

Rating: Buy
 S&P 500: 1190

Unocal Corporation

Buy Chevron at a Discount

<i>Symbol</i>	UCL	<i>Ebitda Next Twelve Months ending 6/30/06 (US\$m)</i>	4,300
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	22
<i>Price (US\$/sh)</i>	56.07	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	5/25/05	<i>Adjusted Reserves/Production NTM</i>	8.5
<i>Shares (mm)</i>	273	<i>EV/Ebitda</i>	4.5
<i>Market Capitalization (US\$m)</i>	15,300	<i>PV/Ebitda</i>	5.1
<i>Debt (US\$m)</i>	4,100	<i>Undeveloped Reserves (%)</i>	48
<i>Enterprise Value (EV) (US\$m)</i>	19,400	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	27.30
<i>Present Value (PV) (US\$m)</i>	21,800	<i>Present Value Proven Reserves(US\$/boe)</i>	12.40
<i>Net Present Value (US\$/share)</i>	65	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.07
<i>Debt/Present Value</i>	0.19	<i>Earnings Next Twelve Months (US\$/sh)</i>	6.10
<i>McDep Ratio - EV/PV</i>	0.89	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	1.4	<i>Indicated Annual Dividend (US\$/sh)</i>	0.80

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

Buyers of **Unocal (UCL)** stock are essentially getting buy-recommended **Chevron Corporation (CVX)** at about a 2% discount presuming that the acquisition of Unocal by Chevron is completed as contemplated. Paying \$56.07 a share for Unocal would get CVX stock and cash by year end worth \$57.43 at the closing price on May 25. While Unocal stock by itself has appreciation potential of 16% to net present value of \$65, it has appreciation potential of 20% to the net present value of CVX stock and cash.

Projections Provide Input to Chevron Analysis

The proposed exchange ratio of 1.03 shares of Chevron stock for 75% of the shares of Unocal plus \$65 for the remaining 25% is expected to be effective by the end of 2005. Assuming the deal is complete at the beginning of 2006, projections displayed below for the first half of next year are included in the related projections for Chevron (see table Next Twelve Months Operating and Financial Performance).

Thanks in part to recent better-than-expected reported results by Unocal, our estimates of present value by business segment are less than the amounts consistent with the current correlation for 30 companies (see tables Functional Cash Flow and Present Value). The difference accrues to the benefit of Chevron and makes the acquisition offer appear timelier. Of course, Unocal stockholders would share in value changes because an average 75% of Unocal shares would be turned into Chevron shares.

Please see disclosures on the final page.

Unocal
Next Twelve Months Operating and Financial Estimates

	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Next Twelve Months</i>
	<i>12/31/04</i>	<i>2004</i>	<i>3/31/05</i>	<i>6/30/05</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005E</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>6/30/06</i>
Volume										
Natural Gas (mmcf)										
North America	551	578	539	539	539	539	539	539	539	539
Overseas	993	941	1,021	1,021	1,021	1,021	1,021	1,021	1,021	1,021
Total	1,544	1,520	1,560	1,560	1,560	1,560	1,560	1,560	1,560	1,560
Oil (mbd)	171	159	169	169	169	169	169	169	169	169
Total gas & oil (mmb)	39	151	39	39	39	39	157	39	39	157
Total gas & oil (mbd)	428	412	429	429	429	429	429	429	429	429
Price										
Natural gas (\$/mcf)										
Henry Hub (\$/mmbtu)	7.10	6.15	6.27	6.85	6.52	7.13	6.69	7.93	6.86	7.11
North America	6.02	5.27	5.32	5.81	5.53	6.05	5.68	6.73	5.82	6.03
Overseas	3.42	3.17	3.43	3.53	3.63	3.73	3.58	3.83	3.93	3.77
Total	4.35	3.97	4.08	4.32	4.28	4.53	4.30	4.83	4.58	4.55
Oil (\$/bbl)										
WTI Cushing	48.31	41.44	49.65	50.26	49.98	51.43	50.33	51.43	51.17	51.01
Worldwide	44.43	37.92	45.44	45.99	45.74	47.07	46.06	47.06	46.83	46.67
Total gas & oil (\$/bbl)	33.40	29.25	32.74	33.81	33.60	35.01	33.80	36.11	35.10	34.95
Revenue (\$mm)										
Natural Gas										
North America	305	1,115	258	285	274	300	1,118	327	286	1,187
Overseas	313	1,093	315	328	341	350	1,333	352	365	1,407
Total	618	2,208	573	613	615	650	2,450	678	650	2,593
Oil	697	2,201	691	707	711	732	2,841	716	720	2,879
Other	1,031	3,802	922	922	922	922	3,688	922	922	3,688
Total	2,346	8,211	2,186	2,242	2,248	2,304	8,980	2,316	2,293	9,161
Expense										
Natural Gas and Oil	297	1,012	187	289	290	302	1,068	303	301	1,195
Other	1,031	3,802	922	922	922	922	3,688	922	922	3,688
Total	1,328	4,814	1,109	1,211	1,212	1,224	4,756	1,225	1,223	4,884
Ebitda (\$mm)	1,018	3,397	1,077	1,031	1,036	1,080	4,224	1,091	1,070	4,277
Exploration	167	435	58	120	120	120	418	120	120	480
Deprec., Deplet., & Amort.	277	997	276	276	276	276	1,104	276	276	1,104
Hedging	53	111	29				29			-
Interest	33	160	33	33	33	33	132	33	33	132
Ebt	488	1,693	680	602	607	651	2,541	662	641	2,561
Income tax	171	593	238	211	213	228	889	232	224	896
Net Income (\$mm)	317	1,101	442	391	395	423	1,652	430	417	1,665
Per share (\$)	1.17	4.01	1.62	1.43	1.45	1.55	6.05	1.58	1.53	6.10
Shares (millions)	271	275	273	273	273	273	273	273	273	273
Ebitda margin (E&P)	77%	77%	85%	78%	78%	78%	80%	78%	78%	78%
Tax rate - current	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%

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Unocal
Functional Cash Flow and Present Value

	<i>NTM Ebitda</i> <i>(US\$mm)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$mm)</i>	
North American Natural Gas	933	7.8	5.9	5,500	25%
Overseas Natural Gas	1,099	9.2	5.5	6,000	28%
Oil	2,245	8.1	4.6	10,300	47%
	4,277	8.5	5.1	21,800	100%
Debt (US\$mm)				4,100	
Net Present Value (US\$mm)				17,700	
Shares (mm)				273	
Net Present Value (US\$/sh)				65	

Crude Oil Production Looks Good

Chevron is 53% a crude oil producer. The price outlook for the commodity appears favorable.

Refining Crack Looks Good

Chevron is 30% a downstream company. The refining margin appears to be in a rising trend also.

Natural Gas Looks Good

With Unocal, Chevron is 17% a natural gas producer, 9% North American and 8% overseas. The outlook for natural gas appears even better than for oil. The North American commodity price has lagged for three years, but is still twice the overseas price. Though it is not too important for Chevron directly, we are watching with fascination the rapidly strengthening natural gas futures in Europe apparently coincident with the beginning of trading in carbon emissions permissions.

Buy Oil and Gas Producers at Mid Decade

Multi-fold gain potential for oil and gas price over the years ahead justifies investment in recommended oil and gas producers, in our opinion. A McDep Ratio of 1.0 implies that a stock would be priced at present value assuming a constant real oil price of US\$40 (see table Rank by McDep Ratio).

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

	<i>Symbol/</i>	<i>Rating</i>	<i>Price</i> <i>(\$/sh)</i> <i>25-May</i> <i>2005</i>	<i>Shares</i> <i>(mm)</i>	<i>Market</i> <i>Cap</i> <i>(\$mm)</i>	<i>Net</i> <i>Present</i> <i>Value</i> <i>(\$/sh)</i>	<i>Debt/</i> <i>Present</i> <i>Value</i>	<i>McDep</i> <i>Ratio</i>
Mega Cap								
Shell Transport and Trading Co. plc	SC	B	53.01	1,587	84,000	56.00	0.14	0.95
BP plc	BP	B	60.70	3,574	217,000	64.00	0.13	0.95
Exxon Mobil Corporation	XOM	B	55.68	6,421	358,000	60.00	0.06	0.93
Royal Dutch Petroleum	RD	B	59.36	2,018	120,000	66.00	0.14	0.91
Total S.A.	TOT	B	111.80	1,192	133,000	126.00	0.15	0.90
Chevron Corporation	CVX	B	53.32	2,311	123,000	70.00	0.13	0.79
	<i>Total or Median</i>				<i>1,035,000</i>		<i>0.13</i>	<i>0.92</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap								
Encana Corporation	ECA	B	34.67	909	31,500	38.50	0.19	0.92
Unocal Corporation	UCL	B	56.07	273	15,300	65.00	0.19	0.89
XTO Energy Inc.	XTO	B	30.15	366	11,040	36.00	0.19	0.87
Occidental Petroleum Corp.	OXY	B	71.49	406	29,100	87.00	0.14	0.85
CNOOC Limited (19%)	CEO	B	53.30	78	4,160	67.00	-	0.79
Burlington Resources	BR	B	49.67	389	19,300	67.00	0.12	0.77
Devon Energy Corporation	DVN	B	45.36	500	22,700	63.00	0.16	0.76
Anadarko Petroleum Corp.	APC	B	74.39	246	18,300	113.00	0.14	0.71
	<i>Total or Median</i>				<i>151,000</i>		<i>0.15</i>	<i>0.82</i>

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