



# Meter Reader

Monthly Analysis of Oil and Gas Stocks  
May 15, 2018

## \$70 Oil Here

### Summary and Recommendation

Magically, the near-term oil price has nearly reached a sustainable US\$70 a barrel for the U.S. futures benchmark (WTI) (see chart [U.S. Crude Oil and Natural Gas Price](#) on page 2). \$70 is our long-term expectation of oil price for valuing McDep stocks. A McDep Ratio of 1.00 is the signal that stock price equals Net Present Value (NPV), which is the price corresponding to an unlevered real return of about 7% a year at \$70 oil. To illustrate the rationale, a free cash flow stream lasting indefinitely could be priced at a multiple of 14 times to correspond with 7% a year. Yet, our present value estimates are a median 8.8 times unlevered cash flow (PV/Ebitda). The difference could be explained largely by the fraction of cash flow that must be reinvested to sustain production. Meanwhile, the market implies an unlevered cash flow multiple (EV/Ebitda) of a median 7.7 times. Conveniently, the ratio of EV/Ebitda to PV/Ebitda is reduced to EV/PV, or Market Cap and Debt to Present Value, which suggest the name McDep Ratio. Currently at a median 0.85, the McDep Ratio conveys our conclusion that oil stocks are not yet priced for \$70 oil.

Oil price trends may be reflecting prospects for improving economic growth also reflected in nominal interest rate, expected inflation and rising real interest rate (see chart [U.S. Ten Year Interest Rate and Inflation](#) on page 2). Oil and gas stocks are likely to perform well in a diversified portfolio in an economic transition from low growth and inflation to moderate growth and inflation.

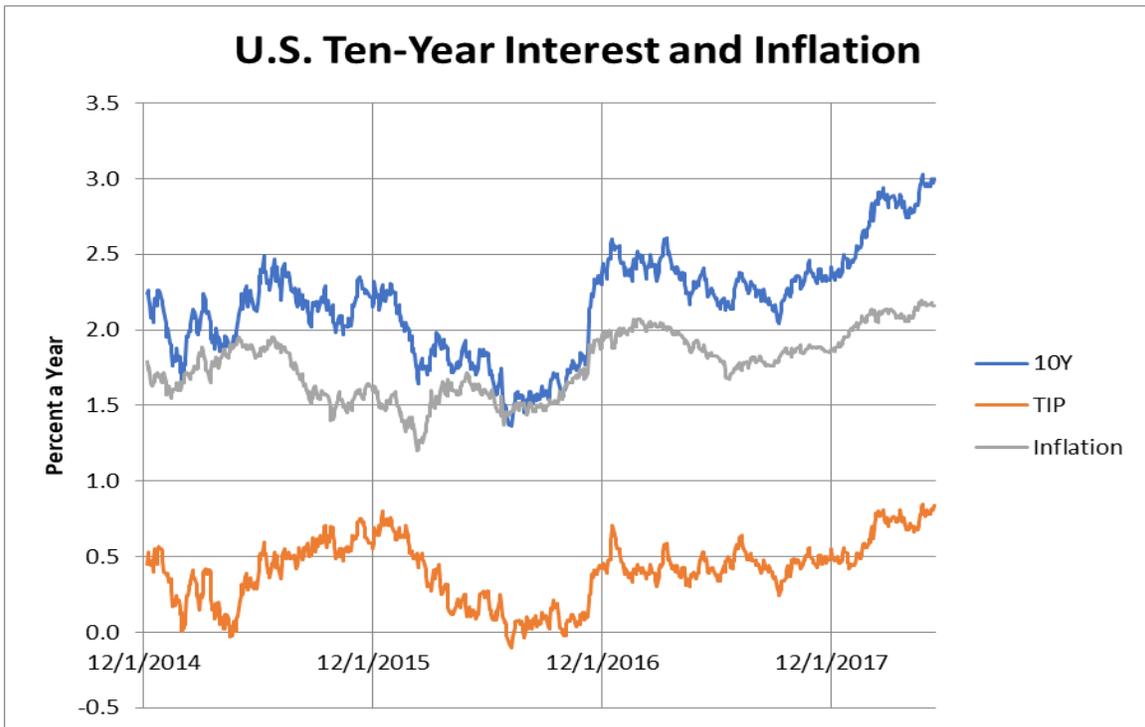
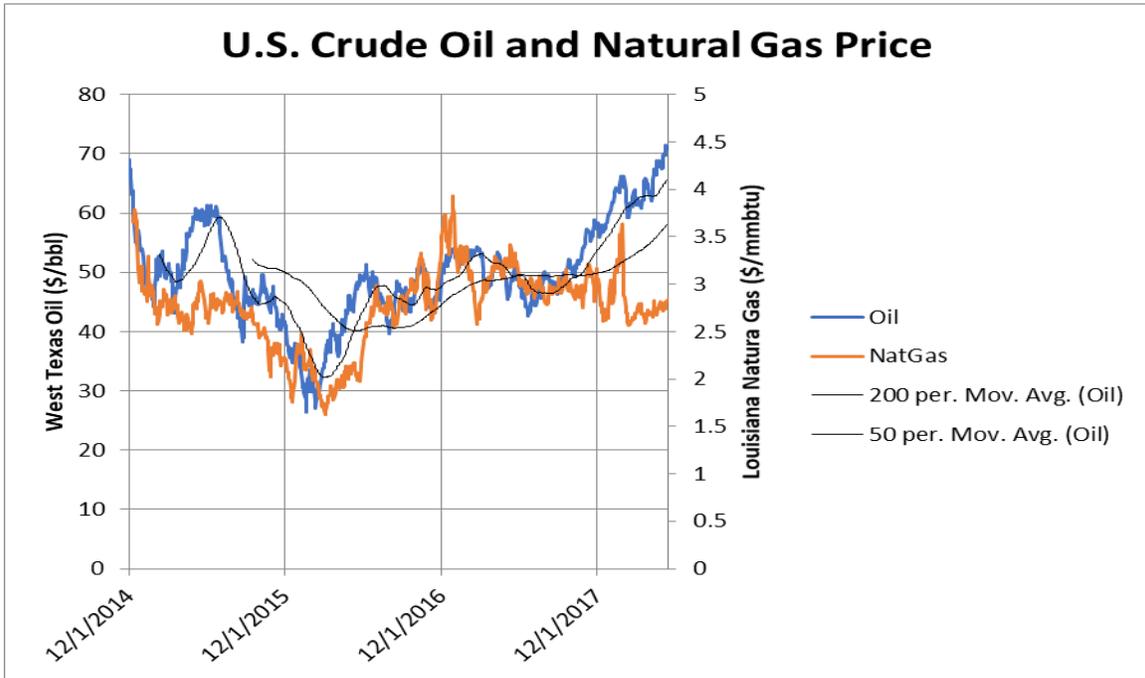
We like stocks in each of our five groups (see [Tables 1-4](#) on pages 3-6 and [Index of Recent Research](#) on page 7). **Suncor (SU)** leaps to the head of the pack in stock price performance among integrated companies amid an environmental civil war between Canadian provinces over oil transportation. **ExxonMobil (XOM)**, the largest stock, seems to be regaining favor with investors considering its 14% rebound from a surprisingly steep drop to a 52-week low about six weeks ago. Highest McDep Ratio **Occidental Petroleum (OXY)** pays an unmatched 3.6% dividend yield among independent producers. High-growth shale pioneer **Continental Resources (CLR)** is our only company with dominant ownership held by a founder CEO, a positive indicator of upside not captured in the McDep Ratio. High risk, high reward small cap producers illustrate the importance of perseverance or timing with the two oil concentrated stocks, **CRC** and **WLL**, up more than 80% in 2018. Finally, **Sabine Royalty Trust (SBR)**, at a PV/Ebitda multiple of 16 times illustrates the value accompanying paying out all its free cash flow on stable production with no obligation to reinvest.

Kurt H. Wulff, CFA



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

		Price (US\$/sh)	Market Cap (US\$mm)	Enterprise Value (Smm)	EV/ Market Cap	EV/ Ebitda NTM	PV/ Ebitda NTM	Oil Prod'n/ Ebitda (%)	Dist. Yield NTM (%)	McDep Ratio (EV/PV)	
	Symbol/Rating	14-May 2018									
<b>Integrated</b>											
	Exxon Mobil Corporation	XOM	81.83	349,000	440,000	1.26	8.2	8.9	50	4.0	0.93
	Chevron Corporation	CVX	130.39	249,000	312,000	1.25	7.5	8.4	63	3.4	0.89
	Suncor Energy	SU	41.15	68,000	87,000	1.29	7.0	8.2	77	2.7	0.86
	Royal Dutch Shell	RDS-B	74.93	314,000	431,000	1.37	7.1	8.8	51	5.0	0.80
	<i>Total or Median</i>			<i>980,000</i>	<i>1,270,000</i>	<i>1.27</i>	<i>7.3</i>	<i>8.6</i>	<i>57</i>	<i>3.7</i>	<i>0.87</i>
<b>Large Independent</b>											
	Occidental Petroleum Corp.	OXY	84.89	65,100	78,800	1.21	8.6	7.8	79	3.6	1.11
	Pioneer Natural Resources	PXD	201.62	34,500	37,100	1.08	8.4	8.4	94	0.2	1.01
	EOG Resources, Inc.	EOG	118.68	71,000	78,000	1.10	8.1	8.8	90	0.6	0.92
	ConocoPhillips	COP	69.59	83,000	106,000	1.28	7.4	8.2	77	1.6	0.90
	<i>Total or Median</i>			<i>253,600</i>	<i>299,900</i>	<i>1.16</i>	<i>8.3</i>	<i>8.3</i>	<i>85</i>	<i>1.1</i>	<i>0.96</i>
<b>Mid-Size Independent</b>											
	Hess Corporation	HES	63.13	19,500	27,900	1.43	10.8	9.8	89	1.6	1.10
	Continental Resources	CLR	68.04	25,500	31,800	1.25	8.2	8.4	83	-	0.98
	Devon Energy Corporation	DVN	41.32	21,800	29,700	1.36	7.4	9.9	75	0.8	0.75
	Cimarex Energy Company	XEC	96.92	9,300	10,800	1.16	5.9	8.2	82	0.7	0.72
	Marathon Oil Corporation	MRO	21.42	18,250	25,000	1.37	5.1	8.4	90	0.9	0.61
	<i>Total or Median</i>			<i>94,400</i>	<i>125,200</i>	<i>1.36</i>	<i>7.4</i>	<i>8.4</i>	<i>83</i>	<i>0.8</i>	<i>0.75</i>
<b>Small Independent</b>											
	California Resources	CRC	35.57	1,600	7,900	4.8	5.6	7.7	92	-	0.73
	Whiting Petroleum Corporation	WLL	47.81	4,400	7,700	1.77	4.7	7.6	97	-	0.62
	Range Resources	RRC	14.76	3,700	8,300	2.28	5.9	10.3	46	0.5	0.57
	Birchcliff Energy Ltd.	BIREF	3.45	900	1,600	1.69	5.3	10.4	46	2.3	0.51
	<i>Total or Median</i>			<i>10,600</i>	<i>25,500</i>	<i>2.03</i>	<i>5.5</i>	<i>9.0</i>	<i>69</i>	<i>0.3</i>	<i>0.60</i>
<b>Income</b>											
	Permian Basin RT	PBT	9.85	460	460	1.00	10.9	11.0	80	8.9	0.98
	Sabine Royalty Trust	SBR	47.35	690	690	1.00	15.2	16.1	68	6.6	0.95
	San Juan Basin Royalty Trust	SJT	7.03	330	330	1.00	12.1	13.7	-	8.1	0.88
	Dorchester Minerals, L.P.	DMLP	18.40	590	590	1.00	9.4	12.2	83	10.9	0.77
	Cross Timbers Royalty Trust	CRT	14.05	80	80	1.00	7.4	13.2	37	11.1	0.56
	<i>Total or Median</i>			<i>2,200</i>	<i>2,200</i>	<i>1.00</i>	<i>10.9</i>	<i>13.2</i>	<i>68</i>	<i>8.9</i>	<i>0.88</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) 14-May 2018	Volume (mboe)	Equiv. Price (\$/boe)	Ebitda Margin (%)	Ebitda (\$/boe)	stream Uplift (\$/boe)	Ebitda NTM (\$mm)		
<b>Integrated</b>										
Royal Dutch Shell	RDS-B	74.93	1361	47.45	69	32.90	11.76	44,761	26	3.76
Exxon Mobil Corporation	XOM	81.83	1442	50.80	51	25.80	11.30	37,199	26	3.28
Chevron Corporation	CVX	130.39	1048	52.32	62	32.60	7.07	34,161	21	4.48
Suncor Energy	SU	41.15	291	59.64	55	33.06	9.68	9,615	15	1.13
	<i>Total or Median</i>		<i>4141</i>	<i>51.56</i>	<i>59</i>	<i>32.75</i>	<i>10.49</i>	<i>125,737</i>	<i>23</i>	
<b>Large Independent</b>										
ConocoPhillips	COP	69.59	448	49.97	64	32.00	0.00	14,331	9	1.14
EOG Resources, Inc.	EOG	118.68	268	48.32	74	35.82	0.00	9,609	5	0.74
Occidental Petroleum Corp.	OXY	84.89	251	50.01	60	30.00	6.37	7,531	26	3.08
Pioneer Natural Resources	PXD	201.62	121	49.18	74	36.30	0.00	4,404	1	0.32
	<i>Total or Median</i>		<i>1088</i>	<i>49.57</i>	<i>69</i>	<i>33.91</i>	<i>0.00</i>	<i>35,876</i>	<i>7</i>	
<b>Mid-Size Independent</b>										
Marathon Oil Corporation	MRO	21.42	164	42.71	70	29.70	0.00	4,885	3	0.20
Continental Resources	CLR	68.04	108	44.37	81	36.00	0.00	3,870	-	-
Devon Energy Corporation	DVN	41.32	178	30.76	64	19.80	2.80	3,524	4	0.32
Hess Corporation	HES	63.13	96	46.84	57	26.80	0.00	2,583	12	1.00
Cimarex Energy Company	XEC	96.92	82	32.08	69	22.00	0.00	1,810	3	0.64
	<i>Total or Median</i>		<i>629</i>	<i>42.71</i>	<i>69</i>	<i>26.80</i>	<i>0.00</i>	<i>16,673</i>	<i>3</i>	
<b>Small Independent</b>										
Whiting Petroleum Corporation	WLL	47.81	48	50.36	68	34.40	0.00	1,640	-	-
Range Resources	RRC	14.76	137	19.35	53	10.30	0.00	1,416	1	0.08
California Resources	CRC	35.57	50	54.99	52	28.40	0.00	1,407	-	-
Birchcliff Energy Ltd.	BIREF	3.45	22	18.55	71	13.10	0.00	292	7	0.08
	<i>Total or Median</i>		<i>257</i>	<i>34.85</i>	<i>61</i>	<i>20.75</i>	<i>0.00</i>	<i>4,755</i>	<i>1</i>	
<b>Income</b>										
Dorchester Minerals, L.P.	DMLP	18.40	2.28	40.07	69	27.78	0.00	63	102	2.01
Sabine Royalty Trust	SBR	47.35	1.62	32.94	85	28.02	0.00	45	100	3.11
Permian Basin RT	PBT	9.85	1.26	48.01	70	33.45	0.00	42	97	0.88
San Juan Basin Royalty Trust	SJT	7.03	3.26	15.48	54	8.34	0.00	27	98	0.57
Cross Timbers Royalty Trust	CRT	14.05	0.44	41.01	63	25.88	0.00	11	82	1.56
	<i>Total or Median</i>		<i>9</i>	<i>40.07</i>	<i>69</i>	<i>27.78</i>	<i>0.00</i>	<i>190</i>	<i>98</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	14-May 2018	(mm)	(mm)	NTM	NTM	(%)	(%)	(%)	(US\$/sh)	
<b>Integrated</b>										
Chevron Corporation	CVX	130.39	1,913	62,659	16	7.2	57	24		150.00
Royal Dutch Shell	RDS-B	74.93	4,189	116,710	12	7.3	22	31		100.00
Exxon Mobil Corporation	XOM	81.83	4,270	90,941	13	9.7	52	28		90.00
Suncor Energy	SU	41.15	1,644	19,582	11	8.8	87			50.00
<i>Median</i>						8.0	55			
<b>Large Independent</b>										
Pioneer Natural Resources	PXD	201.62	171	2,600	20	7.4	9	6		200.00
EOG Resources, Inc.	EOG	118.68	598	7,071	18	5.1	43	10		130.00
ConocoPhillips	COP	69.59	1,186	23,143	14	7.8	31	23		80.00
Occidental Petroleum Corp.	OXY	84.89	767	13,700	17	7.7	35	4		75.00
<i>Median</i>						7.6	33			
<b>Mid-Size Independent</b>										
Cimarex Energy Company	XEC	96.92	96	1,498	10	5.0	35	18		140.00
Continental Resources	CLR	68.04	374	6,333	21	5.6	121	17		70.00
Devon Energy Corporation	DVN	41.32	528	7,944	16	8.6	24	14		60.00
Hess Corporation	HES	63.13	310	8,399		7.5	59	11		55.00
Marathon Oil Corporation	MRO	21.42	852	6,734	11	5.5	60	10		40.00
<i>Median</i>						5.6	59			
<b>Small Independent</b>										
Whiting Petroleum Corporation	WLL	47.81	91	3,367	18	7.0	84	3		100.00
California Resources	CRC	35.57	46	6,300		8.9	41	8		100.00
Range Resources	RRC	14.76	247	4,657	12	10.1	83	54		40.00
Birchcliff Energy Ltd.	BIREF	3.45	268	637	11	7.3	228	54		9.00
<i>Median</i>						8.1	83			
<b>Income</b>										
Sabine Royalty Trust	SBR	47.35	15	-	15	11.1	3	37	100	50.00
Cross Timbers Royalty Trust	CRT	14.05	6	-	9	11.7	-	69	82	25.00
Dorchester Minerals, L.P.	DMLP	18.40	32	-	11	7.1	-	21	83	24.00
Permian Basin RT	PBT	9.85	47	-	11	6.7	-	21	37	10.00
San Juan Basin Royalty Trust	SJT	7.03	47	-	12	12.8	-	100	-	8.00
<i>Median</i>						11.1				

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	Price	Price	Cash	Equity	Unlevered			
	Symbol/Rati	(\$/sh)	(\$/sh)	Change	Distrib.	Total	Debt	Return	McDep	
		14-May	29-Dec	(%)	(%)	(%)	(\$/sh)	(%)	Ratio	
		2018	2017							
<b>Integrated</b>										
	Suncor Energy	SU	41.15	36.72	12	1	13	12	10	0.86
	Royal Dutch Shell	RDS-B	74.93	68.29	10	1	11	28	8	0.80
	Chevron Corporation	CVX	130.39	125.19	4	1	5	33	4	0.89
	Exxon Mobil Corporation	XOM	81.83	83.64	(2)	1	(1)	21	(1)	0.93
	<i>Median</i>				7		8		6	0.87
<b>Large Independent</b>										
	ConocoPhillips	COP	69.59	54.89	27	1	27	20	20	0.90
	Pioneer Natural Resources	PXD	201.62	172.85	17	0	17	15	15	1.01
	Occidental Petroleum Corp.	OXY	84.89	73.66	15	1	16	18	13	1.11
	EOG Resources, Inc.	EOG	118.68	107.91	10	0	10	12	9	0.92
	<i>Median</i>				16		17		14	0.96
<b>Mid-Size Independent</b>										
	Continental Resources	CLR	68.04	52.97	28	-	28	17	22	0.98
	Hess Corporation	HES	63.13	47.47	33	1	34	27	21	1.10
	Marathon Oil Corporation	MRO	21.42	16.93	27	0	27	8	18	0.61
	Devon Energy Corporation	DVN	41.32	41.40	(0)	0	(0)	15	(0)	0.75
	Cimarex Energy Company	XEC	96.92	122.01	(21)	0	(20)	16	(18)	0.72
	<i>Median</i>				27		27		18	0.75
<b>Small Independent</b>										
	Whiting Petroleum Corporation	WLL	47.81	26.48	81	-	81	37	34	0.62
	California Resources	CRC	35.57	19.44	83	-	83	137	10	0.73
	Birchcliff Energy Ltd.	BIREF	3.45	3.50	(1)	1	(1)	2	(0)	0.51
	Range Resources	RRC	14.76	17.06	(13)	0	(13)	19	(6)	0.57
	<i>Median</i>				40		40		5	0.60
<b>Income</b>										
	Dorchester Minerals, L.P.	DMLP	18.40	15.20	21	5	26	-	26	0.77
	Permian Basin RT	PBT	9.85	8.87	11	3	14	-	14	0.98
	Sabine Royalty Trust	SBR	47.35	44.60	6	2	8	-	8	0.95
	Cross Timbers Royalty Trust	CRT	14.05	14.69	(4)	3	(2)	-	(2)	0.56
	San Juan Basin Royalty Trust	SJT	7.03	8.24	(15)	3	(12)	-	(12)	0.88
	<i>Median</i>				6		8		8	0.88
	<i>Grand Median</i>				11		12		9	0.87
	<b>Natural Gas (\$/mmbtu)</b>		2.84	2.95	(4)					
	<b>Oil - West Texas Intermediate (\$/bbl)</b>		71.10	60.09	18					
	Total Stock Market - U.S.	VTI	140.64	137.25	2	0	3			
	Developed Markets - ex US	VEA	45.59	44.86	2	0	2			
	Emerging Markets	VWO	46.25	45.91	1	0	1			
	Total Stock Market - World	VT	75.75	74.26	2	0	2			

Source: McDep LLC, Yahoo, CME Group, Bloomberg

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Index of Recent Research				
<i>Date</i>	<i>Series</i>	<i>Symbol</i>	<i>Subject</i>	<i>Theme</i>
9-May	ISI	XEC	Cimarex Energy	Quality Company, Lagging Stock
4-May	ISI	MRO	Marathon Oil	Raise NPV to \$40 a Share from \$30
30-Apr	II	XOM	ExxonMobil	Reduce NPV to \$90 from \$100 a Share
24-Apr	II	CRT, DMLP, PBT, SBR, SJT		8% Median Distribution Yield
19-Apr	ISI	DMLP	Dorchester Minerals, L.P.	11% Distribution Reinforced
17-Apr	II	COP,EOG,OXY,PXD		Positive Trends for Large Cap Independent Producers
10-Apr	Meter Reader			Transition to Moderate Growth and Inflation
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%
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 <a href="#">Stock Ideas</a> , click on stock by name.				



**McDEP**  
LLC

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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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**Research Methodology/Ratings Description:** McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the forty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value.