

Rating: Buy
S&P 500: 1294

Occidental Petroleum Ecuador Expropriates

<i>Symbol</i>	OXY	<i>Ebitda Next Twelve Months ending 3/31/07 (US\$mm)</i>	10,900
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	11
<i>Price (US\$/sh)</i>	96.90	<i>Natural Gas and Oil Production/Ebitda (%)</i>	87
<i>Pricing Date</i>	5/16/06	<i>Adjusted Reserves/Production NTM</i>	10.4
<i>Shares (mm)</i>	431	<i>EV/Ebitda</i>	4.5
<i>Market Capitalization (US\$mm)</i>	41,700	<i>PV/Ebitda</i>	5.4
<i>Debt (US\$mm)</i>	7,200	<i>Undeveloped Reserves (%)</i>	26
<i>Enterprise Value (EV) (US\$mm)</i>	49,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	42.10
<i>Present Value (PV) (US\$mm)</i>	58,900	<i>Present Value Proven Reserves(US\$/boe)</i>	19.00
<i>Net Present Value (US\$/share)</i>	120	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.17
<i>Debt/Present Value</i>	0.12	<i>Earnings Next Twelve Months (US\$/sh)</i>	12.85
<i>McDep Ratio - EV/PV</i>	0.83	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	1.5	<i>Indicated Annual Dividend (US\$/sh)</i>	1.44

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.

Summary and Recommendation

The South American country of Ecuador apparently intends to expropriate the local oil properties of buy-recommended **Occidental Petroleum (OXY)**. The threatened action could potentially reduce our estimate of net present value (NPV) by a billion dollars or \$3 a share to \$117 from \$120. Since Ecuador has always been an unreliable place to do business in our experience, we can't get too excited about further indications of such behavior. Instead the evident expropriation serves to emphasize the undervaluation of oil as a commodity. More important to our estimate of NPV is that it is tied to a long-term oil price of \$50 a barrel. That looks low compared to the current futures price of \$71 for oil delivered over the next six years. Moreover the oil price trend is steady as it may be pointing to our vision of \$150 in 2010. Nonetheless, investors need patience in the face of likely volatility.

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Occidental 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>	
U.S. Natural Gas	1,241	9.8	6.4	8,000	14%
Rest of World Natural Gas	77	14.1	11.7	900	2%
Oil	8,173	10.4	5.4	43,800	74%
Downstream	1,376		4.5	6,200	11%
	10,867	10.4	5.4	58,900	100%
Debt (US\$mm)					7,200
Net Present Value (US\$mm)					51,700
Shares (mm)					431
Net Present Value - Standard Estimate (US\$/sh)					120
Net Present Value - Approximation by Correlation (US\$/sh)					121

Occidental Petroleum
Production and Reserves, 2005

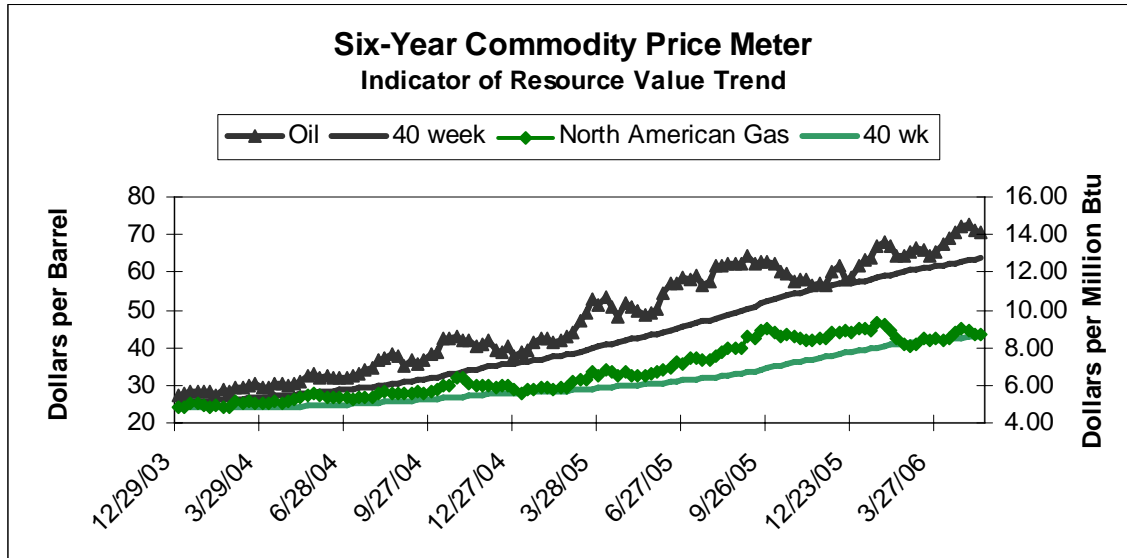
	<i>2005 Production</i>	<i>12/31/2005 Proven Reserves</i>			<i>Weighted</i>	<i>2006</i>
	<i>(daily)</i>	<i>Developed</i>	<i>Undeveloped</i>	<i>Weighted</i>	<i>Life Index</i>	<i>Adjusted</i>
	<i>(annual)</i>	<i>(bcf or mmb)</i>	<i>(bcf or mmb)</i>	<i>(bcf or mmb)</i>	<i>(years)</i>	<i>R/P</i>
						<i>(years)</i>
North American Natural Gas						
U.S.	553	202	1,846	492	2,092	10.4
Rest of World Natural Gas						
Middle East/North Africa	44	16	73	978	562	35.1
Other Eastern Hemisphere	77	28	80	9	85	3.0
Total	121	44	153	987	647	14.7
Oil						
U.S.	252	92	1,336	300	1,486	16.2
Latin America	79	29	110	36	128	4.4
Middle East/North Africa	96	35	174	122	235	6.7
Other Eastern Hemisphere	5	2	4		4	2.0
Other	19	7	37	8	41	5.9
Total	452	165	1,661	466	1,894	11.5

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Occidental Petroleum
Next Twelve Months Operating and Financial Estimates

	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Next Twelve Months</i>
	<i>3/31/05</i>	<i>12/31/05</i>	<i>2005</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>3/31/07</i>
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	528	572	553	582	582	582	582	582	582
Overseas (or Int'l)	134	102	121	126	126	126	126	126	126
Total	662	674	674	708	708	708	708	708	708
Oil (mbd)	427	477	442	492	500	500	500	498	500
Total gas & oil (mbd)	537	589	555	610	618	618	618	616	618
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.27	13.00	8.65	8.97	6.87	6.77	8.98	7.90	8.43
U.S. (or North America)	5.94	9.81	7.11	8.36	6.40	6.31	8.37	7.36	7.84
Overseas (or Int'l)	1.69	2.13	1.90	2.25	2.25	2.25	2.25	2.25	2.25
Total	5.08	8.65	6.17	7.27	5.66	5.59	7.28	6.45	6.85
Oil (\$/bbl)									
WTI Cushing	49.65	60.02	56.31	63.33	69.86	71.29	72.97	69.36	71.92
Worldwide	41.71	50.50	48.59	53.11	58.59	59.79	61.19	58.22	60.31
Total gas & oil (\$/bbl)	39.40	50.76	46.25	51.28	53.88	54.77	57.85	54.48	56.64
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	282	516	1,435	438	339	338	448	1,563	1,665
Overseas (or Int'l)	20	20	84	26	26	26	26	104	104
Total	303	536	1,519	463	365	364	474	1,666	1,769
Oil	1,603	2,216	7,846	2,352	2,666	2,750	2,815	10,583	11,006
Other	1,434	1,432	5,734	1,755	1,755	1,755	1,755	7,019	7,019
Total	3,340	4,184	15,099	4,570	4,785	4,869	5,044	19,268	19,795
Expense									
Fixed	211	346	1,190	171	171	171	171	685	905
Variable	211	346	1,190	514	553	568	600	2,235	2,380
Other	1,152	1,179	4,660	1,411	1,411	1,411	1,411	5,643	5,643
Ebitda (\$mm)									
Exploration and Production	1,483	2,060	6,986	2,130	2,306	2,375	2,518	9,329	9,491
Other	283	253	1,074	344	344	344	344	1,376	1,376
Total Ebitda	1,766	2,313	8,060	2,474	2,650	2,719	2,862	10,705	10,867
Exploration	47	124	337	71	71	71	71	284	284
Deprec., Deplet., & Amort.	344	409	1,485	480	480	480	480	1,920	1,920
Other non cash									
Ebit	1,375	1,780	6,238	1,923	2,099	2,168	2,311	8,501	8,663
Interest	75	23	185	29	29	29	29	116	142
Ebt	1,300	1,757	6,053	1,894	2,070	2,139	2,282	8,385	8,521
Income Tax	455	615	2,119	663	725	749	799	2,935	2,982
Net Income (\$mm)									
Exploration and Production	1,349	1,868	6,337	2,002					
Other	214	171	777	248					
Unallocated	(718)	(897)	(3,180)	(1,019)					
Total	845	1,142	3,934	1,231	1,346	1,390	1,483	5,450	5,538
Shares (millions)	406	399	404	431	431	431	431	431	431
Per share (\$)	2.08	2.86	9.75	2.86	3.13	3.23	3.44	12.66	12.85
Ebitda Margin (E&P)	78%	75%	75%	76%	76%	76%	77%	76%	74%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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