

Rating: Buy
S&P 500: 1265

Anadarko Petroleum Corporation Raise Net Present Value to \$160 a Share

<i>Symbol</i>	APC	<i>Ebitda Next Twelve Months ending 12/31/06 (US\$m)</i>	6,120
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	49
<i>Price (US\$/sh)</i>	105.59	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/6/06	<i>Adjusted Reserves/Production NTM</i>	12.7
<i>Shares (mm)</i>	234	<i>EV/Ebitda</i>	4.7
<i>Market Capitalization (US\$m)</i>	24,700	<i>PV/Ebitda</i>	6.8
<i>Debt (US\$m)</i>	4,300	<i>Undeveloped Reserves (%)</i>	38
<i>Enterprise Value (EV) (US\$m)</i>	29,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	39.11
<i>Present Value (PV) (US\$m)</i>	41,800	<i>Present Value Proven Reserves(US\$/boe)</i>	17.07
<i>Net Present Value (US\$/share)</i>	160	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.85
<i>Debt/Present Value</i>	0.10	<i>Earnings Next Twelve Months (US\$/sh)</i>	12.43
<i>McDep Ratio - EV/PV</i>	0.70	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	0.7	<i>Indicated Annual Dividend (US\$/sh)</i>	0.72

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

Favorable fourth quarter results and an increase in proven reserves sparks an increase in our estimate of net present value for buy-recommended **Anadarko Petroleum (APC)** to \$160 a share from \$140. Stock price has 52% appreciation potential to NPV that presumes a long-term oil price of \$50 a barrel. Futures investors price Light, Sweet Crude Oil at \$67 a barrel for the next six years. APC's McDep Ratio incorporating our new estimate of present value is lowest among large cap independent producer peers. Unlevered cash flow multiple is second lowest at 4.7 times while adjusted reserve life of 12.7 years is the highest of peers. Mainly a North American natural gas producer, Anadarko also has oil potential in the deep Gulf of Mexico and Algeria. Though no buyers acted when the company was available as an acquisition about two years ago, investors in the stock have done all right and there remains appreciation potential subject to normal risk.

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

	<i>Symbol/</i>	<i>Price</i>	<i>Market</i>	<i>Net</i>	<i>Debt/</i>	<i>McDep</i>		
	<i>Rating</i>	<i>(\$/sh)</i>	<i>Cap</i>	<i>Present</i>	<i>Present</i>	<i>Ratio</i>		
		<i>6-Feb</i>	<i>Shares</i>	<i>(\$mm)</i>	<i>Value</i>			
		<i>2006</i>	<i>(mm)</i>		<i>(\$/sh)</i>			
Independent Natural Gas and Oil - Large Cap and Mid Cap								
CNOOC Limited (29%)	CEO	B	88.03	119	10,500	84.00	0.00	1.05
XTO Energy Inc.	XTO	B	46.96	370	17,380	48.00	0.20	0.98
Encana Corporation	ECA	B	47.65	876	41,700	51.00	0.20	0.95
Occidental Petroleum Corp.	OXY	B	93.99	432	40,600	120.00	0.12	0.81
Burlington Resources	BR	B	90.00	378	34,100	115.00	-	0.78
Devon Energy Corporation	DVN	B	65.66	451	29,600	94.00	0.12	0.73
Anadarko Petroleum Corp.	APC	B	105.59	234	24,700	160.00	0.10	0.69
<i>Total or Median</i>					<i>199,000</i>		<i>0.12</i>	<i>0.81</i>

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Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	Symbol/ Rating	Price (\$/sh) 6-Feb 2006	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Independent Natural Gas and Oil - Large Cap and Mid Cap							
XTO Energy Inc.	XTO B	46.96	10.8	7.0	6.8	12	0.4
Encana Corporation	ECA B	47.65	7.1	6.0	5.7	12	0.6
CNOOC Limited (29%)	CEO B	88.03	9.2	5.1	5.3	9	2.6
Occidental Petroleum Corp.	OXY B	93.99	11.3	5.9	4.8	8	1.5
Anadarko Petroleum Corp.	APC B	105.59	12.7	6.8	4.7	8	0.7
Devon Energy Corporation	DVN B	65.66	8.6	5.6	4.1	8	0.5
Burlington Resources	BR B	90.00	-	-	-	-	-
	<i>Median</i>		9.2	5.9	4.8	8	0.6

Home Country and Business Segments

	Symbol/ Rating	Non- U.S. Domicile	North Amer. Natural Gas (%)	Rest of World Natural Gas (%)	Oil Prod'n (%)	Down- stream (%)	Total Present Value (US\$mm)
Independent Natural Gas and Oil - Large Cap and Mid Cap							
Occidental Petroleum Corp.	OXY B		14	1	75	11	59,000
Encana Corporation	ECA B	Canada	83	-	17	-	55,600
Devon Energy Corporation	DVN B		64	-	36	-	48,100
Anadarko Petroleum Corp.	APC B		60	-	40	-	41,700
CNOOC Limited	CEO B	China	-	12	88	-	34,600
XTO Energy Inc.	XTO B		83	-	17	-	22,100
Burlington Resources	BR B						
	<i>Median</i>		62	-	38	-	261,000

Anadarko Petroleum Corporation
Functional Cash Flow and Present Value

	NTM Ebitda (US\$mm)	Adjusted R/P	PV/ Ebitda	Present Value (US\$mm)	
North American Natural Gas	3,000	13.3	8.3	25,000	60%
Oil	3,120	11.9	5.4	16,700	40%
	6,120	12.7	6.8	41,700	100%
Debt (US\$mm)				4,300	
Net Present Value (US\$mm)				37,400	
Shares (mm)				234	
Net Present Value - Standard Estimate (US\$/sh)				160	
Net Present Value - Approximation by Correlation (US\$/sh)				184	

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Anadarko Petroleum Corporation
Next Twelve Months Operating and Financial Estimates

	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Next Twelve Months</i>
	<i>12/31/04</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>12/31/06</i>
Volume									
Natural Gas (mmcf)	1,641	1,382	1,386	1,414	1,386	1,386	1,386	1,386	1,386
Oil (mbd)	223	196	198	199	198	198	198	198	198
Total gas & oil (bcf)	274	235	237	951	232	234	237	237	940
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	7.10	8.56	13.00	8.65	9.26	8.31	8.62	9.63	8.96
Company (\$/mcf)	6.10	7.15	9.94	7.45	7.79	6.99	7.25	8.10	7.70
Oil (\$/bbl)									
WTI Cushing	48.31	62.52	60.02	56.31	65.23	66.74	68.15	68.81	67.23
Worldwide	42.15	48.51	49.93	46.28	54.27	55.52	56.69	57.24	55.94
Total gas & oil (\$/mcf)	6.52	7.69	9.86	7.49	8.46	8.12	8.35	8.86	8.45
Revenue (\$mm)									
Natural Gas	921	936	1,425	3,844	993	901	945	1,055	3,895
Oil	865	875	909	3,357	967	1,000	1,033	1,043	4,043
Other	(184)	(55)	(90)	(79)					-
Total	1,602	1,756	2,245	7,121	1,960	1,901	1,978	2,098	7,937
Expense									
Fixed	191	226	224	856	224	224	224	224	894
Variable	191	226	224	856	224	209	228	258	919
Ebitda (\$mm)	1,219	1,303	1,798	5,409	1,513	1,469	1,526	1,616	6,124
Deprec., Deplet., & Amort.	355	334	352	1,343	352	352	352	352	1,408
Hedging and other				19	12	10	11	13	47
Ebit	864	969	1,446	4,047	1,149	1,106	1,163	1,251	4,670
Interest	92	50	49	201	49	49	49	49	196
Ebt	772	919	1,397	3,846	1,100	1,057	1,114	1,202	4,474
Income Tax	270	322	489	1,346	385	370	390	421	1,566
Net Income (\$mm)	502	597	908	2,500	715	687	724	782	2,908
Shares (millions)									
Per share (\$)	2.04	2.51	3.88	10.56	3.06	2.94	3.09	3.34	12.43
Ebitda Margin	76%	74%	80%	76%	77%	77%	77%	77%	77%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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