

## Meter Reader

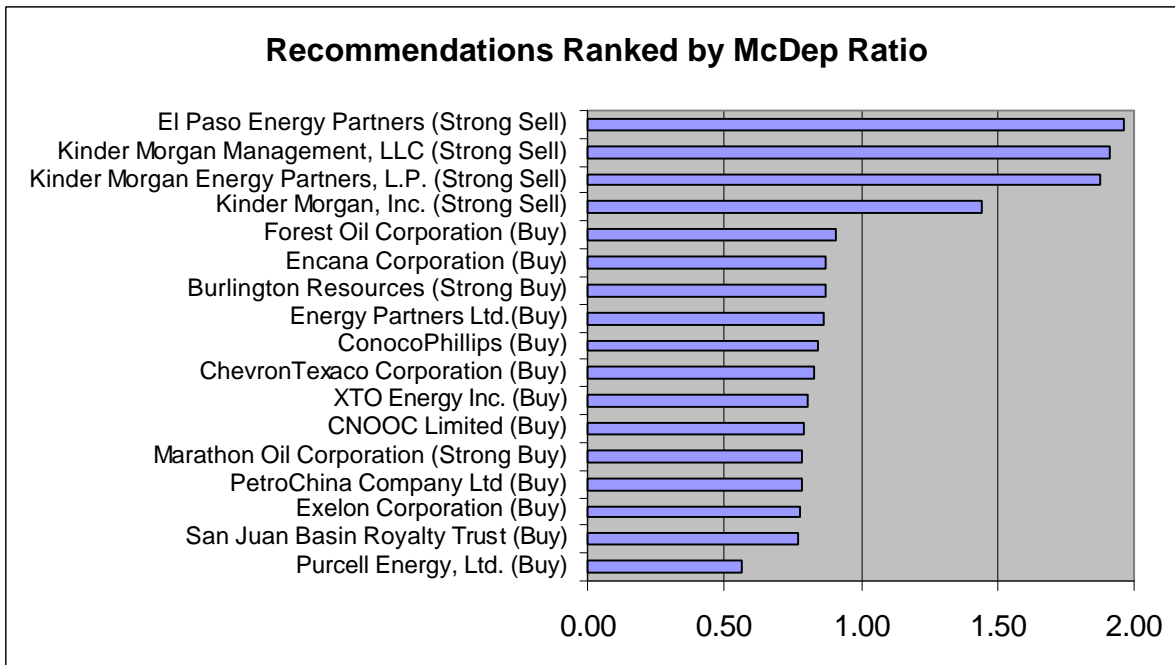
A Weekly Analysis of Energy Stocks Using the McDep Ratio

April 15, 2002

# Recrimination Gets Serious

## Summary and Recommendation

The New York Attorney General is no ordinary critic of misleading securities promotions; he can put people in jail as many investors undoubtedly hope will happen. The ugly disclosures of investigations of Wall Street along with growing distrust of corporate management make us think that the bad stocks we spot may be more toxic than they appear and that the good stocks look better by comparison. At the top of our list of stocks to avoid, **El Paso Energy Partners (EPN)** moves up a notch on the Greed Gauge with an increase in general partner tax. That happens after management of **El Paso Corporation (EP)** got caught with their hands in the till, profiting in a partnership at shareholder expense as disclosed in EP's proxy statement. The risk of being disadvantaged by a sharp operator has gone up in our buy recommended **Forest Oil (FST)**. The major owner proposes a questionable energy infrastructure partnership just as his reputation is plunging with the stock price of Qwest Communications under investigation by the Securities and Exchange Commission. Meanwhile prospects for making money are favorable, we believe, in our remaining positive recommendations with most recent addition, **ChevronTexaco (CVX)** (see bar chart). Other stocks with refining exposure, including **ConocoPhillips (COC/P)** and **Marathon (MRO)**, appear timely when looking ahead at stronger margins rather than back at the weaker margins of recent months. For further perspective on sell and buy ideas in energy, see our valuation ranking of 73 stocks (Tables L-1, L-2, M-1, M-2, S-1 and S-2).



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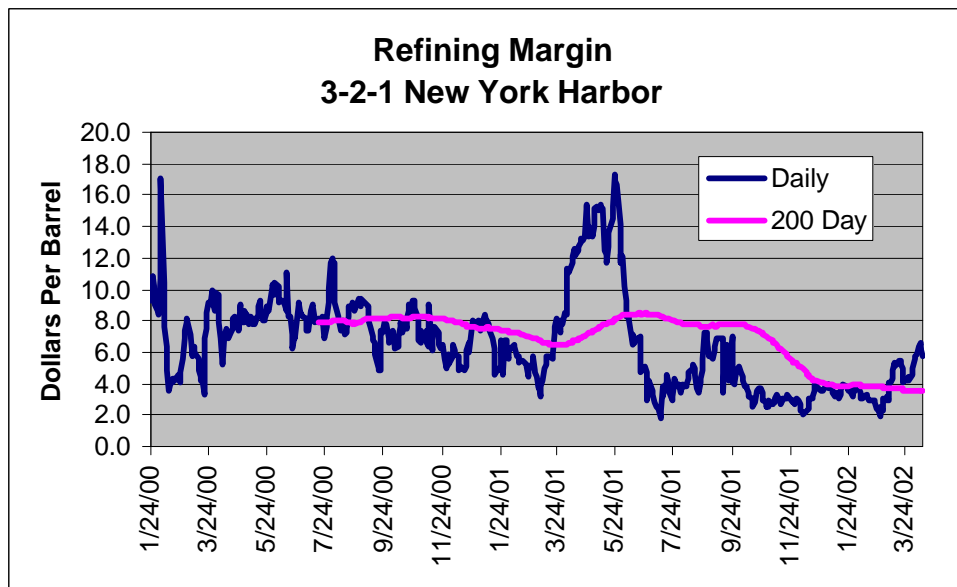
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### Refiners Appear Timely

New York Harbor refining margins have moved decisively above their 200-day average in recent days, lagging the strength in natural gas and crude oil (see Chart). That is logical in the sense that it can take time for refiners to pass on higher crude oil prices. As crude oil gains slow, refining margins can catch up. Similarly stocks like recommended MRO, COC/P and CVX have been relative laggards compared to recommended ECA, BR and SJT in 2002. At the same time, P issued an earnings warning on first quarter refining results. Thus we think this is a good time to be interested in our lagging recommendations, as the earnings to be reported shortly look backward to the trough from which operations have already emerged.



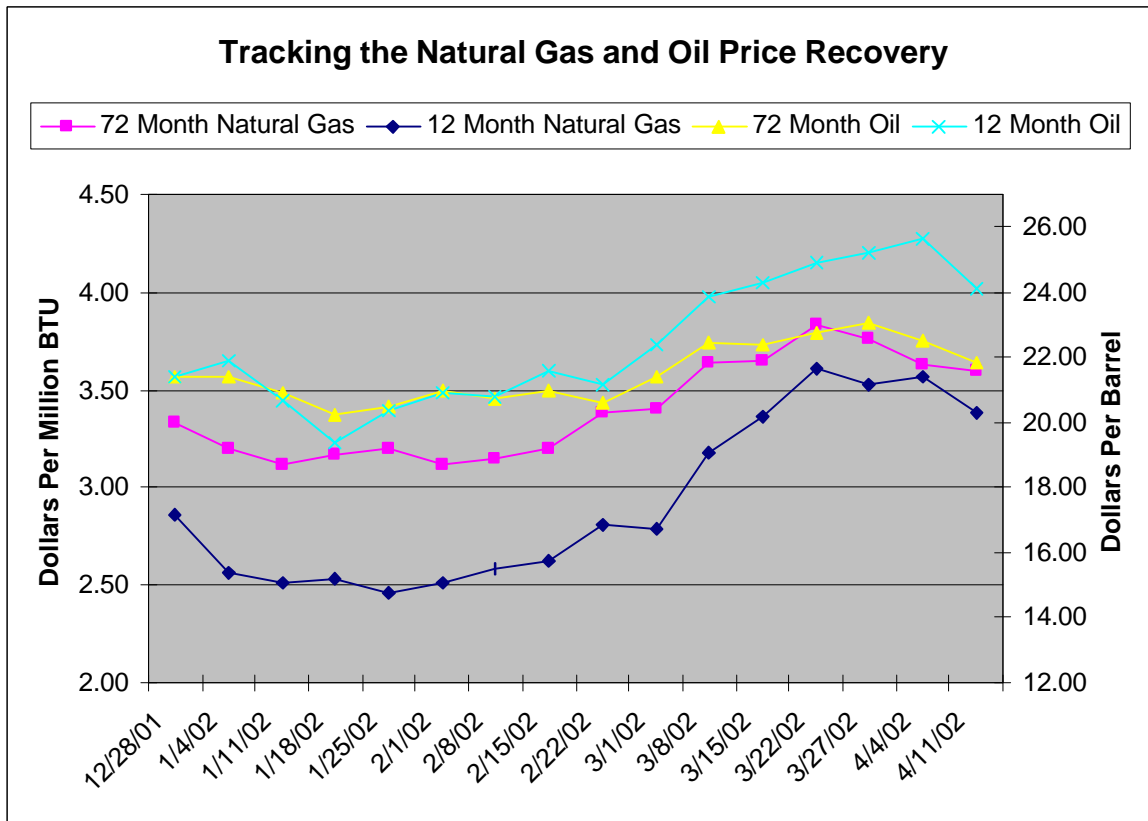
As for latest natural gas and crude oil prices, the recovery we had hoped to chart has actually progressed though it has slackened recently. Six-year oil price receded 3% to \$21.86 from \$22.49. Six-year natural gas price receded 1% to \$3.60 from \$3.63 in the period ended April 11 (see Chart).

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### El Paso Partners Advances on the Greed Gauge

The partnership apparently closed on a net amount of about \$600 million of pipeline assets transferred to it by El Paso Corporation. For the time being we assume the transfer was offset by new debt. The goal is undoubtedly to sell new units to the public soon. Those units will be poor investments in our opinion because the proceeds will essentially be used to purchase the new assets at full or fuller price while the seller will keep a disguised half interest through the general partner tax.

The tax rate increases with an announced increase in the quarterly distribution. We update our Greed Gauge to take account of the announcement (see Chart on next page).

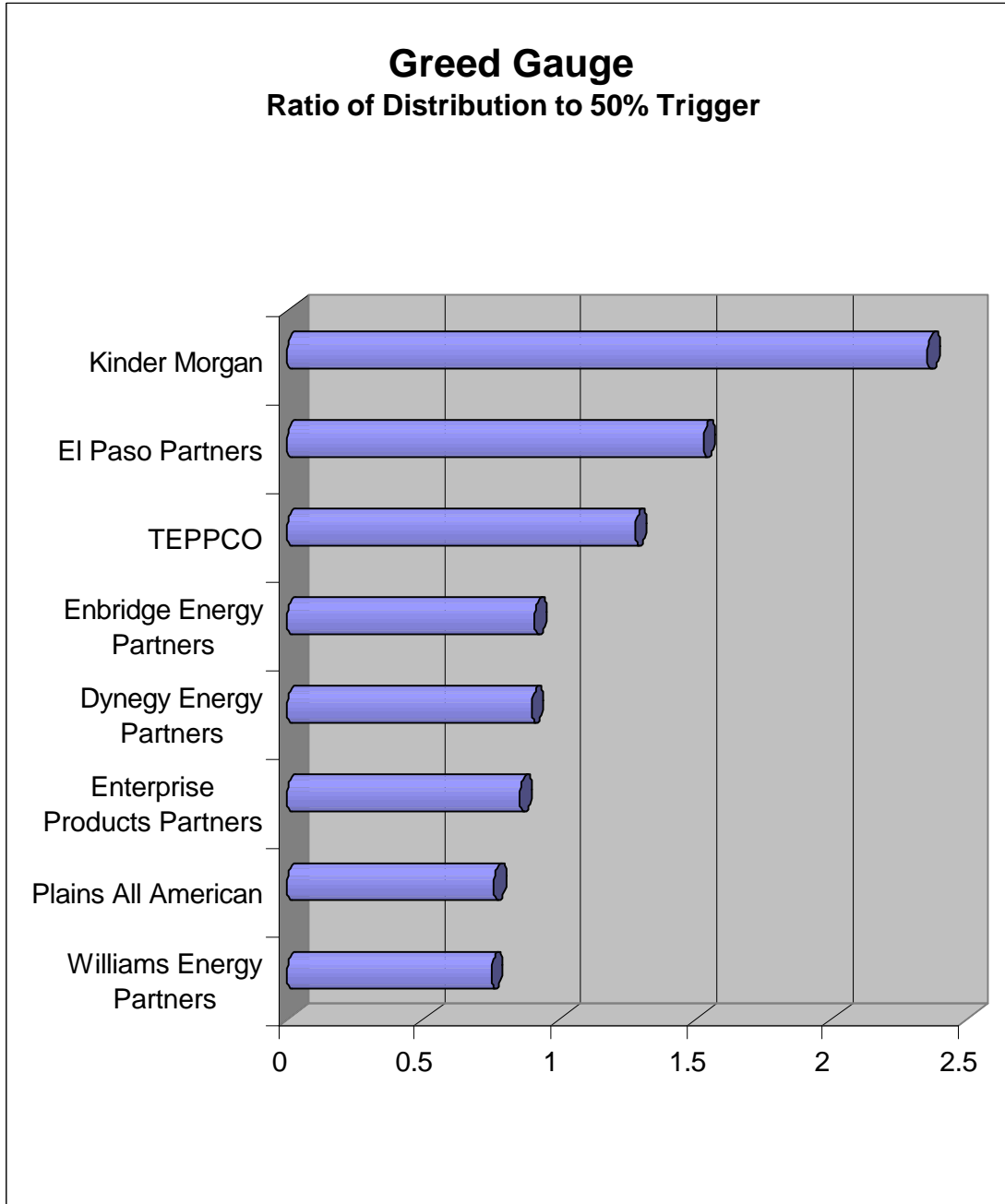
EPN has no employees as EP operates it. Investors skeptical of placing complete trust with little recourse in the general partner might not be reassured by the disclosure of side investments by EP executives. EP's proxy statement tells of cashless investment of millions of dollars in a telecommunications scheme that was terminated early at a guaranteed profit to its investors.

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### **Major Owner of Forest Oil Proposes Energy Infrastructure Partnership**

The news of a filing by Mr. Phil Anschutz to sell units in newly formed Pacific Energy Partners (proposed symbol PGX) triggers concern that the billionaire might ultimately disadvantage investors in recommended Forest Oil. We are disturbed because we see PGX as proposed, as an attempt to fleece retirement investors seeking income. The latest action follows the now apparent result that Mr. Anschutz's company Qwest Communications has devalued investment in the traditional regional telephone company.

To form PGX, Mr. Anschutz would bring together scattered oil pipeline assets in a new entity. Initially PGX would pay distributions of \$1.85 per year on units that would be priced at about \$20. Subordinated units owned by Mr. Anschutz that would forgo cash payout if operations faltered temporarily would prop up the artificially high distribution. The hope would be that as investors see that the distribution is actually paid for a few quarters the price of the units would go up and the yield would go down. A higher unit price would open the spigots to cheap financing that could be used to make acquisitions that could help spike the distribution to the point where the GP tax really bites. The trigger point for the incremental tax rate going to 50% is a distribution of only \$2.40 per unit. Thus for an increase of only 30% in distribution the rate goes to the max. Compare that to a required increase in income of several fold to go from the lowest federal tax rate of 15% to the highest 39%.

Perversely, Mr. Anschutz may be doing investors a service by attracting demand away from higher Greed Gauge competitors. We know that Kinder Morgan, El Paso, **Williams** and others are desperate to sell new units. To the extent that demand from unsuspecting investors, or sophisticated investors playing the greater fool game, gets saturated, the high greed gauge stocks will find it more difficult to raise the capital needed to keep the schemes going.

Meanwhile, Mr. Anschutz's role in Qwest Communications looks increasingly negative since we noted it when we recommended Forest Oil last fall (see Stock Idea, Forest Oil, October 16, 2002). We spoke mostly positively about the investor's past but hinted that there could be a problem if Mr. Anschutz were to sell abruptly his 32% of Forest. We suggested, "He may think that the portfolio of high potential prospects management has worked hard to build need more time to ripen." Since we made those comments Qwest stock lost a further 70% of already depleted value.

Forest Oil was in business before Mr. Anschutz came along. The investor's influence on the company seems positive so far. We'll be watching carefully.

Kurt H. Wulff, CFA

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**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) 11-Apr 2002</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>
<b>Mega Cap</b>								
Exxon Mobil Corporation	XOM		42.40	6,924	294,000	36.00	0.09	1.16
BP plc	BP		50.88	3,738	190,000	47.00	0.16	1.07
Royal Dutch/Shell	RD	3	52.68	3,520	185,000	55.00	0.04	0.96
TotalFinaElf S.A.	TOT		73.87	1,352	100,000	85.00	0.15	0.89
ChevronTexaco Corporation	CVX	2	86.45	1,062	91,900	110.00	0.16	0.82
					<i>Total or Median</i>		<i>0.15</i>	<i>0.96</i>
					861,000			
<b>Energy Infrastructure</b>								
American Electric Power Co. Inc.	AEP	3	47.90	322	15,400	42.10	0.64	1.05
Duke Energy Corporation	DUK		38.66	781	30,200	36.30	0.44	1.04
Southern Company	SO		26.45	683	18,100	27.40	0.42	0.98
El Paso Corporation	EPG		43.00	532	22,900	44.80	0.49	0.98
Williams Companies	WMB		21.58	521	11,200	22.70	0.58	0.98
Dominion Resources	D		65.90	247	16,300	79.40	0.45	0.91
Exelon Corporation	EXC	2	52.08	323	16,800	84.00	0.40	0.77
					<i>Total or Median</i>		<i>0.44</i>	<i>0.98</i>
					116,000			
<b>Natural Gas and Oil</b>								
Occidental Petroleum Corp.	OXY		29.20	372	10,900	30.00	0.48	0.99
Anadarko Petroleum Corp.	APC		54.83	266	14,600	56.00	0.26	0.99
ENI S.p.A.	E		72.24	789	57,000	75.00	0.19	0.97
Devon Energy	DVN		47.44	165	7,800	55.00	0.48	0.93
Burlington Resources	BR	1	41.10	201	8,300	48.00	0.33	0.91
Unocal Corporation	UCL		37.58	245	9,200	45.00	0.33	0.89
OAO Lukoil	LUKOY		61.25	299	18,300	70.00	0.08	0.89
Encana Corporation	ECA	2	29.88	490	14,600	35.00	0.19	0.88
ConocoPhillips	P	2	59.70	680	40,600	80.00	0.32	0.83
Marathon Oil Corporation	MRO	1	28.83	310	8,900	42.00	0.35	0.80
					<i>Total or Median</i>		<i>0.32</i>	<i>0.89</i>
					179,000			
<b>Service</b>								
Baker Hughes Inc.	BHI		35.35	338	11,900	24.50	0.13	1.38
Schlumberger Ltd.	SLB		54.84	581	31,900	44.00	0.12	1.22
Halliburton Company	HAL		17.27	430	7,400	25.00	0.14	0.73

Buy/Sell rating after symbol: 1-Strong Buy, 2-Buy, 3-Neutral, 4-Sell, 5-Strong Sell

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

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### A Weekly Analysis of Energy Stocks Using the McDep Ratio

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**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) 11-Apr 2002</i>	<i>EV/ Sales NTM</i>	<i>EV/ Ebitda NTM</i>	<i>P/E NTM</i>	<i>Dividend or Distribution NTM (%)</i>	<i>PV/ Ebitda NTM</i>
<b>Mega Cap</b>							
Exxon Mobil Corporation	XOM	42.40	1.6	11.7	26	2.2	10.1
BP plc	BP	50.88	1.3	9.6	16	2.6	9.0
Royal Dutch/Shell	RD	3 52.68	1.1	8.4	19	2.7	8.7
TotalFinaElf S.A.	TOT	73.87	1.3	7.9	16	2.8	8.9
ChevronTexaco Corporation	CVX	2 86.45	1.3	7.1	17	3.2	8.7
	<i>Median</i>		<i>1.3</i>	<i>8.4</i>	<i>17</i>	<i>2.7</i>	<i>8.9</i>
<b>Energy Infrastructure</b>							
American Electric Power Co. Inc.	AEP	3 47.90	0.7	10.5	17	5.0	10.0
Williams Companies	WMB	21.58	2.4	9.8	14	3.7	10.0
Duke Energy Corporation	DUK	38.66	0.9	9.3	14	2.8	9.0
Southern Company	SO	26.45	2.9	8.8	16	5.1	9.0
El Paso Corporation	EPG	43.00	0.9	8.8	13	2.0	9.0
Dominion Resources	D	65.90	3.6	8.2	15	3.9	9.0
Exelon Corporation	EXC	2 52.08	2.3	7.0	11	3.2	9.0
	<i>Median</i>		<i>2.3</i>	<i>8.8</i>	<i>14</i>	<i>3.7</i>	<i>9.0</i>
<b>Natural Gas and Oil</b>							
Occidental Petroleum Corp.	OXY	29.20	1.5	8.0	14	3.4	8.1
Anadarko Petroleum Corp.	APC	54.83	3.1	8.0	18	0.5	8.1
Devon Energy	DVN	47.44	3.1	6.8	48	0.4	7.4
ENI S.p.A.	E	72.24	1.7	6.7	13	2.5	6.9
Burlington Resources	BR	1 41.10	4.3	6.6		1.3	7.3
Encana Corporation	ECA	2 29.88	1.9	6.6	17	0.8	7.5
ConocoPhillips	P	2 59.70	0.9	5.7	11	2.4	6.9
Unocal Corporation	UCL	37.58	2.5	5.6	14	2.1	6.3
Marathon Oil Corporation	MRO	1 28.83	0.5	5.3	10	3.2	6.7
OAO Lukoil	LUKOY	61.25	1.6	4.3	9	1.8	4.9
	<i>Median</i>		<i>1.8</i>	<i>6.6</i>	<i>14</i>	<i>1.9</i>	<i>7.1</i>
<b>Service</b>							
Baker Hughes Inc.	BHI	35.35	2.2	11.0	25	1.3	9.0
Schlumberger Ltd.	SLB	54.84	2.8	9.7	27	1.4	9.0
Halliburton Company	HAL	17.27	0.7	6.0	13	2.9	8.2

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2003; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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**Mid Cap Energy Companies**  
**Rank by McDep Ratio: Market Cap and Debt to Present Value**

	<i>Symbol/ Rating</i>		<i>Price (\$/sh) 11-Apr 2002</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>
<b>Energy Infrastructure</b>								
Kinder Morgan Management, LLC	KMR	5	33.20	30	1,000	12.40	0.48	1.88
Kinder Morgan Energy Partners, L.P.	KMP	5	33.16	136	4,500	12.40	0.48	1.87
Kinder Morgan, Inc.	KMI	5	49.90	120	6,000	16.00	0.78	1.47
Enterprise Products Part.	EPD		45.35	87	4,000	31.70	0.23	1.33
Dynegy Inc.	DYN		28.51	339	9,700	20.60	0.57	1.16
AES Corporation	AES		8.45	543	4,600	8.80	0.83	0.99
Calpine Corporation	CPN	3	11.49	377	4,300	12.50	0.66	0.97
Mirant Corporation	MIR		12.89	353	4,600	18.60	0.65	0.89
Valero Energy Corporation	VLO		47.86	104	5,000	60.00	0.46	0.89
Consol Energy Inc.	CNX		26.69	79	2,100	35.90	0.51	0.87
CMS Energy Corporation	CMS		21.38	128	2,700	43.80	0.62	0.81
Sempra Energy	SRE		24.90	203	5,100	41.70	0.50	0.80
Constellation Energy Group	CEG		31.30	152	4,800	56.50	0.35	0.71
	<i>Total or Median</i>				<i>53,600</i>		<i>0.54</i>	<i>0.98</i>
<b>Natural Gas and Oil</b>								
Murphy Oil Corporation	MUR		92.10	46	4,200	82.00	0.18	1.10
Ocean Energy, Inc.	OEI		19.65	178	3,500	20.00	0.30	0.99
Imperial Oil Limited (30%)	IMO		29.34	119	3,500	30.00	0.11	0.98
Norsk Hydro ASA (49%)	NHY		48.42	126	6,100	54.00	0.18	0.92
Petro-Canada	PCZ		25.33	262	6,600	31.00	0.11	0.84
PetroChina Company Ltd (10%)	PTR	2	20.38	176	3,600	28.00	0.16	0.77
	<i>Total or Median</i>				<i>27,500</i>		<i>0.17</i>	<i>0.95</i>

Buy/Sell rating after symbol: 1 - Strong Buy, 2 - Buy, 3 - Neutral, 5 - Strong Sell

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

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**Table M-2**  
**Mid Cap Energy Companies**  
**Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.**

			Price (\$/sh)	EV/ Sales	EV/ Ebitda	P/E	Dividend or Distribution	PV/ Ebitda
	Symbol/ Rating		11-Apr 2002	Sales NTM	Ebitda NTM	NTM	NTM (%)	NTM
<b>Energy Infrastructure</b>								
	KMR	5	33.20	4.5	16.9	21	6.6	9.0
	KMP	5	33.16	4.5	16.9	21	6.6	9.0
	KMI	5	49.90	4.2	13.2	21	0.4	9.0
	EPD		45.35	1.6	12.0	13	5.5	9.0
	DYN		28.51	0.5	10.5	14	1.1	9.0
	AES		8.45	3.1	8.9	6	-	9.0
	CPN	3	11.49	1.8	8.8	7	-	9.0
	MIR		12.89	0.5	8.0	6	-	9.0
	CNX		26.69	2.1	7.9	9	4.2	9.0
	CMS		21.38	0.8	7.3	11	6.8	9.0
	SRE		24.90	1.1	7.2	10	4.0	9.0
	CEG		31.30	1.9	6.4	10	1.5	9.0
	VLO		47.86	0.3	6.0	9	0.8	6.8
	<i>Median</i>			<i>1.8</i>	<i>8.8</i>	<i>10</i>	<i>1.5</i>	<i>9.0</i>
<b>Natural Gas and Oil</b>								
	IMO		29.34	1.1	10.8	28	1.8	11.1
	MUR		92.10	1.0	8.8	43	1.6	8.0
	OEI		19.65	4.6	7.7	33	0.8	7.8
	PCZ		25.33	1.6	6.2	16	1.0	7.4
	NHY		48.42	0.8	4.4	13	2.1	4.8
	PTR	2	20.38	1.7	3.4	7	9.0	4.3
	<i>Median</i>			<i>1.4</i>	<i>6.9</i>	<i>22</i>	<i>1.7</i>	<i>7.6</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2003; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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**Small Cap Energy Companies**  
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<b>Energy Infrastructure</b>								
El Paso Energy Partners	EPN	5	38.01	40.0	1,520	11.70	0.57	1.96
Plains All Amer. Pipeline	PAA		26.17	41.6	1,090	11.40	0.46	1.71
Enbridge Energy Partners,	EEP		44.31	31.0	1,370	16.60	0.58	1.70
Northern Border Partners	NBP		40.39	42.0	1,700	20.30	0.56	1.44
Penn Virginia Res. Part, L.P.(48%)	PVR		23.00	7.7	180	16.50	0.13	1.34
TEPPCO Partners, L.P.	TPP		31.81	39	1,230	15.60	0.69	1.32
Penn Virginia Corporation	PVA		37.94	9.0	340	35.00	0.10	1.08
AmeriGas Partners, L.P.	APU		21.95	44.0	970	19.50	0.54	1.06
	<i>Total or Median</i>				<i>8,400</i>		<i>0.55</i>	<i>1.39</i>
<b>Natural Gas and Oil</b>								
Spinnaker Exploration Company	SKE		42.31	28.5	1,210	35.00	0.03	1.20
Dorchester Hugoton, Ltd.	DHULZ		13.55	10.7	146	11.60	(0.17)	1.20
Quicksilver Resources Inc.	KWK		23.55	19.4	460	20.00	0.43	1.10
Newfield Exploration Company	NFX		36.20	48.6	1,760	33.00	0.25	1.07
Stone Energy Company	SGY		38.16	26.4	1,010	42.00	0.29	0.93
Forest Oil Corporation	FST	2	30.36	46.7	1,420	35.00	0.29	0.91
Southwestern Energy Company	SWN		13.55	25.6	350	17.00	0.44	0.89
Swift Energy Company	SFY		18.30	24.8	450	22.00	0.32	0.89
Unit Corporation	UNT		18.00	36.2	650	21.00	0.03	0.86
Pogo Producing Company	PPP		25.76	60.5	1,560	32.00	0.27	0.86
Magnum Hunter Resources, Inc.	MHR		7.66	71.5	550	11.00	0.43	0.83
Encore Acquisition Corp. (25%)	EAC		15.55	7.5	117	20.00	0.18	0.82
XTO Energy Inc.	XTO	2	19.64	124.0	2,440	26.00	0.21	0.81
CNOOC Limited (19%)	CEO	2	23.90	78	1,860	30.00	-	0.79
	<i>Total or Median</i>				<i>14,000</i>		<i>0.26</i>	<i>0.89</i>
<b>Natural Gas Royalty Trusts</b>								
Cross Timbers Royalty Trust	CRT		18.25	6.0	110	18.70	-	0.98
San Juan Basin Royalty Trust	SJT	2	11.58	46.6	540	15.10	-	0.77
Hugoton RoyaltyTrust (46%)	HGT		11.30	18.4	210	15.40	-	0.73
<b>Micro Cap</b>								
Torch Energy Royalty Trust	TRU		6.94	8.6	60	5.50	-	1.27
Abraxas Petroleum Corporation	ABP		1.09	26.8	29	0.50	0.96	1.05
Energy Partners Ltd.(30%)	EPL	2	7.95	8.1	64	10.00	0.34	0.86
Purcell Energy, Ltd. (US\$)	PEL.TO	2	1.81	27.4	50	3.50	0.09	0.56

Buy/Sell rating after symbol: 1 - Strong Buy, 2 - Buy, 3 - Neutral, 4 - Sell, 5 - Strong 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 investment analysis by Kurt Wulff doing business as McDep Associates is posted at [www.mcdep.com](http://www.mcdep.com). Mr. Wulff is not paid by covered companies. Owning shares in energy stocks, neither Mr. Wulff nor his spouse act contrary to a buy or sell rating.

## Meter Reader

### A Weekly Analysis of Energy Stocks Using the McDep Ratio

April 15, 2002

**Table S-2**  
**Small Cap Energy Companies**  
**Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.**

	<i>Symbol/ Rating</i>		<i>Price (\$/sh 11-Apr 2002</i>	<i>EV/ Sales NTM</i>	<i>EV/ Ebitda NTM</i>	<i>P/E NTM</i>	<i>Dividend or Distribution NTM (%)</i>	<i>PV/ Ebitda NTM</i>
<b>Energy Infrastructure</b>								
	EPN	5	38.01	12.9	17.6	33	6.8	9.0
	PAA		26.17	0.2	15.4	27	7.8	9.0
	EEP		44.31	6.8	15.3	85	7.9	9.0
	NBP		40.39	8.1	12.9	18	7.9	9.0
	PVR		23.00	8.9	12.1	13	8.7	9.0
	TEPPCO Partners, L.P.		31.81	0.7	11.9	15	7.2	9.0
	APU		21.95	1.4	9.5	19	10.0	9.0
	PVA		37.94	4.3	7.4	24	2.4	6.9
	<i>Median</i>			<i>5.6</i>	<i>12.5</i>	<i>21</i>	<i>7.9</i>	<i>9.0</i>
<b>Natural Gas and Oil</b>								
	DHULZ		13.55	6.6	9.8	14	8.9	8.2
	KWK		23.55	5.0	9.0		-	8.2
	FST	2	30.36	3.8	7.3		-	8.0
	SFY		18.30	4.8	7.2	38	-	8.1
	XTO	2	19.64	3.4	6.6	14	0.2	8.2
	MHR		7.66	3.2	6.6		-	8.0
	PPP		25.76	3.7	6.2	36	0.5	7.3
	EAC		15.55	4.0	6.0	13	-	7.4
	SKE		42.31	5.1	5.9	19	-	4.9
	UNT		18.00	3.1	5.7	13	-	6.6
	SWN		13.55	2.4	5.7	14	-	6.4
	CEO	2	23.90	4.0	5.3	11	1.0	6.7
	NFX		36.20	3.6	5.0	20	-	4.7
	SGY		38.16	3.6	4.7	11	-	5.0
	<i>Median</i>			<i>3.7</i>	<i>6.1</i>	<i>14</i>	<i>-</i>	<i>7.3</i>
<b>Natural Gas Royalty Trusts</b>								
	CRT		18.25	7.3	10.5	11	8.7	10.8
	SJT	2	11.58	6.1	7.9	11	9.4	10.2
	HGT		11.30	4.8	7.2	10	9.9	9.8
<b>Micro Cap</b>								
	ABP		1.09	4.7	7.0		-	6.7
	TRU		6.94	4.9	5.8	7	15.0	4.6
	EPL	2	7.95	2.1	3.9		-	4.5
	PEL.TO	2	1.81	2.3	3.0	6	-	5.4

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2003; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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