

Rating: Buy
 S&P 500: 1424

Occidental Petroleum Largest Oil Independent

<i>Symbol</i>	OXY	<i>Ebitda Next Twelve Months ending 12/31/07 (US\$m)</i>	7,600
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	12
<i>Price (US\$/sh)</i>	45.40	<i>Natural Gas and Oil Production/Ebitda (%)</i>	84
<i>Pricing Date</i>	1/25/07	<i>Adjusted Reserves/Production NTM</i>	10.9
<i>Shares (mm)</i>	853	<i>EV/Ebitda</i>	5.8
<i>Market Capitalization (US\$m)</i>	38,700	<i>PV/Ebitda</i>	8.5
<i>Debt (US\$m)</i>	5,600	<i>Undeveloped Reserves (%)</i>	26
<i>Enterprise Value (EV) (US\$m)</i>	44,400	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	29.60
<i>Present Value (PV) (US\$m)</i>	64,500	<i>Present Value Proven Reserves(US\$/boe)</i>	20.00
<i>Net Present Value (US\$/share)</i>	69	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.33
<i>Debt/Present Value</i>	0.09	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.62
<i>McDep Ratio - EV/PV</i>	0.69	<i>Price/Earnings Next Twelve Months</i>	13
<i>Dividend Yield (%/year)</i>	1.9	<i>Indicated Annual Dividend (US\$/sh)</i>	0.88

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\$60 a barrel and natural gas, \$10 a million btu.

For historical analysis of OXY since 2000 see www.mcdep.com/3oxy.htm

Summary and Recommendation

Buy-recommended **Occidental Petroleum (OXY)** among the largest independent producers and concentrated 74% on oil by value, offers highly liquid investment participation in long-term oil price at a discount to the commodity markets. On the modestly levered basis with Oxy's low debt ratio, Oxy's stock price at \$45 a share is a one third discount to our estimate of net present value of \$69. On the unlevered basis of the McDep Ratio of 0.70, the discount is 30%. Present value is tied to a long-term real oil price of \$60 a barrel while the current futures price for the next six years is also \$60 a barrel, coincidentally. While short-term oil price is less than \$60, cash flow generation remains strong at the average futures price of \$56.56 for 2007 and taking account of latest quarterly results reported on January 25 (see table, [Next Twelve Months Operating and Financial Estimates](#)). Though Oxy stock is out of favor as defined by current price below the 200-day average, we carry a full unlevered weighting of Oxy stock in the illustrative McDep Energy Portfolio concentrated on real assets that promise a high return providing clean fuel for global growth.

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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>12/31/05</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006</i>	<i>3/31/07</i>	<i>6/30/06</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>12/31/07</i>
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	572	597	599	595	599	599	599	599	599
Overseas (or Int'l)	102	145	136	141	136	136	136	136	136
Total	674	742	735	736	735	735	735	735	735
Oil (mbd)	477	463	493	483	467	467	467	467	467
Total gas & oil (mmb)	54	54	57	221	53	54	54	54	215
Total gas & oil (mbd)	589	587	616	605	590	590	590	590	590
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	13.00	6.58	6.57	7.23	6.55	7.02	7.25	7.99	7.20
U.S. (or North America)	9.81	5.88	5.64	6.51	5.63	6.03	6.23	6.86	6.19
Overseas (or Int'l)	2.13	1.70	1.44	1.66	1.44	1.44	1.44	1.44	1.44
Total	8.65	5.06	4.86	5.58	4.85	5.18	5.34	5.86	5.31
Oil (\$/bbl)									
WTI Cushing	60.02	70.42	59.99	66.05	54.07	55.83	57.55	58.78	56.56
Worldwide	50.50	60.52	51.18	56.29	46.12	47.63	49.10	50.14	48.26
Total gas & oil (\$/bbl)	50.76	54.17	46.80	51.67	42.59	44.19	45.55	47.02	44.85
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	516	323	311	1,413	303	329	343	378	1,353
Overseas (or Int'l)	20	23	18	85	18	18	18	18	71
Total	536	346	329	1,498	321	346	361	396	1,425
Oil	2,216	2,578	2,321	9,918	1,939	2,024	2,109	2,154	8,226
Other	1,432	1,755	1,755	7,019	1,755	1,755	1,755	1,755	7,019
Total	4,184	4,678	4,405	18,435	4,014	4,125	4,225	4,305	16,670
Expense									
Fixed	346	218	237	864	237	237	237	237	948
Variable	346	655	711	2,592	546	572	597	616	2,330
Other	1,179	1,403	1,486	5,706	1,486	1,406	1,403	1,486	5,781
Ebitda (\$mm)									
Exploration and Production	2,060	2,050	1,702	7,960	1,477	1,561	1,637	1,697	6,372
Other	253	352	269	1,314	269	349	352	269	1,239
Total Ebitda	2,313	2,402	1,971	9,274	1,746	1,910	1,989	1,966	7,611
Exploration	124	74	100	295	100	100	100	100	400
Deprec., Deplet., & Amort.	409	524	565	2,063	600	600	600	600	2,400
Other non cash									
Ebit	1,780	1,804	1,306	6,916	1,046	1,210	1,289	1,266	4,811
Interest	23	18	20	100	15	15	15	15	60
Ebt	1,757	1,786	1,286	6,816	1,031	1,195	1,274	1,251	4,751
Income Tax	615	625	450	2,386	361	418	446	438	1,663
Net Income (\$mm)									
Exploration and Production	1,868	1,877	1,499	7,331					
Other	171	247	156	901					
Unallocated	(897)	(963)	(819)	(3,802)					
Total	1,142	1,161	836	4,430	670	777	828	813	3,088
Shares (millions)	799	860	853	861	853	853	853	853	853
Per share (\$)	1.43	1.35	0.98	5.15	0.79	0.91	0.97	0.95	3.62
Ebitda Margin (E&P)	75%	70%	64%	70%	65%	66%	66%	67%	66%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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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>	
	<u>(US\$mm)</u>	<u>R/P</u>	<u>Ebitda</u>	<u>Value</u>	
				<u>(US\$mm)</u>	
U.S. Natural Gas	892	9.6	9.5	8,500	13%
Rest of World Natural Gas	47	13.0	10.6	500	1%
Oil	5,433	11.1	8.8	48,000	74%
Downstream	1,239		6.1	7,500	12%
	7,611	10.9	8.5	64,500	100%
Debt (US\$mm)					5,600
Net Present Value (US\$mm)					58,900
Shares (mm)					853
Net Present Value - Standard Estimate (US\$/sh)					69
Net Present Value - Approximation by Correlation (US\$/sh)					66

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