



Independent Stock Idea

October 28, 2008

rating: hold
s&p 500: 940

Occidental Petroleum (OXY) Low Debt, High Margin

<i>Symbol</i>	OXY	<i>Ebitda Next Twelve Months ending 9/30/09 (US\$mm)</i>	9,000
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	10
<i>Price (US\$/sh)</i>	49.70	<i>Natural Gas and Oil Production/Ebitda (%)</i>	86
<i>Pricing Date</i>	10/28/08	<i>Adjusted Reserves/Production NTM</i>	11.9
<i>Shares (mm)</i>	818	<i>EV/Ebitda</i>	5.1
<i>Market Capitalization (US\$mm)</i>	40,600	<i>PV/Ebitda</i>	8.7
<i>Debt (US\$mm)</i>	5,800	<i>Undeveloped Reserves (%)</i>	20
<i>Enterprise Value (EV) (US\$mm)</i>	46,400	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	35.80
<i>Present Value (PV) (US\$mm)</i>	78,600	<i>Present Value Proven Reserves(US\$/boe)</i>	23.70
<i>Net Present Value (US\$/share)</i>	89	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.95
<i>Debt/Present Value</i>	0.07	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.49
<i>McDep Ratio - EV/PV</i>	0.59	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	2.6	<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\$75 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

Hold-rated **Occidental Petroleum (OXY)** offers unlevered appreciation potential of 70% to estimated net present value (NPV) of \$89 a share. On October 28 we reset NPV from \$120 a share on the basis of a long-term oil price assumption of \$75 a barrel, down from \$100. Patience may be necessary as OXY stock price remains below the 200-day average of \$76. Released today, third quarter results displayed strength in unlevered cash flow (Ebitda) driven by higher crude oil and natural gas prices. Those prices now look lower for the next four quarters (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). A high cash flow margin cushions the impact of the recent price decline (see chart Upstream Cash Flow Margin). OXY's low debt protects against adversity and positions the company to take advantage of opportunity at a time of global financial stress.

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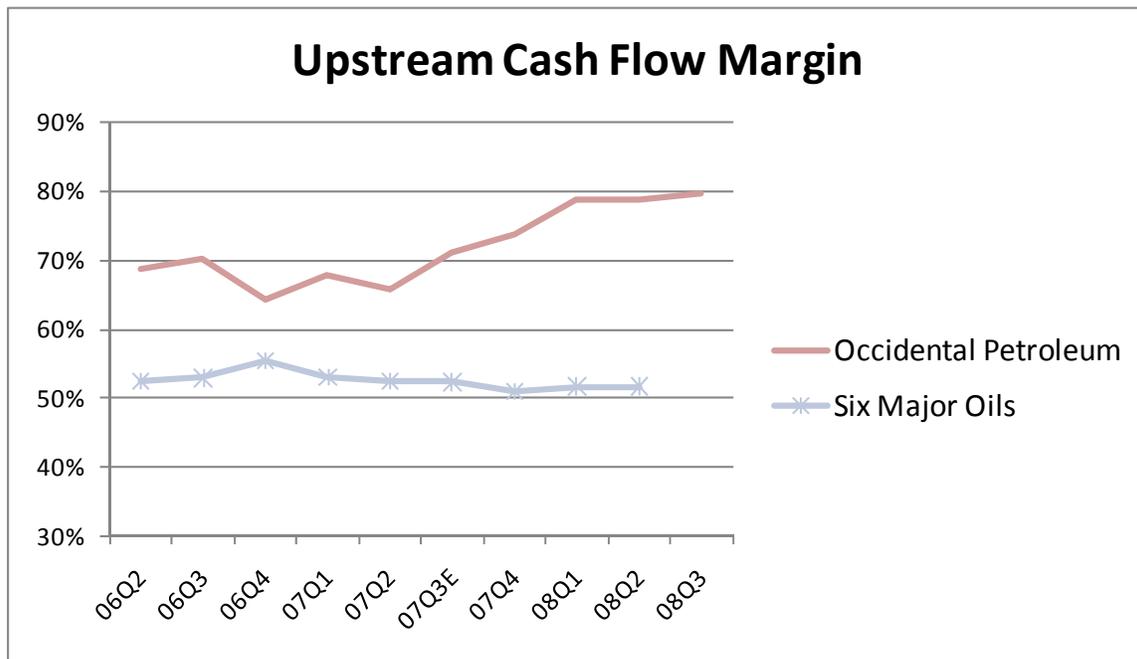
Occidental Petroleum									
Next Twelve Months Operating and Financial Estimates									
	Q3	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	Next Twelve Months
	9/30/07	6/30/08	9/30/08	12/31/08	2008E	3/31/09	6/30/09	9/30/08	9/30/09
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	604	602	570	570	582	570	570	570	570
Overseas (or Int'l)	143	223	235	235	240	300	300	300	284
Total	747	825	805	805	822	870	870	870	854
Days	92	91	92	92	366	90	91	92	365
Oil (mbd)	446	451	454	454	457	454	454	454	454
Total gas & oil (mmb)	52	54	54	54	217	54	54	55	218
Total gas & oil (mbd)	570	588	588	588	593	599	599	599	596
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.16	10.93	10.25	6.65	8.96	6.65	6.67	6.97	6.73
U.S. (or North America)	5.90	9.99	9.35	6.07	8.41	6.07	6.09	6.36	6.15
Overseas (or Int'l)	1.46	1.56	1.68	1.68	1.59	1.68	1.68	1.68	1.68
Total	5.05	7.71	7.11	4.78	6.41	4.55	4.57	4.75	4.66
Oil (\$/bbl)									
WTI Cushing	75.48	123.97	117.99	67.52	101.86	64.23	65.80	67.22	66.19
Worldwide	67.81	110.12	104.15	59.60	90.05	56.70	58.09	59.34	58.44
Total gas & oil (\$/bbl)	59.62	95.19	90.12	52.55	78.16	49.59	50.65	51.87	51.17
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	328	547	490	318	1,786	311	316	334	1,279
Overseas (or Int'l)	19	32	36	36	140	45	46	46	174
Total	347	579	527	354	1,925	357	361	380	1,452
Oil	2,779	4,514	4,349	2,488	15,030	2,316	2,399	2,477	9,681
Ebitda (\$mm)									
Exploration and Production	2,216	4,004	3,877	1,990	13,129	1,871	1,932	2,000	7,793
Other	332	268	422	222	1,221	310	268	422	1,221
Total Ebitda	2,548	4,272	4,299	2,212	14,350	2,180	2,200	2,422	9,014
Exploration	68	58	61	100	293	100	100	100	400
Deprec., Deplet., & Amort.	602	621	683	683	2,640	683	683	683	2,732
Ebit									
Interest	11	50	58	58	203	58	58	58	231
Ebt									
Income Tax	654	1,240	1,224	480	3,925	469	476	553	1,978
Net Income (\$mm)									
Exploration and Production	1,988	3,967	3,618		10,596				
Other	212	144	285		608				
Unallocated	(986)	(1,808)	(1,630)		(4,806)				
Total	1,214	2,303	2,273	891	7,289	871	884	1,028	3,673
Shares (millions)									
Per share (\$)	1.45	2.79	2.78	1.09	8.86	1.06	1.08	1.26	4.49
Ebitda Margin (E&P)	71%	79%	80%	70%	77%	70%	70%	70%	70%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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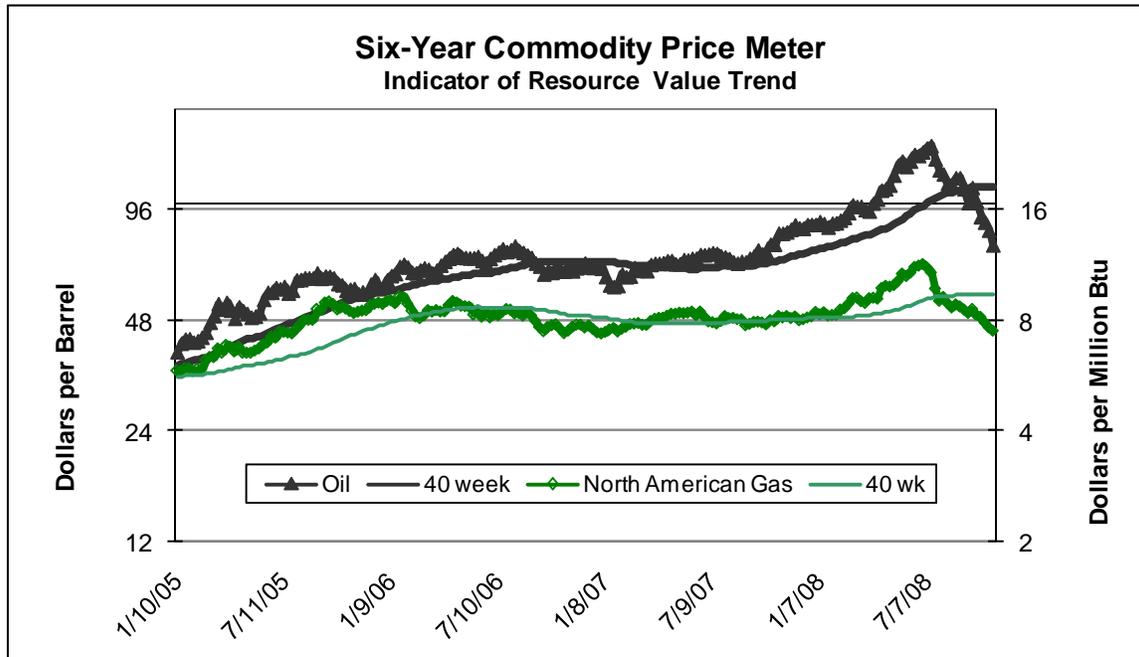
Occidental Petroleum Corporation					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
U.S. Natural Gas	894	11.2	10.1	9,000	11%
Rest of World Natural Gas	122	10.8	8.2	1,000	1%
Oil	6,778	12.1	9.2	62,600	80%
Downstream	1,221		4.9	6,000	8%
	9,014	11.9	8.7	78,600	100%
Debt (US\$mm)					5,800
Net Present Value (US\$mm)					72,800
Shares (mm)					818
Net Present Value - Standard Estimate (US\$/sh)					89
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					87





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