



# Independent Stock Idea

January 28, 2010

rating: buy  
s&p 500: 1084, intraday

## Occidental Petroleum (OXY) Volume Growth Supporting Appreciation Potential

<i>Symbol</i>	OXY	<i>Ebitda Next Twelve Months ending 12/31/10 (US\$mm)</i>	10,600
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	9
<i>Price (US\$/sh)</i>	77.00	<i>Natural Gas and Oil Production/Ebitda (%)</i>	93
<i>Pricing Date</i>	1/28/10	<i>Adjusted Reserves/Production NTM</i>	10.9
<i>Shares (mm)</i>	814	<i>EV/Ebitda</i>	6.4
<i>Market Capitalization (US\$mm)</i>	62,600	<i>PV/Ebitda</i>	7.8
<i>Debt (US\$mm)</i>	5,100	<i>Undeveloped Reserves (%)</i>	26
<i>Enterprise Value (EV) (US\$mm)</i>	67,700	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	41.70
<i>Present Value (PV) (US\$mm)</i>	82,400	<i>Present Value Proven Reserves(US\$/boe)</i>	25.80
<i>Net Present Value (US\$/share)</i>	95	<i>Present Value Proven Reserves(US\$/mcf)</i>	4.30
<i>Debt/Present Value</i>	0.06	<i>Earnings Next Twelve Months (US\$/sh)</i>	5.44
<i>McDep Ratio - EV/PV</i>	0.82	<i>Price/Earnings Next Twelve Months</i>	14
<i>Dividend Yield (%/year)</i>	1.7	<i>Indicated Annual Dividend (US\$/sh)</i>	1.32
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 OXY since 2000 see <a href="http://www.mcdep.com/3oxy.htm">www.mcdep.com/3oxy.htm</a>			

### Summary and Recommendation

Buy-recommended **Occidental Petroleum (OXY)** offers unlevered appreciation potential of 23% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$95 a share. Fourth quarter results released today disclosed unlevered cash flow (Ebitda) meeting our expectations of three months ago, helped by growth in oil and gas volume of 5% compared to fourth quarter 2008 and 3% compared to third quarter 2009 (see table [Next Twelve Months Operating and Financial Estimates](#)). Management expects volume growth in 2010 of 5-8%, which would be better than our projection and would possibly warrant an increase in estimated NPV (see table [Functional Cash Flow and Present Value](#)). A new discovery in California, announced with second quarter results, is contributing to rising natural gas production in that state. Chairman Irani emphasized on the earnings call that year-end reserves, to be reported in a few weeks, will show that 200% of production has been replaced. Meanwhile the trend for oil, 82% of the value in OXY, continues up with futures prices for the next six years at \$84 a barrel compared to the 40-week average of \$81 (see chart [Six-Year Commodity Price Meter](#)). OXY stock is also above its 200-day average of \$73 a share, which defines an uptrend by that measure.

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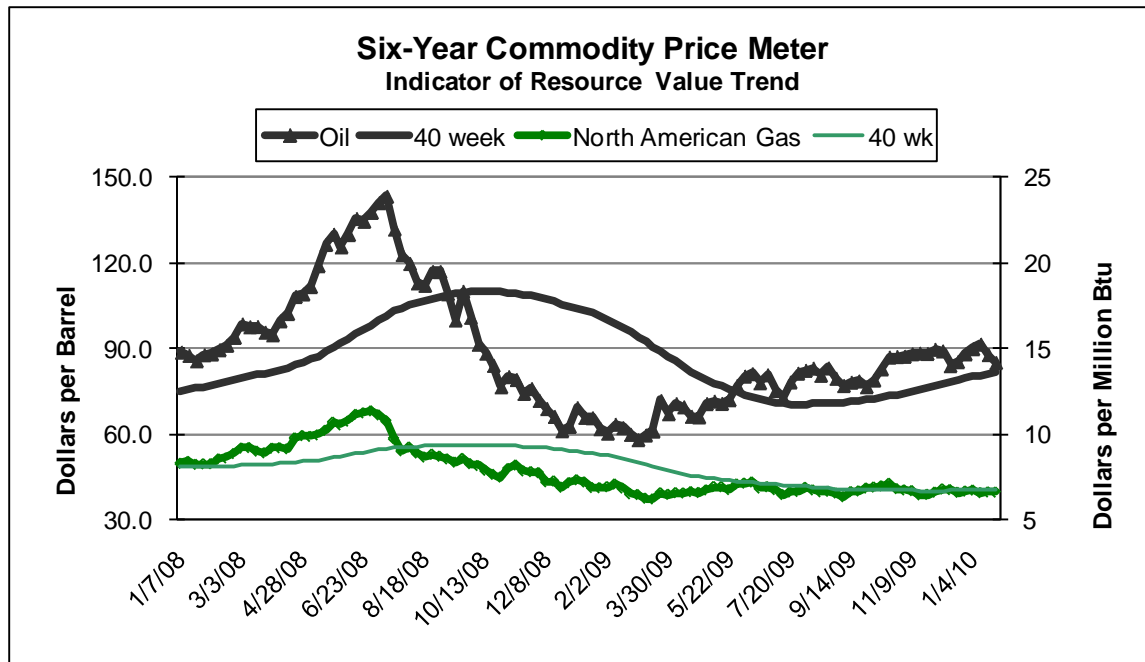
Occidental Petroleum									
Next Twelve Months Operating and Financial Estimates									
									<i>Next Twelve Months</i>
	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>12/31/10</i>
	<i>12/31/08</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>2009E</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>9/30/10</i>	<i>12/31/10</i>	<i>12/31/10</i>
<b>Volume</b>									
Natural Gas (mmcf)									
U.S. (or North America)	596	653	645	<b>635</b>	645	645	645	645	<b>645</b>
Overseas (or Int'l)	277	275	299	<b>291</b>	299	299	299	299	<b>299</b>
Total	873	928	944	<b>926</b>	944	944	944	944	<b>944</b>
Days	92	92	92	<b>365</b>	90	91	92	92	<b>365</b>
Oil (mbd)	475	477	493	<b>492</b>	493	493	493	493	<b>493</b>
Total gas & oil (mmb)	57	58	60	<b>236</b>	59	59	60	60	<b>237</b>
Total gas & oil (mbd)	620	632	650	<b>646</b>	650	650	650	650	<b>650</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.95	3.39	4.16	<b>3.99</b>	5.75	5.66	5.84	6.29	<b>5.88</b>
U.S. (or North America)	4.67	3.04	4.37	<b>3.46</b>	6.04	5.09	5.25	5.66	<b>5.51</b>
Overseas (or Int'l)	1.68	1.32	1.21	<b>1.33</b>	1.21	1.21	1.21	1.21	<b>1.21</b>
Total	3.72	2.53	3.37	<b>2.79</b>	4.51	3.86	3.97	4.25	<b>4.15</b>
Oil (\$/bbl)									
WTI Cushing	58.45	68.22	76.09	<b>61.70</b>	76.39	76.28	77.97	79.52	<b>77.54</b>
Worldwide	53.52	62.79	69.39	<b>56.06</b>	69.66	69.57	71.11	72.52	<b>70.72</b>
Total gas & oil (\$/bbl)	46.20	51.14	57.49	<b>46.67</b>	59.35	58.34	59.67	61.14	<b>59.63</b>
<b>Revenue (\$mm)</b>									
Natural Gas									
U.S. (or North America)	256	183	259	<b>802</b>	351	299	312	336	<b>1,297</b>
Overseas (or Int'l)	43	33	33	<b>141</b>	33	33	33	33	<b>132</b>
Total	299	216	293	<b>943</b>	383	332	345	369	<b>1,429</b>
Oil	2,336	2,757	3,145	<b>10,064</b>	3,089	3,119	3,223	3,287	<b>12,718</b>
<b>Ebitda (\$mm)</b>									
Exploration and Production	2,084	2,137	2,464	<b>7,590</b>	2,430	2,416	2,498	2,559	<b>9,903</b>
Other	292	149	115	<b>649</b>	248	137	149	178	<b>712</b>
Total Ebitda	2,376	2,286	2,579	<b>8,239</b>	2,678	2,553	2,647	2,737	<b>10,615</b>
Exploration	134	56	99	<b>267</b>	100	100	100	100	<b>400</b>
Deprec., Deplet., & Amort.	753	769	820	<b>3,117</b>	820	820	820	820	<b>3,280</b>
<b>Ebit</b>	1,489	1,461	1,660	<b>4,855</b>	1,758	1,633	1,727	1,817	<b>6,935</b>
Interest	16	33	33	<b>109</b>	33	33	33	33	<b>132</b>
<b>Ebt</b>	1,473	1,428	1,627	<b>4,746</b>	1,725	1,600	1,694	1,784	<b>6,803</b>
Income Tax	516	500	569	<b>1,661</b>	604	560	593	625	<b>2,381</b>
<b>Net Income (\$mm)</b>									
Exploration and Production	1,166	1,541	1,894	<b>5,200</b>					
Other	217	72	33	<b>337</b>					
Unallocated	(425)	(685)	(869)	<b>(2,452)</b>					
Total	958	928	1,058	<b>3,085</b>	1,121	1,040	1,101	1,160	<b>4,422</b>
<b>Shares (millions)</b>									
Per share (\$)	1.18	1.14	1.30	<b>3.79</b>	1.38	1.28	1.35	1.43	<b>5.44</b>
Ebitda Margin (E&P)	79%	72%	72%	<b>69%</b>	70%	70%	70%	70%	<b>70%</b>
Tax Rate	35%	35%	35%	<b>35%</b>	35%	35%	35%	35%	<b>35%</b>



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Occidental Petroleum 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>	
U.S. Natural Gas	907	10.7	8.8	8,000	10%
Rest of World Natural Gas	93	12.8	9.7	900	1%
Oil	8,904	10.8	7.6	67,500	82%
Downstream	712		8.4	6,000	7%
	10,615	10.9	7.8	82,400	100%
Debt (US\$mm)					5,100
Net Present Value (US\$mm)					77,300
Shares (mm)					814
Net Present Value - Standard Estimate (US\$/sh)					95
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					101





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