



Independent Stock Idea

August 5, 2008

rating: buy
s&p 500: 1249

Anadarko Petroleum (APC) Takeover Climate

<i>Symbol</i>	APC	<i>Ebitda Next Twelve Months ending 6/30/09 (US\$m)</i>	8,900
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	43
<i>Price (US\$/sh)</i>	55.12	<i>Natural Gas and Oil Production/Ebitda (%)</i>	96
<i>Pricing Date</i>	8/4/08	<i>Adjusted Reserves/Production NTM</i>	9.7
<i>Shares (mm)</i>	471	<i>EV/Ebitda</i>	4.9
<i>Market Capitalization (US\$m)</i>	26,000	<i>PV/Ebitda</i>	7.2
<i>Debt (US\$m)</i>	17,200	<i>Undeveloped Reserves (%)</i>	33
<i>Enterprise Value (EV) (US\$m)</i>	43,200	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	42.79
<i>Present Value (PV) (US\$m)</i>	64,300	<i>Present Value Proven Reserves(US\$/boe)</i>	25.32
<i>Net Present Value (US\$/share)</i>	100	<i>Present Value Proven Reserves(US\$/mcf)</i>	4.22
<i>Debt/Present Value</i>	0.27	<i>Earnings Next Twelve Months (US\$/sh)</i>	5.61
<i>McDep Ratio - EV/PV</i>	0.67	<i>Price/Earnings Next Twelve Months</i>	10
<i>Dividend Yield (%/year)</i>	1.3	<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\$100 a barrel and natural gas, \$14 a million btu.			
For historical analysis of APC since 2003 see www.mcdep.com/1apc.htm			

Summary and Recommendation

Buy-recommended **Anadarko Petroleum (APC)**, with estimated net present value (NPV) of \$100 a share, offers portfolio representation about half in U.S. natural gas and half in crude oil production at a low McDep Ratio. On May 13 we raised NPV from \$82 a share on the basis of a long-term oil price assumption of \$100 a barrel, up from \$80. However, patience may be necessary as stock price has entered a downtrend defined by current quote below the 200-day average of \$65. Released after the market close on August 4, second quarter results were close to expectations of three months ago despite a natural gas production outage in the Gulf of Mexico. Projected volumes along with current futures prices promise a high level of unlevered cash flow (Ebitda) (see table [Next Twelve Months Operating and Financial Estimates](#)). Projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) supports NPV (see table [Functional Cash Flow and Present Value](#)). Meanwhile long-term crude oil price remains in an uptrend where the latest quote of \$120 a barrel for delivery over the next six years is above the 40-week average of \$105 (see chart [Six-Year Commodity Price Meter](#)). A recent sharp decline in stock price to near the widest discount to oil futures of the past five years may signal a takeover climate. The company's U.S. natural gas resources, Gulf of Mexico prospects and possibly even its Algerian operations may be of acquisition interest to a large buyer. In any event, investors in Anadarko stock are likely to be rewarded, in our opinion.

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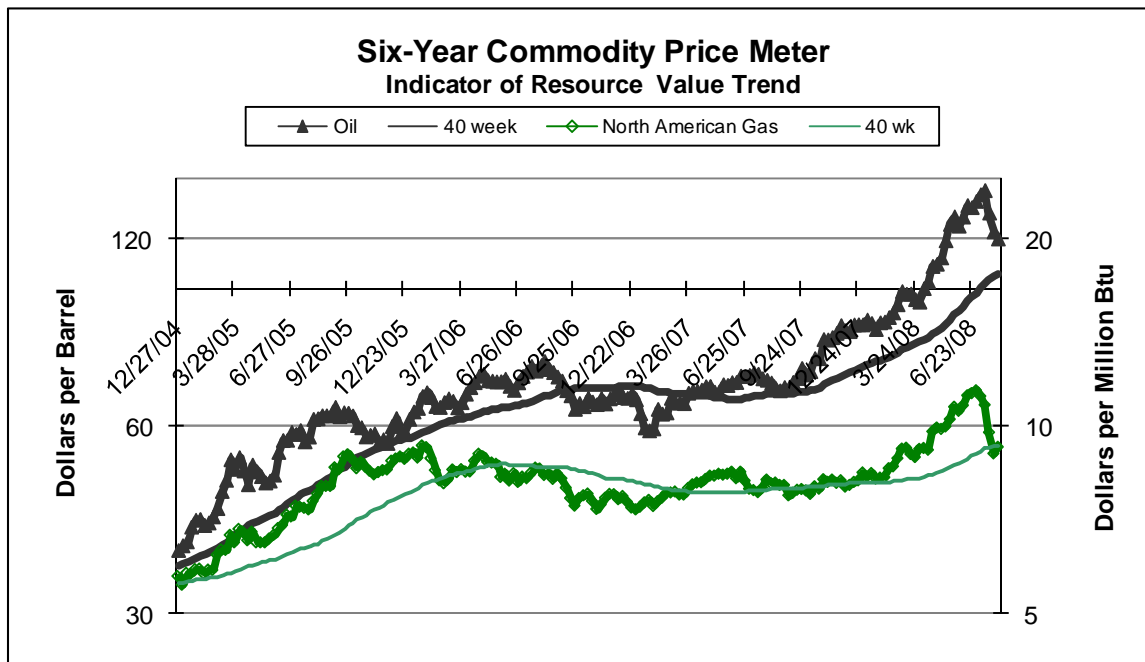
Anadarko Petroleum Corporation									
Next Twelve Months Operating and Financial Estimates									
	Q2	Q1	Q2	Q3E	Q4E	Year	Q1E	Q2E	Next
	6/30/07	3/31/08	6/30/08	9/30/08	12/31/08	2008E	3/31/09	6/30/09	Twelve
									Months
									6/30/09
Volume									
Natural gas (bcf)	164	194	170	193	193	751	189	191	767
Natural Gas (mmcf)	1,798	2,137	1,869	2,100	2,100	2,052	2,100	2,100	2,100
Days	91	91	91	92	92	366	90	91	365
Oil (mmb)	25	21	21	20	20	83	20	20	80
Oil (mbd)	274	229	236	220	220	226	220	220	220
Total gas & oil (bcf)	313	320	299	315	315	1,248	308	311	1,248
Total gas & oil (mmcf)	3,442	3,511	3,285	3,420	3,420	3,409	3,420	3,420	3,420
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	7.56	8.02	10.93	10.36	9.25	9.64	9.87	8.94	9.60
Company (\$/mcf)	6.14	7.58	9.88	9.36	8.36	8.76	8.91	8.04	8.67
Oil (\$/bbl)									
WTI Cushing	64.91	97.94	123.97	125.40	122.05	117.34	122.70	121.73	122.97
Company	59.14	86.78	111.11	112.38	109.39	104.87	109.97	109.09	110.21
Total gas & oil (\$/mcf)	7.91	10.27	13.60	12.98	12.17	12.23	12.55	11.96	12.41
NY Harbor 3-2-1 (\$/bbl)	24.96	7.57	14.94	11.12	8.28	10.48	10.31	13.13	10.71
Revenue (\$mm)									
Natural Gas	1,005	1,474	1,680	1,808	1,616	6,578	1,685	1,537	6,646
Oil	1,475	1,808	2,386	2,275	2,214	8,683	2,177	2,184	8,850
Other	834	(304)	(1,280)	300	300	(985)	300	300	1,200
Total	3,313	2,978	2,786	4,383	4,130	14,276	4,162	4,021	16,696
Expense	1,490	670	301	2,047	1,933	4,951	1,938	1,875	7,793
Ebitda (\$mm)									
Exploration and Production	1,758	2,208	2,395	2,245	2,106	8,955	2,124	2,047	8,523
Other	65	100	90	90	90	370	100	100	380
Total	1,823	2,308	2,485	2,335	2,196	9,325	2,224	2,147	8,903
Exploration	-	243	264	264	264	1,035	264	264	1,056
Deprec., Deplet., & Amort.	733	810	795	795	795	3,195	795	795	3,180
Ebit	1,090	1,255	1,426	1,276	1,137	5,095	1,165	1,088	4,667
Interest	314	214	151	151	151	667	151	151	604
Ebt	776	1,041	1,275	1,125	986	4,428	1,014	937	4,063
Income Tax	272	364	446	394	345	1,550	355	328	1,422
Net Income (\$mm)	504	677	829	732	641	2,878	659	609	2,641
Shares (millions)	467	470	471	471	471	471	471	471	471
Per share (\$)	1.08	1.44	1.76	1.55	1.36	6.11	1.40	1.29	5.61
Ebitda Margin (E&P)	71%	67%	59%	55%	55%	59%	55%	55%	55%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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Anadarko Petroleum Corporation					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
North American Natural Gas	3,820	9.7	8.6	33,000	51%
Oil	4,700	9.9	6.2	29,300	46%
Downstream	380		5.3	2,000	3%
	8,900	9.7	7.2	64,300	100%
Debt (US\$mm)					17,200
Net Present Value (US\$mm)					47,100
Shares (mm)					471
Net Present Value - Standard Estimate (US\$/sh)					100
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					102





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