

Rating: Buy
 S&P 500: 1235

Unocal Corporation

Raise Net Present Value to \$85 a Share

<i>Symbol</i>	UCL	<i>Ebitda Next Twelve Months ending 6/30/06 (US\$m)</i>	5,300
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	21
<i>Price (US\$/sh)</i>	64.39	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/1/05	<i>Adjusted Reserves/Production NTM</i>	7.9
<i>Shares (mm)</i>	275	<i>EV/Ebitda</i>	4.1
<i>Market Capitalization (US\$m)</i>	17,700	<i>PV/Ebitda</i>	5.2
<i>Debt (US\$m)</i>	4,000	<i>Undeveloped Reserves (%)</i>	48
<i>Enterprise Value (EV) (US\$m)</i>	21,700	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	31.40
<i>Present Value (PV) (US\$m)</i>	27,400	<i>Present Value Proven Reserves(US\$/boe)</i>	15.60
<i>Net Present Value (US\$/share)</i>	85	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.60
<i>Debt/Present Value</i>	0.15	<i>Earnings Next Twelve Months (US\$/sh)</i>	9.13
<i>McDep Ratio - EV/PV</i>	0.79	<i>Price/Earnings Next Twelve Months</i>	7
<i>Dividend Yield (%/year)</i>	1.2	<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

We raise our estimated net present value of buy-recommended **Unocal (UCL)** to \$85 a share from \$65 on the basis of an expected long-term real price for oil of \$50 a barrel up from \$40 for Light Sweet Crude. We also raise our long-term real price for natural gas to \$10 a million BTU, up from \$8 for the Henry Hub location. The stock has 32% appreciation potential to net present value. The main risk in independent producer stocks is commodity price, the flip side of the opportunity. Unocal may soon be part of **Chevron (CVX)** or **CNOOC (CEO)** may raise its bid.

Kurt H. Wulff, CFA

Unocal Functional Cash Flow and Present Value

	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$m)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$m)</i>	
North American Natural Gas	1,134	8.0	6.1	6,900	25%
Rest of World Natural Gas	1,223	8.1	6.1	7,500	27%
Oil	2,907	7.8	4.5	13,000	47%
	5,264	7.9	5.2	27,400	100%
Debt (US\$m)				4,000	
Net Present Value (US\$m)				23,400	
Shares (mm)				275	
Net Present Value (US\$/sh)				85	

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>Q2</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	525	525	525	528	525	525	525
Overseas	993	941	1,021	1,166	1,166	1,166	1,130	1,166	1,166	1,166
Total	1,544	1,520	1,560	1,691	1,691	1,691	1,659	1,691	1,691	1,691
Oil (mbd)	171	159	169	177	177	177	175	177	177	177
Total gas & oil (mmb)	39	151	39	42	42	42	165	41	42	167
Total gas & oil (mbd)	428	412	429	459	459	459	451	459	459	459
Price										
Natural gas (\$/mcf)										
Henry Hub (\$/mmbtu)	7.10	6.15	6.27	6.76	7.60	8.69	7.33	9.44	8.04	8.44
North America	6.02	5.27	5.32	5.98	6.72	7.69	6.43	8.35	7.12	7.47
Overseas	3.42	3.17	3.43	3.40	3.50	3.60	3.48	3.70	3.80	3.65
Total	4.35	3.97	4.08	4.20	4.50	4.87	4.42	5.14	4.83	4.83
Oil (\$/bbl)										
WTI Cushing	48.31	41.44	49.65	53.05	60.62	63.32	56.66	64.52	63.88	63.09
Worldwide	42.83	37.49	44.80	48.18	55.05	57.50	51.50	58.60	58.02	57.28
Total gas & oil (\$/bbl)	32.77	29.09	32.48	34.06	37.82	40.12	36.21	41.56	40.17	39.91
Revenue (\$mm)										
Natural Gas										
North America	305	1,115	258	286	325	371	1,240	395	340	1,431
Overseas	313	1,093	315	361	375	386	1,437	388	403	1,552
Total	618	2,208	573	646	700	757	2,677	783	743	2,983
Oil	672	2,176	681	776	897	936	3,290	933	934	3,701
Other	1,056	3,827	932	791	791	791	3,304	791	791	3,163
Total	2,346	8,211	2,186	2,213	2,387	2,484	9,271	2,507	2,468	9,847
Expense										
Natural Gas and Oil	272	987	178	320	339	360	1,196	362	358	1,419
Other	1,056	3,827	932	791	791	791	3,304	791	791	3,163
Total	1,328	4,814	1,109	1,110	1,130	1,151	4,500	1,153	1,149	4,582
Ebitda (\$mm)	1,018	3,397	1,077	1,103	1,257	1,334	4,771	1,354	1,319	5,264
Exploration	167	435	58	49	49	49	205	49	49	196
Deprec., Deplet., & Amort.	277	997	276	269	269	269	1,083	269	269	1,076
Hedging	53	111	29	4			33			-
Interest	33	160	33	32	32	32	129	32	32	128
Ebt	488	1,693	680	749	907	984	3,320	1,004	969	3,864
Income tax	171	593	238	262	318	344	1,162	351	339	1,353
Net Income (\$mm)	317	1,101	442	487	590	640	2,158	653	630	2,512
Per share (\$)	1.17	4.01	1.62	1.77	2.14	2.33	7.86	2.37	2.29	9.13
Shares (millions)	271	275	273	275	275	275	275	275	275	275
Ebitda margin (E&P)	79%	77%	86%	78%	79%	79%	80%	79%	79%	79%
Tax rate - current	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%

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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>1-Aug</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>
Independent Natural Gas and Oil - Large Cap and Mid Cap								
Encana Corporation	ECA	B	41.86	892	37,300	51.00	0.16	0.85
CNOOC Limited (29%)	CEO	B	69.33	119	8,270	84.00	0.01	0.83
Unocal Corporation	UCL	B	64.39	275	17,700	85.00	0.15	0.79
XTO Energy Inc.	XTO	B	35.58	370	13,150	48.00	0.17	0.79
Burlington Resources	BR	B	65.03	385	25,000	86.00	0.09	0.78
Devon Energy Corporation	DVN	B	56.63	496	28,100	82.00	0.13	0.73
Occidental Petroleum Corp.	OXY	B	82.78	406	33,600	120.00	0.11	0.72
Anadarko Petroleum Corp.	APC	B	88.72	238	21,100	140.00	0.11	0.67
	<i>Total or Median</i>				<i>184,000</i>		<i>0.12</i>	<i>0.78</i>

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