

Oxy Buys Permian Basin Oil Cheap

Buying the West Texas oil properties once owned by Amoco and Shell, **Occidental Petroleum (OXY - 18.50)** is acquiring high quality production at just \$2.80 per daily mcf. The price compares to current values of \$4.30 in **San Juan Basin Royalty Trust (SJT - 9.94)** and \$3.30 in **Hugoton Royalty Trust (HGT - 8.50)**. Of course Oxy's properties are predominantly oil while the trusts' properties are entirely natural gas which has lower operating costs and should be worth more. Nonetheless we like the price Oxy paid. We would like to own those properties in a royalty trust run by an operator sensitive to the interests of unitholders.

Oxy as a stock is another matter. It offers attractive value at high risk. On the borderline of being overleveraged before the latest deal, the company once again has too much debt.

Forming a royalty trust is an option. At first glance, it looks like the properties would be worth more in that form. Moreover if Oxy can sell the properties for more than it paid for them, its shareholders come out ahead. The problem is one of magnitude and timing and therein lies Oxy's opportunity. Oxy can warehouse the properties while marketing them in trust form in pieces and over time.

The price paid by Oxy in its recent purchase also compares favorably with the high \$6.00 per daily mcf it paid for the Elk Hills California properties in another \$3.5 billion purchase. There the rationale was that the properties had unusual hidden potential.

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