



Independent Stock Idea

January 29, 2010

rating: buy
s&p 500: 1087, intraday

Chevron Corporation (CVX) Raise Net Present Value to \$110 a Share from \$102

<i>Symbol</i>	CVX	<i>Ebitda Next Twelve Months ending 12/31/10 (US\$mm)</i>	36,200
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	5
<i>Price (\$/sh)</i>	73.20	<i>Natural Gas and Oil Production/Ebitda (%)</i>	88
<i>Pricing Date</i>	1/29/10	<i>Adjusted Reserves/Production NTM</i>	9.5
<i>Shares (mm)</i>	2004	<i>EV/Ebitda</i>	4.9
<i>Market Capitalization (\$mm)</i>	147,000	<i>PV/Ebitda</i>	6.9
<i>Debt (\$mm)</i>	31,000	<i>Undeveloped Reserves (%)</i>	36
<i>Enterprise Value (EV) (\$mm)</i>	177,000	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	31.70
<i>Present Value (PV) (\$mm)</i>	251,000	<i>Present Value Proven Reserves(\$/boe)</i>	19.10
<i>Net Present Value (\$/share)</i>	110	<i>Present Value Proven Reserves(\$/mcf)</i>	3.20
<i>Debt/Present Value</i>	0.12	<i>Earnings Next Twelve Months (US\$/sh)</i>	7.25
<i>McDep Ratio - EV/PV</i>	0.71	<i>Price/Earnings Next Twelve Months</i>	10
<i>Dividend Yield (%/year)</i>	3.7	<i>Indicated Annual Dividend (US\$/sh)</i>	2.72
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, \$8 a million btu.			
For historical analysis of CVX since 2002 see www.mcdep.com/lcvx.htm			

Summary and Recommendation

On the strength of continued high volume and lower operating cost, we raise estimated Net Present Value (NPV) to \$110 a share for buy-recommended **Chevron (CVX)**. With the increase in NPV from \$102 a share, unlevered appreciation potential is 42% to a McDep Ratio of 1.0 where stock price would equal NPV. Fourth quarter results released today disclosed unlevered cash flow (Ebitda) exceeding our expectations of three months ago in the upstream business while falling short in the downstream (see table Next Twelve Months Operating and Financial Estimates). NPV appears well supported by cash flow and reserve life in our valuation of CVX in an industry context (see table Functional Cash Flow and Present Value). New Chairman and Chief Executive John Watson declared on the earnings call that Chevron has a strong portfolio of projects to provide production growth for the decade. Sanctioned late last year, the Gorgon natural gas project in Australia is the largest the company has ever undertaken. At the same time Mr. Watson is taking another look at refining and marketing to see where costs might be reduced further. Meanwhile the trend for oil, 64% of the value in Chevron, continues up with futures prices for the next six years at \$83 a barrel compared to the 40-week average of \$81 (see chart Six-Year Commodity Price Meter). CVX stock is also above its 200-day average of \$72 a share, which defines an uptrend by that measure.

Kurt H. Wulff, CFA



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Chevron										
Next Twelve Months Operating and Financial Estimates										
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Next	
	12/31/08	9/30/09	12/31/09	2009	3/31/10	6/30/10	9/30/10	12/31/10	Twelve	
									Months	
									12/31/10	
Volume										
Natural Gas (mmcf)										
U.S.	1,320	1,420	1,402	1,399	1,402	1,402	1,402	1,402	1,402	
Rest of World	3,493	3,475	3,652	3,590	3,642	3,593	3,475	3,652	3,590	
Total	4,813	4,895	5,054	4,989	5,044	4,995	4,877	5,054	4,992	
Days	92	92	92	365	90	91	92	92	365	
Oil (mbd)	1,738	1,886	1,936	1,872	1,936	1,936	1,936	1,936	1,936	
Total gas & oil (mmb)	234	249	256	987	250	252	253	256	1,010	
Total gas & oil (mbd)	2,540	2,702	2,778	2,704	2,777	2,769	2,749	2,778	2,768	
Price										
Natural gas (\$/mcf)										
Henry Hub (\$/mmbtu)	6.95	3.39	4.16	3.99	5.75	5.66	5.84	6.29	5.88	
U.S.	5.23	3.28	4.23	3.73	5.85	5.75	5.93	6.29	5.95	
Rest of World	5.10	3.92	4.15	4.00	4.16	4.16	4.20	4.24	4.19	
Total	5.14	3.73	4.17	3.93	4.63	4.60	4.70	4.81	4.69	
Oil (\$/bbl)										
WTI Cushing	58.45	68.22	76.09	61.70	76.39	76.28	77.97	79.52	77.54	
Worldwide	47.86	62.28	68.92	56.14	69.20	69.10	70.63	72.03	70.25	
Total gas & oil (\$/bbl)	42.47	50.24	55.62	46.12	56.65	56.63	58.08	58.94	57.58	
NY Harbor 3-2-1 (\$/bbl)	5.10	9.45	5.22	8.34	7.71	10.33	8.96	5.81	8.20	
Revenue (\$mm)										
Natural Gas										
U.S.	635	428	546	1,903	738	733	765	811	3,047	
Rest of World	1,639	1,253	1,394	5,247	1,363	1,359	1,343	1,426	5,490	
Total	2,274	1,682	1,940	7,150	2,101	2,092	2,108	2,237	8,537	
Oil	7,652	10,806	12,276	38,359	12,057	12,174	12,580	12,830	49,641	
Other	35,277	34,137	34,460	126,127	34,460	34,460	34,460	35,260	138,639	
Total	45,203	46,625	48,676	171,636	48,617	48,726	49,148	50,326	196,817	
Expense (\$mm)										
Production	4,774	4,806	5,609	18,837	6,371	6,420	6,610	6,780	26,180	
Other	31,610	33,019	34,810	123,370	33,348	33,583	33,342	34,131	134,403	
Ebitda (\$mm)										
Exploration and Production	5,152	7,681	8,608	26,673	7,787	7,846	8,078	8,286	31,998	
Other	3,667	1,118	(350)	2,757	1,112	877	1,118	1,129	4,236	
Total Ebitda	8,819	8,800	8,257	29,430	8,899	8,723	9,197	9,415	36,234	
Exploration	338	242	281	1,342	281	281	281	400	1,243	
Deprec., Deplet., & Amort.	2,589	2,988	3,156	12,110	3,156	3,156	3,156	3,156	12,624	
Other non cash										
Ebit	5,892	5,570	4,820	15,978	5,462	5,286	5,760	5,859	22,367	
Interest	-	14	-	28	-	-	-	-	-	
Ebt	5,892	5,556	4,820	15,950	5,462	5,286	5,760	5,859	22,367	
Income Tax	2,062	1,945	1,687	5,582	1,912	1,850	2,016	2,051	7,828	
Net Income (\$mm)										
Exploration and Production	1,908	3,321	4,003	10,588						
Other	2,148	455	(515)	690						
Unallocated	(226)	(165)	(355)	(911)						
Total	3,830	3,611	3,133	10,367	3,550	3,436	3,744	3,808	14,538	
Shares (millions)	2,013	2,001	2,004	2,000	2,004	2,004	2,004	2,004	2,004	
Per share (\$)	1.90	1.80	1.56	5.18	1.77	1.71	1.87	1.90	7.25	
Ebitda Margin (E&P)	52%	62%	61%	59%	55%	55%	55%	55%	55%	
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	

Please see disclosures on the final page.

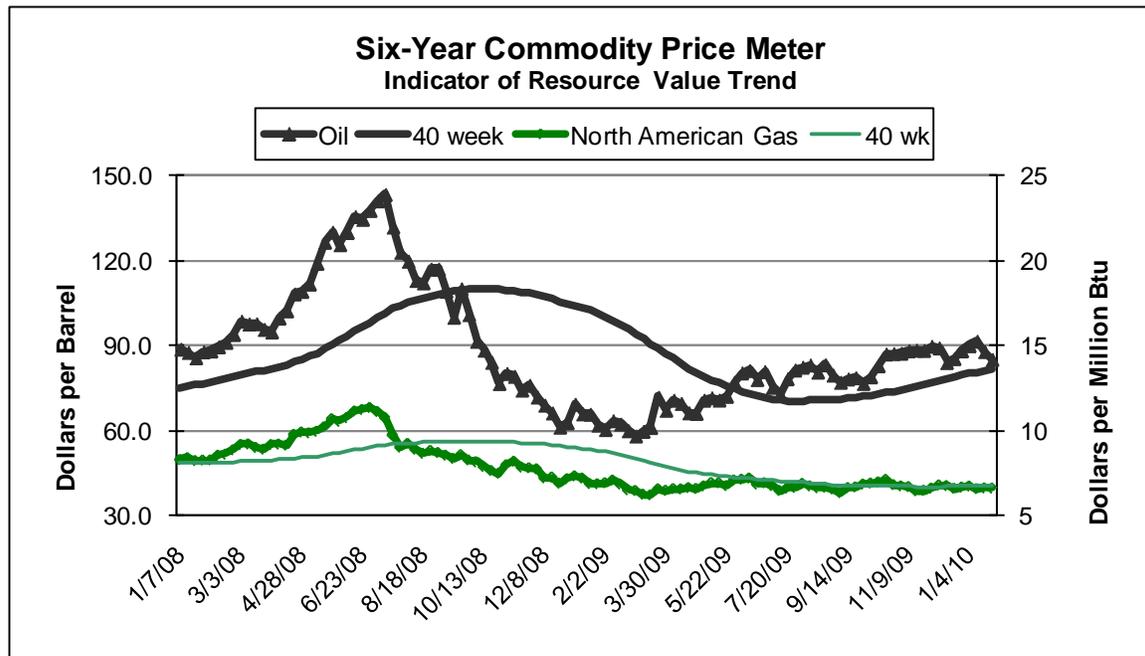
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Chevron Corporation						
Functional Cash Flow and Present Value						
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>		
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>		
				<i>(US\$mm)</i>		
North American Natural Gas	1,680	5.7	6.5	11,000		4%
Rest of World Natural Gas	3,020	11.9	8.6	26,000		10%
Oil	27,290	9.2	6.6	180,000		72%
Downstream	4,240		8.0	34,000		14%
	36,230	9.5	6.9	251,000		100%
Debt (US\$mm)						31,000
Net Present Value (US\$mm)						220,000
Shares (mm)						2,004
Net Present Value - Standard Estimate (US\$/sh)						110
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)						120





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