



Independent Stock Idea

May 7, 2009

rating: buy
s&p 500: 920

Anadarko Petroleum (APC) Restore Buy on New Price Trend

<i>Symbol</i>	APC	<i>Ebitda Next Twelve Months ending 3/31/10 (US\$m)</i>	4,380
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	45
<i>Price (US\$/sh)</i>	48.26	<i>Natural Gas and Oil Production/Ebitda (%)</i>	95
<i>Pricing Date</i>	5/6/09	<i>Adjusted Reserves/Production NTM</i>	9.2
<i>Shares (mm)</i>	460	<i>EV/Ebitda</i>	8.5
<i>Market Capitalization (US\$m)</i>	22,200	<i>PV/Ebitda</i>	10.8
<i>Debt (US\$m)</i>	15,100	<i>Undeveloped Reserves (%)</i>	30
<i>Enterprise Value (EV) (US\$m)</i>	37,300	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	20.87
<i>Present Value (PV) (US\$m)</i>	47,300	<i>Present Value Proven Reserves(US\$/boe)</i>	19.64
<i>Net Present Value (US\$/share)</i>	70	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.27
<i>Debt/Present Value</i>	0.32	<i>Earnings Next Twelve Months (US\$/sh)</i>	-0.90
<i>McDep Ratio - EV/PV</i>	0.79	<i>Price/Earnings Next Twelve Months</i>	-54
<i>Dividend Yield (%/year)</i>	1.5	<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\$75 a barrel and natural gas, \$10 a million btu.			
For historical analysis of APC since 2003 see www.mcdep.com/lapc.htm			

Summary and Recommendation

The stock of buy-recommended **Anadarko Petroleum (APC)** has been trading above its 200-day average in May 2009 for the first time in more than nine months. While stock price is the catalyst for us to restore our buy recommendation, a low McDep Ratio provides the fundamental rationale. By our analysis, APC offers unlevered appreciation potential of 27% to a McDep Ratio of 1.0 and levered appreciation potential of 45% to Net Present Value (NPV) of \$70 a share. During the first quarter, according to results released late last night, the company generated cash from oil and gas production of about \$16 a barrel of oil equivalent as the difference between price of about \$29 and cash operating costs of about \$13. Unlevered cash flow (Ebitda) matched our expectations from three months ago. We project gradual increases in Ebitda in the next few quarters (see table [Next Twelve Months Operating and Financial Estimates](#)). Our valuation 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](#)). Pointing to expected oil price recovery, futures prices for the next six years averaged near \$71 a barrel recently (see charts [Six-Year Commodity Price Meter](#) and [Six-Year and One-Year Natural Gas and Oil Futures](#)). In addition to an improving industry outlook, Anadarko stock price performance may benefit from future news on oil exploration in deep waters offshore Africa, Brazil and in the Gulf of Mexico.

Kurt H. Wulff, CFA



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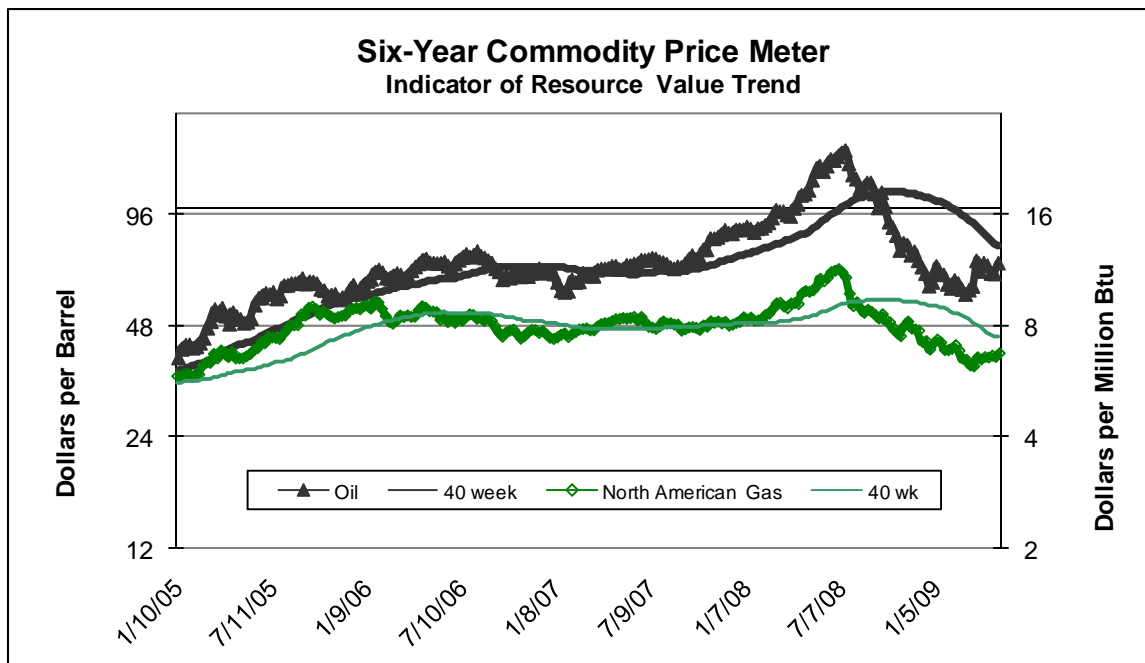
Anadarko Petroleum Corporation									
Next Twelve Months Operating and Financial Estimates									
	Q1	Q4	Year	Q1	Q2E	Q3E	Q4E	Year	Next Twelve Months
	3/31/08	12/31/08	2008	3/31/09	6/30/09	9/30/09	12/31/09	2009E	3/31/10
Volume									
Natural gas (bcf)	194	202	750	208	200	202	202	813	803
Natural Gas (mmcf)	2,137	2,197	2,050	2,315	2,200	2,200	2,200	2,228	2,200
Days	91	92	366	90	91	92	92	365	365
Oil (mmb)	21	19	81	19	19	19	19	76	76
Oil (mbd)	229	203	222	214	208	208	208	209	208
Total gas & oil (bcf)	320	314	1,238	324	314	317	317	1,272	1,259
Total gas & oil (mmcf)	3,511	3,415	3,381	3,599	3,448	3,448	3,448	3,485	3,448
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	8.02	6.95	9.04	4.90	3.56	3.96	4.84	4.31	4.54
Company (\$/mcf)	7.58	5.21	7.65	4.01	3.06	3.41	4.16	3.66	3.90
Oil (\$/bbl)									
WTI Cushing	97.94	58.45	99.59	42.96	52.92	57.55	60.64	53.52	58.51
Company	86.78	47.51	89.11	37.53	46.23	50.28	52.98	46.74	51.11
Total gas & oil (\$/mcf)	10.27	6.18	10.49	4.81	4.74	5.21	5.85	5.15	5.57
NY Harbor 3-2-1 (\$/bbl)	7.57	5.10	9.86	9.18	8.97	8.24	3.89	7.57	6.40
Revenue (\$mm)									
Natural Gas	1,474	1,053	5,741	835	613	690	842	2,980	3,134
Oil	1,808	887	7,238	723	875	962	1,014	3,574	3,880
Other	(304)	1,870	2,743	1,870	1,870	1,870		5,609	3,739
Total	2,978	3,810	15,723	1,595	3,357	3,521	1,856	10,330	10,754
Expense (\$mm)									
Exploration and Production	2,208	1,333	8,522	852	878	975	1,095	3,799	4,139
Other	100	21	301	60	60	60	60	240	240
Total	2,308	1,354	8,823	912	938	1,035	1,155	4,039	4,379
Exploration	243	329	1,265	301	301	301	200	1,103	1,002
Deprec., Deplet., & Amort.	810	739	3,188	806	806	806	840	3,258	3,292
Ebit	1,255	286	4,314	(195)	(169)	(72)	115	(322)	85
Interest	214	180	725	180	180	180	180	720	720
Ebt	1,041	106	3,589	(375)	(349)	(252)	(65)	(1,042)	(635)
Income Tax	364	37	1,256	(131)	(122)	(88)	(23)	(365)	(222)
Net Income (\$mm)	677	69	2,333	(244)	(227)	(164)	(42)	(677)	(413)
Shares (millions)	470	460	469	460	460	460	460	460	460
Per share (\$)	1.44	0.15	4.97	(0.53)	(0.49)	(0.36)	(0.09)	(1.47)	(0.90)
Ebitda Margin (E&P)	67%	69%	66%	55%	59%	59%	59%	58%	59%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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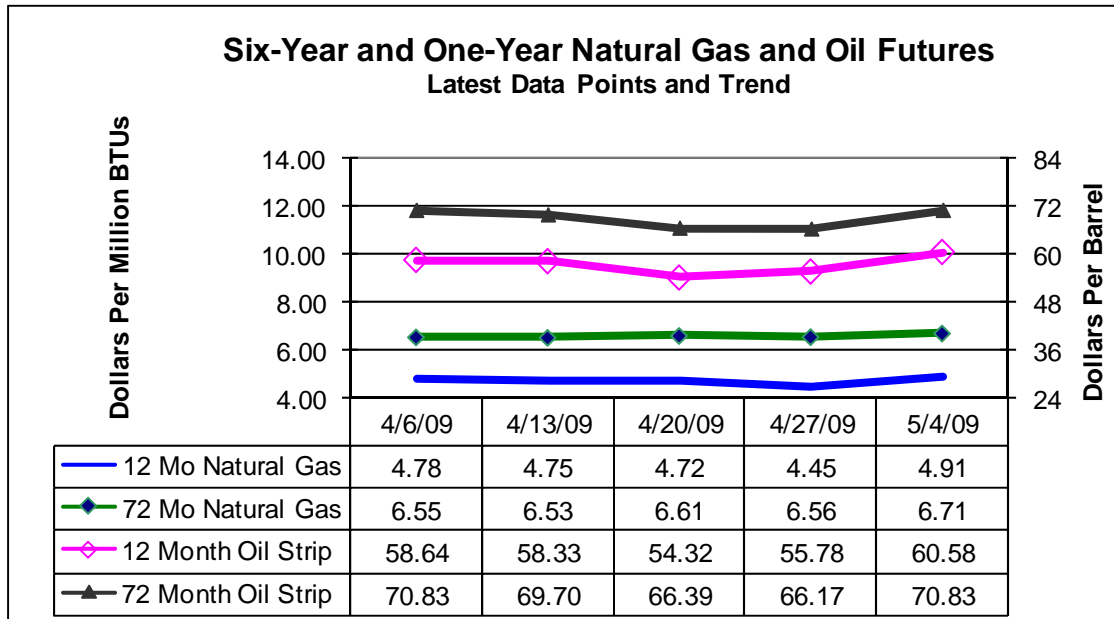
Anadarko Petroleum Corporation					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
North American Natural Gas	1,960	8.9	13.3	26,000	55%
Oil	2,180	9.9	8.9	19,300	41%
Downstream and Minerals	240		8.3	2,000	4%
	4,380	9.2	10.8	47,300	100%
Debt (US\$mm)					15,100
Net Present Value (US\$mm)					32,200
Shares (mm)					460
Net Present Value - Standard Estimate (US\$/sh)					70
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					79





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