



Meter Reader

Monthly Analysis of Oil and Gas Stocks
November 12, 2018

A Dip to Buy

Summary and Recommendation

After recent sharp underperformance, we especially like the outlook for energy equities in our coverage. At \$60 a barrel, U.S. oil price is below our long-term expectation of \$70. The current median McDep Ratio of 0.73 implies 37% unlevered appreciation potential to a McDep Ratio of 1.00 where the real return would be 7% a year on \$70 oil. On cyclical trends, we think it is too soon for an extended decline in oil price and oil stocks since we just had that in early 2016. More likely, the 2014 peak in oil stocks will be exceeded in the next few years in a pattern of higher highs and higher lows. Moreover, the uncertainty of the outcome of the latest U.S. national election has mostly ended. At the same time, we are now at the beginning of the usually positive seasonal cycle for stock prices from November to May.

- The oil price dip has been mirrored by a natural gas price surge toward our long-term price expectation of \$4 a million btu (see chart [U.S. Crude Oil and Natural Gas Price](#) on page 2). Low natural gas inventories and the approach of winter may be contributing to natural gas price strength.
- Interest rates have risen further while price inflation stays unchanged (see chart [U.S. Ten-Year Interest and Inflation](#) on page 2). Economic growth is good at current interest rates and low inflation. We think that extraordinary high levels of government debt, including unfunded liabilities, will lead to more inflation eventually. In that case, oil stocks would likely appreciate more.
- Global integrated companies, including **ExxonMobil (XOM)**, **Chevron (CVX)** and **Royal Dutch Shell (RDS)**, offer oil upside at lower risk because of downstream operations that dampen price volatility. Large growing dividends and giant size dampen stock price volatility.
- Small cap income payers, including **Dorchester Minerals (DMLP)**, **Sabine Royalty Trust (SBR)** and **Cross Timbers Royalty Trust (CRT)**, offer oil upside at lower risk because of extra natural gas exposure that dampens oil price volatility, high cash distributions and a royalty structure free of operating and development cost.
- Pure play independent producers, including **EOG Resources (EOG)**, **Continental Resources (CLR)** and **California Resources (CRC)**, offer the most oil upside especially after having declined more in the past month.

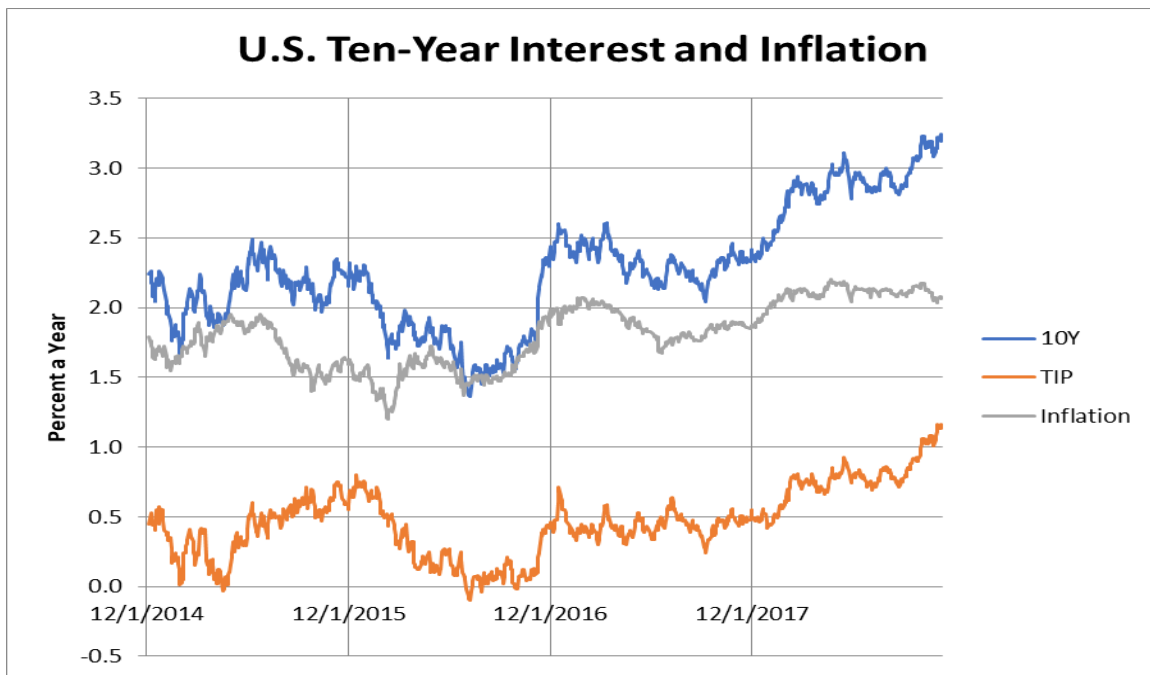
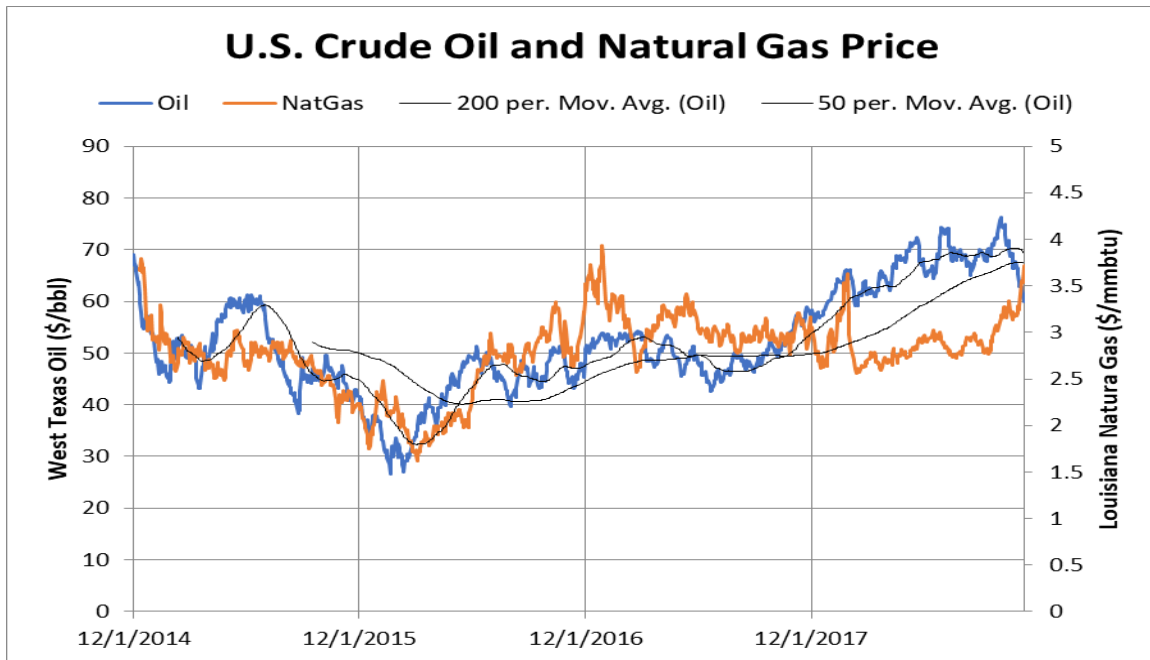
We believe that positioning several of our stocks in a diversified portfolio can contribute positively to long-term performance results (see [Tables 1-4](#) on pages 3-6). Past analyses provide more detail (see [Index of Recent Research](#) on page 7).

Kurt H. Wulff, CFA



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Table 1											
McDep Energy Stocks											
Ranked by McDep Ratio											
		Price	Market	Enterprise	EV/	EV/	PV/	Oil	Dist.		
	Symbol/Rating	(US\$/sh)	Cap	Value	Market	Ebitda	Ebitda	Prod'n/	Yield	McDep	
		9-Nov	(US\$mm)	(\$mm)	Cap	NTM	NTM	Ebitda	NTM	Ratio	
		2018						(%)	(%)	(EV/PV)	
Integrated											
Exxon Mobil Corporation	XOM	80.87	345,000	436,000	1.26	7.7	8.4	50	4.1	0.92	
Chevron Corporation	CVX	119.51	229,000	285,000	1.25	6.2	7.4	61	3.7	0.83	
Suncor Energy	SU	33.64	55,000	73,000	1.34	5.8	7.9	76	3.3	0.73	
Royal Dutch Shell	RDS-B	65.17	272,000	389,000	1.43	6.6	9.1	50	5.8	0.73	
Total or Median			901,000	1,183,000	1.30	6.4	8.1	56	3.9	0.78	
Large Independent											
Occidental Petroleum Corp.	OXY	73.55	56,100	69,800	1.24	7.2	7.4	65	4.2	0.98	
ConocoPhillips	COP	66.73	78,000	99,000	1.26	6.1	7.0	77	1.8	0.86	
EOG Resources, Inc.	EOG	105.51	61,400	68,500	1.12	6.4	7.8	90	0.8	0.83	
Pioneer Natural Resources	PXD	159.82	27,300	29,900	1.10	7.8	9.6	94	0.2	0.81	
Total or Median			222,800	267,200	1.18	6.8	7.6	84	1.3	0.85	
Mid-Size Independent											
Hess Corporation	HES	59.15	17,600	26,800	1.52	8.5	8.1	90	1.7	1.05	
Continental Resources	CLR	50.73	19,000	25,400	1.33	5.8	7.5	81	-	0.78	
Cimarex Energy Company	XEC	90.32	8,600	10,000	1.16	5.6	8.3	83	0.8	0.68	
Devon Energy Corporation	DVN	33.01	16,300	22,900	1.41	5.8	9.2	87	1.0	0.63	
Marathon Oil Corporation	MRO	17.84	15,150	21,900	1.45	4.7	8.7	89	1.1	0.54	
Total or Median			76,700	107,000	1.41	5.8	8.3	87	1.0	0.68	
Small Independent											
California Resources	CRC	27.68	1,200	8,000	6.8	5.5	7.7	91	-	0.72	
Range Resources	RRC	17.70	4,400	9,000	2.07	6.4	10.3	46	0.5	0.62	
Whiting Petroleum Corporation	WLL	36.08	3,300	6,500	1.95	3.9	7.4	98	-	0.52	
Birchcliff Energy Ltd.	BIREF	3.28	900	1,500	1.73	4.5	9.1	48	2.4	0.50	
Total or Median			9,800	25,000	2.01	5.0	8.4	69	0.2	0.57	
Income											
Dorchester Minerals, L.P.	DMLP	18.28	590	590	1.00	8.2	10.8	87	10.2	0.76	
Sabine Royalty Trust	SBR	37.64	550	550	1.00	11.6	15.4	66	8.6	0.75	
Permian Basin RT	PBT	7.12	330	330	1.00	10.7	15.0	80	9.4	0.71	
San Juan Basin Royalty Trust	SJT	5.45	250	250	1.00	9.2	13.6	-	8.2	0.68	
Cross Timbers Royalty Trust	CRT	14.59	90	90	1.00	8.0	13.6	38	10.3	0.59	
Total or Median			1,810	1,810	1.00	9.2	13.6	66	9.4	0.71	
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation, amort.											
Estimated Ebitda (cash flow) tied to one-year prices of US\$70 a barrel and \$3 a million btu. NTM = Next Twelve Months ending 9/30/19.											
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											



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Table 2										
McDep Energy Stocks										
Unlevered Cash Flow (Ebitda)										
Ranked by Total Ebitda										
		Price (US\$/sh)		Upstream NTM			Down- stream	Total Ebitda	Distrib./ Ebitda	Distrib.
	Symbol/Rating	9-Nov 2018	Volume (mmboe)	Price (\$/boe)	Margin (%)	Ebitda (\$/boe)	Uplift (\$/boe)	NTM (\$mm)	NTM (%)	NTM (\$/sh)
Integrated										
	RDS-B	65.17	1374	48.98	63	31.00	11.64	58,594	27	3.76
	XOM	80.87	1436	54.05	50	27.10	12.26	56,513	25	3.28
	CVX	119.51	1105	54.62	63	34.60	7.24	46,234	19	4.48
	SU	33.64	309	61.61	50	31.07	9.87	12,667	14	1.10
	Total or Median		4224	54.33	57	31.04	10.76	51,374	22	
Large Independent										
	COP	66.73	485	54.41	61	33.40	0.00	16,207	9	1.22
	EOG	105.51	294	48.63	74	36.13	0.00	10,637	5	0.88
	OXY	73.55	259	46.30	57	26.30	10.88	9,638	25	3.12
	PXD	159.82	120	44.71	72	32.10	0.00	3,842	1	0.32
	Total or Median		1159	47.46	67	32.75	0.00	10,138	7	
Mid-Size Independent										
	CLR	50.73	118	45.65	81	36.90	0.00	4,340	-	-
	MRO	17.84	159	42.62	69	29.60	0.00	4,695	4	0.20
	DVN	33.01	199	34.35	58	19.80	0.00	3,935	4	0.32
	HES	59.15	111	48.21	58	28.20	0.00	3,137	9	1.00
	XEC	90.32	91	29.35	66	19.40	0.00	1,774	4	0.72
	Total or Median		678	42.62	66	28.20	0.00	3,935	4	
Small Independent										
	WLL	36.08	49	48.89	70	34.30	0.00	1,673	-	-
	CRC	27.68	49	56.79	51	29.20	0.00	1,444	-	-
	RRC	17.70	141	21.68	46	10.00	0.00	1,413	1	0.08
	BIREF	3.28	23	19.94	75	14.90	0.00	337	6	0.08
	Total or Median		262	35.29	61	22.05	0.00	1,428	1	
Income										
	DMLP	18.28	2.47	41.41	70	29.04	0.00	72	84	1.87
	SBR	37.64	1.73	32.89	83	27.36	0.00	47	100	3.25
	PBT	7.12	1.16	44.12	61	26.81	0.00	31	100	0.67
	SJT	5.45	3.99	13.93	49	6.89	0.00	27	76	0.45
	CRT	14.59	0.39	44.45	63	27.92	0.00	11	82	1.50
	Total or Median		10	41.41	63	27.36	0.00	31	84	
For historical research see www.mcdep.com										



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Table 3
McDep Energy Stocks
Net Present Value Per Share

		<i>Price</i>				<i>Devel.</i>	<i>Undev/</i>	<i>Nat</i>	<i>Top</i>	
		<i>(US\$/sh)</i>				<i>Resrvs/</i>	<i>Devel.</i>	<i>Gas/</i>	<i>Line/</i>	<i>Net</i>
	<i>Symbol/Rating</i>	<i>9-Nov</i>	<i>Shares</i>	<i>Debt</i>	<i>P/E</i>	<i>Prod</i>	<i>Resrvs</i>	<i>Ebitda</i>	<i>Ebitda</i>	<i>Value</i>
		<i>2018</i>	<i>(mm)</i>	<i>(\$mm)</i>	<i>NTM</i>	<i>NTM</i>	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>	<i>(US\$/sh)</i>
Integrated										
	Chevron Corporation	CVX	119.51	1,917	56,349	12	6.8	57	26	150.00
	Royal Dutch Shell	RDS-B	65.17	4,177	116,710	11	7.2	22	31	100.00
	Exxon Mobil Corporation	XOM	80.87	4,271	90,130	13	9.7	52	28	90.00
	Suncor Energy	SU	33.64	1,628	18,438	9	8.2	87		50.00
	<i>Median</i>					7.7	55			
Large Independent										
	Pioneer Natural Resources	PXD	159.82	171	2,600	24	7.5	9	6	200.00
	EOG Resources, Inc.	EOG	105.51	582	7,071	14	4.6	43	10	130.00
	ConocoPhillips	COP	66.73	1,173	20,375	11	7.2	31	23	80.00
	Occidental Petroleum Corp.	OXY	73.55	763	13,700	14	7.4	35	7	75.00
	<i>Median</i>					7.3	33			
Mid-Size Independent										
	Cimarex Energy Company	XEC	90.32	96	1,349	11	4.5	35	17	140.00
	Continental Resources	CLR	50.73	375	6,333	13	5.1	121	19	70.00
	Devon Energy Corporation	DVN	33.01	494	6,627	11	8.7	24	13	60.00
	Hess Corporation	HES	59.15	297	9,177		6.5	59	10	55.00
	Marathon Oil Corporation	MRO	17.84	849	6,744	11	5.7	60	11	40.00
	<i>Median</i>					5.7	59			
Small Independent										
	Whiting Petroleum Corporation	WLL	36.08	92	3,170	13	6.9	84	2	100.00
	California Resources	CRC	27.68	43	6,800		8.9	41	9	100.00
	Range Resources	RRC	17.70	247	4,657	14	9.9	83	54	40.00
	Birchcliff Energy Ltd.	BIREF	3.28	268	641	11	7.2	228	52	9.00
	<i>Median</i>					8.0	83			
Income										
	Sabine Royalty Trust	SBR	37.64	15	-	12	10.4	3	33	50.00
	Cross Timbers Royalty Trust	CRT	14.59	6	-	10	13.2	-	69	25.00
	Dorchester Minerals, L.P.	DMLP	18.28	32	-	13	6.5	-	16	24.00
	Permian Basin RT	PBT	7.12	47	-	11	6.8	-	17	10.00
	San Juan Basin Royalty Trust	SJT	5.45	47	-	12	10.5	-	100	8.00
	<i>Median</i>					10.4				
P/E = Stock Price to Earnings. For historical research see 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	Unlevered Total Return	McDep Ratio
	Symbol/Rati	9-Nov 2018	29-Dec 2017	(%)	(%)	(%)	(\$/sh)	(%)	
Integrated									
	XOM	80.87	83.64	(3)	4	1	21	0	0.92
	RDS-B	65.17	68.29	(5)	6	1	28	1	0.73
	CVX	119.51	125.19	(5)	4	(1)	29	(1)	0.83
	SU	33.64	36.72	(8)	3	(5)	11	(4)	0.73
	<i>Median</i>			(5)		(0)		(0)	0.78
Large Independent									
	COP	66.73	54.89	22	2	24	17	18	0.86
	OXY	73.55	73.66	(0)	4	4	18	3	0.98
	EOG	105.51	107.91	(2)	1	(2)	12	(1)	0.83
	PXD	159.82	172.85	(8)	0	(7)	15	(7)	0.81
	<i>Median</i>			(1)		1		1	0.85
Mid-Size Independent									
	HES	59.15	47.47	25	2	27	31	16	1.05
	MRO	17.84	16.93	5	1	7	8	4	0.54
	CLR	50.73	52.97	(4)	-	(4)	17	(3)	0.78
	DVN	33.01	41.40	(20)	1	(20)	13	(15)	0.63
	XEC	90.32	122.01	(26)	0	(25)	14	(23)	0.68
	<i>Median</i>			(4)		(4)		(3)	0.68
Small Independent									
	WLL	36.08	26.48	36	-	36	34	16	0.52
	CRC	27.68	19.44	42	-	42	159	5	0.72
	RRC	17.70	17.06	4	0	4	19	2	0.62
	BIREF	3.28	3.50	(6)	2	(4)	2	(2)	0.50
	<i>Median</i>			20		20		3	0.57
Income									
	DMLP	18.28	15.20	20	11	32	-	32	0.76
	CRT	14.59	14.69	(1)	9	9	-	9	0.59
	SBR	37.64	44.60	(16)	7	(9)	-	(9)	0.75
	PBT	7.12	8.87	(20)	7	(12)	-	(12)	0.71
	SJT	5.45	8.24	(34)	6	(28)	-	(28)	0.68
	<i>Median</i>			(16)		(9)		(9)	0.71
	<i>Grand Median</i>			(4)		(1)		(0)	0.73
Natural Gas (\$/mmbtu)									
		3.72	2.95	26					
Oil -West Texas Intermediate (\$/bbl)									
		59.87	60.09	(0)					
	VDE	93.90	99.31	(5)	3	(3)			
	VTI	142.17	137.25	4	2	5			
	VEA	40.17	44.86	(10)	3	(8)			
	VWO	38.47	45.91	(16)	3	(13)			
	VT	71.48	74.26	(4)	2	(2)			
Source: McDep LLC, Yahoo, CME Group, Bloomberg									
For historical research see www.mcdep.com									



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Index of Recent Research				
<u>Date</u>	<u>Series</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
8-Nov	II	CLR, XEC, HES, DVN, MRO		Shale Players
5-Nov	II	CVX, RDS, SU, XOM		Healthy Business
29-Oct	ISI	COP	ConocoPhillips	Timely Value
23-Oct	II	CRT, DMLP, PBT, SBR, SJT		Rising Distributions
15-Oct	Meter Reader	SU, PXD, MRO, BIREF, RRC, SJT		October Opportunity
9-Oct	ISI	XOM	ExxonMobil	Efficient Energy Producer
3-Oct	ISI	BIREF	Birchcliff Energy	Canada Energy Game Changer
19-Sep	ISI	SJT, CRT	San Juan Basin Royalty Trust	McDep Opportunity
18-Sep	Meter Reader	XOM, CVX, RDS, PXD, RRC, DMLP		Low McDep Ratio for Energy Profit
4-Sep	ISI	SU	Suncor	Oil Value Upside
28-Aug	II	CRT, DMLP, PBT, SBR, SJT		Roll Forward and Simplify
20-Aug	II	BIREF, CRC, RRC, WLL		Strategic Value, Uncertain Price
13-Aug	Meter Reader	COP,EOG,OXY,PXD		Large Cap Producers Advancing
9-Aug	II	CLR, XEC, HES, DVN, MRO		
7-Aug	ISI	DMLP	Dorchester Minerals, L.P.	Q2 on Trend
30-Jul	II	CVX, RDS, SU, XOM		Durable Cash Generators
23-Jul	II	CRT, DMLP, PBT, SBR, SJT		Energy Price Participation
18-Jul	ISI	COP	ConocoPhillips	Large Cap Cash Producer
10-Jul	Meter Reader			Terms of Trade
6-Jul	ISI	CVX	Chevron	Oil Value Upside
2-Jul	Meter Reader Special		Outperformance in First Half 2018	Attractive Value, Auspicious Momentum
21-Jun	II	CRT, DMLP, PBT, SBR, SJT		8% Cash in Uncertain Times
12-Jun	Meter Reader			Positive Charts
6-Jun	ISI	RDS	Royal Dutch Shell	Bright Future in Integrated Gas
30-May	ISI	BIREF	Birchcliff Energy	A Play on Narrowing the Gap
24-May	ISI	DMLP	Dorchester Minerals, L.P.	Riding the Shale Trend
15-May	Meter Reader			\$70 Oil Here
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	ISI	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
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 mcdep.com , click on Stock Ideas , click on stock by name.				



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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.