



# Independent Stock Idea

July 24, 2008

rating: buy  
s&p 500: 1253

## Occidental Petroleum (OXY) Largest Oil Producer in Texas

<i>Symbol</i>	OXY	<i>Ebitda Next Twelve Months ending 6/30/09 (US\$mm)</i>	16,400
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	10
<i>Price (US\$/sh)</i>	73.34	<i>Natural Gas and Oil Production/Ebitda (%)</i>	93
<i>Pricing Date</i>	7/24/08	<i>Adjusted Reserves/Production NTM</i>	11.9
<i>Shares (mm)</i>	826	<i>EV/Ebitda</i>	4.0
<i>Market Capitalization (US\$mm)</i>	60,500	<i>PV/Ebitda</i>	6.4
<i>Debt (US\$mm)</i>	5,000	<i>Undeveloped Reserves (%)</i>	20
<i>Enterprise Value (EV) (US\$mm)</i>	65,500	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	70.30
<i>Present Value (PV) (US\$mm)</i>	104,000	<i>Present Value Proven Reserves(US\$/boe)</i>	33.80
<i>Net Present Value (US\$/share)</i>	120	<i>Present Value Proven Reserves(US\$/mcfe)</i>	5.63
<i>Debt/Present Value</i>	0.05	<i>Earnings Next Twelve Months (US\$/sh)</i>	10.47
<i>McDep Ratio - EV/PV</i>	0.63	<i>Price/Earnings Next Twelve Months</i>	7
<i>Dividend Yield (%/year)</i>	1.7	<i>Indicated Annual Dividend (US\$/sh)</i>	1.28
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\$100 a barrel and natural gas, \$14 a million btu.			
For historical analysis of OXY since 2000 see <a href="http://www.mcdep.com/3oxy.htm">www.mcdep.com/3oxy.htm</a>			

### Summary and Recommendation

Buy-recommended **Occidental Petroleum (OXY)** offers unlevered appreciation potential of 59% to estimated net present value (NPV) of \$120 a share. On May 13 we raised NPV from \$100 a share on the basis of a long-term oil price assumption of \$100 a barrel, up from \$80. However, patience may be necessary as OXY stock price has entered a downtrend defined by current quote below the 200-day average of \$77. Released today, second quarter results displayed strength in production driven by higher crude oil and natural gas price. Producing 200,000 barrels daily in West Texas, a traditional source of oil profits, Oxy is earning new profits in an oil supply-constrained world. The company has an ambitious program to apply more tertiary recovery using carbon dioxide to prove more oil in fields that have long been producing. Projected volumes along with current futures prices promise a continuing high level of unlevered cash flow (Ebitda) (see table [Next Twelve Months Operating and Financial Estimates](#)). Projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) supports NPV (see table [Functional Cash Flow and Present Value](#)). Meanwhile long-term crude oil price continues in an uptrend where the latest quote of \$124 a barrel for delivery over the next six years is above the 40-week average of \$103 (see chart [Six-Year Commodity Price Meter](#)).

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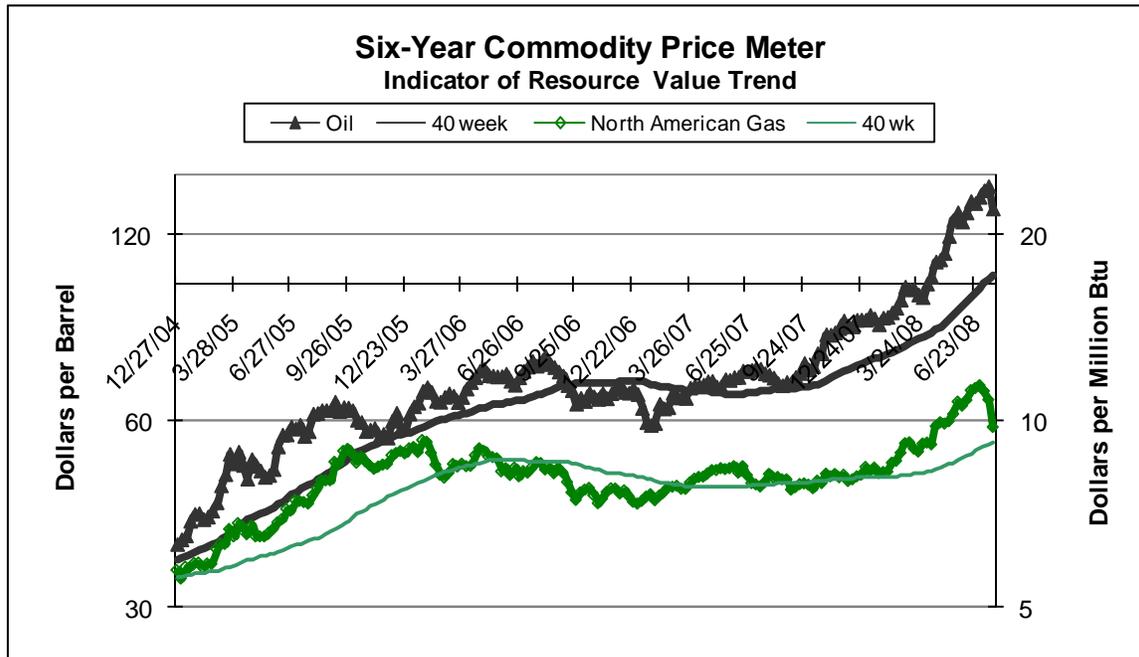
Occidental Petroleum									
Next Twelve Months Operating and Financial Estimates									
	Q2	Q1	Q2	Q3E	Q4E	Year	Q1E	Q2E	Next Twelve Months
	6/30/07	3/31/08	6/30/08	9/30/08	12/31/08	2008E	3/31/09	6/30/09	6/30/09
<b>Volume</b>									
Natural Gas (mmcf)									
U.S. (or North America)	609	580	602	602	602	598	602	602	602
Overseas (or Int'l)	78	266	223	223	223	234	300	300	261
Total	687	846	825	825	825	832	902	902	863
Days	91	91	91	92	92	366	90	91	365
Oil (mbd)	469	466	451	451	451	456	451	451	451
Total gas & oil (mmb)	53	55	54	54	54	217	54	55	217
Total gas & oil (mbd)	583	607	588	588	588	593	601	601	594
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	7.56	8.02	10.93	11.40	11.05	10.35	11.54	10.78	11.19
U.S. (or North America)	7.07	8.15	9.99	10.42	10.10	9.68	10.54	9.85	10.22
Overseas (or Int'l)	1.72	1.47	1.56	1.56	1.56	1.53	1.56	1.56	1.56
Total	6.46	6.05	7.71	8.02	7.79	7.39	7.55	7.09	7.60
Oil (\$/bbl)									
WTI Cushing	64.91	97.94	123.97	132.68	132.66	121.82	133.52	132.25	132.78
Worldwide	59.11	86.75	110.12	117.86	117.84	108.01	118.60	117.47	117.94
Total gas & oil (\$/bbl)	55.12	75.03	95.19	101.55	101.21	93.14	100.26	98.72	100.43
<b>Revenue (\$mm)</b>									
Natural Gas									
U.S. (or North America)	392	430	547	577	559	2,114	571	539	2,247
Overseas (or Int'l)	12	36	32	32	32	131	42	42	148
Total	404	466	579	609	591	2,245	613	582	2,395
Oil	2,520	3,679	4,514	4,885	4,884	17,962	4,809	4,816	19,393
<b>Ebitda (\$mm)</b>									
Exploration and Production	1,921	3,258	4,004	3,846	3,833	14,940	3,795	3,778	15,252
Other	271	310	268	332	222	1,132	310	268	1,132
Total Ebitda	2,192	3,567	4,272	4,178	4,054	16,072	4,105	4,047	16,384
Exploration	93	74	58	100	100	332	100	100	400
Deprec., Deplet., & Amort.	564	653	621	621	621	2,516	621	621	2,484
<b>Ebit</b>	1,535	2,840	3,593	3,457	3,333	13,224	3,384	3,326	13,500
Interest	6	38	50	50	50	188	50	50	199
<b>Ebt</b>	1,529	2,802	3,543	3,407	3,283	13,036	3,334	3,276	13,300
Income Tax	535	981	1,240	1,192	1,149	4,563	1,167	1,147	4,655
<b>Net Income (\$mm)</b>									
Exploration and Production	1,682	3,011	3,967			6,978			
Other	158	179	144			323			
Unallocated	(846)	(1,368)	(1,808)			(3,176)			
Total	994	1,822	2,303	2,215	2,134	8,474	2,167	2,129	8,645
<b>Shares (millions)</b>									
Per share (\$)	1.18	2.20	2.79	2.68	2.59	10.26	2.63	2.58	10.47
Ebitda Margin (E&P)	66%	79%	79%	70%	70%	74%	70%	70%	70%
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>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
U.S. Natural Gas	1,574	10.6	8.3	13,000	12%
Rest of World Natural Gas	104	11.8	9.6	1,000	1%
Oil	13,573	12.2	6.2	84,100	81%
Downstream	1,132		5.3	6,000	6%
	16,384	11.9	6.4	104,100	100%
Debt (US\$mm)					5,000
Net Present Value (US\$mm)					99,100
Shares (mm)					826
Net Present Value - Standard Estimate (US\$/sh)					120
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					121





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