

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

July 22, 2002

Positive Momentum in a Down Market

Summary and Recommendation

Among Buy recommended stocks **CNOOC Ltd (CEO)**, **PetroChina (PTR)**, **Energy Partners Ltd. (EPL)**, **Canadian Oil Sands Trust (COS.TO_u)** and **XTO Energy (XTO)** are in a rising stock price trend as defined by current price above the 200-day average. (Sell and Strong Sell recommended stocks are in a declining trend). Noting that three of the five gainers are non-US issues we look among other non-US stocks in our coverage and find that **ENI (E)**, **Lukoil (LUKOY)**, **Norsk Hydro (NHY)**, **Petro-Canada (PCZ)**, **Suncor (SU)**, **Enerplus Resource Fund (ERF)**, and **Provident Energy Trust (PVX)** also have positive price momentum by the same definition. Further noting that three of the five gainers are independent producers, we find positive stock price momentum among peer companies including **Encore Acquisition (EAC)**, **Pogo Producing (PPP)**, and **Unit Corp. (UNT)**. A trader might be willing to buy any of those stocks and hold until the price drops below the 200-day average. Ideally the 200-day average would keep moving up so that when the sell signal flashes, a gain is automatic. Most of those stocks are also reasonable commitments by our fundamental belief in low McDep Ratio, low debt energy stocks (see Tables L-1, L-2, M-1, M-2, S-1 and S-2).

It is a Down Market

Though we can find some stocks with positive momentum, the trend of the market averages is down. No one needs to be told that, nor do we know when the trend will turn. We believe that all of our recommendations can ride out tough times. In the past stubbornly sticking with an idea and even stepping up at lower levels has paid off nicely, but some times it hasn't. This time we are more apt to change a recommendation if the potential loss mounts for reasons we obviously did not foresee. We cut the potential losses in our power recommendations. Today those look like wise moves short term, but almost any sale looks good short term when the market is near its lows.

Maintain A Core Position

If we do find that we revise an existing recommendation to neutral because the price has dropped too much we hope to replace it with a new buy. That makes sense for taxable accounts because losses usually have immediate tax shelter value. More important, investors who maintain a core position in energy will get the long-term portfolio benefits that we believe are likely.

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Diversify Internationally

We think the better performance of non-U.S. energy stocks can continue. Most have lower valuation that likely will not persist to the same degree. Our close neighbor, Canada, offers some diversification as the prosperity of its economy depends more on energy resources than does that of the U.S. Recommended Canadian Oil Sands Trust is an income stock with long life and inflation protection without high fees.

Other Canadian companies with currently positive price momentum and attractive valuation include Petro-Canada, represented in natural gas and East Coast oil, as well as Suncor whose oil sands plant we visited last month. Canadian royalty trusts that also have positive momentum may have some premium valuation relative to producers, but appear to be far better value than high greed U.S. partnerships.

It should be easy for Americans to own European energy companies as American investors have long been familiar with **BP** and **Royal Dutch** and have had good experience becoming more familiar with **Total**. The stocks with positive momentum currently, Norsk Hydro and ENI, are advancing from a long established stable price base.

Our experience has been favorable with our China recommendations. Valuation is still low.

We have not stepped up to recommending a Russian stock yet. That day is coming closer as Russian business practices become more predictable. Moreover the country has always been rich in resources. Lukoil is a leading producer.

Own Independent Producers

Some U.S. independent producers have positive stock price momentum while none of the U.S. energy stocks with refining exposure do. At the commodity futures level, momentum is strongest in crude oil price, followed by natural gas and is only slightly positive in refining margin (see charts).

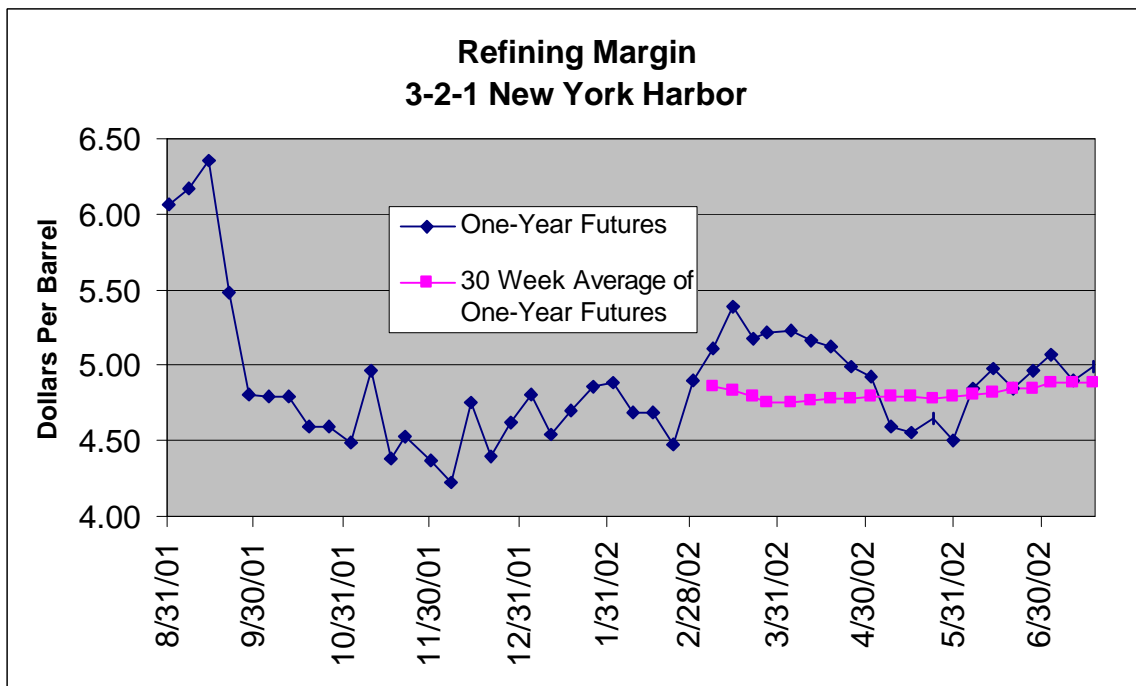
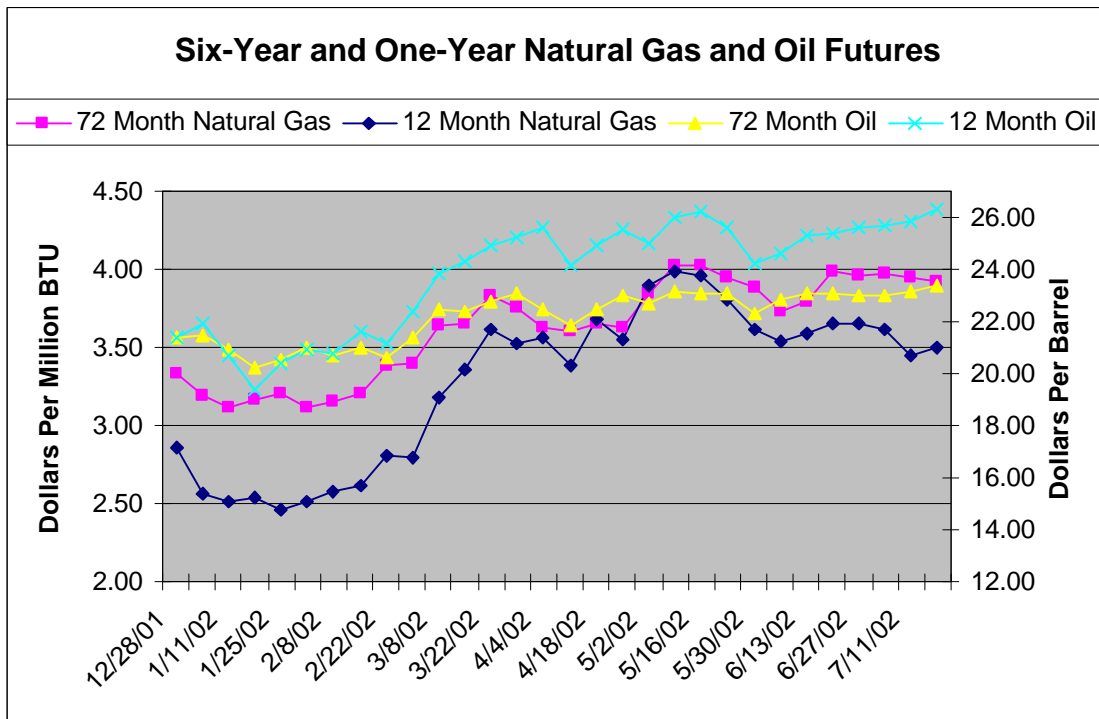
Kurt H. Wulff, CFA

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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-Jul 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>
Mega Cap							
Exxon Mobil Corporation	XOM	34.75	6,858	238,000	36.00	0.09	0.97
BP plc	BP	45.32	3,734	169,000	50.00	0.15	0.92
TotalFinaElf S.A.	TOT	72.02	1,352	97,400	90.00	0.14	0.83
Royal Dutch/Shell	RD	46.00	3,502	161,000	60.00	0.12	0.79
ChevronTexaco Corporation	CVX	78.70	1,062	83,600	110.00	0.16	0.76
	<i>Total or Median</i>			<i>749,000</i>		<i>0.14</i>	<i>0.83</i>
Energy Infrastructure							
Southern Company	SO	24.99	701	17,500	23.90	0.47	1.02
Williams Companies	WMB	6.32	521	3,300	10.20	0.78	0.92
American Electric Power Co. Inc.	AEP	31.31	322	10,100	42.20	0.63	0.90
Dominion Resources	D	59.01	269	15,900	76.20	0.45	0.88
Enel S.p.a. (32%)	EN	25.90	388	10,100	32.70	0.39	0.88
Duke Energy Corporation	DUK	20.72	792	16,400	30.40	0.48	0.84
El Paso Corporation	EP	13.60	546	7,400	27.30	0.61	0.80
Exelon Corporation	EXC	44.23	323	14,300	70.80	0.45	0.79
	<i>Total or Median</i>			<i>78,000</i>		<i>0.48</i>	<i>0.88</i>
Natural Gas and Oil							
OAo Lukoil	LUKOY	65.25	299	19,500	70.00	0.08	0.94
Occidental Petroleum Corp.	OXY	25.90	372	9,600	30.00	0.48	0.93
ENI S.p.A.	E	74.10	776	57,500	85.00	0.18	0.89
Devon Energy	DVN	41.71	165	6,900	55.00	0.48	0.87
Encana Corporation	ECA	27.81	484	13,500	35.00	0.25	0.85
Anadarko Petroleum Corp.	APC	43.61	266	11,600	56.00	0.26	0.84
Unocal Corporation	UCL	32.60	245	8,000	45.00	0.33	0.82
ConocoPhillips	P	50.82	680	34,500	80.00	0.32	0.75
Marathon Oil Corporation	MRO	24.11	310	7,500	40.00	0.36	0.75
Burlington Resources	BR	35.67	202	7,200	57.00	0.32	0.74
	<i>Total or Median</i>			<i>156,000</i>		<i>0.32</i>	<i>0.84</i>
Service							
Baker Hughes Inc.	BHI	29.07	338	9,800	24.50	0.13	1.16
Schlumberger Ltd.	SLB	43.72	581	25,400	44.00	0.12	0.99
Halliburton Company	HAL	12.71	430	5,500	25.00	0.14	0.58

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.

	Symbol/ Rating	Price (\$/sh) 18-Jul 2002	EV/ Sales NTM	EV/ Ebitda NTM	P/E NTM	Dividend or Distribution NTM (%)	PV/ Ebitda NTM	
Mega Cap								
Exxon Mobil Corporation	XOM	34.75	1.5	9.8	21	2.6	10.1	
BP plc	BP	45.32	1.3	8.4	17	3.0	9.2	
TotalFinaElf S.A.	TOT	72.02	1.2	7.8	16	2.6	9.4	
ChevronTexaco Corporation	CVX	2	78.70	1.2	6.9	14	3.6	9.1
Royal Dutch/Shell	RD	3	46.00	1.2	6.4	12	3.1	8.1
	<i>Median</i>		<i>1.2</i>	<i>7.8</i>	<i>16</i>	<i>3.0</i>	<i>9.2</i>	
Energy Infrastructure								
Southern Company	SO	24.99	3.2	9.2	15	5.4	9.0	
Williams Companies	WMB	6.32	2.1	8.3	5	12.7	9.0	
American Electric Power Co. Inc.	AEP	3	31.31	0.5	8.1	9	7.7	9.0
Dominion Resources	D	59.01	3.3	7.9	12	4.4	9.0	
Enel S.p.a. (32%)	EN	25.90	2.2	7.9	31	6.3	9.0	
Duke Energy Corporation	DUK	20.72	0.7	7.5	8	5.3	9.0	
El Paso Corporation	EP	13.60	0.6	7.2	8	6.6	9.0	
Exelon Corporation	EXC	3	44.23	2.2	7.1	10	4.0	9.0
	<i>Median</i>		<i>2.1</i>	<i>7.9</i>	<i>9</i>	<i>5.8</i>	<i>9.0</i>	
Natural Gas and Oil								
Occidental Petroleum Corp.	OXY	25.90	1.5	7.5	12	3.9	8.1	
ConocoPhillips	P	2	50.82	0.8	7.2	16	2.8	9.5
Anadarko Petroleum Corp.	APC	43.61	2.7	6.7	14	0.7	8.1	
ENI S.p.A.	E	74.10	1.6	6.5	14	4.6	7.3	
Devon Energy	DVN	41.71	2.9	6.5	42	0.5	7.4	
Encana Corporation	ECA	2	27.81	3.6	5.5	11	0.9	6.5
Marathon Oil Corporation	MRO	1	24.11	0.4	5.5	10	3.8	7.3
Burlington Resources	BR	1	35.67	3.8	5.2	11	1.5	7.0
Unocal Corporation	UCL	32.60	2.3	5.0	12	2.5	6.2	
OAOLukoil	LUKOY	65.25	1.7	4.6	9	1.7	4.9	
	<i>Median</i>		<i>2.0</i>	<i>6.0</i>	<i>12</i>	<i>2.1</i>	<i>7.3</i>	
Service								
Baker Hughes Inc.	BHI	29.07	1.9	9.3	20	1.6	9.0	
Schlumberger Ltd.	SLB	43.72	2.3	8.0	22	1.7	9.0	
Halliburton Company	HAL	12.71	0.6	4.7	10	3.9	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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Table M-1
Mid Cap Energy Companies
Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/ Rating</i>		<i>Price (\$/sh) 18-Jul 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>
Energy Infrastructure								
Kinder Morgan Management, LLC	KMR	5	33.88	30	1,000	12.40	0.48	1.91
Kinder Morgan Energy Partners, L.P.	KMP	5	33.90	136	4,600	12.40	0.48	1.91
Enterprise Products Part.	EPD		18.85	175	3,300	9.50	0.43	1.56
Kinder Morgan, Inc.	KMI	5	40.34	125	5,000	16.00	0.78	1.34
Calpine Corporation	CPN	3	4.91	375	1,800	5.00	0.87	1.00
AES Corporation	AES		2.79	543	1,500	8.80	0.83	0.88
Valero Energy Corporation	VLO		35.73	104	3,700	60.00	0.46	0.78
Consol Energy Inc.	CNX		19.05	79	1,500	35.90	0.51	0.77
Mirant Corporation	MIR		4.48	353	1,600	18.60	0.65	0.73
Sempra Energy	SRE		18.91	203	3,800	41.70	0.50	0.73
CMS Energy Corporation	CMS		10.10	128	1,300	43.80	0.62	0.71
Dynegy Inc.	DYN		4.50	419	1,900	14.90	0.51	0.66
Constellation Energy Group	CEG		24.72	152	3,800	56.50	0.35	0.64
			<i>Total or Median</i>		<i>31,000</i>		<i>0.51</i>	<i>0.83</i>
Natural Gas and Oil								
Suncor Energy	SU		16.71	454	7,600	17.00	0.25	0.99
Ocean Energy, Inc.	OEI		18.75	178	3,300	20.00	0.30	0.96
Imperial Oil Limited (30%)	IMO		27.39	114	3,100	30.00	0.14	0.93
Murphy Oil Corporation	MUR		73.21	46	3,300	82.00	0.18	0.91
Norsk Hydro ASA (49%)	NHY		47.39	126	6,000	54.00	0.18	0.90
Petro-Canada	PCZ		26.04	262	6,800	31.00	0.11	0.86
XTO Energy Inc.	XTO	2	18.15	124	2,300	26.00	0.21	0.76
PetroChina Company Ltd (10%)	PTR	2	21.00	176	3,700	30.00	0.17	0.75
			<i>Total or Median</i>		<i>30,100</i>		<i>0.18</i>	<i>0.92</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.

			<i>Price</i> <i>(\$/sh)</i>	<i>EV/</i>	<i>EV/</i>	<i>Dividend or</i>	<i>PV/</i>
	<i>Symbol/</i>		<i>18-Jul</i>	<i>Sales</i>	<i>Ebitda</i>	<i>Distribution</i>	<i>Ebitda</i>
	<i>Rating</i>		<i>2002</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>
						<i>NTM</i>	<i>NTM</i>
						<i>(%)</i>	<i>NTM</i>
Energy Infrastructure							
Enterprise Products Part.	EPD		18.85	1.7	17.2	41	11.0
Kinder Morgan Management, LLC	KMR	5	33.88	4.4	17.1	23	9.0
Kinder Morgan Energy Partners, L.P.	KMP	5	33.90	4.4	17.1	23	9.0
Calpine Corporation	CPN	3	4.91	1.9	11.4	5	11.4
Kinder Morgan, Inc.	KMI	5	40.34	3.7	11.3	14	8.4
AES Corporation	AES		2.79	2.8	7.9	2	9.0
Consol Energy Inc.	CNX		19.05	1.9	6.9	6	9.0
Mirant Corporation	MIR		4.48	0.4	6.6	2	9.0
Sempra Energy	SRE		18.91	1.0	6.6	7	9.0
CMS Energy Corporation	CMS		10.10	0.7	6.4	5	9.0
Dynegy Inc.	DYN		4.50	0.2	5.9	4	9.0
Constellation Energy Group	CEG		24.72	1.7	5.7	8	9.0
Valero Energy Corporation	VLO		35.73	0.2	5.3	7	6.8
	<i>Median</i>			<i>1.7</i>	<i>6.9</i>	<i>7</i>	<i>9.0</i>
Natural Gas and Oil							
Suncor Energy	SU		16.71	3.6	10.7	24	10.8
Imperial Oil Limited (30%)	IMO		27.39	1.3	9.5	21	10.3
Ocean Energy, Inc.	OEI		18.75	4.4	7.5	32	7.8
Murphy Oil Corporation	MUR		73.21	0.9	7.3	35	8.0
Petro-Canada	PCZ		26.04	1.6	6.3	16	7.4
XTO Energy Inc.	XTO	2	18.15	3.2	6.0	12	7.8
Norsk Hydro ASA (49%)	NHY		47.39	0.8	4.3	13	4.8
PetroChina Company Ltd (10%)	PTR	2	21.00	1.7	3.8	7	5.1
	<i>Median</i>			<i>2.4</i>	<i>7.4</i>	<i>22</i>	<i>7.9</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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Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/ Rating	Price (\$/sh) 18-Jul 2002	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio	
Energy Infrastructure								
El Paso Energy Partners	EPN	5	33.00	39.9	1,320	11.10	0.59	1.81
Enbridge Energy Partners,	EEP		43.40	31.0	1,350	16.60	0.58	1.68
TEPPCO Partners, L.P.	TPP		30.00	46.5	1,390	12.90	0.61	1.52
Plains All Amer. Pipeline	PAA		24.75	41.6	1,030	14.90	0.39	1.41
Northern Border Partners	NBP		35.12	42.0	1,480	20.10	0.57	1.33
Penn Virginia Res. Part, L.P.(48%)	PVR		20.16	7.7	150	17.90	0.12	1.11
Penn Virginia Corporation	PVA		37.57	9.0	340	35.00	0.10	1.06
AmeriGas Partners, L.P.	APU		23.36	49.0	1,140	23.50	0.47	0.99
	<i>Total or Median</i>				8,200		0.52	1.37
Natural Gas and Oil								
Provident Energy Trust	PVX		7.38	36.0	270	5.00	0.46	1.26
Dorchester Hugoton, Ltd.	DHULZ		13.21	10.7	142	11.60	(0.17)	1.16
Quicksilver Resources Inc.	KWK		20.90	19.4	410	19.00	0.44	1.05
Newfield Exploration Company	NFX		32.10	48.6	1,560	33.00	0.25	0.98
Spinnaker Exploration Company	SKE		32.96	28.5	940	35.00	0.03	0.94
Enerplus Resources Fund	ERF		18.43	69.6	1,280	20.00	0.19	0.94
Pogo Producing Company	PPP		29.15	60.5	1,760	32.00	0.27	0.93
CNOOC Limited (19%)	CEO	2	27.06	78.0	2,110	30.00	-	0.90
Stone Energy Company	SGY		34.25	26.4	910	42.00	0.29	0.87
Encore Acquisition Corp. (25%)	EAC		16.58	7.5	124	20.00	0.18	0.86
Southwestern Energy Company	SWN		11.25	25.6	290	17.00	0.44	0.81
Forest Oil Corporation	FST	3	24.92	46.8	1,170	35.00	0.30	0.80
Magnum Hunter Resources, Inc.	MHR		6.39	71.5	460	11.00	0.46	0.77
Unit Corporation	UNT		15.72	36.2	570	21.00	0.03	0.76
Swift Energy Company	SFY		13.40	24.8	330	22.00	0.32	0.73
Canadian Oil Sands Trust (US\$)	COS_u.TO	2	25.35	56.9	1,440	40.00	0.12	0.68
	<i>Total or Median</i>				13,800		0.26	0.88
Natural Gas Royalty Trusts								
Cross Timbers Royalty Trust	CRT		15.48	6.0	93	20.50	-	0.76
Hugoton RoyaltyTrust (46%)	HGT		10.07	18.4	190	15.90	-	0.63
San Juan Basin Royalty Trust	SJT	2	10.12	46.6	470	16.10	-	0.63
Micro Cap								
Abraxas Petroleum Corporation	ABP		0.62	27.0	17	2.00	0.84	0.89
Energy Partners Ltd.(30%)	EPL	2	7.95	8.2	65	10.00	0.38	0.87
Purcell Energy, Ltd. (US\$)	PEL.TO	3	1.50	27.3	41	3.00	0.19	0.59

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

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	Symbol/ Rating								
Energy Infrastructure									
	El Paso Energy Partners	EPN	5	33.00	11.6	16.3	28	7.9	9.0
	Enbridge Energy Partners, TEPPCO Partners, L.P.	EEP		43.40	6.8	15.1	83	8.1	9.0
	Plains All Amer. Pipeline	TPP		30.00	1.1	13.7	19	7.7	9.0
	Northern Border Partners	PAA		24.75	0.2	12.7	18	8.3	9.0
	Penn Virginia Res. Part, L.P.(48%)	NBP		35.12	7.5	11.9	15	9.1	9.0
	AmeriGas Partners, L.P.	PVR		20.16	7.5	10.0	11	9.9	9.0
	Penn Virginia Corporation	APU		23.36	1.5	9.0	13	9.4	9.0
		PVA		37.57	3.3	5.1	13	2.4	4.8
		<i>Median</i>			<i>5.1</i>	<i>12.3</i>	<i>17</i>	<i>8.2</i>	<i>9.0</i>
Natural Gas and Oil									
	Dorchester Hugoton, Ltd.	DHULZ		13.21	6.5	9.8	14	8.8	8.5
	Quicksilver Resources Inc.	KWK		20.90	4.7	8.8	23	-	8.3
	Provident Energy Trust	PVX		7.38	3.8	7.7	96	15.0	6.1
	Canadian Oil Sands Trust (US\$)	COS_u.TO	2	25.35	3.7	7.0	8	5.0	10.3
	Enerplus Resources Fund	ERF		18.43	4.8	6.9	17	11.9	7.4
	Pogo Producing Company	PPP		29.15	4.0	6.8	41	0.4	7.3
	Magnum Hunter Resources, Inc.	MHR		6.39	3.1	6.4	18	-	8.3
	Encore Acquisition Corp. (25%)	EAC		16.58	4.2	6.3	14	-	7.4
	Forest Oil Corporation	FST	3	24.92	3.7	6.2	20	-	7.8
	Swift Energy Company	SFY		13.40	4.0	6.0	28	-	8.1
	CNOOC Limited (19%)	CEO	2	27.06	4.5	5.9	12	0.9	6.5
	Southwestern Energy Company	SWN		11.25	2.1	5.1	11	-	6.3
	Unit Corporation	UNT		15.72	2.7	5.0	11	-	6.6
	Newfield Exploration Company	NFX		32.10	3.3	4.6	18	-	4.7
	Spinnaker Exploration Company	SKE		32.96	3.9	4.6	14	-	4.8
	Stone Energy Company	SGY		34.25	3.3	4.4	10	-	5.0
		<i>Median</i>			<i>3.9</i>	<i>6.3</i>	<i>15</i>	<i>-</i>	<i>7.3</i>
Natural Gas Royalty Trusts									
	Cross Timbers Royalty Trust	CRT		15.48	5.8	8.3	9	11.1	11.0
	Hugoton RoyaltyTrust (46%)	HGT		10.07	4.5	6.8	10	10.1	10.7
	San Juan Basin Royalty Trust	SJT	2	10.12	5.2	6.8	9	10.6	10.8
Micro Cap									
	Abraxas Petroleum Corporation	ABP		0.62	4.3	6.2		-	6.9
	Energy Partners Ltd.(30%)	EPL	2	7.95	2.5	5.0		-	5.7
	Purcell Energy, Ltd. (US\$)	PEL.TO	3	1.50	2.8	3.8	9	-	6.4

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 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. 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.