



# Independent Stock Idea

July 23, 2009

rating: buy  
s&p 500: 954

## Occidental Petroleum (OXY) California Discovery May Be Worth \$2 a Share

<i>Symbol</i>	OXY	<i>Ebitda Next Twelve Months ending 6/30/10 (US\$mm)</i>	8,700
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	7
<i>Price (US\$/sh)</i>	69.99	<i>Natural Gas and Oil Production/Ebitda (%)</i>	91
<i>Pricing Date</i>	7/22/09	<i>Adjusted Reserves/Production NTM</i>	11.0
<i>Shares (mm)</i>	814	<i>EV/Ebitda</i>	7.2
<i>Market Capitalization (US\$mm)</i>	57,000	<i>PV/Ebitda</i>	8.8
<i>Debt (US\$mm)</i>	5,500	<i>Undeveloped Reserves (%)</i>	26
<i>Enterprise Value (EV) (US\$mm)</i>	62,500	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	33.30
<i>Present Value (PV) (US\$mm)</i>	76,300	<i>Present Value Proven Reserves(US\$/boe)</i>	23.30
<i>Net Present Value (US\$/share)</i>	87	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.88
<i>Debt/Present Value</i>	0.07	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.25
<i>McDep Ratio - EV/PV</i>	0.82	<i>Price/Earnings Next Twelve Months</i>	16
<i>Dividend Yield (%/year)</i>	1.9	<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 22% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$87 a share. On July 14 we reduced NPV from \$89 when we reduced estimated Present Value of North American Natural Gas (NANG) by 20%. That \$2 reduction may have been restored by what the company believes to be the largest discovery of new oil and gas reserves in California in the past 35 years. At the same time, second quarter results released today disclosed unlevered cash flow (Ebitda) of \$1.9 billion on the strength of a rising oil price and smooth operations. Results were better than our expectations of three months ago, mainly because actual oil price was 20% better than earlier indications. Current oil futures prices point to further gains in the quarters ahead (see table Next Twelve Months Operating and Financial Estimates). Oxy's concentration on oil reaches 80% in our valuation that capitalizes cash flow at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) for natural gas and oil (see table Functional Cash Flow and Present Value). Finally, oil futures prices for the next six years near US\$78 a barrel crossed the 40-week average at the end of May to resume an uptrend by that measure (see chart Six-Year Commodity Price Meter) and Six-Year and One-Year Natural Gas and Oil Futures).

Kurt H. Wulff, CFA



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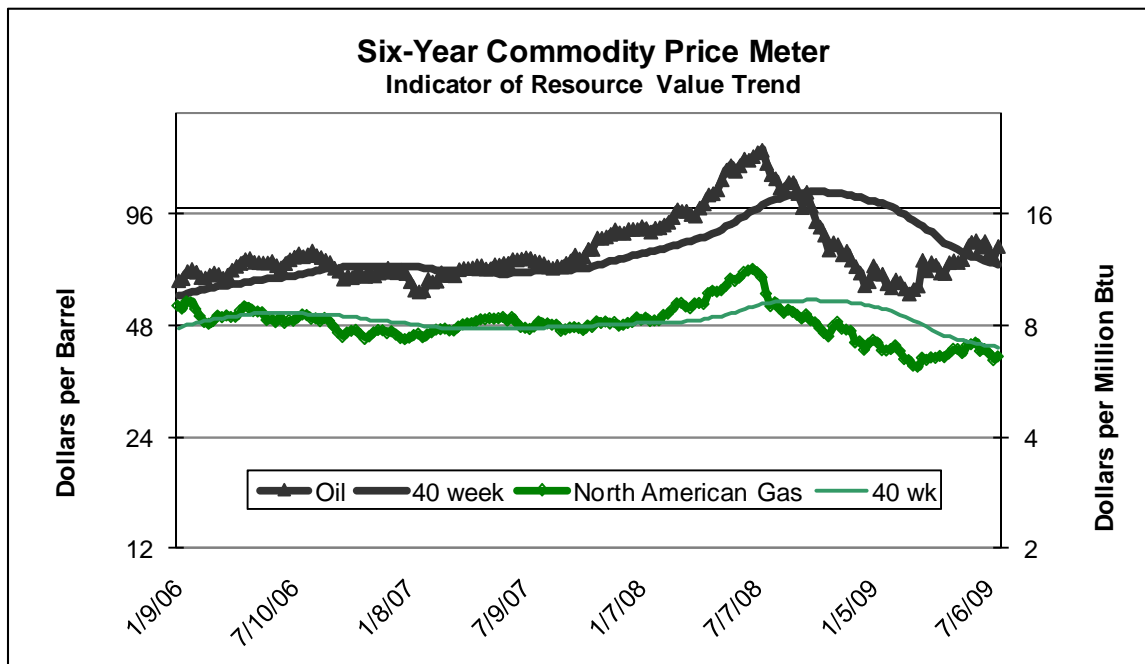
Occidental Petroleum									
Next Twelve Months Operating and Financial Estimates									
									<i>Next Twelve Months</i>
	<i>Q2</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>6/30/10</i>
	<i>6/30/08</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/08</i>	<i>12/31/09</i>	<i>2009E</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>6/30/10</i>
<b>Volume</b>									
Natural Gas (mmcf)									
U.S. (or North America)	602	620	621	621	621	<b>621</b>	621	621	<b>621</b>
Overseas (or Int'l)	223	277	314	314	314	<b>305</b>	314	314	<b>314</b>
Total	825	897	935	935	935	<b>926</b>	935	935	<b>935</b>
Days	91	90	91	92	92	<b>365</b>	90	91	<b>365</b>
Oil (mbd)	451	505	493	493	493	<b>496</b>	493	493	<b>493</b>
Total gas & oil (mmb)	54	59	59	60	60	<b>237</b>	58	59	<b>237</b>
Total gas & oil (mbd)	588	654	649	649	649	<b>650</b>	649	649	<b>649</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	10.93	4.90	3.50	3.54	4.29	<b>4.06</b>	5.27	5.26	<b>4.59</b>
U.S. (or North America)	9.99	3.54	2.87	2.91	3.52	<b>3.21</b>	4.32	4.73	<b>3.87</b>
Overseas (or Int'l)	1.56	1.48	1.31	1.31	1.31	<b>1.35</b>	1.31	1.31	<b>1.31</b>
Total	7.71	2.90	2.34	2.37	2.78	<b>2.60</b>	3.31	3.58	<b>3.01</b>
Oil (\$/bbl)									
WTI Cushing	123.97	42.96	59.52	61.12	62.53	<b>56.53</b>	64.78	66.32	<b>63.69</b>
Worldwide	110.12	39.29	54.44	55.90	57.19	<b>51.70</b>	59.25	60.66	<b>58.24</b>
Total gas & oil (\$/bbl)	95.19	34.29	44.75	45.89	47.46	<b>43.13</b>	49.79	51.25	<b>48.59</b>
<b>Revenue (\$mm)</b>									
Natural Gas									
U.S. (or North America)	547	198	162	166	201	<b>727</b>	242	267	<b>876</b>
Overseas (or Int'l)	32	37	37	38	38	<b>150</b>	37	37	<b>150</b>
Total	579	235	200	204	239	<b>877</b>	279	305	<b>1,026</b>
Oil	4,514	1,784	2,443	2,536	2,595	<b>9,358</b>	2,630	2,722	<b>10,483</b>
<b>Ebitda (\$mm)</b>									
Exploration and Production	4,004	1,243	1,746	1,809	1,927	<b>6,725</b>	2,036	2,119	<b>7,890</b>
Other	268	248	137	235	178	<b>798</b>	248	137	<b>798</b>
Total Ebitda	4,272	1,490	1,883	2,043	2,105	<b>7,523</b>	2,283	2,256	<b>8,688</b>
Exploration	58	58	54	54	54	<b>220</b>	100	100	<b>308</b>
Deprec., Deplet., & Amort.	621	786	742	742	742	<b>3,012</b>	742	742	<b>2,968</b>
<b>Ebit</b>	3,593	646	1,087	1,247	1,309	<b>4,291</b>	1,441	1,414	<b>5,412</b>
Interest	50	20	23	23	23	<b>89</b>	23	23	<b>92</b>
<b>Ebt</b>	3,543	626	1,064	1,224	1,286	<b>4,202</b>	1,418	1,391	<b>5,320</b>
Income Tax	1,240	219	373	429	450	<b>1,471</b>	496	487	<b>1,862</b>
<b>Net Income (\$mm)</b>									
Exploration and Production	3,967	567	1,198						
Other	144	169	63						
Unallocated	(1,808)	(329)	(569)						
Total	2,303	407	692	796	836	<b>2,731</b>	922	904	<b>3,458</b>
<b>Shares (millions)</b>	826	814	814	814	814	<b>814</b>	814	814	<b>814</b>
Per share (\$)	2.79	0.50	0.85	0.98	1.03	<b>3.35</b>	1.13	1.11	<b>4.25</b>
Ebitda Margin (E&P)	79%	62%	66%	66%	68%	<b>66%</b>	70%	70%	<b>69%</b>
Tax Rate	35%	35%	35%	35%	35%	<b>35%</b>	35%	35%	<b>35%</b>



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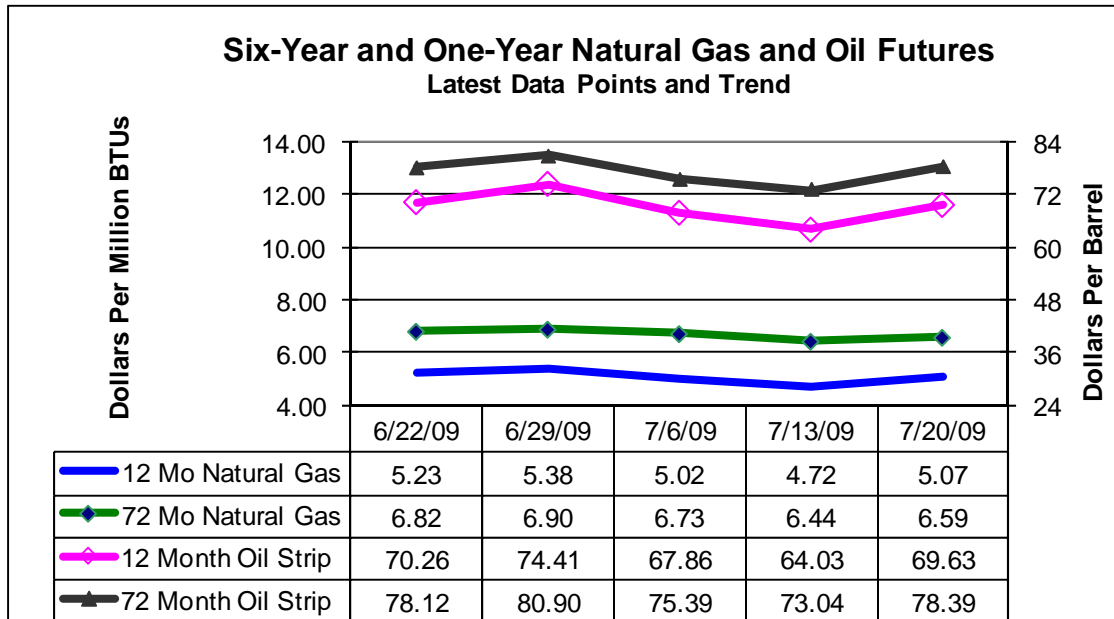
<b>Occidental Petroleum Corporation</b>					
<b>Functional Cash Flow and Present Value</b>					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
U.S. Natural Gas	602	11.1	12.0	7,200	9%
Rest of World Natural Gas	103	12.2	9.7	1,000	1%
Oil	7,186	10.8	8.5	61,100	80%
Downstream	798		8.8	7,000	9%
	8,688	11.0	8.8	76,300	100%
Debt (US\$mm)					5,500
Net Present Value (US\$mm)					70,800
Shares (mm)					814
Net Present Value - Standard Estimate (US\$/sh)					87
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					98





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**Disclaimer:** This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was 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.

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