

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

November 6, 2003

Cash Flow is King

Summary and Recommendation

Following the disclosure of third quarter results, our estimates of next twelve months cash flow improve the most for **ChevronTexaco (CVX)** and **Anadarko (APC)**, both stocks that seem out of favor and show up well in our valuation ranking. Small caps **Encore Acquisition (EAC)**, **Energy Partners (EPL)** and **Cimarex Energy (XEC)** also score encouraging positive surprises. EAC, moreover, has achieved “ignition” on a new project to enhance oil production by underground combustion. Meanwhile, Enterprise Value to Ebitda multiples appear remarkably low at a median 5.4 times for 13 issues compared to three times that for popular pipeline income partnerships. Such attractive valuation reinforces our confidence that recommended energy investments are likely to be rewarding over the next several years.

Low Unlevered Cash Flow Multiples

The 13 recommendations that reported third quarter results are all priced at unlevered multiples of cash flow implying attractive appreciation potential (see Table). Fresh estimates using latest commodity futures and operating and financial disclosures contribute most to the change in EV/Ebitda multiples now versus two weeks ago.

			Price (\$/sh) 5-Nov 2003	EV/ Ebitda NTM 5-Nov	EV/ Ebitda NTM 22-Oct	Change in Multiple	PV/ Ebitda NTM
	Symbol/ Rating						
XTO Energy Inc.	XTO	B	23.42	6.1	5.8	0.3	6.2
San Juan Basin Royalty Trust	SJT	B	18.44	8.4	8.2	0.2	8.0
ConocoPhillips	COP	B	57.56	6.2	6.0	0.2	6.9
Encana Corporation	ECA	B	33.60	5.1	5.0	0.1	5.8
Burlington Resources	BR	B	47.50	5.4	5.3	0.1	6.4
Marathon Oil Corporation	MRO	B	29.38	5.3	5.3	(0.0)	6.4
Canadian Oil Sands Trust (US\$)	COSWF	B	28.99	7.8	8.0	(0.2)	10.9
Cimarex Energy Company	XEC	B	21.00	3.9	4.1	(0.2)	5.1
Energy Partners Ltd.	EPL	B	12.02	4.9	5.2	(0.3)	4.9
Royal Dutch/Shell	RD	B	44.31	6.6	6.9	(0.3)	7.9
Anadarko Petroleum Corp.	APC	B	43.05	5.0	5.5	(0.4)	6.2
Encore Acquisition Corp. (40%)	EAC	B	23.30	5.1	5.6	(0.5)	5.2
ChevronTexaco Corporation	CVX	B	73.65	5.8	6.7	(0.9)	7.1
Median				5.4	5.6	(0.2)	6.4

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Encore Acquisition Implementing New Fireflood

Following a successful third quarter in conventional production, the independent producer has begun injecting air to kick off its second tertiary recovery project, named Little Beaver, on the Cedar Creek Anticline in North Dakota. The early efforts have achieved spontaneous “ignition”, the critical signal for likely future effectiveness in driving more oil to the surface. Primarily as a result of tertiary recovery, management is confident enough to project a 25% increase in total corporate annual production by about 2007-2008. While the stock is up some 20% in four months there remains ample scope for further appreciation considering that an average low cash flow multiple seems to reflect little for a long reserve life on a proven basis not to mention the unproven upside.

Popular Income Partnerships Valued at Three Times Buy Recommendations

If there is any doubt that our buy recommendations have attractive valuations, look at an alternative. Unlevered cash flow multiples for **Kinder Morgan Energy Partners (KMP)**, **Gulfterra Energy Partners (GTM)** and **Enbridge Energy Partners (EEP)**, for example, are in the mid-teens, about three times the median for buy recommendations. The partnerships distribute about 7% of current price and the amounts per share are increased from time to time. Yet the partnerships are in the same businesses as are our buy recommendations.

KMP recently announced the purchase of the Yates oil field from **Marathon (MRO)**. We think Yates is a jewel of an asset and we would rather be the buyer than the seller. But why would an investor pay 18 times cash flow in KMP when one can buy a high quality producer for five times?

GTM gathers the gas in the San Juan Basin and it operates and builds pipelines in the Gulf of Mexico. GTM’s fundamental business can’t be better than that of a high quality producer at less than half the cash flow multiple.

EEP transports the oil from northern Alberta where Syncrude, owned 35% by **Canadian Oil Sands Trust (COSWF)**, is the largest producer. Can the pipeline be twice as valuable relative to cash flow as the plant that produces the product that fills the line?

We propose an experiment that might make our point. Buy a package of our recommendations and distribute an amount that matches the distribution of the partnerships. If necessary, sell some shares or borrow to meet the distribution. The partnerships do that already. Then after a stock market cycle that includes some inflation and deflation compare the total return of the experimental package to that of the popular pipeline income partnerships.

Kurt H. Wulff, CFA

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Table 1-1
Energy Producers
Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/ Rating	Price (\$/sh) 5-Nov 2003	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap							
Exxon Mobil Corporation	XOM	36.03	6,652	240,000	35.00	0.10	1.03
Total S.A.	TOT	77.12	1,276	98,400	85.00	0.19	0.92
BP plc	BP	42.58	3,682	157,000	50.00	0.15	0.87
Royal Dutch/Shell	RD B	44.31	3,473	154,000	55.00	0.18	0.84
ChevronTexaco Corporation	CVX B	73.65	1,064	78,400	95.00	0.20	0.82
<i>Total or Median</i>				<i>728,000</i>		<i>0.18</i>	<i>0.87</i>
Producer/Refiners - Large Cap and Mid Cap							
Murphy Oil Corporation	MUR	57.52	92	5,310	41.00	0.26	1.30
Imperial Oil Limited (30%)	IMO	39.49	113	4,480	36.00	0.12	1.09
OAo Lukoil	LUKOY	87.55	210	18,000	90.00	0.11	0.98
Norsk Hydro ASA (49%)	NHY	55.47	126	7,010	60.00	0.27	0.94
Valero Energy Corporation	VLO	43.14	114	4,920	50.00	0.50	0.93
Petro-Canada	PCZ	40.60	265	10,760	45.00	0.19	0.92
ENI S.p.A.	E	79.05	750	59,300	90.00	0.14	0.90
ConocoPhillips	COP B	57.56	682	39,200	70.00	0.38	0.89
Suncor Energy	SU	21.18	474	10,040	25.00	0.14	0.87
Petroleo Brasileiro S. A.	PBR	23.54	1,096	25,800	30.00	0.25	0.84
Marathon Oil Corporation	MRO B	29.38	310	9,110	40.00	0.31	0.82
PetroChina Company Ltd (10%)	PTR B	36.71	176	6,450	50.00	0.11	0.76
<i>Total or Median</i>				<i>195,000</i>		<i>0.19</i>	<i>0.90</i>
Independent Natural Gas and Oil							
Pogo Producing Company	PPP	42.50	65	2,740	38.00	0.22	1.09
Occidental Petroleum Corp.	OXY	35.60	383	13,600	35.00	0.38	1.01
CNOOC Limited (19%)	CEO B	40.15	78	3,130	40.00	-	1.00
Apache Corporation	APA	69.30	159	11,000	70.00	0.20	0.99
XTO Energy Inc.	XTO B	23.42	186	4,360	24.00	0.25	0.98
Encana Corporation	ECA B	33.60	470	15,800	40.00	0.24	0.88
Unocal Corporation	UCL	31.20	255	8,000	40.00	0.35	0.86
Devon Energy	DVN	48.26	163	7,900	65.00	0.42	0.85
Burlington Resources	BR B	47.50	201	9,500	60.00	0.26	0.84
Pioneer Natural Resources Company	PXD	26.22	119	3,120	35.00	0.33	0.83
Canadian Natural Resources Limited	CNQ	40.75	139	5,660	55.00	0.29	0.82
Anadarko Petroleum Corp.	APC B	43.05	251	10,800	60.00	0.31	0.81
<i>Total or Median</i>				<i>96,000</i>		<i>0.28</i>	<i>0.87</i>
Service							
Baker Hughes Inc.	BHI	28.88	339	9,800	25.00	0.09	1.14
Halliburton Company	HAL	24.35	434	10,600	22.00	0.25	1.08
Schlumberger Ltd.	SLB	46.70	581	27,100	44.00	0.22	1.05

Buy/Sell rating after symbol: B - Buy, S - Sell

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

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Table 1-2
Energy Producers
Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	Symbol/ Rating	Price (\$/sh) 5-Nov 2003	EV/ Sales NTM	EV/ Ebitda NTM	P/E NTM	Dividend or Distribution NTM (%)	PV/ Ebitda NTM
Mega Cap							
Exxon Mobil Corporation	XOM	36.03	1.1	7.7	15	2.8	7.5
BP plc	BP	42.58	0.8	7.2	16	3.7	8.2
Total S.A.	TOT	77.12	1.1	6.8	13	4.6	7.3
Royal Dutch/Shell	RD B	44.31	1.0	6.6	16	4.6	7.9
ChevronTexaco Corporation	CVX B	73.65	0.8	5.8	11	4.0	7.1
	<i>Median</i>		<i>1.0</i>	<i>6.8</i>	<i>15</i>	<i>4.0</i>	<i>7.5</i>
Producer/Refiners - Large Cap and Mid Cap							
Murphy Oil Corporation	MUR	57.52	1.7	10.5	38	1.4	8.1
Suncor Energy	SU	21.18	2.9	8.1	16	0.7	9.3
Imperial Oil Limited (30%)	IMO	39.49	1.2	8.0	15	1.4	7.4
OAOLukoil	LUKOY	87.55	1.0	6.6	14	2.9	6.8
ConocoPhillips	COP B	57.56	0.6	6.2	9	3.0	6.9
Marathon Oil Corporation	MRO B	29.38	0.4	5.3	11	3.4	6.4
Valero Energy Corporation	VLO	43.14	0.3	5.1	6	0.9	5.5
Petro-Canada	PCZ	40.60	1.4	4.5	11	0.7	4.9
ENI S.p.A.	E	79.05	1.7	4.2	9	5.4	4.7
PetroChina Company Ltd (10%)	PTR B	36.71	2.3	4.2	8	5.6	5.4
Petroleo Brasileiro S. A.	PBR	23.54	1.5	3.9	5	3.6	4.6
Norsk Hydro ASA (49%)	NHY	55.47	0.9	3.8	10	2.7	4.0
	<i>Median</i>		<i>1.3</i>	<i>5.2</i>	<i>11</i>	<i>2.8</i>	<i>5.9</i>
Independent Natural Gas and Oil							
Pioneer Natural Resources Company	PXD	26.22	5.3	7.1	24	-	8.6
Occidental Petroleum Corp.	OXY	35.60	2.6	6.8	12	2.9	6.7
CNOOC Limited (19%)	CEO B	40.15	5.2	6.7	14	4.0	6.7
Apache Corporation	APA	69.30	4.6	6.4	15	0.5	6.5
XTO Energy Inc.	XTO B	23.42	4.4	6.1	11	0.2	6.2
Pogo Producing Company	PPP	42.50	3.7	5.7	16	0.3	5.2
Unocal Corporation	UCL	31.20	2.1	5.5	15	2.6	6.4
Burlington Resources	BR B	47.50	3.6	5.4	13	1.3	6.4
Encana Corporation	ECA B	33.60	2.4	5.1	14	0.9	5.8
Anadarko Petroleum Corp.	APC B	43.05	3.5	5.0	9	1.3	6.2
Devon Energy	DVN	48.26	3.0	4.5	7	-	5.3
Canadian Natural Resources Limited	CNQ	40.75	2.3	3.7	7	1.0	4.5
	<i>Median</i>		<i>3.6</i>	<i>5.6</i>	<i>13</i>	<i>1.0</i>	<i>6.3</i>
Service							
Baker Hughes Inc.	BHI	28.88	2.0	12.3	34	1.6	10.8
Halliburton Company	HAL	24.35	1.2	9.8	22	2.1	9.0
Schlumberger Ltd.	SLB	46.70	2.5	9.3	34	1.6	8.9

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2004; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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Table 2-1
Energy Pipeline and Power Companies
Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 5-Nov 2003</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>
Large Cap Power							
Southern Company	SO	29.72	696	20,700	28.00	0.43	1.04
Duke Energy Corporation	DUK	17.70	832	14,700	16.00	0.69	1.03
Exelon Corporation	EXC	63.79	325	20,700	65.00	0.51	0.99
American Electric Power Co. Inc.	AEP	27.88	348	9,700	35.00	0.60	0.92
Enel S.p.a. (32%)	EN	30.50	388	11,800	37.00	0.40	0.89
Dominion Resources	D	61.41	294	18,000	76.00	0.44	0.89
	<i>Total or Median</i>			<i>95,600</i>		<i>0.47</i>	<i>0.95</i>
Mid Cap Pipeline and Power							
Kinder Morgan Energy Partners, L.P.	KMP S	43.30	140	6,070	14.00	0.46	2.13
Kinder Morgan Management, LLC	KMR S	38.37	48	1,830	14.00	0.46	1.94
Kinder Morgan, Inc.	KMI S	52.35	124	6,510	14.00	0.80	1.55
Williams Companies	WMB	10.23	518	5,300	1.00	0.97	1.29
Constellation Energy Group	CEG	36.85	164	6,040	25.00	0.61	1.18
AES Corporation	AES	8.88	558	4,960	1.00	0.98	1.15
Calpine Corporation	CPN	5.11	381	1,950	1.00	0.98	1.10
Dynegy Inc.	DYN	4.03	418	1,680	1.00	0.97	1.09
CMS Energy Corporation	CMS	8.17	139	1,140	5.00	0.93	1.05
Sempra Energy	SRE	27.54	206	5,670	30.00	0.59	0.97
El Paso Corporation	EP	7.33	589	4,300	10.00	0.79	0.94
	<i>Total or Median</i>			<i>45,450</i>		<i>0.80</i>	<i>1.15</i>
Small Cap Pipeline							
Enterprise Products Part (44%)	EPD	21.30	96	2,040	8.50	0.49	1.77
Enbridge Energy Partners, L.P.	EEP S	50.20	39	1,960	19.00	0.57	1.71
Gulfterra Energy Partners	GTM S	38.75	66	2,550	17.30	0.48	1.64
Enbridge Energy Management, L.L.C	EEQ S	46.50	10	460	19.00	0.57	1.62
Plains All Amer. Pipeline, L.P.	PAA	30.23	50	1,510	15.00	0.44	1.57
TEPPCO Partners, L.P.	TPP	38.00	58	2,200	18.00	0.52	1.53
Magellan Midstream Partners, L.P.	MMP	49.10	27	1,340	29.00	0.38	1.43
Northern Border Partners	NBP	39.92	47	1,860	20.00	0.62	1.38
AmeriGas Partners, L.P.	APU	27.30	52	1,430	20.00	0.46	1.20
Western Gas Resources	WGR	41.85	37	1,550	40.00	0.27	1.03
	<i>Total or Median</i>			<i>16,900</i>		<i>0.48</i>	<i>1.55</i>

Buy/Sell rating after symbol: B - Buy, S - Sell

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Table 3-1
Independent Natural Gas and Oil Producers - Small Cap
Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 5-Nov 2003</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>	
Short Life								
Dorchester Minerals, L.P.	DMLP	17.73	27.0	480	13.00	-	1.36	
Southwestern Energy Company	SWN	19.44	36.0	700	17.00	0.30	1.10	
Newfield Exploration Company	NFX	40.62	51.7	2,100	40.00	0.31	1.01	
Energy Partners Ltd.	EPL	B	12.02	38.2	459	12.00	0.22	1.00
Spinnaker Exploration Company	SKE	24.80	33.8	840	25.00	-	0.99	
Chesapeake Energy Corporation	CHK	11.97	220	2,630	14.00	0.38	0.91	
Westport Resources Corporation	WRC	23.70	68.0	1,610	30.00	0.29	0.85	
Denbury Resources Inc.	DNR	11.71	55.0	640	15.00	0.29	0.84	
Stone Energy Company	SGY	35.69	26.5	950	46.00	0.27	0.84	
The Houston Exploraton Company	THX	35.74	31.0	1,110	45.00	0.16	0.83	
Forest Oil Corporation	FST	24.25	48.2	1,170	35.00	0.33	0.79	
Cimarex Energy Company	XEC	B	21.00	42.0	880	27.00	0.00	0.78
St. Mary Land and Exploration Company	SM	25.80	29.0	750	35.00	0.11	0.77	
<i>Total or Median</i>				<i>14,300</i>		<i>0.27</i>	<i>0.85</i>	
Long Life								
Ultra Petroleum Corp.	UPL	19.05	78.0	1,490	7.00	0.15	2.47	
Unit Corporation	UNT	19.50	43.6	850	18.00	0.04	1.08	
Quicksilver Resources Inc.	KWK	25.65	20.4	520	25.00	0.35	1.02	
Penn Virginia Corporation	PVA	45.17	9.0	410	45.00	0.06	1.00	
Encore Acquisition Corp. (40%)	EAC	B	23.30	11.2	261	24.00	0.18	0.98
Evergreen Resources, Inc.	EVG	27.66	44.0	1,220	30.00	0.10	0.93	
Swift Energy Company	SFY	13.95	27.2	380	16.00	0.43	0.93	
Magnum Hunter Resources, Inc.	MHR	8.51	69.0	590	11.00	0.45	0.88	
Vintage Petroleum, Inc.	VPI	11.68	63.0	740	20.00	0.40	0.75	
<i>Total or Median</i>				<i>6,500</i>		<i>0.18</i>	<i>0.98</i>	
Canadian Royalty Trusts								
Enerplus Resources Fund	ERF	27.77	83.7	2,320	20.00	0.16	1.33	
Provident Energy Trust	PVX	8.54	68.8	590	6.00	0.25	1.32	
Pengrowth Energy Trust	PGH	13.55	112.0	1,520	11.00	0.20	1.19	
Canadian Oil Sands Trust (US\$)	COSWF	B	28.99	86.3	2,500	45.00	0.22	0.72
<i>Total or Median</i>				<i>6,900</i>		<i>0.21</i>	<i>1.25</i>	
Natural Gas Royalty Trusts								
Hugoton Royalty Trust (46%)	HGT	20.16	18.4	370	15.20	-	1.33	
Cross Timbers Royalty Trust	CRT	24.96	6.0	150	20.20	-	1.24	
Sabine Royalty Trust	SBR	26.90	14.6	390	22.00	-	1.22	
Permian Basin RT (41%)	PBT	7.74	19.1	150	7.00	-	1.11	
San Juan Basin Royalty Trust	SJT	B	18.44	46.6	860	17.60	-	1.05
<i>Total or Median</i>				<i>1,900</i>		<i>-</i>	<i>1.22</i>	
Micro Cap								
Abraxas Petroleum Corporation	ABP	1.00	30.0	30	1.00	0.85	1.00	
Purcell Energy, Ltd. (US\$)	PEL.TO	1.96	27.9	55	2.80	0.32	0.80	

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Table 3-2
Independent Natural Gas and Oil Producers - Small Cap
Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	Symbol/ Rating	Price (\$/sh) 5-Nov 2003	EV/ Sales NTM	EV/ Ebitda NTM	P/E NTM	Dividend or Distribution NTM (%)	PV/ Ebitda NTM	
Short Life								
Dorchester Minerals, L.P.	DMLP	17.73	11.6	13.4	48	7.5	9.8	
Southwestern Energy Company	SWN	19.44	3.2	6.6	14	-	6.0	
Chesapeake Energy Corporation	CHK	11.97	4.1	5.9	14	1.0	6.5	
Forest Oil Corporation	FST	24.25	3.5	5.7	19	-	7.2	
Westport Resources Corporation	WRC	23.70	3.6	5.1	15	-	6.0	
Energy Partners Ltd.	EPL	B	12.02	2.9	4.9	44	-	4.9
St. Mary Land and Exploration Company	SM	25.80	2.8	4.4	12	0.4	5.7	
Denbury Resources Inc.	DNR	11.71	2.9	4.0	8	-	4.8	
Cimarex Energy Company	XEC	B	21.00	3.0	3.9	11	-	5.1
Newfield Exploration Company	NFX	40.62	2.9	3.8	8	-	3.8	
Stone Energy Company	SGY	35.69	2.8	3.8	8	-	4.5	
Spinnaker Exploration Company	SKE	24.80	3.3	3.7	13	-	3.7	
The Houston Exploraton Company	THX	35.74	2.9	3.5	9	-	4.3	
	<i>Median</i>		3.0	4.4	13	-	5.1	
Long Life								
Ultra Petroleum Corp.	UPL	19.05	16.3	26.2	52	-	10.6	
Evergreen Resources, Inc.	EVG	27.66	7.0	10.0	17	-	10.8	
Unit Corporation	UNT	19.50	3.6	8.2	21	-	7.6	
Quicksilver Resources Inc.	KWK	25.65	4.8	7.1	13	-	7.0	
Swift Energy Company	SFY	13.95	4.2	6.4	21	-	6.9	
Magnum Hunter Resources, Inc.	MHR	8.51	3.4	5.8	15	-	6.6	
Penn Virginia Corporation	PVA	45.17	3.1	5.6	14	2.0	5.6	
Encore Acquisition Corp. (40%)	EAC	B	23.30	3.6	5.1	10	-	5.2
Vintage Petroleum, Inc.	VPI	11.68	2.4	4.4	28	1.4	5.9	
	<i>Median</i>		3.6	6.4	17	-	6.9	
Canadian Royalty Trusts								
Enerplus Resources Fund	ERF	27.77	7.2	9.6	15	11.5	7.3	
Canadian Oil Sands Trust (US\$)	COSWF	B	28.99	4.0	7.8	8	5.2	10.9
Pengrowth Energy Trust	PGH	13.55	4.8	7.0	13	13.2	5.9	
Provident Energy Trust	PVX	8.54	4.3	6.2	13	15.2	4.7	
Natural Gas Royalty Trusts								
Cross Timbers Royalty Trust	CRT	24.96	8.2	11.8	12	8.3	9.6	
Hugoton RoyaltyTrust (46%)	HGT	20.16	7.4	10.2	12	8.5	7.7	
Sabine Royalty Trust	SBR	26.90	9.6	10.1	10	9.9	8.3	
Permian Basin RT (41%)	PBT	7.74	5.7	8.9	12	9.7	8.0	
San Juan Basin Royalty Trust	SJT	B	18.44	6.8	8.4	11	9.5	8.0
Micro Cap								
Abraxas Petroleum Corporation	ABP	1.00	6.8	12.6		-	12.6	
Purcell Energy, Ltd. (US\$)	PEL.TO	1.96	3.6	5.4	17	-	6.7	

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2004; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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