



Meter Reader

A Monthly Analysis of Oil and Gas Stocks
July 12, 2016

Mid-Year Strategy

			Price (US\$/sh)	EV/ Market	Enterprise Value (\$mm)	Present Value by Segment (%)				Dist. Yield	McDep Ratio				
						Symbol/Rating	11-Jul 2016	Cap	Natural Gas			Natural Gas	Oil Prod'n	Down- stream	NTM (%)
Royal Dutch Shell	RDS-A	B	54.88	1.65	335,000	1	17	44	37	6.9	0.78				
Total S.A.	TOT	B	47.68	1.54	172,000		22	55	23	5.7	0.63				
Marathon Oil Corporation	MRO	B	14.69	1.55	19,200	9	2	89		1.4	0.81				
ConocoPhillips	COP	B	42.45	1.75	93,000	11	15	74		2.4	0.73				
Continental Resources (32%)	CLR	B	42.44	1.46	7,300	20		80		-	0.82				
Whiting Petroleum Corporation	WLL	B	7.82	2.06	6,100	6		94		-	0.48				
Sabine Royalty Trust	SBR	B	36.21	1.00	530	38		62		6.9	0.60				
Dorchester Minerals, L.P.	DMLP	B	14.12	1.00	430	28		72		8.0	0.59				
Birchcliff Energy Ltd.	BIREF	B	5.78	1.71	1,500	74		26		-	0.65				

Summary and Recommendation

In our diversified portfolio, we like oil and gas, we are positive on the global stock markets, we draw short term comfort from low duration U.S. government securities and we favor gold. The medium-term stock price charts point to further gains in oil and gas stocks and gold judging by the pattern in which long downtrends have reversed with new uptrends ensuing. The charts for stock price of the U.S. averages also point up, but less confidently from a flatter trend of the past few years. UK investors felt the vulnerability in their government securities when the normally safe UK currency lost ten percent of value in global terms almost overnight following the surprise vote to leave the European Union. Oil and gas stocks, global stocks and gold held their value for UK investors during a tumultuous time. In other words, a diversified portfolio was “safer” than cash and short-term securities denominated in a government currency. We have nine buy recommendations for the oil and gas part of the portfolio (see table above and [Tables 1-3](#) on pages 2-4). The three current buy recommendations that have the highest unlevered total return since January 1 are **Dorchester Minerals (DMLP)**, **Continental Resources (CLR)** and **Sabine Royalty Trust (SBR)** (see [Table 4](#) on page 5). The three that have the lowest return on that basis are **Whiting Petroleum (WLL)**, **ConocoPhillips (COP)** and **Total (TOT)**. We are concerned that the latest conversion of debt to equity for WLL is stalled for low stock price. As best we can tell, COP and TOT have solid prospects for more appreciation. Finally, we like **ExxonMobil (XOM)** as a portfolio anchor. XOM outperformed the median of McDep stocks by 10% unlevered in last year’s down market and again by 3% unlevered in this year’s up market.

Kurt H. Wulff, CFA



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Table 1											
McDep Energy Stocks											
Enterprise Value, Segments, Yield and McDep Ratio											
Symbol/Rating		Price (US\$/sh)	EV/ Market Cap	Enterprise Value (\$mm)	Present Value by Segment (%)					Dist. Yield NTM (%)	McDep Ratio
					North Amer.	Rest of World	Oil Prod'n	Down- stream			
					Natural Gas	Natural Gas					
Global Integrated											
Exxon Mobil Corporation	XOM	93.89	1.24	487,000	7	15	55	23	3.2	0.95	
Chevron Corporation	CVX	105.39	1.33	263,000	2	11	68	19	4.1	0.83	
Royal Dutch Shell	RDS-A B	54.88	1.65	335,000	1	17	44	37	6.9	0.78	
Total S.A.	TOT B	47.68	1.54	172,000		22	55	23	5.7	0.63	
<i>Total or Median</i>			<i>1.43</i>	<i>1,257,000</i>			<i>55</i>	<i>23</i>	<i>4.9</i>	<i>0.80</i>	
Large Independent											
EOG Resources, Inc.	EOG	82.90	1.16	52,600	10	2	88		0.8	1.09	
Devon Energy Corporation	DVN	37.67	1.61	29,800	25		65	9	0.6	1.08	
Occidental Petroleum Corp.	OXY	76.20	1.17	67,700	3	2	85	10	3.9	1.01	
Marathon Oil Corporation	MRO B	14.69	1.55	19,200	9	2	89		1.4	0.81	
ConocoPhillips	COP B	42.45	1.75	93,000	11	15	74		2.4	0.73	
<i>Total or Median</i>			<i>1.55</i>	<i>262,000</i>	<i>10</i>		<i>85</i>		<i>1.4</i>	<i>1.01</i>	
Small Independent											
Cimarex Energy Company	XEC	117.62	1.11	12,200	32		68		0.3	1.27	
Range Resources	RRC	43.44	1.42	10,300	70		30		0.2	1.02	
California Resources	CRC	12.84	15.08	7,400	10		90		-	0.84	
Continental Resources (32%)	CLR B	42.44	1.46	7,300	20		80		-	0.82	
Whiting Petroleum Corporation	WLL B	7.82	2.06	6,100	6		94		-	0.48	
<i>Total or Median</i>			<i>1.46</i>	<i>43,000</i>	<i>20</i>		<i>80</i>		<i>-</i>	<i>0.84</i>	
Income											
San Juan Basin Royalty Trust	SJT	7.21	1.00	340	100		-		7.3	0.90	
Cross Timbers Royalty Trust	CRT	19.40	1.00	120	57		43		6.6	0.67	
Permian Basin RT	PBT	7.06	1.00	330	23		77		9.0	0.64	
Sabine Royalty Trust	SBR B	36.21	1.00	530	38		62		6.9	0.60	
Dorchester Minerals, L.P.	DMLP B	14.12	1.00	430	28		72		8.0	0.59	
<i>Total or Median</i>			<i>1.00</i>	<i>1,800</i>	<i>38</i>		<i>62</i>		<i>7.3</i>	<i>0.64</i>	
Canada											
EnCana Corporation	ECA	7.62	2.24	14,600	44		56		0.8	1.11	
Imperial Oil Limited (30%)	IMO	31.52	1.35	10,800	1		70	29	1.4	0.87	
Suncor Energy	SU	27.69	1.35	62,100	-		84	16	3.2	0.84	
Cenovus Energy Inc.	CVE	13.69	1.33	15,100	10		82	8	1.1	0.74	
Birchcliff Energy Ltd.	BIREF B	5.78	1.71	1,500	74		26		-	0.65	
<i>Total or Median</i>			<i>1.35</i>	<i>104,000</i>			<i>70</i>		<i>1.1</i>	<i>0.84</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 www.mcdep.com											



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Table 2								
McDep Energy Stocks								
Net Present Value and McDep Ratio								
			Price (US\$/sh)	Shares	Market Cap (US\$mm)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
	Symbol/Rating		11-Jul 2016	(mm)				
	B = Buy							
Global Integrated								
Exxon Mobil Corporation	XOM		93.89	4,178	392,000	100.00	0.18	0.95
Chevron Corporation	CVX		105.39	1,870	197,000	135.00	0.21	0.83
Royal Dutch Shell	RDS-A	B	54.88	3,701	203,000	80.00	0.31	0.78
Total S.A.	TOT	B	47.68	2,350	112,000	90.00	0.22	0.63
	<i>Total or Median</i>				<i>904,000</i>		<i>0.21</i>	<i>0.80</i>
Large Independent								
EOG Resources, Inc.	EOG		82.90	547	45,400	75.00	0.15	1.09
Devon Energy Corporation	DVN		37.67	492	18,500	33.00	0.41	1.08
Occidental Petroleum Corp.	OXY		76.20	763	58,100	75.00	0.14	1.01
Marathon Oil Corporation	MRO	B	14.69	845	12,410	20.00	0.29	0.81
ConocoPhillips	COP	B	42.45	1,245	53,000	70.00	0.31	0.73
	<i>Total or Median</i>				<i>187,400</i>		<i>0.29</i>	<i>1.01</i>
Small Independent								
Cimarex Energy Company	XEC		117.62	93	10,900	90.00	0.13	1.27
Range Resources	RRC		43.44	167	7,300	42.00	0.30	1.02
California Resources	CRC		12.84	38	500	50.00	0.78	0.84
Continental Resources (32%)	CLR	B	42.44	118	5,000	56.00	0.26	0.82
Whiting Petroleum Corporation	WLL	B	7.82	380	3,000	25.00	0.25	0.48
	<i>Total or Median</i>				<i>27,000</i>		<i>0.26</i>	<i>0.84</i>
Income								
San Juan Basin Royalty Trust	SJT		7.21	47	340	8.00	-	0.90
Cross Timbers Royalty Trust	CRT		19.40	6	120	29.00	-	0.67
Permian Basin RT	PBT		7.06	47	330	11.00	-	0.64
Sabine Royalty Trust	SBR	B	36.21	15	530	60.00	-	0.60
Dorchester Minerals, L.P.	DMLP	B	14.12	31	430	24.00	-	0.59
	<i>Total or Median</i>				<i>1,800</i>		<i>-</i>	<i>0.64</i>
Canada								
EnCana Corporation	ECA		7.62	850	6,500	6.00	0.61	1.11
Imperial Oil Limited (30%)	IMO		31.52	255	8,000	38.00	0.22	0.87
Suncor Energy	SU		27.69	1,665	46,100	35.00	0.22	0.84
Cenovus Energy Inc.	CVE		13.69	825	11,300	20.00	0.19	0.74
Birchcliff Energy Ltd.	BIREF	B	5.78	153	900	11.00	0.27	0.65
	<i>Total or Median</i>				<i>73,000</i>		<i>0.22</i>	<i>0.84</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								
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			<i>Price (US\$/sh)</i>	<i>Adjustd Resrvs/ Prod</i>	<i>PV/ Ebitda</i>	<i>EV/ Ebitda</i>	<i>P/E</i>	<i>Dividend NTM</i>
	<i>Symbol/Rating</i>		<i>11-Jul 2016</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>(\$/sh)</i>
	<i>B = Buy</i>							
Global Integrated								
Exxon Mobil Corporation	XOM		93.89	13.7	12.5	11.9	30	3.00
Chevron Corporation	CVX		105.39	9.3	11.7	9.7	38	4.28
Royal Dutch Shell	RDS-A	B	54.88	8.9	8.7	6.8	16	3.76
Total S.A.	TOT	B	47.68	9.8	10.6	6.7	13	2.70
	<i>Median</i>			<i>9.6</i>	<i>11.2</i>	<i>8.2</i>	<i>23</i>	
Large Independent								
Devon Energy Corporation	DVN		37.67	9.2	16.1	17.4		0.24
EOG Resources, Inc.	EOG		82.90	8.1	14.6	15.9		0.67
Occidental Petroleum Corp.	OXY		76.20	8.2	14.0	14.2		3.00
Marathon Oil Corporation	MRO	B	14.69	13.2	16.4	13.3		0.20
ConocoPhillips	COP	B	42.45	11.4	15.1	11.1		1.00
	<i>Median</i>			<i>9.2</i>	<i>15.1</i>	<i>14.2</i>		
Small Independent								
Range Resources	RRC		43.44	14.4	19.9	20.4		0.08
Cimarex Energy Company	XEC		117.62	7.4	13.8	17.5		0.32
Continental Resources (32%)	CLR	B	42.44	11.4	17.9	14.7		-
California Resources	CRC		12.84	11.4	13.4	11.3		-
Whiting Petroleum Corporation	WLL	B	7.82	13.5	14.5	7.0		-
	<i>Median</i>			<i>11.4</i>	<i>14.5</i>	<i>14.7</i>		
Income								
Sabine Royalty Trust	SBR	B	36.21	9.7	24.0	14.5	15	2.50
San Juan Basin Royalty Trust	SJT		7.21	9.9	14.8	13.3	14	0.52
Cross Timbers Royalty Trust	CRT		19.40	6.3	18.7	12.5	15	1.28
Dorchester Minerals, L.P.	DMLP	B	14.12	6.8	18.9	11.1	16	1.13
Permian Basin RT	PBT		7.06	8.6	17.3	11.1	11	0.64
	<i>Median</i>			<i>8.6</i>	<i>18.7</i>	<i>12.5</i>	<i>15</i>	
Canada								
EnCana Corporation	ECA		7.62	5.7	11.9	13.2		0.06
Cenovus Energy Inc.	CVE		13.69	16.9	13.8	10.2		0.15
Imperial Oil Limited (30%)	IMO		31.52	27.7	11.6	10.1		0.43
Suncor Energy	SU		27.69	22.3	12.0	10.0		0.89
Birchcliff Energy Ltd.	BIREF	B	5.78	15.1	15.3	10.0		-
	<i>Median</i>			<i>16.9</i>	<i>12.0</i>	<i>10.1</i>		
	<i>Grand Median</i>			<i>11</i>	<i>15</i>	<i>12</i>		
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2017; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses For historical research see www.mcdep.com								



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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/Rat		11-Jul	31-Dec	Change	Distrib.	Return	Debt	Return	
			2016	2015	(%)	(%)	(%)	(\$/sh)	(%)	
									McDep	
									Ratio	
Global Integrated										
	Exxon Mobil Corporation	XOM	93.89	77.95	20	2	22	23	17	0.95
	Chevron Corporation	CVX	105.39	89.96	17	2	20	35	14	0.83
	Royal Dutch Shell	RDS-A B	54.88	45.79	20	4	24	36	13	0.78
	Total S.A.	TOT B	47.68	44.95	6	3	9	26	6	0.63
	<i>Median</i>				19		21		14	0.80
Large Independent										
	EOG Resources, Inc.	EOG	82.90	70.79	17	0	18	13	15	1.09
	Occidental Petroleum Corp.	OXY	76.20	67.61	13	2	15	13	13	1.01
	Devon Energy Corporation	DVN	37.67	32.00	18	1	19	23	11	1.08
	Marathon Oil Corporation	MRO B	14.69	12.58	17	1	18	8	11	0.81
	ConocoPhillips	COP B	42.45	46.69	(9)	1	(8)	32	(5)	0.73
	<i>Median</i>				17		18		11	1.01
Small Independent										
	Continental Resources (32%)	CLR B	42.44	22.98	85	-	85	19	46	0.82
	Range Resources	RRC	43.44	24.62	76	0	77	18	44	1.02
	Cimarex Energy Company	XEC	117.62	89.38	32	0	32	13	28	1.27
	California Resources	CRC	12.84	23.30	(45)	-	(45)	181	(5)	0.84
	Whiting Petroleum Corporation	WLL B	7.82	9.44	(17)	-	(17)	8	(9)	0.48
	<i>Median</i>				32		32		28	0.84
Income										
	San Juan Basin Royalty Trust	SJT	7.21	4.14	74	2	76	-	76	0.90
	Cross Timbers Royalty Trust	CRT	19.40	13.01	49	4	54	-	54	0.67
	Dorchester Minerals, L.P.	DMLP B	14.12	9.89	43	4	46	-	46	0.59
	Permian Basin RT	PBT	7.06	5.06	40	2	42	-	42	0.64
	Sabine Royalty Trust	SBR B	36.21	26.26	38	3	41	-	41	0.60
	<i>Median</i>				43		46		46	0.64
Canada										
	Birchcliff Energy Ltd.	BIREF B	5.78	2.93	97	-	97	4	41	0.65
	EnCana Corporation	ECA	7.62	5.09	50	1	50	9	18	1.11
	Cenovus Energy Inc.	CVE	13.69	12.62	8	1	9	5	7	0.74
	Suncor Energy	SU	27.69	25.80	7	2	9	10	7	0.84
	Imperial Oil Limited (30%)	IMO	31.52	32.52	(3)	1	(2)	11	(2)	0.87
	<i>Median</i>				8		9		7	0.84
	<i>Grand Median</i>				19		21		14	0.82
	Natural Gas (\$/mmbtu)		2.72	2.33	17					
	Oil - West Texas Intermediate (\$/bbl)		44.50	37.06	20					
	S&P 500		2,137	2,044	5					

Source: McDep LLC, Yahoo, CME Group, Bloomberg

For historical research see 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-Jul	ISI	XOM	Exxon Mobil	Durable Real Return
22-Jun	ISI	BIREF	Birchcliff Energy	Half Billion Dollar Deal with Encana
21-Jun	ISI	SJT	San Juan Basin Royalty Trust	Record Administrative Costs
21-Jun	ISI	PBT	Permian Basin Royalty Trust	Raise Distribution to 9%
14-Jun	MR			Good Year for Oil and Gas
10-Jun	ISI	SU	Suncor Energy Inc.	Revitalized after Wildfire
7-Jun	ISI	WLL	Whiting Petroleum	Looking Up Again
23-May	ISI	DMLP	Dorchester Minerals, L.P.	Raise Distribution to 9%
17-May	ISI	COP	ConocoPhillips	Strategy Reset to Low Risk Value
12-May	ISI	BIREF	Birchcliff Energy	Record Low Operating Cost
10-May	MR			Value, Growth, Income and Momentum
9-May	ISI	RRC	Range Resources	Restore Net Present Value to \$42 a Share
26-Apr	ISI	CLR	Continental Resources	Disciplined Visionary
13-Apr	MR			Road to Profits
5-Apr	ISI	TOT	Total S.A.	Globally Diversified Income
22-Mar	II	CRT, DMLP, PBT, SBR, SJT		Income Payer Appreciation Potential 55%-110%
15-Mar	MR			Best Oil Outlook in Seven Years
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
				MR = Meter Reader (published monthly on 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. Buy recommendations are expected to deliver a total return better than 7% per year above inflation.