



# Independent Stock Idea

August 4, 2009

rating: buy  
s&p 500: 1005 intraday

## Anadarko Petroleum (APC) Frontier Exploration Off West Africa

<i>Symbol</i>	APC	<i>Ebitda Next Twelve Months ending 6/30/10 (US\$mm)</i>	5,170
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	44
<i>Price (US\$/sh)</i>	50.28	<i>Natural Gas and Oil Production/Ebitda (%)</i>	95
<i>Pricing Date</i>	8/4/09	<i>Adjusted Reserves/Production NTM</i>	9.2
<i>Shares (mm)</i>	495	<i>EV/Ebitda</i>	7.8
<i>Market Capitalization (US\$mm)</i>	24,900	<i>PV/Ebitda</i>	8.6
<i>Debt (US\$mm)</i>	15,500	<i>Undeveloped Reserves (%)</i>	30
<i>Enterprise Value (EV) (US\$mm)</i>	40,400	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	24.63
<i>Present Value (PV) (US\$mm)</i>	44,700	<i>Present Value Proven Reserves(US\$/boe)</i>	18.72
<i>Net Present Value (US\$/share)</i>	59	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.12
<i>Debt/Present Value</i>	0.35	<i>Earnings Next Twelve Months (US\$/sh)</i>	-0.35
<i>McDep Ratio - EV/PV</i>	0.90	<i>Price/Earnings Next Twelve Months</i>	-144
<i>Dividend Yield (%/year)</i>	1.4	<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.			
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 APC since 2003 see <a href="http://www.mcdep.com/lapc.htm">www.mcdep.com/lapc.htm</a>			

### Summary and Recommendation

Buy-recommended **Anadarko Petroleum (APC)** offers unlevered appreciation potential of 11% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$59 a share. On July 14 we reduced NPV from \$70 when we reduced estimated Present Value of North American Natural Gas by 20%. Released today, second quarter results exceeded our estimate for unlevered cash flow (Ebitda) from three months ago. Reduced operating expense raised cash flow margin to account for most of the positive surprise (see table Next Twelve Months Operating and Financial Estimates). Oil surpasses natural gas to drive more than half of NPV in our valuation that capitalizes cash flow at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) (see table Functional Cash Flow and Present Value). Not counted for much yet in NPV, a billion barrel discovery offshore Ghana has opened what management describes as a new frontier area (see map on page 3). APC has a 40% interest in 10 million acres in the Cretaceous Fan play where it is currently drilling the Venus prospect, one of multiple targets in the billion barrel class. Meanwhile, resources already proven may be rising in value with oil futures prices for the next six years, which crossed the 40-week average into an uptrend at the end of May (see chart Six-Year Commodity Price Meter).

Kurt H. Wulff, CFA



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<b>Anadarko Petroleum Corporation</b>									
<b>Next Twelve Months Operating and Financial Estimates</b>									
									<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>6/30/08</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</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 (bcf)	170	208	213	184	202	<b>807</b>	208	213	<b>807</b>
Natural Gas (mmcf)	1,869	2,315	2,336	2,000	2,200	<b>2,212</b>	2,315	2,336	<b>2,212</b>
Days	91	90	91	92	92	<b>365</b>	90	91	<b>365</b>
Oil (mmb)	21	19	21	20	19	<b>79</b>	18	18	<b>75</b>
Oil (mbd)	236	214	228	218	203	<b>216</b>	203	203	<b>207</b>
Total gas & oil (bcf)	299	324	337	304	314	<b>1,280</b>	318	323	<b>1,260</b>
Total gas & oil (mmcf)	3,285	3,599	3,704	3,308	3,418	<b>3,506</b>	3,533	3,554	<b>3,453</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	10.93	4.90	3.50	3.79	5.00	<b>4.30</b>	5.95	5.89	<b>5.16</b>
Company (\$/mcf)	9.88	4.01	3.05	3.31	4.36	<b>3.68</b>	5.19	5.06	<b>4.52</b>
Oil (\$/bbl)									
WTI Cushing	123.97	42.96	59.52	69.09	74.17	<b>61.44</b>	76.50	78.25	<b>74.50</b>
Company	111.11	37.53	49.97	58.01	62.28	<b>51.90</b>	64.23	65.70	<b>62.45</b>
Total gas & oil (\$/mcf)	13.60	4.81	5.00	5.82	6.51	<b>5.52</b>	7.09	7.08	<b>6.64</b>
<b>Revenue (\$mm)</b>									
Natural Gas	1,680	835	648	608	883	<b>2,975</b>	1,082	1,076	<b>3,648</b>
Oil	2,386	723	1,037	1,164	1,163	<b>4,086</b>	1,174	1,214	<b>4,714</b>
Other	(1,280)	37	60			<b>96</b>			<b>-</b>
Total	2,786	1,595	1,745	1,772	2,046	<b>7,157</b>	2,255	2,290	<b>8,362</b>
<b>Expense</b>	301	790	562	666	779	<b>2,797</b>	865	879	<b>3,188</b>
<b>Ebitda (\$mm)</b>									
Exploration and Production	2,395	745	1,123	1,045	1,207	<b>4,120</b>	1,330	1,351	<b>4,934</b>
Other	90	60	60	60	60	<b>240</b>	60	60	<b>240</b>
Total	2,485	805	1,183	1,105	1,267	<b>4,360</b>	1,390	1,411	<b>5,174</b>
Exploration	264	301	288	288	288	<b>1,165</b>	288	288	<b>1,152</b>
Deprec., Deplet., & Amort.	795	806	956	956	840	<b>3,558</b>	840	840	<b>3,476</b>
<b>Ebit</b>	1,426	(302)	(61)	(139)	139	<b>(363)</b>	262	283	<b>546</b>
Interest	151	73	203	203	203	<b>682</b>	203	203	<b>812</b>
<b>Ebt</b>	1,275	(375)	(264)	(342)	(64)	<b>(1,045)</b>	59	80	<b>(266)</b>
Income Tax	446	(131)	(92)	(120)	(22)	<b>(366)</b>	21	28	<b>(93)</b>
<b>Net Income (\$mm)</b>	829	(244)	(172)	(222)	(42)	<b>(679)</b>	39	52	<b>(173)</b>
<b>Shares (millions)</b>	471	460	477	495	495	<b>477</b>	495	495	<b>495</b>
Per share (\$)	1.76	(0.53)	(0.36)	(0.45)	(0.08)	<b>(1.42)</b>	0.08	0.10	<b>(0.35)</b>
Ebitda Margin (E&P)	59%	48%	67%	59%	59%	<b>58%</b>	59%	59%	<b>59%</b>
Tax Rate	35%	35%	35%	35%	35%	<b>35%</b>	35%	35%	<b>35%</b>



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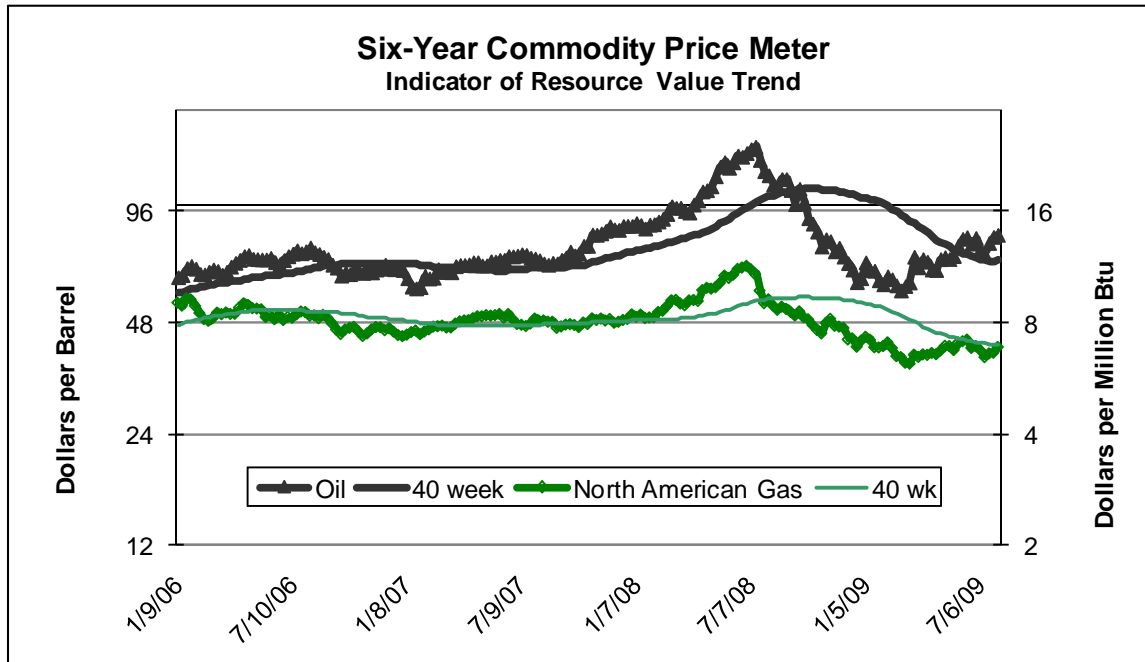
Anadarko Petroleum Corporation					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	2,260	8.8	9.2	20,800	47%
Oil	2,670	10.0	8.2	21,900	49%
Downstream and Minerals	240		8.3	2,000	4%
	5,170	9.2	8.6	44,700	100%
Debt (US\$mm)					15,500
Net Present Value (US\$mm)					29,200
Shares (mm)					495
Net Present Value - Standard Estimate (US\$/sh)					59
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					62





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