

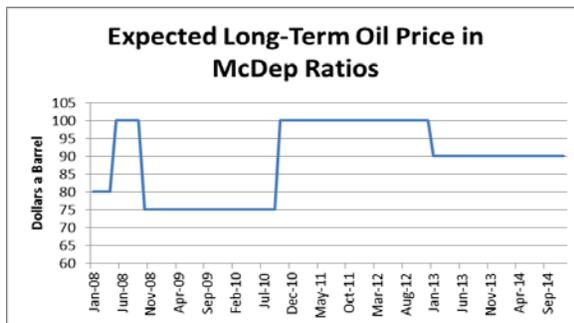
Oil and Gas Stocks for 2015 For Contrarians and Rebalancers

Summary and Recommendation

The asset allocation approach we advocate in the McDep diversified portfolio implies that oil and gas stocks may outperform the broader market in 2015. Declines, some quite steep, in oil and gas stocks, contrast with strong performance by the U.S. stock market. As a result, funds to rebuild oil and gas positions might come in part from scaling back on stocks outside of energy. Pressure on oil stocks seems to be particularly acute as we approach the end of the tax year, which provides an excuse to sell because losses can be used to offset gains elsewhere.

At the same time the steepness of the oil price decline raises fears of unintended consequences that might affect the rest of the market. For example, if shale oil growth slows or stops, it weakens some of the relative advantage the U.S. economy had in secure energy to attract new business investment. A further surprise might be financial failures in unexpected places. Nor is it beyond credibility to think that a geopolitical event is a higher risk such as missile attack on oil facilities somewhere. Not to be overlooked is the concern that low oil price may be telegraphing low economic activity.

Meanwhile, we know that we can't control oil price and that it can fluctuate wildly as it has in the past. Unlike six years ago we have not reduced our long-term price expectation on the latest fluctuation. At that time, we reduced the price we use for calculating McDep ratio from \$100 a barrel in mid-2008 to \$75, only to go back to \$100 in mid-2010.



All of the stocks in our coverage are attractive long-term investments, we believe. Choosing which one to buy today may depend on what an investor already owns and on tolerance for risk. Stocks smaller in size, which have more debt and are more concentrated on oil may struggle more in the current environment. We would spread commitments across five of the groups we identify (see [Tables 1-3](#) on pages 2-4). If you are really conservative, buy some **ExxonMobil (XOM)**, the largest company and a top performer for more than a hundred years. At the other extreme for more action buy **California Resources (CRC)** a recent spinoff backed by **Occidental Petroleum (OXY)**, a lower risk large independent producer, also attractive for purchase. RTF Cash Payers have assured staying power financially because they have no debt. Small cap independent producers, managed by cycle-tested entrepreneurs, are likely to survive this cycle, too, and prosper thereafter.

Kurt H. Wulff, CFA



Meter Reader

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								Present Value by Segment (%)			
		Price		EV/	Enterprise	North	Rest of			Dist.	
		(US\$/sh)		Market	Value	Amer.	World			Yield	
Symbol/Rating		15-Dec		Cap		Natural	Natural	Oil	Down-	NTM	McDep
B = Buy, CB (see below)		2014			(\$mm)	Gas	Gas	Prod'n	stream	(%)	Ratio
Global Integrated											
Exxon Mobil Corporation	XOM CB	86.90	1.20		445,000	7	16	61	17	3.2	0.87
Total S.A.	TOT	48.74	1.64		183,000			21	62	17	6.3
Chevron Corporation	CVX	100.86	1.23		236,000	3	11	73	13	4.2	0.72
Royal Dutch Shell plc	RDS-A	60.93	1.41		272,000	4	22	57	17	6.2	0.72
Lukoil Oil Company	LUKOY CB	34.35	1.30		34,700			76	24	5.8	0.31
<i>Total or Median</i>			<i>1.30</i>		<i>1,171,000</i>			<i>62</i>	<i>17</i>	<i>5.8</i>	<i>0.72</i>
U.S. Independent											
EOG Resources, Inc.	EOG	85.34	1.13		53,100	16	4	80		0.8	0.80
Occidental Petroleum Corp.	OXY	73.16	1.09		62,100	5	1	83	11	3.9	0.75
ConocoPhillips	COP	61.69	1.43		110,000	13	15	72		4.7	0.70
Devon Energy Corporation	DVN CB	52.66	1.81		39,000	27		65	8	1.8	0.67
Marathon Oil Corporation	MRO CB	24.80	1.60		26,900	9	3	89		3.4	0.61
<i>Total or Median</i>			<i>1.43</i>		<i>291,000</i>	<i>13</i>		<i>80</i>		<i>3.4</i>	<i>0.70</i>
Canada											
Imperial Oil Limited (30%)	IMO	39.90	1.26		12,900	2		79	19	1.1	0.81
EnCana Corporation	ECA CB	11.62	2.34		20,100	52		48		2.4	0.60
Canadian Oil Sands Limited	COSWF CB	7.39	1.78		6,400			100		9.5	0.51
Cenovus Energy Inc.	CVE	16.54	1.50		18,900	9		80	10	5.5	0.49
<i>Total or Median</i>			<i>1.64</i>		<i>58,000</i>			<i>79</i>		<i>4.0</i>	<i>0.55</i>
Small Cap Independent Producers											
Cimarex Energy Company	XEC CB	97.77	1.18		10,100	41		59		0.7	0.73
Range Resources	RRC CB	55.39	1.39		12,800	59		41		0.3	0.63
Birchcliff Energy Ltd.	BIREF CB	6.86	1.50		1,600	75		25		-	0.53
Whiting Petroleum Corporation	WLL CB	25.04	2.34		10,000	7		93		-	0.47
Continental Resources (32%)	CLR CB	30.95	1.53		5,600	21		79		-	0.47
California Resources	CRC	5.29	4.07		8,400	13		87		0.8	0.38
<i>Total or Median</i>			<i>1.52</i>		<i>49,000</i>	<i>31</i>		<i>69</i>		<i>0.1</i>	<i>0.50</i>
RTF Cash Payers											
Dorchester Minerals, L.P.	DMLP CB	22.39	1.00		690	35		65		5.7	0.70
San Juan Basin Royalty Trust	SJT CB	14.64	1.00		680	100		-		7.1	0.70
Hugoton Royalty Trust	HGT	7.67	1.00		310	87		13		8.9	0.59
Sabine Royalty Trust	SBR	35.96	1.00		520	44		56		8.6	0.56
Permian Basin RT	PBT	9.26	1.00		430	20		80		7.1	0.51
Cross Timbers Royalty Trust	CRT	18.17	1.00		110	64		36		9.6	0.43
Enduro Royalty Trust	NDRO	4.82	1.00		160	28		72		5.0	0.34
<i>Total or Median</i>			<i>1.00</i>		<i>2,900</i>	<i>44</i>		<i>56</i>		<i>7.1</i>	<i>0.56</i>

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



Meter Reader

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			<i>Price (US\$/sh) 15-Dec 2014</i>	<i>Shares (mm)</i>	<i>Market Cap (US\$m)</i>	<i>Net Present Value (US\$/sh)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>
<i>Symbol/Rating B = Buy, CB (see below)</i>								
Global Integrated								
Exxon Mobil Corporation	XOM	CB	86.90	4,267	371,000	102.00	0.15	0.87
Total S.A.	TOT		48.74	2,285	111,000	80.00	0.28	0.72
Chevron Corporation	CVX		100.86	1,896	191,000	150.00	0.13	0.72
Royal Dutch Shell plc	RDS-A		60.93	3,167	193,000	95.00	0.21	0.72
Lukoil Oil Company	LUKOY	CB	34.35	776	26,700	135.00	0.07	0.31
<i>Total or Median</i>					893,000		0.15	0.72
U.S. Independent								
EOG Resources, Inc.	EOG		85.34	550	46,900	110.00	0.09	0.80
Occidental Petroleum Corp.	OXY		73.16	778	56,900	100.00	0.06	0.75
ConocoPhillips	COP		61.69	1,247	77,000	100.00	0.21	0.70
Devon Energy Corporation	DVN	CB	52.66	411	21,600	100.00	0.30	0.67
Marathon Oil Corporation	MRO	CB	24.80	678	16,810	50.00	0.23	0.61
<i>Total or Median</i>					219,200		0.21	0.70
Canada								
Imperial Oil Limited (30%)	IMO		39.90	255	10,200	52.00	0.17	0.81
EnCana Corporation	ECA	CB	11.62	736	8,600	30.00	0.34	0.60
Canadian Oil Sands Limited	COSWF	CB	7.39	485	3,600	20.00	0.22	0.51
Cenovus Energy Inc.	CVE		16.54	759	12,600	42.00	0.17	0.49
<i>Total or Median</i>					35,000		0.20	0.55
Small Cap Independent Producers								
Cimarex Energy Company	XEC	CB	97.77	87	8,600	140.00	0.11	0.73
Range Resources	RRC	CB	55.39	166	9,200	100.00	0.18	0.63
Birchcliff Energy Ltd.	BIREF	CB	6.86	155	1,100	16.00	0.18	0.53
Whiting Petroleum Corporation	WLL	CB	25.04	170	4,300	90.00	0.27	0.47
Continental Resources (32%)	CLR	CB	30.95	119	3,700	85.00	0.16	0.47
California Resources	CRC		5.29	387	2,100	40.00	0.29	0.38
<i>Total or Median</i>					29,000		0.18	0.50
RTF Cash Payers								
Dorchester Minerals, L.P.	DMLP	CB	22.39	31	690	32.00	-	0.70
San Juan Basin Royalty Trust	SJT	CB	14.64	47	680	21.00	-	0.70
Hugoton Royalty Trust	HGT		7.67	40	310	13.00	-	0.59
Sabine Royalty Trust	SBR		35.96	15	520	64.00	-	0.56
Permian Basin RT	PBT		9.26	47	430	18.00	-	0.51
Cross Timbers Royalty Trust	CRT		18.17	6	110	42.00	-	0.43
Enduro Royalty Trust	NDRO		4.82	33	160	14.00	-	0.34
<i>Total or Median</i>					2,900		-	0.56

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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			<i>Price</i> <i>(US\$/sh)</i>	<i>Adjustd</i> <i>Resrvs/</i>	<i>PV/</i>	<i>EV/</i>		<i>Dividend</i>
	<i>Symbol/Rating</i>		<i>15-Dec</i>	<i>Prod</i>	<i>Ebitda</i>	<i>Ebitda</i>	<i>P/E</i>	<i>NTM</i>
	<i>B = Buy, CB (see below)</i>		<i>2014</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>(\$/sh)</i>
Global Integrated								
Exxon Mobil Corporation	XOM	CB	86.90	14.5	9.5	8.3	17	2.76
Chevron Corporation	CVX		100.86	9.2	9.8	7.0	18	4.28
Royal Dutch Shell plc	RDS-A		60.93	10.5	8.8	6.3	15	3.76
Total S.A.	TOT		48.74	10.5	7.7	5.5	12	3.05
Lukoil Oil Company	LUKOY	CB	34.35	14.4	7.5	2.3	13	2.00
	<i>Median</i>			<i>10.5</i>	<i>8.8</i>	<i>6.3</i>	<i>15</i>	
U.S. Independent								
EOG Resources, Inc.	EOG		85.34	7.1	10.3	8.2	24	0.67
Occidental Petroleum Corp.	OXY		73.16	10.6	10.6	7.9	23	2.88
Devon Energy Corporation	DVN	CB	52.66	9.4	11.0	7.3	15	0.96
ConocoPhillips	COP		61.69	11.1	10.2	7.1	23	2.92
Marathon Oil Corporation	MRO	CB	24.80	10.7	9.7	5.9	30	0.84
	<i>Median</i>			<i>10.6</i>	<i>10.3</i>	<i>7.3</i>	<i>23</i>	
Canada								
Canadian Oil Sands Limited	COSWF	CB	7.39	19.4	22.4	11.4		0.70
Imperial Oil Limited (30%)	IMO		39.90	25.7	13.4	10.8	15	0.46
EnCana Corporation	ECA	CB	11.62	7.8	12.3	7.4	10	0.28
Cenovus Energy Inc.	CVE		16.54	14.6	13.9	6.8	27	0.91
	<i>Median</i>			<i>17.0</i>	<i>13.6</i>	<i>9.1</i>	<i>15</i>	
Small Cap Independent Producers								
Range Resources	RRC	CB	55.39	11.1	17.8	11.3	64	0.16
Cimarex Energy Company	XEC	CB	97.77	6.0	10.4	7.6	44	0.64
Continental Resources (32%)	CLR	CB	30.95	11.4	12.9	6.0	12	-
Birchcliff Energy Ltd.	BIREF	CB	6.86	12.7	11.2	5.9	19	-
Whiting Petroleum Corporation	WLL	CB	25.04	7.3	12.1	5.7		-
California Resources	CRC		5.29	10.1	12.2	4.7	6	0.04
	<i>Median</i>			<i>10.6</i>	<i>12.1</i>	<i>6.0</i>	<i>19</i>	
RTF Cash Payers								
Dorchester Minerals, L.P.	DMLP	CB	22.39	7.8	20.0	14.0	25	1.27
San Juan Basin Royalty Trust	SJT	CB	14.64	10.6	18.4	12.8	14	1.04
Sabine Royalty Trust	SBR		35.96	8.9	20.6	11.6	12	3.11
Hugoton RoyaltyTrust	HGT		7.67	13.7	16.2	9.6	11	0.68
Permian Basin RT	PBT		9.26	9.8	16.9	8.7	14	0.66
Cross Timbers Royalty Trust	CRT		18.17	12.2	19.0	8.2	10	1.75
Enduro Royalty Trust	NDRO		4.82	8.3	12.3	4.2	20	0.24
	<i>Median</i>			<i>9.8</i>	<i>18.4</i>	<i>9.6</i>	<i>14</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, 2015; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								

Index of Recent Research			
Stock Ideas			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
9-Dec	WLL	Whiting Petroleum	Kodiak Acquisition Completed (Meter Reader)
4-Dec	COSWF	Canadian Oil Sands Ltd.	Reduce NPV to C\$20, Dividend to 6%
25-Nov	COP	ConocoPhillips	Strong 4% Dividend Independent Producer
13-Nov	BIREF	Birchcliff Energy	Raise NPV to US\$16 on Alberta Natural Gas
11-Nov	COSWF	Canadian Oil Sands Ltd.	Record Monthly Production (Meter Reader)
4-Nov	CRC	California Resources Corporation	Pure Play Largest California Producer (Meter Reader)
28-Oct	CVE	Cenovus Energy	Same Stock Price, Twice the Production (Meter Reader)
21-Oct	TOT	Total	Chief Executive Dies
21-Oct	XEC	Cimarex Energy	Strong Independent Producer (Meter Reader)
14-Oct	DVN	Devon Energy	Rebalance Candidate (Meter Reader)
7-Oct	ECA	Encana Corporation	Suttles' Stamp (Meter Reader)
23-Sep	CLR	Continental Resources	Raise NPV to \$85 on 29% Growth (Meter Reader)
16-Sep	RDSA	Royal Dutch Shell plc	Ben's Growth Strategy (Meter Reader)
9-Sep	EOG	EOG Resources	Mr. Shale (Meter Reader)
2-Sep	LUKOY	Lukoil	Oil under Uncertainty (Meter Reader)
26-Aug	SJT	San Juan Basin Royalty Trust	Income and Shale (Meter Reader)
8-Aug	DMLP	Dorchester Minerals, L.P.	Robust Bakken and Permian Oil Growth
5-Aug	XOM	Exxon Mobil	Shale Oil Minerals (Meter Reader)
30-Jul	RRC	Range Resources	Transportation and Processing Lagging Fracking
22-Jul	MRO	Marathon Oil	Frac Shale Oil, Sell Norway (Meter Reader)
24-Jun	FRHLF	Freehold Royalties Ltd	Raise NPV to \$26 on Minerals (Meter Reader)
17-Jun	PEYUF	Peyto Exploration	Raise NPV to \$42 on More Energy Growth (Meter Reader)
10-Jun	OXY	Occidental Petroleum	Raise NPV to \$120, Spinoff Filed (Meter Reader)
27-May	CVX	Chevron	Oil Price Turns Up (Meter Reader)
23-Apr	HGT	Hugoton Royalty Trust	Positive Arbitration Ruling
21-Apr	MTR	Mesa Royalty Trust	Underpayment Uncovered, Upside Commodity Leverage
18-Mar	PBT	Permian Basin Royalty Trust	Rising Oil Production, Understated Income (Meter Reader)
For historical research by stock, go to mcdep.com , click on Stock Ideas , click on stock by name.			
Meter Reader			
9-Dec	WLL	Whiting Petroleum	Kodiak Acquisition Completed (Meter Reader)
2-Dec			Rebuild Oil and Gas Positions
25-Nov	COP	ConocoPhillips	Strong 4% Dividend Independent Producer
18-Nov	DMLP, SJT	RTF (Royalty Trust Fund)	DMLP, SJT and the RTF - High Income without Debt
11-Nov	COSWF	Canadian Oil Sands Ltd.	Record Monthly Production
4-Nov	CRC	California Resources Corporation	Pure Play Largest California Producer
28-Oct	CVE	Cenovus Energy	Same Stock Price, Twice the Production
21-Oct	XEC	Cimarex Energy	Strong Independent Producer
14-Oct	DVN	Devon Energy	Rebalance Candidate
7-Oct	ECA	Encana Corporation	Suttles' Stamp
30-Sep		RTF (Royalty Trust Fund)	Current Income and Future Fracking
23-Sep	CLR	Continental Resources	Raise NPV to \$85 on 29% Growth
16-Sep	RDSA	Royal Dutch Shell plc	Ben's Growth Strategy
9-Sep	EOG	EOG Resources	Mr. Shale
2-Sep	LUKOY	Lukoil	Oil under Uncertainty
26-Aug	SJT	San Juan Basin Royalty Trust	Income and Shale
For earlier editions, go to mcdep.com , click on Meter Reader .			
Industry Ideas			
18-Nov	DMLP, SJT	RTF (Royalty Trust Fund)	DMLP, SJT and the RTF - High Income without Debt (Meter Reader)
30-Sep		RTF (Royalty Trust Fund)	Current Income and Future Fracking



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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. 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.