



# Meter Reader

A Monthly Analysis of Oil and Gas Stocks

March 15, 2016

## Best Oil Outlook in Seven Years

			<i>Present Value by Segment (%)</i>									
			<i>Price</i>	<i>EV/</i>	<i>Enterprise</i>	<i>North</i>	<i>Rest of</i>				<i>Dist.</i>	
			<i>(US\$/sh)</i>	<i>Market</i>	<i>Value</i>	<i>Amer.</i>	<i>World</i>				<i>Yield</i>	
<i>Symbol/Rating</i>			<i>14-Mar</i>	<i>Cap</i>	<i>(\$mm)</i>	<i>Natural</i>	<i>Natural</i>	<i>Oil</i>	<i>Down-</i>	<i>NTM</i>	<i>McDep</i>	
			<i>2016</i>									<i>Ratio</i>
Royal Dutch Shell (BG pro form)	RDS-A	B	48.09	1.66	316,000	2	17	56	26	7.8	0.71	
Total S.A.	TOT	B	47.13	1.56	171,000		17	61	23	5.8	0.63	
Marathon Oil Corporation	MRO	B	11.09	1.80	16,900	6	2	92		1.8	0.69	
ConocoPhillips	COP	B	40.01	1.76	88,000	11	11	78		2.5	0.64	
Continental Resources (32%)	CLR	B	27.55	1.70	5,600	16		84		-	0.62	
Whiting Petroleum Corporation	WLL	B	8.50	4.09	7,100	4		96		-	0.62	
Cross Timbers Royalty Trust	CRT	B	14.79	1.00	90	57		43		6.2	0.51	
Dorchester Minerals, L.P.	DMLP	B	11.08	1.00	340	23		77		8.0	0.46	
Birchcliff Energy Ltd.	BIREF	B	4.18	1.88	1,200	69		31		-	0.53	

### Summary and Recommendation

From the most depressed levels since the Financial Panic of 2008, oil and gas stocks appear to be on the road to recovery. It looks like a 20-month downtrend in oil price above \$100 a barrel to below \$30 a barrel ended last month. Our long-term oil price expectation of \$70 a barrel approximates the mid-cycle of recent experience. On that basis, purchases of oil and gas stocks today at the low-end of the oil price range ought to be rewarding over the cycle. To fund a diversified portfolio, we advocate spreading commitments among our five groups (see [Tables 1-4](#) on pages 3-6). Among Income Payers, **Dorchester Minerals (DMLP)** is our lowest McDep Ratio buy recommendation at 0.46 and it offers an estimated distribution yield of 8%. Among Small Independent producers, buy-recommended **Continental Resources (CLR)** has levered appreciation potential of 100% to Net Present Value (NPV) of \$56 a share without giving much credit for a resumption of volume growth likely in future years. After the negative stock price impact of a dividend cut, buy-recommended Large Independent producer **ConocoPhillips (COP)** appears positioned for levered stock price appreciation of 100% to Net Present Value (NPV) of \$80 a share. Global Integrated producers offer secure dividend income at a time of low interest rates. Buy-recommended **Total** offers a 5.7% yield and an estimated stock price double to NPV of \$90 a share.

### Independent Producers Resist Difficult Market Conditions

Some Independent producers capitulated to price pressure by tapping equity markets to buttress balance sheets. Investors responded enthusiastically by snapping up billion dollar tranches of new stock issued by **Devon Energy (DVN)** and MRO among companies in our coverage. The stock price bottom seemed to be forming.

Financial position appeared most stressed when some producers were no longer generating positive cash flow (Ebitda) at the oil and gas price lows. For those producers, survival is much more assured with oil price in the high 30s now compared to the high 20s at the bottom.



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Estimates of Next Twelve Months Ebitda also benefitted from rolling forward three months to March 31, 2017 when futures prices continue to rise. Some exposure to higher debt, higher cost companies can make sense in a diversified portfolio when the size of position is limited in line with the degree of leverage.

### **Better than the Market This Year**

After underperforming the broader stock market for the past year and a half, the stocks in our coverage have outperformed so far in 2016. Double-digit percentage gainers by unlevered total return include all 5 Income Payers paced by **San Juan Basin Royalty Trust (SJT)** at 27%, as well as Canada natural gas producer **Birchcliff Energy (BIREF)** along with Small Independents **Range Resources (RRC)** and CLR. The median stock price gain for our 24 stocks in 2016 is 5% compared to the S&P 500 at -1%.

Kurt H. Wulff, CFA





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Table 2								
McDep Energy Stocks								
Net Present Value and McDep Ratio								
			<i>Price</i>			<i>Net</i>		
	<i>Symbol/Rating</i>		<i>(US\$/sh)</i>	<i>Shares</i>	<i>Market</i>	<i>Present</i>	<i>Debt/</i>	<i>McDep</i>
	B = Buy		<i>14-Mar</i>	<i>(mm)</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	<i>Ratio</i>
			<i>2016</i>		<i>(US\$mm)</i>	<i>(US\$/sh)</i>	<i>Value</i>	
<b>Global Integrated</b>								
Exxon Mobil Corporation	XOM		82.41	4,183	345,000	100.00	0.18	0.86
Chevron Corporation	CVX		94.26	1,874	177,000	135.00	0.20	0.76
Royal Dutch Shell (BG pro forma)	RDS-A	B	48.09	3,965	191,000	80.00	0.28	0.71
Total S.A.	TOT	B	47.13	2,329	110,000	90.00	0.23	0.63
	<i>Total or Median</i>				<i>823,000</i>		<i>0.21</i>	<i>0.74</i>
<b>Large Independent</b>								
EOG Resources, Inc.	EOG		74.78	546	40,800	75.00	0.15	1.00
Occidental Petroleum Corp.	OXY		69.05	766	52,900	75.00	0.14	0.93
Devon Energy Corporation	DVN		24.79	478	11,800	33.00	0.37	0.84
Marathon Oil Corporation	MRO	B	11.09	845	9,370	20.00	0.31	0.69
ConocoPhillips	COP	B	40.01	1,244	50,000	80.00	0.28	0.64
	<i>Total or Median</i>				<i>164,900</i>		<i>0.28</i>	<i>0.84</i>
<b>Small Independent</b>								
Range Resources	RRC		30.66	167	5,100	25.00	0.42	1.13
Cimarex Energy Company	XEC		94.43	93	8,800	90.00	0.18	1.04
California Resources	CRC		1.55	382	600	5.00	0.79	0.86
Continental Resources (32%)	CLR	B	27.55	118	3,300	56.00	0.26	0.62
Whiting Petroleum Corporation	WLL	B	8.50	204	1,700	30.00	0.47	0.62
	<i>Total or Median</i>				<i>20,000</i>		<i>0.42</i>	<i>0.86</i>
<b>Income</b>								
San Juan Basin Royalty Trust	SJT		5.17	47	240	8.00	-	0.65
Permian Basin RT	PBT		6.03	47	280	11.00	-	0.55
Sabine Royalty Trust	SBR		31.66	15	460	60.00	-	0.53
Cross Timbers Royalty Trust	CRT	B	14.79	6	90	29.00	-	0.51
Dorchester Minerals, L.P.	DMLP	B	11.08	31	340	24.00	-	0.46
	<i>Total or Median</i>				<i>1,400</i>		<i>-</i>	<i>0.53</i>
<b>Canada</b>								
EnCana Corporation	ECA		5.48	846	4,600	6.00	0.61	0.96
Imperial Oil Limited (30%)	IMO		33.40	255	8,500	38.00	0.22	0.91
Suncor Energy	SU		26.21	1,583	41,500	35.00	0.24	0.81
Cenovus Energy Inc.	CVE		13.08	825	10,800	20.00	0.19	0.72
Birchcliff Energy Ltd.	BIREF	B	4.18	154	600	11.00	0.25	0.53
	<i>Total or Median</i>				<i>66,000</i>		<i>0.24</i>	<i>0.81</i>
Estimated present value presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.00 a million btu.								
Estimated present value capped by unlevered cash flow multiple (EV/Ebitda)								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
For historical research see <a href="http://www.mcdep.com">www.mcdep.com</a>								



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Table 3							
McDep Energy Stocks							
Value Multiples and Dividend							
Ranked by EV/Ebitda							
			Price (US\$/sh)	Adjustd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	Dividend
	Symbol/Rating		14-Mar 2016	NTM	NTM	NTM	NTM
	B = Buy						(\$/sh)
<b>Global Integrated</b>							
	Exxon Mobil Corporation	XOM	82.41	13.8	11.6	9.9	23
	Chevron Corporation	CVX	94.26	9.3	11.5	8.7	34
	Royal Dutch Shell (BG pro forma)	RDS-A	48.09	9.4	10.6	7.6	26
	Total S.A.	TOT	47.13	9.9	10.4	6.6	15
	<i>Median</i>			9.7	11.1	8.2	25
<b>Large Independent</b>							
	EOG Resources, Inc.	EOG	74.78	8.3	21.1	21.1	0.67
	Occidental Petroleum Corp.	OXY	69.05	8.1	16.0	14.9	3.00
	Devon Energy Corporation	DVN	24.79	9.3	16.6	14.0	59
	Marathon Oil Corporation	MRO	11.09	13.1	17.4	12.0	0.20
	ConocoPhillips	COP	40.01	11.3	18.2	11.6	1.00
	<i>Median</i>			9.3	17.4	14.0	59
<b>Small Independent</b>							
	Range Resources	RRC	30.66	14.6	25.2	28.4	0.08
	Cimarex Energy Company	XEC	94.43	7.8	19.4	20.2	0.32
	California Resources	CRC	1.55	11.2	18.9	16.1	-
	Continental Resources (32%)	CLR	27.55	11.4	22.3	13.9	-
	Whiting Petroleum Corporation	WLL	8.50	13.2	18.1	11.1	-
	<i>Median</i>			11.4	19.4	16.1	
<b>Income</b>							
	San Juan Basin Royalty Trust	SJT	5.17	9.8	31.7	20.5	33
	Cross Timbers Royalty Trust	CRT	14.79	12.5	30.2	15.5	16
	Sabine Royalty Trust	SBR	31.66	9.5	28.8	15.2	15
	Dorchester Minerals, L.P.	DMLP	11.08	6.9	26.9	12.4	19
	Permian Basin RT	PBT	6.03	9.7	22.0	12.0	15
	<i>Median</i>			9.7	28.8	15.2	16
<b>Canada</b>							
	Cenovus Energy Inc.	CVE	13.08	15.0	24.6	17.8	0.15
	EnCana Corporation	ECA	5.48	8.4	18.3	17.7	95
	Suncor Energy	SU	26.21	17.5	18.0	14.6	0.88
	Imperial Oil Limited (30%)	IMO	33.40	29.0	14.0	12.7	23
	Birchcliff Energy Ltd.	BIREF	4.18	12.6	17.5	9.3	-
	<i>Median</i>			15.0	18.0	14.6	59
	<i>Grand Median</i>			11	19	14	
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2017; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses							
For historical research see <a href="http://www.mcdep.com">www.mcdep.com</a>							



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Table 4										
McDep Energy Stocks										
Total Return Year-to-Date 2016										
Ranked by Unlevered Total Return										
			Price	Price			Equity	Unlevered		
			(\$/sh)	(\$/sh)	Price	Cash	Total	Total		
	Symbol/Rati		14-Mar	31-Dec	Change	Distrib.	Return	Debt	Return	
			2016	2015	(%)	(%)	(%)	(\$/sh)	(%)	
									McDep	
									Ratio	
<b>Global Integrated</b>										
	Exxon Mobil Corporation	XOM	82.41	77.95	6	1	7	22	5	0.86
	Chevron Corporation	CVX	94.26	89.96	5	1	6	33	4	0.76
	Royal Dutch Shell (BG pro forma)	RDS-A B	48.09	45.79	5	2	7	32	4	0.71
	Total S.A.	TOT B	47.13	44.95	5	1	6	26	4	0.63
	<i>Median</i>				5		6		4	0.74
<b>Large Independent</b>										
	EOG Resources, Inc.	EOG	74.78	70.79	6	-	6	13	5	1.00
	Occidental Petroleum Corp.	OXY	69.05	67.61	2	1	3	13	3	0.93
	Marathon Oil Corporation	MRO B	11.09	12.58	(12)	0	(11)	9	(7)	0.69
	ConocoPhillips	COP B	40.01	46.69	(14)	1	(14)	30	(8)	0.64
	Devon Energy Corporation	DVN	24.79	32.00	(23)	0	(22)	19	(14)	0.84
	<i>Median</i>				(12)		(11)		(7)	0.84
<b>Small Independent</b>										
	Range Resources	RRC	30.66	24.62	25	0	25	18	14	1.13
	Continental Resources (32%)	CLR B	27.55	22.98	20	-	20	19	11	0.62
	Cimarex Energy Company	XEC	94.43	89.38	6	0	6	20	5	1.04
	Whiting Petroleum Corporation	WLL B	8.50	9.44	(10)	-	(10)	26	(3)	0.62
	California Resources	CRC	1.55	2.33	(33)	-	(33)	19	(4)	0.86
	<i>Median</i>				6		6		5	0.86
<b>Income</b>										
	San Juan Basin Royalty Trust	SJT	5.17	4.14	25	2	27	-	27	0.65
	Sabine Royalty Trust	SBR	31.66	26.26	21	2	22	-	22	0.53
	Permian Basin RT	PBT	6.03	5.06	19	1	20	-	20	0.55
	Cross Timbers Royalty Trust	CRT B	14.79	13.01	14	3	16	-	16	0.51
	Dorchester Minerals, L.P.	DMLP B	11.08	9.89	12	2	14	-	14	0.46
	<i>Median</i>				19		20		20	0.53
<b>Canada</b>										
	Birchcliff Energy Ltd.	BIREF B	4.18	2.93	43	-	43	4	19	0.53
	Cenovus Energy Inc.	CVE	13.08	12.62	4	1	5	5	3	0.72
	EnCana Corporation	ECA	5.48	5.09	8	1	9	9	3	0.96
	Imperial Oil Limited (30%)	IMO	33.40	32.52	3	0	3	11	2	0.91
	Suncor Energy	SU	26.21	25.80	2	1	2	11	2	0.81
	<i>Median</i>				4		5		3	0.81
	<i>Grand Median</i>				5		6		4	0.72
	<b>Natural Gas (\$/mmbtu)</b>		1.82	2.33	(22)					
	<b>Oil - West Texas Intermediate (\$/bbl)</b>		37.24	37.06	0					
	<b>S&amp;P 500</b>		2,020	2,044	(1)					

Source: McDep LLC, Yahoo, CME Group, Bloomberg

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



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## Index of 2015-2016 Research

<u>Date</u>	<u>Series</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
7-Mar	II	COP, MRO, CLR, WLL		Buy Low
29-Feb	ISI	DMLP	Dorchester Minerals, L.P.	Oil Income for All Seasons
19-Feb	ISI	DVN	Devon Energy	Flexibility to Adapt
19-Feb	ISI	MRO	Marathon Oil	Flexibility to Adapt
9-Feb	MR			Outperforming in 2016
3-Feb	ISI	XOM	Exxon Mobil	For Nervous Investors Seeking Reliable Income
28-Jan	ISI	BIREF	Birchcliff Energy	Protection and Growth
22-Jan	II	CRT, PBT, SBR, SJT, DMLP		Income Payer Surprises
21-Jan	ISI	SU	Suncor Energy Inc.	Likely Acquirer of Canadian Oil Sands
19-Jan	ISI	COSWF	Canadian Oil Sands Ltd.	Farewell
13-Jan	II	MRO, DVN, COP, OXY, EOG		Wild Markets in Oil and Securities
1-Jan	MR			Lower Natural Gas to \$4.00 from \$4.50
21-Dec	II	DMLP, SBR, CRT, SJT, PBT		Income Payers at Low Price
15-Dec	MR			Buys for 2016 and Beyond
8-Dec	ISI	RDS	Royal Dutch Shell plc	Buy on Acquisition Pro Forma
23-Nov	ISI	SJT	San Juan Basin Royalty Trust	Steep Price Decline Triggers Buy
18-Nov	II	MRO, DVN, COP, OXY, EOG		Large Cap Independent Producers for Upside
12-Nov	ISI	BIREF	Birchcliff Energy	Encouraging Volume, Uncertain Price
10-Nov	MR	CLR, XEC, WLL, RRC, CRC		Small Cap Producers for the Upcycle
6-Nov	ISI	DMLP	Dorchester Minerals, L.P.	25% Volume Beat
2-Nov	ISI	XOM	Exxon Mobil	Potential Gain with Minimal Pain
27-Oct	ISI	COSWF	Canadian Oil Sands Ltd.	Deal Likely at Higher Price
21-Oct	ISI	SJT	San Juan Basin Royalty Trust	Southwest Bank Potential Successor Trustee
13-Oct	MR			Hedge Mideast Political Risk
5-Oct	ISI	COSWF	Canadian Oil Sands Ltd.	Suncor Makes Tender Offer at 0.57 McDep Ratio
1-Oct	ISI	SJT	San Juan Basin Royalty Trust	Trust Officer Resigns
29-Sep	II	COSWF, BIREF, IMO, CVE, ECA		High-Torque Canadian Producers
22-Sep	ISI	CRT	Cross Timbers Royalty Trust	Low Risk 7.5% Income
15-Sep	MR			Endless Discussion
10-Sep	ISI	DMLP	Dorchester Minerals, L.P.	Raise Distribution to 6.3% Cash Yield
1-Sep	II	MRO, DVN, COP, OXY, EOG		Resilient Large Cap Independent Producers
25-Aug	II	CLR, XEC, WLL, RRC, CRC		Small Cap Producer Survivors
11-Aug	MR			Bottom May Be Near
3-Aug	II	XOM, RDS, CVX, TOT		Global Energy Stalwarts
27-Jul	ISI	ECA	Encana Corporation	Depressed Stock Price
22-Jul	II	SBR, CRT, SJT, PBT		Use Volatility to Advantage
17-Jul	ISI	DMLP	Dorchester Minerals, L.P.	Top Line Distribution Support
14-Jul	MR			Lower Long-Term Oil to \$70 from \$90
7-Jul	ISI	PBT	Permian Basin Royalty Trust	Buy Underestimated Future Oil & Gas Production
22-Jun	II	DMLP, SBR, CRT, SJT, PBT		Understated Reserves, June Distributions Up
16-Jun	MR	RDS, MRO, EOG, CLR, DMLP		Oil and Gas Strengthen U.S. Security
				MR = Meter Reader (published monthly on 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.



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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. Buy recommendations are expected to deliver a total return better than 7% per year above inflation.