594	28,649
Other	57,177	28,794	33,019	33,809	122,368	33,825	34,060	33,819	135,513
Ebitda (\$mm)									
Exploration and Production	11,100	6,024	7,681	7,813	25,878	7,232	7,431	7,594	30,070
Other	3,267	877	1,118	1,129	4,236	1,112	877	1,118	4,236
Total Ebitda	14,368	6,901	8,800	8,942	30,114	8,344	8,308	8,712	34,306
Exploration	271	438	242	400	1,461	400	400	400	1,600
Deprec., Deplet., & Amort.	2,449	3,099	2,988	2,988	11,942	2,988	2,988	2,988	11,952
Other non cash									
Ebit	11,648	3,364	5,570	5,554	16,711	4,956	4,920	5,324	20,754
Interest	-	6	14	14	42	14	14	14	56
Ebt	11,648	3,358	5,556	5,540	16,669	4,942	4,906	5,310	20,698
Income Tax	4,077	1,175	1,945	1,939	5,834	1,730	1,717	1,858	7,244
Net Income (\$mm)									
Exploration and Production	6,182	1,995	3,321						
Other	1,901	288	455						
Unallocated	(512)	(100)	(165)						
Total	7,571	2,183	3,611	3,601	10,835	3,213	3,189	3,451	13,454
Shares (millions)	2,045	1,992	2,001	2,001	1,999	2,001	2,001	2,001	2,001
Per share (\$)	3.70	1.10	1.80	1.80	5.42	1.61	1.59	1.72	6.72
Ebitda Margin (E&P)	60%	57%	62%	55%	57%	50%	50%	50%	51%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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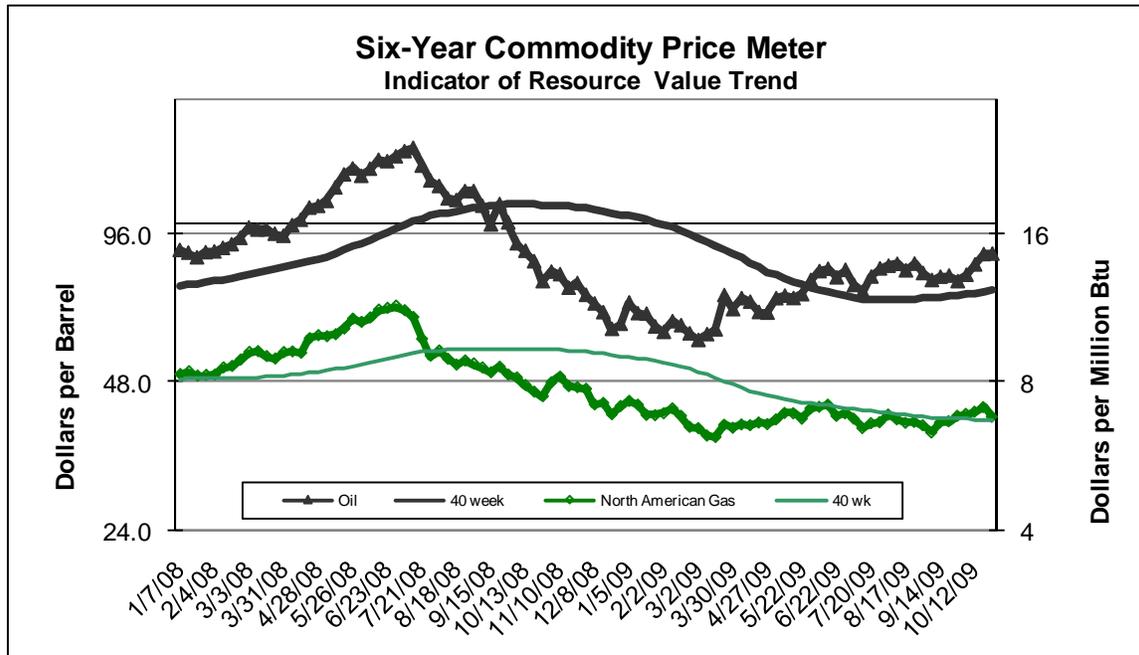
Chevron Corporation					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	1,350	5.7	7.4	10,000	4%
Rest of World Natural Gas	2,830	12.0	8.5	24,000	10%
Oil	25,890	9.4	6.5	169,000	71%
Downstream	4,240		8.0	34,000	14%
	34,310	9.7	6.9	237,000	100%
Debt (US\$mm)					33,000
Net Present Value (US\$mm)					204,000
Shares (mm)					2,001
Net Present Value - Standard Estimate (US\$/sh)					102
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					112





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