



Meter Reader

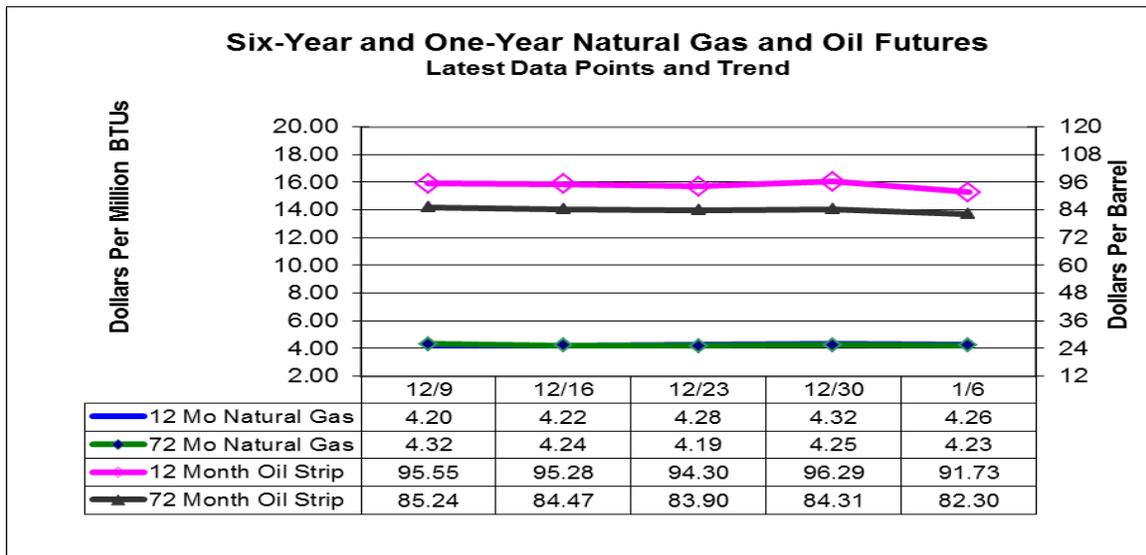
A Weekly Analysis of Oil and Gas Stocks
January 7, 2014

Six-Year Futures in 2014 Oil Up, Natural Gas Up More

Summary and Recommendation

We call six-year futures of oil to increase to \$90 a barrel in 2014 from \$82 today and six-year futures for natural gas to approach \$6 a million Btu in 2014 from \$4.20 today (see chart [Six-Year and One-Year Natural Gas and Oil Futures](#) below). Buy-recommended U.S. frackers like **Range (RRC)**, **Cimarex (XEC)**, **Continental (CLR)** and **Whiting (WLL)** are growing volume in a constructive price environment. Abnormal discounts support the price outlook. West Texas crude oil, the U.S. futures benchmark, is priced in the spot market some \$14 a barrel below Brent, the European benchmark (see chart [Brent and WTI](#) on page 2). Six-year natural gas is priced some 70% (20:1 price ratio) below the heating value of oil (6:1 price ratio – see chart [Oil/Natural Gas Futures](#) on page 2). Possibly pointing to higher prices ahead, natural gas in U.S. underground storage has declined to the extreme of the five-year range (see chart [Working Gas](#) on page 3). Another bullish factor for six-year futures, we think, is that one-year oil futures are priced above six-year futures (see chart [Oil Futures](#) on page 3). In the past few weeks, one-year natural gas futures have moved above six-year futures for the first time since before the peak in 2008 (see chart [Natural Gas Futures](#) on page 4). Contrary to our upbeat case, 40-week measures point to downward momentum (see chart [Six-Year Commodity Price Meter](#) on page 4). In any case, we believe the oil and gas producers in our coverage are creating value that is vital to a growing global economy and are likely to be rewarding long-term investments (see [Tables 1-4](#) on pages 5-8).

Kurt H. Wulff, CFA



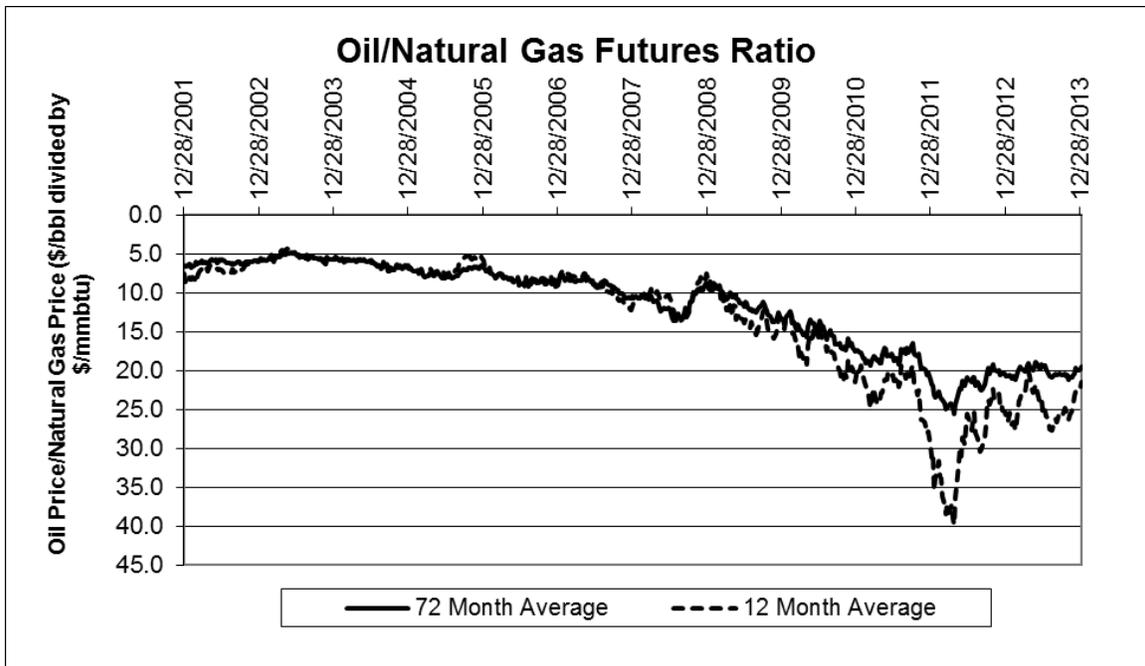
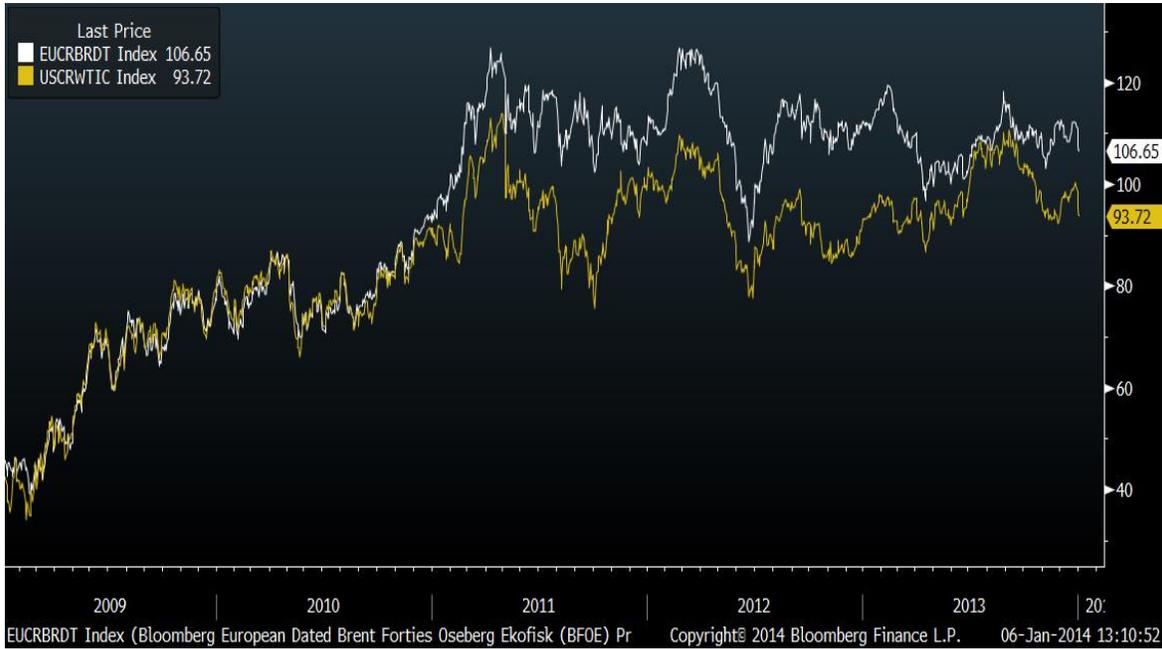


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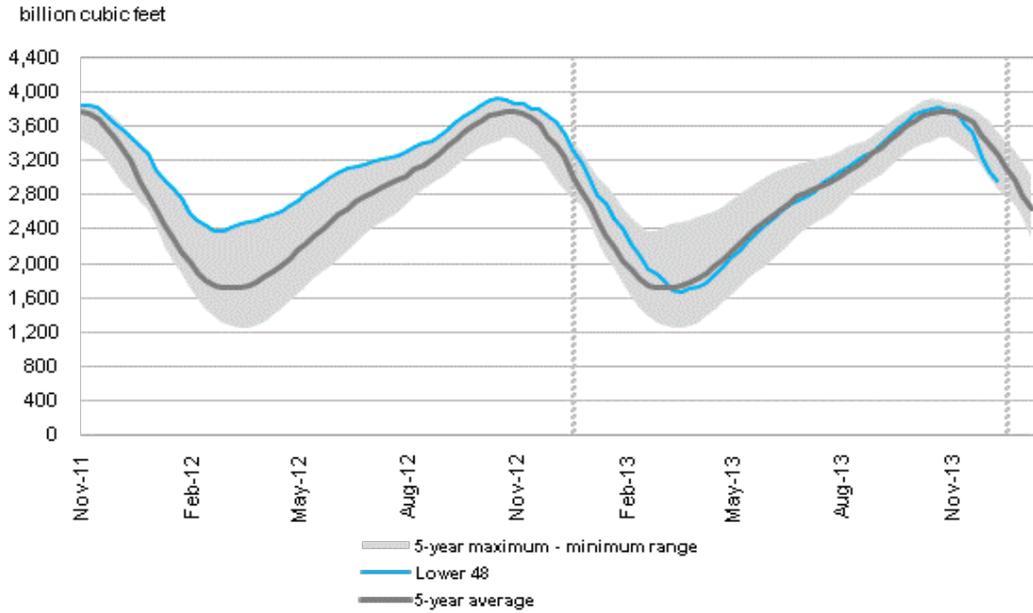
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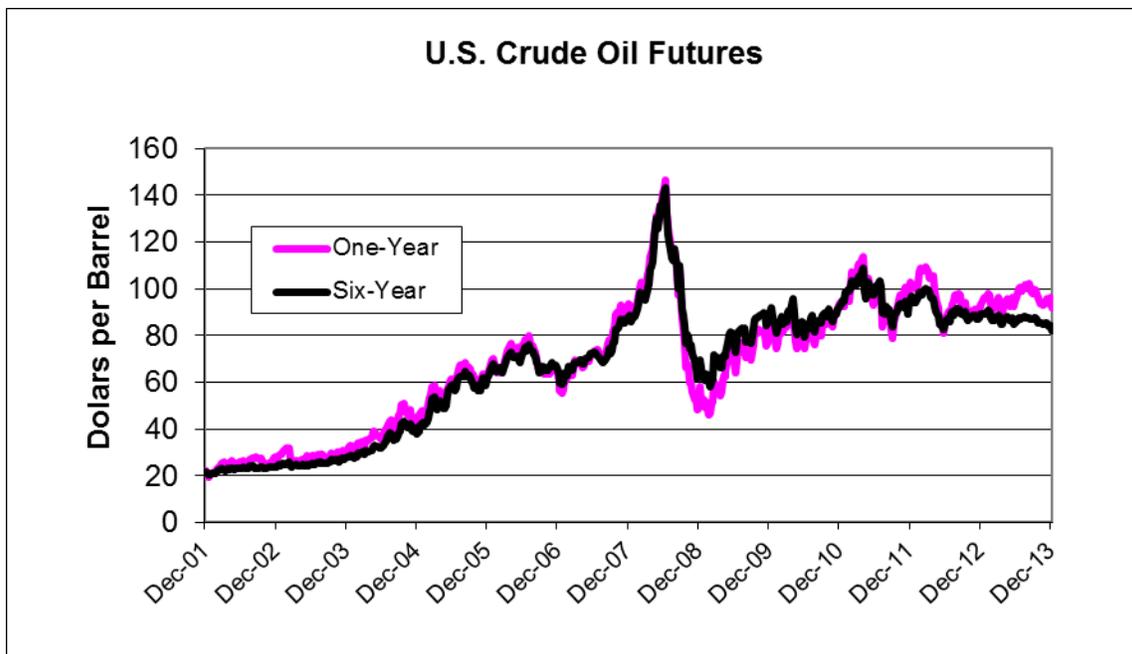
European Brent and West Texas Crude Oil



Working gas in underground storage compared with the 5-year maximum and minimum



Source: U.S. Energy Information Administration

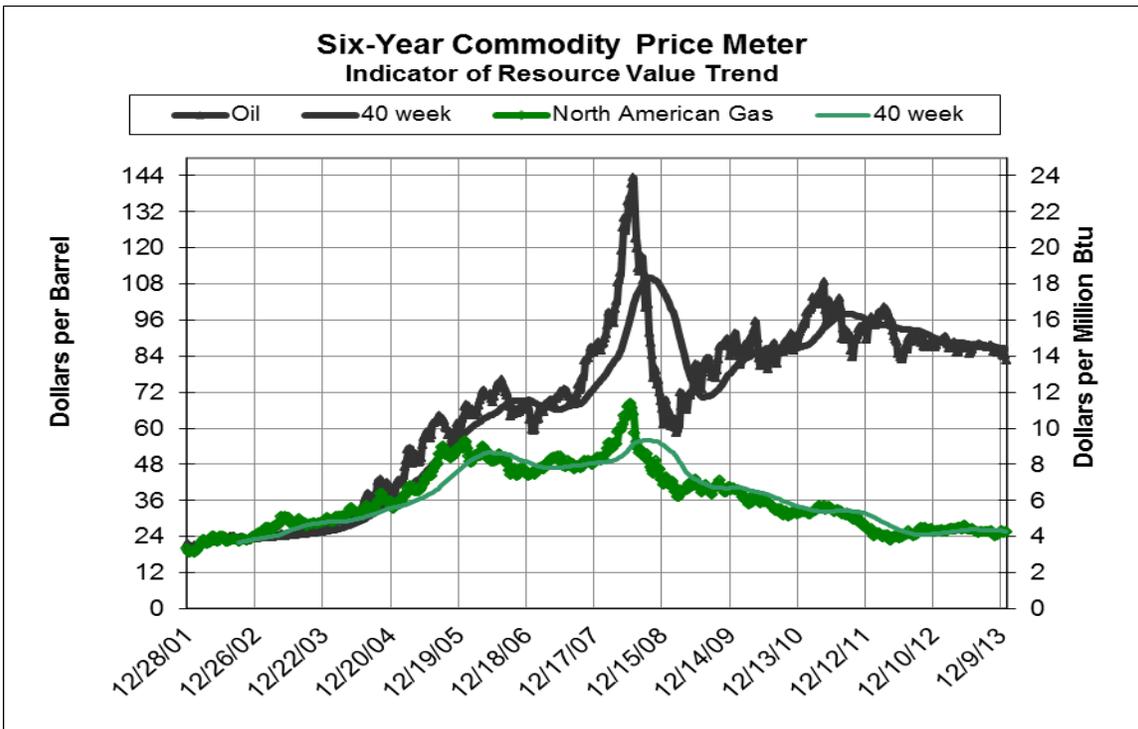
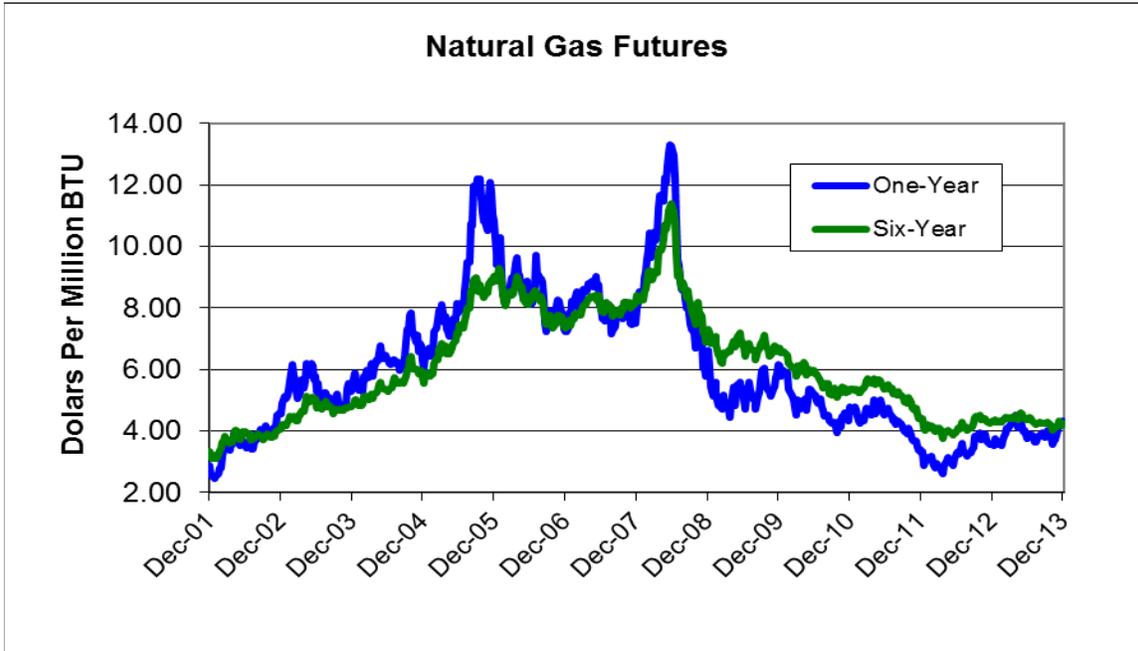




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Table 2								
McDep Energy Stocks								
Net Present Value and McDep Ratio								
			Price (US\$/sh)	Shares	Market Cap (US\$mm)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
	Symbol/Rating		6-Jan 2014	(mm)				
B = Buy, CB (see below)								
Global Integrated								
Exxon Mobil Corporation	XOM	B	99.66	4,395	438,000	102.00	0.16	0.98
Chevron Corporation	CVX		124.02	1,930	239,000	150.00	0.12	0.85
Total S.A.	TOT		59.43	2,275	135,000	80.00	0.20	0.79
Royal Dutch Shell plc	RDS-A		70.31	3,137	221,000	100.00	0.19	0.76
Lukoil Oil Company	LUKOY	CB	59.93	776	46,500	135.00	0.02	0.46
<i>Total or Median</i>					1,080,000		0.16	0.79
U.S. Independent								
EOG Resources, Inc.	EOG		164.02	274	44,900	180.00	0.12	0.92
Occidental Petroleum Corp.	OXY		93.80	806	75,600	108.00	0.10	0.88
ConocoPhillips	COP		70.26	1,219	86,000	100.00	0.22	0.77
Marathon Oil Corporation	MRO	CB	34.43	711	24,480	50.00	0.24	0.76
Devon Energy Corporation	DVN	B	60.25	407	24,500	100.00	0.20	0.68
<i>Total or Median</i>					255,500		0.20	0.77
Canada/Australia								
Woodside Petroleum Ltd.	WOPEY		33.88	823	27,900	36.00	0.14	0.95
Imperial Oil Limited (30%)	IMO		43.14	255	11,000	52.00	0.19	0.86
Cenovus Energy Inc.	CVE		27.77	757	21,000	42.00	0.18	0.72
EnCana Corporation	ECA	CB	17.56	736	12,900	30.00	0.28	0.70
Canadian Oil Sands Limited	COSWF	CB	18.53	485	9,000	34.00	0.13	0.60
<i>Total or Median</i>					82,000		0.18	0.72
Small Cap Independent Producers								
PDC Energy	PDCE		49.32	36	1,800	45.00	0.27	1.07
Peyto Exploration and Development Corp.	PEYUF		31.41	149	4,700	34.00	0.14	0.93
Range Resources	RRC	B	81.05	161	13,100	90.00	0.20	0.92
Continental Resources (32%)	CLR	B	104.90	59	6,200	120.00	0.18	0.90
Whiting Petroleum Corporation	WLL	B	58.95	120	7,100	75.00	0.23	0.84
WPX Energy Inc.	WPX		19.28	201	3,900	26.00	0.32	0.82
Cimarex Energy Company	XEC	B	99.19	87	8,600	125.00	0.12	0.82
Halcón Resources	HK		3.45	463	1,600	7.00	0.51	0.75
Birchcliff Energy Ltd.	BIREF	CB	6.98	163	1,100	12.00	0.22	0.67
<i>Total or Median</i>					48,000		0.22	0.84
RTF Cash Payers								
Dorchester Minerals, L.P.	DMLP	B	25.63	31	790	26.00	-	0.99
Freehold Royalties Ltd.	FRHLF		20.51	67	1,380	21.00	0.04	0.98
Mesa Royalty Trust	MTR		21.95	2	40	25.00	-	0.88
Enduro Royalty Trust	NDRO		12.12	33	400	14.00	-	0.87
San Juan Basin Royalty Trust	SJT	B	17.08	47	800	21.00	-	0.81
Sabine Royalty Trust	SBR		51.00	15	740	64.00	-	0.80
Permian Basin RT	PBT		13.26	47	620	18.00	-	0.74
Cross Timbers Royalty Trust	CRT		29.29	6	180	42.00	-	0.70
Hugoton Royalty Trust	HGT		7.96	40	320	12.00	-	0.66
<i>Total or Median</i>					5,300		-	0.81

CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average.

Estimated present value presumes a long-term price for oil of US\$90 a barrel and natural gas, \$6 a million btu.

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses



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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		6-Jan 2014	NTM	NTM	NTM	NTM	
	B = Buy, CB (see below)						(\$/sh)	
Global Integrated								
Exxon Mobil Corporation	XOM	B	99.66	13.1	7.5	7.4	13	2.52
Chevron Corporation	CVX		124.02	9.2	6.7	5.6	11	4.00
Royal Dutch Shell plc	RDS-A		70.31	10.0	7.2	5.5	10	3.60
Total S.A.	TOT		59.43	9.8	6.2	4.9	9	3.22
Lukoil Oil Company	LUKOY	CB	59.93	15.7	5.6	2.6	5	3.01
	<i>Median</i>			<i>10.0</i>	<i>6.7</i>	<i>5.5</i>	<i>10</i>	
U.S. Independent								
ConocoPhillips	COP		70.26	11.4	8.4	6.4	14	0.75
Occidental Petroleum Corp.	OXY		93.80	10.2	7.3	6.4	16	2.76
EOG Resources, Inc.	EOG		164.02	7.1	6.8	6.3	19	2.56
Devon Energy Corporation	DVN	B	60.25	10.1	8.4	5.7	14	0.76
Marathon Oil Corporation	MRO	CB	34.43	9.3	7.2	5.5	13	0.88
	<i>Median</i>			<i>10.1</i>	<i>7.3</i>	<i>6.3</i>	<i>14</i>	
Canada/Australia								
EnCana Corporation	ECA	CB	17.56	7.2	12.2	8.6	13	0.91
Imperial Oil Limited (30%)	IMO		43.14	20.1	9.9	8.5	11	0.49
Woodside Petroleum Ltd.	WOPEY		33.88	9.6	8.4	8.0	17	1.66
Canadian Oil Sands Limited	COSWF	CB	18.53	20.8	10.5	6.4	10	1.31
Cenovus Energy Inc.	CVE		27.77	12.3	8.0	5.8	15	0.28
	<i>Median</i>			<i>12.3</i>	<i>9.9</i>	<i>8.0</i>	<i>13</i>	
Small Cap Independent Producers								
Range Resources	RRC	B	81.05	12.3	14.2	13.0	55	0.16
PDC Energy	PDCE		49.32	14.9	9.8	10.5	58	-
Peyto Exploration and Development Corp.	PEYUF		31.41	8.5	10.4	9.7	19	0.68
WPX Energy Inc.	WPX		19.28	8.0	9.7	8.0		-
Birchcliff Energy Ltd.	BIREF	CB	6.98	17.8	11.7	7.9	18	-
Halcón Resources	HK		3.45	5.3	9.6	7.2	8	-
Continental Resources (32%)	CLR	B	104.90	11.4	7.9	7.1	16	-
Cimarex Energy Company	XEC	B	99.19	7.2	7.8	6.4	15	0.56
Whiting Petroleum Corporation	WLL	B	58.95	8.1	5.9	4.9	14	-
	<i>Median</i>			<i>8.5</i>	<i>9.7</i>	<i>7.9</i>	<i>17</i>	
RTF Cash Payers								
Sabine Royalty Trust	SBR		51.00	9.2	15.2	12.1	12	4.21
San Juan Basin Royalty Trust	SJT	B	17.08	9.8	14.4	11.7	15	1.18
Dorchester Minerals, L.P.	DMLP	B	25.63	6.5	10.6	10.4	16	1.98
Freehold Royalties Ltd.	FRHLF		20.51	4.7	10.4	10.1	23	1.58
Mesa Royalty Trust	MTR		21.95	5.2	11.1	9.8	12	1.83
Cross Timbers Royalty Trust	CRT		29.29	12.5	12.7	8.9	10	3.05
Permian Basin RT	PBT		13.26	12.7	11.2	8.2	14	0.96
Enduro Royalty Trust	NDRO		12.12	6.4	8.5	7.4	8	1.44
Hugoton Royalty Trust	HGT		7.96	12.8	10.4	6.9	8	1.00
	<i>Median</i>			<i>9.2</i>	<i>11.1</i>	<i>9.8</i>	<i>12</i>	

CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average.

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2014; 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 and Enterprise Value Momentum										
Ranked by EV/200-Day Average										
			Price	Equity						
			(\$/sh)	Total						
	Symbol		6-Jan	Return	Enterprise Value/				McDep	
	Rating		2014	YTD	52Wk	52Wk	50 Day	200 Day	Ratio	
				(%)	High	Low	Avg.	Avg.		
Global Integrated										
	Exxon Mobil Corporation	XOM	B	99.66	(1)	0.98	1.14	1.04	1.08	0.98
	Total S.A.	TOT		59.43	(3)	0.96	1.20	1.00	1.07	0.79
	Royal Dutch Shell plc	RDS-A		70.31	(1)	0.97	1.09	1.03	1.04	0.76
	Chevron Corporation	CVX		124.02	(1)	0.97	1.12	1.02	1.02	0.85
	Lukoil Oil Company	LUKOY	CB	59.93	(5)	0.89	1.10	0.96	0.97	0.46
	<i>Median</i>				(1)	0.97	1.12	1.02	1.04	0.79
U.S. Independent										
	EOG Resources, Inc.	EOG		164.02	(2)	0.89	1.38	0.97	1.07	0.92
	ConocoPhillips	COP		70.26	(0)	0.96	1.16	0.98	1.04	0.77
	Occidental Petroleum Corp.	OXY		93.80	(1)	0.95	1.19	0.99	1.03	0.88
	Devon Energy Corporation	DVN	B	60.25	(2)	0.93	1.12	0.99	1.03	0.68
	Marathon Oil Corporation	MRO	CB	34.43	(2)	0.93	1.11	0.97	0.99	0.76
	<i>Median</i>				(2)	0.93	1.16	0.98	1.03	0.77
Canada/Australia										
	Imperial Oil Limited (30%)	IMO		43.14	(3)	0.96	1.12	0.99	1.03	0.86
	EnCana Corporation	ECA	CB	17.56	(3)	0.91	1.04	0.97	0.98	0.70
	Canadian Oil Sands Limited	COSWF	CB	18.53	(2)	0.88	1.03	0.98	0.96	0.60
	Woodside Petroleum Ltd.	WOPEY		33.88	(3)	0.87	1.07	0.96	0.96	0.95
	Cenovus Energy Inc.	CVE		27.77	(3)	0.85	1.01	0.97	0.96	0.72
	<i>Median</i>				(3)	0.88	1.04	0.97	0.96	0.72
Small Cap Independent Producers										
	Cimarex Energy Company	XEC	B	99.19	(5)	0.89	1.52	0.98	1.15	0.82
	Peyto Exploration and Development	PEYUF		31.41	3	0.99	1.34	1.04	1.07	0.93
	Whiting Petroleum Corporation	WLL	B	58.95	(4)	0.87	1.25	0.96	1.07	0.84
	Continental Resources (32%)	CLR	B	104.90	(6)	0.89	1.33	0.95	1.07	0.90
	Range Resources	RRC	B	81.05	(4)	0.96	1.21	1.03	1.04	0.92
	WPX Energy Inc.	WPX		19.28	(5)	0.88	1.20	0.98	1.01	0.82
	Birchcliff Energy Ltd.	BIREF	CB	6.98	2	0.85	1.03	1.00	0.96	0.67
	PDC Energy	PDCE		49.32	(7)	0.73	1.29	0.87	0.92	1.07
	Halcón Resources	HK		3.45	(12)	0.69	1.01	0.93	0.85	0.75
	<i>Median</i>				(5)	0.88	1.25	0.98	1.04	0.84
RTF Cash Payers										
	San Juan Basin Royalty Trust	SJT	B	17.08	2	0.94	1.25	1.03	1.06	0.81
	Dorchester Minerals, L.P.	DMLP	B	25.63	(0)	0.98	1.22	1.04	1.06	0.99
	Cross Timbers Royalty Trust	CRT		29.29	(1)	0.92	1.17	0.99	1.02	0.70
	Sabine Royalty Trust	SBR		51.00	1	0.93	1.18	1.00	1.00	0.80
	Permian Basin RT	PBT		13.26	3	0.81	1.11	0.95	0.98	0.74
	Mesa RoyaltyTrust	MTR		21.95	3	0.85	1.10	1.03	0.97	0.88
	Hugoton RoyaltyTrust	HGT		7.96	6	0.80	1.14	1.08	0.96	0.66
	Freehold Royalties Ltd.	FRHLF		20.51	(1)	0.85	1.00	0.95	0.91	0.98
	Enduro Royalty Trust	NDRO		12.12	0	0.67	1.03	0.96	0.83	0.87
	<i>Median</i>				1	0.85	1.14	1.00	0.98	0.81

CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average.

Source: Bloomberg, Yahoo, McDep LLC



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Index of Recent Research			
Stock Ideas			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
17-Dec	MRO	Marathon Oil	New CEO Accelerates Shale Growth (Meter Reader)
3-Dec	LUKOY	Lukoil	Low McDep Ratio Emerging Market Stock (Meter Reader)
26-Nov	DVN	Devon Energy	Acquires \$6 Billion Eagle Ford Position (Meter Reader)
19-Nov	CLR	Continental Resources	High Density "Ears Back" Drilling Pace (Meter Reader)
15-Nov	BIREF	Birchcliff Energy	15% a Year Growth to 2018
12-Nov	XEC	Cimarex Energy	Raise NPV to \$125 on Permian Productivity (Meter Reader)
8-Nov	DMLP	Dorchester Minerals, L.P.	Oil up 6% a Quarter
5-Nov	COSWF	Canadian Oil Sands Ltd.	Time to Explore New Options (Meter Reader)
31-Oct	RRC	Range Resources	Core Owner in Largest Producing Field
29-Oct	WLL	Whiting Petroleum	Fracking Productivity Leaps 50% (Meter Reader)
25-Oct	ECA	Encana Corporation	San Juan Oil Upgraded to Commercial from Emerging
4-Oct	NDRO	Enduro Royalty Trust	Worth Another Look after Stock Price Decline
27-Sep	WPX	WPX Energy	San Juan Basin Innovator (Income and Small Cap Weekly)
24-Sep	XOM	Exxon Mobil	Fracking Firms Long-Term Value (Meter Reader)
17-Sep	COP	ConocoPhillips	Fracking Upside in Eagle Ford, Bakken and Permian (Meter Reader)
13-Sep	CRT	Cross Timbers Royalty Trust	Fracking Upside in Permian and Scoop (Income and Small Cap Weekly)
10-Sep	OXY	Occidental Petroleum	Permian Late Bloomer (Meter Reader)
6-Aug	RDSA	Royal Dutch Shell plc	Value Choice after Latest Results (Meter Reader)
23-Jul	WOPEY	Woodside Petroleum, Ltd.	Distributing LNG Cash (Meter Reader)
19-Jul	SJT	San Juan Basin Royalty Trust	Acreage 75% in Liquids-Rich Shale Zone (Income and Small Cap Weekly)
12-Jul	PBT	Permian Basin Royalty Trust	Stock Price Recovering from Short-Term Overreaction
5-Jul	LINE	Linn Energy	Stock Undervalued while SEC Probes (Income and Small Stock Weekly)
31-May	HGT	Hugoton Royalty Trust	Beating the Bear (Income and Small Cap Weekly)
14-May	EOG	EOG Resources	Raise NPV to \$180 on More Big Wells (Meter Reader)
30-Apr	TOT	Total	Recovery Potential (Meter Reader)
19-Apr	HK	Halcón Resources	Fourth Core Area - El Halcón ("The Hawk") (Inc. and Small Cap Wkly)
16-Apr	CVX	Chevron	Deflation Resistance (Meter Reader)
12-Apr	MTR	Mesa Royalty Trust	RTF Stealth Play on Long-Life Natural Gas (Income and Small Cap Wkly)
5-Apr	SBR	Sabine Royalty Trust	Accelerating Volume Growth (Income and Small Cap Weekly)
28-Mar	PEYUF	Peyto Exploration and Development	Raise NPV to \$32 for Fracking Winner (Income and Small Cap Weekly)
For historical research by stock, go to mcdep.com , click on Stock Ideas , click on stock by name.			
Meter Reader			
31-Dec			Catch up for Canada
24-Dec			Rising RTF Cash in 2014
17-Dec	MRO	Marathon Oil	New CEO Accelerates Shale Growth
10-Dec			Fracking Investment Strategy
3-Dec	LUKOY	Lukoil	Low McDep Ratio Emerging Market Stock
26-Nov	DVN	Devon Energy	Acquires \$6 Billion Eagle Ford Position
19-Nov	CLR	Continental Resources	High Density "Ears Back" Drilling Pace
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5-Nov	COSWF	Canadian Oil Sands Ltd.	Time to Explore New Options
29-Oct	WLL	Whiting Petroleum	Fracking Productivity Leaps 50%
For earlier editions, go to mcdep.com , click on Meter Reader .			
Industry Ideas			
24-Dec		RTF Cash Payers	Rising RTF Cash in 2014 (Meter Reader)
10-Dec			Fracking Investment Strategy (Meter Reader)
13-Nov		McDep Book Review	<i>The Frackers</i> by Gregory Zuckerman
22-Oct		RTF Cash Payers	Oil Rising



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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.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

Certification: I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

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. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.