Rating: Buy
S&P 500: 1099

Exxon Mobil Corporation
Largest and Safest Energy Stock

Symbol	XOM	*Ebitda Next Twelve Months ending 3/31/05 ($mm)*	44,600
Rating	Buy	*North American Natural Gas/Ebitda (%)*	10
Price ($/sh)	43.25	*Natural Gas and Oil Production/Ebitda (%)*	70
Pricing Date	5/7/04	*Adjusted Reserves/Production NTM*	10.9
Shares (mm)	6582	*EV/Ebitda*	7.0
Market Capitalization ($mm)	284,700	*PV/Ebitda*	6.9
Debt ($mm)	26,600	*Undeveloped Reserves (%)*	38
Enterprise Value (EV) ($mm)	311,200	*Natural Gas and Oil Ebitda ($/boe)*	19.90
Present Value (PV) ($mm)	309,600	*Present Value Proven Reserves($/boe)*	10.30
Net Present Value ($/share)	43	*Present Value Proven Reserves($/mcfe)*	1.70
Debt/Present Value	0.09	*Price/Earnings Next Twelve Months*	13
McDep Ratio - EV/PV	1.01	*Dividend Yield (%)*	2.3

Summary and Recommendation

We place a new “Buy” rating on **ExxonMobil (XOM)** stock for large and/or conservative investors to participate in a positive outlook for crude oil and refined products. There may be more undervalued energy stocks, but there are few that can point to a historical record as good as XOM’s thirty fold total return in thirty years. Moreover the largest energy company is globally and functionally diversified such that if one area or business underperforms, another may outperform. The stock also seems to be most stable, often going down less in difficult times thereby preserving more of past gains.

Six-Year Futures Point to Higher Commodity Price

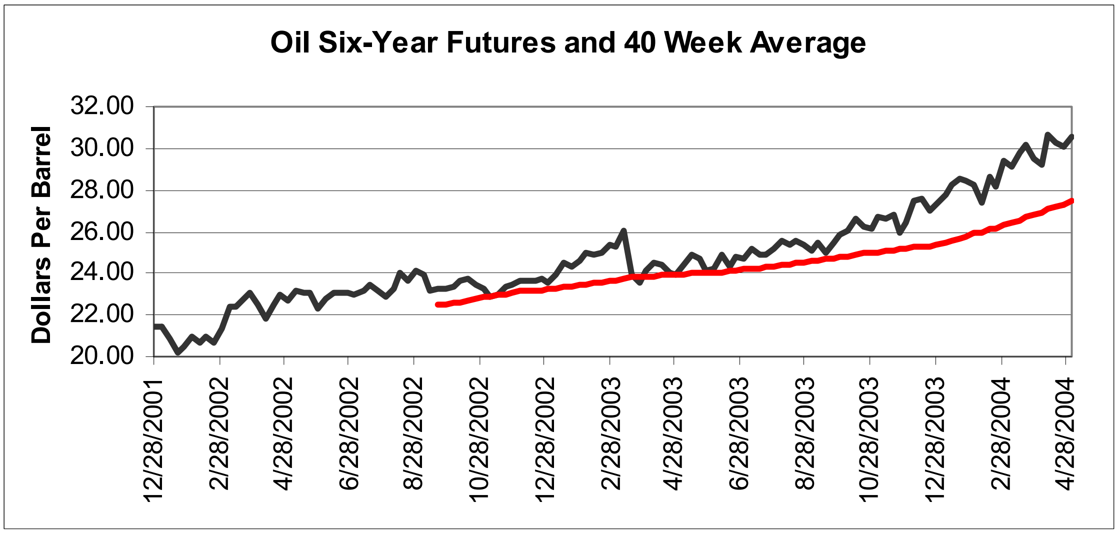
About 70% of the value of XOM is sensitive to crude oil price and the remainder is sensitive mostly to refined product margin. We look to the futures market for expectations of the trend in price of the global crude oil benchmark. Thirty years ago when we last had a decade-long major move in oil there was no meaningful futures market. Today futures prices for natural gas are quoted every trading day for each of 72 months for the next six years. Similarly futures prices for oil are quoted for the same period, but not for every month in the later years because there is less seasonality in crude oil price. We average the quotes for 72 months, interpolating where necessary for oil.

The plot of weekly results for oil shows a strong uptrend with the 40-week moving average rising at the rate of 12% a year (see Chart). At that rate the price in 2010 would be three times the price in 2000. The comparable rate of gain from 1970 to 1980 was about ten times.

Fundamental factors support the price trends. Oil demand is strong with world economic growth paced by developing countries, especially China. Supply is tight as the Middle East is showing maturity with the workhorse giant fields on the verge of peaking.

Interest rates below inflation encourage investment in assets like oil that can increase in price more than inflation. Nor is the increase in oil price close to the rate that would induce a recession in economic activity and energy demand. We believe an oil price gain of three times from 2000 to 2010 can be accommodated in continued economic progress while we know a gain of ten times was accompanied by economic pain.

There may be security concerns affecting the near-term oil price. We are optimistic that there will be no catastrophic interruption. At the same time it should be clear that the ability of even the U.S. military to enforce an artificially low oil price is limited.

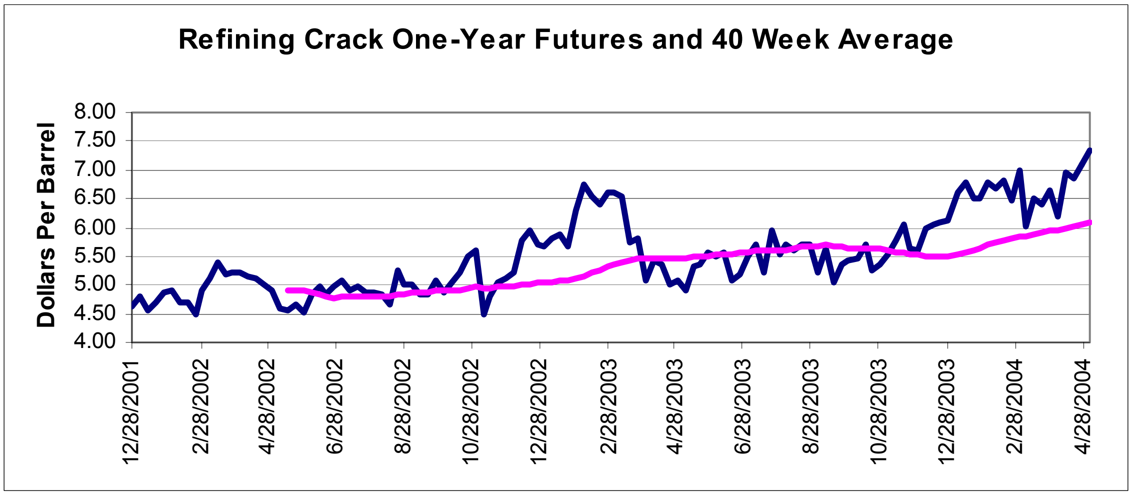


Upstream Trends Also Strong

Industry people like to refer to the oil producing business as upstream and the oil refining/marketing business as downstream. Strong upstream business prospects captured in the rising trend of six-year futures are complemented by improving downstream prospects captured in the trend of one-year refining crack futures (see chart).

Compared to the two previous years, there has been no sign yet of a seasonal peak in the trend. Perhaps there will be some falloff this year as in the past, but it would occur from a higher level.

The crack spread we measure is the price of two/thirds barrel of gasoline plus one/third barrel of heating oil minus a barrel of crude oil. While there are innumerable varieties of crude oil and products quoted around the world there is only one source of transparent, public quotes of futures prices for the next year, the New York Mercantile Exchange. Even at Nymex there are times for gasoline when the last month may not be quoted. In those cases we add an estimate. There is also the complication of multiple environmental blends required in the market place. Despite the possible seasonal cycle noted above, the crack spread should be seasonally neutral because it always includes twelve months.



Volume, Price and Costs Translate to Attractive Cash Flow

Our process of estimating company-specific present value begins with an estimate of next twelve months cash flow. Current projections lead to almost $45 billion of unlevered cash flow, also known as Ebitda, short for earnings before interest, tax, depreciation and amortization (see table). We choose the next twelve months ending March 31, 2005 as the relevant time period. The rationale is that if one is buying a stock today, previously reported cash flow is relevant only for the information it may give about future cash flow.

We hold volume mostly flat at the most recent historical level. While management may anticipate modest volume growth, our main assumption is that the cash generated be redeployed effectively in one fashion or another. We recognize seasonality in overseas natural gas.

We take the futures market at face value in projecting price for the next twelve months. Light Sweet Crude quotes guide our projections of oil revenue while Henry Hub natural gas quotes guide our projections for North American natural gas revenue. The New York Harbor 3-2-1 quote, the refining crack, guides our projection for downstream margin. Because futures are constantly changing, our projection is adjusted accordingly. As a result, the specific amounts we project today may not be the amounts realized when the company next reports.

Long Reserve Life Implies Higher Cash Flow Multiple

The important variables in the valuation of future production are captured in base year cash flow and a multiple of that cash flow that depends on reserve life. Indeed investors do differentiate on that basis as reflected in a high correlation of unlevered cash flow multiple with adjusted reserve life. We convert the market relationship to a formula that produces an anticipatory value with somewhat more sensitivity to reserve life.

Exxon Mobil Corporation
Next Twelve Months Operating and Financial Estimates

	Q1 3/31/04	Q2E 6/30/04	Q3E 9/30/04	Q4E 12/31/04	Year 2004E	Q1E 3/31/05	Next Twelve Months 3/31/05
Volume							
Natural Gas (mmcfd)							
U.S. (or North America)	3,060	3,212	3,067	3,032	**3,093**	3,060	**3,093**
Overseas (or Int'l)	8,407	6,165	5,605	7,847	**7,000**	8,401	**6,999**
Total	11,467	9,377	8,672	10,879	**10,093**	11,461	**10,091**
Oil (mmb)	237	240	242	242	**962**	237	**962**
Oil (mbd)	2,635	2,635	2,635	2,635	**2,635**	2,635	**2,635**
Total gas & oil (mmb)	409	382	375	409	**1,576**	409	**1,576**
Price							
Natural gas ($/mcf)							
Henry Hub ($/mmbtu)	5.64	5.90	6.34	6.50	**6.09**	6.66	**6.35**
U.S. (or North America)	5.51	5.77	6.19	6.35	**5.95**	6.50	**6.20**
Overseas (or Int'l)	4.43	4.43	4.43	4.43	**4.43**	4.43	**4.43**
Total	4.72	4.89	5.05	4.96	**4.90**	4.98	**4.97**
Oil ($/bbl)							
WTI Cushing	35.23	37.43	37.55	36.21	**36.60**	34.89	**36.52**
Worldwide	30.65	32.56	32.66	31.50	**31.85**	30.36	**31.77**
Total gas & oil ($/bbl)	29.66	31.35	31.83	30.80	**30.88**	30.16	**31.01**
NY Harbor 3-2-1 ($/bbl)	6.98	10.19	9.00	6.24	**8.10**	6.10	**7.88**
Revenue ($mm)							
Natural Gas							
U.S. (or North America)	1,517	1,685	1,746	1,771	**6,720**	1,791	**6,993**
Overseas (or Int'l)	3,352	2,485	2,284	3,198	**11,319**	3,349	**11,317**
Total	4,869	4,171	4,030	4,969	**18,039**	5,140	**18,310**
Oil	7,268	7,807	7,918	7,636	**30,628**	7,199	**30,560**
Other	55,465	55,465	55,465	55,465	**221,861**	55,465	**221,861**
Total	67,602	67,443	67,414	68,070	**270,528**	67,804	**270,730**
Expense							
Production	4,351	4,319	4,313	4,444	**17,427**	4,391	**17,468**
Other	52,428	51,729	51,948	52,488	**208,593**	52,519	**208,684**
Ebitda ($mm)							
Exploration and Production	7,786	7,658	7,635	8,160	**31,240**	7,948	**31,401**
Other	3,037	3,736	3,517	2,977	**13,267**	2,946	**13,176**
Total Ebitda	10,823	11,395	11,152	11,137	**44,507**	10,893	**44,578**
Exploration	174	174	174	174	**696**	174	**696**
Deprec., Deplet., & Amort.	2,203	2,203	2,203	2,203	**8,812**	2,203	**8,812**
Ebit	8,446	9,018	8,775	8,760	**34,999**	8,516	**35,070**
Interest	41	41	41	41	**164**	41	**164**
Ebt	8,405	8,977	8,734	8,719	**34,835**	8,475	**34,906**
Income Tax	2,942	3,142	3,057	3,052	**12,192**	2,966	**12,217**
Net Income ($mm)							
Exploration and Production	4,013						
Other	1,568						
Unallocated	(118)						
Total	5,463	5,835	5,677	5,667	**22,643**	5,509	**22,689**
Shares (millions)	6,582	6,582	6,582	6,582	**6,582**	6,582	**6,582**
Per share ($)	0.83	0.89	0.86	0.86	**3.44**	0.84	**3.45**
Ebitda Margin (E&P)	64%	64%	64%	65%	**64%**	64%	**64%**
Tax Rate	35%	35%	35%	35%	**35%**	35%	**35%**

Reported reserves at year end 2003 imply an adjusted life index of 10.9 years. The index is the sum of developed and half undeveloped reserves divided by next twelve months production. That could justify a multiple of 8.0 in the framework we applied on March 23 when we estimated present value assuming constant commodity price near the one-year quotes at that time, about $35 a barrel for crude oil and $6 a barrel for the refining crack. Our present value remains unchanged while higher commodity prices since then imply higher cash flow and a lower multiple of 6.9 times. If ExxonMobil can generate more cash in less than 7 years than the total value of its stock market capitalization and debt, it is indeed a cheap stock.

For the time being we are not differentiating in assessed multiple for oil production, North American natural gas production or downstream. Should the balance of price relationships change sharply, we may need to be more specific.

Historical Trivia

That great historical record Exxon stock delivered started from a more undervalued base as we measured it in August of 1973 when we did the first type of analysis that ultimately became our McDep Ratio technique. Exxon, the predecessor of ExxonMobil, had an estimated $36 billion in present value and a low debt/present value ratio of 0.08. Present value was divided 70% in oil and gas and 30% in downstream. The difference was that the oil and gas portion was exclusively reserves in "safe areas" such as North America, Europe and Australia.

The McDep Ratio was 0.65, the lowest of five international companies. Had the McDep Ratio been 1.00, the record of 30 times in 30 years might have been 20 times in 30 years and the compound total return of 12%/year might have been 10%/year. That would still have been a rewarding level. Moreover financial risk was always low. The Exxon returns might readily have been leveraged by investors to higher levels.

Proxy for Energy Investment

Investors who want exposure to energy, but may not know which stock to choose, can buy ExxonMobil with little hesitation. Investors who are particularly risk averse might also choose ExxonMobil as the energy investment of choice. Investors who are especially value conscious may have some ExxonMobil, but would be concentrated mostly in lower McDep Ratio stocks. Taxable investors with a low cost basis are probably grateful for historical performance and need extra incentive in any alternative investment to justify paying a tax on the sale of ExxonMobil.

Kurt H. Wulff, CFA

Research Methodology: McDep Associates ("the Firm") applies the thirty plus years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value becomes the denominator of the McDep Ratio while market capitalization and debt are the numerator. Stocks with low McDep Ratios tend to outperform stocks with high McDep Ratios on an unlevered basis. The firm emphasizes quantitative tools in deriving estimates while applying a final qualitative refinement.

Ratings Description: Stocks are rated by expected risk-adjusted return over one to three years compared to Treasury Inflation Protected Securities. Buy, Hold and Sell ratings imply expectations better than, equal to and inferior to those of TIPS. The McDep Ratio for a Buy may range up to 1.2; for a Hold**,** 1.0 to 1.4; and for a Sell, above 1.2.

Standard Disclaimer: This analysis was prepared by Kurt Wulff doing business as McDep Associates ("McDep"). McDep 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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