## **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, <u>Six-Year and One-Year Natural Gas and Oil Futures</u>). 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 Corp	oration			
Func	tional Cash Flow a	nd Present `	Value		
				Present	
	NTM Ebitda	Adjusted	PV/	Value	
	<u>(US\$mm)</u>	<u>R/P</u>	<u>Ebitda</u>	(US\$mm)	
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 Estima	ite (US\$/sh)				97
NPV Approximation by Cash Flow M	Multiple Depending	on Reserve	Life (US\$	(/sh)	107



				evron					
	Next	Twelve Mo	nths Oper	ating and l	Financial Es	timates			37
									Next
	00	0.1	02.5	025	0.45	**	015	025	Twelve
	Q2	Q1	Q2E	Q3E	Q4E	Year	Q1E	Q2E	Month
	6/30/08	3/31/09	6/30/09	9/30/09	12/31/09	2009E	3/31/10	6/30/10	6/30/10
Volume									
Natural Gas (mmcfd)									
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	, ,	,		-, -	,	,	,	,	/
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	2,213	2,007	2,007	2,007	2,007	11,400	2,007	2,007	11,400
Ebit	9,213	2,223	3,379	4,260	4,357	14,220	4,163	4,736	17,516
Interest	9,213	8	3,379	4,200	4,337	32	4,103	4,730	32
Ebt	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)	2,443	113	1,100	1,400	1,344	7,700	1,434	1,033	0,120
Exploration and Production	7,248	1,269							
Other	(693)	462							
Unallocated	(567)	(291)							
			2 101	2764	2 027	0.222	2.701	2.072	11 265
Total	5,989	1,440	2,191	2,764	2,827	9,222	2,701	3,073 2,000	11,365
Shares (millions)	2,065	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) Tax Rate	53% 35%	53% 35%	48% 35%	48% 35%	48% 35%	49% 35%	48% 35%	48% 35%	48% 35%



				Table 1						
		N	<b>IcDep</b>	Energy	y Portfoli	0				
	Geogr	aphic	Domic	cile and	d Busines	s Segn	nents			
						Preser	ıt Value by	Seamen	t (%)	
			Price			North	Rest	Segment	( / 0 )	
	Symbol	/Ratina	(US\$/sh)	EV/	Enterprise	Amer.	of World			
		B = Buy	27-Jul	Market	Value	Natural	Natural	Oil	Down-	МсДер
		I = Hold	2009	Сар	(\$mm)	Gas		Prod'n		Ratio
	-	11010	2007	Cup	(\$11111)	Ous	Ous	17047	Str Cum	210770
U.S. Integrated										
Exxon Mobil Corporation	XOM	В	72.75	1.12	403,000	5	22	50	24	0.83
Chevron Corporation	CVX	В	68.85	1.24	170,000	4	12	66	19	0.75
Marathon Oil Corporation	MRO	В	32.51	1.49	34,500	8	7	59	27	0.70
ConocoPhillips	COP	В	45.25	1.76	119,000	10	10	63	17	0.57
Total or Median *	32%	9%	14%	1.70	727,000	10	10	0.5	17	0.73
Total of Median	32/0	270	1770		727,000					0.75
Europe										
BG Group	BRGXF	В	18.21	1.12	69,200		27	46	27	0.84
BP plc	BP	В	51.34	1.40	227,000	7	12	65	16	0.78
Royal Dutch Shell plc	RDS-A	В	52.24	1.31	209,000	2	24	41	33	0.72
Total S.A.	TOT	В	57.57	1.25	161,000		25	53	22	0.69
StatoilHydro ASA (33%)	STO		21.19	1.39	30,900		53	47		0.68
Total or Median *	31%	12%	18%	1.57	697,000		33	77		0.72
					,					
Brazil/China/Russia										
CNOOC Limited (34%)	CEO	В	137.06	1.00	20,900		12	88	-	1.02
PetroChina Company Ltd (14%	PTR	В	120.32	1.13	35,000		13	74	13	0.82
Petrobras	PBR	В	42.72	1.20	224,000		7	77	16	0.77
Lukoil Oil Company	LUKOY	В	50.10		48,800			62	38	0.40
Gazprom (50%)	OGZPY	В	21.39	1.26	79,000		79	21	_	0.39
Total or Median *	18%	12%	18%		408,000					0.77
U.S. Independent										
XTO Energy Inc.	XTO	В	40.83	1.47	34,700	75		25	-	0.91
Anadarko Petroleum Corp.	APC	В	48.62	1.69	37,900	49		46	5	0.89
Occidental Petroleum Corp.	OXY	В	72.99	1.09	64,900	9	1	80	9	0.85
EOG Resources	EOG	В	74.30	1.13	20,900	73	4	23	-	0.83
Chesapeake Energy Corp.	CHK		21.53	2.09	26,900	87		13	-	0.78
Devon Energy Corporation	DVN	В	58.69	1.35	35,200	62		38	-	0.67
Total or Median *	10%	14%	18%		221,000					0.84
Canada										
Encana Corporation	ECA	В	54.04	1.31	53,300	65		30	5	0.90
Imperial Oil Limited (30%)	IMO	В	40.35	1.08	11,200	-		83	17	0.85
Canadian Natural Resources	CNQ		59.22	1.41	45,100	20		80	-	0.80
Suncor Energy pro forma	SU	В	32.78	1.34	68,700	6		86	7	0.70
Canadian Oil Sands Trust	COSWF	В	25.02	1.11	13,400			100	-	0.62
Petro-Canada (to be SU@1.28)	PCZ	В	41.96							
Total or Median *	8%	12%	18%		192,000					0.80
L		1.1.	L:->							
Income and Small Cap (see se					39 100	40		60		0.79
Composite	2%	42%	14%		38,100	40		00		0.78
Enterprise Value Weighting	100%				2,283,100	10	16	57	17	0.73
Equal Weighting	10070	100%			2,203,100	32	7	53	7	0.75
Equal Weighted Buys		10070	100%			22	11	56	10	0.75
Equal weighted buys			100/0			22	11	50	10	0.73



			Table 2					
	McL	ep l	Energy	Portfol	lio			
Net	Presei	nt V	alue and	d McDe	ep Ratio			
	G 1 1/D		Price			Net	D 1 /	
	Symbol/Re		(US\$/sh)	a.	Market	Present	Debt/	
		Buy	27-Jul	Shares	Cap	Value	Present	McDep
	H=	Hold	2009	(mm)	(US\$mm)	(US\$/sh)	Value	Ratio
U.S. Integrated								
Exxon Mobil Corporation	XOM	В	72.75	4,959	361,000	89.00	0.09	0.83
Chevron Corporation	CVX	В	68.85	2,000	138,000	97.00	0.14	0.75
Marathon Oil Corporation	MRO	В	32.51	712	23,150	53.00	0.23	0.70
ConocoPhillips	COP	В	45.25	1,495	68,000	105.00	0.25	0.57
Total or Median				5,775	590,000		0.19	0.73
Europe								
BG Group plc	BRGXF	В	18.21	3,384	61,630	22.00	0.09	0.84
BP plc	BP	В	51.34	3,153	162,000	72.00	0.22	0.78
Royal Dutch Shell plc	RDS-A	В	52.24	3,063	160,000	79.00	0.17	0.72
Total S.A.	TOT	В	57.57	2,235	129,000	90.00	0.14	0.69
StatoilHydro ASA (33%)	STO	В	21.19	1,051	22,270	35.00	0.19	0.68
Total or Median					535,000		0.17	0.72
Brazil/China/Russia								
CNOOC Limited (34%)	CEO	В	137.06	152	20,870	135.00	-	1.02
PetroChina Company Ltd (14%)	PTR	В	120.32	256	30,830	150.00	0.10	0.82
Petrobras	PBR	В	42.72	4,387	187,410	58.00	0.13	0.77
Lukoil Oil Company	LUKOY	В	50.10	847	42,000	135.00	0.05	0.40
Gazprom (50%)	OGZPY	В	21.39	2,925	62,600	64.00	0.08	0.39
Total or Median				,, -	344,000		0.08	0.77
U.S. Independent	******	-	40.00		22 500	45.00	0.00	0.01
XTO Energy Inc.	XTO	В	40.83	578	23,600	47.00	0.29	0.91
Anadarko Petroleum Corp.	APC	В	48.62	460	22,400	59.00	0.36	0.89
Occidental Petroleum Corp.	OXY	В	72.99	814	59,400	87.00	0.07	0.85
EOG Resources	EOG	В	74.30	250	18,600	92.00	0.09	0.83
Chesapeake Energy Corp.	CHK	- D	21.53	597	12,850	34.00	0.41	0.78
Devon Energy Corporation	DVN	В	58.69	444	26,100	98.00	0.17	0.67
Total or Median					163,000		0.23	0.84
Canada								
Encana Corporation	ECA	В	54.04	751	40,600	62.00	0.21	0.90
Imperial Oil Limited (30%)	IMO	В	40.35	257	10,360	48.00	0.06	0.85
Canadian Natural Resources	CNQ	В	59.22	541	32,000	80.00	0.23	0.80
Suncor Energy pro forma	SU	В	32.78	1,568	51,390	52.00	0.18	0.70
Canadian Oil Sands Trust	COSWF	В	25.02	482	12,060	42.00	0.06	0.62
Petro-Canada (to be SU@1.28)	PCZ	В	41.96					
Total or Median					146,000		0.18	0.80
			2 6					
McDep Ratio = <b>M</b> arket <b>c</b> ap and <b>De</b> b Estimated present value presumes a		t valu	e of oil and	gas and ot	her business	es		



			Table 3					
	McDe	ep l	Energy	Portfol	io			
Value	Multij	ples	and Di	istributi	ion Yiel	ld		
			Price	Adjustd				Divd o
S	ymbol/Rai	- 0	(US\$/sh)	Resrvs/	PV/	EV/		Distril
		Buy	27-Jul	Prod	Ebitda	Ebitda	P/E	NTN
	H = H	Hold	2009	NTM	NTM	NTM	NTM	(%
U.S. Integrated								
Exxon Mobil Corporation	XOM	В	72.75	11.9	8.3	6.9	12	2.2
Chevron Corporation	CVX	В	68.85	9.9	7.4	5.6	12	3.8
Marathon Oil Corporation	MRO	В	32.51	9.2	7.3	5.2	11	3.0
ConocoPhillips	COP	В	45.25	10.5	8.6	4.9	8	4.2
Total or Median	COF	ь	43.23	10.3	7.9	5.4	12	3.4
101ан от меанап				10.2	7.9	5.4	12	3.4
Europe								
BG Group plc	BRGXF	В	18.21	9.1	8.6	7.3	15	1.0
BP plc	BP	В	51.34	9.8	7.2	5.6	9	6.5
Total S.A.	TOT	В	57.57	9.3	7.5	5.2	9	5.6
Royal Dutch Shell plc	RDS-A	В	52.24	7.6	7.1	5.1	10	6.4
StatoilHydro ASA (33%)	STO	В	21.19	7.4	5.9	4.0	8	5.5
Total or Median				9.1	7.2	5.2	9	5.6
D 11/01/1 /D								
Brazil/China/Russia	DDD	Ъ	40.70	0.4	11.2	0.7	1.5	2.0
Petrobras	PBR	В	42.72	9.4	11.3	8.7	15	3.9
PetroChina Company Ltd (14%)	PTR	В	120.32	14.3	9.6	7.9	26	3.4
CNOOC Limited (34%)	CEO	В	137.06	7.5	6.7	6.8	13	3.8
Gazprom (50%)	OGZPY	В	21.39	24.6	11.3	4.4	6	1.6
Lukoil Oil Company	LUKOY	В	50.10	16.4	10.8	4.4	9	2.5
Total or Median				14.3	10.8	6.8	13	3.4
U.S. Independent								
XTO Energy Inc.	XTO	В	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	В	74.30	9.8	10.4	8.6	73	0.8
Anadarko Petroleum Corp.	APC	В	48.62	9.2	8.4	7.5		1.5
Occidental Petroleum Corp.	OXY	В	72.99	11.0	7.9	6.7	15	1.8
Devon Energy Corporation	DVN	В	58.69	8.8	8.8	5.9	14	1.1
Total or Median			5 5 1 5 1	10.4	9.6	8.0	17	1.3
Canada Imperial Oil Limited (30%)	IMO	В	AD 25	10.2	12.2	11.2	22	0.0
Encana Corporation	IMO ECA	_	40.35	18.2	13.2 9.7	11.3		0.9
		В	54.04	9.1		8.8	18	3.0
Canadian Oil Sands Trust Canadian Natural Resources	COSWF	В	25.02 59.22	21.5 7.9	13.5	8.4	12 18	8.5
	CNQ	В		1.9	10.3	8.2		0.6
Suncor Energy pro forma	SU	В	32.78	-	10.2	7.1	50	0.6
Petro-Canada (to be SU@ 1.28)	PCZ	В	41.96	0.1	10.2	0.4	10	0.0
Total or Median				9.1	10.3	8.4	18	0.9
EV = Enterprise Value = Market Cap and	d Debt; Eb	itda	= Earnings	before inte	rest, tax, de	preciation		
and amortization; NTM = Next Twelve								
Earnings; PV = Present Value of oil and								

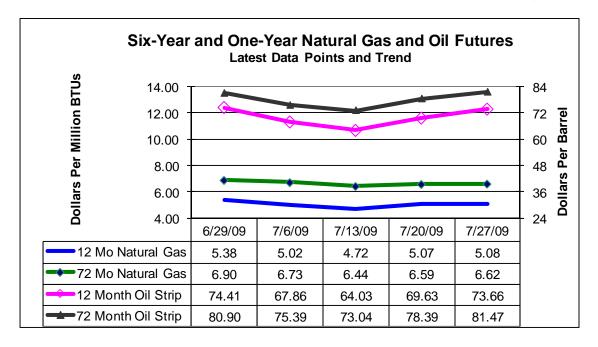


			Index of Reco	ent Resea	rch			
Stock 1	તિ	98						
Date		Symbol	Subject	Theme				
23-Jul	H	OXY	Occidental Petroleum Corporation		Discovery	May Be Wor	th \$2 a Shar	e
23-Jul	Н	ECA	EnCana Corporation		Helping in 2		tii \$2 a Silai	
22-Jul	Н	SU	Suncor Energy			anada to be E	ffective Au	muet 1
21-Jul	Н	CEO	CNOOC Ltd			d Gas (Meter)		gust i
21-Jul	H	PTR	PetroChina Company Limited			d Gas (Meter)		
10-Jul	H	SJT	San Juan Basin Royalty Trust			(Income and S		eekly)
10-Jul	H	HGT	Hugoton Royalty Trust			(Income and S		-
3-Jul	*	EAC	Encore Acquisition Company			and ENP on Ti		
19-Jun	-	PWE	Penn West Energy Trust			Canadian Ligl		
12-Jun	-	COSWF	Canadian Oil Sands Trust			ribution to US		
5-Jun	-	DMLP	Dorchester Minerals, L.P.			ormation Back		
2-Jun	-	RDSA	Royal Dutch Shell plc		Buy (Meter		dog (ISC W	cckiy)
2-Jun 2-Jun	-	BP	BP p.l.c.		Buy (Meter			
2-Jun 2-Jun	-	MRO	Marathon Oil Corporation		Buy (Meter			
12-May	-	LUKOY	Lukoil Oil Company		Buy (Meter			
11-May		STO	StatoilHydro ASA		-	ractical Ideali	ct	
8-May		PCZ	Petro-Canada			Price Trend		
3-May	-	IMO	Imperial Oil Limited		-	Price Trend		
3-May	-	CNQ	Canadian Natural Resources		-	Price Trend		
7-May	-	APC	Anadarko Petroleum Corporation		,	Price Trend		
6-May	-	XTO	XTO Energy Inc.		-	Price Trend		
6-May	-	DVN	Devon Energy Corporation	Efficient l	•	Thee frend		
6-May	-	TOT	Total S.A.		e to Recess	ion		
5-May	-	XEC	Cimarex Energy Company		Drill Shale			
5-May	-	EOG	EOG Resources Inc.			ore Oil and G	as	
5-May	-	BRGXF	BG Group			LNG and Brazi		
5-May	-	PBR	Petrobras		on Oil Grov			
1-May	-	CVX	Chevron Corporation			alth Globally		
l-May	-	BRY	Berry Petroleum		rough Tou			
30-Apr	-	XOM	Exxon Mobil Corporation			Tough Times		
29-Apr	-	OGZPY	Gazprom			lts for 2009		
23-Apr	*	COP	ConocoPhillips	-	ed Rich Res			
4-Mar	*	BIR.TO	Birchcliff Energy Ltd.			yalties (Taxes	on New W	ells
Meter	R	eader	<i>S</i>			,		
28-Jul	Т		Weekly					
21-Jul	t		CEO and PTR	China Bu	ying Oil an	d Gas		
14-Jul			Weekly			American Nat	ural Gas 20	%
7-Jul	*		Weekly		na Goes to l			
	a	nd Small	Cap Weekly					
24-Jul	Т		Weekly	Trend Set	tters			
17-Jul	T		Weekly			on \$6.60 Six-Y	ear Natural	Gas
10-Jul	T		HGT and SJT		the Bend			
3-Jul	*		Encore (EAC, ENP)		V on Timely	Deals		
Indust	v	Ideas	· · · · /					
2-Apr	*		Presentation	Making N	Money in O	il and Gas Sto	cks	



# DEP Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks July 28, 2009



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