

Rating: Buy  
S&P 500: 1157

## Occidental Petroleum Return to Libya

<i>Symbol</i>	OXY	<i>Ebitda Next Twelve Months ending 3/31/06 (US\$mm)</i>	7,500
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	12
<i>Price (US\$/sh)</i>	71.99	<i>Natural Gas and Oil Production/Ebitda (%)</i>	90
<i>Pricing Date</i>	4/22/05	<i>Adjusted Reserves/Production NTM</i>	11.6
<i>Shares (mm)</i>	406	<i>EV/Ebitda</i>	4.7
<i>Market Capitalization (US\$mm)</i>	29,200	<i>PV/Ebitda</i>	5.5
<i>Debt (US\$mm)</i>	5,800	<i>Undeveloped Reserves (%)</i>	21
<i>Enterprise Value (EV) (US\$mm)</i>	35,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	34.40
<i>Present Value (PV) (US\$mm)</i>	41,100	<i>Present Value Proven Reserves(US\$/boe)</i>	14.50
<i>Net Present Value (US\$/share)</i>	87	<i>Present Value Proven Reserves(US\$/mcfe)</i>	2.42
<i>Debt/Present Value</i>	0.14	<i>Earnings Next Twelve Months (US\$/sh)</i>	8.91
<i>McDep Ratio - EV/PV</i>	0.85	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	1.7	<i>Indicated Annual Dividend (US\$/sh)</i>	1.24

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

We continue a Buy rating on the common shares of Occidental Petroleum (OXY), a leading oil producer with more than half of production in the U.S. The company that burst on the world scene with its Libyan oil production and then saw its assets nationalized, appears to be a leader in returning to Libya with seven licenses awarded in a recent negotiation. Intense competition assures that there is no immediate gain for Oxy, but there is opportunity for future reward. We see 21% stock price appreciation potential to net present value of \$87 a share and ongoing gains thereafter.

### Leading the Return of U.S. Producers to Libya

In a competitive bidding process conducted in January, Oxy won participation in nine of fifteen licenses awarded in March. Oxy is the operator on five onshore licenses with a 90% interest and Woodside is the operator on four offshore licenses where Oxy has a 35% interest (see table below from an analysis by Daniel Johnson in The Oil and Gas Journal). Bidders competed on the size of government share. On what was presumably the most prospective license, Oxy bid a government take of some 97%. Oxy will have to find and develop a lot of oil in Libya to add noticeable value to its stock.

### Oil Dominates Value

Oil resources account for 73% of the company's value (see table Functional Cash Flow and Present Value). Because 73% of oil reserves and 71% of natural gas reserves are in the U.S. we can be reasonably confident of our valuation as it compares with most other producers.

Downstream is a holdover from the company's diversification into chemicals. We have been classifying the company as an independent producer on the presumption that the downstream businesses would eventually be sold.

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**LIBYA EPSA IV ROUND 2005 VITAL STATISTICS**

Table 2

License no., basin	No. of blks.	Winning company or group, %	Available — open acreage —		Data room fees, US \$	No. of bids	Gov't./ company production share, %	Bonus, million \$	- Gov't. take -	
			Sq km	Acres					0% DCF	10% DCF
106, Sirte	4	Oxy 90, Liwa 10	6,520	1,610,400	30,725	15	876/12.4	25.60	91.2	93.6
131, Murzuq	4	Oxy 90, Liwa 10	10,381	2,564,100	12,510	10	86.7/13.3	25.60	92.2	94.8
124, Sirte	3	Oxy 90, Liwa 10	6,113	1,509,900	12,750	4	89.2/10.8	15.30	94.8	97.7
163, Murzuq	4	Oxy 90, Liwa 10	11,236	2,775,300	32,595	9	84.1/15.9	15.30	89.9	92.1
59, Cyrenaica	2	Oxy 90, Liwa 10	5,298	1,308,600	19,290	1	61.1/38.9	1.10	77.0	77.0
36, Offshore	4	Woodside 55, Oxy 35, Liwa 10	10,414	2,572,250	22,940	7	82.6/17.4	16.00	89.4	91.2
52, Offshore	4	Woodside 55, Oxy 35, Liwa 10	6,182	1,527,000	18,780	6	82.1/17.9	10.05	89.4	91.2
53, Offshore	4	Woodside 55, Oxy 35, Liwa 10	8,047	1,987,600	15,450	8	80.2/19.8	8.12	89.3	91.1
35, Offshore	4	Woodside 55, Oxy 35, Liwa 10	9,070	2,240,300	61,880	3	89.6/10.4	5.21	87.9	89.3
<b>54, Offshore</b>	<b>4</b>	<b>Amerada Hess 100</b>	<b>9,769</b>	<b>2,413,000</b>	<b>19,070</b>	<b>15</b>	<b>87.6/12.4</b>	<b>6.18</b>	<b>82.8</b>	<b>85.4</b>
177, Murzuq	4	Chevron/Texaco 100	11,317	2,795,300	129,565	6	87.2/12.8	0.60	86.4	87.5
86, Sirte	4	Oil India 50, Indian Oil 50	7,078	1,748,300	67,380	5	81.6/18.4	0.00	88.8	90.3
18, Offshore	4	Petrobras 70, Oil Search 30	10,307	2,545,800	29,140	2	68.2/31.8	1.00	81.3	81.6
65, Ghadames	2	Sonatrach 100	4,374	1,080,400	43,865	4	75.0/25.0	2.00	84.8	85.6
47, Ghadames	4	Verenex 50, Medco 50	10,531	2,601,200	36,880	9	86.3/13.7	0.25	91.6	94.1
<b>Average</b>			<b>8,442</b>	<b>2,085,200</b>	<b>36,850</b>	<b>7</b>	<b>80.5/19.5</b>	<b>8.82</b>	<b>88.4</b>	<b>89.9</b>

**Occidental Petroleum Corporation**  
**Functional Cash Flow and Present Value**

	<i>NTM Ebitda</i> <i>(US\$mm)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$mm)</i>	
North American Natural Gas	910	10.3	6.6	6,000	15%
Overseas Natural Gas	87	10.1	5.8	500	1%
Oil	5,721	12.0	5.2	29,800	73%
Downstream	786		6.1	4,800	12%
	7,505	11.6	5.5	41,100	100%
Debt (US\$mm)				5,800	
Net Present Value (US\$mm)				35,300	
Shares (mm)				406	
Net Present Value (US\$/sh)				87	

**Cash Flow Expanding**

The oil futures market implies continuing gains in cash flow. On the volume side management expects that the company will be producing 600 thousand barrels oil equivalent daily (mboed) by year end 2005. That exit rate implies a yearly average of perhaps 580 mboed. Our projection of 534 mboed becomes 560 mboed including non-consolidated volumes on which management provides less detail (see table Next Twelve Months Operating and Financial Estimates).

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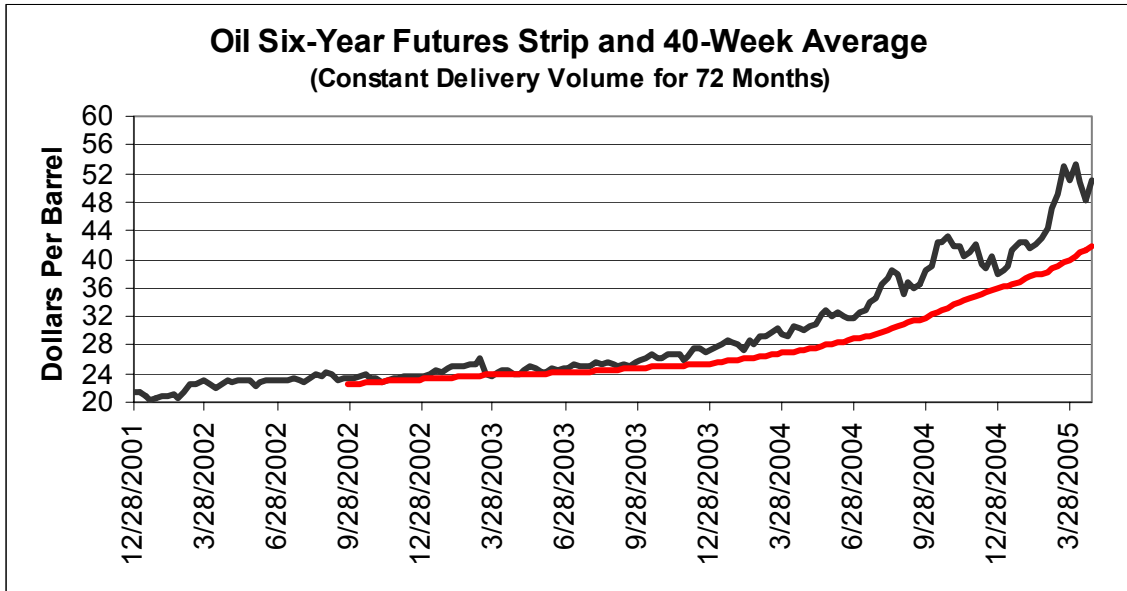
**Occidental Petroleum**  
**Next Twelve Months Operating and Financial Estimates**

	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Next Twelve Months</i>
	<i>9/30/04</i>	<i>12/31/04</i>	<i>2004</i>	<i>3/31/05</i>	<i>6/30/05</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005E</i>	<i>3/31/06</i>	<i>3/31/06</i>
<b>Volume</b>										
Natural Gas (mmcf)										
U.S. (or North America)	488	499	<b>508</b>	499	499	499	499	<b>499</b>	499	<b>499</b>
Overseas (or Int'l)	161	145	<b>131</b>	145	145	145	145	<b>145</b>	145	<b>145</b>
Total	649	644	<b>639</b>	644	644	644	644	<b>644</b>	644	<b>644</b>
Oil (mbd)	431	427	<b>436</b>	427	427	427	427	<b>427</b>	427	<b>427</b>
Total gas & oil (mmb)	50	49	<b>198</b>	48	49	49	49	<b>195</b>	48	<b>195</b>
Total gas & oil (mbd)	539	534	<b>541</b>	534	534	534	534	<b>534</b>	534	<b>534</b>
<b>Price</b>										
Natural gas (\$/mcf)										
Henry Hub (\$/mmbtu)	5.75	7.10	<b>6.15</b>	6.27	7.19	7.31	7.80	<b>7.14</b>	8.38	<b>7.67</b>
U.S. (or North America)	5.87	5.65	<b>5.35</b>	4.99	5.72	5.82	6.21	<b>5.69</b>	6.67	<b>6.10</b>
Overseas (or Int'l)	1.57	1.53	<b>1.70</b>	2.00	2.00	2.00	2.00	<b>2.00</b>	2.00	<b>2.00</b>
Total	4.80	4.72	<b>4.60</b>	4.32	4.88	4.96	5.26	<b>4.86</b>	5.62	<b>5.18</b>
Oil (\$/bbl)										
WTI Cushing	43.89	48.31	<b>41.44</b>	49.65	53.21	56.12	56.33	<b>53.83</b>	55.60	<b>55.32</b>
Worldwide	38.85	39.11	<b>35.87</b>	40.19	43.08	45.43	45.61	<b>43.60</b>	45.01	<b>44.78</b>
Total gas & oil (\$/bbl)	36.84	36.95	<b>34.25</b>	37.32	40.31	42.28	42.79	<b>40.69</b>	42.74	<b>42.03</b>
<b>Revenue (\$mm)</b>										
Natural Gas										
U.S. (or North America)	264	259	<b>991</b>	224	260	267	285	<b>1,036</b>	300	<b>1,112</b>
Overseas (or Int'l)	23	20	<b>81</b>	26	26	27	27	<b>106</b>	26	<b>106</b>
Total	287	280	<b>1,073</b>	250	286	294	312	<b>1,142</b>	326	<b>1,217</b>
Oil	1,541	1,536	<b>5,707</b>	1,545	1,674	1,785	1,792	<b>6,795</b>	1,730	<b>6,980</b>
Other	1,205	1,266	<b>4,707</b>	1,266	1,266	1,266	1,266	<b>5,063</b>	1,266	<b>5,063</b>
Total	3,033	3,082	<b>11,487</b>	3,061	3,226	3,344	3,369	<b>13,000</b>	3,321	<b>13,261</b>
<b>Expense (\$mm)</b>										
Fixed	289	174	<b>901</b>	174	174	174	174	<b>695</b>	174	<b>695</b>
Variable	289	174	<b>901</b>	172	187	199	201	<b>759</b>	197	<b>784</b>
Other	1,004	1,069	<b>4,044</b>	1,069	1,069	1,069	1,069	<b>4,277</b>	1,069	<b>4,277</b>
<b>Ebitda (\$mm)</b>										
Exploration and Production	1,249	1,469	<b>4,977</b>	1,449	1,599	1,706	1,728	<b>6,483</b>	1,685	<b>6,719</b>
Other	201	197	<b>663</b>	197	197	197	197	<b>786</b>	197	<b>786</b>
Total Ebitda	1,450	1,665	<b>5,640</b>	1,646	1,795	1,903	1,925	<b>7,269</b>	1,882	<b>7,505</b>
Exploration	37	88	<b>219</b>	88	88	88	88	<b>352</b>	88	<b>352</b>
Deprec., Deplet., & Amort.	322	333	<b>1,305</b>	333	333	333	333	<b>1,332</b>	333	<b>1,332</b>
Other non cash										
<b>Ebit</b>	1,091	1,244	<b>4,116</b>	1,225	1,374	1,482	1,504	<b>5,585</b>	1,461	<b>5,821</b>
Interest	59	63	<b>255</b>	63	63	63	63	<b>252</b>	63	<b>252</b>
<b>Ebt</b>	1,032	1,181	<b>3,861</b>	1,162	1,311	1,419	1,441	<b>5,333</b>	1,398	<b>5,569</b>
Income Tax	274	413	<b>1,264</b>	407	459	497	504	<b>1,867</b>	489	<b>1,949</b>
<b>Net Income (\$mm)</b>										
Exploration and Production	1,003	977	<b>3,544</b>							
Other	137	130	<b>402</b>							
Unallocated	(382)	(339)	<b>(1,349)</b>							
Total	758	768	<b>2,597</b>	755	852	922	937	<b>3,467</b>	909	<b>3,620</b>
<b>Shares (millions)</b>										
Per share (\$)	1.88	1.89	<b>6.46</b>	1.86	2.10	2.27	2.31	<b>8.53</b>	2.24	<b>8.91</b>
Ebitda Margin (E&P)	68%	81%	<b>73%</b>	81%	82%	82%	82%	<b>82%</b>	82%	<b>82%</b>
Tax Rate	27%	35%	<b>33%</b>	35%	35%	35%	35%	<b>35%</b>	35%	<b>35%</b>

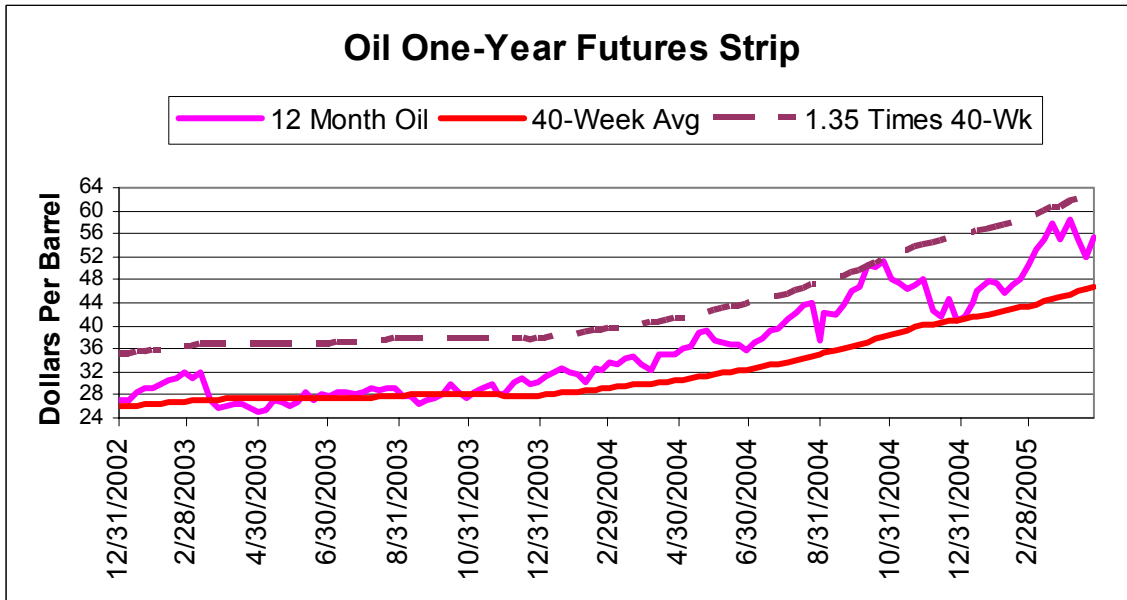
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**Oil Price Moderation**

The trend of six-year futures illustrates a reasonable pattern, in our view. The trend is up subject to near term volatility (see chart Oil Six-Year Futures Strip and 40-Week Average). Six-year futures are indicative of resource value.



One-year futures influence our estimates of year ahead cash flow and earnings. One-year futures continue in a channel that points higher, but not too high too soon (see chart Oil One-Year Futures Strip).



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**Buy Oil and Gas Producers at Mid Decade**

Measured by McDep Ratio, Oxy stock appears undervalued along with peers (see table Rank by McDep Ratio). Multi-fold gain potential for oil and gas price over the years justifies investment in recommended oil and gas producers, in our opinion. The current benchmark oil average futures price for the next six years is about \$51 a barrel. Present value estimates that represent the denominator of the McDep Ratio presume a constant real oil price of \$40 a barrel. Because McDep Ratios are less than 1.0, Oxy and peers appear to be priced for less than \$40 a barrel.

**Rank by McDep Ratio: Market Cap and Debt to Present Value**

	<i>Symbol/</i>	<i>Rating</i>	<i>Price</i> <i>(\$/sh)</i> <i>22-Apr</i> <i>2005</i>	<i>Shares</i> <i>(mm)</i>	<i>Market</i> <i>Cap</i> <i>(\$mm)</i>	<i>Net</i> <i>Present</i> <i>Value</i> <i>(\$/sh)</i>	<i>Debt/</i> <i>Present</i> <i>Value</i>	<i>McDep</i> <i>Ratio</i>
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>								
XTO Energy Inc.	XTO	B	31.92	349	11,150	33.80	0.17	0.95
Encana Corporation	ECA	B	67.62	471	31,800	77.00	0.16	0.90
Unocal Corporation	UCL	B	56.45	271	15,300	65.00	0.21	0.90
Occidental Petroleum Corp.	OXY	B	71.99	406	29,300	87.00	0.14	0.85
CNOOC Limited (19%)	CEO	B	54.63	78	4,270	67.00	-	0.82
Burlington Resources	BR	B	50.55	391	19,800	67.00	0.12	0.78
Devon Energy Corporation	DVN	B	46.19	500	23,100	63.00	0.16	0.77
Anadarko Petroleum Corp.	APC	B	74.39	246	18,300	113.00	0.14	0.71
	<i>Total or Median</i>				<i>153,000</i>		<i>0.15</i>	<i>0.83</i>

Kurt H. Wulff, CFA

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