

Rating: Buy
S&P 500: 1377

Chevron Corporation **Raise NPV to \$92 a Share**

<i>Symbol</i>	CVX	<i>Ebitda Next Twelve Months ending 9/30/07 (US\$mm)</i>	36,000
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	6
<i>Price (\$/sh)</i>	67.68	<i>Natural Gas and Oil Production/Ebitda (%)</i>	68
<i>Pricing Date</i>	10/27/06	<i>Adjusted Reserves/Production NTM</i>	10.9
<i>Shares (mm)</i>	2206	<i>EV/Ebitda</i>	4.8
<i>Market Capitalization (\$mm)</i>	149,000	<i>PV/Ebitda</i>	6.3
<i>Debt (\$mm)</i>	22,000	<i>Undeveloped Reserves (%)</i>	30
<i>Enterprise Value (EV) (\$mm)</i>	172,000	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	24.60
<i>Present Value (PV) (\$mm)</i>	225,000	<i>Present Value Proven Reserves(\$/boe)</i>	12.30
<i>Net Present Value (\$/share)</i>	92	<i>Present Value Proven Reserves(\$/mcf)</i>	2.00
<i>Debt/Present Value</i>	0.10	<i>Earnings Next Twelve Months (US\$/sh)</i>	7.93
<i>McDep Ratio - EV/PV</i>	0.76	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	3.1	<i>Indicated Annual Dividend (US\$/sh)</i>	2.08

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.

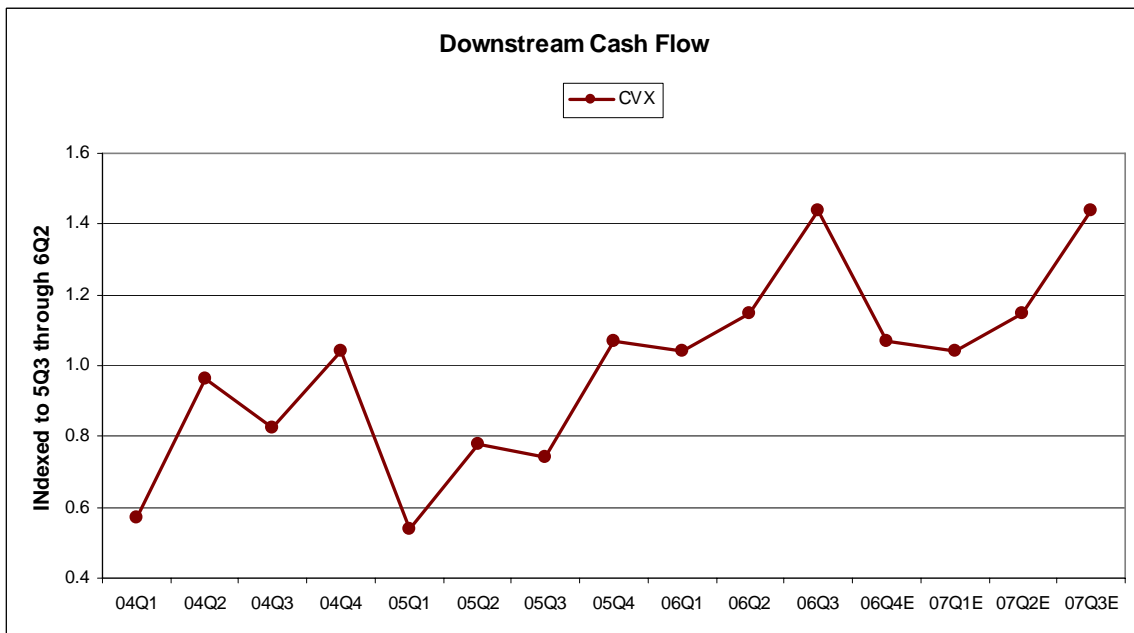
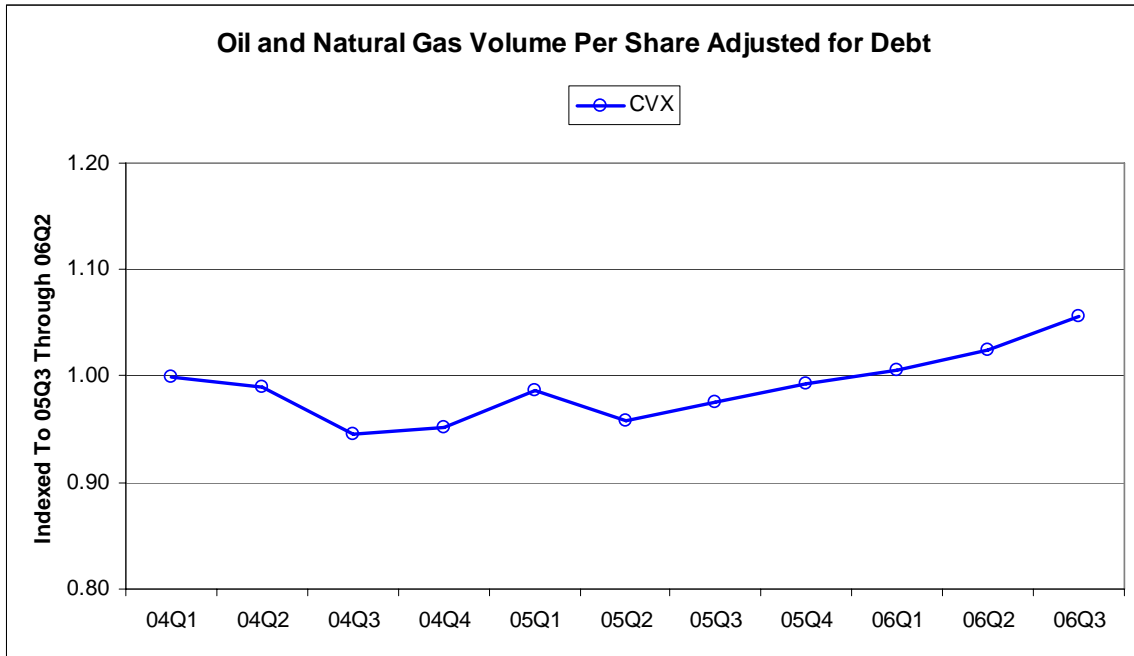
Estimated present value presumes a long-term price for oil of US\$60 a barrel and natural gas, \$10 a million btu.

Summary and Recommendation

At a McDep Ratio of 0.76, buy-recommended **Chevron Corporation (CVX)** offers unlevered appreciation potential of 31% to a McDep Ratio of 1.00 where stock price would equal estimated net present value (NPV) of \$92 a share. We raise NPV from \$88 on the basis of higher expectations for the deep Gulf of Mexico where CVX last month announced test results of the Jack discovery and, on October 26, announced its 37.5% participation in the 130,000 barrels daily Perdido project to be constructed in 8000 feet of water depth. Fundamental results for the third quarter reported on October 27 portray a growth trend in oil and gas volume per share (see chart). Growing downstream cash flow supports investment in new capacity for more highly refined products (see chart). The cash flow implications of improving corporate results contribute to a strongly positive comparison of our higher estimate of present value with that from a correlation with some thirty natural gas and oil producers (see table on page 4). Near a new stock price high, CVX has a double weighting in our illustrative energy portfolio concentrated on real assets that promise a high return providing clean fuel for global growth. There is near-term risk the voters of California may not turn down a possible tax increase on oil consumers, apparently sponsored in part by self-serving venture zillionaires as exposed in the *Wall Street Journal* on September 27, to subsidize alternative fuel financial promotions.

Kurt H. Wulff, CFA

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Chevron
Next Twelve Months Operating and Financial Estimates

	Q3	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	Next Twelve Months
	9/30/05	6/30/06	9/30/06	12/31/06	2006E	3/31/07	6/30/07	9/30/07	9/30/07
Volume									
Natural Gas (mmcf)									
U.S.	1,676	1,832	1,846	1,846	1,827	1,846	1,846	1,846	1,846
Rest of World	2,785	3,234	3,119	3,289	3,202	3,165	3,234	3,119	3,202
Total	4,461	5,066	4,965	5,135	5,029	5,011	5,080	4,965	5,048
Oil (mbd)	1,805	1,825	1,872	1,872	1,847	1,872	1,872	1,872	1,872
Total gas & oil (mbd)	2,549	2,669	2,700	2,728	2,685	2,707	2,719	2,700	2,713
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	8.56	6.81	6.58	6.39	7.19	8.46	7.77	7.96	7.64
U.S.	7.34	5.89	5.93	5.65	6.22	7.49	6.88	7.04	6.76
Rest of World	3.13	3.82	3.66	3.66	3.73	3.78	3.82	3.66	3.73
Total	4.71	4.57	4.50	4.38	4.63	5.15	4.93	4.92	4.84
Oil (\$/bbl)									
WTI Cushing	62.52	70.47	70.42	59.22	65.86	63.02	65.19	66.49	63.48
Worldwide	53.94	61.69	61.92	52.47	57.70	56.64	58.59	59.76	56.86
Total gas & oil (\$/bbl)	46.45	50.85	51.22	44.25	48.37	48.69	49.56	50.48	48.23
NY Harbor 3-2-1 (\$/bbl)	16.70	15.39	11.67	7.18	10.41	7.69	11.58	11.88	9.58
Revenue (\$mm)									
Natural Gas									
U.S.	1,132	982	1,007	960	4,145	1,244	1,155	1,196	4,555
Rest of World	802	1,124	1,050	1,107	4,359	1,077	1,124	1,050	4,359
Total	1,934	2,106	2,057	2,067	8,504	2,321	2,280	2,246	8,914
Oil	8,958	10,245	10,665	9,037	38,904	9,543	9,981	10,292	38,853
Other	43,565	41,185	41,490	42,290	168,359	42,290	42,290	42,290	169,161
Total	54,456	53,536	54,212	53,395	215,767	54,154	54,551	54,828	216,928
Expense									
Production	4,491	6,052	6,234	5,425	22,652	5,805	6,003	6,142	23,375
Other	41,737	38,355	37,952	39,658	156,799	39,730	39,460	38,752	157,600
Ebitda (\$mm)									
Exploration and Production	6,400	6,299	6,488	5,680	24,756	6,059	6,258	6,396	24,392
Other	1,828	2,830	3,538	2,632	11,561	2,560	2,830	3,538	11,561
Total Ebitda	8,228	9,129	10,027	8,312	36,316	8,619	9,087	9,935	35,953
Exploration	122	265	284	284	1,101	284	284	284	1,136
Deprec., Deplet., & Amort.	1,534	1,807	1,923	1,923	7,441	1,923	1,923	1,923	7,692
Other non cash	900	250	-	-					
Ebit	5,672	6,807	7,820	6,105	27,024	6,412	6,880	7,728	27,125
Interest	136	121	104	104	463	104	104	104	416
Ebt	5,536	6,686	7,716	6,001	26,561	6,308	6,776	7,624	26,709
Income Tax	1,937	2,340	2,700	2,100	9,296	2,208	2,372	2,668	9,348
Net Income (\$mm)									
Exploration and Production	3,323	3,272	3,503						
Other	579	1,092	1,609						
Unallocated	(304)	(18)	(97)						
Total	3,598	4,346	5,015	3,901	17,265	4,100	4,405	4,955	17,361
Shares (millions)	2,194	2,206	2,190	2,190	2,202	2,190	2,190	2,190	2,190
Per share (\$)	1.64	1.97	2.29	1.78	7.84	1.87	2.01	2.26	7.93
Ebitda Margin (E&P)	59%	51%	51%	51%	52%	51%	51%	51%	51%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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Chevron 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	2,400	6.3	5.8	14,000	6%
Rest of World Natural Gas	2,300	12.9	7.4	17,000	8%
Oil	19,690	11.1	6.8	134,000	60%
Downstream	11,560		5.2	60,000	27%
	35,950	10.9	6.3	225,000	100%
Debt (US\$mm)				22,000	
Net Present Value (US\$mm)				203,000	
Shares (mm)				2,206	
Net Present Value - Standard Estimate (US\$/sh)				92	
Net Present Value - Approximation by Correlation (US\$/sh)				103	

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