

Rating: Buy  
S&P 500: 1311

## **Chevron Corporation** **India Opportunity, Venezuela Risk**

<i>Symbol</i>	CVX	<i>Ebitda Next Twelve Months ending 3/31/07 (US\$mm)</i>	40,323
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	7
<i>Price (\$/sh)</i>	61.02	<i>Natural Gas and Oil Production/Ebitda (%)</i>	76
<i>Pricing Date</i>	4/28/06	<i>Adjusted Reserves/Production NTM</i>	11.0
<i>Shares (mm)</i>	2224	<i>EV/Ebitda</i>	3.9
<i>Market Capitalization (\$mm)</i>	136,000	<i>PV/Ebitda</i>	5.3
<i>Debt (\$mm)</i>	24,000	<i>Undeveloped Reserves (%)</i>	30
<i>Enterprise Value (EV) (\$mm)</i>	159,000	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	31.80
<i>Present Value (PV) (\$mm)</i>	213,000	<i>Present Value Proven Reserves(\$/boe)</i>	13.00
<i>Net Present Value (\$/share)</i>	85	<i>Present Value Proven Reserves(\$/mcf)</i>	2.20
<i>Debt/Present Value</i>	0.11	<i>Earnings Next Twelve Months (US\$/sh)</i>	9.22
<i>McDep Ratio - EV/PV</i>	0.75	<i>Price/Earnings Next Twelve Months</i>	7
<i>Dividend Yield (%/year)</i>	3.4	<i>Indicated Annual Dividend (US\$/sh)</i>	2.08

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.

### **Summary and Recommendation**

Buy-recommended **Chevron Corporation (CVX)** offers 39% appreciation potential to net present value of \$85 a share. At that point the stock price would mirror a long-term oil price of \$50 a barrel compared to the current quote for oil delivered over the next six years of \$72. A new investment with India's largest refiner may lead to mutually advantageous deals in crude oil and natural gas to fuel that developing country's growth. In Venezuela, rhetoric from Mr. Hugo Chavez likely may drive up the value of Chevron's resources outside Venezuela more than it reduces Chevron's future opportunities in that Latin American country. Quarterly results reported on April 28 reflect the dip in February in oil refining margin that has since been restored. The value of Chevron's stock is concentrated about 58% on oil, 37% downstream and 17% natural gas. Financial risk is minimal indicated by a 0.11 ratio of debt to present value.

### **Energy for India**

From Thomas Friedman in "The World is Flat" we get an optimistic, even heart warming, sense of the new political and economic vitality of the Indian subcontinent. From Jeremy Siegel in "The Future for Investors" we gain more appreciation for the synergy between a productive, young population in India and Asian countries and an aging population in the U.S. and Europe. To fulfill such expectations, India knows that it needs imported energy to make up for its comparatively meager indigenous resources. Thus, Chevron's acquisition of a 5% interest in a project by India's largest oil refiner, Reliance, to construct a new refinery in Jamnagar may have more significance than its direct impact. Reluctant to recognize how valuable energy really is, India has been losing out in the global scramble for energy resources. A close relationship with Chevron may lead to more jointly beneficial upstream and downstream investments.

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**Populist Politics in Venezuela**

An optimistic outlook for India contrasts with a pessimistic outlook for Venezuela currently. The sense is that President Chavez has cheated the investors of the world by changing the rules after billions of dollars have been committed. Yet, we think that Venezuela accounts for very little in Chevron's stock price and there are mitigating factors that give us continued confidence in the company.

Venezuela appears in three lines in our table of oil production and reserves for Chevron (see table below). There is an unspecified amount for Venezuela in "Other International". The Orinoco oil sands project, Hamaca, accounts for 4% of oil reserves and 2% of last year's production. The Maracaibo heavy oil project, Boscan, accounts for perhaps 6% of reserves and production. Since oil is 58% of Chevron's present value, Venezuela may be 6% of Chevron's present value. As a result, if Venezuela were worth zero and nothing else changed, Chevron's McDep Ratio would increase by 0.06 to 0.81.

Nor is Venezuela lost, yet, and it probably won't be a total loss. Chevron has been in Venezuela for decades and decades. Without admitting as to how many decades ago we were at Chevron, we worked on the design of the pumps and tanks for the Boscan refinery. Boscan crude oil is as thick as tar.

**Production and Reserves, 2005**

	2005 <i>Production</i> <i>(bcf or mmb)</i>	<i>12/31/2005 Proven Reserves</i>		<i>Weighted</i>	<i>Weighted</i>	<i>NTM</i>
		<i>Developed</i>	<i>Undeveloped</i>	<i>Life Index</i>	<i>Life Index</i>	<i>Adjusted</i>
		<i>(bcf or mmb)</i>	<i>(bcf or mmb)</i>	<i>(bcf or mmb)</i>	<i>(years)</i>	<i>R/P</i>
						<i>(years)</i>
North American Natural Gas						
California	39	251	53	278	7.1	
Gulf of Mexico	215	977	194	1,074	5.0	
Other U.S.	350	2,794	159	2,874	8.2	
Total	604	4,022	406	4,225	7.0	6.5
Rest of World Natural Gas						
Africa	42	1,346	1,845	2,269	54.0	
Asia Pacific	434	4,819	3,804	6,721	15.5	
Indonesia	77	449	197	548	7.1	
Other International	315	2,453	1,125	3,016	9.6	
Caspian	79	2,314	473	2,551	32.3	
Venezuela	2	85	96	133	66.5	
Total	949	11,466	7,540	15,236	16.1	13.2
Oil						
California	79	809	156	887	11.2	
Gulf of Mexico	41	177	156	255	6.2	
Other U.S.	45	474	59	504	11.2	
Africa	114	945	869	1,380	12.1	
Asia Pacific	103	534	295	682	6.6	
Indonesia	74	439	140	509	6.9	
Other International	89	416	157	495	5.6	
Caspian	50	1,611	328	1,775	35.5	
Venezuela - Hamaca	14	196	239	316	22.5	
Venezuela - Boscan	41	405		405	10.0	
Canada Oil Sands	12	146		146	12.5	
Total	661	6,152	2,399	7,352	11.1	11.1

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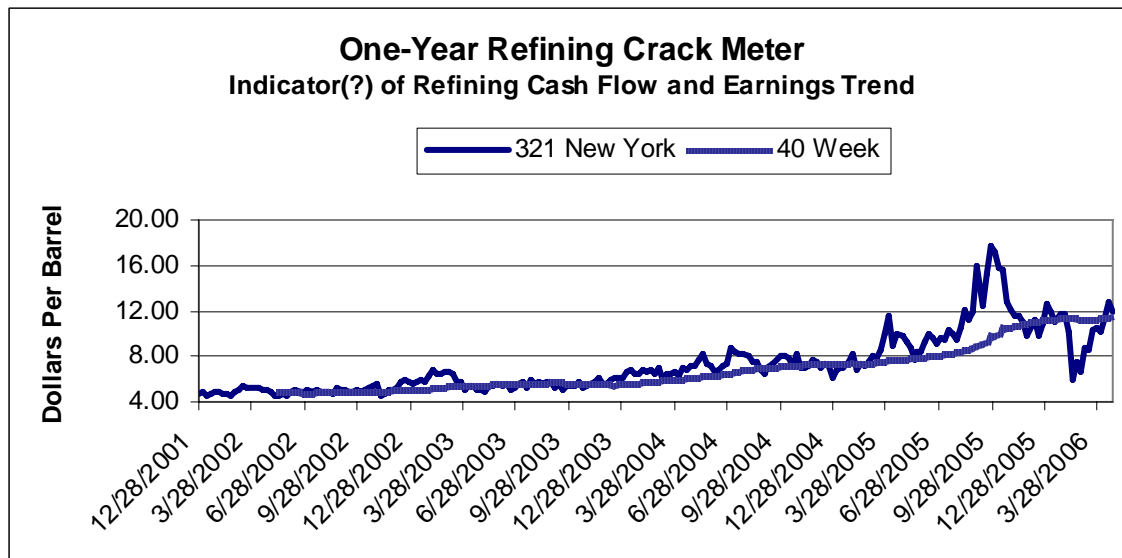
There is a self-correcting offset to political bluster. The problems of Chevron are shared by nearly all mega cap peers. Mr. Chavez's actions have had a negative impact on Venezuelan production. Lower supply drives up commodity price to encourage development elsewhere. Not only has investment capital fled, Venezuelan nationals are working in Alberta rather than in their home country.

### **Refining Crack Restored**

Futures investors have difficulty anticipating refining margin, or crack, the difference between the prices of heating oil and gasoline compared to crude oil. As a result, there are no publicly quoted six-year futures for refining crack and we are left with one-year data that is volatile. For a brief period during the first quarter the crack dropped so low that it was zero or negative for one or more days on a spot basis. It was almost like an inverse of the hurricane induced spike late last year. Now the one-year crack has returned to the 40-week average (see chart below).

Chevron's earnings followed the trend with a dip for the downstream in early 2006 compared to late 2005. Our long-term expectations are for a refining crack of about \$10 a barrel. The trend to cleaner fuel that favors natural gas also favors more intensive refining. Not only must refined products be cleaner, they must also be derived increasingly from heavy oil.

Kurt H. Wulff, CFA



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**Chevron**  
**Next Twelve Months Operating and Financial Estimates**

	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Next Twelve Months</i>
	<i>3/31/05</i>	<i>12/31/05</i>	<i>2005</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>3/31/07</i>
<b>Volume</b>									
Natural Gas (mmcf)									
U.S.	1,600	1,638	<b>1,634</b>	1,782	1,782	1,782	1,782	<b>1,782</b>	<b>1,782</b>
Rest of World	2,155	3,289	<b>2,599</b>	3,165	3,165	3,165	3,165	<b>3,165</b>	<b>3,165</b>
Total	3,755	4,927	<b>4,233</b>	4,947	4,947	4,947	4,947	<b>4,947</b>	<b>4,947</b>
Oil (mbd)	1,785	1,862	<b>1,811</b>	1,819	1,819	1,819	1,819	<b>1,819</b>	<b>1,819</b>
Total gas & oil (mbd)		2,683	<b>2,517</b>	2,644	2,644	2,644	2,644	<b>2,644</b>	<b>2,644</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.27	13.00	<b>8.65</b>	8.97	6.95	7.29	9.26	<b>8.12</b>	<b>8.74</b>
U.S.	5.76	10.22	<b>7.43</b>	7.46	5.78	6.06	7.60	<b>6.72</b>	<b>7.20</b>
Rest of World	2.95	3.50	<b>3.19</b>	3.78	3.97	4.17	4.58	<b>4.13</b>	<b>4.38</b>
Total	4.15	5.73	<b>4.83</b>	5.11	4.62	4.85	5.67	<b>5.06</b>	<b>5.40</b>
Oil (\$/bbl)									
WTI Cushing	49.65	60.02	<b>56.31</b>	63.33	70.48	73.18	74.36	<b>70.34</b>	<b>73.16</b>
Worldwide	39.98	50.70	<b>47.48</b>	54.71	60.89	63.22	64.64	<b>60.90</b>	<b>63.60</b>
Total gas & oil (\$/bbl)	36.06	45.71	<b>42.28</b>	47.20	50.54	52.58	55.08	<b>51.38</b>	<b>53.86</b>
NY Harbor 3-2-1 (\$/bbl)	6.17	9.06	<b>10.63</b>	7.40	15.98	12.44	9.24	<b>11.27</b>	<b>11.99</b>
<b>Revenue (\$mm)</b>									
Natural Gas									
U.S.	829	1,540	<b>4,432</b>	1,196	937	994	1,246	<b>4,374</b>	<b>4,684</b>
Rest of World	572	1,059	<b>3,022</b>	1,077	1,143	1,213	1,332	<b>4,766</b>	<b>5,058</b>
Total	1,402	2,599	<b>7,454</b>	2,273	2,081	2,207	2,579	<b>9,139</b>	<b>9,742</b>
Oil	6,423	8,685	<b>31,387</b>	8,957	10,078	10,580	10,817	<b>40,433</b>	<b>42,225</b>
Other	33,783	42,510	<b>159,359</b>	43,394	43,394	43,394	44,194	<b>174,376</b>	<b>175,176</b>
Total	41,607	53,794	<b>198,200</b>	54,624	55,553	56,181	57,590	<b>223,948</b>	<b>227,142</b>
<b>Expense</b>									
Production	3,424	4,484	<b>15,941</b>	4,430	4,894	5,209	5,513	<b>20,046</b>	<b>21,243</b>
Other	32,453	39,878	<b>151,658</b>	40,945	40,994	40,994	41,794	<b>164,727</b>	<b>165,576</b>
<b>Ebitda (\$mm)</b>									
Exploration and Production	4,400	6,800	<b>22,900</b>	6,800	7,264	7,579	7,883	<b>29,526</b>	<b>30,723</b>
Other	1,329	2,632	<b>7,701</b>	2,449	2,400	2,400	2,400	<b>9,649</b>	<b>9,600</b>
Total Ebitda	5,729	9,432	<b>30,601</b>	9,249	9,664	9,979	10,283	<b>39,175</b>	<b>40,323</b>
Exploration	153	274	<b>688</b>	268	268	268	268	<b>1,072</b>	<b>1,072</b>
Deprec., Deplet., & Amort.	1,334	1,725	<b>5,913</b>	1,788	1,788	1,788	1,800	<b>7,164</b>	<b>7,176</b>
Other non cash		900		900					
<b>Ebit</b>	4,242	6,533	<b>22,200</b>	6,293	7,608	7,923	8,215	<b>30,039</b>	<b>32,075</b>
Interest	107	135	<b>482</b>	134	134	134	134	<b>536</b>	<b>536</b>
<b>Ebt</b>	4,135	6,398	<b>21,718</b>	6,159	7,474	7,789	8,081	<b>29,503</b>	<b>31,539</b>
Income Tax	1,447	2,239	<b>7,601</b>	2,156	2,616	2,726	2,828	<b>10,326</b>	<b>11,039</b>
<b>Net Income (\$mm)</b>									
Exploration and Production	2,379	3,250	<b>11,724</b>	3,458					
Other	546	879	<b>3,064</b>	733					
Unallocated	(237)	30	<b>(672)</b>	(188)					
Total	2,688	4,159	<b>14,116</b>	4,003	4,858	5,063	5,253	<b>19,177</b>	<b>20,500</b>
<b>Shares (millions)</b>	2,100	2,236	<b>2,158</b>	2,224	2,224	2,224	2,224	<b>2,224</b>	<b>2,224</b>
Per share (\$)	1.28	1.86	<b>6.54</b>	1.80	2.18	2.28	2.36	<b>8.62</b>	<b>9.22</b>
Ebitda Margin (E&P)	56%	60%	<b>59%</b>	61%	60%	59%	59%	<b>60%</b>	<b>59%</b>
Tax Rate	35%	35%	<b>35%</b>	35%	35%	35%	35%	<b>35%</b>	<b>35%</b>

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**Chevron Corporation**  
**Functional Cash Flow and Present Value**

	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	2,620	6.5	5.3	14,000	7%
Rest of World Natural Gas	2,830	13.2	7.4	21,000	10%
Oil	25,270	11.1	4.9	123,000	58%
Downstream	9,600		5.7	55,000	26%
	40,320	11.0	5.3	213,000	100%
Debt (US\$mm)					24,000
Net Present Value (US\$mm)					189,000
Shares (mm)					2,224
Net Present Value - Standard Estimate (US\$/sh)					85
Net Present Value - Approximation by Correlation (US\$/sh)					90

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