



Independent Stock Idea

August 1, 2008

rating: buy
s&p 500: 1260 intraday

Chevron Corporation (CVX) Income Model

<i>Symbol</i>	CVX	<i>Ebitda Next Twelve Months ending 6/30/09 (US\$mm)</i>	50,400
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	5
<i>Price (\$/sh)</i>	84.30	<i>Natural Gas and Oil Production/Ebitda (%)</i>	88
<i>Pricing Date</i>	8/1/08	<i>Adjusted Reserves/Production NTM</i>	9.5
<i>Shares (mm)</i>	2206	<i>EV/Ebitda</i>	4.2
<i>Market Capitalization (\$mm)</i>	186,000	<i>PV/Ebitda</i>	6.4
<i>Debt (\$mm)</i>	27,000	<i>Undeveloped Reserves (%)</i>	37
<i>Enterprise Value (EV) (\$mm)</i>	213,000	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	46.00
<i>Present Value (PV) (\$mm)</i>	325,000	<i>Present Value Proven Reserves(\$/boe)</i>	25.40
<i>Net Present Value (\$/share)</i>	135	<i>Present Value Proven Reserves(\$/mcf)</i>	4.20
<i>Debt/Present Value</i>	0.08	<i>Earnings Next Twelve Months (US\$/sh)</i>	12.63
<i>McDep Ratio - EV/PV</i>	0.66	<i>Price/Earnings Next Twelve Months</i>	7
<i>Dividend Yield (%/year)</i>	3.1	<i>Indicated Annual Dividend (US\$/sh)</i>	2.60
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 CVX since 2002 see www.mcdep.com/1cvx.htm			

Summary and Recommendation

Buy-recommended **Chevron (CVX)** offers unlevered appreciation potential of 53% to estimated net present value (NPV) of \$135 a share. On May 13 we raised NPV from \$117 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 \$90. Released today, second quarter results displayed strength in production driven by higher crude oil and natural gas price along with a loss in downstream refining and marketing where higher price was not fully passed through to consumers. Total earnings were reduced by about 10% for artificial timing effects downstream that should reverse in the future. 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 continues in an uptrend where the latest quote of \$121 a barrel for delivery over the next six years is above the 40-week average of \$104 (see chart [Six-Year Commodity Price Meter](#)). As well as reinvesting \$20 billion a year, CVX has reduced shares outstanding by 4% in the past year, which when added to a dividend yield of 3% gives shareholders an “income return” of 7% a year.

Kurt H. Wulff, CFA



Independent Stock Idea

August 1, 2008

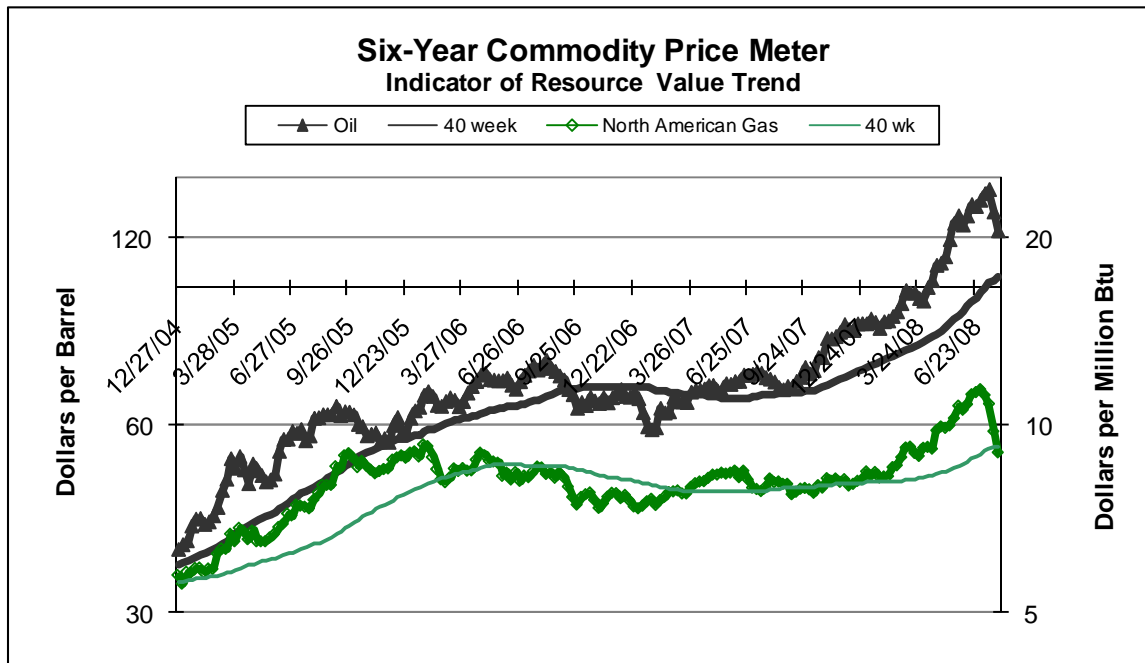
Chevron									
Next Twelve Months Operating and Financial Estimates									
	Q2	Q1	Q2	Q3E	Q4E	Year	Q1E	Q2E	Next Twelve Months
	6/30/07	3/31/08	6/30/08	9/30/08	12/31/08	2008E	3/31/09	6/30/09	6/30/09
Volume									
Natural Gas (mmcf)									
U.S.	1,703	1,666	1,588	1,588	1,588	1,607	1,588	1,588	1,588
Rest of World	3,314	3,768	3,621	3,288	3,408	3,520	3,768	3,621	3,520
Total	5,017	5,434	5,209	4,876	4,996	5,128	5,356	5,209	5,108
Days	91	91	91	92	92	366	90	91	365
Oil (mbd)	1,794	1,766	1,783	1,783	1,783	1,778	1,783	1,783	1,783
Total gas & oil (mbd)	2,630	2,672	2,651	2,595	2,615	2,633	2,675	2,651	2,634
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	7.56	8.02	10.93	10.49	9.66	9.78	10.19	9.38	9.93
U.S.	6.56	7.55	9.84	9.44	8.60	8.84	9.06	8.35	8.86
Rest of World	3.64	4.83	5.44	3.78	3.78	4.48	4.83	5.44	4.48
Total	4.63	5.66	6.78	5.62	5.31	5.85	6.08	6.33	5.84
Oil (\$/bbl)									
WTI Cushing	64.91	97.94	123.97	127.56	125.71	118.80	126.45	125.26	126.25
Worldwide	60.26	86.21	111.37	114.59	113.33	106.46	114.80	113.71	114.10
Total gas & oil (\$/bbl)	49.94	68.50	88.22	89.27	87.39	83.30	88.67	88.90	88.56
NY Harbor 3-2-1 (\$/bbl)	24.96	7.57	14.94	12.32	9.19	11.00	11.65	15.15	12.08
Revenue (\$mm)									
Natural Gas									
U.S.	1,017	1,145	1,422	1,379	1,256	5,202	1,295	1,206	5,136
Rest of World	1,098	1,656	1,793	1,143	1,185	5,777	1,638	1,793	5,759
Total	2,114	2,801	3,214	2,523	2,441	10,979	2,933	2,999	10,895
Oil	9,838	13,854	18,065	18,792	18,585	69,296	18,417	18,445	74,239
Other	44,141	49,291	61,709	61,709	62,509	235,219	62,509	62,509	249,238
Total	56,094	65,946	82,989	83,024	83,535	315,494	83,859	83,953	334,372
Expense									
Production	5,618	7,828	10,001	10,231	10,092	38,153	10,248	10,293	40,865
Other	40,200	47,714	61,193	59,595	60,559	229,061	60,933	61,993	243,079
Ebitda (\$mm)									
Exploration and Production	6,335	8,827	11,278	11,084	10,934	42,122	11,102	11,151	44,270
Other	3,941	1,577	517	2,114	1,950	6,158	1,577	517	6,158
Total Ebitda	10,276	10,404	11,795	13,198	12,883	48,281	12,679	11,668	50,428
Exploration	273	253	307	300	300	1,160	300	300	1,200
Deprec., Deplet., & Amort.	2,156	2,215	2,275	2,275	2,275	9,040	2,275	2,275	9,100
Other non cash	(520)								
Ebit	8,367	7,936	9,213	10,623	10,308	38,081	10,104	9,093	40,128
Interest	63	-	-	-	-	-	-	-	-
Ebt	8,304	7,936	9,213	10,623	10,308	38,081	10,104	9,093	40,128
Income Tax	2,907	2,778	3,225	3,718	3,608	13,328	3,536	3,182	14,045
Net Income (\$mm)									
Exploration and Production	3,639	5,128	7,248						
Other	1,402	295	(693)						
Unallocated	357	(265)	(567)						
Total	5,398	5,158	5,989	6,905	6,700	24,752	6,568	5,910	26,083
Shares (millions)									
Per share (\$)	2.52	2.48	2.90	3.34	3.24	11.97	3.18	2.86	12.63
Ebitda Margin (E&P)	53%	53%	53%	52%	52%	52%	52%	52%	52%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



Independent Stock Idea

August 1, 2008

Chevron Corporation					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
North American Natural Gas	2,670	6.0	6.0	16,000	5%
Rest of World Natural Gas	2,990	11.2	8.0	24,000	7%
Oil	38,610	9.5	6.1	235,000	72%
Downstream	6,160		8.1	50,000	15%
	50,430	9.5	6.4	325,000	100%
Debt (US\$mm)					27,000
Net Present Value (US\$mm)					298,000
Shares (mm)					2,206
Net Present Value - Standard Estimate (US\$/sh)					135
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					129





Independent Stock Idea

August 1, 2008

Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

McDep does no investment banking business. McDep is not paid by covered companies including revenue from advertising, trading, consulting, subscriptions or research service. McDep shall not own more than 1% of outstanding stock in a covered company. No one at McDep is on the Board of Directors at a covered company nor is anyone at a covered company on the Board of Directors of McDep.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

Certification: I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

Research Methodology/Ratings Description: McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.