

Rating: Buy
S&P 500: 1366

Occidental Petroleum Stock Cheaper than Oil

<i>Symbol</i>	OXY	<i>Ebitda Next Twelve Months ending 9/30/07 (US\$mm)</i>	8,900
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	12
<i>Price (US\$/sh)</i>	46.33	<i>Natural Gas and Oil Production/Ebitda (%)</i>	85
<i>Pricing Date</i>	10/18/06	<i>Adjusted Reserves/Production NTM</i>	11.0
<i>Shares (mm)</i>	860	<i>EV/Ebitda</i>	5.1
<i>Market Capitalization (US\$mm)</i>	39,800	<i>PV/Ebitda</i>	7.3
<i>Debt (US\$mm)</i>	5,700	<i>Undeveloped Reserves (%)</i>	26
<i>Enterprise Value (EV) (US\$mm)</i>	45,500	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	35.40
<i>Present Value (PV) (US\$mm)</i>	65,000	<i>Present Value Proven Reserves(US\$/boe)</i>	20.50
<i>Net Present Value (US\$/share)</i>	69	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.42
<i>Debt/Present Value</i>	0.09	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.84
<i>McDep Ratio - EV/PV</i>	0.70	<i>Price/Earnings Next Twelve Months</i>	10
<i>Dividend Yield (%/year)</i>	0.0	<i>Indicated Annual Dividend (US\$/sh)</i>	0.00

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

Buy-recommended **Occidental Petroleum (OXY)** at a McDep Ratio of 0.70 appears to be priced in the stock market corresponding to a long-term oil price of \$42 a barrel. A McDep Ratio of 1.00 would correspond to \$60 that we use in estimating present value. Meanwhile futures prices for delivery over the next six years average \$66 a barrel. We are reasonably confident in our ability to measure a gap, but cannot know whether it will close with Oxy stock going up or futures coming down. We believe an upward trend in both Oxy stock price and crude oil futures will resume again, but must acknowledge that the near term trend is down in each case as defined by current quotes below the 200-day or 40-week average. Fundamental results for the third quarter reported on October 18 support present value that matches our correlation with cash flow and reserve life for some thirty natural gas and oil producers. A delayed tanker loading in Libya contributed to a temporary decline in oil production that is offset on a per share basis as a stock buyback reduces shares outstanding.

Kurt H. Wulff, CFA

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Occidental Petroleum
Next Twelve Months Operating and Financial Estimates

	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next Twelve Months</i>
	<i>9/30/05</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>3/31/07</i>	<i>6/30/06</i>	<i>9/30/07</i>	<i>9/30/07</i>
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	564	601	597	597	594	597	597	597	597
Overseas (or Int'l)	116	156	145	145	143	145	145	145	145
Total	680	757	742	742	737	742	742	742	742
Oil (mbd)	449	483	463	463	475	463	463	463	463
Total gas & oil (mmb)	52	55	54	54	218	53	53	54	214
Total gas & oil (mbd)	562	609	587	587	598	587	587	587	587
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	8.56	6.81	6.58	6.16	7.13	8.38	7.77	7.97	7.57
U.S. (or North America)	6.33	6.24	5.88	5.51	6.47	7.49	6.94	7.12	6.76
Overseas (or Int'l)	2.19	1.34	1.70	1.70	1.72	1.70	1.70	1.70	1.70
Total	5.62	5.23	5.06	4.76	5.55	6.36	5.92	6.06	5.77
Oil (\$/bbl)									
WTI Cushing	62.52	70.47	70.42	60.36	66.15	63.83	65.78	67.00	64.24
Worldwide	55.04	60.67	60.52	51.88	56.54	54.86	56.54	57.58	55.21
Total gas & oil (\$/bbl)	50.75	54.60	54.17	46.97	51.77	51.33	52.10	53.11	50.87
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	328	341	323	302	1,405	402	377	391	1,473
Overseas (or Int'l)	23	19	23	23	90	22	22	23	90
Total	352	360	346	325	1,494	424	400	414	1,563
Oil	2,274	2,667	2,578	2,210	9,806	2,286	2,382	2,453	9,330
Other	1,432	1,755	1,755	1,755	7,019	1,755	1,755	1,755	7,019
Total	4,057	4,782	4,678	4,290	18,320	4,465	4,537	4,621	17,913
Expense									
Fixed	362	237	218	218	845	218	218	218	873
Variable	362	712	655	568	2,448	607	623	642	2,440
Other	1,189	1,406	1,403	1,502	5,722	1,411	1,406	1,403	5,722
Ebitda (\$mm)									
Exploration and Production	1,901	2,078	2,050	1,749	8,007	1,885	1,940	2,006	7,580
Other	242	349	352	253	1,297	344	349	352	1,297
Total Ebitda	2,143	2,427	2,402	2,002	9,304	2,229	2,289	2,358	8,877
Exploration	55	50	74	74	269	74	74	90	312
Deprec., Deplet., & Amort.	376	494	524	524	2,022	524	524	524	2,096
Other non cash									
Ebit	1,712	1,883	1,804	1,404	7,013	1,631	1,691	1,744	6,469
Interest	40	33	18	18	98	18	18	18	72
Ebt	1,672	1,850	1,786	1,386	6,915	1,613	1,673	1,726	6,397
Income Tax	585	647	625	485	2,420	565	586	604	2,239
Net Income (\$mm)									
Exploration and Production	1,769	1,953	1,877						
Other	167	250	247						
Unallocated	(849)	(1,001)	(963)						
Total	1,087	1,202	1,161	901	4,495	1,048	1,087	1,122	4,158
Shares (millions)									
Per share (\$)	808	868	860	860	862	860	860	860	860
Ebitda Margin (E&P)	1.35	1.39	1.35	1.05	5.21	1.22	1.26	1.30	4.84
Ebitda Margin (E&P)	72%	69%	70%	69%	71%	70%	70%	70%	70%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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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	1,028	9.6	8.3	8,500	13%
Rest of World Natural Gas	63	12.2	8.0	500	1%
Oil	6,490	11.2	7.5	48,500	75%
Downstream	1,297		5.8	7,500	12%
	8,877	11.0	7.3	65,000	100%
Debt (US\$mm)					5,700
Net Present Value (US\$mm)					59,300
Shares (mm)					860
Net Present Value - Standard Estimate (US\$/sh)					69
Net Present Value - Approximation by Correlation (US\$/sh)					69

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