

Rating: Buy
S&P 500: 1197

Occidental Petroleum Raise Net Present Value to \$94 a Share

<i>Symbol</i>	OXY	<i>Ebitda Next Twelve Months ending 6/30/06 (US\$mm)</i>	7,900
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	14
<i>Price (US\$/sh)</i>	74.09	<i>Natural Gas and Oil Production/Ebitda (%)</i>	90
<i>Pricing Date</i>	6/7/05	<i>Adjusted Reserves/Production NTM</i>	11.5
<i>Shares (mm)</i>	406	<i>EV/Ebitda</i>	4.6
<i>Market Capitalization (US\$mm)</i>	30,100	<i>PV/Ebitda</i>	5.6
<i>Debt (US\$mm)</i>	5,900	<i>Undeveloped Reserves (%)</i>	22
<i>Enterprise Value (EV) (US\$mm)</i>	36,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	36.00
<i>Present Value (PV) (US\$mm)</i>	44,000	<i>Present Value Proven Reserves(US\$/boe)</i>	15.60
<i>Net Present Value (US\$/share)</i>	94	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.60
<i>Debt/Present Value</i>	0.13	<i>Earnings Next Twelve Months (US\$/sh)</i>	9.40
<i>McDep Ratio - EV/PV</i>	0.82	<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. We raise our net present value to \$94 a share from \$87 to better match our correlation for 27 producers. We see 25% stock price appreciation potential to net present value estimated on the basis of a constant real oil price of \$40 a barrel.

Raise Net Present Value to \$94 a Share

After our upward revision, present value still looks low relative to next twelve months cash flow (see table [Functional Cash Flow and Present Value](#)). Cash flow multiple for the company is below our current correlation with adjusted reserve life index for 27 oil and gas producers. Natural Gas is below the correlation multiple by 0.3. Oil is below by 0.1. Cash flow multiple for chemicals and other operations is less than the downstream average by 0.1.

U.S. Oil Production Pays Off

The most changeable input to cash flow projections is the application of latest oil and gas futures prices (see table [Next Twelve Months Operating and Financial Results](#)). Otherwise the future looks a lot like recent history. Projected cash flow from "other" sources, mainly chemicals, accounts for about 10% of Ebitda leaving 90% from "Exploration and Production" and highlighted in the masthead above. Our estimate of Ebitda includes income taxes at a standardized 35% rate, not the 41% Oxy reports. That adjustment keeps cash flow from highly taxed production more comparable to that from normally taxed production. Allocating cash flow from production by revenue of oil and gas suggests that North American Natural Gas accounts for 14% of Ebitda also highlighted in the masthead above. Pegging Rest of World Natural Gas at 1% of cash flow leaves 75% of cash flow from Oil production.

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Occidental Petroleum 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	1,112	9.7	5.8	6,500	15%
Rest of World Natural Gas	66	10.9	6.1	400	1%
Oil	5,893	11.9	5.5	32,400	73%
Downstream	800		6.0	4,800	11%
	7,870	11.5	5.6	44,100	100%
Debt (US\$mm)					5,900
Net Present Value (US\$mm)					38,200
Shares (mm)					406
Net Present Value (US\$/sh)					94

U.S. oil production was 247 thousand barrels daily (mbd) in the first quarter 2005, about 58% of total oil production of 427 mbd. Allocating oil cash flow on a volume basis suggests that U.S. oil production accounts for 44% of corporate cash flow. Roughly, we could say that U.S. oil production is worth 44% of corporate present value, or more than \$19 billion. Oxy paid less than \$8 billion for U.S. properties since 1998 that include Elk Hills in California from the Federal Government and Permian Basin assets in West Texas from major oil companies.

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. Bidders competed on the size of government share. On what was presumably the most prospective license, Oxy bid a government take of some 97%.

Buy Oil and Gas Producers at Mid Decade

Multi-fold gain potential for oil and gas price over the years ahead justifies investment in recommended oil and gas producers, in our opinion. A McDep Ratio of 1.0 implies that a stock would be priced at present value assuming a constant real oil price of US\$40 (see table Rank by McDep Ratio).

Kurt H. Wulff, CFA

Occidental Petroleum
Next Twelve Months Operating and Financial Estimates

	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Next</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>6/30/06</i>	<i>Twelve</i>
										<i>Months</i>
										<i>6/30/06</i>
Volume										
Natural Gas (mmcf)										
U.S. (or North America)	499	508	528	528	528	528	528	528	528	528
Overseas (or Int'l)	145	131	134	134	134	134	134	134	134	134
Total	644	639	662	662	662	662	662	662	662	662
Oil (mbd)	427	436	427	427	427	427	427	427	427	427
Total gas & oil (mmb)	49	198	48	49	49	49	196	48	49	196
Total gas & oil (mbd)	534	541	537	537	537	537	537	537	537	537
Price										
Natural gas (\$/mcf)										
Henry Hub (\$/mmbtu)	7.10	6.15	6.27	7.08	7.17	7.74	7.06	8.44	7.18	7.63
U.S. (or North America)	5.65	5.35	5.94	6.71	6.80	7.34	6.70	8.00	6.81	7.23
Overseas (or Int'l)	1.53	1.70	1.69	1.69	1.69	1.69	1.69	1.69	1.69	1.69
Total	4.72	4.60	5.08	5.69	5.76	6.19	5.69	6.72	5.77	6.11
Oil (\$/bbl)										
WTI Cushing	48.31	41.44	49.65	52.24	55.54	57.13	53.64	57.25	56.88	56.70
Worldwide	39.11	35.87	41.71	43.89	46.66	48.00	45.08	48.09	47.78	47.63
Total gas & oil (\$/bbl)	36.95	34.25	39.40	41.89	44.18	45.77	42.83	46.50	45.08	45.38
Revenue (\$mm)										
Natural Gas										
U.S. (or North America)	259	991	282	322	330	356	1,291	380	327	1,394
Overseas (or Int'l)	20	81	20	21	21	21	83	20	21	83
Total	280	1,073	303	343	351	377	1,374	401	348	1,477
Oil	1,536	5,707	1,603	1,705	1,833	1,885	7,027	1,848	1,857	7,423
Other	1,266	4,707	1,434	1,434	1,434	1,434	5,738	1,434	1,434	5,738
Total	3,082	11,487	3,340	3,483	3,618	3,697	14,138	3,683	3,639	14,638
Expense										
Fixed	174	901	211	211	211	211	844	211	211	844
Variable	174	901	211	227	242	251	931	249	244	986
Other	1,069	4,044	1,152	1,234	1,234	1,234	4,855	1,234	1,234	4,938
Ebitda (\$mm)										
Exploration and Production	1,469	4,977	1,483	1,610	1,731	1,801	6,626	1,789	1,749	7,070
Other	197	663	283	200	200	200	883	200	200	800
Total Ebitda	1,665	5,640	1,766	1,810	1,931	2,001	7,508	1,989	1,949	7,870
Exploration	88	219	47	80	80	80	287	80	80	320
Deprec., Deplet., & Amort.	333	1,305	344	344	344	344	1,376	344	344	1,376
Other non cash										
Ebit	1,244	4,116	1,375	1,386	1,507	1,577	5,845	1,565	1,525	6,174
Interest	63	255	75	75	75	75	300	75	75	300
Ebt	1,181	3,861	1,300	1,311	1,432	1,502	5,545	1,490	1,450	5,874
Income Tax	413	1,264	455	459	501	526	1,941	521	508	2,056
Net Income (\$mm)										
Exploration and Production	977	3,544	1,349							
Other	130	402	214							
Unallocated	(339)	(1,349)	(718)							
Total	768	2,597	845	852	931	976	3,604	968	943	3,818
Shares (millions)	406	402	406	406	406	406	406	406	406	406
Per share (\$)	1.89	6.46	2.08	2.10	2.29	2.40	8.87	2.38	2.32	9.40
Ebitda Margin (E&P)	81%	73%	78%	79%	79%	80%	79%	80%	79%	79%
Tax Rate	35%	33%	35%	35%	35%	35%	35%	35%	35%	35%

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

	<i>Symbol/</i>	<i>Rating</i>	<i>Price</i> <i>(\$/sh)</i> <i>7-Jun</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>
Independent Natural Gas and Oil - Large Cap and Mid Cap								
Encana Corporation	ECA	B	36.25	909	33,000	38.50	0.19	0.95
Unocal Corporation	UCL	B	58.10	273	15,900	65.00	0.19	0.92
XTO Energy Inc.	XTO	B	31.25	366	11,440	36.00	0.19	0.89
CNOOC Limited (19%)	CEO	B	55.46	78	4,330	67.00	-	0.83
Occidental Petroleum Corp.	OXY	B	74.09	406	30,100	94.00	0.13	0.82
Burlington Resources	BR	B	50.87	389	19,800	67.00	0.12	0.79
Devon Energy Corporation	DVN	B	46.87	496	23,200	63.00	0.16	0.78
Anadarko Petroleum Corp.	APC	B	75.51	239	18,000	113.00	0.14	0.71
<i>Total or Median</i>					<i>156,000</i>		<i>0.15</i>	<i>0.82</i>

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