

Rating: Buy
 S&P 500: 1503
 Intraday

Occidental Petroleum Preferred Operator in the Mature Middle East

<i>Symbol</i>	OXY	<i>Ebitda Next Twelve Months ending 9/30/08 (US\$m)</i>	10,600
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	10
<i>Price (US\$/sh)</i>	67.28	<i>Natural Gas and Oil Production/Ebitda (%)</i>	89
<i>Pricing Date</i>	10/24/07	<i>Adjusted Reserves/Production NTM</i>	11.8
<i>Shares (mm)</i>	837	<i>EV/Ebitda</i>	5.7
<i>Market Capitalization (US\$m)</i>	56,300	<i>PV/Ebitda</i>	6.5
<i>Debt (US\$m)</i>	4,700	<i>Undeveloped Reserves (%)</i>	22
<i>Enterprise Value (EV) (US\$m)</i>	61,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	43.80
<i>Present Value (PV) (US\$m)</i>	69,100	<i>Present Value Proven Reserves(US\$/boe)</i>	21.50
<i>Net Present Value (US\$/share)</i>	77	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.58
<i>Debt/Present Value</i>	0.07	<i>Earnings Next Twelve Months (US\$/sh)</i>	6.04
<i>McDep Ratio - EV/PV</i>	0.88	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	1.5	<i>Indicated Annual Dividend (US\$/sh)</i>	1.00

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\$66 a barrel and natural gas, \$11 a million btu.

For historical analysis of OXY since 2000 see www.mcdep.com/3oxy.htm

Summary and Recommendation

Buy-recommended **Occidental Petroleum (OXY)** offers unlevered appreciation potential of 13% to estimated net present value (NPV) of \$77 a share that mostly depends on oil production. Third quarter results reported today reached a new high in unlevered cash flow (Ebitda) on the strength of rising crude oil price (see table [Next Twelve Months Operating and Financial Estimates](#)).

Compared to peer companies, NPV is justified by low unlevered cash flow multiple (EV/Ebitda) considering adjusted reserve life (see table [Functional Cash Flow and Present Value](#)). Benefiting mightily as a leading producer in mature U.S. oil fields, Oxy finds its skills in demand in the Middle East. As was the case in the U.S. decades ago, the prolific large fields around the Arabian Gulf are past their prime and require accelerating investment and more sophisticated engineering to slow natural decline. Chairman Ray Irani promises favorable news of promising deals to be announced in the next several months. As the industry matures, crude oil price is rising and OXY stock looks like an inexpensive, low-to-moderate risk participation in the trend (see chart [Six-Year Commodity Price Meter](#)).

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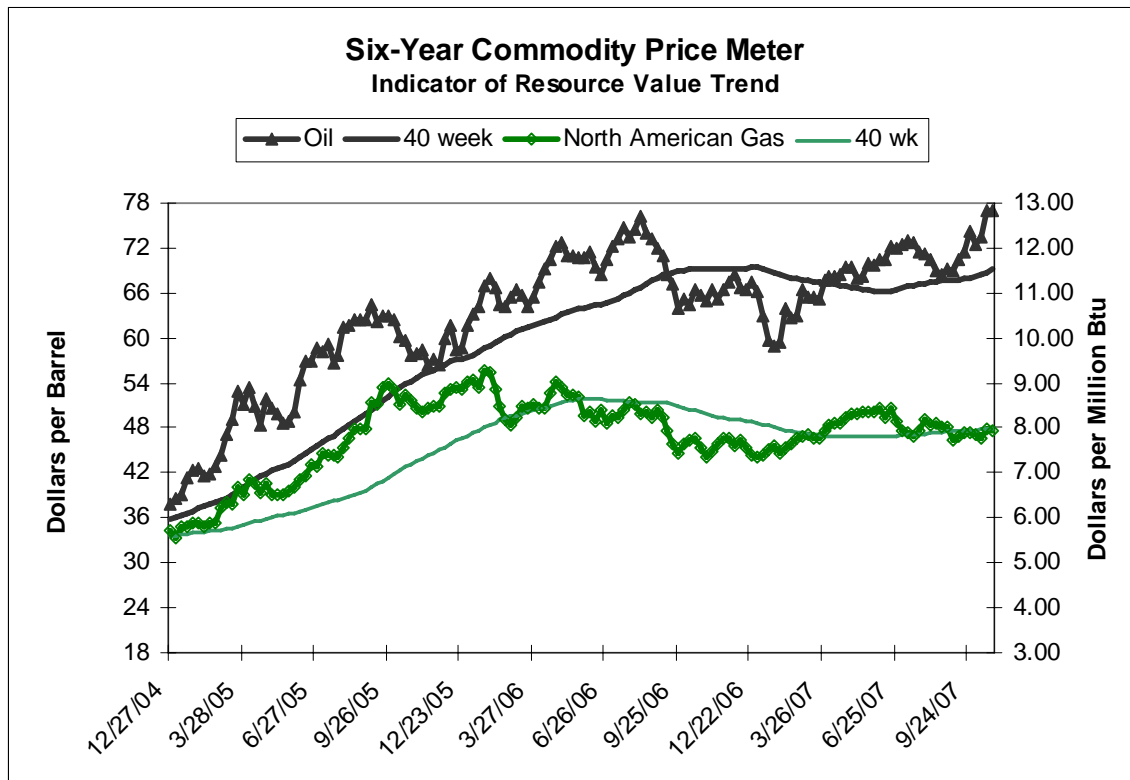
Occidental Petroleum
Next Twelve Months Operating and Financial Estimates

	<i>Q3</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>9/30/06</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>2007E</i>	<i>3/31/08</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>9/30/08</i>
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	597	609	604	604	601	604	604	604	606
Overseas (or Int'l)	145	78	143	200	139	300	300	300	276
Total	742	687	747	804	740	904	904	904	881
Oil (mbd)	463	469	446	446	457	446	446	446	446
Total gas & oil (mmb)	54	53	52	53	212	54	54	55	217
Total gas & oil (mbd)	587	583	570	580	580	596	596	596	592
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.58	7.56	6.16	6.95	6.97	7.87	7.53	7.76	7.53
U.S. (or North America)	5.88	7.07	5.90	6.66	6.50	7.55	7.22	7.43	7.21
Overseas (or Int'l)	1.70	1.72	1.46	1.46	1.66	1.46	1.46	1.46	1.46
Total	5.06	6.46	5.05	5.37	5.59	5.53	5.31	5.45	5.41
Oil (\$/bbl)									
WTI Cushing	70.42	64.91	75.48	86.12	64.35	84.42	82.44	80.91	83.47
Worldwide	60.52	59.11	67.81	77.37	63.89	75.84	74.07	72.69	75.00
Total gas & oil (\$/bbl)	54.17	55.12	59.62	66.93	57.45	65.06	63.40	62.59	64.48
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	323	392	328	370	1,426	415	397	413	1,595
Overseas (or Int'l)	23	12	19	27	84	40	40	40	147
Total	346	404	347	397	1,510	455	437	453	1,742
Oil	2,578	2,520	2,779	3,171	10,648	3,075	3,003	2,979	12,228
Ebitda (\$mm)									
Exploration and Production	2,050	1,921	2,216	2,426	8,284	2,400	2,339	2,334	9,500
Other	352	271	332	269	1,127	255	271	332	1,127
Total Ebitda	2,402	2,192	2,548	2,695	9,410	2,655	2,610	2,667	10,626
Exploration	74	93	68	100	363	100	100	100	400
Deprec., Deplet., & Amort.	524	564	602	602	2,356	602	602	602	2,408
Ebit									
Interest	1,804	1,535	1,878	1,993	6,691	1,953	1,908	1,965	7,818
Interest	18	6	11	11	37	11	11	12	45
Ebt									
Income Tax	1,786	1,529	1,867	1,982	6,654	1,942	1,897	1,953	7,773
Income Tax	625	535	654	694	2,329	680	664	683	2,721
Net Income (\$mm)									
Exploration and Production	1,877	1,682	1,988		5,219				
Other	247	158	212		507				
Unallocated	(963)	(846)	(986)		(2,689)				
Total	1,161	994	1,214	1,289	4,325	1,262	1,233	1,269	5,053
Shares (millions)									
Per share (\$)	860	842	837	837	840	837	837	837	837
Per share (\$)	1.35	1.18	1.45	1.54	5.15	1.51	1.47	1.52	6.04
Ebitda Margin (E&P)	70%	66%	71%	68%	68%	68%	68%	68%	68%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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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>	
U.S. Natural Gas	1,082	9.9	8.3	9,000	13%
Rest of World Natural Gas	100	10.7	7.0	700	1%
Oil	8,318	12.3	6.4	53,400	77%
Downstream	1,127		5.3	6,000	9%
	10,626	11.8	6.5	69,100	100%
Debt (US\$mm)					4,700
Net Present Value (US\$mm)					64,400
Shares (mm)					837
Net Present Value - Standard Estimate (US\$/sh)					77
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					84



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