

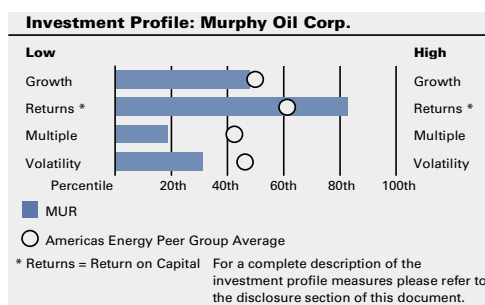
ACTION

Buy**Murphy Oil Corp. (MUR)****Return Potential: 23%**

Adding Murphy Oil to Americas Buy List

Source of opportunity

We are adding Murphy Oil to the Americas Buy List, with 24% total return upside potential to our revised \$115 (\$105 before) 12-month target price; the shares were previously Neutral rated. We believe Murphy shares will be major beneficiaries of our bullish crude oil view, as the company is also in the midst of a major E&P volume ramp-up at the Kikeh field in deepwater Malaysia. Finally, a revamped exploration program that is just kicking off provides additional upside optionality. We have updated our 2008-2012 EPS estimate for Murphy.



Catalyst

Key catalysts include: (1) rising consensus EPS revisions, as the Street raises its oil price outlook; (2) continued successful ramp-up at the Kikeh field and execution of other development projects (e.g., Horn River Basin, Sarawak gas); (3) exploration drilling news starting with the important Buntal prospect on Block K in deepwater Malaysia (news likely in July).

Valuation

Murphy shares trade at 5.8X 2009E EV/DACF, essentially in line with its domestic integrated oil peers, despite having far superior growth over the next few years and competitive ROCE. Our \$115 12-month target price corresponds to a 7.1X 2009E EV/DACF valuation and is based on the combination of asset value, cash flow and P/E valuation analyses incorporating our base-case WTI spot crude oil price deck of \$108, \$110, \$120, \$120, and \$75 per barrel for 2008-2012 normalized, respectively. Notably, using current 5-year strip commodity prices into perpetuity results in a potential upside valuation of ~\$180 for Murphy.

Key risks

Key risks include sustained lower oil prices, reservoir problems at Kikeh, and unsuccessful exploration.

INVESTMENT LIST MEMBERSHIP

Americas Buy List

Coverage View: Attractive

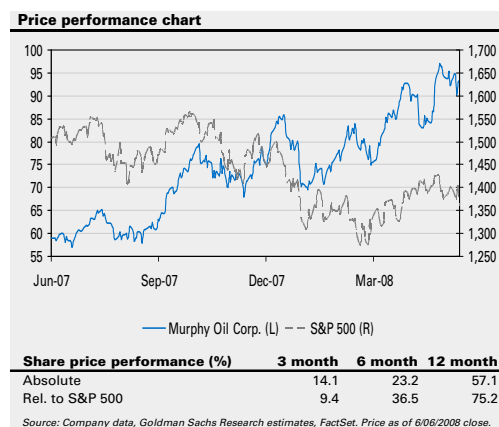
United States:
Oil

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Key data	Current			
Price (\$)	93.32			
12 month price target (\$)	115.00			
Market cap (\$ mn)	17,728.9			
	12/07	12/08E	12/09E	12/10E
Revenue (\$ mn) New	18,439.1	28,192.6	29,230.8	32,525.9
Revenue (\$ mn) Old	18,439.1	28,192.6	29,230.8	32,525.9
EPS (\$ New	4.35	9.20	9.45	10.65
EPS (\$ Old	4.35	9.26	10.50	10.05
P/E (X)	21.4	10.1	9.9	8.8
EV/EBITDA (X)	7.0	4.9	4.4	4.0
ROE (%)	18.2	30.8	25.6	23.5
	12/07	3/08E	6/08E	9/08E
EPS (\$)	1.28	1.93	2.00	2.52



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Murphy Oil Corp.: Summary financials

Profit model (\$ mn)	12/07	12/08E	12/09E	12/10E	Balance sheet (\$ mn)	12/07	12/08E	12/09E	12/10E
Total revenue	18,439.1	28,192.6	29,230.8	32,525.9	Cash & equivalents	673.7	500.0	500.0	750.0
Cost of goods sold	(16,492.9)	(24,117.7)	(24,794.5)	(27,896.4)	Accounts receivable	1,420.6	1,420.6	1,420.6	1,420.6
SG&A	(114.3)	(120.9)	(120.9)	(121.7)	Inventory	626.6	626.6	626.6	626.6
R&D	--	--	--	--	Other current assets	165.8	165.8	165.8	165.8
Other operating profit/(expense)	(15.7)	(9.1)	(9.1)	(8.3)	Total current assets	2,886.8	2,713.1	2,713.1	2,963.1
ESO expense	(15.7)	(9.1)	(9.1)	(8.3)	Net PP&E	7,109.8	8,997.2	10,321.4	11,572.9
EBITDA	1,816.2	3,944.9	4,306.3	4,499.5	Net intangibles	51.5	51.5	51.5	51.5
Depreciation & amortization	(489.8)	(648.3)	(871.7)	(1,029.2)	Total investments	0.0	0.0	0.0	0.0
EBIT	1,326.4	3,296.6	3,434.6	3,470.3	Other long-term assets	487.8	487.8	487.8	487.8
Net interest income/(expense)	(25.6)	(87.4)	(70.0)	(25.0)	Total assets	10,535.8	12,249.5	13,573.7	15,075.2
Income/(loss) from associates	0.0	0.0	0.0	0.0	Accounts payable	1,662.4	1,662.4	1,662.4	1,662.4
Others	0.0	0.0	0.0	0.0	Short-term debt	12.8	5.0	5.0	5.0
Pretax profits	1,300.8	3,209.3	3,364.6	3,445.3	Other current liabilities	434.1	434.1	434.1	434.1
Provision for taxes	(470.7)	(1,444.2)	(1,514.1)	(1,378.1)	Total current liabilities	2,109.3	2,101.5	2,101.5	2,101.5
Minority interest	0.0	0.0	0.0	0.0	Long-term debt	1,516.2	1,540.9	759.5	445.4
Net income pre-preferred dividends	830.1	1,765.1	1,850.5	2,067.2	Other long-term liabilities	1,817.4	2,193.3	2,590.0	2,990.4
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	3,333.5	3,734.2	3,349.5	3,435.8
Net income (pre-exceptionals)	830.1	1,765.1	1,850.5	2,067.2	Total liabilities	5,442.8	5,835.7	5,451.0	5,537.3
Post tax exceptionals	0.0	39.9	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
Net income (post-exceptionals)	766.5	1,805.0	1,850.5	2,067.2	Common stock	737.2	756.1	778.9	306.3
EPS (basic, pre-except) (\$)	4.30	9.09	9.34	10.52	Retained earnings	3,923.5	5,580.8	7,266.9	9,154.7
EPS (diluted, pre-except) (\$)	4.35	9.20	9.45	10.65	Other common equity	405.5	50.0	50.0	50.0
EPS (basic, post-except) (\$)	3.97	9.29	9.34	10.52	Total common equity	5,066.2	6,386.9	8,095.8	9,511.0
EPS (diluted, post-except) (\$)	4.02	9.41	9.45	10.65	Minority interest	26.9	26.9	26.9	26.9
Common dividends paid	(127.8)	(147.8)	(164.4)	(179.3)	Total liabilities & equity	10,535.8	12,249.5	13,573.7	15,075.2
DPS (\$)	0.67	0.77	0.84	0.92					
Dividend payout ratio (%)	15.6	8.5	9.0	8.8					
Growth & margins (%)	12/07	12/08E	12/09E	12/10E	Additional financials	12/07	12/08E	12/09E	12/10E
Sales growth	28.9	52.9	3.7	11.3	Net debt/equity (%)	16.8	16.3	3.3	(3.1)
EBITDA growth	27.1	117.2	9.2	4.5	Interest cover (X)	51.8	37.7	49.1	138.8
EBIT growth	27.0	148.5	4.2	1.0	Inventory days	11.5	9.5	9.2	8.2
Net income (pre-except) growth	28.7	112.6	4.8	11.7	Receivable days	23.9	18.4	17.7	15.9
EPS growth	27.6	111.5	2.8	12.7	BVPS (\$)	26.67	33.53	42.39	50.95
Gross margin	10.6	14.5	15.2	14.2	ROA (%)	9.2	15.5	14.3	14.4
EBITDA margin	9.8	14.0	14.7	13.8	CROCI (%)	18.0	24.2	23.3	22.6
EBIT margin	7.2	11.7	11.7	10.7	Dupont ROE (%)	16.3	27.5	22.8	21.7
Cash flow statement (\$ mn)	12/07	12/08E	12/09E	12/10E	Margin (%)	4.5	6.3	6.3	6.4
Net income	830.1	1,765.1	1,850.5	2,067.2	Turnover (X)	1.8	2.3	2.2	2.2
D&A add-back (incl. ESO)	489.8	648.3	871.7	1,029.2	Leverage (X)	2.1	1.9	1.7	1.6
Minority interest add-back	0.0	0.0	0.0	0.0	Free cash flow per share (\$)	(2.23)	0.18	5.19	6.76
Net (inc)/dec working capital	145.5	0.0	0.0	0.0	Free cash flow yield (%)	(3.6)	0.2	5.6	7.2
Other operating cash flow	380.5	417.4	508.4	519.8					
Cash flow from operations	1,845.9	2,830.8	3,230.6	3,616.2					
Capital expenditures	(1,949.2)	(2,480.0)	(2,203.5)	(2,288.5)					
Acquisitions	(348.3)	(315.0)	0.0	0.0					
Divestitures	21.6	0.0	0.0	0.0					
Others	(105.4)	(97.7)	(104.1)	(111.6)					
Cash flow from investing	(2,381.3)	(2,892.7)	(2,307.6)	(2,400.1)					
Dividends paid (common & pref)	(127.4)	(147.8)	(164.4)	(179.3)					
Inc/(dec) in debt	681.5	17.0	(781.4)	(314.1)					
Other financing cash flows	112.7	19.0	22.8	(472.7)					
Cash flow from financing	666.8	(111.8)	(923.0)	(966.1)					
Total cash flow	131.4	(173.7)	0.0	250.0					

Note: Last actual year may include reported and estimated data.
Source: Company data, Goldman Sachs Research estimates.

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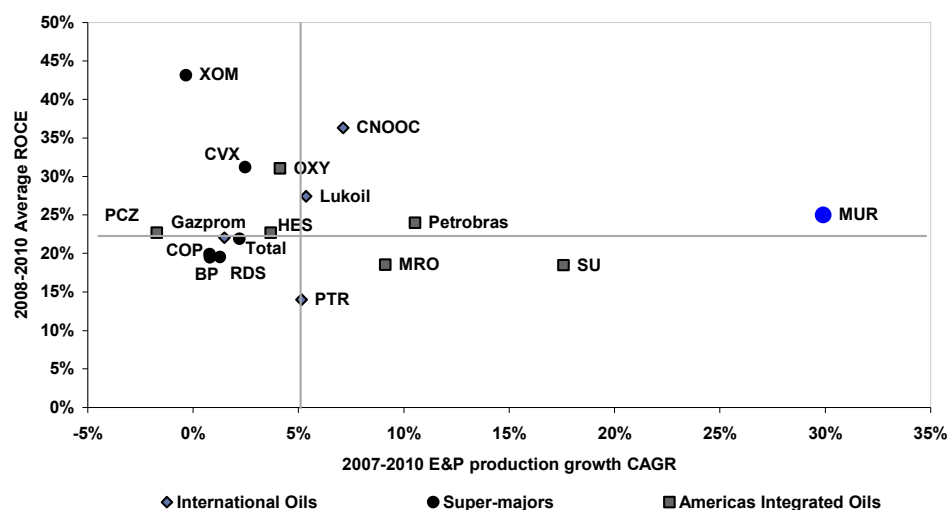
The prices in the body of this report are based on the market close of June 6, 2008.

Investment view: Adding Murphy Oil to Americas Buy List

We believe Murphy shares may be poised for another big leg up on the combination of sharply higher crude oil prices, rising E&P production volumes, and a revamped exploration program. We believe our revised \$115 (\$105 before) 12-month target price could prove conservative in the event crude oil prices continue to surprise to the upside or the company has a material exploration success, the latter of which is not assumed in our current target price. Our target is based on asset value, cash flow and P/E valuation analyses. Key risks include sustained lower oil prices, reservoir problems at Kikeh, and unsuccessful exploration.

- **Significant crude oil price leverage.** In terms of crude oil leverage, using strip WTI spot crude oil prices that average \$125 per barrel over the next five years into perpetuity would result in an upside valuation of around \$180 per share. In our view, corporate M&A transactions have typically reflected strip commodity prices into perpetuity, making the upside valuation not as far fetched as it may initially appear. Even using a \$100 per barrel long-term WTI spot oil price instead of our \$75 per barrel assumption would raise Murphy's asset value to around \$140. We note that our EPS estimates and asset value for Murphy take into account the negative impact of the sharply higher Malaysia government take on "profit oil" volumes, which we assume kicks in during early 2009, once the Kikeh field is largely through "cost recovery" mode.
- **Leading 2007-2010 E&P production growth.** As highlighted in Exhibit 1, Murphy has best-in-class E&P volume growth over the 2007-2010 period among integrated oils and as importantly competitive profitability. The key driver of its growth profile is the large Kikeh field in deepwater Malaysia, which is currently ramping up. We note that given Murphy's dependence on Kikeh, this also represents the key non-commodity price risk factor for the company. Beyond Kikeh, we see the company's exposure to the emerging Horn River Basin shale play in British Columbia (Canada) as well as the Sarawak (Malaysia) gas development project as key additional production growth drivers. Growth beyond 2010 is less visible at this time and will require either exploration success or acquisitions, both of which are possible.
- **Revamped exploration program.** After achieving material success in the early part of this decade, most notably on Block K in deepwater Malaysia (Kikeh, etc.), Murphy went through an unsuccessful stretch in the middle of this decade. Over the past 18 months, the company meaningfully slowed its exploration efforts, revamping the program in conjunction with a broader E&P management restructuring. Importantly, the revamped program kicks off shortly, with key wells expected to be drilled in deepwater Malaysia, the deepwater Gulf of Mexico, Australia, and offshore Congo. The most interesting prospect we think is the Buntal prospect on Block K in deepwater Malaysia, which is expected to spud later this month; wells typically take 30-45 days to drill, suggesting news is likely in July. Buntal will target deeper horizons that were originally seen at the Kikeh #7 well drilled several years ago, though we note that Buntal is outboard of the general Kikeh area making the prospect both high-reward and high-risk. Importantly, we believe Murphy shares reflect no value for Buntal.

Exhibit 1: Murphy has industry-leading E&P volume growth and competitive profitability
2007-2010 E&P production growth CAGR vs. 2008-2010 average ROCE



Source: Company reports, Goldman Sachs Research estimates.

Updated EPS estimates

We have updated our 2008-2012 EPS estimates to reflect minor changes to E&P production volumes, capital spending, realized prices and costs following the company's annual analyst meeting in May (see Exhibit 2).

Exhibit 2: Murphy Oil updated EPS estimates

	GS Estimates			First Call	GS. New vs. First Call
	New	Old	% chg.		
2008E:					
2QE	2.00	2.02	-1.0%	1.88	6.3%
3QE	2.52	2.54	-0.9%	2.06	22.3%
4QE	2.75	2.76	-0.5%	2.20	25.1%
Year	\$9.20	\$9.26	-0.6%	\$7.90	16.4%
2009E	\$9.45	\$10.50	-10.0%	\$9.39	0.7%
2010E	\$10.65	\$10.05	6.0%	-	-
2011E	\$10.15	\$10.40	-2.4%	-	-
2012N	\$8.35	\$7.25	15.2%	-	-

Source: Company reports, Goldman Sachs Research estimates.

Reg AC

I, Arjun N. Murti, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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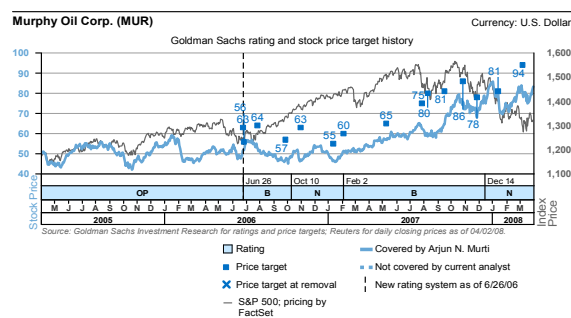
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	Rating Distribution				Investment Banking Relationships		
	Buy	Hold	Sell		Buy	Hold	Sell
Global	28%	57%	15%		51%	44%	41%

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