

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

November 26, 2001

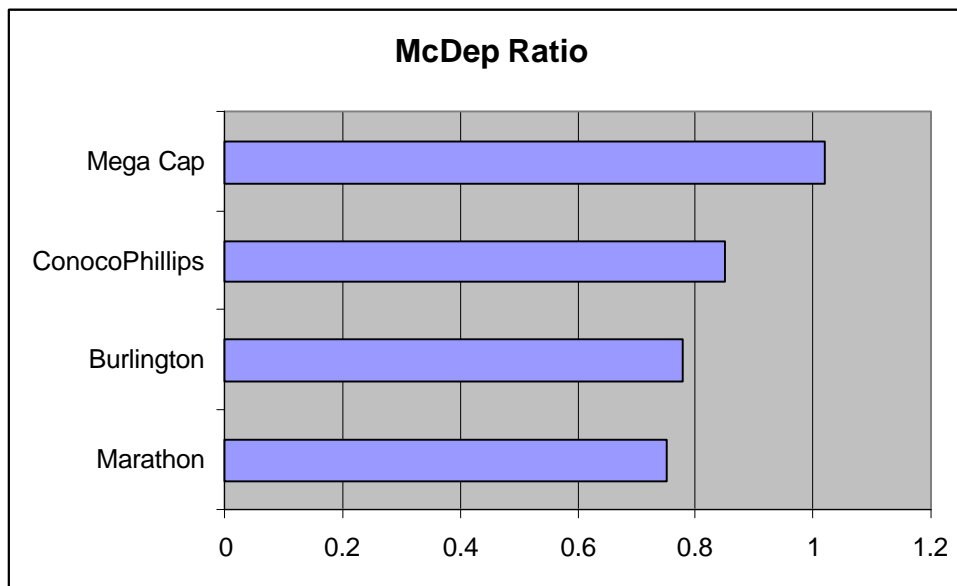
ConocoPhillipsBurlingtonMarathon

Summary and Recommendation

The proposed combination of **ConocoPhillips** creates a new company half the size of the minimum of Mega Caps that have higher valuation. Peer companies like our Strong Buys **Burlington Resources (BR)** and **Marathon Oil (MRO)**, become attractive potential building blocks in a new or existing Mega Cap company. Elsewhere in the ongoing news, the collapse of **Enron** implies to us that companies with real energy assets are underappreciated, including our natural gas recommendations **PanCanadian Energy (PCX)**, **Forest Oil (FST)**, **San Juan Basin Royalty Trust (SJT)** and **Purcell Energy (PEL.TO)**. Temporarily low distributions for SJT may be a source of confusion that presents an opportunity for new purchasers of the stock. Meanwhile the war in Afghanistan dominates news overall. We are optimistic that a favorable resolution will lead to a safer world and renewed global growth. That should give investors greater confidence in non-US energy companies, like recommended **PetroChina (PTR)**, whose wide valuation discount could gradually narrow. For perspective on new ideas and old, our valuation ranking includes 62 energy stocks (see Table L-1, L-2, S-1 and S-2).

ConocoPhillips Aims for Mega Cap Valuation

By their majority share of industry activity, the Mega Cap energy stocks set the standard of valuation that we capture in the McDep Ratio. In comparison, stocks like ConocoPhillips have lower price relative to current operations and assets (see Chart). The obvious message for undervalued companies is to become more like the Mega Caps.



Analyses are prepared from original sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Independent energy analysis by Kurt Wulff doing business as McDep Associates is accessible at <http://www.mcdep.com>. Owning shares in energy stocks, neither Mr. Wulff nor his spouse act contrary to a buy or sell rating. Mr. Wulff is not paid by covered companies.

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

November 26, 2001

By joining forces Conoco and Phillips move their combined market cap to \$37 billion compared to the lowest Mega Cap at \$91 billion. On a Present Value of future cash flow basis, ConocoPhillips at \$62 billion is more than half the lowest Mega Cap at \$103 billion. For valuation ranking purposes we presume that the deal closes as proposed and we show just one company instead of two. Expressed in stock price for Phillips at \$55 a share currently, the combination has appreciation potential to more than \$71 to be at the McDep Ratio of the Mega Caps.

The market is rewarding oil and gas companies for making the hard choices of consolidation. As more catch on, there seems to be the traditional herd instinct at work in the names of the newly combined companies - ExxonMobil, TotalFinaElf, ChevronTexaco and now, ConocoPhillips.

Considering the size of the industry there can be only five or six Mega Cap stocks. ConocoPhillips needs to do more deals to get there. ChevronTexaco and TotalFinaElf barely qualify as Mega Caps. Yet the available acquisitions of any size are limited. Thus we have an intriguing additional justification for our recommendations of Burlington Resources and Marathon Oil.

Burlington is available now in our opinion. Possibly the prospective buyer might want to wait until the Canadian Hunter deal is closed in a few weeks. BR would be particularly attractive to a strategic buyer because natural gas price is down, the economy and the stock market are down, and money is cheap.

Marathon is not quite available yet to a strategic buyer because its separation from steel awaits a tax ruling and official completion by year-end. That makes Marathon especially attractive to investors willing to act before the strategic buyer is likely to move.

San Juan Basin Royalty Trust in Low Payout Period

SJT's monthly distribution declared last week was low at \$0.02 per unit compared to a peak of \$.40 per unit earlier this year. Volume was strong. While royalty trusts theoretically have declining volume, the properties in SJT are producing at their highest rates since the first well came onstream fifty years ago. Natural gas price was down as expected. A negative factor was a high level of cash withheld to fund further development of producing capacity. Of course, that negative factor is a positive factor long term, as the new capacity will repay its development cost many times.

The next declaration to be made a month from now may also be low at perhaps \$0.01 per unit. The unusual factor may be natural gas price. The trust apparently sells its product on a monthly index basis, as do most producers. Index prices are usually set in the last week of the previous month. The practice can lead to realizations far out of line with daily prices. That may have been the case in October, the month of operations that fund the distribution to be declared in December. For example, Bloomberg reports a San Juan

Analyses are prepared from original sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Independent energy analysis by Kurt Wulff doing business as McDep Associates is accessible at <http://www.mcdep.com>. Owning shares in energy stocks, neither Mr. Wulff nor his spouse act contrary to a buy or sell rating. Mr. Wulff is not paid by covered companies.

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

November 26, 2001

index price for October of only \$1.41 per mmbtu. The trust seems to realize 88% of the index reported by Bloomberg, which would be just \$1.24. That is much lower than the \$1.92 the trust received in September. Yet daily prices for the industry in October were *higher* than in September.

Producers apparently believe that monthly index prices work out the same as average daily prices over time. We are skeptical as the practice appears subject to conflicts of interest.

More important, current futures prices for natural gas continue to trace a steep upward slope. That translates to our projected distribution for 2002 of \$0.99 a unit, for a 9.6% distribution yield at the current price. Our estimated present value is \$14.80 a unit, down \$0.10 in the past week consistent with rising long-term interest rates. A low McDep Ratio of 0.70 justifies our continuing recommendation.

Hugoton Royalty Trust Present Value Boosted by Volume

Coincidentally our present value for HGT currently is equal to our PV for SJT at \$14.80 per unit. That is a gain of \$0.50 per unit in a week instead of a slight decline. A 2% increase in projected volume is the most important factor contributing to the increased value. Volumes in the last two monthly disclosures were the highest of the year.

The volume statistics appear to reflect the impact of a heavy development program. In fact there is a backlog of past development expenditures of \$0.15 per unit that will be deducted from future distributions. XTO Energy, the sponsor of the trust, decided to spread out development deductions to avoid the problem facing SJT holders currently. Thus, HGT declared its latest monthly distribution at \$.07 per unit, a level more indicative of normalized value than something artificially or temporarily lower. (For details on HGT and two other royalty trusts, see Meter Reader Tables, a companion weekly analysis available on www.mcdep.com)

Kurt H. Wulff, CFA

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

November 26, 2001

Table L-1
Mega Cap and Large Cap Energy Companies
Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 23-Nov 2001</i>	<i>Shares (mm)</i>	<i>Market Cap (\$mm)</i>	<i>Net Present Value (\$/sh)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>
Mega Cap							
Exxon Mobil Corporation	XOM	38.44	6,963	268,000	33.10	0.05	1.15
ChevronTexaco Corporation	CVX	86.58	1,063	92,100	78.00	0.20	1.09
Royal Dutch/Shell	RD	3	49.90	3,544	177,000	48.70	1.02
TotalFinaElf S.A.	TOT	65.00	1,406	91,000	63.60	0.18	1.02
BP plc	BP	45.00	3,744	169,000	44.10	0.17	1.02
	<i>Total or Median</i>			<i>797,000</i>		<i>0.17</i>	<i>1.02</i>
Power							
Dynegy Inc.	DYN	40.40	338	13,600	20.30	0.58	1.42
Calpine Corporation	CPN	4	24.15	377	9,100	14.90	1.24
AES Corporation	AES	17.44	543	9,500	8.80	0.83	1.17
Mirant Corporation	MIR	26.28	353	9,300	18.60	0.65	1.15
El Paso Corporation	EPG	49.73	532	26,500	44.80	0.49	1.06
Duke Energy Corporation	DUK	37.64	773	29,100	35.80	0.43	1.03
American Electric Power Co. Inc.	AEP	2	42.39	322	13,700	45.50	0.61
Enron Corp.	ENE	4.71	761	3,600	7.50	0.84	0.94
Williams Companies	WMB	28.25	515	14,500	32.30	0.47	0.93
Southern Company	SO	23.50	683	16,100	27.40	0.42	0.92
Dominion Resources	D	59.96	247	14,800	79.40	0.45	0.86
Exelon Corporation	EXC	2	43.26	323	14,000	78.60	0.42
	<i>Total or Median</i>			<i>151,000</i>		<i>0.48</i>	<i>0.96</i>
Natural Gas and Oil							
Occidental Petroleum Corp.	OXY	24.90	372	9,300	28.50	0.50	0.94
Unocal Corporation	UCL	33.90	257	8,700	38.90	0.35	0.92
Anadarko Petroleum Corp.	APC	54.22	250	13,600	64.10	0.24	0.89
ENI S.p.A.	E	59.25	789	46,700	71.40	0.19	0.86
ConocoPhillips	P	55.00	680	37,400	71.20	0.34	0.85
Devon Energy (incl MND,AXN)	DVN	35.95	165	5,900	54.60	0.48	0.82
Burlington Resources (incl HTR)	BR	1	36.20	205	7,400	53.00	0.30
Marathon Oil Corporation	MRO	1	27.68	310	8,600	42.00	0.27
OAo Lukoil	LUKOY	45.56	299	13,600	69.10	0.09	0.69
	<i>Total or Median</i>			<i>142,000</i>		<i>0.28</i>	<i>0.83</i>
Service							
Baker Hughes Inc.	BHI	32.62	338	11,000	24.50	0.13	1.29
Schlumberger Ltd.	SLB	47.48	581	27,600	44.00	0.12	1.07
Halliburton Company	HAL	21.48	430	9,200	27.20	0.13	0.82

Buy/Sell rating after symbol: 1 - Strong Buy, 2 - Buy, 4 - Sell

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

Analyses are prepared from original sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Independent energy analysis by Kurt Wulff doing business as McDep Associates is accessible at <http://www.mcdep.com>. Owning shares in energy stocks, neither Mr. Wulff nor his spouse act contrary to a buy or sell rating. Mr. Wulff is not paid by covered companies.

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

November 26, 2001

Table L-2
Mega Cap and Large Cap Energy Companies
Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 23-Nov 2001</i>	<i>EV/ Sales 2001E</i>	<i>EV/ Ebitda NTM</i>	<i>P/E NTM</i>	<i>Dividend or Distribution NTM (%)</i>	<i>PV/ Ebitda NTM</i>
Mega Cap							
Exxon Mobil Corporation	XOM	38.44	1.3	12.7	31	2.4	11.0
ChevronTexaco Corporation	CVX	86.58	1.2	12.0	39	3.0	11.0
Royal Dutch/Shell	RD	3	49.90	1.1	11.3	29	2.8
TotalFinaElf S.A.	TOT		65.00	1.3	11.2	29	2.8
BP plc	BP		45.00	1.1	11.2	34	2.9
	<i>Median</i>			<i>1.2</i>	<i>11.3</i>	<i>31</i>	<i>2.8</i>
Power							
Dynegy Inc.	DYN		40.40	0.6	12.7	19	0.7
Calpine Corporation	CPN	4	24.15	2.4	11.1	13	-
AES Corporation	AES		17.44	3.7	10.5	13	-
Mirant Corporation	MIR		26.28	0.6	10.3	12	-
El Paso Corporation	EPG		49.73	0.9	9.5	15	1.7
Duke Energy Corporation	DUK		37.64	0.8	9.3	14	2.9
American Electric Power Co. Inc.	AEP	2	42.39	0.6	8.8	12	5.7
Enron Corp.	ENE		4.71	0.2	8.5	3	10.6
Williams Companies	WMB		28.25	2.6	8.4	12	2.8
Southern Company	SO		23.50	2.7	8.3	14	5.7
Dominion Resources	D		59.96	3.4	7.8	14	4.3
Exelon Corporation	EXC	2	43.26	2.1	6.7	10	3.9
	<i>Median</i>			<i>1.5</i>	<i>9.0</i>	<i>13</i>	<i>2.9</i>
Natural Gas and Oil							
Occidental Petroleum Corp.	OXY		24.90	1.5	9.4	22	4.0
Anadarko Petroleum Corp.	APC		54.22	2.9	8.4	25	0.6
Unocal Corporation	UCL		17.11	2.6	7.8	62	2.4
ConocoPhillips	P		55.00	0.8	7.2	18	2.6
ENI S.p.A.	E		59.25	1.5	6.9	15	3.1
Burlington Resources (incl HTR)	BR	1	36.20	4.1	6.3	28	1.5
Devon Energy (incl MND,AXN)	DVN		35.95	3.1	5.7	17	0.6
Marathon Oil Corporation	MRO	1	27.68	0.4	4.9	10	3.3
OAOLukoil	LUKOY		45.56	1.2	4.1	9	2.4
	<i>Median</i>			<i>1.5</i>	<i>6.9</i>	<i>18</i>	<i>2.4</i>
Service							
Baker Hughes Inc.	BHI		32.62	2.1	10.3	23	1.4
Schlumberger Ltd.	SLB		47.48	2.5	8.6	24	1.6
Halliburton Company	HAL		21.48	0.8	6.5	15	2.3

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2002; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

Analyses are prepared from original sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Independent energy analysis by Kurt Wulff doing business as McDep Associates is accessible at <http://www.mcdep.com>. Owning shares in energy stocks, neither Mr. Wulff nor his spouse act contrary to a buy or sell rating. Mr. Wulff is not paid by covered companies. 5

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

November 26, 2001

Table S-1
Mid Cap and Small Cap Energy Companies
Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/ Rating	Price (\$/sh) 23-Nov 2001	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Power							
Consol Energy Inc.	CNX	23.25	79	1,800	35.90	0.51	0.83
CMS Energy Corporation	CMS	22.65	128	2,900	48.30	0.62	0.80
Sempra Energy	SRE	23.48	203	4,800	41.70	0.50	0.78
Constellation Energy Group	CEG	25.00	152	3,800	56.50	0.35	0.64
<i>Total or Median</i>				13,300		0.51	0.79
Natural Gas and Oil							
Ocean Energy, Inc.	OEI	18.04	178	3,200	16.80	0.34	1.05
Imperial Oil Limited (30%)	IMO	26.80	119	3,200	25.50	0.12	1.05
Murphy Oil Corporation	MUR	72.84	46	3,300	80.60	0.19	0.92
PanCanadian Energy	PCX	24.60	256	6,300	31.10	0.15	0.82
Norsk Hydro ASA (49%)	NHY	38.45	127	4,900	50.50	0.19	0.81
Valero Energy Corp.(with UDS)	VLO	35.55	110	3,900	61.40	0.46	0.77
PetroChina Company Ltd (10%)	PTR	17.30	176	3,000	24.20	0.18	0.77
Petro-Canada	PCZ	23.96	267	6,400	33.50	0.08	0.74
<i>Total or Median</i>				34,200		0.18	0.81
Small Cap							
Quicksilver Resources Inc.	KWK	15.72	19.3	300	8.60	0.64	1.30
Spinnaker Exploration Company	SKE	41.60	28.3	1,180	40.40	-	1.03
XTO Energy Inc.	XTO	17.15	124.0	2,130	17.70	0.29	0.98
Encore Acquisition Corp. (25%)	EAC	12.96	7.5	97	13.90	0.25	0.95
Penn Virginia Corporation	PVA	32.20	9.0	290	35.10	0.10	0.93
Magnum Hunter Resources, Inc.	MHR	9.50	36.8	350	11.00	0.35	0.91
Southwestern Energy Company	SWN	12.15	25.6	310	15.30	0.47	0.89
Swift Energy Company	SFY	19.59	24.8	490	24.10	0.30	0.87
Stone Energy Company	SGY	36.67	26.4	970	43.10	0.11	0.87
Newfield Exploration Company	NFX	31.45	49.3	1,550	38.30	0.21	0.86
Forest Oil Corporation	FST	25.49	48.5	1,240	35.60	0.28	0.80
CNOOC Limited (19%)	CEO	18.62	78	1,450	29.00	-	0.64
<i>Total or Median</i>				10,060		0.25	0.89
Trusts and Partnerships							
Penn Virginia Res. Part, L.P.(48%)	PVR	22.99	7.5	170	14.80	-	1.37
TEPPCO Partners, L.P.	TPP	32.47	39	1,260	21.20	0.62	1.20
Dorchester Hugoton, Ltd.	DHULZ	12.46	10.7	134	11.10	-	1.12
Cross Timbers Royalty Trust	CRT	17.31	6.0	104	17.70	-	0.98
Hugoton RoyaltyTrust	HGT	11.05	40.0	440	14.80	-	0.75
San Juan Basin Royalty Trust	SJT	10.32	46.6	480	14.80	-	0.70
<i>Total or Median</i>				2,590		-	1.05
Micro Cap							
Abraxas Petroleum Corporation	ABP	1.07	23.6	25	0.50	0.97	1.04
Energy Partners Ltd.(30%)	EPL	6.40	8.1	52	9.50	0.17	0.74
Purcell Energy, Ltd. (US\$)	PEL.TO	1.97	27.4	54	3.10	0.10	0.68

Buy/Sell rating after symbol: 1 - Strong Buy, 2 - Buy, 3 - Neutral

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

Analyses are prepared from original sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Independent energy analysis by Kurt Wulff doing business as McDep Associates is accessible at <http://www.mcdep.com>. Owning shares in energy stocks, neither Mr. Wulff nor his spouse act contrary to a buy or sell rating. Mr. Wulff is not paid by covered companies.

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

November 26, 2001

Table S-2

Mid Cap and Small Cap Energy Companies

Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	Symbol/ Rating	Price (\$/sh) 23-Nov 2001	EV/ Sales 2001E	EV/ Ebitda NTM	P/E NTM	Dividend or Distribution NTM (%)	PV/ Ebitda NTM	
Power								
Consol Energy Inc.	CNX	23.25	2.0	7.4	8	4.8	9.0	
CMS Energy Corporation	CMS	22.65	0.8	7.2	8	6.4	9.0	
Sempra Energy	SRE	23.48	1.1	7.0	9	4.3	9.0	
Constellation Energy Group	CEG	25.00	1.7	5.7	8	1.9	9.0	
	<i>Median</i>		<i>1.4</i>	<i>7.1</i>	<i>8</i>	<i>4.5</i>	<i>9.0</i>	
Natural Gas and Oil								
Imperial Oil Limited (30%)	IMO	26.80	1.1	10.5	28	2.0	10.0	
Murphy Oil Corporation	MUR	72.84	0.9	7.4	36	2.1	8.0	
Ocean Energy, Inc.	OEI	18.04	4.3	7.3	32	0.9	7.0	
PanCanadian Energy	PCX	2	24.60	1.2	6.5	16	1.0	7.9
Valero Energy Corp.(with UDS)	VLO		35.55	0.3	5.4	6	1.1	7.0
Petro-Canada	PCZ		23.96	1.3	5.2	12	1.1	7.0
Norsk Hydro ASA (49%)	NHY		38.45	0.8	4.8	16	2.7	6.0
PetroChina Company Ltd (10%)	PTR	2	17.30	1.7	3.8	10	10.6	5.0
	<i>Median</i>		<i>1.1</i>	<i>6.0</i>	<i>16</i>	<i>1.6</i>	<i>7.0</i>	
Small Cap								
Quicksilver Resources Inc.	KWK		15.72	5.5	14.3	-	11.0	
Encore Acquisition Corp. (25%)	EAC		12.96	4.9	9.5	43	-	10.0
XTO Energy Inc.	XTO		17.15	5.7	8.8	25	0.2	9.0
Spinnaker Exploration Company	SKE		41.60	7.0	8.2	34	-	8.0
Swift Energy Company	SFY		19.59	5.3	7.8	33	-	9.0
Penn Virginia Corporation	PVA		32.20	4.2	7.4	28	2.8	8.0
Magnum Hunter Resources, Inc.	MHR		9.50	4.0	6.9	-	7.5	
Forest Oil Corporation	FST	2	25.49	2.8	6.4	138	-	8.0
Southwestern Energy Company	SWN		12.15	2.8	6.2	19	-	7.0
Stone Energy Company	SGY		36.67	3.9	5.2	24	-	6.0
CNOOC Limited (19%)	CEO	2	18.62	3.7	5.1	11	1.3	8.0
Newfield Exploration Company	NFX		31.45	3.4	4.3	14	-	5.0
	<i>Median</i>			<i>4.0</i>	<i>6.9</i>	<i>26</i>	<i>-</i>	<i>8.0</i>
Trusts and Partnerships								
Penn Virginia Res. Part, L.P.(48%)	PVR		22.99	10.3	13.7	16	8.7	10.0
Cross Timbers Royalty Trust	CRT		17.31	6.7	12.1	13	7.7	12.3
Dorchester Hugoton, Ltd.	DHULZ		12.46	8.0	12.1	16	23.7	10.7
TEPPCO Partners, L.P.	TPP		32.47	0.7	12.0	15	7.1	10.0
Hugoton RoyaltyTrust	HGT		11.05	5.0	7.8	11	8.8	10.4
San Juan Basin Royalty Trust	SJT	2	10.32	5.9	7.7	10	9.6	11.0
	<i>Median</i>			<i>6.3</i>	<i>12.0</i>	<i>14</i>	<i>8.8</i>	<i>10.6</i>
Micro Cap								
Abraxas Petroleum Corporation	ABP		1.07	6.2	11.5	-	11.0	
Energy Partners Ltd.(30%)	EPL	2	6.40	2.3	5.2	-	7.0	
Purcell Energy, Ltd. (US\$)	PEL.TO	2	1.97	3.0	4.1	11	-	6.1

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2002; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

Analyses are prepared from original sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Independent energy analysis by Kurt Wulff doing business as McDep Associates is accessible at <http://www.mcdep.com>. Owning shares in energy stocks, neither Mr. Wulff nor his spouse act contrary to a buy or sell rating. Mr. Wulff is not paid by covered companies.