

Rating: Buy
 S&P 500: 1255

Occidental Petroleum Longer Life Independent

<i>Symbol</i>	OXY	<i>Ebitda Next Twelve Months ending 12/31/06 (US\$m)</i>	9,800
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	12
<i>Price (US\$/sh)</i>	90.10	<i>Natural Gas and Oil Production/Ebitda (%)</i>	90
<i>Pricing Date</i>	2/7/06	<i>Adjusted Reserves/Production NTM</i>	11.3
<i>Shares (mm)</i>	432	<i>EV/Ebitda</i>	4.7
<i>Market Capitalization (US\$m)</i>	38,900	<i>PV/Ebitda</i>	6.0
<i>Debt (US\$m)</i>	7,200	<i>Undeveloped Reserves (%)</i>	24
<i>Enterprise Value (EV) (US\$m)</i>	46,100	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	38.30
<i>Present Value (PV) (US\$m)</i>	59,000	<i>Present Value Proven Reserves(US\$/boe)</i>	17.80
<i>Net Present Value (US\$/share)</i>	120	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.97
<i>Debt/Present Value</i>	0.12	<i>Earnings Next Twelve Months (US\$/sh)</i>	10.98
<i>McDep Ratio - EV/PV</i>	0.78	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	1.6	<i>Indicated Annual Dividend (US\$/sh)</i>	1.44

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

Buy-recommended **Occidental Petroleum (OXY)** offers 33% appreciation potential to estimated net present value of \$120 a share presuming a long-term oil price of \$50 a barrel. Six-year futures are currently priced at \$66 a barrel. Fourth quarter results justify our estimate of present value. Oxy's low McDep Ratio at 0.78 is the median of large cap independent producers. Unlevered cash flow multiple is also the median at 4.7 times. Adjusted reserve life of 11.3 years is longer than all but one peer. The company is concentrated on oil production in contrast to the natural gas emphasis of most independents. We recommend both natural gas and oil. Patient investors may see appreciation for oil producers during the rest of the decade subject to political and economic risk.

Kurt H. Wulff, CFA

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

	<i>Symbol/</i>	<i>Price</i>	<i>Market</i>	<i>Net</i>	<i>Debt/</i>	<i>McDep</i>		
	<i>Rating</i>	<i>(\$/sh)</i>	<i>Cap</i>	<i>Present</i>	<i>Present</i>	<i>Ratio</i>		
		<i>7-Feb</i>	<i>(\$mm)</i>	<i>Value</i>	<i>Value</i>			
		<i>2006</i>	<i>(mm)</i>	<i>(\$/sh)</i>				
Independent Natural Gas and Oil - Large Cap and Mid Cap								
CNOOC Limited (29%)	CEO	B	85.16	119	10,160	84.00	0.00	1.01
XTO Energy Inc.	XTO	B	44.86	370	16,600	48.00	0.20	0.95
Encana Corporation	ECA	B	45.02	876	39,400	51.00	0.20	0.91
Occidental Petroleum Corp.	OXY	B	90.10	432	38,900	120.00	0.12	0.78
Burlington Resources	BR	B	87.87	378	33,200	115.00	-	0.76
Devon Energy Corporation	DVN	B	62.09	451	28,000	94.00	0.12	0.70
Anadarko Petroleum Corp.	APC	B	102.13	234	23,900	160.00	0.10	0.68
	<i>Total or Median</i>				<i>190,000</i>		<i>0.12</i>	<i>0.78</i>

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Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	Symbol/ Rating		Price (\$/sh) 7-Feb 2006	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	44.86	10.8	7.0	6.6	12	0.4
Encana Corporation	ECA	B	45.02	7.1	6.0	5.5	11	0.7
CNOOC Limited (29%)	CEO	B	85.16	9.2	5.1	5.2	9	2.7
Occidental Petroleum Corp.	OXY	B	90.10	11.3	6.0	4.7	8	1.6
Anadarko Petroleum Corp.	APC	B	102.13	12.7	6.8	4.6	8	0.7
Devon Energy Corporation	DVN	B	62.09	8.6	5.6	3.9	7	0.5
Burlington Resources	BR	B	87.87	-	-	-	-	-
	<i>Median</i>			9.2	6.0	4.7	8	0.7

Home Country and Business Segments

	Symbol/ Rating		North Amer. Natural Gas (%)	Rest of World Natural Gas (%)	Oil Prod'n (%)	Down- stream (%)	Total Present Value (US\$mm)
Independent Natural Gas and Oil - Large Cap and Mid Cap							
Occidental Petroleum Corp.	OXY	B	14	2	74	11	59,000
Encana Corporation	ECA	B	Canada	83	-	17	55,600
Devon Energy Corporation	DVN	B		64	-	36	48,100
Anadarko Petroleum Corp.	APC	B		60	-	40	41,700
CNOOC Limited	CEO	B	China	-	12	88	34,600
XTO Energy Inc.	XTO	B		83	-	17	22,100
Burlington Resources	BR	B					
	<i>Median</i>		62	-	38	-	261,000

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

	NTM Ebitda (US\$mm)	Adjusted R/P	PV/ Ebitda	Present Value (US\$mm)	
North American Natural Gas	1,155	9.1	6.9	8,000	14%
Rest of World Natural Gas	85	17.8	10.5	900	2%
Oil	7,584	11.5	5.8	43,900	74%
Downstream	1,011		6.1	6,200	11%
	9,836	11.3	6.0	59,000	100%
Debt (US\$mm)					7,200
Net Present Value (US\$mm)					51,800
Shares (mm)					432
Net Present Value - Standard Estimate (US\$/sh)					120
Net Present Value - Approximation by Correlation (US\$/sh)					124

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Occidental Petroleum
Next Twelve Months Operating and Financial Estimates

	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Next Twelve Months</i>
	<i>12/31/04</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>12/31/06</i>
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	499	564	572	553	640	640	640	640	640
Overseas (or Int'l)	145	116	102	121	150	150	150	150	150
Total	644	680	674	674	790	790	790	790	790
Oil (mbd)	427	449	477	442	500	500	500	500	500
Total gas & oil (mmb)	49	52	54	202	57	57	58	58	231
Total gas & oil (mbd)	534	562	589	555	632	632	632	632	632
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	7.10	8.56	13.00	8.65	9.26	8.31	8.62	9.63	8.96
U.S. (or North America)	5.65	6.33	9.81	7.11	6.99	6.27	6.50	7.26	6.76
Overseas (or Int'l)	1.53	2.19	2.13	1.90	2.13	2.13	2.13	2.13	2.13
Total	4.72	5.62	8.65	6.17	6.06	5.48	5.67	6.29	5.88
Oil (\$/bbl)									
WTI Cushing	48.31	62.52	60.02	56.31	65.23	66.74	68.15	68.81	67.23
Worldwide	39.11	55.04	50.50	48.59	54.89	56.15	57.34	57.90	56.58
Total gas & oil (\$/bbl)	36.95	50.75	50.76	46.25	51.03	51.31	52.48	53.69	52.14
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	259	328	516	1,435	402	365	383	428	1,578
Overseas (or Int'l)	20	23	20	84	29	29	29	29	116
Total	280	352	536	1,519	431	394	412	457	1,695
Oil	1,536	2,274	2,216	7,846	2,470	2,555	2,638	2,663	10,326
Other	1,266	1,432	1,432	5,734	1,432	1,432	1,432	1,432	5,726
Total	3,082	4,057	4,184	15,099	4,333	4,381	4,482	4,552	17,747
Expense									
Fixed	174	362	346	1,190	391	391	391	391	1,564
Variable	174	362	346	1,190	394	401	414	424	1,633
Other	1,069	1,189	1,179	4,660	1,179	1,179	1,179	1,179	4,715
Ebitda (\$mm)									
Exploration and Production	1,469	1,901	2,060	6,986	2,116	2,158	2,245	2,306	8,824
Other	197	242	253	1,074	253	253	253	253	1,011
Total Ebitda	1,665	2,143	2,313	8,060	2,369	2,411	2,498	2,558	9,836
Exploration	88	55	124	337	124	124	124	90	462
Deprec., Deplet., & Amort.	333	376	409	1,485	464	464	464	464	1,856
Other non cash									
Ebit	1,244	1,712	1,780	6,238	1,781	1,823	1,910	2,004	7,517
Interest	63	40	23	185	55	55	55	55	220
Ebt	1,181	1,672	1,757	6,053	1,726	1,768	1,855	1,949	7,297
Income Tax	413	585	615	2,119	604	619	649	682	2,554
Net Income (\$mm)									
Exploration and Production	977	1,769	1,868	6,337					
Other	130	167	171	777					
Unallocated	(339)	(849)	(897)	(3,180)					
Total	768	1,087	1,142	3,934	1,122	1,149	1,205	1,267	4,743
Shares (millions)	406	404	399	404	432	432	432	432	432
Per share (\$)	1.89	2.69	2.86	9.75	2.60	2.66	2.79	2.93	10.98
Ebitda Margin (E&P)	81%	72%	75%	75%	73%	73%	74%	74%	73%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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