

Rating: Buy
S&P 500: 1081

ExxonMobil Corporation

Low Risk with Oil Price Upside

<i>Symbol</i>	XOM	<i>Ebitda Next Twelve Months ending 3/31/05 (\$mm)</i>	47,300
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	9
<i>Price (\$/sh)</i>	45.83	<i>Natural Gas and Oil Production/Ebitda (%)</i>	72
<i>Pricing Date</i>	8/5/04	<i>Adjusted Reserves/Production NTM</i>	11.1
<i>Shares (mm)</i>	6547	<i>EV/Ebitda</i>	6.9
<i>Market Capitalization (\$mm)</i>	300,000	<i>PV/Ebitda</i>	6.5
<i>Debt (\$mm)</i>	25,800	<i>Undeveloped Reserves (%)</i>	38
<i>Enterprise Value (EV) (\$mm)</i>	325,800	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	22.20
<i>Present Value (PV) (\$mm)</i>	307,300	<i>Present Value Proven Reserves(\$/boe)</i>	10.50
<i>Net Present Value (\$/share)</i>	43	<i>Present Value Proven Reserves(\$/mcf)</i>	1.70
<i>Debt/Present Value</i>	0.08	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.65
<i>McDep Ratio - EV/PV</i>	1.06	<i>Price/Earnings Next Twelve Months</i>	13
<i>Dividend Yield (%/year)</i>	2.4	<i>Indicated Annual Dividend (US\$/sh)</i>	1.08

Note: Estimated cash flow and earnings tied to one-year futures prices for oil, natural gas and refining crack.

Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

Summary and Recommendation

We continue a buy rating on the common shares of **ExxonMobil (XOM)** for low risk mega cap participation in a positive outlook for crude oil and refined products. The successor to Standard Oil of New Jersey, the Rockefeller flagship, the company is the standard of value for oil and gas stocks. The current stock price probably reflects a constant oil price of less than \$35 a barrel. A sustained real price increase of \$5 a barrel, likely in our view, would boost the resource value of the company by perhaps \$6 a share, or some 15%. The largest and lowest risk energy stock, XOM might be especially suitable for those investors wishing to improve on low portfolio representation in energy while fearful of unexpected energy stock price weakness.

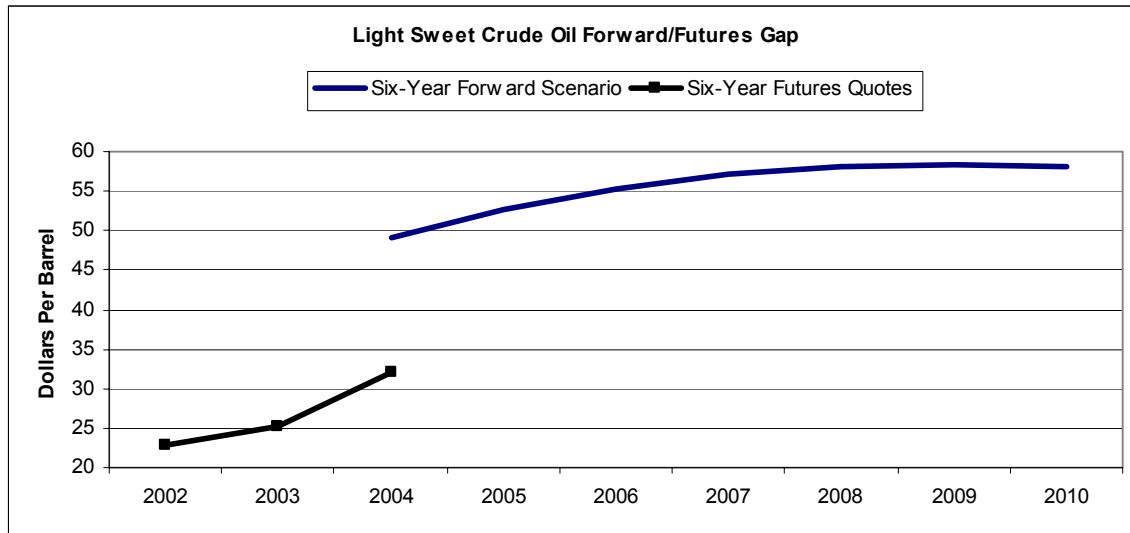
Oil Price Moving Sharply Higher

The value of the company depends in large part on the future price of crude oil. Publicly traded in the commodity markets, futures contracts for delivery over the next six years continue in a steep uptrend. Whether the trend will slow for awhile we cannot know. Our scenario is that a move that began in the low \$20 and is now in the mid \$30 could reach \$50 (see chart).

To construct the scenario we assumed oil would peak in 2010 at \$50 in 2003 dollars. Then we applied 3% per year inflation and calculated six-year averages to build a forward curve.

Economics 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.

Please see disclosures on the final page.



Monetary factors favor oil investment as interest rates below inflation drive investors to real assets for protection against currency debasement. The authorities are unlikely to raise interest rates above inflation for the rest of the decade. We can be more confident of that as the official U.S. government determined inflation measure appears understated.

Environmental factors favor higher oil and gas price. Coal is still a quarter of world primary energy supply. Cleaner oil and gas are undervalued as long as we tolerate environmentally disadvantageous coal.

Political factors favor higher oil price in consuming countries and producing countries. In consuming countries, many view the use of military force as an attempt to hold down oil price at what we would term an artificially low level. Thirty years ago some of the same political leaders directed price controls in a failed attempt to hold oil price artificially low.

In producing countries we have seen time and again that oil production goes down when international oil companies are not welcome. After Iran, Iraq and Venezuela, now Saudi Arabia appears vulnerable to political change that may bring about production decline.

There may be a risk of oil stock price decline even if oil price remains firm. That happened in 1974 when economic activity and the stock market declined severely. We think the current parallel occurred in 2002 and is now behind us. Nonetheless the stock market may have begun a new moderate downward phase of its cycle. We liken that to the mid to late 1970s when oil price held and then took off again.

One-Year Futures Point to Higher Cash Flow and Profits

As our next twelve months (NTM) cash flow model moves ahead to the period ending June 30, 2005 expectations also advance mainly because of advancing one-year futures. We relate oil price, natural gas price and refinery margin to the quotes for commodities traded on the New York Mercantile Exchange (see table Next Twelve Months Operating and Financial Estimates).

Please see disclosures on the final page.

Exxon Mobil Corporation
Next Twelve Months Operating and Financial Estimates

	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Next</i>
	<i>3/31/04</i>	<i>6/30/04</i>	<i>9/30/04</i>	<i>12/31/04</i>	<i>2004E</i>	<i>3/31/05</i>	<i>6/30/05</i>	<i>Months</i>
								<i>6/30/05</i>
Volume								
Natural Gas (mmcf)								
U.S. (or North America)	3,060	2,961	3,067	3,032	3,030	3,060	2,961	3,030
Overseas (or Int'l)	8,407	6,040	5,491	7,687	6,900	8,281	6,072	6,877
Total	11,467	9,001	8,558	10,719	9,930	11,341	9,033	9,907
Oil (mmb)	237	235	237	237	947	232	235	942
Oil (mbd)	2,635	2,581	2,581	2,581	2,594	2,581	2,581	2,581
Total gas & oil (mmb)	409	371	369	402	1,551	402	372	1,545
Price								
Natural gas (\$/mcf)								
Henry Hub (\$/mmbtu)	5.64	6.10	5.88	6.32	5.99	6.83	6.08	6.28
U.S. (or North America)	5.51	5.84	5.63	6.06	5.76	6.54	5.83	6.01
Overseas (or Int'l)	4.43	4.03	4.03	4.03	4.15	4.03	4.03	4.03
Total	4.72	4.63	4.60	4.60	4.64	4.71	4.62	4.64
Oil (\$/bbl)								
WTI Cushing	35.23	38.34	42.80	42.64	39.75	41.19	40.03	41.67
Worldwide	30.65	33.71	37.63	37.49	34.87	36.21	35.19	36.64
Total gas & oil (\$/bbl)	29.66	31.52	34.07	33.45	32.14	32.84	32.44	33.20
NY Harbor 3-2-1 (\$/bbl)	6.98	11.35	8.83	7.74	8.72	8.07	7.86	8.13
Revenue (\$mm)								
Natural Gas								
U.S. (or North America)	1,517	1,574	1,589	1,689	6,369	1,800	1,570	6,647
Overseas (or Int'l)	3,352	2,215	2,036	2,850	10,453	3,003	2,227	10,116
Total	4,869	3,789	3,625	4,539	16,822	4,803	3,797	16,764
Oil	7,268	7,917	8,936	8,902	33,022	8,412	8,265	34,515
Other	55,465	58,988	58,988	58,988	232,428	58,988	58,988	235,950
Total	67,602	70,693	71,548	72,429	282,272	72,203	71,049	287,229
Expense								
Production	4,240	4,030	4,201	4,377	16,849	4,332	4,101	17,012
Other	52,362	55,168	55,593	55,802	218,925	55,733	55,776	222,904
Ebitda (\$mm)								
Exploration and Production	7,896	7,675	8,359	9,064	32,995	8,883	7,960	34,267
Other	3,103	3,819	3,394	3,186	13,503	3,254	3,212	13,046
Total Ebitda	11,000	11,495	11,754	12,250	46,498	12,137	11,172	47,313
Exploration	174	210	210	210	804	210	210	840
Deprec., Deplet., & Amort.	2,373	2,373	2,373	2,373	9,492	2,373	2,373	9,492
Ebit	8,453	8,912	9,171	9,667	36,202	9,554	8,589	36,981
Interest	48	48	48	48	192	48	48	192
Ebt	8,405	8,864	9,123	9,619	36,010	9,506	8,541	36,789
Income Tax	2,942	3,102	3,193	3,367	12,604	3,327	2,989	12,876
Net Income (\$mm)								
Exploration and Production	4,013	3,846						
Other	1,568	2,114						
Unallocated	(118)	(199)						
Total	5,463	5,761	5,930	6,252	23,407	6,179	5,552	23,913
Shares (millions)	6,582	6,547	6,547	6,547	6,555	6,547	6,547	6,547
Per share (\$)	0.83	0.88	0.91	0.95	3.57	0.94	0.85	3.65
Ebitda Margin (E&P)	65%	66%	67%	67%	66%	67%	66%	67%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%

Please see disclosures on the final page.

Investors who want calendar year estimates can find 2004 in the table. For 2005 we suggest using the next twelve months as a rough estimate. Estimates can change frequently along with oil markets.

Present Value of Oil Reserves \$10.50 a Barrel

NTM estimates determine the first year of projected cash flow that we discount to present value (see table Present Value of Oil and Gas Reserves). The calculation is set up on the basis of one barrel equivalent of reported proven reserves, 0.62 barrel developed and 0.38 barrel undeveloped. As a result, total present value, the number in the box, is also present value per barrel of proven reserves.

While there are many assumptions that could be discussed the most important may be discount rate, oil price and the quantity of reserves. Price escalation and discount rate interact. In this case we make the simplification of dealing in constant dollars. That assumes price escalation, cost escalation and discount rate are all net of inflation.

On discount rate we presume that earning a 5% real return per year on an unlevered basis is a decent achievement. That compares to the 2% real return per year offered by U.S. Treasury Inflation Protected Securities. For good measure we bump that up to 7%.

While first year oil price is from the futures market we hold it constant at an arbitrary level thereafter. The assumed price listed in the upper right hand corner is the commonly quoted benchmark Light, Sweet Crude. Most companies receive an average price less than the benchmark, particularly for overseas natural gas production.

Reserves are undoubtedly understated. The reporting standard presumes a high probability that the stated numbers will actually be achieved. A more relevant standard for equity investors would be "expected reserves" at a probability of 50% of being achieved. Nor do we take account in this case of the unproven resources that management regularly emphasizes.

The standardized calculation places present value at \$10.50 a barrel for equivalent reserves. When carried further to an estimate of net present value, also known as NPV, it relates to \$43 a share. That was the estimate we made in March when we raised present value of XOM and about 70 stocks. At that time we took an approach that multiplied next twelve months unlevered cash flow by a multiple that depended on adjusted reserve life. Because \$35 was the one-year futures oil price at the time we suggested that our estimates reflected constant oil price at \$35. A more detailed calculation justifies \$43 a share at a constant real oil price of about \$35 today.

Net Present Value Relates to Oil Price

We illustrate the calculation of NPV in a sensitivity table where each column is headed by a different oil price (see table Net Present Value Calculation). Perhaps the broader significance is that each change of five dollars a barrel may be worth six dollars a share. Six-year oil is up \$16 a barrel since year-end 2001 while XOM stock is up \$6 a share.

Kurt H. Wulff, CFA

Please see disclosures on the final page.

Exxon Mobil Corporation
Present Value of Oil and Gas Reserves

Volume Decline (%/yr):	10	Nymex Oil Price Post 2005 (\$/bbl)	35
Volume Enhancement (%/yr):	10	Real Discount Rate (%/yr):	7.0
Capex/Cash Flow (%):	20	Variable Cost (%):	20

Year	Basic (bbl)	Volume Enhanced (bbl)	Total (bbl)	Price (\$/bbl)	Revenue (\$)	Fixed Cost (\$)	Var. Cost (\$)	Cash Flow (\$)	Cap Ex (\$)	Free CF (\$)	Disc Factor	Present Value (\$)
Total 2005 through 2024; years ending on 6/30												
	0.621	0.379	1.000	30.95	30.95	6.34	6.19	18.42	2.00	16.42	0.64	10.50
2005	0.072	0.000	0.072	33.20	2.41	0.32	0.48	1.61	0.32	1.29	0.97	1.24
2006	0.065	0.007	0.072	30.78	2.21	0.32	0.44	1.45	0.29	1.16	0.90	1.05
2007	0.058	0.013	0.071	30.78	2.20	0.32	0.44	1.44	0.29	1.15	0.84	0.97
2008	0.052	0.019	0.071	30.78	2.18	0.32	0.44	1.43	0.29	1.14	0.79	0.90
2009	0.047	0.024	0.070	30.78	2.17	0.32	0.43	1.42	0.28	1.13	0.74	0.84
2010	0.042	0.028	0.070	30.78	2.15	0.32	0.43	1.40	0.28	1.12	0.69	0.77
2011	0.038	0.032	0.069	30.78	2.13	0.32	0.43	1.39	0.25	1.14	0.64	0.73
2012	0.034	0.035	0.069	30.78	2.12	0.32	0.42	1.38	0.00	1.38	0.60	0.83
2013	0.030	0.031	0.062	30.78	1.90	0.32	0.38	1.20	0.00	1.20	0.56	0.68
2014	0.027	0.028	0.055	30.78	1.70	0.32	0.34	1.04	0.00	1.04	0.53	0.55
2015	0.024	0.025	0.050	30.78	1.52	0.32	0.30	0.90	0.00	0.90	0.49	0.44
2016	0.022	0.023	0.044	30.78	1.37	0.32	0.27	0.78	0.00	0.78	0.46	0.36
2017	0.019	0.020	0.040	30.78	1.22	0.32	0.24	0.66	0.00	0.66	0.43	0.28
2018	0.017	0.018	0.036	30.78	1.10	0.32	0.22	0.56	0.00	0.56	0.40	0.23
2019	0.016	0.016	0.032	30.78	0.98	0.32	0.20	0.47	0.00	0.47	0.37	0.18
2020	0.014	0.015	0.029	30.78	0.88	0.32	0.18	0.39	0.00	0.39	0.35	0.14
2021	0.013	0.013	0.026	30.78	0.79	0.32	0.16	0.32	0.00	0.32	0.33	0.10
2022	0.011	0.012	0.023	30.78	0.71	0.32	0.14	0.25	0.00	0.25	0.31	0.08
2023	0.010	0.011	0.021	30.78	0.64	0.32	0.13	0.19	0.00	0.19	0.29	0.05
2024	0.009	0.009	0.018	30.78	0.57	0.32	0.11	0.14	0.00	0.14	0.27	0.04

Exxon Mobil Corporation
Net Present Value Calculation

Constant Oil Price (\$/bbl):	30	35	40	50
Present Value per Barrel (\$):	8.70	10.50	12.20	15.70
Oil and Gas reserves (million barrels equivalent):	21,203	21,203	21,203	21,203
Present Value of Oil and Gas Reserves (\$mm):	184,500	222,600	258,700	332,900
Present Value of Downstream Businesses (\$mm):	84,700	84,700	84,700	84,700
Total	269,200	307,300	343,400	417,600
Debt (\$mm):	25,800	25,800	25,800	25,800
Present Value of Equity (\$mm):	243,400	281,500	317,600	391,800
Shares (mm):	6,547	6,547	6,547	6,547
Net Present Value (\$/sh):	37	43	49	60

Please see disclosures on the final page.

Research Methodology/Ratings Description: McDep Associates is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty 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 is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a negative total return less than 7% per year including the effects of inflation.

Disclaimer: This analysis was prepared by Kurt Wulff 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.

McDep does no investment banking business. McDep is not paid by covered companies including revenue from advertising, trading, consulting, subscriptions or research service. McDep shall not own more than 1% of outstanding stock in a covered company. No one at McDep is on the Board of Directors at a covered company nor is anyone at a covered company on the Board of Directors of McDep.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

Certification: I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.