Independent Stock Idea

October 27, 2009

rating: buy
s&p 500: 1067

BP plc (BP)
Raise Net Present Value to $80 a Share from $72

Symbol	BP	*Ebitda Next Twelve Months ending 9/30/10 (US$mm)*	45,800
Rating	Buy	*North American Natural Gas/Ebitda (%)*	4
Price (US$/sh)	55.48	*Natural Gas and Oil Production/Ebitda (%)*	78
Pricing Date	10/26/09	*Adjusted Reserves/Production NTM*	9.6
Shares (mm)	3156	*EV/Ebitda*	5.2
Market Capitalization (US$mm)	175,100	*PV/Ebitda*	6.8
Debt (US$mm)	61,300	*Undeveloped Reserves (%)*	45
Enterprise Value (EV) (US$mm)	236,400	*Natural Gas and Oil Ebitda (US$/boe)*	24.90
Present Value (PV) (US$mm)	313,700	*Present Value Proven Reserves(US$/boe)*	13.70
Net Present Value (US$/share)	80	*Present Value Proven Reserves(US$/mcfe)*	2.28
Debt/Present Value	0.20	*Earnings Next Twelve Months (US$/sh)*	6.31
McDep Ratio - EV/PV	0.75	*Price/Earnings Next Twelve Months*	9
Dividend Yield (%/year)	6.1	*Indicated Annual Dividend (US$/sh)*	3.36

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 BP since 2004 see www.mcdep.com/1bp.htm

Summary and Recommendation

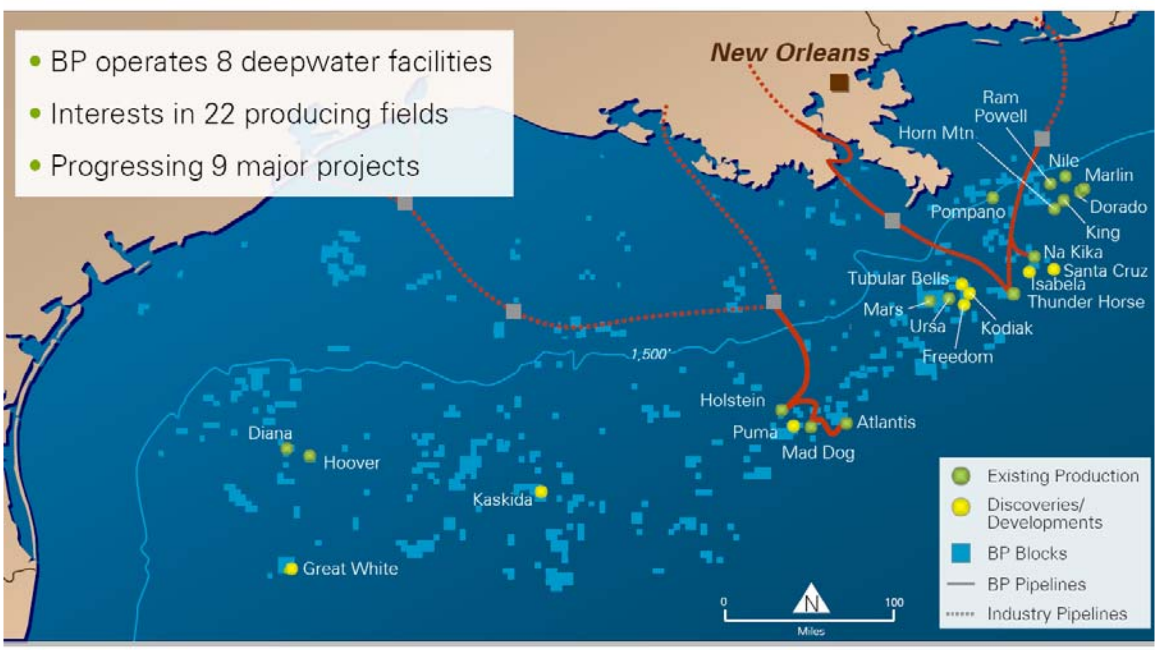
Buy-recommended **BP plc (BP)** offers unlevered appreciation potential of 33% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of $80 a share. We raise NPV from $72 a share on the basis of operating improvements both upstream and downstream. Third quarter results released today confirmed a return to higher margins following deterioration in recent years. We project production cash flow margin at 45% in the next few quarters, up from 41% previously (see table Next Twelve Months Operating and Financial Estimates). NPV is sensitive to expected performance in our valuation that capitalizes cash flow at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) for natural gas and oil (see table Functional Cash Flow and Present Value). The billion barrel Tiber oil discovery in the deep Gulf of Mexico, announced last month, adds further credibility to the turnaround under Chief Executive Tony Hayward. Tiber follows Kaskida in the Deep Tertiary trend southwest of the offshore Louisiana fields (see map drawn prior to Tiber discovery). The future profitability of BP's largest lease position in the Gulf of Mexico looks brighter under a rising trend for oil and gas commodity prices (see chart Six-Year Commodity Price Meter).

Kurt H. Wulff, CFA

BP plc									
Next Twelve Months Operating and Financial Estimates									
									Next
									Twelve
	Q3	*Q2*	*Q3*	*Q4E*	***Year***	*Q1E*	*Q2E*	*Q3E*	***Months***
	9/30/08	*6/30/09*	*9/30/09*	*12/31/09*	***2009E***	*3/31/10*	*6/30/10*	*9/30/10*	***9/30/10***
Volume									
Natural Gas (mmcfd)									
U.S.	2,094	2,339	2,278	2,278	**2,307**	2,278	2,278	2,278	**2,278**
Overseas (or Int'l)	5,917	6,241	5,753	6,370	**6,198**	6,432	6,241	5,753	**6,198**
Total	8,011	8,580	8,031	8,648	**8,505**	8,710	8,519	8,031	**8,476**
Days	92	91	92	92	**365**	90	91	92	**365**
Oil (mbd)	2,283	2,526	2,532	2,532	**2,524**	2,532	2,532	2,532	**2,532**
Total gas & oil (mmb)	333	360	356	366	**1,438**	359	360	356	**1,440**
Total gas & oil (mbd)	3,618	3,956	3,871	3,973	**3,941**	3,984	3,952	3,871	**3,945**
Price									
Natural gas ($/mcf)									
Henry Hub ($/mmbtu)	10.25	3.50	3.39	4.48	**4.07**	5.58	5.61	5.84	**5.38**
U.S.	7.88	2.47	2.73	3.76	**3.08**	4.68	4.71	4.43	**4.40**
Overseas (or Int'l)	6.00	3.01	2.84	3.24	**3.21**	3.33	3.40	3.44	**3.35**
Total	6.49	2.86	2.81	3.37	**3.18**	3.69	3.75	3.72	**3.63**
Oil ($/bbl)									
WTI Cushing	117.99	59.52	68.22	77.69	**62.10**	80.00	81.52	82.60	**80.45**
Worldwide	111.47	52.33	62.77	71.48	**57.10**	73.61	75.01	76.00	**74.02**
Total gas & oil ($/bbl)	84.71	39.62	46.89	52.90	**43.42**	54.84	56.14	57.44	**55.31**
NY Harbor 3-2-1 ($/bbl)	11.84	9.49	9.45	7.51	**8.91**	7.63	10.46	10.27	**8.97**
BP Refining Indicator	8.03	4.98	3.42						
Revenue ($mm)									
Natural Gas									
U.S.	1,518	526	572	789	**2,597**	960	977	929	**3,654**
Overseas (or Int'l)	3,265	1,707	1,504	1,896	**7,262**	1,929	1,929	1,821	**7,575**
Total	4,783	2,233	2,076	2,685	**9,858**	2,889	2,905	2,750	**11,229**
Oil	23,413	12,029	14,622	16,651	**52,600**	16,773	17,283	17,703	**68,410**
Other	76,633	42,299	51,158	51,158	**180,537**	51,158	51,158	51,158	**204,632**
Total	104,829	56,561	67,856	70,494	**242,996**	70,820	71,346	71,611	**284,271**
Expense									
Production	14,690	8,431	8,395	9,714	**34,836**	10,814	11,077	11,210	**42,816**
Other	73,254	39,610	48,372	50,073	**170,547**	47,728	48,469	48,372	**194,641**
Ebitda ($mm)									
Exploration and Production	13,506	5,831	8,303	8,701	**26,702**	8,848	9,085	9,204	**35,838**
Other	3,379	2,689	2,786	1,085	**9,990**	3,430	2,689	2,786	**9,990**
Total Ebitda	16,885	8,521	11,088	9,786	**36,692**	12,278	11,774	11,990	**45,828**
Exploration	232	347	378	378	**1,222**	378	378	378	**1,512**
Deprec., Deplet., & Amort.	2,707	3,308	3,148	3,148	**12,427**	3,148	3,148	3,148	**12,592**
Other non cash									
Ebit	13,946	4,866	7,562	6,260	**23,043**	8,752	8,248	8,464	**31,724**
Interest	283	274	266	266	**1,124**	266	266	266	**1,064**
Ebt	13,663	4,592	7,296	5,994	**21,919**	8,486	7,982	8,198	**30,660**
Income Tax	4,782	1,607	2,554	2,098	**7,672**	2,970	2,794	2,869	**10,731**
Net Income ($mm)									
Exploration and Production	11,900	4,404	6,278						
Other	1,549	972	1,071						
Unallocated	(4,568)	(2,391)	(2,606)						
Total	8,881	2,985	4,743	3,896	**14,247**	5,516	5,188	5,328	**19,929**
Shares (millions)	3,124	3,155	3,156	3,156	**3,155**	3,156	3,156	3,156	**3,156**
Per share ($)	2.84	0.95	1.50	1.23	**4.52**	1.75	1.64	1.69	**6.31**
Ebitda Margin (E&P)	48%	41%	50%	45%	**43%**	45%	45%	45%	**45%**
Tax Rate	35%	35%	35%	35%	**35%**	35%	35%	35%	**35%**

BP plc					
Functional Cash Flow and Present Value					
				Present	
	NTM Ebitda	*Adjusted*	*PV/*	*Value*	
	(US$mm)	*R/P*	*Ebitda*	*(US$mm)*	
North American Natural Gas	1,640	14.2	11.6	19,000	6%
Rest of World Natural Gas	3,410	9.7	7.9	27,000	9%
Oil	30,790	8.9	6.4	198,000	63%
Downstream	9,990		7.0	70,000	22%
	45,830	9.6	6.9	314,000	100%
Debt (US$mm)					61,300
Net Present Value (US$mm)					252,500
Shares (mm)					3,156
Net Present Value - Standard Estimate (US$/sh)					80
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US$/sh)					89

Gulf of Mexico portfolio



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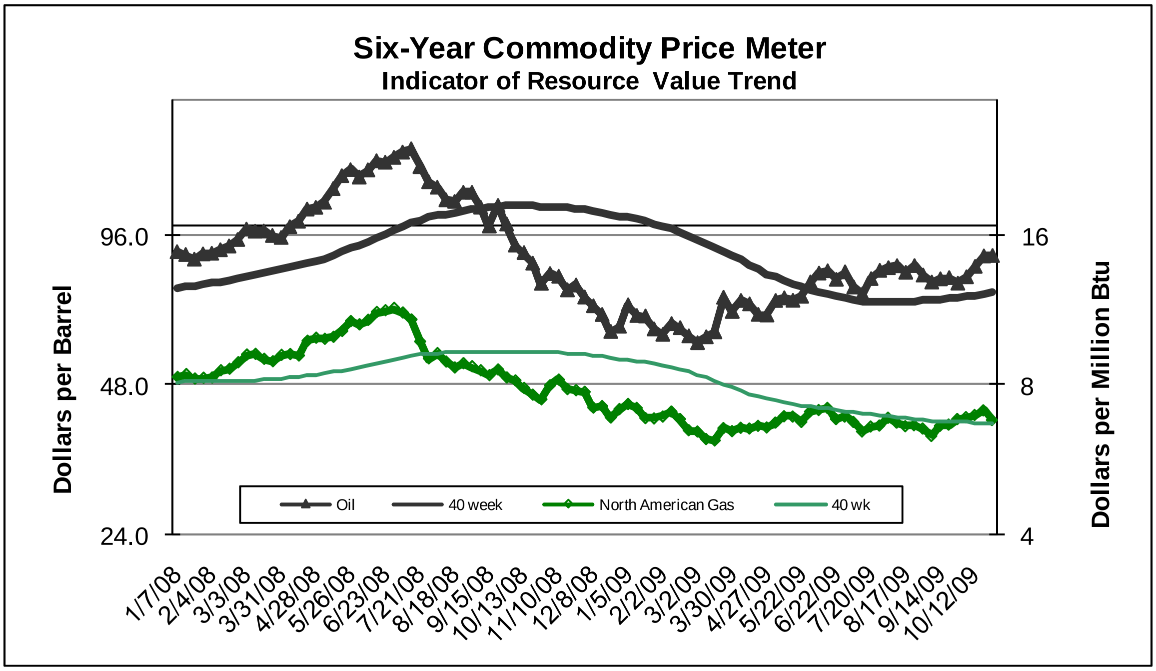

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