



Independent Stock Idea

January 30, 2009

rating: hold
s&p 500: 822 intraday

Chevron Corporation (CVX) Downstream Surprise

<i>Symbol</i>	CVX	<i>Ebitda Next Twelve Months ending 12/31/09 (US\$m)</i>	24,300
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	4
<i>Price (\$/sh)</i>	70.29	<i>Natural Gas and Oil Production/Ebitda (%)</i>	78
<i>Pricing Date</i>	1/30/09	<i>Adjusted Reserves/Production NTM</i>	9.6
<i>Shares (mm)</i>	2206	<i>EV/Ebitda</i>	7.5
<i>Market Capitalization (\$mm)</i>	155,000	<i>PV/Ebitda</i>	10.0
<i>Debt (\$mm)</i>	27,000	<i>Undeveloped Reserves (%)</i>	37
<i>Enterprise Value (EV) (\$mm)</i>	182,000	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	19.80
<i>Present Value (PV) (\$mm)</i>	244,000	<i>Present Value Proven Reserves(\$/boe)</i>	16.90
<i>Net Present Value (\$/share)</i>	98	<i>Present Value Proven Reserves(\$/mcf)</i>	2.80
<i>Debt/Present Value</i>	0.11	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.05
<i>McDep Ratio - EV/PV</i>	0.75	<i>Price/Earnings Next Twelve Months</i>	17
<i>Dividend Yield (%/year)</i>	3.7	<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\$75 a barrel and natural gas, \$10 a million btu.			
For historical analysis of CVX since 2002 see www.mcdep.com/1cvx.htm			

Summary and Recommendation

Estimated Net Present Value (NPV) of \$98 a share is more than a third above stock price for low-debt, hold-rated **Chevron (CVX)**. Released today, fourth quarter results displayed extra unlevered cash flow (Ebitda) generated in the volatile downstream business (see table [Next Twelve Months Operating and Financial Estimates](#)). Related to the time difference in pricing a tanker load of crude oil in the Middle East and pricing it at the final destination, Chevron has tended to report low profits during rising prices and now high profits during declining prices for downstream activities. In time the distortions offset each other. Our valuation capitalizes the future year's cash flow at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) for natural gas and oil, and to an industry multiple for downstream. Latest calculations result in NPV concentrated 16% on natural gas, 64% on oil and 20% on downstream (see table [Functional Cash Flow and Present Value](#)). Pointing to expected oil price recovery, futures prices for the next six years averaged US\$62 a barrel recently (see charts [Six-Year Commodity Price Meter](#) and [Six-Year and One-Year Natural Gas and Oil Futures](#)).

Kurt H. Wulff, CFA



Independent Stock Idea

January 30, 2009

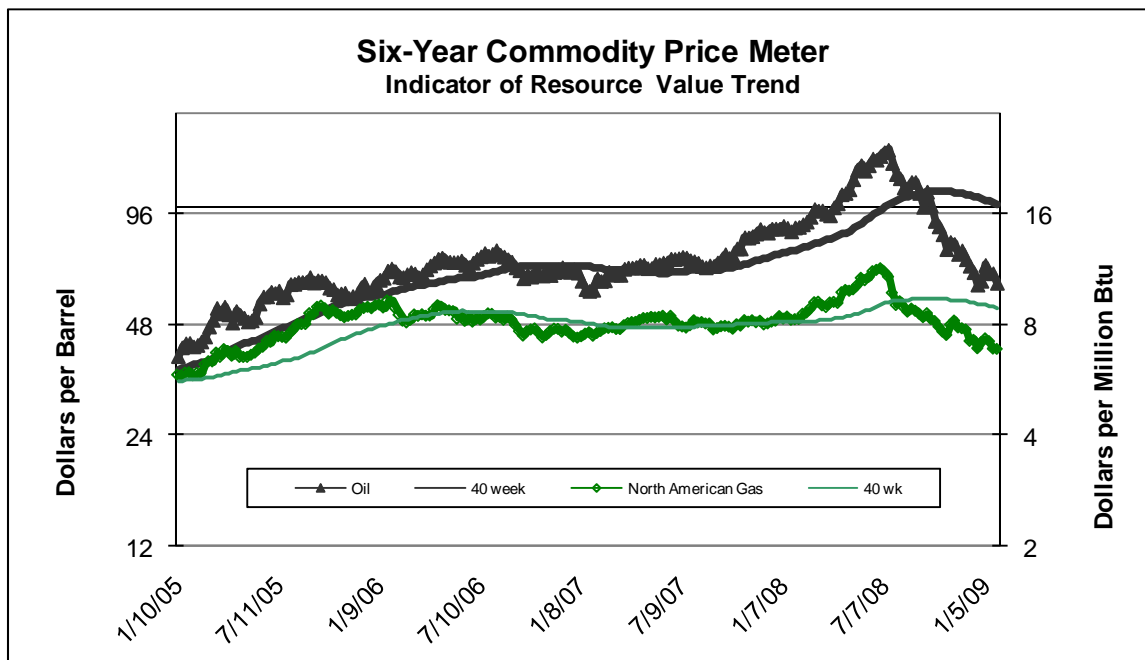
Chevron									
Next Twelve Months Operating and Financial Estimates									
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Next Twelve Months
	12/31/07	9/30/08	12/31/08	2008	3/31/09	6/30/09	9/30/09	12/31/09	12/31/09
Volume									
Natural Gas (mmcf)									
U.S.	1,675	1,431	1,320	1,501	1,320	1,320	1,320	1,320	1,320
Rest of World	3,408	3,618	3,493	3,625	3,768	3,621	3,618	3,493	3,624
Total	5,083	5,049	4,813	5,125	5,088	4,941	4,938	4,813	4,944
Days	92	92	92	366	90	91	92	92	365
Oil (mbd)	1,766	1,766	1,783	1,774	1,783	1,783	1,783	1,783	1,783
Total gas & oil (mbd)	2,613	2,608	2,585	2,628	2,631	2,606	2,606	2,585	2,607
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.97	10.25	6.95	9.04	5.03	4.62	4.93	5.73	5.08
U.S.	6.08	8.64	5.23	7.90	3.78	3.48	3.71	4.21	3.79
Rest of World	4.32	5.37	5.10	5.18	4.83	5.44	5.37	5.10	5.18
Total	4.90	6.30	5.14	5.98	4.56	4.92	4.93	4.86	4.81
Oil (\$/bbl)									
WTI Cushing	90.67	117.99	58.45	99.59	44.74	49.86	52.65	54.65	50.48
Worldwide	80.08	105.15	47.86	87.55	37.43	41.71	44.05	46.12	42.36
Total gas & oil (\$/bbl)	63.65	83.41	42.57	70.75	34.18	37.85	39.47	40.85	38.10
NY Harbor 3-2-1 (\$/bbl)	8.19	11.84	5.10	9.86	7.57	7.78	6.23	3.44	6.26
Revenue (\$mm)									
Natural Gas									
U.S.	937	1,137	635	4,339	449	418	450	511	1,828
Rest of World	1,354	1,787	1,639	6,875	1,638	1,793	1,787	1,639	6,857
Total	2,291	2,925	2,274	11,214	2,087	2,210	2,238	2,150	8,685
Oil	13,010	17,084	7,848	56,852	6,005	6,766	7,225	7,564	27,560
Other	46,109	58,858	35,081	204,939	35,081	35,081	35,081	35,881	141,124
Total	61,410	78,867	45,203	273,005	43,173	44,057	44,543	45,595	177,369
Expense									
Production	5,955	8,909	4,970	31,708	3,884	4,309	4,542	4,663	17,398
Other	45,395	55,590	31,414	195,911	33,889	33,781	33,510	34,527	135,707
Ebitda (\$mm)									
Exploration and Production	9,347	11,100	5,152	36,358	4,208	4,668	4,920	5,051	18,847
Other	713	3,267	3,667	9,028	1,192	1,300	1,571	1,354	5,417
Total Ebitda	10,060	14,368	8,819	45,386	5,400	5,968	6,491	6,406	24,264
Exploration	449	271	338	1,169	338	338	338	338	1,352
Deprec., Deplet., & Amort.	2,094	2,449	2,589	9,528	2,589	2,589	2,589	2,589	10,356
Other non cash									
Ebit	7,517	11,648	5,892	34,689	2,473	3,041	3,564	3,479	12,556
Interest	7	-	-	-	-	-	-	-	-
Ebt	7,510	11,648	5,892	34,689	2,473	3,041	3,564	3,479	12,556
Income Tax	2,628	4,077	2,062	12,141	865	1,064	1,247	1,218	4,395
Net Income (\$mm)									
Exploration and Production	4,839	6,182	1,908						
Other	273	1,901	2,148						
Unallocated	(231)	(512)	(226)						
Total	4,881	7,571	3,830	22,548	1,607	1,977	2,317	2,261	8,162
Shares (millions)	2,104	2,045	2,013	2,053	2,013	2,013	2,013	2,013	2,013
Per share (\$)	2.32	3.70	1.90	10.98	0.80	0.98	1.15	1.12	4.05
Ebitda Margin (E&P)	61%	55%	51%	53%	52%	52%	52%	52%	52%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



Independent Stock Idea

January 30, 2009

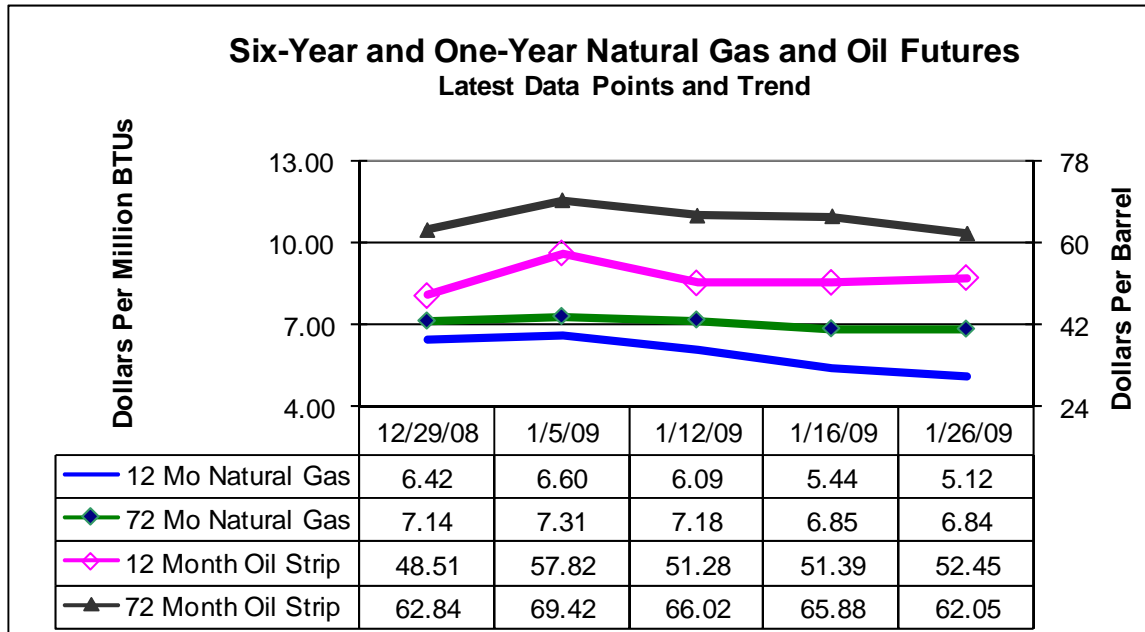
Chevron Corporation					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
North American Natural Gas	950	7.2	10.5	10,000	4%
Rest of World Natural Gas	3,570	10.9	8.4	30,000	12%
Oil	14,320	9.5	10.8	155,000	64%
Downstream	5,420		8.9	48,000	20%
	24,260	9.6	10.0	243,000	100%
Debt (US\$mm)					27,000
Net Present Value (US\$mm)					216,000
Shares (mm)					2,206
Net Present Value - Standard Estimate (US\$/sh)					98
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					94





Independent Stock Idea

January 30, 2009



Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC. 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.