



# Independent Stock Idea

October 28, 2008

rating: hold  
s&p 500: 940

## BP plc (BP) Dividend Yield 7.2%

<i>Symbol</i>	BP	<i>Ebitda Next Twelve Months ending 9/30/09 (US\$m)</i>	41,500
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	4
<i>Price (US\$/sh)</i>	46.52	<i>Natural Gas and Oil Production/Ebitda (%)</i>	79
<i>Pricing Date</i>	10/28/08	<i>Adjusted Reserves/Production NTM</i>	9.9
<i>Shares (mm)</i>	3124	<i>EV/Ebitda</i>	5.2
<i>Market Capitalization (US\$m)</i>	145,300	<i>PV/Ebitda</i>	7.2
<i>Debt (US\$m)</i>	68,800	<i>Undeveloped Reserves (%)</i>	45
<i>Enterprise Value (EV) (US\$m)</i>	214,100	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	23.30
<i>Present Value (PV) (US\$m)</i>	299,900	<i>Present Value Proven Reserves(US\$/boe)</i>	13.20
<i>Net Present Value (US\$/share)</i>	74	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.20
<i>Debt/Present Value</i>	0.23	<i>Earnings Next Twelve Months (US\$/sh)</i>	5.95
<i>McDep Ratio - EV/PV</i>	0.71	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	7.2	<i>Indicated Annual Dividend (US\$/sh)</i>	3.36
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 BP since 2004 see <a href="http://www.mcdep.com/1bp.htm">www.mcdep.com/1bp.htm</a>			

### Summary and Recommendation

Hold-rated **BP plc (BP)** offers unlevered appreciation potential of 40% to estimated net present value (NPV) of \$74 a share. On October 28, we reset NPV from \$104 a share on the basis of a long-term oil price assumption of \$75 a barrel, down from \$100. Patience may be necessary as BP stock price remains below the 200-day average of \$62. Released today, third quarter results displayed strength in unlevered cash flow (Ebitda) driven by crude oil and natural gas prices. Those prices now look lower for the next four quarters (see table [Next Twelve Months Operating and Financial Estimates](#)). The outlook for more competitive downstream operations may have improved after upsets in the past two years (see chart [Oil and Gas Downstream Cash Flow](#)). 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](#)). Strong cash flow even in a lower price environment provides ample coverage for a dividend that implies a tempting 7.2% yield at current stock price. As a dispute with private Russian shareholders of 50/50 joint venture TNK-BP has quieted down, BP's financial strength may be gaining new respect.

Kurt H. Wulff, CFA



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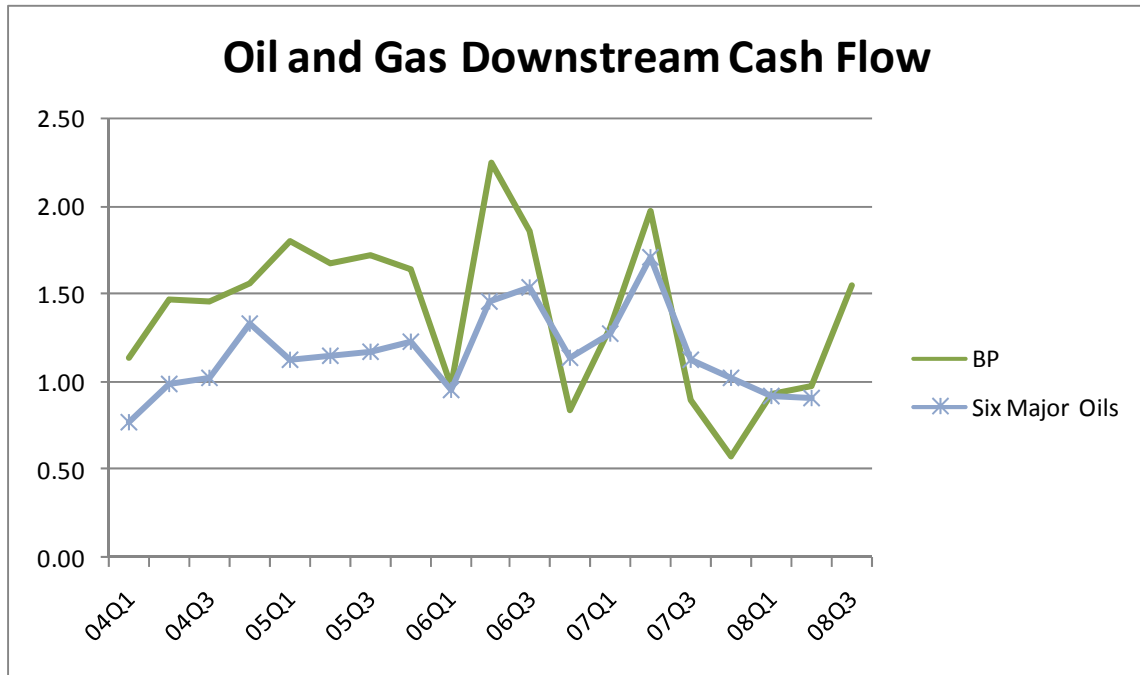
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BP plc									
Next Twelve Months Operating and Financial Estimates									
	Q3	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	Next Twelve Months
	9/30/07	6/30/08	9/30/08	12/31/08	2008E	3/31/09	6/30/09	9/30/09	9/30/09
<b>Volume</b>									
Natural Gas (mmcf)									
U.S. (or North America)	2,186	2,140	2,094	2,094	<b>2,119</b>	2,094	2,094	2,094	<b>2,094</b>
Overseas (or Int'l)	5,693	6,108	5,917	6,154	<b>6,140</b>	6,315	6,108	5,917	<b>6,122</b>
Total	7,879	8,248	8,011	8,248	<b>8,265</b>	8,409	8,202	8,011	<b>8,216</b>
Days	92	91	92	92	<b>366</b>	90	91	92	<b>365</b>
Oil (mbd)	2,292	2,414	2,469	2,469	<b>2,455</b>	2,469	2,469	2,469	<b>2,469</b>
Total gas & oil (mmb)	332	345	350	354	<b>1,401</b>	348	349	350	<b>1,401</b>
Total gas & oil (mbd)	3,605	3,788	3,804	3,844	<b>3,829</b>	3,871	3,836	3,804	<b>3,838</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.16	10.93	10.25	6.65	<b>8.96</b>	6.65	6.67	6.97	<b>6.73</b>
U.S. (or North America)	4.64	8.76	7.88	5.11	<b>7.12</b>	5.12	5.13	5.36	<b>5.18</b>
Overseas (or Int'l)	3.66	5.88	6.00	4.62	<b>5.52</b>	5.59	5.88	6.00	<b>5.52</b>
Total	3.93	6.63	6.49	4.75	<b>5.93</b>	5.47	5.69	5.83	<b>5.43</b>
Oil (\$/bbl)									
WTI Cushing	75.48	123.97	117.99	67.52	<b>101.86</b>	64.23	65.80	67.22	<b>66.19</b>
Worldwide	71.12	109.95	111.47	63.79	<b>93.91</b>	60.68	62.17	63.51	<b>62.55</b>
Total gas & oil (\$/bbl)	53.80	84.49	86.01	51.16	<b>72.98</b>	50.60	52.18	53.50	<b>51.86</b>
NY Harbor 3-2-1 (\$/bbl)	12.64	14.94	11.84	5.71	<b>10.02</b>	5.31	10.44	8.40	<b>7.47</b>
BP Refining Indicator	8.05	8.19	8.03						
<b>Revenue (\$mm)</b>									
Natural Gas									
U.S. (or North America)	933	1,706	1,518	985	<b>5,525</b>	964	977	1,033	<b>3,959</b>
Overseas (or Int'l)	1,916	3,270	3,265	2,618	<b>12,366</b>	3,177	3,270	3,265	<b>12,331</b>
Total	2,849	4,976	4,783	3,603	<b>17,891</b>	4,141	4,248	4,298	<b>16,290</b>
Oil	14,997	24,150	25,320	14,489	<b>84,388</b>	13,484	13,968	14,426	<b>56,367</b>
Other	54,993	81,855	74,726	74,726	<b>296,498</b>	74,726	74,726	74,726	<b>298,902</b>
Total	72,838	110,982	104,829	92,818	<b>398,777</b>	92,351	92,941	93,449	<b>371,560</b>
<b>Expense (\$mm)</b>									
Production	10,292	14,749	16,597	10,592	<b>55,392</b>	9,694	9,989	10,243	<b>40,518</b>
Other	53,038	79,718	71,346	73,469	<b>287,701</b>	72,701	72,588	71,346	<b>290,105</b>
<b>Ebitda (\$mm)</b>									
Exploration and Production	7,553	14,377	13,506	8,141	<b>47,528</b>	7,932	8,197	8,426	<b>32,696</b>
Other	1,955	2,137	3,379	1,256	<b>8,797</b>	2,024	2,137	3,379	<b>8,797</b>
Total Ebitda	9,508	16,515	16,885	9,398	<b>56,325</b>	9,956	10,334	11,805	<b>41,493</b>
Exploration	244	118	232	232	<b>875</b>	232	232	250	<b>946</b>
Deprec., Deplet., & Amort.	2,505	2,873	2,707	2,707	<b>11,069</b>	2,707	2,707	2,707	<b>10,828</b>
Other non cash									
<b>Ebit</b>	6,759	13,524	13,946	6,459	<b>44,381</b>	7,017	7,395	8,848	<b>29,719</b>
Interest	262	272	283	283	<b>1,175</b>	283	283	283	<b>1,132</b>
<b>Ebt</b>	6,497	13,252	13,663	6,176	<b>43,206</b>	6,734	7,112	8,565	<b>28,587</b>
Income Tax	2,274	4,638	4,782	2,161	<b>15,122</b>	2,357	2,489	2,998	<b>10,005</b>
<b>Net Income (\$mm)</b>									
Exploration and Production	6,321	12,297	11,900		<b>34,645</b>				
Other	671	708	1,549		<b>2,897</b>				
Unallocated	(2,769)	(4,391)	(4,568)		<b>(13,472)</b>				
Total	4,223	8,614	8,881	4,014	<b>28,084</b>	4,377	4,623	5,567	<b>18,581</b>
<b>Shares (millions)</b>	3,177	3,137	3,124	3,124	<b>3,133</b>	3,124	3,124	3,124	<b>3,124</b>
Per share (\$)	1.33	2.75	2.84	1.28	<b>8.96</b>	1.40	1.48	1.78	<b>5.95</b>
Ebitda Margin (E&P)	42%	49%	45%	45%	<b>46%</b>	45%	45%	45%	<b>45%</b>
Tax Rate	35%	35%	35%	35%	<b>35%</b>	35%	35%	35%	<b>35%</b>



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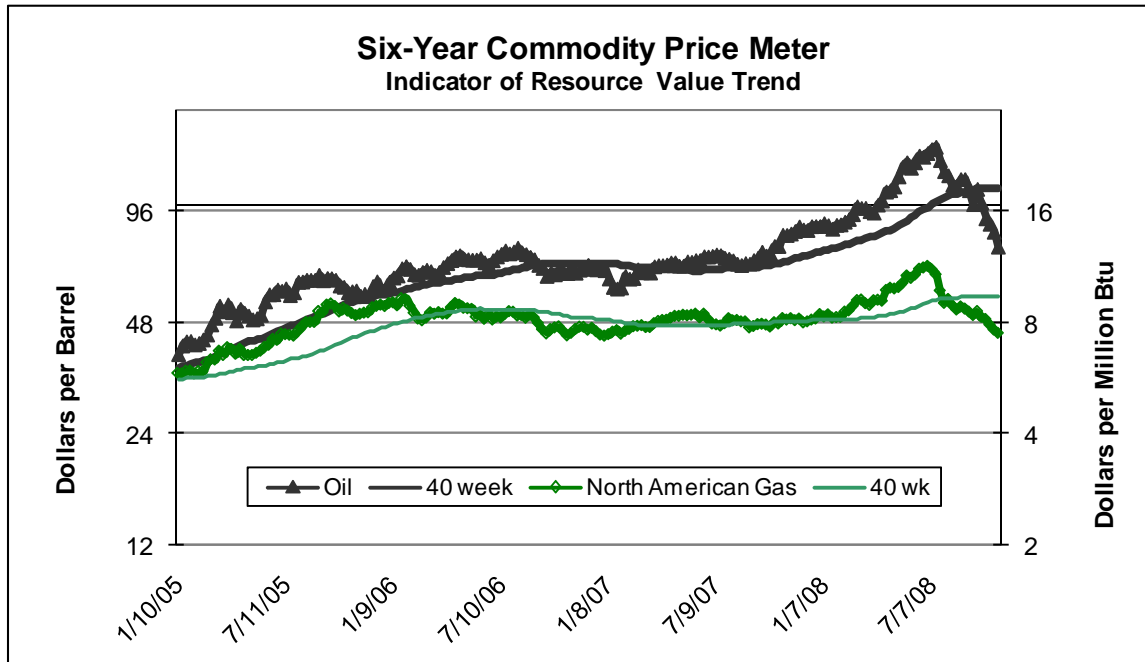


<b>BP plc</b>					
<b>Functional Cash Flow and Present Value</b>					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	1,780	16.8	14.0	25,000	8%
Rest of World Natural Gas	5,550	8.8	7.7	43,000	14%
Oil	25,360	9.3	7.4	187,000	62%
Downstream	8,800	5.1	7.2	45,000	15%
	41,490	9.9	7.2	300,000	100%
Debt (US\$mm)					68,800
Net Present Value (US\$mm)					231,200
Shares (mm)					3,124
Net Present Value - Standard Estimate (US\$/sh)					74
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					81



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