



# Independent Stock Idea

July 28, 2009

rating: buy  
s&p 500: 982

## BP plc (BP) Trending Up

<i>Symbol</i>	BP	<i>Ebitda Next Twelve Months ending 6/30/10 (US\$mm)</i>	37,500
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	4
<i>Price (US\$/sh)</i>	51.34	<i>Natural Gas and Oil Production/Ebitda (%)</i>	77
<i>Pricing Date</i>	7/27/09	<i>Adjusted Reserves/Production NTM</i>	9.6
<i>Shares (mm)</i>	3155	<i>EV/Ebitda</i>	6.1
<i>Market Capitalization (US\$mm)</i>	162,000	<i>PV/Ebitda</i>	7.8
<i>Debt (US\$mm)</i>	64,900	<i>Undeveloped Reserves (%)</i>	45
<i>Enterprise Value (EV) (US\$mm)</i>	226,900	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	19.90
<i>Present Value (PV) (US\$mm)</i>	292,100	<i>Present Value Proven Reserves(US\$/boe)</i>	12.50
<i>Net Present Value (US\$/share)</i>	72	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.08
<i>Debt/Present Value</i>	0.22	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.48
<i>McDep Ratio - EV/PV</i>	0.78	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	6.5	<i>Indicated Annual Dividend (US\$/sh)</i>	3.36
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\$75 a barrel and natural gas, \$8 a million btu.			
For historical analysis of BP since 2004 see <a href="http://www.mcdep.com/1bp.htm">www.mcdep.com/1bp.htm</a>			

### Summary and Recommendation

Buy-recommended **BP plc (BP)** offers unlevered appreciation potential of 29% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$72 a share. On July 14 we reduced NPV from \$74 when we reduced estimated Present Value of North American Natural Gas by 20%. Second quarter results released today exceeded our estimates for unlevered cash flow (Ebitda) from three months ago on the strength of higher oil price and lesser decline in downstream. We project more production cash flow and less refining and marketing cash flow in the next few quarters (see table [Next Twelve Months Operating and Financial Estimates](#)). Two quarters of renewed performance boost the present value of downstream to 24% 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](#)). Downstream has been more volatile than the average of BP and two European peers for the past three years (see chart [Downstream Cash Flow](#)). On the production side, BP has generated stable volume (see chart [Volume per Share, Debt-Adjusted](#)). The trend in production cash flow per barrel tells the same story as oil price and global equity prices, which declined last year and appear to be recovering now (see chart [Cash Flow per Barrel](#)). Pointing to possible further gains, futures prices for the next six years for oil crossed the 40-week average into an uptrend at the end of May and stand currently at \$81 a barrel (see chart [Six-Year Commodity Price Meter](#)).



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BP plc									
Next Twelve Months Operating and Financial Estimates									
									<i>Next</i>
	<i>Q1</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>3/31/08</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 (mmcf)									
U.S.	2,149	2,335	2,339	2,339	2,339	<b>2,338</b>	2,339	2,339	<b>2,339</b>
Overseas (or Int'l)	6,315	6,432	6,241	5,917	6,370	<b>6,239</b>	6,432	6,241	<b>6,239</b>
Total	8,464	8,767	8,580	8,256	8,709	<b>8,577</b>	8,771	8,580	<b>8,578</b>
Days	91	90	91	92	92	<b>365</b>	90	91	<b>365</b>
Oil (mbd)	2,453	2,504	2,526	2,526	2,526	<b>2,521</b>	2,526	2,526	<b>2,526</b>
Total gas & oil (mmb)	352	357	360	359	366	<b>1,442</b>	359	360	<b>1,444</b>
Total gas & oil (mbd)	3,864	3,965	3,956	3,902	3,978	<b>3,950</b>	3,988	3,956	<b>3,956</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	8.02	4.90	3.50	3.78	4.69	<b>4.22</b>	5.65	5.61	<b>4.93</b>
U.S.	6.73	3.38	2.47	2.83	3.94	<b>3.16</b>	4.74	4.71	<b>4.05</b>
Overseas (or Int'l)	5.59	3.72	3.01	3.39	3.60	<b>3.43</b>	3.73	3.82	<b>3.64</b>
Total	5.88	3.63	2.86	3.23	3.69	<b>3.36</b>	4.00	4.06	<b>3.75</b>
Oil (\$/bbl)									
WTI Cushing	97.94	42.96	59.52	67.06	71.33	<b>60.22</b>	73.86	75.58	<b>71.96</b>
Worldwide	90.92	41.26	52.33	58.96	62.72	<b>53.92</b>	64.94	66.45	<b>63.25</b>
Total gas & oil (\$/bbl)	70.61	34.08	39.62	45.00	47.92	<b>41.69</b>	49.93	51.24	<b>48.52</b>
NY Harbor 3-2-1 (\$/bbl)	7.57	9.18	9.49	9.14	5.49	<b>8.32</b>	5.38	8.52	<b>7.13</b>
BP Refining Indicator	4.57	6.20	4.98						
<b>Revenue (\$mm)</b>									
Natural Gas									
U.S.	1,316	710	526	609	848	<b>2,693</b>	998	1,002	<b>3,456</b>
Overseas (or Int'l)	3,213	2,154	1,707	1,844	2,111	<b>7,816</b>	2,159	2,168	<b>8,283</b>
Total	4,529	2,864	2,233	2,452	2,959	<b>10,509</b>	3,157	3,170	<b>11,739</b>
Oil	20,295	9,298	12,029	13,701	14,575	<b>49,603</b>	14,763	15,275	<b>58,314</b>
Other	65,324	35,922	42,299	42,299	42,299	<b>162,820</b>	42,299	42,299	<b>169,196</b>
Total	90,148	48,085	56,561	58,453	59,833	<b>222,931</b>	60,219	60,744	<b>239,249</b>
<b>Expense (\$mm)</b>									
Production	13,321	8,296	8,431	9,376	10,067	<b>36,170</b>	10,573	10,835	<b>40,851</b>
Other	63,299	32,492	39,610	40,757	41,214	<b>154,073</b>	38,869	39,610	<b>160,449</b>
<b>Ebitda (\$mm)</b>									
Exploration and Production	11,503	3,867	5,831	6,623	7,189	<b>23,510</b>	7,347	7,562	<b>28,722</b>
Other	2,024	3,430	2,689	1,542	1,085	<b>8,747</b>	3,430	2,689	<b>8,747</b>
Total Ebitda	13,528	7,297	8,521	8,165	8,274	<b>32,257</b>	10,777	10,252	<b>37,469</b>
Exploration	293	119	347	347	347	<b>1,160</b>	347	347	<b>1,388</b>
Deprec., Deplet., & Amort.	2,782	2,823	3,308	3,308	3,308	<b>12,747</b>	3,308	3,308	<b>13,232</b>
Other non cash									
<b>Ebit</b>	10,453	4,355	4,866	4,510	4,619	<b>18,350</b>	7,122	6,597	<b>22,849</b>
Interest	337	318	274	274	274	<b>1,140</b>	274	274	<b>1,096</b>
<b>Ebt</b>	10,116	4,037	4,592	4,236	4,345	<b>17,210</b>	6,848	6,323	<b>21,753</b>
Income Tax	3,540	1,413	1,607	1,483	1,521	<b>6,023</b>	2,397	2,213	<b>7,613</b>
<b>Net Income (\$mm)</b>									
Exploration and Production	10,448	3,851	4,404						
Other	640	1,549	972						
Unallocated	(4,513)	(2,776)	(2,391)						
Total	6,575	2,624	2,985	2,753	2,824	<b>11,186</b>	4,451	4,110	<b>14,139</b>
<b>Shares (millions)</b>	3,146	3,153	3,155	3,155	3,155	<b>3,155</b>	3,155	3,155	<b>3,155</b>
Per share (\$)	2.09	0.83	0.95	0.87	0.90	<b>3.55</b>	1.41	1.30	<b>4.48</b>
Ebitda Margin (E&P)	46%	32%	41%	41%	41%	<b>39%</b>	41%	41%	<b>41%</b>
Tax Rate	35%	35%	35%	35%	35%	<b>35%</b>	35%	35%	<b>35%</b>

Please see disclosures on the final page.

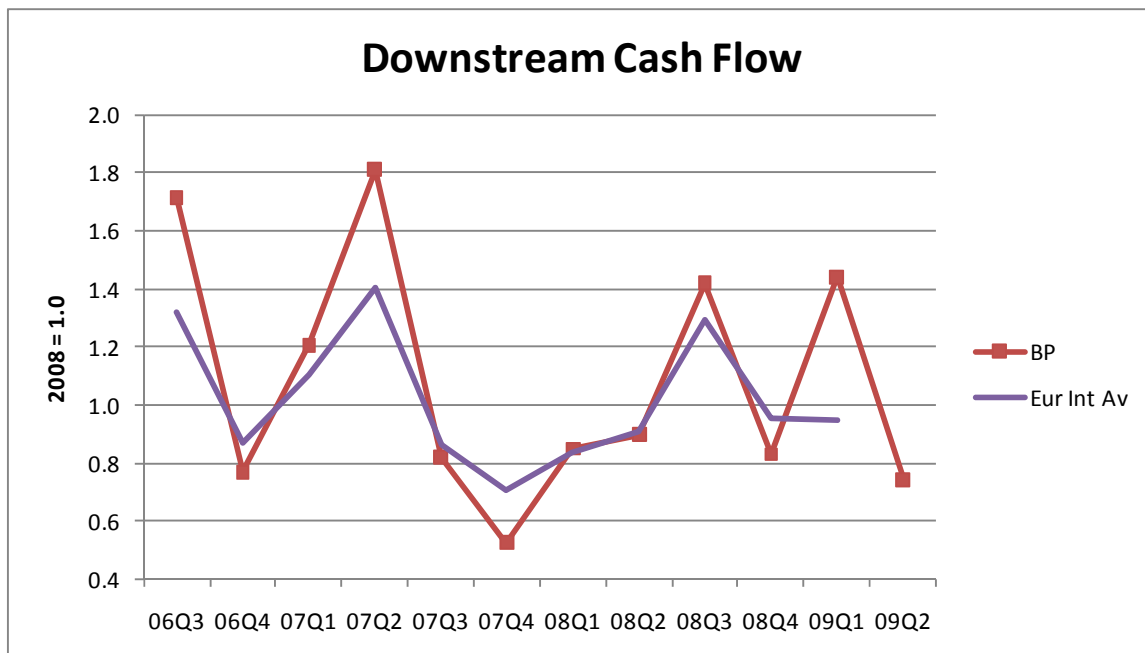
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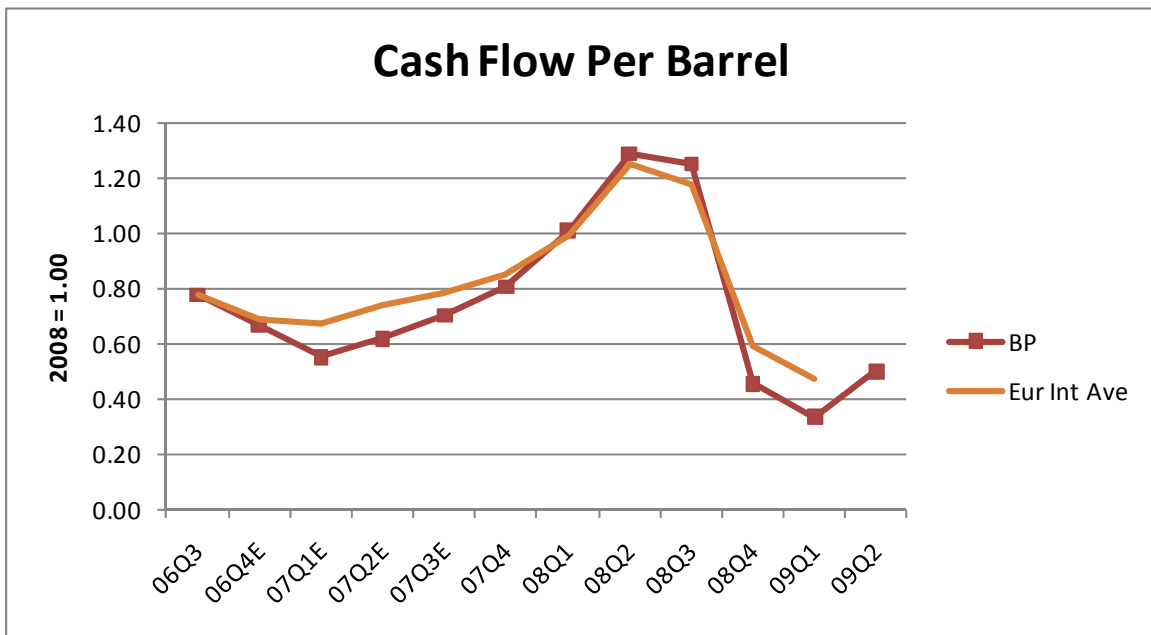
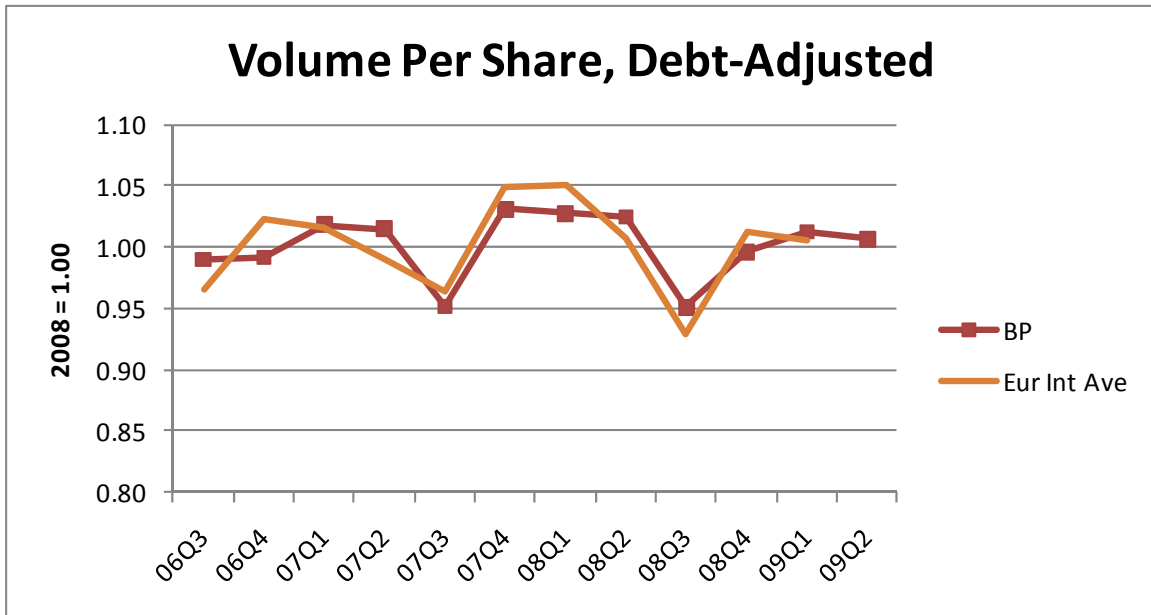
BP plc					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	1,420	13.8	13.4	19,000	7%
Rest of World Natural Gas	3,400	9.6	7.9	27,000	9%
Oil	23,900	8.9	7.4	176,000	60%
Downstream	8,750		8.0	70,000	24%
	37,470	9.6	7.8	292,000	100%
Debt (US\$mm)					64,900
Net Present Value (US\$mm)					227,200
Shares (mm)					3,155
Net Present Value - Standard Estimate (US\$/sh)					72
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					73





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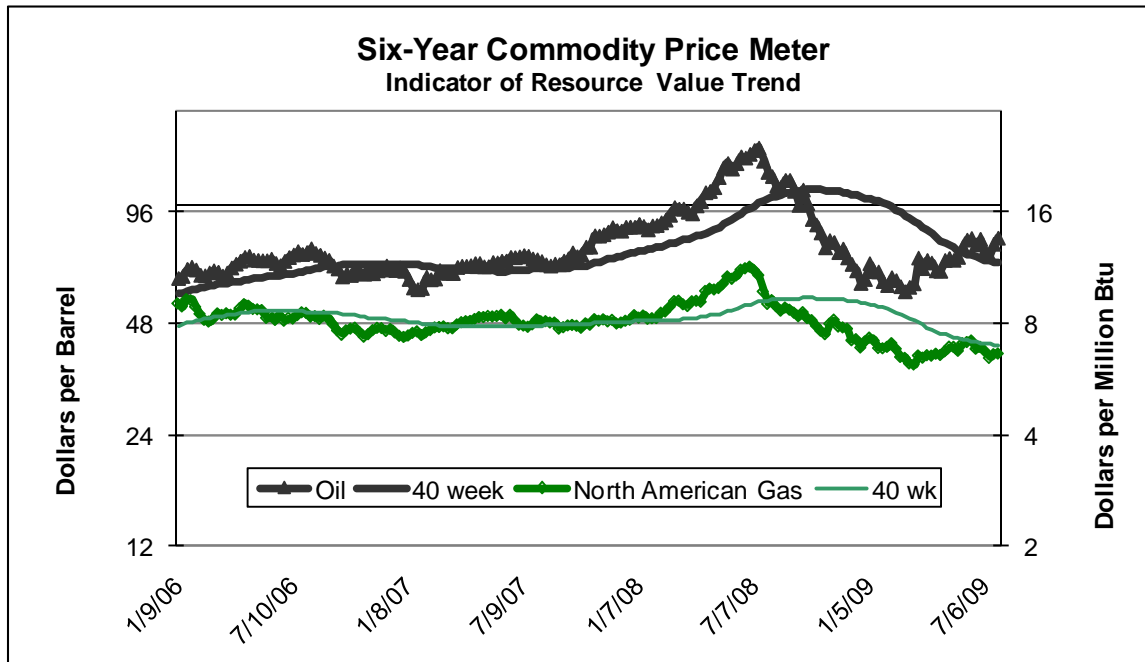
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Kurt H. Wulff, CFA

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