



Independent Stock Idea

October 23, 2009

rating: buy
s&p 500: 1093

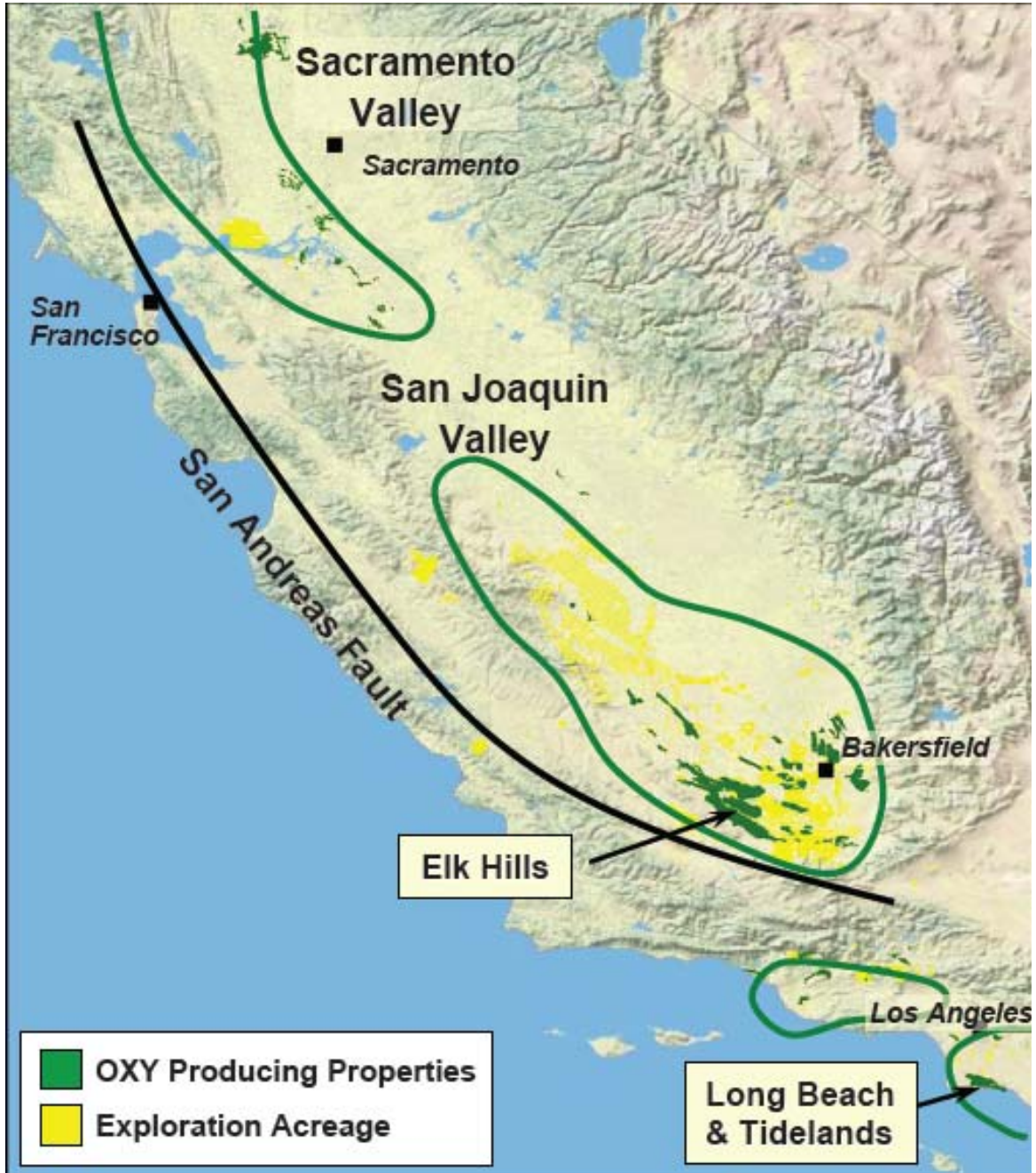
Occidental Petroleum (OXY) Raise Net Present Value to \$95 a Share from \$87

<i>Symbol</i>	OXY	<i>Ebitda Next Twelve Months ending 9/30/10 (US\$mm)</i>	10,700
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	8
<i>Price (US\$/sh)</i>	84.00	<i>Natural Gas and Oil Production/Ebitda (%)</i>	93
<i>Pricing Date</i>	10/22/09	<i>Adjusted Reserves/Production NTM</i>	11.2
<i>Shares (mm)</i>	814	<i>EV/Ebitda</i>	6.9
<i>Market Capitalization (US\$mm)</i>	68,400	<i>PV/Ebitda</i>	7.7
<i>Debt (US\$mm)</i>	5,700	<i>Undeveloped Reserves (%)</i>	26
<i>Enterprise Value (EV) (US\$mm)</i>	74,100	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	43.40
<i>Present Value (PV) (US\$mm)</i>	83,000	<i>Present Value Proven Reserves(US\$/boe)</i>	26.00
<i>Net Present Value (US\$/share)</i>	95	<i>Present Value Proven Reserves(US\$/mcf)</i>	4.33
<i>Debt/Present Value</i>	0.07	<i>Earnings Next Twelve Months (US\$/sh)</i>	5.71
<i>McDep Ratio - EV/PV</i>	0.89	<i>Price/Earnings Next Twelve Months</i>	15
<i>Dividend Yield (%/year)</i>	1.6	<i>Indicated Annual Dividend (US\$/sh)</i>	1.32
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, \$8 a million btu.			
For historical analysis of OXY since 2000 see www.mcdep.com/3oxy.htm			

Summary and Recommendation

Buy-recommended **Occidental Petroleum (OXY)** offers unlevered appreciation potential of 12% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$95 a share. The increase in NPV from \$87 is justified by a strong trend in cash flow generation and a long reserve life index of 11.2 years. Third quarter results released October 22 disclosed unlevered cash flow (Ebitda) above our expectations of three months ago, helped by actual oil price 12% better than earlier indications. A new discovery in California, announced with second quarter results, is already contributing 26 thousand barrels equivalent daily, about 4%, to the company's worldwide oil and gas volume in the latest quarter. The new production comes from conventional zones in an area near Oxy's Elk Hills field (see map). Current oil futures prices point to further gains in the quarters ahead (see table [Next Twelve Months Operating and Financial Estimates](#)). Oxy's concentration on oil reaches 82% in our valuation that capitalizes cash flow at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) for natural gas and oil (see table [Functional Cash Flow and Present Value](#)). Finally, oil futures prices for the next six years near US\$89 a barrel have surpassed US\$75 that we use in estimating NPV (see chart [Six-Year Commodity Price Meter](#)).

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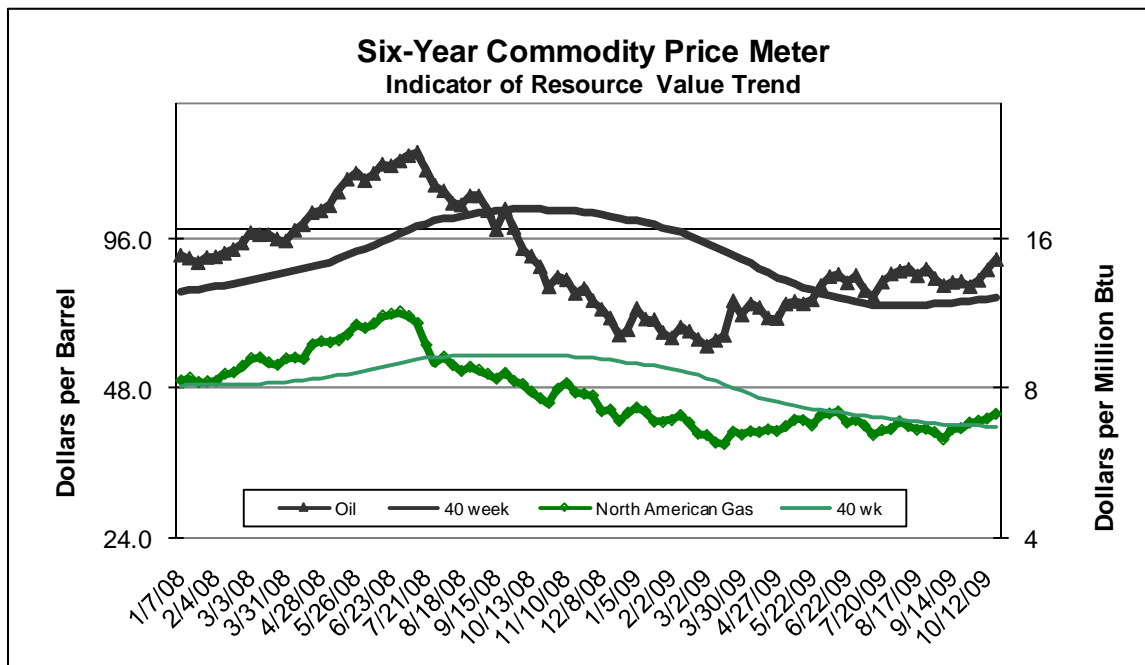
Occidental Petroleum									
Next Twelve Months Operating and Financial Estimates									
									Next Twelve Months
	Q3 9/30/08	Q2 6/30/09	Q3 9/30/09	Q4E 12/31/09	Year 2009E	Q1E 3/31/10	Q2E 6/30/10	Q3E 9/30/10	9/30/10
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	570	621	653	653	637	653	653	653	653
Overseas (or Int'l)	235	314	275	275	285	275	275	275	275
Total	805	935	928	928	922	928	928	928	928
Days	92	91	92	92	365	90	91	92	365
Oil (mbd)	454	493	477	477	488	477	477	477	477
Total gas & oil (mmb)	54	59	58	58	234	57	58	58	231
Total gas & oil (mbd)	588	649	632	632	642	632	632	632	632
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	10.25	3.50	3.39	4.77	4.14	6.08	6.06	6.27	5.79
U.S. (or North America)	9.35	2.87	3.04	4.28	3.44	5.46	5.45	5.64	5.20
Overseas (or Int'l)	1.68	1.31	1.32	1.32	1.36	1.32	1.32	1.32	1.32
Total	7.11	2.34	2.53	3.40	2.80	4.23	4.23	4.36	4.05
Oil (\$/bbl)									
WTI Cushing	117.99	59.52	68.22	78.41	62.28	80.93	82.17	83.06	81.14
Worldwide	104.15	52.97	62.79	72.17	56.64	74.49	75.63	76.45	74.68
Total gas & oil (\$/bbl)	90.12	43.63	51.14	59.50	47.09	62.47	63.33	64.14	62.36
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	490	162	183	257	799	321	324	339	1,240
Overseas (or Int'l)	36	37	33	33	141	33	33	33	132
Total	527	200	216	290	941	353	357	372	1,373
Oil	4,349	2,377	2,757	3,169	10,088	3,200	3,285	3,357	13,012
Ebitda (\$mm)									
Exploration and Production	3,957	1,746	2,137	2,352	7,478	2,487	2,550	2,610	10,000
Other	287	137	149	178	712	248	137	149	712
Total Ebitda	4,244	1,883	2,286	2,531	8,190	2,735	2,687	2,759	10,712
Exploration	61	54	56	56	224	100	100	100	356
Deprec., Deplet., & Amort.	683	742	769	769	3,066	769	769	769	3,076
Ebit									
Interest	3	23	33	33	109	33	33	33	132
Ebt									
Income Tax	1,224	373	500	585	1,677	642	625	650	2,502
Net Income (\$mm)									
Exploration and Production	3,684	1,198	1,541						
Other	219	63	72						
Unallocated	(1,630)	(569)	(685)						
Total	2,273	692	928	1,087	3,114	1,191	1,160	1,207	4,646
Shares (millions)									
Per share (\$)	2.78	0.85	1.14	1.34	3.83	1.46	1.43	1.48	5.71
Ebitda Margin (E&P)	81%	68%	72%	68%	68%	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>Present</i>	
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Value</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>(US\$mm)</i>	
U.S. Natural Gas	861	10.5	9.3	8,000	10%
Rest of World Natural Gas	92	13.9	10.9	1,000	1%
Oil	9,047	11.2	7.5	68,000	82%
Downstream	712		8.4	6,000	7%
	10,712	11.2	7.7	83,000	100%
Debt (US\$mm)					5,700
Net Present Value (US\$mm)					77,300
Shares (mm)					814
Net Present Value - Standard Estimate (US\$/sh)					95
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					100





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Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was 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.

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