

Rating: Buy
S&P 500: 1447

Anadarko Petroleum Corporation **Avarice in Algiers**

<i>Symbol</i>	APC	<i>Ebitda Next Twelve Months ending 9/30/07 (US\$mm)</i>	7,500
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	47
<i>Price (US\$/sh)</i>	46.99	<i>Natural Gas and Oil Production/Ebitda (%)</i>	95
<i>Pricing Date</i>	11/7/06	<i>Adjusted Reserves/Production NTM</i>	11.5
<i>Shares (mm)</i>	463	<i>EV/Ebitda</i>	6.2
<i>Market Capitalization (US\$mm)</i>	21,800	<i>PV/Ebitda</i>	7.9
<i>Debt (US\$mm)</i>	24,900	<i>Undeveloped Reserves (%)</i>	37
<i>Enterprise Value (EV) (US\$mm)</i>	46,600	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	31.34
<i>Present Value (PV) (US\$mm)</i>	59,600	<i>Present Value Proven Reserves(US\$/boe)</i>	16.75
<i>Net Present Value (US\$/share)</i>	75	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.79
<i>Debt/Present Value</i>	0.42	<i>Earnings Next Twelve Months (US\$/sh)</i>	5.13
<i>McDep Ratio - EV/PV</i>	0.78	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	1.5	<i>Indicated Annual Dividend (US\$/sh)</i>	0.72

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\$60 a barrel and natural gas, \$10 a million btu.

For historical analysis of APC since 2003 see www.mcdep.com/1apc.htm

Summary and Recommendation

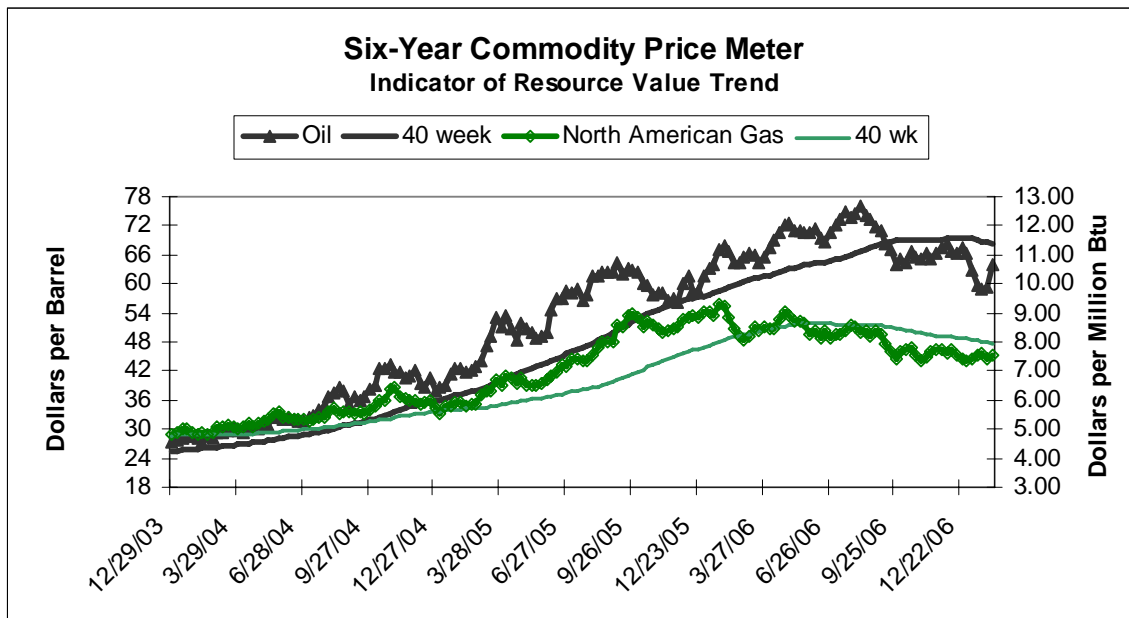
Estimated net present value (NPV) remains \$75 a share for buy-recommended **Anadarko Petroleum (APC)** despite downward revisions in reserves reported along with fourth quarter 2006 results on February 6. Also a new tax on top of the high rate of take the government already receives looks like avarice in Algiers with little consideration for the company's investment to help the North African country turn around its oil production. Fortunately, a leading resource position in the deep water Gulf of Mexico helps justify NPV that otherwise looks high compared to that indicated by a correlation with reserve life and cash flow for some thirty companies (see table, [Functional Cash Flow and Present Value](#)). Prospects could become more appealing if natural gas for delivery over the next six years, priced currently at \$7.63 a million Btu, resumes an uptrend by crossing above the 40-week average in the next few months (see chart, [Six-Year Commodity Price Meter](#)). Just as price may change, property sales to reduce debt may change volumes and costs from projections we carry now (see table, [Next Twelve Months Operating and Financial Estimates](#)). Below the 200-day average price signifying a stock currently out of favor, APC has a full unlevered weighting in our illustrative energy portfolio concentrated on real assets that promise a high return providing clean fuel for global growth.

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Anadarko Petroleum Corporation
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	3,650	11.1	9.0	33,000	53%
Oil	3,450	9.2	7.9	27,400	44%
Downstream	260		7.7	2,000	3%
	7,360	10.3	8.5	62,400	100%
Debt (US\$mm)					27,600
Net Present Value (US\$mm)					34,800
Shares (mm)					464
Net Present Value - Standard Estimate (US\$/sh)					75
Net Present Value - Approximation by Correlation (US\$/sh)					66



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Anadarko Petroleum Corporation
Next Twelve Months Operating and Financial Estimates

	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Next Twelve Months</i>
	<i>12/31/05</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>12/31/07</i>
Volume									
Natural Gas (mmcf)	1,386	1,639	2,226	1,654	2,226	2,226	2,226	2,226	2,226
Oil (mbd)	198	248	294	238	294	294	294	294	294
Total gas & oil (bcf)	237	288	367	1,125	359	363	367	367	1,456
Total gas & oil (mmcf)	2,574	3,127	3,990	3,082	3,990	3,990	3,990	3,990	3,990
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	13.00	6.58	6.57	7.23	6.84	7.69	7.92	8.55	7.75
Company (\$/mcf)	9.94	6.03	5.55	6.11	5.78	6.50	6.69	7.22	6.66
Oil (\$/bbl)									
WTI Cushing	60.02	70.42	59.99	66.05	57.21	60.15	61.91	63.14	60.60
Worldwide	49.93	60.99	50.79	56.41	48.43	50.92	52.41	53.45	51.32
Total gas & oil (\$/mcf)	9.86	7.80	6.89	7.64	6.85	7.44	7.66	8.04	7.50
Revenue (\$mm)									
Natural Gas	1,425	853	1,156	3,690	1,178	1,339	1,394	1,504	5,415
Oil	909	1,392	1,374	4,902	1,281	1,362	1,417	1,446	5,507
Other	(90)	1,253	649	1,966	649	649	649	649	2,598
Total	2,245	3,498	3,179	10,557	3,108	3,351	3,461	3,599	13,519
Expense									
Fixed	224	493	367	1,360	367	367	367	367	1,470
Variable	224	1,480	1,102	3,082	1,085	1,145	1,173	1,207	4,610
Ebitda (\$mm)									
Exploration and Production	1,798	1,459	1,644	5,985	1,598	1,756	1,827	1,917	7,099
Other		65	65	130	65	65	65	65	260
Ebitda (\$mm)	1,798	1,524	1,709	6,115	1,663	1,821	1,892	1,982	7,359
Deprec., Deplet., & Amort.	352	546	775	2,043	775	775	775	775	3,100
Hedging and other		(388)	(79)	(450)	(61)	(50)	(42)	(36)	(188)
Ebit	1,446	1,367	1,014	4,522	949	1,096	1,159	1,243	4,447
Interest	49	209	357	668	357	357	357	357	1,428
Ebt	1,397	1,158	657	3,854	592	739	802	886	3,019
Income Tax	489	347	230	1,291	207	259	281	310	1,057
Net Income (\$mm)	908	810	427	2,563	385	480	521	576	1,963
Shares (millions)									
Per share (\$)	1.94	1.75	0.92	5.53	0.83	1.03	1.12	1.24	4.23
Ebitda Margin (E&P)	77%	65%	65%	58%	65%	65%	65%	65%	54%
Tax Rate	35%	30%	35%	33%	35%	35%	35%	35%	35%

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