



Independent Stock Idea

July 27, 2011

Anadarko Petroleum Corporation (APC) Raise NPV to \$90 from \$78 on Oil Growth

<i>Symbol</i>	APC	<i>Ebitda Next Twelve Months ending 6/30/12 (US\$mm)</i>	8,840
<i>Rating</i>	None	<i>North American Natural Gas/Ebitda (%)</i>	26
<i>Price (US\$/sh)</i>	83.50	<i>Natural Gas and Oil Production/Ebitda (%)</i>	97
<i>Pricing Date</i>	7/27/11	<i>Adjusted Reserves/Production NTM</i>	7.2
<i>Shares (mm)</i>	500	<i>EV/Ebitda</i>	7.1
<i>Market Capitalization (US\$mm)</i>	41,800	<i>PV/Ebitda</i>	7.5
<i>Debt (US\$mm)</i>	21,000	<i>Undeveloped Reserves (%)</i>	31
<i>Enterprise Value (EV) (US\$mm)</i>	62,700	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	36.08
<i>Present Value (PV) (US\$mm)</i>	66,000	<i>Present Value Proven Reserves(US\$/boe)</i>	30.55
<i>Net Present Value (US\$/share)</i>	90	<i>Present Value Proven Reserves(US\$/mcf)</i>	5.09
<i>Debt/Present Value</i>	0.32	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.02
<i>McDep Ratio - EV/PV</i>	0.95	<i>Price/Earnings Next Twelve Months</i>	21
<i>Dividend Yield (%/year)</i>	0.4	<i>Indicated Annual Dividend (US\$/sh)</i>	0.36
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\$100 a barrel and natural gas, \$8 a million btu.			
For historical analysis of APC since 2003 see www.mcdep.com/1apc.htm			

Summary and Recommendation

Among the first eight McDep oil and gas stocks to report second quarter results, **Anadarko Petroleum Corporation (APC)** displayed enough surprise to prompt an increase in our estimated Net Present Value (NPV) to \$90 a share from \$78 (see tables Next Twelve Months Operating and Financial Estimates on page 2 and Functional Cash Flow and Present Value on page 3). The Marcellus shale in Pennsylvania, the Eagle Ford shale in Texas and Rocky Mountain land grant areas are boosting growth onshore U.S. Promising prospects for future growth offshore in the Gulf of Mexico are offset by a potential \$5 billion liability APC may owe partner BP for cleaning up the 2010 spill. We think the stock price would benefit if that liability could be settled, perhaps for a lesser amount, in direct negotiations that may be underway or may take place with BP. Growing production and exciting exploration in Africa may also add further value. Yet, the company remains in dispute with Algeria on a tax issue which exploration chief Bob Daniels believes has already done its damage by reducing APC stock price by \$7 a share. Mr. Daniels also believes the company has a constructive working relationship with Algerian partners in the development of the large El Merk project that is important to the African country. We wish the company well in its exploration and production activities and in settling its disputes. Nonetheless, as best we can estimate, we see a higher McDep Ratio for APC than that for most of our buy recommendations.

Kurt H. Wulff, CFA



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Anadarko Petroleum Corporation									
Next Twelve Months Operating and Financial Estimates									
									<i>Next</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>Months</i>
	<i>6/30/10</i>	<i>3/31/11</i>	<i>6/30/11</i>	<i>9/30/11</i>	<i>12/31/11</i>	<i>2011E</i>	<i>3/31/12</i>	<i>6/30/12</i>	<i>6/30/12</i>
Volume									
Natural gas (bcf)	211	217	212	207	213	849	211	211	841
Natural Gas (mmcf)	2,324	2,412	2,326	2,250	2,315	2,325	2,315	2,315	2,299
Days	91	90	91	92	92	365	91	91	366
Oil (mmb)	24	26	27	25	27	105	26	26	105
Oil (mbd)	264	288	297	275	290	287	290	290	286
Total gas & oil (bcf)	356	373	374	359	373	1,478	369	369	1,470
Total gas & oil (mmcf)	3,908	4,140	4,108	3,900	4,055	4,050	4,055	4,055	4,016
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	4.09	4.11	4.32	4.36	4.49	4.32	4.73	4.64	4.55
Company (\$/mcf)	3.79	3.60	4.11	4.15	4.28	4.03	4.50	3.99	4.23
Oil (\$/bbl)									
WTI Cushing	77.85	94.10	102.55	98.67	99.96	98.82	101.19	102.16	100.50
Company	65.63	82.88	96.19	92.56	93.77	91.41	94.93	95.83	94.29
Total gas & oil (\$/mcf)	6.69	7.87	9.28	8.92	9.15	8.80	9.36	9.13	9.14
Revenue (\$mm)									
Natural Gas	802	782	870	859	911	3,422	948	841	3,559
Oil	1,577	2,148	2,600	2,342	2,502	9,592	2,505	2,529	9,877
Other	226	322	206			529			-
Total	2,604	3,253	3,676	3,201	3,412	13,542	3,453	3,370	13,437
Expense	931	1,316	1,362	1,092	1,168	4,939	1,183	1,153	4,597
Ebitda (\$mm)									
Exploration and Production	1,613	1,877	2,254	2,049	2,184	8,363	2,210	2,157	8,599
Other	60	60	60	60	60	240	60	60	240
Total	1,673	1,937	2,314	2,109	2,244	8,603	2,270	2,217	8,839
Exploration	198	179	236	236	236	887	236	236	944
Deprec., Deplet., & Amort.	902	985	985	985	985	3,940	985	985	3,940
Ebit	573	773	1,093	888	1,023	3,776	1,049	996	3,955
Interest	200	220	216	216	216	868	216	216	864
Ebt	373	553	877	672	807	2,908	833	780	3,091
Income Tax	131	193	307	235	282	1,018	292	273	1,082
Net Income (\$mm)	243	359	570	437	524	1,890	541	507	2,009
Shares (millions)	495	499	500	500	500	500	500	500	500
Per share (\$)	0.49	0.72	1.14	0.87	1.05	3.78	1.08	1.01	4.02
Ebitda Margin (E&P)	68%	64%	65%	64%	64%	64%	64%	64%	64%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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Anadarko 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>	
North American Natural Gas	2,340	8.4	10.3	24,000	36%
Oil	6,260	5.7	6.4	40,000	61%
Downstream and Minerals	240		8.3	2,000	3%
	8,840	7.2	7.5	66,000	100%
Debt (US\$mm)					21,000
Net Present Value (US\$mm)					45,000
Shares (mm)					500
Net Present Value - Standard Estimate (US\$/sh)					90
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					88
Note: Debt includes \$6 billion for oil spill liability.					

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