



# Independent Stock Idea

January 26, 2011

rating: buy  
s&p 500: 1297

## Occidental Petroleum (OXY) Growing U.S. Oil Production

<i>Symbol</i>	OXY	<i>Ebitda Next Twelve Months ending 12/31/11 (US\$mm)</i>	12,300
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	7
<i>Price (US\$/sh)</i>	96.94	<i>Natural Gas and Oil Production/Ebitda (%)</i>	90
<i>Pricing Date</i>	1/26/11	<i>Adjusted Reserves/Production NTM</i>	11.0
<i>Shares (mm)</i>	814	<i>EV/Ebitda</i>	6.8
<i>Market Capitalization (US\$mm)</i>	78,900	<i>PV/Ebitda</i>	8.5
<i>Debt (US\$mm)</i>	5,000	<i>Undeveloped Reserves (%)</i>	23
<i>Enterprise Value (EV) (US\$mm)</i>	83,900	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	42.60
<i>Present Value (PV) (US\$mm)</i>	105,100	<i>Present Value Proven Reserves(US\$/boe)</i>	29.30
<i>Net Present Value (US\$/share)</i>	123	<i>Present Value Proven Reserves(US\$/mcf)</i>	4.88
<i>Debt/Present Value</i>	0.05	<i>Earnings Next Twelve Months (US\$/sh)</i>	6.93
<i>McDep Ratio - EV/PV</i>	0.80	<i>Price/Earnings Next Twelve Months</i>	14
<i>Dividend Yield (%/year)</i>	1.9	<i>Indicated Annual Dividend (US\$/sh)</i>	1.84
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\$100 a barrel and natural gas, \$8 a million btu.			
For historical analysis of OXY since 2000 see <a href="http://www.mcdep.com/3oxy.htm">www.mcdep.com/3oxy.htm</a>			

### Summary and Recommendation

Buy-recommended **Occidental Petroleum (OXY)** offers unlevered appreciation potential of 25% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$123 a share. Fourth quarter results released today disclosed unlevered cash flow (Ebitda) and earnings exceeding our expectations last published in detail a year ago (see *McDep Stock Idea, Occidental Petroleum*; January 28, 2010). Higher production volume offset lower cash flow margin. We see another year of rising cash flow and earnings in 2011 (see table Next Twelve Months Operating and Financial Estimates). Those projections support our recent increase in estimated NPV driven primarily by restoring our long-term oil price to \$100 a barrel (see table Functional Cash Flow and Present Value). Adding technological innovation to high oil price, Oxy sees steadily increasing U.S. oil volume in California, Texas and North Dakota (see slide US Oil and Gas Production Outlook). Lending confidence to investing in Oxy stock, oil price is in an uptrend with futures prices for the next six years at \$95 a barrel compared to the 40-week average of \$88 (see chart Six-Year Commodity Price Meter).

Kurt H. Wulff, CFA



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Occidental Petroleum									
Next Twelve Months Operating and Financial Estimates									
									<i>Next Twelve Months</i>
	<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>12/31/11</i>
	<i>12/31/09</i>	<i>9/30/10</i>	<i>12/31/10</i>	<i>2010</i>	<i>3/31/11</i>	<i>6/30/11</i>	<i>9/30/11</i>	<i>12/31/11</i>	<i>12/31/11</i>
<b>Volume</b>									
Natural Gas (mmcf)									
U.S. (or North America)	645	656	699	<b>678</b>	699	699	699	699	<b>699</b>
Overseas (or Int'l)	299	532	467	<b>495</b>	467	467	467	467	<b>467</b>
Total	944	1,188	1,166	<b>1,173</b>	1,166	1,166	1,166	1,166	<b>1,166</b>
Oil (mbd)	493	553	520	<b>542</b>	520	520	520	520	<b>520</b>
Total gas & oil (mmb)	60	69	66	<b>269</b>	64	65	66	66	<b>261</b>
Total gas & oil (mbd)	650	751	714	<b>738</b>	714	714	714	714	<b>714</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	4.16	4.38	3.80	<b>4.40</b>	4.40	4.62	4.73	4.96	<b>4.68</b>
U.S. (or North America)	4.37	4.20	4.13	<b>4.53</b>	4.78	5.03	5.14	5.39	<b>5.09</b>
Overseas (or Int'l)	1.21	1.12	1.08	<b>1.09</b>	1.08	1.08	1.08	1.08	<b>1.08</b>
Total	3.37	2.82	2.91	<b>3.08</b>	3.30	3.45	3.52	3.66	<b>3.48</b>
Oil (\$/bbl)									
WTI Cushing	76.09	76.08	85.10	<b>79.43</b>	90.07	90.76	93.21	94.32	<b>92.09</b>
Worldwide	69.39	70.71	79.96	<b>73.59</b>	84.63	85.28	87.58	88.62	<b>86.54</b>
Total gas & oil (\$/bbl)	57.49	56.53	62.95	<b>58.99</b>	66.99	67.70	69.49	70.48	<b>68.68</b>
<b>Revenue (\$mm)</b>									
Natural Gas									
U.S. (or North America)	259	253	266	<b>1,120</b>	301	320	331	346	<b>1,298</b>
Overseas (or Int'l)	33	55	47	<b>196</b>	46	46	47	47	<b>185</b>
Total	293	308	312	<b>1,316</b>	346	366	377	393	<b>1,483</b>
Oil	3,145	3,597	3,823	<b>14,567</b>	3,958	4,033	4,187	4,237	<b>16,416</b>
<b>Ebitda (\$mm)</b>									
Exploration and Production	2,414	2,363	2,458	<b>9,631</b>	2,669	2,727	2,830	2,871	<b>11,097</b>
Other	196	438	393	<b>1,251</b>	211	209	438	393	<b>1,251</b>
Total Ebitda	2,610	2,801	2,851	<b>10,882</b>	2,880	2,936	3,268	3,263	<b>12,348</b>
Exploration	99	83	54	<b>267</b>	100	100	100	100	<b>400</b>
Deprec., Deplet., & Amort.	820	858	799	<b>3,407</b>	799	799	799	799	<b>3,196</b>
<b>Ebit</b>	1,691	1,860	1,998	<b>7,208</b>	1,981	2,037	2,369	2,364	<b>8,752</b>
Interest	64	19	20	<b>97</b>	20	20	20	20	<b>80</b>
<b>Ebt</b>	1,627	1,841	1,978	<b>7,111</b>	1,961	2,017	2,349	2,344	<b>8,672</b>
Income Tax	569	644	692	<b>2,489</b>	686	706	822	821	<b>3,035</b>
<b>Net Income (\$mm)</b>									
Exploration and Production	1,813	1,745	1,941						
Other	114	352	313						
Unallocated	(869)	(901)	(968)						
Total	1,058	1,196	1,286	<b>4,622</b>	1,275	1,311	1,527	1,524	<b>5,637</b>
<b>Shares (millions)</b>	814	814	814	<b>814</b>	814	814	814	814	<b>814</b>
Per share (\$)	1.30	1.47	1.58	<b>5.68</b>	1.57	1.61	1.88	1.87	<b>6.93</b>
Ebitda Margin (E&P)	70%	60%	59%	<b>61%</b>	62%	62%	62%	62%	<b>62%</b>
Tax Rate	35%	35%	35%	<b>35%</b>	35%	35%	35%	35%	<b>35%</b>



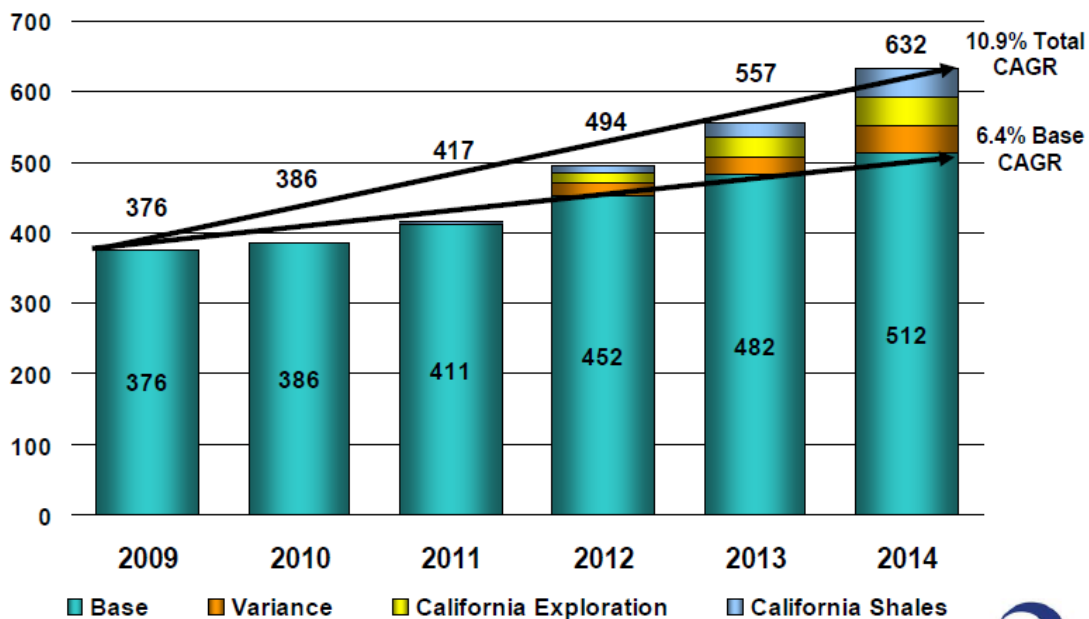
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Occidental Petroleum Corporation					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
U.S. Natural Gas	802	9.3	10.0	8,000	8%
Rest of World Natural Gas	115	12.4	8.7	1,000	1%
Oil	10,181	11.1	8.9	90,100	86%
Downstream	1,251		4.8	6,000	6%
	12,348	11.0	8.5	105,100	100%
Debt (US\$mm)					5,000
Net Present Value (US\$mm)					100,100
Shares (mm)					814
Net Present Value - Standard Estimate (US\$/sh)					123
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					123

## US Oil & Gas Production Outlook

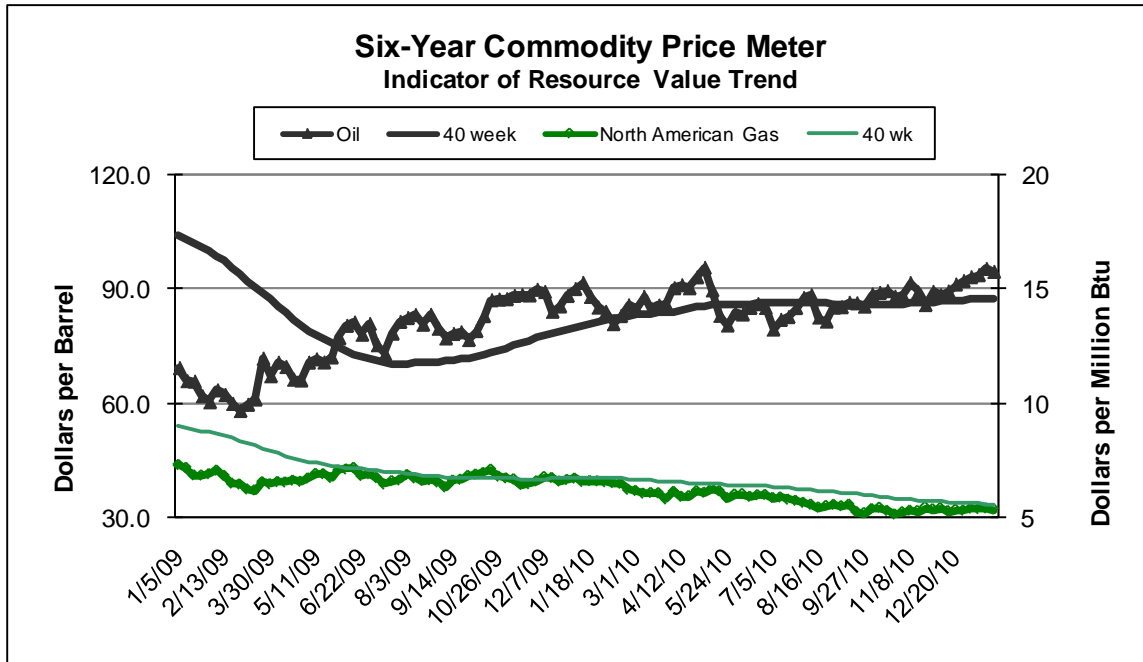
Thousand BOE/Day





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