

Rating: Buy
S&P 500: 1229

Occidental Petroleum Back in Libya

<i>Symbol</i>	OXY	<i>Ebitda Next Twelve Months ending 6/30/06 (US\$m)</i>	8,400
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	13
<i>Price (US\$/sh)</i>	82.68	<i>Natural Gas and Oil Production/Ebitda (%)</i>	88
<i>Pricing Date</i>	7/25/05	<i>Adjusted Reserves/Production NTM</i>	11.3
<i>Shares (mm)</i>	406	<i>EV/Ebitda</i>	4.7
<i>Market Capitalization (US\$m)</i>	33,600	<i>PV/Ebitda</i>	5.2
<i>Debt (US\$m)</i>	5,900	<i>Undeveloped Reserves (%)</i>	22
<i>Enterprise Value (EV) (US\$m)</i>	39,400	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	37.20
<i>Present Value (PV) (US\$m)</i>	44,000	<i>Present Value Proven Reserves(US\$/boe)</i>	15.30
<i>Net Present Value (US\$/share)</i>	94	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.55
<i>Debt/Present Value</i>	0.13	<i>Earnings Next Twelve Months (US\$/sh)</i>	10.13
<i>McDep Ratio - EV/PV</i>	0.90	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	1.5	<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 appears increasingly to be developing investment opportunities in Africa and the Middle East that represent an extension of its U.S. operations. Though production may be peaking in traditional petroleum exporting countries, there remains a great effort and a lot of money to be made in enhanced recovery. We see 14% stock price appreciation potential to net present value estimated on the basis of a constant real oil price of \$40 a barrel. Yet present value may be low because the futures market is at more than \$57 for the next six years.

Regaining the Old Assets in Libya

Management expects a final agreement soon on regaining its old contracts in Libya that were suspended during the years the U.S. embargoed the North African country. Oxy expects to report net production of some 12-15,000 barrels daily (bd) from gross production of about 80,000 bd. Financial terms are apparently those that were in effect in the past. The company hopes to extend the contracts beyond their expiration period of 2009, or so.

Oxy appears to have a mutually beneficial relationship with the oil exporting country. Earlier in a competitive bidding process conducted in January, Oxy won participation in nine of fifteen licenses awarded in March. On what was presumably the most prospective license, Oxy bid a government take of some 97%.

Post-Peak Production Profits in Oman

The maturing production profile of the Middle East seems to be creating opportunities for Occidental to apply the enhanced recovery techniques it uses in West Texas and California. Among mature petroleum exporting countries there is a lot of money to be made on oil

Please see disclosures on the final page.

production even if the overall volumes are less than the historic peak. The company and its partners expect to invest more than two billion dollars in Oman to recover an additional billion barrels over 30 years from the Mukhaizna field.

Quarterly Results on Track

Projections are little changed after taking account of latest disclosures (see table Next Twelve Months Operating and Financial Estimates). Present Value remains 73% concentrated on oil, primarily in the U.S. (see table Functional Cash Flow and Present Value).

Buy Natural Gas and Oil Producers

Peer stocks appear priced at a median McDep Ratio of 0.95 (see table Rank by McDep Ratio). Since a McDep Ratio of 1.00 represents present value assuming a long-term oil price of \$40 a barrel, the group appears to be valued at \$38 a barrel, or less. The long-term commodity price in the futures market is currently about \$58 a barrel.

More undervalued stocks have lower McDep Ratios. The rank with lowest on the bottom suggests buy low and sell high though none of the ratios are high enough to flash hold or sell.

Kurt H. Wulff, CFA

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	1,098	9.4	5.9	6,500	15%
Rest of World Natural Gas	62	11.0	6.5	400	1%
Oil	6,225	11.8	5.2	32,200	73%
Downstream	1,000		5.0	5,000	11%
	8,384	11.3	5.3	44,100	100%
Debt (US\$mm)				5,900	
Net Present Value (US\$mm)				38,200	
Shares (mm)				406	
Net Present Value (US\$/sh)				94	

Please see disclosures on the final page.

Occidental Petroleum
Next Twelve Months Operating and Financial Estimates

	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</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	548	548	548	543	548	548	548
Overseas (or Int'l)	145	131	134	133	133	133	133	133	133	133
Total	644	639	662	681	681	681	676	681	681	681
Oil (mbd)	427	436	427	416	430	430	426	430	430	430
Total gas & oil (mmb)	49	198	48	48	50	50	197	49	49	198
Total gas & oil (mbd)	534	541	537	530	544	544	538	544	544	544
Price										
Natural gas (\$/mcf)										
Henry Hub (\$/mmbtu)	7.10	6.15	6.27	6.76	7.19	7.96	7.05	8.83	7.59	7.89
U.S. (or North America)	5.65	5.35	5.94	6.18	6.58	7.28	6.50	8.08	6.94	7.22
Overseas (or Int'l)	1.53	1.70	1.69	1.67	1.67	1.67	1.68	1.67	1.67	1.67
Total	4.72	4.60	5.08	5.30	5.62	6.19	5.55	6.83	5.91	6.13
Oil (\$/bbl)										
WTI Cushing	48.31	41.44	49.65	53.05	57.86	60.30	55.22	60.75	60.52	59.86
Worldwide	39.11	35.87	41.71	46.32	50.52	52.65	47.86	53.04	52.84	52.25
Total gas & oil (\$/bbl)	36.95	34.25	39.40	43.21	47.01	49.41	44.82	50.52	49.21	49.03
Revenue (\$mm)										
Natural Gas										
U.S. (or North America)	259	991	282	308	332	367	1,289	398	346	1,443
Overseas (or Int'l)	20	81	20	20	20	20	82	20	20	81
Total	280	1,073	303	328	352	388	1,371	418	366	1,525
Oil	1,536	5,707	1,603	1,753	1,998	2,083	7,438	2,053	2,067	8,201
Other	1,266	4,707	1,434	1,436	1,436	1,436	5,743	1,436	1,436	5,744
Total	3,082	11,487	3,340	3,518	3,787	3,906	14,551	3,907	3,870	15,470
Expense (\$mm)										
Fixed	174	901	211	270	270	270	1,021	270	270	1,080
Variable	174	901	211	270	305	320	1,106	321	316	1,261
Other	1,069	4,044	1,152	1,140	1,186	1,186	4,664	1,186	1,186	4,744
Ebitda (\$mm)										
Exploration and Production	1,469	4,977	1,483	1,542	1,776	1,880	6,681	1,880	1,848	7,384
Other	197	663	283	296	250	250	1,079	250	250	1,000
Total Ebitda	1,665	5,640	1,766	1,838	2,026	2,130	7,760	2,130	2,098	8,384
Exploration	88	219	47	111	111	111	380	111	111	444
Deprec., Deplet., & Amort.	333	1,305	344	356	356	356	1,412	356	356	1,424
Other non cash										
Ebit	1,244	4,116	1,375	1,371	1,559	1,663	5,968	1,663	1,631	6,516
Interest	63	255	75	47	47	47	216	47	47	188
Ebt	1,181	3,861	1,300	1,324	1,512	1,616	5,752	1,616	1,584	6,328
Income Tax	413	1,264	455	463	529	566	2,013	566	554	2,215
Net Income (\$mm)										
Exploration and Production	977	3,544	1,349	1,351						
Other	130	402	214	225						
Unallocated	(339)	(1,349)	(718)	(715)						
Total	768	2,597	845	861	983	1,050	3,739	1,051	1,030	4,113
Shares (millions)										
Per share (\$)	1.89	6.46	2.08	2.12	2.42	2.59	9.21	2.59	2.54	10.13
Ebitda Margin (E&P)	81%	73%	78%	74%	76%	76%	76%	76%	76%	76%
Tax Rate	35%	33%	35%	35%	35%	35%	35%	35%	35%	35%

Please see disclosures on the final page.

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

	<i>Symbol/</i>	<i>Rating</i>	<i>Price</i> <i>(\$/sh)</i>	<i>Shares</i>	<i>Market</i>	<i>Net</i>	<i>Debt/</i>	<i>McDep</i>
			<i>25-Jul</i>	<i>(mm)</i>	<i>Cap</i>	<i>Present</i>	<i>Present</i>	<i>Ratio</i>
			<i>2005</i>		<i>(\$mm)</i>	<i>Value</i>	<i>Value</i>	
Independent Natural Gas and Oil - Large Cap and Mid Cap								
Encana Corporation	ECA	B	42.53	909	38,700	38.50	0.19	1.09
Unocal Corporation	UCL	B	64.90	273	17,700	65.00	0.19	1.00
XTO Energy Inc.	XTO	B	36.32	370	13,430	36.00	0.22	1.01
Burlington Resources	BR	B	62.91	389	24,500	67.00	0.12	0.95
CNOOC Limited (29%)	CEO	B	63.15	119	7,530	67.00	0.01	0.94
Occidental Petroleum Corp.	OXY	B	82.68	406	33,600	94.00	0.13	0.90
Devon Energy Corporation	DVN	B	55.27	496	27,400	63.00	0.16	0.90
Anadarko Petroleum Corp.	APC	B	88.53	239	21,200	113.00	0.14	0.81
			<i>Total or Median</i>		<i>184,000</i>		<i>0.15</i>	<i>0.95</i>

Disclaimer: This analysis was prepared by Kurt Wulff doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

McDep does no investment banking business. McDep is not paid by covered companies including revenue from advertising, trading, consulting, subscriptions or research service. McDep shall not own more than 1% of outstanding stock in a covered company. No one at McDep is on the Board of Directors at a covered company nor is anyone at a covered company on the Board of Directors of McDep.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

Certification: I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

Research Methodology/Ratings Description: McDep Associates is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a return less than inflation.

Please see disclosures on the final page.