

April 13, 2006

Integrated Oils and R&M Raising Estimates; Maintain Constructive Outlook

Maintain Attractive View on Integrated Oils/R&M:

Integrated Oils appear 15% undervalued based on normalized returns on capital. Independent R&Ms represent the best value per unit of return in Energy.

Raising Q1 Estimates; Maintain Full Year 2006:

We have raised our Q1 2006 estimates in order to mark-to-market the estimates for the actual crude oil and natural gas prices and margins in R&M realized in the first quarter 2006.

COP, MRO, XOM Favorite Integrated Oils, VLO, SUN

Top R&M Ideas: COP (PT \$80), MRO (\$87) and XOM (PT \$78) are our favorite Integrated Oil ideas based upon attractive valuations and positive catalysts relative to peers. VLO (PT \$75) and SUN (PT \$95) are our top R&M ideas and offer significant leverage to refining margins.

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Industry Views

Industry	Industry View
Integrated Oil	Attractive
Refining & Marketing	Attractive

GICS Sector: Energy

Stratigist's Recommended Weight	9.8%
S&P 500 Weight	9.8%

Revised Q1 2006 EPS

	1Q-06 EPS	
	Old	New
ExxonMobil	\$1.36	\$1.40
ConocoPhillips	\$1.75	\$2.30
Amerada Hess	\$3.80	\$4.80
Valero	\$1.11	\$1.30
Tesoro	\$0.59	\$0.70
Frontier	\$0.42	\$0.70
Holly	\$0.55	\$0.90
Giant	\$0.58	(\$0.30)

Source: Morgan Stanley Estimates

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Investment Case

Summary & Conclusions

We have raised our Q1 2006 earnings estimates to reflect the strength of crude oil and refining margins, which exceeded our expectations in the period. Estimates for Giant have decreased due to the impact of the Yorktown refinery fire, which occurred late in the fourth quarter 2005. Regarding the stocks, we affirm our constructive views on the Integrated Oil and R&M sectors as Attractive.

The Integrated Oils appear undervalued in relation to the S&P 500 by approximately 15%. However, Independent R&M valuations per unit of return on a mid-cycle basis represent the most attractive position in energy, in our opinion.

Valuation Methodology and Risks

We utilize the five-year average multiple for valuation with normalized EPS defined as the company's earnings using mid-cycle pricing conditions for its operational segments. The primary risks for all Integrated Oil and Independent R&M companies remains economic growth, which influences demand for petroleum, and prices for crude oil, natural gas, and refined products. Our projections remain consistent with Morgan Stanley's global GDP forecast of 4.2% for 2006 and 3.8% for 2007.

Exhibit 1

Morgan Stanley Earnings Estimates - 1Q 2006

	Price	Rating	1Q-06 EPS		
			Old	New	Consensus
ExxonMobil	\$61.46	O	\$1.36	\$1.40	\$1.45
ConocoPhillips	\$67.33	O	\$1.75	\$2.30	\$2.32
Amerada Hess	\$143.89	U	\$3.80	\$4.80	\$4.86
Valero	\$63.78	O	\$1.11	\$1.30	\$1.31
Tesoro	\$72.43	E	\$0.59	\$0.70	\$0.79
Frontier	\$55.84	U	\$0.42	\$0.70	\$0.72
Holly	\$80.52	E	\$0.55	\$0.90	\$0.92
Giant	\$72.10	U	\$0.58	(\$0.30)	(\$0.42)

Source: Morgan Stanley Research Estimates
Prices as of 4/12/06

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(as of March 31, 2006)

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Integrated Oil

Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	721	36%	259	40%	36%
Equal-weight/Hold	879	44%	300	47%	34%
Underweight/Sell	378	19%	84	13%	22%
Total	1,978		643		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley or an affiliate received investment banking compensation in the last 12 months.

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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More volatile (V). We estimate that this stock has more than a 25% chance of a price move (up or down) of more than 25% in a month, based on a quantitative assessment of historical data, or in the analyst's view, it is likely to become materially more volatile over the next 1-12 months compared with the past three years. Stocks with less than one year of trading history are automatically rated as more volatile (unless otherwise noted). We note that securities that we do not currently consider "more volatile" can still perform in that manner.

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Integrated Oil

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Industry Coverage: Integrated Oil

Company (Ticker)	Rating (as of)	Price (04/12/2006)
Douglas T. Terreson		
Amerada Hess Corp. (AHC.N)	U (03/18/2002)	\$143.89
Chevron Corporation (CVX.N)	E (08/24/2005)	\$58.67
ConocoPhillips (COP.N)	O (04/03/2006)	\$67.33
Exxon Mobil Corporation (XOM.N)	O (03/18/2002)	\$61.46
Marathon Oil Corporation (MRO.N)	O (07/18/2005)	\$79.28
Occidental Petroleum (OXY.N)	U (10/22/2002)	\$96.34

Stock Ratings are subject to change. Please see latest research for each company.

Industry Coverage: Refining & Marketing

Company (Ticker)	Rating (as of)	Price (04/12/2006)
Douglas T. Terreson		
Frontier Oil (FTO.N)	U (09/09/2005)	\$55.84
Giant Industries (GI.N)	U (09/09/2005)	\$72.10
Holly Corporation (HOC.N)	E (09/09/2005)	\$80.52
Sunoco Inc. (SUN.N)	O (08/24/2005)	\$80.95
Tesoro Petroleum (TSO.N)	E (09/09/2005)	\$72.43
Valero (VLO.N)	O (09/09/2005)	\$63.76

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