



# Meter Reader

Monthly Analysis of Oil and Gas Stocks  
April 10, 2018

## Transition to Moderate Growth and Inflation

### Summary and Recommendation

Oil and gas stocks are likely to perform well in the diversified McDep Portfolio in an expected economic scenario of transition from low growth and inflation to moderate growth and inflation. Stocks we like range from the largest **ExxonMobil (XOM)**, **Royal Dutch Shell (RDS)** and **Chevron (CVX)** to the smallest five stocks in our Income Group which pay a median distribution yield of 8% (see [Tables 1-4](#) on pages 2-5 and [Index of Recent Research](#) on page 6). In between, among our three independent producer groups, we like **EOG Resources (EOG)**, **Marathon (MRO)** and the speculative **California Resources (CRC)**, for example. As we proceed through an economic transition in 2018, markets have been more volatile with no shortage of global political issues to worry about. Consider Syria, Iran, Russia, North Korea, trade with China and political polarization in the U.S., to name a few. We take comfort in a diversified portfolio with an overweighting in oil and gas. We currently allocate the portfolio 60% to Growth and 40% to Protection. The 60/40 split is common and may roughly reflect the relative total value of all equities and all debt.

The growth proportion is divided 20% in oil and gas and 40% in total global equities. Growth with low inflation is the normal expectation as in the 1980s, 1990s and 2010s. Oil and gas made money during those periods, but not as much as the rest of the stock market. Oil and gas did well in the 1970s with high inflation and Mideast turmoil, as well as in the 2000s with the rapid growth of energy demand in China. Looking ahead to the approaching 2020s, we may see more inflation, ongoing political turmoil and the reemergence of the U.S. as the dominant world producer of energy. U.S. producers may have both price and volume going for them rather than just price as in the 1970s and 2000s.

Yet, the pursuit of investment rewards inevitably entails risk. As a result, the protection portion of the McDep portfolio includes 4% in a gold bullion fund and 36% in a ladder of Treasury securities with an average duration of two years, including cash. Against the low, even negative return after inflation and taxes, Treasuries' relative stability helps cushion against emotional pressure to sell in a down market. Then Treasury securities provide a ready source of cash to buy at lower price.

Portfolio allocation will likely be different for every investor. We are comfortable being 60% optimistic and 40% cautious.

Kurt H. Wulff, CFA



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**Table 1**  
**McDep Energy Stocks**  
**Ranked by McDep Ratio**

		Price (US\$/sh)	Market Cap (US\$m)	Enterprise Value (\$mm)	EV/ Market Cap	EV/ Ebitda NTM	PV/ Ebitda NTM	Oil Prod'n/ Ebitda (%)	Dist. Yield NTM (%)	McDep Ratio (EV/PV)	
	Symbol/Rating	10-Apr 2018									
<b>Integrated</b>											
	Chevron Corporation	CVX	118.85	227,000	292,000	1.29	7.4	8.9	63	3.6	0.83
	Exxon Mobil Corporation	XOM	77.07	329,000	421,000	1.28	7.9	9.7	49	4.0	0.81
	Suncor Energy	SU	36.74	61,000	79,000	1.31	6.7	8.6	81	3.1	0.78
	Royal Dutch Shell	RDS-B	69.62	291,000	409,000	1.41	6.7	8.8	48	5.4	0.76
	<i>Total or Median</i>			<i>908,000</i>	<i>1,201,000</i>	<i>1.30</i>	<i>7.0</i>	<i>8.8</i>	<i>56</i>	<i>3.8</i>	<i>0.80</i>
<b>Large Independent</b>											
	Occidental Petroleum Corp.	OXY	70.50	54,000	67,600	1.25	8.0	8.4	77	4.4	0.95
	Pioneer Natural Resources	PXD	178.37	30,300	32,600	1.08	8.5	9.5	93	0.0	0.90
	EOG Resources, Inc.	EOG	107.66	62,300	69,400	1.11	8.2	9.7	91	0.7	0.84
	ConocoPhillips	COP	62.34	75,000	98,000	1.31	7.3	8.8	76	1.8	0.82
	<i>Total or Median</i>			<i>221,600</i>	<i>267,600</i>	<i>1.18</i>	<i>8.1</i>	<i>9.2</i>	<i>84</i>	<i>1.3</i>	<i>0.87</i>
<b>Mid-Size Independent</b>											
	Hess Corporation	HES	53.69	16,800	24,900	1.48	11.8	12.0	88	1.9	0.98
	Continental Resources	CLR	60.98	22,800	29,300	1.28	8.4	9.4	82	-	0.90
	Cimarex Energy Company	XEC	94.11	9,000	10,500	1.17	6.2	8.8	78	0.5	0.71
	Marathon Oil Corporation	MRO	17.06	14,500	21,600	1.49	5.9	9.0	88	1.2	0.66
	Devon Energy Corporation	DVN	33.61	17,800	25,700	1.45	6.8	10.4	73	1.0	0.65
	<i>Total or Median</i>			<i>80,900</i>	<i>112,000</i>	<i>1.45</i>	<i>6.8</i>	<i>9.4</i>	<i>82</i>	<i>1.0</i>	<i>0.71</i>
<b>Small Independent</b>											
	California Resources	CRC	20.47	900	7,100	8.1	6.4	9.5	92	-	0.68
	Range Resources	RRC	14.78	3,600	8,400	2.30	6.1	10.7	46	0.5	0.57
	Whiting Petroleum Corporation	WLL	35.78	3,300	6,600	2.03	4.8	9.1	97	-	0.53
	Birchcliff Energy Ltd.	BIREF	3.41	900	1,500	1.64	5.9	11.7	46	2.3	0.50
	<i>Total or Median</i>			<i>8,700</i>	<i>23,600</i>	<i>2.16</i>	<i>6.0</i>	<i>10.1</i>	<i>69</i>	<i>0.3</i>	<i>0.55</i>
<b>Income</b>											
	Permian Basin RT	PBT	9.62	450	450	1.00	12.1	12.6	80	8.0	0.96
	Sabine Royalty Trust	SBR	44.00	640	640	1.00	15.0	17.0	67	6.7	0.88
	San Juan Basin Royalty Trust	SJT	7.00	330	330	1.00	11.4	13.1	-	8.5	0.87
	Dorchester Minerals, L.P.	DMLP	16.90	550	550	1.00	8.8	12.5	81	10.9	0.70
	Cross Timbers Royalty Trust	CRT	13.26	80	80	1.00	8.1	15.1	39	10.0	0.53
	<i>Total or Median</i>			<i>2,100</i>	<i>2,100</i>	<i>1.00</i>	<i>11.4</i>	<i>13.1</i>	<i>67</i>	<i>8.5</i>	<i>0.87</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation, amort.

Estimated Ebitda (cash flow) tied to NTM futures prices for oil and natural gas. NTM = Next Twelve Months ending 3/31/19.

Estimated Present Value (PV) presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.00 a million btu.

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses. For historical research see [www.mcdep.com](http://www.mcdep.com)



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	Symbol/Rating	Price	Upstream NTM				Down-	Total	Distrib./ Ebitda (%)	Distrib. NTM (\$/sh)
		(US\$/sh) 10-Apr 2018	Volume (mmboe)	Equiv. Price (\$/boe)	Ebitda Margin (%)	Ebitda (\$/boe)	stream Uplift (\$/boe)	Ebitda NTM (\$mm)		
<b>Integrated</b>										
Royal Dutch Shell	RDS-B	69.62	1348	43.35	73	31.50	13.65	42,452	26	3.76
Exxon Mobil Corporation	XOM	77.07	1477	45.41	54	24.40	11.91	36,050	25	3.08
Chevron Corporation	CVX	118.85	1034	47.71	64	30.60	7.74	31,636	21	4.32
Suncor Energy	SU	36.74	277	58.25	60	34.76	7.90	9,642	16	1.13
	<i>Total or Median</i>		<i>4136</i>	<i>46.56</i>	<i>62</i>	<i>31.05</i>	<i>9.91</i>	<i>119,779</i>	<i>23</i>	
<b>Large Independent</b>										
ConocoPhillips	COP	62.34	449	45.82	65	30.00	0.00	13,460	10	1.14
EOG Resources, Inc.	EOG	107.66	272	43.53	71	31.03	0.00	8,446	5	0.74
Occidental Petroleum Corp.	OXY	70.50	246	43.87	64	27.90	6.49	6,876	28	3.08
Pioneer Natural Resources	PXD	178.37	125	42.17	73	30.70	0.00	3,834	0	0.08
	<i>Total or Median</i>		<i>1092</i>	<i>43.70</i>	<i>68</i>	<i>30.35</i>	<i>0.00</i>	<i>32,616</i>	<i>8</i>	
<b>Mid-Size Independent</b>										
Marathon Oil Corporation	MRO	17.06	157	36.16	64	23.20	0.00	3,631	5	0.20
Continental Resources	CLR	60.98	108	40.08	80	32.00	0.00	3,470	-	-
Devon Energy Corporation	DVN	33.61	177	29.62	63	18.70	2.83	3,309	4	0.32
Hess Corporation	HES	53.69	94	42.54	53	22.50	0.00	2,114	15	1.00
Cimarex Energy Company	XEC	94.11	81	31.21	67	20.90	0.00	1,694	3	0.48
	<i>Total or Median</i>		<i>617</i>	<i>36.16</i>	<i>64</i>	<i>22.50</i>	<i>0.00</i>	<i>14,219</i>	<i>4</i>	
<b>Small Independent</b>										
Whiting Petroleum Corporation	WLL	35.78	47	44.79	65	29.30	0.00	1,373	-	-
Range Resources	RRC	14.78	137	18.93	52	9.90	0.00	1,361	1	0.08
California Resources	CRC	20.47	46	50.33	48	24.00	0.00	1,100	-	-
Birchcliff Energy Ltd.	BIREF	3.41	23	17.22	66	11.40	0.00	258	8	0.08
	<i>Total or Median</i>		<i>253</i>	<i>31.86</i>	<i>59</i>	<i>17.70</i>	<i>0.00</i>	<i>4,091</i>	<i>1</i>	
<b>Income</b>										
Dorchester Minerals, L.P.	DMLP	16.90	2.52	34.77	71	24.53	0.00	62	96	1.84
Sabine Royalty Trust	SBR	44.00	1.56	32.43	85	27.43	0.00	43	100	2.94
Permian Basin RT	PBT	9.62	1.27	43.56	67	29.20	0.00	37	97	0.77
San Juan Basin Royalty Trust	SJT	7.00	3.28	15.69	55	8.69	0.00	28	98	0.60
Cross Timbers Royalty Trust	CRT	13.26	0.50	36.18	55	20.03	0.00	10	80	1.32
	<i>Total or Median</i>		<i>9</i>	<i>34.77</i>	<i>67</i>	<i>24.53</i>	<i>0.00</i>	<i>180</i>	<i>97</i>	

For historical research see [www.mcdep.com](http://www.mcdep.com)



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**Table 3**  
**McDep Energy Stocks**  
**Net Present Value Per Share**

		Price (US\$/sh)	Shares	Debt (\$mm)	P/E	Devel. Resrvs/ Prod	Undev/ Devel. Resrvs	Nat Gas/ Ebitda	Top Line/ Ebitda	Net Present Value	
	Symbol/Rating	10-Apr 2018	(mm)		NTM	NTM	(%)	(%)	(%)	(US\$/sh)	
<b>Integrated</b>											
	Chevron Corporation	CVX	118.85	1,906	65,059	15	7.3	57	21	150.00	
	Exxon Mobil Corporation	XOM	77.07	4,270	92,054	14	9.5	52	27	100.00	
	Royal Dutch Shell	RDS-B	69.62	4,177	118,194	12	7.3	22	31	100.00	
	Suncor Energy	SU	36.74	1,655	18,599	11	9.2	87		50.00	
	<i>Median</i>						8.2				
<b>Large Independent</b>											
	Pioneer Natural Resources	PXD	178.37	170	2,300	25	7.2	9	7	200.00	
	EOG Resources, Inc.	EOG	107.66	579	7,071	21	5.0	43	9	130.00	
	ConocoPhillips	COP	62.34	1,198	23,215	16	7.8	31	24	80.00	
	Occidental Petroleum Corp.	OXY	70.50	766	13,600	19	7.8	35	5	75.00	
	<i>Median</i>						7.5				
<b>Mid-Size Independent</b>											
	Cimarex Energy Company	XEC	94.11	95	1,552	10	5.1	35	22	140.00	
	Continental Resources	CLR	60.98	374	6,480	26	5.6	121	18	70.00	
	Devon Energy Corporation	DVN	33.61	528	7,944	14	8.5	24	16	60.00	
	Hess Corporation	HES	53.69	314	8,078		7.7	59	12	55.00	
	Marathon Oil Corporation	MRO	17.06	850	7,073	21	5.8	60	12	30.00	
	<i>Median</i>						5.8				
<b>Small Independent</b>											
	Whiting Petroleum Corporation	WLL	35.78	91	3,367	116	7.2	84	3	100.00	
	California Resources	CRC	20.47	43	6,200		9.6	41	8	100.00	
	Range Resources	RRC	14.78	246	4,720	13	10.1	83	54	40.00	
	Birchcliff Energy Ltd.	BIREF	3.41	268	588	26	7.2	228	54	9.00	
	<i>Median</i>						8.4				
<b>Income</b>											
	Sabine Royalty Trust	SBR	44.00	15	-	15	11.4	3	33	100	50.00
	Cross Timbers Royalty Trust	CRT	13.26	6	-	10	11.2	-	61	80	25.00
	Dorchester Minerals, L.P.	DMLP	16.90	32	-	11	6.4	-	19	83	24.00
	Permian Basin RT	PBT	9.62	47	-	12	6.6	-	18	38	10.00
	San Juan Basin Royalty Trust	SJT	7.00	47	-	12	12.8	-	98	-	8.00
	<i>Median</i>						11.2				

P/E = Stock Price to Earnings. For historical research see [www.mcdep.com](http://www.mcdep.com).



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Table 4										
McDep Energy Stocks										
Total Return Year-to-Date 2018										
Ranked by Unlevered Total Return										
		Price (\$/sh)	Price (\$/sh)	Price Change (%)	Cash Distrib. (%)	Equity Total Return (%)	Debt Return (\$/sh)	Unlevered Total Return (%)	McDep Ratio	
	Symbol/Rati	10-Apr 2018	29-Dec 2017							
<b>Integrated</b>										
	Royal Dutch Shell	RDS-B	69.62	68.29	2	1	3	28	2	0.76
	Suncor Energy	SU	36.74	36.72	0	-	0	11	0	0.78
	Chevron Corporation	CVX	118.85	125.19	(5)	1	(4)	34	(3)	0.83
	Exxon Mobil Corporation	XOM	77.07	83.64	(8)	1	(7)	22	(6)	0.81
	<i>Median</i>				(3)		(2)		(2)	0.80
<b>Large Independent</b>										
	ConocoPhillips	COP	62.34	54.89	14	1	14	19	10	0.82
	Pioneer Natural Resources	PXD	178.37	172.85	3	-	3	14	3	0.90
	EOG Resources, Inc.	EOG	107.66	107.91	(0)	0	(0)	12	(0)	0.84
	Occidental Petroleum Corp.	OXY	70.50	73.66	(4)	-	(4)	18	(3)	0.95
	<i>Median</i>				1		2		1	0.87
<b>Mid-Size Independent</b>										
	Continental Resources	CLR	60.98	52.97	15	-	15	17	11	0.90
	Hess Corporation	HES	53.69	47.47	13	-	13	26	8	0.98
	Marathon Oil Corporation	MRO	17.06	16.93	1	0	1	8	1	0.66
	Devon Energy Corporation	DVN	33.61	41.40	(19)	-	(19)	15	(14)	0.65
	Cimarex Energy Company	XEC	94.11	122.01	(23)	0	(23)	16	(20)	0.71
	<i>Median</i>				1		1		1	0.71
<b>Small Independent</b>										
	Whiting Petroleum Corporation	WLL	35.78	26.48	35	-	35	37	15	0.53
	California Resources	CRC	20.47	19.44	5	-	5	145	1	0.68
	Birchcliff Energy Ltd.	BIREF	3.41	3.50	(2)	-	(2)	2	(1)	0.50
	Range Resources	RRC	14.78	17.06	(13)	-	(13)	19	(6)	0.57
	<i>Median</i>				1		1		(0)	0.55
<b>Income</b>										
	Dorchester Minerals, L.P.	DMLP	16.90	15.20	11	3	14	-	14	0.70
	Permian Basin RT	PBT	9.62	8.87	8	1	10	-	10	0.96
	Sabine Royalty Trust	SBR	44.00	44.60	(1)	1	(0)	-	(0)	0.88
	Cross Timbers Royalty Trust	CRT	13.26	14.69	(10)	1	(8)	-	(8)	0.53
	San Juan Basin Royalty Trust	SJT	7.00	8.24	(15)	2	(13)	-	(13)	0.87
	<i>Median</i>				(1)		(0)		(0)	0.87
	<i>Grand Median</i>				(0)		(0)		(0)	0.80
	<b>Natural Gas (\$/mmbtu)</b>		2.65	2.95	(10)					
	<b>Oil - West Texas Intermediate (\$/bbl)</b>		65.77	60.09	9					
	Total Stock Market - U.S.	VTI	136.52	137.25	(1)					
	Developed Markets - ex US	VEA	44.86	44.86	-					
	Emerging Markets	VWO	46.97	45.91	2					
Source: McDep LLC, Yahoo, CME Group, Bloomberg					For historical research see <a href="http://www.mcdep.com">www.mcdep.com</a>					



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## Index of Recent Research

<i>Date</i>	<i>Series</i>	<i>Symbol</i>	<i>Subject</i>	<i>Theme</i>
3-Apr	II	SJT, CRT	San Juan Basin	Regional Natural Gas Price Softness
21-Mar	II	BIREF, CRC, RRC, WLL		Small Cap High Reward, High Risk
15-Mar	Meter Reader		ExxonMobil	Out-of-Favor Industry Leader
12-Mar	ISI	DMLP	Dorchester Minerals, L.P.	Raise Distribution Yield to 11%
1-Mar	ISI	EOG	EOG Resources	Raise NPV to \$130 on Production
28-Feb	II	CLR, XEC, HES, DVN, MRO		Oil Price Upside for Mid-Size Independent Producers
20-Feb	II	CRT, DMLP, PBT, SBR, SJT		7% Distributions Inflation Protected
13-Feb	Meter Reader			Insulate Inflation
5-Feb	ISI	HES	Hess Corporation	Repositioning for Reward
2-Feb	ISI	COP	ConocoPhillips	Raise NPV to \$80 on Higher Cash Flow
25-Jan	II	CVX, RDS, SU, XOM		Integrated Oil Value Creators
19-Jan	ISI	DMLP	Dorchester Minerals, L.P.	Highest Distribution in Three Years
16-Jan	Meter Reader			Growth is Good
2-Jan	Meter Reader Special			New Look at Beginning of Year 2018
29-Dec	Meter Reader Special			Trending Up at End of Year 2017
20-Dec	II	CRT, DMLP, PBT, SBR, SJT		Top Line Premium and Bottom Line Upside
12-Dec	Meter Reader			Oil and Gas Gains in 2018
5-Dec	ISI	RDS	Royal Dutch Shell	Share Buyback Ahead
27-Nov	ISI	CLR	Continental Resources	Oil Price Helps
16-Nov	Meter Reader			Buy ETF or Global Integrated Stock
12-Nov	ISI	BIREF	Birchcliff Energy	Downward Price Pressure Lifting
6-Nov	ISI	DMLP	Dorchester Minerals, L.P.	Royalty Growth Ratified
2-Nov	ISI	MRO	Marathon Oil	Shale Oil Value
26-Oct	ISI	SU	Suncor Energy Inc.	Record Production
24-Oct	ISI	CRT	Cross Timbers Royalty Trust	Free Cash Flow
17-Oct	II	COP, DVN, EOG, MRO, PXD, OXY		Oil Price Moderators
10-Oct	Meter Reader			Stock Price Momentum Picking Up
4-Oct	ISI	COP	ConocoPhillips	Cash to the Owners
25-Sep	II	CRT, DMLP, PBT, SBR, SJT		Cash, Fracking and Inflation
18-Sep	ISI	RRC	Range Resources	Natural Gas at Lowest McDep Ratio
12-Sep	Meter Reader			Currency, Interest and Oil
6-Sep	ISI	TOT	Total S.A.	Gaining Volume on Competitors
30-Aug	ISI	SU	Suncor Energy Inc.	Returning Cash to Shareholders
23-Aug	ISI	BIREF	Birchcliff Energy	Montney Growth
15-Aug	Meter Reader			Energy Outlook to 2026
8-Aug	ISI	SJT	San Juan Basin Royalty Trust	BP Tests Best San Juan Well in 14 Years
4-Aug	ISI	DMLP	Dorchester Minerals, L.P.	Raise Distribution Yield to 8.5%
31-Jul	ISI	CVX	Chevron	Valuable Permian Lands
25-Jul	II	CRT, DMLP, PBT, SBR, SJT		Control Reinvestment with Income Payers
19-Jul	II	COP, DVN, EOG, MRO, PXD, OXY		Potential to Prosper
11-Jul	Meter Reader			Liftoff for Energy Exports
3-Jul	ISI	DMLP	Dorchester Minerals, L.P.	Core Midland Acquisition – Upgrade to Buy
27-Jun	ISI	CLR	Continental Resources	Well-Managed Shale Pioneer
20-Jun	ISI	XOM	Exxon Mobil	Profit from Low-Risk Energy Growth
13-Jun	Meter Reader			Value Beckoning
6-Jun	ISI	MRO	Marathon Oil	A Fourth Shale Focus
				MR = Meter Reader (published monthly on or about second or third Tuesday)
				ISI = Independent Stock Idea
				II = Industry Idea
				For historical research by stock, go to <a href="http://mcdep.com">mcdep.com</a> , click on Stock Ideas, click on stock by name.

Please see disclosures on the final page.

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**Disclaimer:** This analysis was prepared by Kurt Wulff, Manager of McDep LLC. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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