



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

July 28, 2009

Restore Buy on Chevron (CVX)

Summary and Recommendation

We upgrade our recommendation on the common stock of **Chevron (CVX)** to buy from hold on the basis of estimated Net Present Value (NPV) of \$97 a share concentrated 66% on oil production with the balance in natural gas and downstream refining/marketing. We like the company's low debt balance sheet and capable management. The timing of our upgrade is triggered by CVX stock crossing fractionally above its 200-day average, hopefully confirming a stock price uptrend. As a result, we now have buy recommendations on all 25 of our rated large cap oil and gas producers. We are optimistic that the industry is at the beginning of a long-renewed upswing. In any case, we believe an investment in Chevron stock is as sound as any we know considering current trends toward a weaker dollar, rising inflation, a negative real yield on short-term government securities and rising global stock markets. Meanwhile, the company plans to report second quarter results on July 31. We print our latest financial models below (see tables [Functional Cash Flow and Present Value](#) and [Next Twelve Months Operating and Financial Estimates](#)).

Latest settlement prices for the average of futures for the next six years are \$81 a barrel and \$6.62 a million btu (see chart on last page, [Six-Year and One-Year Natural Gas and Oil Futures](#)). Oil is trading above the 40-week average of \$70 while natural gas is just under the 40-week average of \$6.94.

Kurt H. Wulff, CFA

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	990	5.8	9.1	9,000	4%
Rest of World Natural Gas	3,170	11.9	8.2	26,000	12%
Oil	21,010	9.7	7.1	149,000	66%
Downstream	5,340		7.9	42,000	19%
	30,510	9.9	7.4	226,000	100%
Debt (US\$mm)					32,000
Net Present Value (US\$mm)					194,000
Shares (mm)					2,000
Net Present Value - Standard Estimate (US\$/sh)					97
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					107



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Chevron									
Next Twelve Months Operating and Financial Estimates									
	Q2	Q1	Q2E	Q3E	Q4E	Year	Q1E	Q2E	Next
	6/30/08	3/31/09	6/30/09	9/30/09	12/31/09	2009E	3/31/10	6/30/10	Twelve Months 6/30/10
Volume									
Natural Gas (mmcf)									
U.S.	1,588	1,379	1,379	1,379	1,379	1,379	1,379	1,379	1,379
Rest of World	3,621	3,642	3,621	3,618	3,493	3,593	3,642	3,621	3,593
Total	5,209	5,021	5,000	4,997	4,872	4,972	5,021	5,000	4,972
Days	91	90	91	92	92	365	90	91	365
Oil (mbd)	1,783	1,826	1,826	1,826	1,826	1,826	1,826	1,826	1,826
Total gas & oil (mmb)	241	240	242	245	243	969	240	242	969
Total gas & oil (mbd)	2,651	2,663	2,659	2,659	2,638	2,655	2,663	2,659	2,655
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	10.93	4.90	3.50	3.78	4.69	4.22	5.65	5.61	4.93
U.S.	9.84	4.14	2.96	3.19	3.87	3.54	4.65	4.62	4.08
Rest of World	5.44	4.21	5.44	5.37	5.10	5.03	4.21	5.44	5.03
Total	6.78	4.19	4.76	4.77	4.75	4.62	4.33	5.21	4.77
Oil (\$/bbl)									
WTI Cushing	123.97	42.96	59.52	67.06	71.33	60.22	73.86	75.58	71.96
Worldwide	111.37	38.81	53.77	60.58	64.84	54.59	67.94	69.52	65.70
Total gas & oil (\$/bbl)	88.22	34.51	45.86	50.57	53.66	46.20	54.76	57.54	54.12
NY Harbor 3-2-1 (\$/bbl)	14.94	9.18	9.49	9.14	5.49	8.32	5.38	8.52	7.13
Revenue (\$mm)									
Natural Gas									
U.S.	1,422	514	371	405	491	1,781	578	580	2,053
Rest of World	1,793	1,380	1,793	1,787	1,639	6,599	1,380	1,793	6,599
Total	3,214	1,894	2,164	2,193	2,130	8,379	1,958	2,372	8,652
Oil	18,065	6,378	8,935	10,177	10,893	36,382	11,165	11,553	43,787
Other	61,709	27,859	27,859	27,859	28,659	112,235	28,659	28,659	113,835
Total	82,989	36,130	38,957	40,228	41,681	156,996	41,781	42,584	166,274
Expense (\$mm)									
Production	10,001	3,912	5,771	6,432	6,772	22,887	6,824	7,241	27,269
Other	61,193	26,747	26,559	26,288	27,304	106,897	27,547	27,359	108,497
Ebitda (\$mm)									
Exploration and Production	11,278	4,359	5,327	5,937	6,251	21,875	6,299	6,684	25,171
Other	517	1,112	1,300	1,571	1,354	5,337	1,112	1,300	5,337
Total Ebitda	11,795	5,471	6,627	7,508	7,605	27,212	7,411	7,984	30,508
Exploration	307	381	381	381	381	1,524	381	381	1,524
Deprec., Deplet., & Amort.	2,275	2,867	2,867	2,867	2,867	11,468	2,867	2,867	11,468
Other non cash									
Ebit									
Interest	9,213	2,223	3,379	4,260	4,357	14,220	4,163	4,736	17,516
Interest	-	8	8	8	8	32	8	8	32
Ebt									
Income Tax	9,213	2,215	3,371	4,252	4,349	14,188	4,155	4,728	17,484
Income Tax	3,225	775	1,180	1,488	1,522	4,966	1,454	1,655	6,120
Net Income (\$mm)									
Exploration and Production	7,248	1,269							
Other	(693)	462							
Unallocated	(567)	(291)							
Total	5,989	1,440	2,191	2,764	2,827	9,222	2,701	3,073	11,365
Shares (millions)									
Per share (\$)	2,065	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Per share (\$)	2.90	0.72	1.10	1.38	1.41	4.61	1.35	1.54	5.68
Ebitda Margin (E&P)	53%	53%	48%	48%	48%	49%	48%	48%	48%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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McDep Energy Portfolio								
Net Present Value and McDep Ratio								
			<i>Price</i>			<i>Net</i>		
	<i>Symbol/Rating</i>		<i>(US\$/sh)</i>	<i>Shares</i>	<i>Market</i>	<i>Present</i>	<i>Debt/</i>	
	B = Buy	27-Jul			<i>Cap</i>	<i>Value</i>	<i>Present</i>	<i>McDep</i>
	H = Hold	2009		<i>(mm)</i>	<i>(US\$mm)</i>	<i>(US\$/sh)</i>	<i>Value</i>	<i>Ratio</i>
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	72.75	4,959	361,000	89.00	0.09	0.83
Chevron Corporation	CVX	B	68.85	2,000	138,000	97.00	0.14	0.75
Marathon Oil Corporation	MRO	B	32.51	712	23,150	53.00	0.23	0.70
ConocoPhillips	COP	B	45.25	1,495	68,000	105.00	0.25	0.57
<i>Total or Median</i>					<i>590,000</i>		<i>0.19</i>	<i>0.73</i>
Europe								
BG Group plc	BRGXF	B	18.21	3,384	61,630	22.00	0.09	0.84
BP plc	BP	B	51.34	3,153	162,000	72.00	0.22	0.78
Royal Dutch Shell plc	RDS-A	B	52.24	3,063	160,000	79.00	0.17	0.72
Total S.A.	TOT	B	57.57	2,235	129,000	90.00	0.14	0.69
StatoilHydro ASA (33%)	STO	B	21.19	1,051	22,270	35.00	0.19	0.68
<i>Total or Median</i>					<i>535,000</i>		<i>0.17</i>	<i>0.72</i>
Brazil/China/Russia								
CNOOC Limited (34%)	CEO	B	137.06	152	20,870	135.00	-	1.02
PetroChina Company Ltd (14%)	PTR	B	120.32	256	30,830	150.00	0.10	0.82
Petrobras	PBR	B	42.72	4,387	187,410	58.00	0.13	0.77
Lukoil Oil Company	LUKOY	B	50.10	847	42,000	135.00	0.05	0.40
Gazprom (50%)	OGZPY	B	21.39	2,925	62,600	64.00	0.08	0.39
<i>Total or Median</i>					<i>344,000</i>		<i>0.08</i>	<i>0.77</i>
U.S. Independent								
XTO Energy Inc.	XTO	B	40.83	578	23,600	47.00	0.29	0.91
Anadarko Petroleum Corp.	APC	B	48.62	460	22,400	59.00	0.36	0.89
Occidental Petroleum Corp.	OXY	B	72.99	814	59,400	87.00	0.07	0.85
EOG Resources	EOG	B	74.30	250	18,600	92.00	0.09	0.83
Chesapeake Energy Corp.	CHK		21.53	597	12,850	34.00	0.41	0.78
Devon Energy Corporation	DVN	B	58.69	444	26,100	98.00	0.17	0.67
<i>Total or Median</i>					<i>163,000</i>		<i>0.23</i>	<i>0.84</i>
Canada								
Encana Corporation	ECA	B	54.04	751	40,600	62.00	0.21	0.90
Imperial Oil Limited (30%)	IMO	B	40.35	257	10,360	48.00	0.06	0.85
Canadian Natural Resources	CNQ	B	59.22	541	32,000	80.00	0.23	0.80
Suncor Energy pro forma	SU	B	32.78	1,568	51,390	52.00	0.18	0.70
Canadian Oil Sands Trust	COSWF	B	25.02	482	12,060	42.00	0.06	0.62
Petro-Canada (to be SU@1.28)	PCZ	B	41.96					
<i>Total or Median</i>					<i>146,000</i>		<i>0.18</i>	<i>0.80</i>

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

Estimated present value presumes a long-term price for oil of US\$75 a barrel and natural gas, \$8 a million btu.

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Table 3								
McDep Energy Portfolio								
Value Multiples and Distribution Yield								
			Price	Adjustd				Divd or
	Symbol/Rating		(US\$/sh)	Resrvs/	PV/	EV/		Distrib
	B = Buy		27-Jul	Prod	Ebitda	Ebitda	P/E	NTM
	H = Hold		2009	NTM	NTM	NTM	NTM	(%)
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	72.75	11.9	8.3	6.9	12	2.2
Chevron Corporation	CVX	B	68.85	9.9	7.4	5.6	12	3.8
Marathon Oil Corporation	MRO	B	32.51	9.2	7.3	5.2	11	3.0
ConocoPhillips	COP	B	45.25	10.5	8.6	4.9	8	4.2
	<i>Total or Median</i>			<i>10.2</i>	<i>7.9</i>	<i>5.4</i>	<i>12</i>	<i>3.4</i>
Europe								
BG Group plc	BRGXF	B	18.21	9.1	8.6	7.3	15	1.0
BP plc	BP	B	51.34	9.8	7.2	5.6	9	6.5
Total S.A.	TOT	B	57.57	9.3	7.5	5.2	9	5.6
Royal Dutch Shell plc	RDS-A	B	52.24	7.6	7.1	5.1	10	6.4
StatoilHydro ASA (33%)	STO	B	21.19	7.4	5.9	4.0	8	5.5
	<i>Total or Median</i>			<i>9.1</i>	<i>7.2</i>	<i>5.2</i>	<i>9</i>	<i>5.6</i>
Brazil/China/Russia								
Petrobras	PBR	B	42.72	9.4	11.3	8.7	15	3.9
PetroChina Company Ltd (14%)	PTR	B	120.32	14.3	9.6	7.9	26	3.4
CNOOC Limited (34%)	CEO	B	137.06	7.5	6.7	6.8	13	3.8
Gazprom (50%)	OGZPY	B	21.39	24.6	11.3	4.4	6	1.6
Lukoil Oil Company	LUKOY	B	50.10	16.4	10.8	4.4	9	2.5
	<i>Total or Median</i>			<i>14.3</i>	<i>10.8</i>	<i>6.8</i>	<i>13</i>	<i>3.4</i>
U.S. Independent								
XTO Energy Inc.	XTO	B	40.83	11.5	11.0	10.0	17	1.2
Chesapeake Energy Corp.	CHK		21.53	11.7	11.9	9.3	24	1.4
EOG Resources	EOG	B	74.30	9.8	10.4	8.6	73	0.8
Anadarko Petroleum Corp.	APC	B	48.62	9.2	8.4	7.5		1.5
Occidental Petroleum Corp.	OXY	B	72.99	11.0	7.9	6.7	15	1.8
Devon Energy Corporation	DVN	B	58.69	8.8	8.8	5.9	14	1.1
	<i>Total or Median</i>			<i>10.4</i>	<i>9.6</i>	<i>8.0</i>	<i>17</i>	<i>1.3</i>
Canada								
Imperial Oil Limited (30%)	IMO	B	40.35	18.2	13.2	11.3	22	0.9
Encana Corporation	ECA	B	54.04	9.1	9.7	8.8	18	3.0
Canadian Oil Sands Trust	COSWF	B	25.02	21.5	13.5	8.4	12	8.5
Canadian Natural Resources	CNQ	B	59.22	7.9	10.3	8.2	18	0.6
Suncor Energy pro forma	SU	B	32.78	-	10.2	7.1	50	0.6
Petro-Canada (to be SU@1.28)	PCZ	B	41.96					
	<i>Total or Median</i>			<i>9.1</i>	<i>10.3</i>	<i>8.4</i>	<i>18</i>	<i>0.9</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2010; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

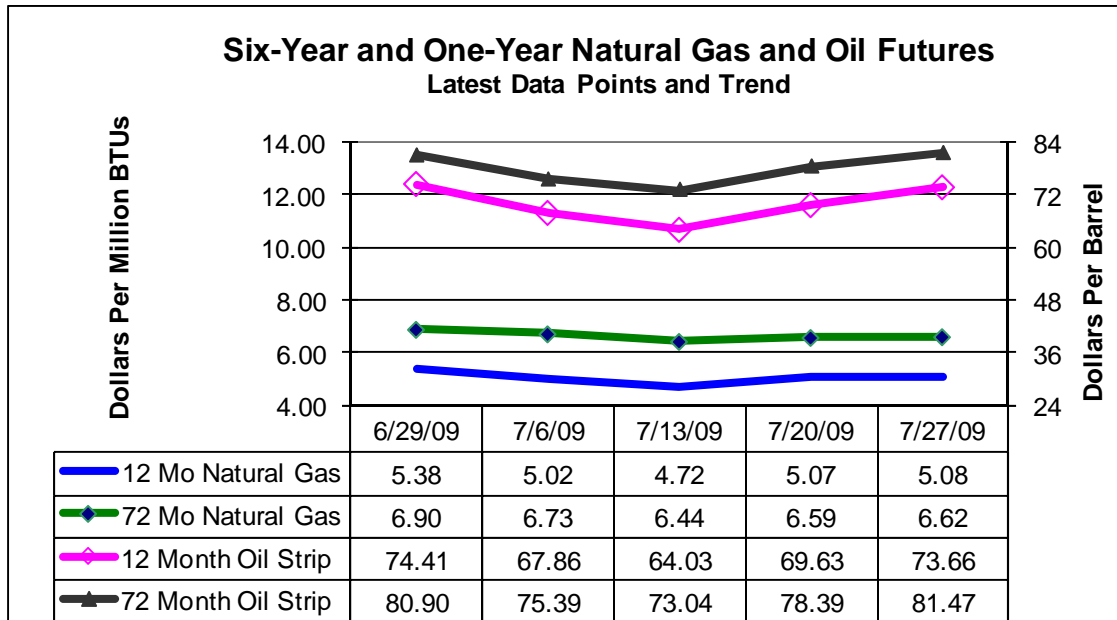
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