



Independent Stock Idea

February 2, 2010

rating: buy
s&p 500: 1103

Anadarko Petroleum (APC) Raise Net Present Value to \$64 from \$59 a Share

<i>Symbol</i>	APC	<i>Ebitda Next Twelve Months ending 12/31/10 (US\$m)</i>	6,150
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	40
<i>Price (US\$/sh)</i>	66.34	<i>Natural Gas and Oil Production/Ebitda (%)</i>	96
<i>Pricing Date</i>	2/2/10	<i>Adjusted Reserves/Production NTM</i>	9.1
<i>Shares (mm)</i>	494	<i>EV/Ebitda</i>	7.6
<i>Market Capitalization (US\$m)</i>	32,800	<i>PV/Ebitda</i>	7.4
<i>Debt (US\$m)</i>	14,000	<i>Undeveloped Reserves (%)</i>	30
<i>Enterprise Value (EV) (US\$m)</i>	46,700	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	28.91
<i>Present Value (PV) (US\$m)</i>	45,600	<i>Present Value Proven Reserves(US\$/boe)</i>	19.25
<i>Net Present Value (US\$/share)</i>	64	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.21
<i>Debt/Present Value</i>	0.31	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.85
<i>McDep Ratio - EV/PV</i>	1.03	<i>Price/Earnings Next Twelve Months</i>	78
<i>Dividend Yield (%/year)</i>	0.5	<i>Indicated Annual Dividend (US\$/sh)</i>	0.36
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 APC since 2003 see www.mcdep.com/lapc.htm			

Summary and Recommendation

Analyzing fourth quarter results released late February 1, we raise estimated Net Present Value (NPV) to \$64 a share from \$59 for buy-recommended **Anadarko Petroleum (APC)**. APC stock has appreciated beyond NPV to a McDep Ratio of 1.03, perhaps helped by exciting exploration potential, most recently the Lucius discovery in the deep Gulf of Mexico. Latest financial results exceeded our expectations modestly for unlevered cash flow (Ebitda), but enough to trigger an increase in projections for 2010 (see table Next Twelve Months Operating and Financial Estimates). As a result, we raise NPV to a higher level more in line with cash flow and reserve life in an industry context (see table Functional Cash Flow and Present Value). NPV anticipates a normal amount of enhancement to proven reserves, but not unusual exploration success. Anadarko's drilling appears highly promising at the same time it is very expensive and there is a long time lag before new discoveries produce cash flow. Meanwhile, the trend for oil, 50% of the value in APC, continues up with futures prices for the next six years at \$86 a barrel compared to the 40-week average of \$82 (see chart Six-Year Commodity Price Meter).

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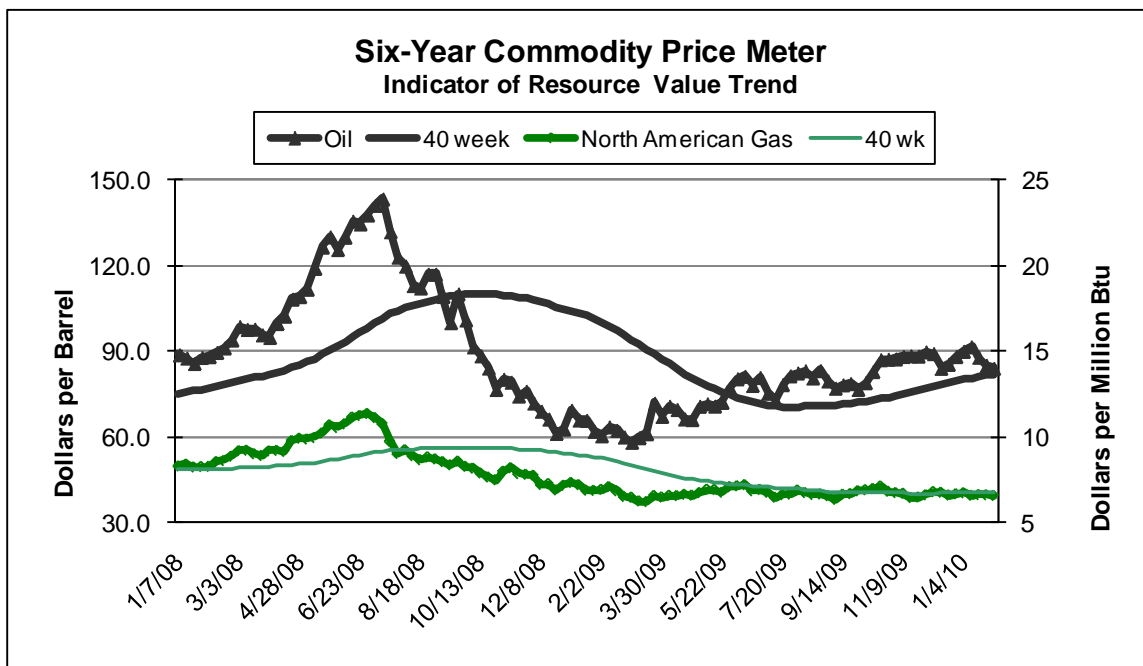
Anadarko Petroleum Corporation									
Next Twelve Months Operating and Financial Estimates									
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Next Twelve Months
	12/31/08	9/30/09	12/31/09	2009	3/31/10	6/30/10	9/30/10	12/31/10	12/31/10
Volume									
Natural gas (bcf)	202	197	191	809	187	189	191	191	758
Natural Gas (mmcf)	2,197	2,144	2,076	2,217	2,076	2,076	2,076	2,076	2,076
Days	92	92	92	365	90	91	92	92	365
Oil (mmb)	19	24	22	86	21	22	22	22	87
Oil (mbd)	203	259	237	235	237	237	237	237	237
Total gas & oil (bcf)	314	340	322	1,323	315	318	322	322	1,277
Total gas & oil (mmcf)	3,415	3,698	3,498	3,625	3,498	3,498	3,498	3,498	3,498
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.95	3.39	4.16	3.99	5.53	5.45	5.64	6.12	5.69
Company (\$/mcf)	5.21	3.02	4.06	3.53	5.39	4.69	4.85	5.26	5.05
Oil (\$/bbl)									
WTI Cushing	58.45	68.22	76.09	61.70	75.89	75.77	77.37	78.64	76.92
Company	47.51	58.22	65.28	53.36	65.11	65.00	66.38	67.47	66.00
Total gas & oil (\$/mcf)	6.18	5.83	6.83	5.61	7.61	7.19	7.38	7.69	7.47
Revenue (\$mm)									
Natural Gas	1,053	596	775	2,855	1,007	886	927	1,005	3,825
Oil	887	1,387	1,423	4,570	1,389	1,402	1,447	1,471	5,709
Other	1,870	757	218	1,072					-
Total	3,810	2,740	2,417	8,497	2,396	2,288	2,374	2,476	9,534
Expense (\$mm)									
Exploration and Production	1,333	1,121	1,346	4,335	1,485	1,418	1,472	1,535	5,911
Other	21	60	60	240	60	60	60	60	240
Total	1,354	1,181	1,406	4,575	1,545	1,478	1,532	1,595	6,151
Exploration	329	229	294	1,112	294	294	294	294	1,176
Deprec., Deplet., & Amort.	739	909	884	3,555	884	884	884	884	3,536
Ebit	286	38	228	(97)	367	300	354	417	1,439
Interest	180	121	198	595	198	198	198	198	792
Ebt	106	(83)	30	(692)	169	102	156	219	647
Income Tax	37	(29)	11	(242)	59	36	55	77	226
Net Income (\$mm)	69	(54)	20	(450)	110	67	101	142	420
Shares (millions)	460	493	494	469	494	494	494	494	494
Per share (\$)	0.15	(0.11)	0.04	(0.96)	0.22	0.13	0.21	0.29	0.85
Ebitda Margin (E&P)	69%	57%	61%	58%	62%	62%	62%	62%	62%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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Anadarko Petroleum Corporation					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
North American Natural Gas	2,470	9.4	8.5	21,000	46%
Oil	3,440	8.7	6.6	22,600	50%
Downstream and Minerals	240		8.3	2,000	4%
	6,150	9.1	7.4	45,600	100%
Debt (US\$mm)					14,000
Net Present Value (US\$mm)					31,600
Shares (mm)					494
Net Present Value - Standard Estimate (US\$/sh)					64
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					71





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