

## Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

April 22, 2002

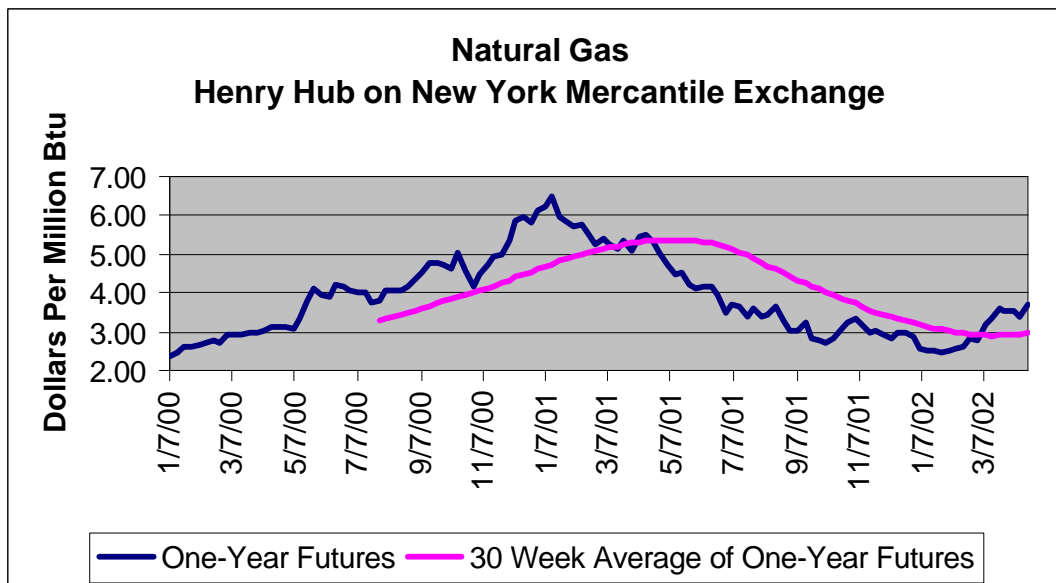
# Momentum Works Until It Doesn't

## Summary and Recommendation

Positive price momentum for natural gas, crude oil and refining margin supports current interest in our energy buy recommendations. Futures market expectations for the next twelve months are above the 30-week average thereby conforming to a rising trend by one definition (see charts). Yet because momentum can change quickly without warning, we stress that our recommendations are justified by more fundamental considerations. Natural gas sensitive recommendations include **Encana Corporation (ECA)** and **XTO Energy (XTO)**. Crude oil sensitive recommendations include **PetroChina (PTR)** and **CNOOC Limited (CEO)**. Refining sensitive recommendations include **ChevronTexaco (CVX)** and **ConocoPhillips (COC/P)**. 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).

## Price Charts Signal Natural Gas Buy

Natural gas price history for the past three years seems to fit a classic buy/sell pattern described by the moving average technique. When one-year futures broke the moving average on the downside a year ago it was indeed an indicator of a change in trend. Recently it looked like natural gas was going to break the moving average on the upside. That has indeed happened. Does that mean one-year natural gas futures will gradually reach \$6.00 in a year? No one can say. We do believe that \$6.00 is possible, even likely at some point in the next several years. The upside looks greater than the downside and momentum is with us for now.



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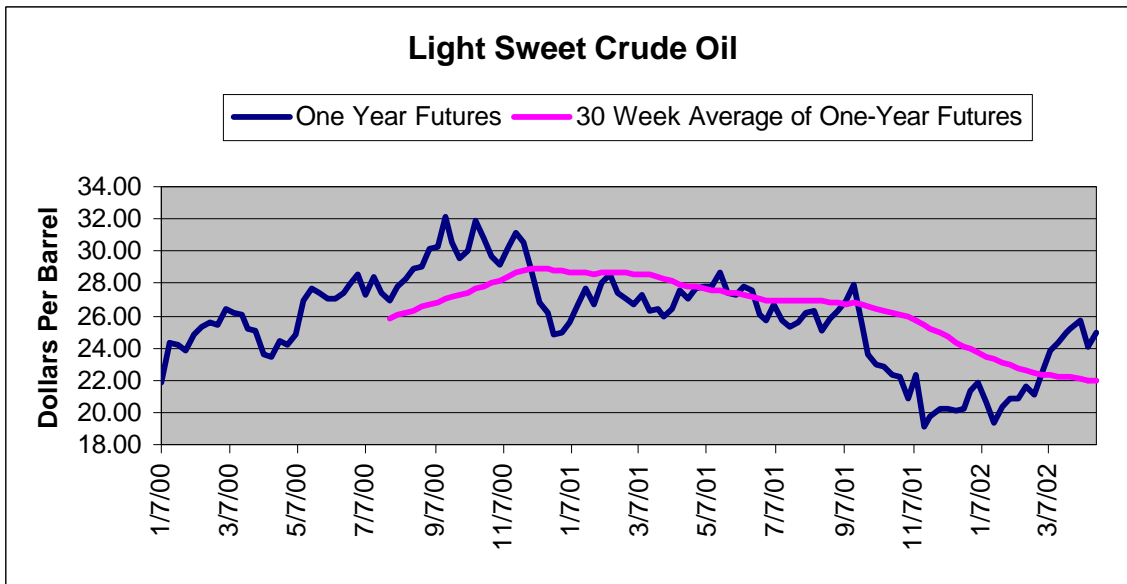
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Referred to in industry jargon as the “12 month strip”, one-year futures represent the average of monthly quotes. The current period of quotes covers May 2002 through April 2003. We track closing prices on a day late in each week and compare the latest quotes to the average of the latest 30 weeks. The period conforms roughly to widely plotted 200-day averages of stock prices. Using one-year futures instead of daily cash prices reduces the distortion of seasonal factors. For example, natural gas tends to be higher-priced in winter and refining margins tend to be higher in the spring.

One-year futures can indicate the direction of stock prices, but are more volatile. Six-year futures may more closely approximate stock prices by volatility. Higher volume of trading in one-year futures may make them representative of a wider body of opinion than six-year futures. The weekly plot of one-year and six-year futures for natural gas and oil that we have been running in *Meter Reader* in 2002 now appears in *Natural Gas Royalty Trusts – A Weekly Analysis*.

### Price Charts Support Oil Buy

The drop in oil price did not become decisive until September last year. Yet oil, too, turned positive in recent weeks. An up trend has resumed.



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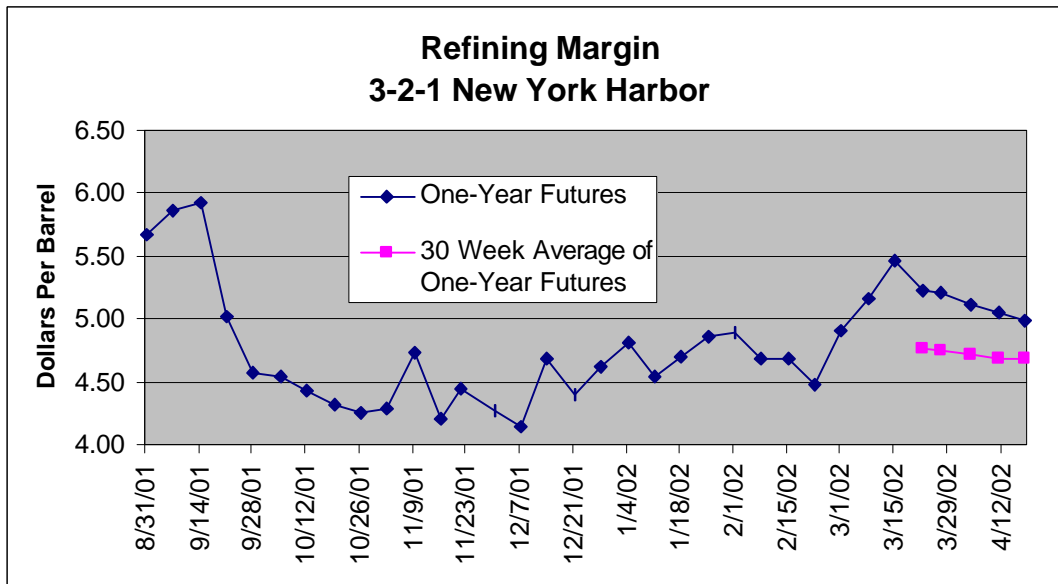
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### Refining Margin Also a Buy

In some respects, this is the best time for the U.S. refining business in forty years. While the refiners did reasonably well during the high-energy growth 1960s, the downstream business had a tough time with higher oil price in the 1970s. It has been a long comeback in the 1980s and 1990s compounded by complex environmental regulations. Now capacity is tight and consolidation has put that capacity in stronger hands. Thus we are optimistic that higher margin days are here for a while. The crack spread calculated by subtracting futures prices for three barrels of crude oil from two barrels of gasoline and one barrel of heating oil is in an up trend on the chart.



### Favorable Futures Price Trend Favorable for Energy Company Profits

The preceding charts capture the improving outlook for our positive recommendations. Even if the charts were to turn negative to surprise us, our recommended companies are strong enough to get through any temporary difficulty. With the recent addition of ConocoPhillips and ChevronTexaco as buy recommendations we have a diverse set of energy ideas from which some could be suitable for almost any investor.

At the same time our independent status allows us to take a decidedly negative outlook for our Strong Sells on the combined basis of extraordinarily high valuation, extreme ratios of debt and misleading accounting that disguises an onerous general partner tax. As energy stocks are doing well this is an especially good time to unload unattractive investments.

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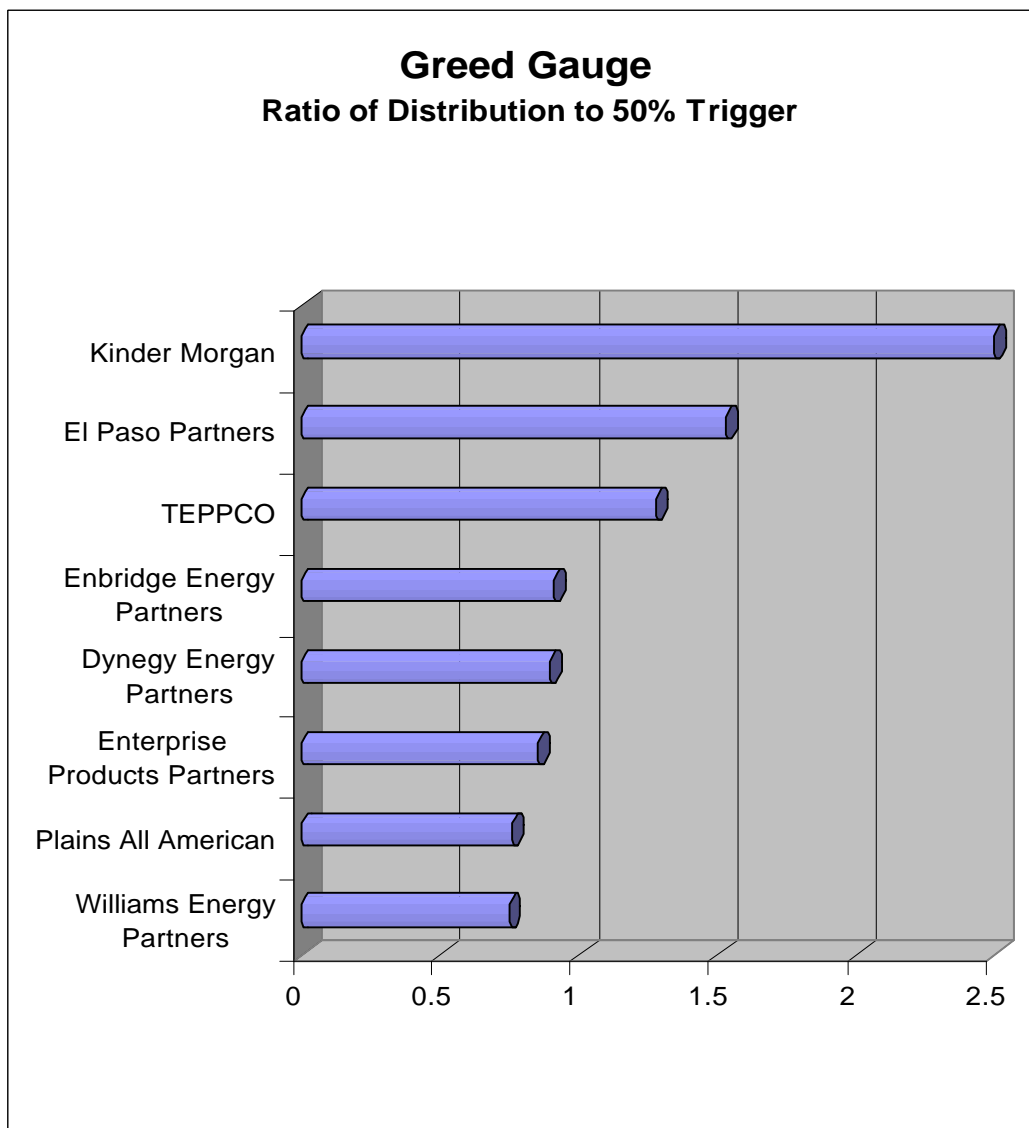
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### Kinder Morgan Advances on Greed Gauge

Reporting a quarter that looked favorable superficially, but does little to justify extraordinarily high valuation, a pyramid of debt and misleading accounting, Kinder Morgan announced an increase in payout for KMP and KMR to an annual rate of \$2.36 a share. That qualifies the general partner for 39% of all cash flow distributed up from 38% a few months ago. The new payout rate is 2.5 times the level that triggers a 50% marginal general partner tax rate on incremental cash flow. As a result Kinder Morgan's leading position on the Greed Gauge is strengthened.

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) 18-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		42.55	6,924	295,000	36.00	0.09	1.17
BP plc	BP		51.79	3,738	194,000	47.00	0.16	1.09
Royal Dutch/Shell	RD	3	54.21	3,520	191,000	55.00	0.04	0.99
TotalFinaElf S.A.	TOT		76.56	1,352	104,000	85.00	0.15	0.91
ChevronTexaco Corporation	CVX	2	87.30	1,062	92,800	110.00	0.16	0.83
	<i>Total or Median</i>				877,000		0.15	0.99
<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		38.00	781	29,700	36.30	0.44	1.03
Williams Companies	WMB		23.27	521	12,100	22.70	0.58	1.01
Southern Company	SO		27.70	683	18,900	27.40	0.42	1.00
El Paso Corporation	EP		44.94	529	23,800	46.30	0.49	0.99
Dominion Resources	D		66.55	247	16,400	79.40	0.45	0.91
Exelon Corporation	EXC	2	52.61	323	17,000	84.00	0.40	0.78
	<i>Total or Median</i>				118,000		0.44	1.00
<b>Natural Gas and Oil</b>								
ENI S.p.A.	E		74.23	789	58,500	75.00	0.19	0.99
Occidental Petroleum Corp.	OXY		29.29	372	10,900	30.00	0.48	0.99
Anadarko Petroleum Corp.	APC		54.99	266	14,600	56.00	0.26	0.99
OAo Lukoil	LUKOY		66.50	299	19,900	70.00	0.08	0.95
Devon Energy	DVN		49.00	165	8,100	55.00	0.48	0.94
Burlington Resources	BR	1	42.30	201	8,500	48.00	0.33	0.92
Unocal Corporation	UCL		38.12	245	9,300	45.00	0.33	0.89
Encana Corporation	ECA	2	30.41	490	14,900	35.00	0.19	0.89
ConocoPhillips	P	2	60.69	680	41,300	80.00	0.32	0.84
Marathon Oil Corporation	MRO	1	29.60	310	9,200	42.00	0.35	0.81
	<i>Total or Median</i>				137,000		0.33	0.92
<b>Service</b>								
Baker Hughes Inc.	BHI		37.23	338	12,600	24.50	0.13	1.45
Schlumberger Ltd.	SLB		56.13	581	32,600	44.00	0.12	1.24
Halliburton Company	HAL		17.71	430	7,600	25.00	0.14	0.75

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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**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) 18-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	42.55	1.6	11.8	26	2.2	10.1
BP plc	BP	51.79	1.3	9.8	17	2.5	9.0
Royal Dutch/Shell	RD	3 54.21	1.2	8.6	19	2.6	8.7
TotalFinaElf S.A.	TOT	76.56	1.3	8.1	16	2.7	8.9
ChevronTexaco Corporation	CVX	2 87.30	1.3	7.2	17	3.2	8.7
	<i>Median</i>		<i>1.3</i>	<i>8.6</i>	<i>17</i>	<i>2.6</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	23.27	2.5	10.1	15	3.4	10.0
Duke Energy Corporation	DUK	38.00	0.9	9.2	14	2.9	9.0
Southern Company	SO	27.70	3.0	9.0	17	4.8	9.0
El Paso Corporation	EP	44.94	1.0	8.9	13	2.0	9.0
Dominion Resources	D	66.55	3.6	8.2	15	3.9	9.0
Exelon Corporation	EXC	2 52.61	2.3	7.0	11	3.2	9.0
	<i>Median</i>		<i>2.3</i>	<i>9.0</i>	<i>15</i>	<i>3.4</i>	<i>9.0</i>
<b>Natural Gas and Oil</b>							
Occidental Petroleum Corp.	OXY	29.29	1.5	8.0	14	3.4	8.1
Anadarko Petroleum Corp.	APC	54.99	3.1	8.0	18	0.5	8.1
Devon Energy	DVN	49.00	3.1	7.0	49	0.4	7.4
ENI S.p.A.	E	74.23	1.7	6.8	14	2.4	6.9
Burlington Resources	BR	1 42.30	4.4	6.7	20	1.3	7.3
Encana Corporation	ECA	2 30.41	1.9	6.7	17	0.8	7.5
ConocoPhillips	P	2 60.69	0.9	5.8	11	2.4	6.9
Unocal Corporation	UCL	38.12	2.5	5.6	14	2.1	6.3
Marathon Oil Corporation	MRO	1 29.60	0.5	5.4	10	3.1	6.7
OAO Lukoil	LUKOY	66.50	1.7	4.7	10	1.6	4.9
	<i>Median</i>		<i>1.8</i>	<i>6.7</i>	<i>14</i>	<i>1.9</i>	<i>7.1</i>
<b>Service</b>							
Baker Hughes Inc.	BHI	37.23	2.3	11.6	26	1.2	9.0
Schlumberger Ltd.	SLB	56.13	2.9	9.9	28	1.3	9.0
Halliburton Company	HAL	17.71	0.7	6.1	13	2.8	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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<b>Energy Infrastructure</b>								
Kinder Morgan Management, LLC	KMR	5	34.51	30	1,000	12.40	0.48	1.94
Kinder Morgan Energy Partners, L.P.	KMP	5	34.55	136	4,700	12.40	0.48	1.94
Kinder Morgan, Inc.	KMI	5	51.10	125	6,400	16.00	0.78	1.49
Enterprise Products Part.	EPD		46.17	87	4,000	31.70	0.23	1.35
Dynegy Inc.	DYN		28.88	339	9,800	20.60	0.57	1.17
Calpine Corporation	CPN	3	12.06	377	4,600	12.50	0.66	0.99
AES Corporation	AES		7.85	543	4,300	8.80	0.83	0.98
Mirant Corporation	MIR		13.96	353	4,900	18.60	0.65	0.91
Valero Energy Corporation	VLO		48.57	104	5,100	60.00	0.46	0.90
Consol Energy Inc.	CNX		26.09	79	2,100	35.90	0.51	0.86
Sempra Energy	SRE		25.98	203	5,300	41.70	0.50	0.81
CMS Energy Corporation	CMS		21.73	128	2,800	43.80	0.62	0.81
Constellation Energy Group	CEG		31.00	152	4,700	56.50	0.35	0.71
	<i>Total or Median</i>				<i>55,000</i>		<i>0.54</i>	<i>0.99</i>
<b>Natural Gas and Oil</b>								
Murphy Oil Corporation	MUR		98.20	46	4,500	82.00	0.18	1.16
Ocean Energy, Inc.	OEI		20.67	178	3,700	20.00	0.30	1.02
Imperial Oil Limited (30%)	IMO		29.50	119	3,500	30.00	0.11	0.98
Norsk Hydro ASA (49%)	NHY		50.44	126	6,400	54.00	0.18	0.95
Petro-Canada	PCZ		26.37	262	6,900	31.00	0.11	0.87
PetroChina Company Ltd (10%)	PTR	2	20.62	176	3,600	28.00	0.16	0.78
	<i>Total or Median</i>				<i>28,600</i>		<i>0.17</i>	<i>0.97</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		18-Apr 2002	Sales NTM	Ebitda NTM	NTM	NTM (%)	NTM
<b>Energy Infrastructure</b>								
	KMR	5	34.51	4.5	17.4	24	6.8	9.0
	KMP	5	34.55	4.5	17.3	24	6.8	9.0
	KMI	5	51.10	4.1	12.6	18	0.4	8.4
	EPD		46.17	1.7	12.2	14	5.4	9.0
	DYN		28.88	0.5	10.6	14	1.0	9.0
	CPN	3	12.06	1.8	8.9	7	-	9.0
	AES		7.85	3.1	8.8	6	-	9.0
	MIR		13.96	0.5	8.2	6	-	9.0
	CNX		26.09	2.1	7.8	9	4.3	9.0
	SRE		25.98	1.2	7.3	10	3.8	9.0
	CMS		21.73	0.8	7.3	11	6.7	9.0
	CEG		31.00	1.8	6.4	10	1.5	9.0
	VLO		48.57	0.3	6.1	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		29.50	1.1	10.9	28	1.8	11.1
	MUR		98.20	1.1	9.3	46	1.5	8.0
	OEI		20.67	4.8	8.0	35	0.8	7.8
	PCZ		26.37	1.6	6.4	16	1.0	7.4
	NHY		50.44	0.9	4.5	14	2.1	4.8
	PTR	2	20.62	1.7	3.4	7	8.9	4.3
	<i>Median</i>			<i>1.4</i>	<i>7.2</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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<b>Energy Infrastructure</b>								
El Paso Energy Partners	EPN	5	37.59	40.0	1,500	11.70	0.57	1.94
Plains All Amer. Pipeline	PAA		26.47	41.6	1,100	11.40	0.46	1.72
Enbridge Energy Partners,	EEP		44.92	31.0	1,390	16.60	0.58	1.72
TEPPCO Partners, L.P.	TPP		32.00	46	1,490	12.90	0.61	1.58
Northern Border Partners	NBP		41.10	42.0	1,730	20.10	0.57	1.45
Penn Virginia Res. Part, L.P.(48%)	PVR		23.79	7.7	180	16.50	0.13	1.39
Penn Virginia Corporation	PVA		38.07	9.0	340	35.00	0.10	1.08
AmeriGas Partners, L.P.	APU		22.24	44.0	980	19.50	0.54	1.07
	<i>Total or Median</i>				<i>8,700</i>		<i>0.55</i>	<i>1.52</i>
<b>Natural Gas and Oil</b>								
Dorchester Hugoton, Ltd.	DHULZ		13.80	10.7	148	11.60	(0.17)	1.22
Spinnaker Exploration Company	SKE		42.30	28.5	1,210	35.00	0.03	1.20
Quicksilver Resources Inc.	KWK		24.05	19.4	470	20.00	0.43	1.12
Newfield Exploration Company	NFX		36.88	48.6	1,790	33.00	0.25	1.09
Stone Energy Company	SGY		40.16	26.4	1,060	42.00	0.29	0.97
Unit Corporation	UNT		19.30	36.2	700	21.00	0.03	0.92
Forest Oil Corporation	FST	2	30.55	46.7	1,430	35.00	0.29	0.91
Swift Energy Company	SFY		19.00	24.8	470	22.00	0.32	0.91
Southwestern Energy Company	SWN		13.90	25.6	360	17.00	0.44	0.90
Pogo Producing Company	PPP		25.76	60.5	1,560	32.00	0.27	0.86
CNOOC Limited (19%)	CEO	2	25.43	78	1,980	30.00	-	0.85
XTO Energy Inc.	XTO	2	20.49	124.0	2,540	26.00	0.21	0.83
Encore Acquisition Corp. (25%)	EAC		15.90	7.5	119	20.00	0.18	0.83
Magnum Hunter Resources, Inc.	MHR		7.53	71.5	540	11.00	0.43	0.82
	<i>Total or Median</i>				<i>14,400</i>		<i>0.26</i>	<i>0.91</i>
<b>Natural Gas Royalty Trusts</b>								
Cross Timbers Royalty Trust	CRT		18.10	6.0	109	18.70	-	0.97
San Juan Basin Royalty Trust	SJT	2	11.92	46.6	560	15.10	-	0.79
Hugoton RoyaltyTrust (46%)	HGT		11.64	18.4	210	15.50	-	0.75
<b>Micro Cap</b>								
Torch Energy Royalty Trust	TRU		6.83	8.6	59	5.50	-	1.25
Abraxas Petroleum Corporation	ABP		1.08	26.8	29	0.50	0.96	1.05
Energy Partners Ltd.(30%)	EPL	2	7.90	8.1	64	10.00	0.34	0.86
Purcell Energy, Ltd. (US\$)	PEL.TO	2	1.83	25.7	47	3.00	0.19	0.68

Buy/Sell rating after symbol: 1 - Strong Buy, 2 - Buy, 3 - Neutral, 4 - Sell, 5 - Strong Sell  
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**Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.**

	<i>Symbol/ Rating</i>		<i>Price (\$/sh 18-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	37.59	12.8	17.5	33	6.9	9.0
	PAA		26.47	0.2	15.5	27	7.7	9.0
	EEP		44.92	6.9	15.4	86	7.8	9.0
	TEPPCO Partners, L.P.		32.00	1.1	14.2	20	7.2	9.0
	NBP		41.10	8.2	13.1	18	7.8	9.0
	PVR		23.79	9.1	12.5	14	8.4	9.0
	APU		22.24	1.4	9.6	19	9.9	9.0
	PVA		38.07	4.3	7.4	24	2.4	6.9
	<i>Median</i>			<i>5.6</i>	<i>13.7</i>	<i>22</i>	<i>7.8</i>	<i>9.0</i>
<b>Natural Gas and Oil</b>								
	DHULZ		13.80	6.7	10.0	14	8.7	8.2
	KWK		24.05	5.0	9.1	23	-	8.2
	SFY		19.00	5.0	7.4	39	-	8.1
	FST	2	30.55	3.8	7.3	72	-	8.0
	XTO	2	20.49	3.5	6.8	14	0.2	8.2
	MHR		7.53	3.2	6.6	23	-	8.0
	PPP		25.76	3.7	6.2	36	0.5	7.3
	UNT		19.30	3.3	6.1	13	-	6.6
	EAC		15.90	4.1	6.1	13	-	7.4
	SKE		42.30	5.1	5.9	19	-	4.9
	SWN		13.90	2.4	5.8	14	-	6.4
	CEO	2	25.43	4.3	5.6	11	0.9	6.7
	NFX		36.88	3.6	5.1	21	-	4.7
	SGY		40.16	3.7	4.9	12	-	5.0
	<i>Median</i>			<i>3.8</i>	<i>6.2</i>	<i>17</i>	<i>-</i>	<i>7.3</i>
<b>Natural Gas Royalty Trusts</b>								
	CRT		18.10	6.9	9.8	11	9.4	10.1
	SJT	2	11.92	5.8	7.4	10	10.0	9.4
	HGT		11.64	4.6	6.7	9	10.9	8.9
<b>Micro Cap</b>								
	ABP		1.08	4.7	7.0		-	6.7
	TRU		6.83	4.8	5.7	7	15.2	4.6
	EPL	2	7.90	2.1	3.9	50	-	4.5
	PEL.TO	2	1.83	2.8	3.8	8	-	5.5

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

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.