



# Independent Stock Idea

January 29, 2009

rating: hold  
s&p 500: 845

## Occidental Petroleum (OXY) Resilience and Financial Strength

<i>Symbol</i>	OXY	<i>Ebitda Next Twelve Months ending 12/31/09 (US\$m)</i>	7,300
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	7
<i>Price (US\$/sh)</i>	56.82	<i>Natural Gas and Oil Production/Ebitda (%)</i>	85
<i>Pricing Date</i>	1/29/09	<i>Adjusted Reserves/Production NTM</i>	11.3
<i>Shares (mm)</i>	812	<i>EV/Ebitda</i>	7.0
<i>Market Capitalization (US\$m)</i>	46,100	<i>PV/Ebitda</i>	10.5
<i>Debt (US\$m)</i>	4,900	<i>Undeveloped Reserves (%)</i>	20
<i>Enterprise Value (EV) (US\$m)</i>	51,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	27.50
<i>Present Value (PV) (US\$m)</i>	77,200	<i>Present Value Proven Reserves(US\$/boe)</i>	23.00
<i>Net Present Value (US\$/share)</i>	89	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.83
<i>Debt/Present Value</i>	0.06	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.09
<i>McDep Ratio - EV/PV</i>	0.66	<i>Price/Earnings Next Twelve Months</i>	18
<i>Dividend Yield (%/year)</i>	2.3	<i>Indicated Annual Dividend (US\$/sh)</i>	1.28
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 OXY since 2000 see <a href="http://www.mcdep.com/3oxy.htm">www.mcdep.com/3oxy.htm</a>			

### Summary and Recommendation

Estimated Net Present Value (NPV) of \$89 a share is more than 50% higher than stock price for low-debt, hold-rated **Occidental Petroleum (OXY)**. Released today, fourth quarter results displayed less than anticipated reduction in unlevered cash flow (Ebitda) driven by crude oil and natural gas prices (see table Next Twelve Months Operating and Financial Estimates). Our valuation capitalizes 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 (chemicals). Latest calculations result in NPV concentrated 10% on natural gas, 81% on oil and 9% 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). At the same time, minimal debt gives the stock strong deflation resistance should a sustained stock market and oil price recovery be postponed until next year.

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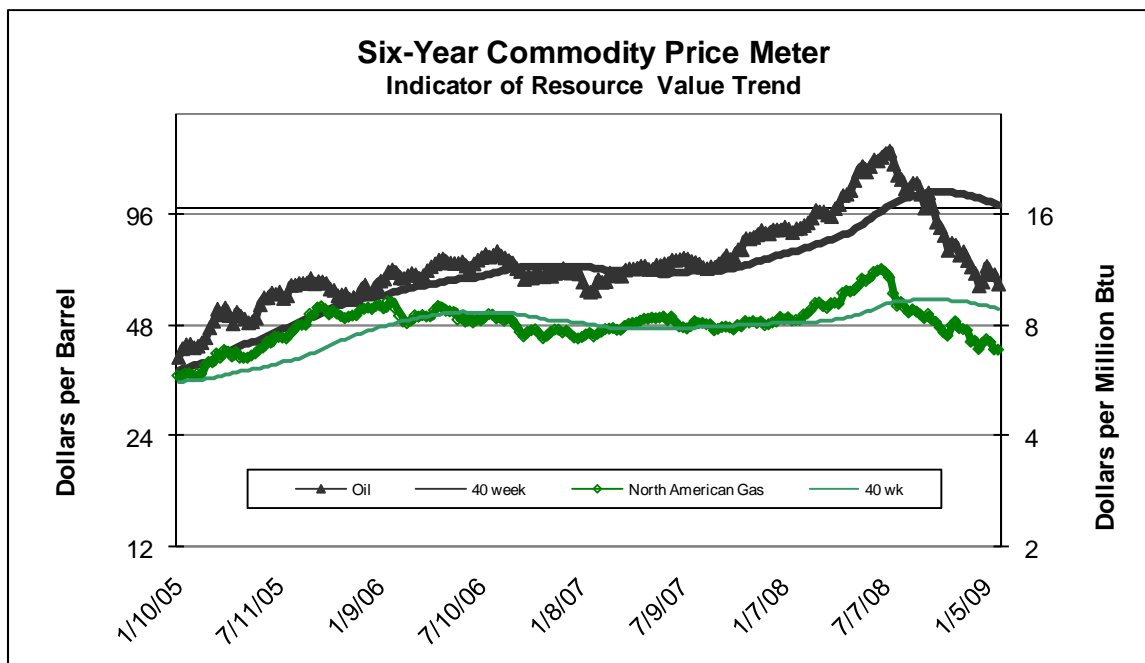
Occidental Petroleum									
Next Twelve Months Operating and Financial Estimates									
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Next Twelve Months
	12/31/07	9/30/08	12/31/08	2008	3/31/09	6/30/09	9/30/08	12/31/09	12/31/09
<b>Volume</b>									
Natural Gas (mmcf)									
U.S. (or North America)	578	570	596	<b>589</b>	596	596	596	596	<b>596</b>
Overseas (or Int'l)	204	235	277	<b>251</b>	300	300	300	300	<b>300</b>
Total	782	805	873	<b>840</b>	896	896	896	896	<b>896</b>
Days	92	92	92	<b>366</b>	90	91	92	92	<b>365</b>
Oil (mbd)	460	454	475	<b>462</b>	475	475	475	475	<b>475</b>
Total gas & oil (mmb)	54	54	57	<b>220</b>	56	57	57	57	<b>228</b>
Total gas & oil (mbd)	590	588	620	<b>601</b>	624	624	624	624	<b>624</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.97	10.25	6.95	<b>9.04</b>	5.03	4.62	4.93	5.73	<b>5.08</b>
U.S. (or North America)	6.77	9.35	4.67	<b>8.02</b>	3.38	3.10	3.31	3.85	<b>3.41</b>
Overseas (or Int'l)	1.56	1.68	1.68	<b>1.60</b>	1.68	1.68	1.68	1.68	<b>1.68</b>
Total	5.41	7.11	3.72	<b>6.10</b>	2.81	2.63	2.76	3.12	<b>2.83</b>
Oil (\$/bbl)									
WTI Cushing	90.67	117.99	58.45	<b>99.59</b>	44.74	49.86	52.65	54.65	<b>50.48</b>
Worldwide	80.30	104.15	53.52	<b>88.14</b>	40.97	45.65	48.22	50.04	<b>46.25</b>
Total gas & oil (\$/bbl)	69.73	90.12	46.20	<b>76.17</b>	35.19	38.50	40.64	42.55	<b>39.24</b>
<b>Revenue (\$mm)</b>									
Natural Gas									
U.S. (or North America)	360	490	256	<b>1,724</b>	181	168	181	211	<b>742</b>
Overseas (or Int'l)	29	36	43	<b>146</b>	45	46	46	46	<b>184</b>
Total	389	527	299	<b>1,870</b>	226	214	228	257	<b>925</b>
Oil	3,396	4,349	2,336	<b>14,878</b>	1,750	1,971	2,105	2,185	<b>8,010</b>
<b>Ebitda (\$mm)</b>									
Exploration and Production	2,787	3,957	2,084	<b>13,303</b>	1,383	1,530	1,633	1,709	<b>6,255</b>
Other	222	287	292	<b>1,157</b>	194	203	235	178	<b>810</b>
Total Ebitda	3,009	4,244	2,376	<b>14,460</b>	1,578	1,732	1,868	1,887	<b>7,065</b>
Exploration	101	61	134	<b>327</b>	100	100	100	100	<b>400</b>
Deprec., Deplet., & Amort.	639	683	753	<b>2,710</b>	753	753	753	753	<b>3,012</b>
<b>Ebit</b>									
Interest	13	3	16	<b>107</b>	16	16	16	16	<b>64</b>
<b>Ebt</b>									
Income Tax	789	1,224	516	<b>3,961</b>	248	302	350	356	<b>1,256</b>
<b>Net Income (\$mm)</b>									
Exploration and Production	2,599	3,684	1,166	<b>11,828</b>					
Other	94	219	217	<b>759</b>					
Unallocated	(1,227)	(1,630)	(425)	<b>(5,231)</b>					
Total	1,466	2,273	958	<b>7,356</b>	461	561	649	662	<b>2,333</b>
<b>Shares (millions)</b>									
Per share (\$)	1.76	2.78	1.18	<b>8.95</b>	0.57	0.69	0.80	0.82	<b>2.87</b>
Ebitda Margin (E&P)	74%	81%	79%	<b>79%</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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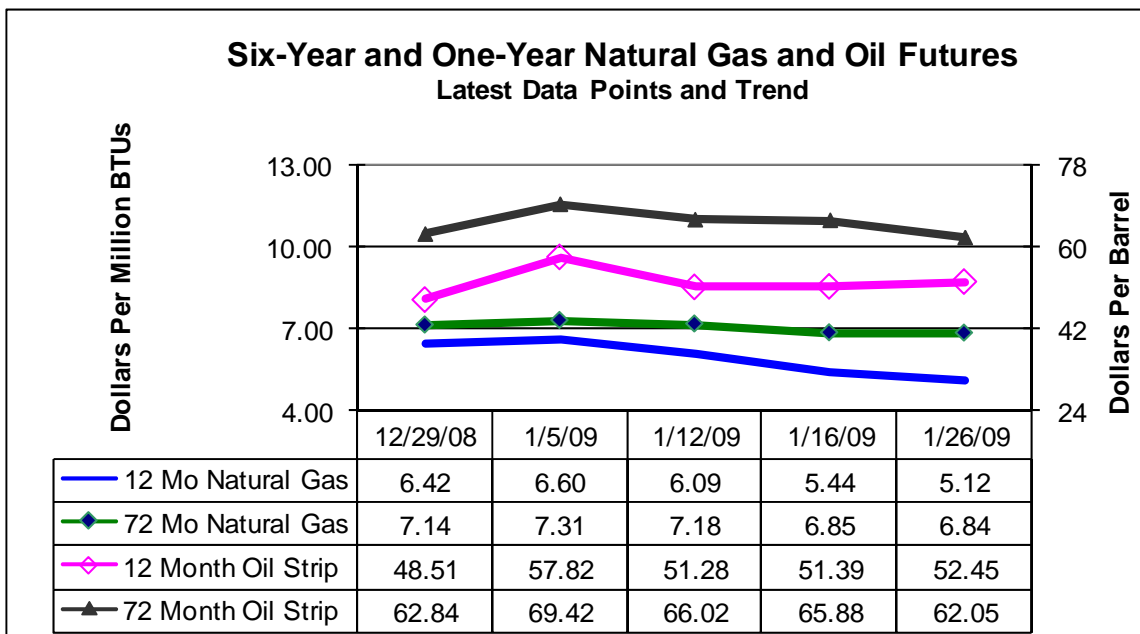
Occidental Petroleum Corporation					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
U.S. Natural Gas	522	10.7	13.4	7,000	9%
Rest of World Natural Gas	128	10.2	7.8	1,000	1%
Oil	5,605	11.6	11.1	62,100	81%
Downstream	810		8.6	7,000	9%
	7,065	11.3	10.9	77,100	100%
Debt (US\$mm)					4,900
Net Present Value (US\$mm)					72,200
Shares (mm)					812
Net Present Value - Standard Estimate (US\$/sh)					89
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					92





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