

## **Hedge Mideast Political Risk**

### **Summary and Recommendation**

While oil price remains low the timing looks good to build an important portfolio weighting in oil and gas stocks to hedge Mideast political risk. Escalating violence has driven millions from their homes in Syria. Hundreds of thousands have risked dangerous passage to seek refuge in Europe. The dominant Muslim strains of Sunni and Shia are fighting each other and the Shia are fighting Israel. Russia has inserted itself while the U.S. has been withdrawing. Russia may pressure Saudi Arabia to curtail its production to drive up the price of Russia's most important export just as the U.S. has pressured Saudi Arabia to produce more in the past. Oil stocks offer portfolio insurance against high oil price. Meanwhile, we see normal economic forces working to take oil price to \$70 a barrel from the current \$49 by the end of next year. Tied to value at \$70 a barrel, the McDep Ratio emphasizes unlevered upside. We recommend investment in each of five industry groups (see [Tables 1-4](#) on pages 2-5).

### **Economic and Political Roots for Current Low Oil Price**

Economically, Saudi Arabia, the leading oil producer and leader of the Sunni Muslims, apparently wants to drive out high cost producers with a low oil price. Politically, low oil price also dampens the benefits to arch enemy Iran, leader of the Shiite Muslims, as sanctions that have limited oil exports are lifted as a result of recent negotiations to stall the country's nuclear bomb development.

In the religious war between the Shiite and the Sunni, the U.S. has been reducing support for Sunni Saudi Arabia and removing resistance to Shiite Iran. Civil war rages in the current hot spot Syria involving the Alawite Shiite government, the Sunni opposition rebels and the newly self-declared Islamic State made up of Sunni extremists. Russia sends military equipment to Iran. Iran sends more sophisticated weaponry to Hezbollah in Lebanon and Hamas in Gaza to be used in attacks on Israel.

Direct Russian intervention in Syria takes risks to a new level. When the U.S. was a stronger force in the Middle East, it exerted its influence on Saudi Arabia to keep oil price low. Now with Russia moving in as the U.S. moves out, Russia may attempt to exert influence on Saudi Arabia to push oil price up. The Russian economy is heavily dependent on the price for its oil exports. Who knows what surprise lurks in the political disaster area that is the Middle East and North Africa.

Kurt H. Wulff, CFA



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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						
<b>Global Integrated</b>											
Exxon Mobil Corporation	XOM	79.30	1.25	418,000	8	10	62	20	3.7	0.89	
Royal Dutch Shell (BG pro form)	RDS-A	55.07	1.57	338,000					6.8	0.87	
Chevron Corporation	CVX B	88.74	1.33	222,000	3	6	68	23	4.8	0.84	
Total S.A.	TOT B	51.35	1.49	176,000			12	60	28	5.4	0.80
<i>Total or Median</i>			<i>1.41</i>	<i>1,154,000</i>			<i>62</i>	<i>23</i>	<i>5.1</i>	<i>0.86</i>	
<b>Large Independent</b>											
EOG Resources, Inc.	EOG	86.03	1.13	53,700	16	2	82		0.8	1.07	
Occidental Petroleum Corp.	OXY	73.04	1.16	64,700	5	1	78	17	4.1	0.98	
ConocoPhillips	COP	55.27	1.55	106,000	16	9	75		5.4	0.87	
Devon Energy Corporation	DVN B	43.99	1.62	29,300	29		54	17	2.2	0.77	
Marathon Oil Corporation	MRO B	18.96	1.72	22,100	9	1	90		4.4	0.68	
<i>Total or Median</i>			<i>1.55</i>	<i>276,000</i>	<i>16</i>		<i>78</i>		<i>4.1</i>	<i>0.87</i>	
<b>Small Independent</b>											
Cimarex Energy Company	XEC	121.54	1.10	12,600	41		59		0.5	1.11	
California Resources	CRC	4.23	5.20	8,400	12		88		0.9	0.79	
Range Resources	RRC	34.49	1.72	9,800	80		20		0.5	0.79	
Continental Resources (32%)	CLR B	34.11	1.56	6,300	21		79		-	0.69	
Whiting Petroleum Corporation	WLL B	20.16	2.33	9,700	5		95		-	0.60	
<i>Total or Median</i>			<i>1.72</i>	<i>47,000</i>	<i>21</i>		<i>79</i>		<i>0.5</i>	<i>0.79</i>	
<b>Income</b>											
Sabine Royalty Trust	SBR	34.60	1.00	500	43		58		7.7	0.63	
San Juan Basin Royalty Trust	SJT	9.20	1.00	430	100		-		4.7	0.61	
Permian Basin RT	PBT	7.08	1.00	330	23		77		7.0	0.59	
Cross Timbers Royalty Trust	CRT B	17.38	1.00	100	58		42		6.6	0.56	
Dorchester Minerals, L.P.	DMLP B	15.50	1.00	480	38		62		6.4	0.55	
<i>Total or Median</i>			<i>1.00</i>	<i>1,800</i>	<i>43</i>		<i>58</i>		<i>6.6</i>	<i>0.59</i>	
<b>Canada</b>											
Imperial Oil Limited (30%)	IMO	34.45	1.32	11,600	1		67	32	1.2	0.89	
EnCana Corporation	ECA	8.45	2.25	15,900	56		44		3.3	0.81	
Cenovus Energy Inc.	CVE	16.59	1.36	18,600	9		74	17	3.0	0.78	
Canadian Oil Sands Limited	COSWF B	7.41	1.81	6,500			100		2.1	0.61	
Birchcliff Energy Ltd.	BIREF B	5.32	1.69	1,400	77		23		-	0.57	
<i>Total or Median</i>			<i>1.69</i>	<i>54,000</i>			<i>67</i>		<i>2.1</i>	<i>0.78</i>	

Estimated present value presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.50 a million btu.  
 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>Shares</i>	<i>Market Cap (US\$mm)</i>	<i>Net Present Value (US\$/sh)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>
	<i>Symbol/Rating</i>	<i>12-Oct 2015</i>		<i>(mm)</i>				
	<i>B = Buy</i>							
<b>Global Integrated</b>								
Exxon Mobil Corporation	XOM		79.30	4,200	333,000	92.00	0.18	0.89
Royal Dutch Shell (BG pro forma)	RDS-A		55.07	3,900	215,000	68.00	0.32	0.87
Chevron Corporation	CVX	B	88.74	1,877	167,000	111.00	0.21	0.84
Total S.A.	TOT	B	51.35	2,292	118,000	71.00	0.26	0.80
	<i>Total or Median</i>				<i>833,000</i>		<i>0.24</i>	<i>0.86</i>
<b>Large Independent</b>								
EOG Resources, Inc.	EOG		86.03	550	47,300	80.00	0.13	1.07
Occidental Petroleum Corp.	OXY		73.04	766	56,000	75.00	0.13	0.98
ConocoPhillips	COP		55.27	1,241	69,000	68.00	0.31	0.87
Devon Energy Corporation	DVN	B	43.99	411	18,100	65.00	0.30	0.77
Marathon Oil Corporation	MRO	B	18.96	677	12,840	34.00	0.29	0.68
	<i>Total or Median</i>				<i>203,200</i>		<i>0.29</i>	<i>0.87</i>
<b>Small Independent</b>								
Cimarex Energy Company	XEC		121.54	95	11,500	108.00	0.10	1.11
California Resources	CRC		4.23	382	1,600	10.00	0.64	0.79
Range Resources	RRC		34.49	166	5,700	50.00	0.33	0.79
Continental Resources (32%)	CLR	B	34.11	119	4,100	58.00	0.25	0.69
Whiting Petroleum Corporation	WLL	B	20.16	207	4,200	52.00	0.34	0.60
	<i>Total or Median</i>				<i>27,000</i>		<i>0.33</i>	<i>0.79</i>
<b>Income</b>								
Sabine Royalty Trust	SBR		34.60	15	500	55.00	-	0.63
San Juan Basin Royalty Trust	SJT		9.20	47	430	15.00	-	0.61
Permian Basin RT	PBT		7.08	47	330	12.00	-	0.59
Cross Timbers Royalty Trust	CRT	B	17.38	6	100	31.00	-	0.56
Dorchester Minerals, L.P.	DMLP	B	15.50	31	480	28.00	-	0.55
	<i>Total or Median</i>				<i>1,800</i>		<i>-</i>	<i>0.59</i>
<b>Canada</b>								
Imperial Oil Limited (30%)	IMO		34.45	255	8,800	40.00	0.21	0.89
EnCana Corporation	ECA		8.45	841	7,100	13.00	0.45	0.81
Cenovus Energy Inc.	CVE		16.59	825	13,700	23.00	0.21	0.78
Canadian Oil Sands Limited	COSWF	B	7.41	485	3,600	16.00	0.27	0.61
Birchcliff Energy Ltd.	BIREF	B	5.32	155	800	12.00	0.23	0.57
	<i>Total or Median</i>				<i>34,000</i>		<i>0.23</i>	<i>0.78</i>
Estimated present value presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.50 a million btu. 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>12-Oct 2015</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>(\$/sh)</i>
	<i>B = Buy</i>							
<b>Global Integrated</b>								
Exxon Mobil Corporation	XOM		79.30	14.6	10.5	9.3	20	2.92
Chevron Corporation	CVX	B	88.74	9.1	8.4	7.1	28	4.28
Total S.A.	TOT	B	51.35	10.1	7.6	6.1	12	2.77
Royal Dutch Shell (BG pro forma)	RDS-A		55.07					3.76
	<i>Median</i>			<i>10.1</i>	<i>8.4</i>	<i>7.1</i>	<i>20</i>	
<b>Large Independent</b>								
EOG Resources, Inc.	EOG		86.03	9.0	12.8	13.6	165	0.67
Occidental Petroleum Corp.	OXY		73.04	9.1	12.2	11.9	103	3.00
Devon Energy Corporation	DVN	B	43.99	10.3	14.3	11.1	66	0.96
ConocoPhillips	COP		55.27	11.1	11.9	10.4		2.96
Marathon Oil Corporation	MRO	B	18.96	12.1	12.8	8.7		0.84
	<i>Median</i>			<i>10.3</i>	<i>12.8</i>	<i>11.1</i>	<i>103</i>	
<b>Small Independent</b>								
Cimarex Energy Company	XEC		121.54	7.9	15.6	17.3		0.64
Range Resources	RRC		34.49	14.0	19.9	15.8	93	0.16
California Resources	CRC		4.23	12.5	18.1	14.4		0.04
Whiting Petroleum Corporation	WLL	B	20.16	11.5	16.2	9.6		-
Continental Resources (32%)	CLR	B	34.11	11.4	13.5	9.3	119	-
	<i>Median</i>			<i>11.5</i>	<i>16.2</i>	<i>14.4</i>	<i>106</i>	
<b>Income</b>								
San Juan Basin Royalty Trust	SJT		9.20	8.4	26.8	16.4	21	0.43
Sabine Royalty Trust	SBR		34.60	8.0	20.8	13.1	13	2.65
Dorchester Minerals, L.P.	DMLP	B	15.50	7.8	21.2	11.7	24	0.99
Cross Timbers Royalty Trust	CRT	B	17.38	12.4	19.4	10.8	15	1.15
Permian Basin RT	PBT		7.08	9.7	15.4	9.1	14	0.49
	<i>Median</i>			<i>8.4</i>	<i>20.8</i>	<i>11.7</i>	<i>15</i>	
<b>Canada</b>								
EnCana Corporation	ECA		8.45	6.4	14.4	11.6	85	0.28
Imperial Oil Limited (30%)	IMO		34.45	27.2	12.3	10.9	16	0.40
Cenovus Energy Inc.	CVE		16.59	16.5	13.9	10.8		0.49
Canadian Oil Sands Limited	COSWF	B	7.41	17.5	16.6	10.1		0.15
Birchcliff Energy Ltd.	BIREF	B	5.32	12.4	15.2	8.7		-
	<i>Median</i>			<i>16.5</i>	<i>14.4</i>	<i>10.8</i>	<i>51</i>	
	<i>Grand Median</i>			<i>11</i>	<i>15</i>	<i>11</i>		

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2016; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses



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Table 4										
McDep Energy Stocks										
Total Return Year-to-Date 2015										
Ranked by Unlevered Total Return										
			Price	Price			Equity	Unlevered		
			(\$/sh)	(\$/sh)	Price	Cash	Total		Total	
	Symbol/Rat		12-Oct	29-Dec	Change	Distrib.	Return	Debt	Return	McDep
			2015	2014	(%)	(%)	(%)	(\$/sh)	(%)	Ratio
<b>Global Integrated</b>										
Total S.A.	TOT	B	51.35	52.74	(3)	4	1	25	1	0.80
Exxon Mobil Corporation	XOM		79.30	93.07	(15)	2	(12)	20	(10)	0.89
Royal Dutch Shell (BG pro forma)	RDS-A		55.07	68.31	(19)	4	(15)	32	(10)	0.87
Chevron Corporation	CVX	B	88.74	113.32	(22)	3	(19)	29	(15)	0.84
	<i>Median</i>				(17)		(14)		(10)	0.86
<b>Large Independent</b>										
Occidental Petroleum Corp.	OXY		73.04	81.71	(11)	3	(8)	11	(7)	0.98
EOG Resources, Inc.	EOG		86.03	94.33	(9)	0	(8)	12	(8)	1.07
ConocoPhillips	COP		55.27	70.11	(21)	3	(18)	30	(13)	0.87
Devon Energy Corporation	DVN	B	43.99	61.15	(28)	1	(27)	27	(19)	0.77
Marathon Oil Corporation	MRO	B	18.96	28.58	(34)	2	(31)	14	(21)	0.68
	<i>Median</i>				(21)		(18)		(13)	0.87
<b>Small Independent</b>										
Cimarex Energy Company	XEC		121.54	110.27	10	0	11	12	10	1.11
California Resources	CRC		4.23	5.77	(27)	1	(26)	18	(6)	0.79
Continental Resources (32%)	CLR	B	34.11	38.26	(11)	-	(11)	19	(7)	0.69
Whiting Petroleum Corporation	WLL	B	20.16	34.09	(41)	-	(41)	27	(23)	0.60
Range Resources	RRC		34.49	56.00	(38)	0	(38)	25	(27)	0.79
	<i>Median</i>				(27)		(26)		(7)	0.79
<b>Income</b>										
Cross Timbers Royalty Trust	CRT	B	17.38	18.07	(4)	6	2	-	2	0.56
Sabine Royalty Trust	SBR		34.60	36.68	(6)	7	1	-	1	0.63
Permian Basin RT	PBT		7.08	9.12	(22)	3	(19)	-	(19)	0.59
San Juan Basin Royalty Trust	SJT		9.20	13.97	(34)	2	(32)	-	(32)	0.61
Dorchester Minerals, L.P.	DMLP	B	15.50	25.16	(38)	4	(35)	-	(35)	0.55
	<i>Median</i>				(22)		(19)		(19)	0.59
<b>Canada</b>										
Canadian Oil Sands Limited	COSWF	B	7.41	9.20	(19)	1	(18)	6	(11)	0.61
Birchcliff Energy Ltd.	BIREF	B	5.32	6.75	(21)	-	(21)	4	(14)	0.57
Cenovus Energy Inc.	CVE		16.59	20.95	(21)	3	(18)	6	(14)	0.78
Imperial Oil Limited (30%)	IMO		34.45	43.49	(21)	1	(20)	11	(16)	0.89
EnCana Corporation	ECA		8.45	13.94	(39)	2	(38)	11	(22)	0.81
	<i>Median</i>				(21)		(20)		(14)	0.78
	<i>Grand Median</i>				(21)		(19)		(13)	0.79
<b>Natural Gas (\$/mmbtu)</b>			2.54	3.19	(20)					
<b>Oil - West Texas Intermediate (\$/bbl)</b>			47.41	53.69	(12)					

Source: McDep LLC, Yahoo, CME Group, Bloomberg



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<b>Index of 2015 Research</b>				
<u>Date</u>	<u>Series</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
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
28-May	II	DMLP, SBR, CRT, SJT, PBT		Distributions Rise on Roll Forward
12-May	MR	MRO	Marathon Oil	New Buy on Independent Shale Oil
1-May	ISI		CVX, XOM, RDS, TOT	Raise NPV for XOM and TOT on Cash Flow Margin
30-Apr	ISI	SJT	San Juan Basin Royalty Trust	New Buy on Depressed Natural Gas
29-Apr	ISI	CVE	Cenovus Energy	New Buy on Operating Leverage
28-Apr		TOT	Total	Operating Strength Reinforces New Buy
14-Apr	MR	RDS	Royal Dutch Shell plc	Shell to Acquire BG - Catalyst for Confidence
1-Apr	II			Recommitting to Oil and Gas Stocks
10-Mar	MR	DMLP, SBR, CRT, SJT		RTF Income Tracks Oil Price
9-Mar	ISI	XOM	Exxon Mobil	Safe at Any Likely Oil Price
27-Feb	ISI	EOG	EOG Resources	Top Value Creator
10-Feb	MR	CRT, CRC, COP, CVX		Oil Price Cycle Advances
30-Jan	ISI	COSWF	Canadian Oil Sands Ltd.	Syncrude Lowers Breakeven to \$US32 a Barrel
13-Jan	MR	SBR, XEC, COSWF, DVN, XOM		Oil and Gas Stocks on Sale
				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.



**McDEP**  
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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.