



A Monthly Analysis of Oil and Gas Stocks
December 15, 2015

Buys for 2016 and Beyond

Summary and Recommendation

After a disappointing 2015, we believe that oil and gas stocks offer valuable participation in a diversified long-term investment portfolio in 2016 and thereafter. Attractive stocks range from **ExxonMobil (XOM)**, the largest in our coverage, to **Cross Timbers Royalty Trust (CRT)**, the smallest (see [Tables 1-4](#) on pages 2-5). The two stocks with lowest McDep Ratios in each of five groups get our added buy emphasis. Low McDep Ratios appear to offer the most appreciation to a value tied to higher oil and gas price. As often as not in the declining price environment of the past year, low McDep Ratios stocks went down more because the same sensitivity to higher oil price works to disadvantage with lower oil price. That risk can be handled in a portfolio context with less volatile large stocks balancing more volatile smaller stocks and a significant cash position dampening general market volatility. As for the ever important oil price, we believe current low levels will prove temporary. We are holding out for \$70 a barrel by the end of 2016 while recognizing we cannot control that variable. For natural gas, a warm winter so far is hurting price for producers. Otherwise, like oil, supply is slowing and weather-adjusted demand is growing.

Kurt H. Wulff, CFA



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Symbol/Rating	Price (US\$/sh) 14-Dec 2015	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	76.03	1.26	403,000	7	11	57	25	3.8	0.86
Chevron Corporation	CVX	89.33	1.34	224,000	3	8	64	25	4.8	0.85
Royal Dutch Shell (BG pro form: Total S.A.)	RDS-A B TOT B	43.95 45.26	1.72 1.55	299,000 162,000	3	15	52	30	8.6	0.76
<i>Total or Median</i>			<i>1.45</i>	<i>1,088,000</i>			<i>58</i>	<i>26</i>	<i>5.4</i>	<i>0.80</i>
Large Independent										
EOG Resources, Inc.	EOG	76.86	1.16	49,000	16	3	81		0.9	0.97
Occidental Petroleum Corp.	OXY	66.65	1.17	59,700	5	1	78	17	4.5	0.90
ConocoPhillips	COP	49.53	1.61	99,000	16	11	73		6.0	0.81
Devon Energy Corporation	DVN B	31.54	2.00	26,000	28		56	16	3.0	0.65
Marathon Oil Corporation	MRO B	13.96	1.98	18,700	9	1	90		1.4	0.58
<i>Total or Median</i>			<i>1.61</i>	<i>252,000</i>	<i>16</i>		<i>78</i>		<i>3.0</i>	<i>0.81</i>
Small Independent										
Cimarex Energy Company	XEC	102.19	1.12	10,600	41		59		0.6	0.95
California Resources	CRC	2.52	8.08	7,800	13		87		-	0.73
Range Resources	RRC	21.86	2.14	7,800	80		20		0.7	0.62
Continental Resources (32%)	CLR B	26.66	1.73	5,500	20		80		-	0.60
Whiting Petroleum Corporation	WLL B	10.92	3.47	7,700	7		93		-	0.48
<i>Total or Median</i>			<i>2.14</i>	<i>39,000</i>	<i>20</i>		<i>80</i>		<i>-</i>	<i>0.62</i>
Income										
Sabine Royalty Trust	SBR	27.45	1.00	400	53		48		7.5	0.50
Permian Basin RT	PBT	5.21	1.00	240	23		77		5.0	0.43
Cross Timbers Royalty Trust	CRT	12.88	1.00	80	62		38		7.0	0.41
Dorchester Minerals, L.P.	DMLP B	9.88	1.00	300	40		60		8.2	0.35
San Juan Basin Royalty Trust	SJT B	4.03	1.00	190	100		-		5.1	0.34
<i>Total or Median</i>			<i>1.00</i>	<i>1,200</i>	<i>53</i>		<i>48</i>		<i>7.0</i>	<i>0.41</i>
Canada										
Imperial Oil Limited (30%)	IMO	29.73	1.35	10,300	1		69	30	1.4	0.80
EnCana Corporation	ECA	5.54	2.83	13,300	56		44		5.1	0.68
Cenovus Energy Inc.	CVE	12.55	1.35	14,100	12		74	13	3.7	0.62
Canadian Oil Sands Limited	COSWF B	5.83	2.01	5,700			100		2.5	0.54
Birchcliff Energy Ltd.	BIREF B	2.63	2.32	1,000	77		23		-	0.40
<i>Total or Median</i>			<i>2.01</i>	<i>44,000</i>			<i>69</i>		<i>2.5</i>	<i>0.62</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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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>14-Dec</i>		<i>Cap</i>	<i>Value</i>	<i>Present</i>	
	<i>B = Buy</i>		<i>2015</i>	<i>(mm)</i>	<i>(US\$m)</i>	<i>(US\$/sh)</i>	<i>Value</i>	
							<i>Ratio</i>	
Global Integrated								
Exxon Mobil Corporation	XOM		76.03	4,190	319,000	92.00	0.18	0.86
Chevron Corporation	CVX		89.33	1,872	167,000	111.00	0.22	0.85
Royal Dutch Shell (BG pro forma)	RDS-A	B	43.95	3,965	174,000	68.00	0.32	0.76
Total S.A.	TOT	B	45.26	2,312	105,000	71.00	0.26	0.73
	<i>Total or Median</i>				<i>765,000</i>		<i>0.24</i>	<i>0.80</i>
Large Independent								
EOG Resources, Inc.	EOG		76.86	549	42,200	80.00	0.13	0.97
Occidental Petroleum Corp.	OXY		66.65	763	50,900	75.00	0.13	0.90
ConocoPhillips	COP		49.53	1,242	62,000	68.00	0.31	0.81
Devon Energy Corporation	DVN	B	31.54	411	13,000	65.00	0.33	0.65
Marathon Oil Corporation	MRO	B	13.96	677	9,450	34.00	0.29	0.58
	<i>Total or Median</i>				<i>177,600</i>		<i>0.29</i>	<i>0.81</i>
Small Independent								
Cimarex Energy Company	XEC		102.19	93	9,500	108.00	0.10	0.95
California Resources	CRC		2.52	382	1,000	10.00	0.64	0.73
Range Resources	RRC		21.86	167	3,700	50.00	0.33	0.62
Continental Resources (32%)	CLR	B	26.66	118	3,200	58.00	0.25	0.60
Whiting Petroleum Corporation	WLL	B	10.92	204	2,200	52.00	0.34	0.48
	<i>Total or Median</i>				<i>20,000</i>		<i>0.33</i>	<i>0.62</i>
Income								
Sabine Royalty Trust	SBR		27.45	15	400	55.00	-	0.50
Permian Basin RT	PBT		5.21	47	240	12.00	-	0.43
Cross Timbers Royalty Trust	CRT		12.88	6	80	31.00	-	0.41
Dorchester Minerals, L.P.	DMLP	B	9.88	31	300	28.00	-	0.35
San Juan Basin Royalty Trust	SJT	B	4.03	47	190	12.00	-	0.34
	<i>Total or Median</i>				<i>1,200</i>		<i>-</i>	<i>0.41</i>
Canada								
Imperial Oil Limited (30%)	IMO		29.73	255	7,600	40.00	0.21	0.80
EnCana Corporation	ECA		5.54	843	4,700	13.00	0.44	0.68
Cenovus Energy Inc.	CVE		12.55	827	10,400	23.00	0.16	0.62
Canadian Oil Sands Limited	COSWF	B	5.83	485	2,800	16.00	0.27	0.54
Birchcliff Energy Ltd.	BIREF	B	2.63	154	400	12.00	0.23	0.40
	<i>Total or Median</i>				<i>26,000</i>		<i>0.23</i>	<i>0.62</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>14-Dec 2015</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		76.03	14.4	10.7	9.1	20	2.92
Chevron Corporation	CVX		89.33	9.3	9.7	8.2	31	4.28
Royal Dutch Shell (BG pro forma)	RDS-A	B	43.95	9.9	8.6	6.5	16	3.76
Total S.A.	TOT	B	45.26	9.9	8.2	6.0	11	2.68
	<i>Median</i>			<i>9.9</i>	<i>9.2</i>	<i>7.4</i>	<i>18</i>	
Large Independent								
EOG Resources, Inc.	EOG		76.86	9.0	16.2	15.7		0.67
Occidental Petroleum Corp.	OXY		66.65	8.9	14.5	13.1		3.00
ConocoPhillips	COP		49.53	11.4	14.9	12.1		2.96
Devon Energy Corporation	DVN	B	31.54	10.2	16.4	10.8	60	0.96
Marathon Oil Corporation	MRO	B	13.96	11.8	16.0	9.3		0.20
	<i>Median</i>			<i>10.2</i>	<i>16.0</i>	<i>12.1</i>	<i>60</i>	
Small Independent								
California Resources	CRC		2.52	12.7	34.0	24.9		-
Range Resources	RRC		21.86	13.8	37.9	23.6		0.16
Cimarex Energy Company	XEC		102.19	7.7	19.6	18.7		0.64
Continental Resources (32%)	CLR	B	26.66	11.4	20.8	12.4		-
Whiting Petroleum Corporation	WLL	B	10.92	11.4	20.4	9.8		-
	<i>Median</i>			<i>11.4</i>	<i>20.8</i>	<i>18.7</i>		
Income								
San Juan Basin Royalty Trust	SJT	B	4.03	8.6	40.1	13.5	20	0.20
Sabine Royalty Trust	SBR		27.45	8.0	26.6	13.3	13	2.07
Cross Timbers Royalty Trust	CRT		12.88	12.4	26.5	11.0	14	0.90
Permian Basin RT	PBT		5.21	9.7	23.1	10.1	20	0.26
Dorchester Minerals, L.P.	DMLP	B	9.88	7.1	22.7	8.0	16	0.81
	<i>Median</i>			<i>8.6</i>	<i>26.5</i>	<i>11.0</i>	<i>16</i>	
Canada								
EnCana Corporation	ECA		5.54	6.5	28.8	19.6	72	0.28
Canadian Oil Sands Limited	COSWF	B	5.83	18.0	29.8	15.9		0.15
Cenovus Energy Inc.	CVE		12.55	15.0	19.6	12.1		0.47
Imperial Oil Limited (30%)	IMO		29.73	23.4	13.4	10.7	17	0.41
Birchcliff Energy Ltd.	BIREF	B	2.63	12.5	19.8	7.9		-
	<i>Median</i>			<i>15.0</i>	<i>19.8</i>	<i>12.1</i>	<i>44</i>	
	<i>Grand Median</i>			<i>11</i>	<i>20</i>	<i>12</i>		

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 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	Debt	Return	McDep
	Symbol/Rati		14-Dec	29-Dec	Change	Distrib.	Return	(\$/sh)	(%)	Ratio
			2015	2014	(%)	(%)	(%)			
Global Integrated										
Total S.A.	TOT	B	45.26	52.74	(14)	4	(10)	25	(7)	0.73
Exxon Mobil Corporation	XOM		76.03	93.07	(18)	3	(15)	20	(13)	0.86
Chevron Corporation	CVX		89.33	113.32	(21)	4	(17)	31	(14)	0.85
Royal Dutch Shell (BG pro forma)	RDS-A	B	43.95	68.31	(36)	6	(30)	32	(21)	0.76
	<i>Median</i>				(20)		(16)		(13)	0.80
Large Independent										
Occidental Petroleum Corp.	OXY		66.65	81.71	(18)	3	(16)	12	(14)	0.90
EOG Resources, Inc.	EOG		76.86	94.33	(19)	0	(18)	12	(16)	0.97
ConocoPhillips	COP		49.53	70.11	(29)	4	(25)	30	(18)	0.81
Devon Energy Corporation	DVN	B	31.54	61.15	(48)	1	(47)	32	(31)	0.65
Marathon Oil Corporation	MRO	B	13.96	28.58	(51)	2	(49)	14	(33)	0.58
	<i>Median</i>				(29)		(25)		(18)	0.81
Small Independent										
Cimarex Energy Company	XEC		102.19	110.27	(7)	0	(7)	12	(6)	0.95
California Resources	CRC		2.52	5.77	(56)	1	(56)	18	(14)	0.73
Continental Resources (32%)	CLR	B	26.66	38.26	(30)	-	(30)	19	(20)	0.60
Whiting Petroleum Corporation	WLL	B	10.92	34.09	(68)	-	(68)	27	(38)	0.48
Range Resources	RRC		21.86	56.00	(61)	0	(61)	25	(42)	0.62
	<i>Median</i>				(56)		(56)		(20)	0.62
Income										
Sabine Royalty Trust	SBR		27.45	36.68	(25)	8	(17)	-	(17)	0.50
Cross Timbers Royalty Trust	CRT		12.88	18.07	(29)	7	(22)	-	(22)	0.41
Permian Basin RT	PBT		5.21	9.12	(43)	4	(39)	-	(39)	0.43
Dorchester Minerals, L.P.	DMLP	B	9.88	25.16	(61)	5	(56)	-	(56)	0.35
San Juan Basin Royalty Trust	SJT	B	4.03	13.97	(71)	2	(69)	-	(69)	0.34
	<i>Median</i>				(43)		(39)		(39)	0.41
Canada										
Canadian Oil Sands Limited	COSWF	B	5.83	9.20	(37)	2	(35)	6	(21)	0.54
Imperial Oil Limited (30%)	IMO		29.73	43.49	(32)	1	(31)	10	(25)	0.80
Cenovus Energy Inc.	CVE		12.55	20.95	(40)	3	(37)	4	(31)	0.62
EnCana Corporation	ECA		5.54	13.94	(60)	2	(59)	10	(34)	0.68
Birchcliff Energy Ltd.	BIREF	B	2.63	6.75	(61)	-	(61)	4	(40)	0.40
	<i>Median</i>				(40)		(37)		(31)	0.62
	<i>Grand Median</i>				(36)		(33)		(21)	0.64
Natural Gas (\$/mmbtu)			1.89	3.19	(41)					
Oil - West Texas Intermediate (\$/bbl)			36.31	53.69	(32)					
S&P 500			2,022	2,091	(3)					

Source: McDep LLC, Yahoo, CME Group, Bloomberg



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