

Rating: Buy  
S&P 500: 1207

## Occidental Petroleum Vintage Pending

<i>Symbol</i>	OXY	<i>Ebitda Next Twelve Months ending 9/30/06 (US\$mm)</i>	8,700
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	15
<i>Price (US\$/sh)</i>	78.88	<i>Natural Gas and Oil Production/Ebitda (%)</i>	89
<i>Pricing Date</i>	10/31/05	<i>Adjusted Reserves/Production NTM</i>	11.0
<i>Shares (mm)</i>	404	<i>EV/Ebitda</i>	4.4
<i>Market Capitalization (US\$mm)</i>	31,900	<i>PV/Ebitda</i>	6.3
<i>Debt (US\$mm)</i>	6,200	<i>Undeveloped Reserves (%)</i>	22
<i>Enterprise Value (EV) (US\$mm)</i>	38,100	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	37.60
<i>Present Value (PV) (US\$mm)</i>	54,700	<i>Present Value Proven Reserves(US\$/boe)</i>	19.20
<i>Net Present Value (US\$/share)</i>	120	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.20
<i>Debt/Present Value</i>	0.11	<i>Earnings Next Twelve Months (US\$/sh)</i>	10.72
<i>McDep Ratio - EV/PV</i>	0.70	<i>Price/Earnings Next Twelve Months</i>	7
<i>Dividend Yield (%/year)</i>	1.8	<i>Indicated Annual Dividend (US\$/sh)</i>	1.44

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.

### Summary and Recommendation

Buy-recommended **Occidental Petroleum (OXY)** offers 52% appreciation potential to estimated net present value of \$120 a share. Taking account of latest quarterly results, our correlation of 30 companies indicates net present value about \$3 a share lower than our more thorough official estimate. The difference appears partly due to Oxy's U.S. natural gas price responding slowly to a higher industry benchmark. The pending acquisition of Vintage Petroleum is not included though we expect little change in net present value initially. Oxy is about 73% concentrated on oil production with its long-term opportunity subject to normal commodity risk.

### Cash Flow and Reserve Life Point to Present Value

McDep analysis presumes that fundamental value is measured by the projection of cash flows far into the future and discounting them to the present at a rate of return, currently 7% a year before inflation. Next Twelve Months (NTM) cash flow represents the volumes and costs that form the base for future projections. Reserve life index tells how long cash flow will last. NTM cash flow and reserve life are the two main variables in our correlation by function for about 30 companies. Net present value indicated by the current combined correlation is about \$3 a share lower than our ongoing standard estimate for the company (see table Functional Cash Flow and Present Value).

**Please see disclosures on the final page.**

**Occidental Petroleum Corporation**  
**Functional Cash Flow and Present Value**

	<i>NTM Ebitda</i> <i>(US\$mm)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$mm)</i>	
North American Natural Gas	1,270	9.1	6.4	8,100	15%
Rest of World Natural Gas	67	12.6	7.4	500	1%
Oil	6,381	11.3	6.3	39,900	73%
Downstream	969		6.4	6,200	11%
	8,688	11.0	6.3	54,700	100%
Debt (US\$mm)				6,200	
Net Present Value (US\$mm)				48,500	
Shares (mm)				404	
Net Present Value (US\$/sh)				120	
Over (-)/ Under (+) Correlation (US\$/sh)					(3)

**Cash Flow by Quarter Depends on Latest Results and Futures Prices**

Cash flow for the next year is projected from a base through the latest reported quarter (see table Next Twelve Months Operating and Financial Estimates). Company disclosures provide the clues for future volumes and costs as well as geographic and quality differences in price. Futures prices from the New York Mercantile Exchange determine industry benchmarks for the next year.

**Industry Conditions Support Long-Term Price Expectation**

Present value estimates that form the denominator of the McDep Ratio and change only occasionally for all companies, most recently in early August, are tied to expected constant real long-term prices. Recent futures price for oil delivered over the next six years at \$58 a barrel exceeds our long-term expectation of \$50. One-year futures for natural gas exceed our long-term expectation while six-year futures for natural gas also have appreciation potential, in our opinion.

**Oil and Gas Commodity and Stock Price**  
**Monday, October 31, 2005**

	<i>Units</i>	<i>Futures Price</i>		<i>McDep Ratio</i>
		<i>Six-Year</i>	<i>One-Year</i>	<i>Denominator</i>
<b>Crude Oil</b>	\$/barrel	57.99	60.98	50
<b>Natural Gas</b>	\$/million btu	8.46	11.08	10
	<i>Stocks</i>			<i>Median</i>
	<b>Independent Producer - Large Cap</b>			0.78
	<b>OXY</b>			0.70

Source: McDep Associates, Bloomberg, New York Mercantile Exchange, Yahoo and company disclosures

Please see disclosures on the final page.

**Occidental Petroleum**  
Next Twelve Months Operating and Financial Estimates

	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next Twelve Months</i>
	<i>12/31/04</i>	<i>2004</i>	<i>3/31/05</i>	<i>6/30/05</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005E</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>9/30/06</i>
<b>Volume</b>											
Natural Gas (mmcf)											
U.S. (or North America)	499	<b>508</b>	528	548	564	564	<b>551</b>	564	564	564	<b>564</b>
Overseas (or Int'l)	145	<b>131</b>	134	133	116	116	<b>125</b>	116	116	116	<b>116</b>
Total	644	<b>639</b>	662	681	680	680	<b>676</b>	680	680	680	<b>680</b>
Oil (mbd)	427	<b>436</b>	427	416	449	449	<b>435</b>	449	449	449	<b>449</b>
Total gas & oil (mmb)	49	<b>198</b>	48	48	52	52	<b>200</b>	51	51	52	<b>205</b>
Total gas & oil (mbd)	534	<b>541</b>	537	530	562	562	<b>548</b>	562	562	562	<b>562</b>
<b>Price</b>											
Natural gas (\$/mcf)											
Henry Hub (\$/mmbtu)	7.10	<b>6.15</b>	6.27	6.76	8.56	12.79	<b>8.59</b>	12.53	10.32	10.33	<b>11.49</b>
U.S. (or North America)	5.65	<b>5.35</b>	5.94	6.18	6.33	9.45	<b>7.01</b>	9.26	7.63	7.63	<b>8.49</b>
Overseas (or Int'l)	1.53	<b>1.70</b>	1.69	1.67	2.19	2.19	<b>1.92</b>	2.19	2.19	2.19	<b>2.19</b>
Total	4.72	<b>4.60</b>	5.08	5.30	5.62	8.22	<b>6.07</b>	8.06	6.70	6.71	<b>7.42</b>
Oil (\$/bbl)											
WTI Cushing	48.31	<b>41.44</b>	49.65	53.05	62.52	60.65	<b>56.47</b>	60.72	61.21	61.27	<b>60.96</b>
Worldwide	39.11	<b>35.87</b>	41.71	46.32	55.04	53.39	<b>49.31</b>	53.46	53.89	53.94	<b>53.67</b>
Total gas & oil (\$/bbl)	36.95	<b>34.25</b>	39.40	43.21	50.75	52.56	<b>46.66</b>	52.42	51.13	51.18	<b>51.82</b>
<b>Revenue (\$mm)</b>											
Natural Gas											
U.S. (or North America)	259	<b>991</b>	282	308	328	491	<b>1,409</b>	470	391	396	<b>1,748</b>
Overseas (or Int'l)	20	<b>81</b>	20	20	23	23	<b>87</b>	23	23	23	<b>93</b>
Total	280	<b>1,073</b>	303	328	352	514	<b>1,497</b>	493	415	420	<b>1,841</b>
Oil	1,536	<b>5,707</b>	1,603	1,753	2,274	2,205	<b>7,835</b>	2,160	2,202	2,228	<b>8,795</b>
Other	1,266	<b>4,707</b>	1,434	1,436	1,432	1,432	<b>5,734</b>	1,432	1,432	1,432	<b>5,726</b>
Total	3,082	<b>11,487</b>	3,340	3,518	4,057	4,151	<b>15,066</b>	4,085	4,048	4,079	<b>16,363</b>
<b>Expense (\$mm)</b>											
Fixed	174	<b>901</b>	211	270	362	362	<b>1,206</b>	362	362	362	<b>1,449</b>
Variable	174	<b>901</b>	211	270	362	375	<b>1,219</b>	366	361	365	<b>1,468</b>
Other	1,069	<b>4,044</b>	1,152	1,140	1,189	1,189	<b>4,670</b>	1,189	1,189	1,189	<b>4,757</b>
<b>Ebitda (\$mm)</b>											
Exploration and Production	1,469	<b>4,977</b>	1,483	1,542	1,901	1,982	<b>6,908</b>	1,925	1,893	1,920	<b>7,719</b>
Other	197	<b>663</b>	283	296	242	242	<b>1,063</b>	242	242	242	<b>969</b>
Total Ebitda	1,665	<b>5,640</b>	1,766	1,838	2,143	2,224	<b>7,971</b>	2,167	2,135	2,162	<b>8,688</b>
Exploration	88	<b>219</b>	47	111	55	90	<b>303</b>	90	90	90	<b>360</b>
Deprec., Deplet., & Amort.	333	<b>1,305</b>	344	356	376	376	<b>1,452</b>	376	376	376	<b>1,504</b>
Other non cash											
Ebit	1,244	<b>4,116</b>	1,375	1,371	1,712	1,758	<b>6,216</b>	1,701	1,669	1,696	<b>6,824</b>
Interest	63	<b>255</b>	75	47	40	40	<b>202</b>	40	40	40	<b>160</b>
Ebt	1,181	<b>3,861</b>	1,300	1,324	1,672	1,718	<b>6,014</b>	1,661	1,629	1,656	<b>6,664</b>
Income Tax	413	<b>1,264</b>	455	463	585	601	<b>2,105</b>	581	570	580	<b>2,332</b>
<b>Net Income (\$mm)</b>											
Exploration and Production	977	<b>3,544</b>	1,349	1,351	1,769						
Other	130	<b>402</b>	214	225	167						
Unallocated	(339)	<b>(1,349)</b>	(718)	(715)	(849)						
Total	768	<b>2,597</b>	845	861	1,087	1,117	<b>3,909</b>	1,080	1,059	1,076	<b>4,331</b>
<b>Shares (millions)</b>											
Per share (\$)	1.89	<b>6.46</b>	2.08	2.12	2.69	2.76	<b>9.65</b>	2.67	2.62	2.66	<b>10.72</b>
Ebitda Margin (E&P)	81%	<b>73%</b>	78%	74%	72%	73%	<b>74%</b>	73%	72%	73%	<b>73%</b>
Tax Rate	35%	<b>33%</b>	35%	35%	35%	35%	<b>35%</b>	35%	35%	35%	<b>35%</b>

**Buy Independent Natural Gas and Oil Producers**

Energy is necessary for world economic growth and clean energy provides a better quality of life. Independent natural gas and oil producers are among the leading global suppliers of clean energy. Headquartered in China, Canada and the U.S., buy recommendations also offer political diversification. McDep Ratios that compare Enterprise Value with Present Value of energy and other businesses imply that the stock market undervalues the fundamental prospects. Stocks are ranked in descending order of McDep Ratio connoting “buy low, sell high” (see table [Rank by McDep Ratio](#)).

**Please see disclosures on the final page.**

**Rank by McDep Ratio: Market Cap and Debt to Present Value**

	<i>Symbol/</i>	<i>Rating</i>	<i>Price</i> <i>(\$/sh)</i>	<i>31-Oct</i>	<i>Shares</i>	<i>Market</i>	<i>Net</i>	<i>Debt/</i>	<i>McDep</i>
				<i>2005</i>	<i>(mm)</i>	<i>Cap</i>	<i>Present</i>	<i>Present</i>	<i>McDep</i>
						<i>(\$mm)</i>	<i>Value</i>	<i>Value</i>	<i>Ratio</i>
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>									
XTO Energy Inc.	XTO	B	43.46		370	16,080	48.00	0.20	0.92
Encana Corporation	ECA	B	45.91		876	40,200	51.00	0.20	0.92
Burlington Resources	BR	B	72.20		381	27,500	86.00	0.09	0.85
CNOOC Limited (29%)	CEO	B	65.70		119	7,840	84.00	0.01	0.78
Devon Energy Corporation	DVN	B	60.38		471	28,400	86.00	0.15	0.75
Occidental Petroleum Corp.	OXY	B	78.88		404	31,900	120.00	0.11	0.70
Anadarko Petroleum Corp.	APC	B	90.71		238	21,600	140.00	0.12	0.69
	<i>Total or Median</i>						<i>174,000</i>	<i>0.12</i>	<i>0.78</i>

Kurt H. Wulff, CFA

**Disclaimer:** This analysis was prepared by Kurt Wulff 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 Associates 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.

**Please see disclosures on the final page.**