

## ***Meter Reader***

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

December 30, 2003

# **Sharper Contrast**

## **Summary and Recommendation**

Streamlining our coverage we are dropping the Energy Pipeline and Power Companies as a group at least for now. That implies a discontinuation of sell recommendations **Gulfterra (GTM)** that is being acquired and **Enbridge (EEP, EEQ)**. We sharpen the contrast in the valuation of **Kinder Morgan (KMI, KMP, KMR)** as we reclassify the general partner as a producer/refiner and transfer the income partnership to our companion publication, *McDep Energy Income Producers – A Weekly Analysis of Royalty Trusts and Master Limited Partnerships*. The new owner of the Yates oil field, Kinder Morgan, increasingly looks more like a traditional oil company with production, storage and transportation. The valuation disparity suggests that our buy recommendations **Marathon (MRO)** and **ConocoPhillips (COP)** could be valued more highly than we might normally expect particularly in an environment of international monetary realignment.

## **A New Valuation Lineup**

The ranking of producer/refiners now shows a wider range between the highest McDep Ratio stock, KMI, and the lowest, MRO (see Table 1-1). The difference in magnitude of unlevered valuation is almost two to one. Coincidentally, MRO was the seller of the oil field to KMI's partnership.

Similarly buy recommended COP has more potential by the KMI comparison. Even buy recommended **PetroChina (PTR)** could go further. Presumably, though, investors overweighted in PTR are scaling back as the stock has made strong gains.

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) 29-Dec 2003	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio	
<b>Mega Cap</b>								
Exxon Mobil Corporation	XOM	40.58	6,652	270,000	35.00	0.10	1.14	
Total S.A.	TOT	90.68	1,261	114,300	85.00	0.19	1.05	
BP plc	BP	48.97	3,682	180,000	50.00	0.15	0.98	
Royal Dutch/Shell	RD	B	51.78	3,473	180,000	55.00	0.18	0.95
ChevronTexaco Corporation	CVX	B	85.44	1,064	90,900	95.00	0.20	0.92
<i>Total or Median</i>				835,000		0.18	0.98	
<b>Producer/Refiners - Large Cap and Mid Cap</b>								
Kinder Morgan, Inc.	KMI	S	59.02	124	7,340	14.00	0.80	1.64
Murphy Oil Corporation	MUR		68.26	93	6,330	50.00	0.24	1.28
Imperial Oil Limited (30%)	IMO		44.32	111	4,920	36.00	0.14	1.20
Petro-Canada	PCZ		49.09	265	13,010	45.00	0.14	1.08
PetroChina Company Ltd (10%)	PTR	B	54.10	176	9,510	50.00	0.11	1.07
ENI S.p.A.	E		94.80	755	71,600	90.00	0.18	1.04
OAo Lukoil	LUKOY		91.74	210	19,000	90.00	0.11	1.02
Suncor Energy	SU		24.80	475	11,780	25.00	0.15	0.99
Petroleo Brasileiro S. A.	PBR		29.27	1,096	32,100	30.00	0.35	0.98
Valero Energy Corporation	VLO		46.57	120	5,580	50.00	0.45	0.96
ConocoPhillips	COP	B	64.86	680	44,100	70.00	0.38	0.95
Norsk Hydro ASA (49%)	NHY		60.79	126	7,660	65.00	0.24	0.95
Marathon Oil Corporation	MRO	B	33.20	310	10,290	40.00	0.31	0.88
<i>Total or Median</i>				243,000		0.24	1.02	
<b>Independent Natural Gas and Oil</b>								
Pogo Producing Company	PPP		49.64	64	3,180	42.00	0.12	1.16
XTO Energy Inc.	XTO	B	29.15	186	5,430	26.00	0.24	1.09
Apache Corporation	APA		82.60	162	13,400	75.00	0.23	1.08
CNOOC Limited (19%)	CEO	B	42.55	78	3,320	40.00	-	1.06
Occidental Petroleum Corp.	OXY		42.63	391	16,700	40.00	0.31	1.05
Pioneer Natural Resources Company	PXD		32.75	119	3,900	35.00	0.31	0.96
Canadian Natural Resources Limited	CNQ		50.52	137	6,920	55.00	0.40	0.95
Unocal Corporation	UCL		36.86	273	10,100	40.00	0.33	0.95
Burlington Resources	BR	B	56.90	201	11,400	65.00	0.25	0.90
Encana Corporation	ECA	B	39.42	470	18,500	45.00	0.22	0.90
Anadarko Petroleum Corp.	APC	B	51.29	251	12,900	60.00	0.31	0.90
Devon Energy	DVN		57.70	241	13,900	70.00	0.36	0.89
<i>Total or Median</i>				120,000		0.28	0.95	
<b>Service</b>								
Baker Hughes Inc.	BHI		32.49	336	10,900	25.00	0.08	1.27
Halliburton Company	HAL		26.17	435	11,400	22.00	0.33	1.13
Schlumberger Ltd.	SLB		55.67	585	32,600	50.00	0.19	1.09
<i>Total or Median</i>				55,000		0.19	1.13	

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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December 30, 2003

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

	Symbol/ Rating	Price (\$/sh) 29-Dec 2003	EV/ Sales NTM	EV/ Ebitda NTM	P/E NTM	Dividend or Distribution NTM (%)	PV/ Ebitda NTM
<b>Mega Cap</b>							
Total S.A.	TOT	90.68	1.2	8.6	18	3.9	8.2
Exxon Mobil Corporation	XOM	40.58	1.2	8.5	17	2.5	7.5
BP plc	BP	48.97	0.9	8.0	18	3.2	8.2
Royal Dutch/Shell	RD B	51.78	1.1	7.5	19	3.9	7.9
ChevronTexaco Corporation	CVX B	85.44	0.9	6.5	13	3.4	7.1
	<i>Median</i>		<i>1.1</i>	<i>8.0</i>	<i>18</i>	<i>3.4</i>	<i>7.9</i>
<b>Producer/Refiners - Large Cap and Mid Cap</b>							
Kinder Morgan, Inc.	KMI S	59.02	3.0	12.7	18	2.7	7.7
Murphy Oil Corporation	MUR	68.26	1.8	9.5	28	1.2	7.5
Imperial Oil Limited (30%)	IMO	44.32	1.4	9.3	20	1.5	7.8
Suncor Energy	SU	24.80	2.9	8.6	17	0.6	8.6
Valero Energy Corporation	VLO	46.57	0.3	7.6	13	1.0	7.9
ConocoPhillips	COP B	64.86	0.7	6.8	11	2.7	7.1
OAOLukoil	LUKOY	91.74	1.1	6.8	14	2.8	6.6
ENI S.p.A.	E	94.80	1.6	6.2	13	4.6	5.9
Marathon Oil Corporation	MRO B	33.20	0.4	5.9	14	3.0	6.7
PetroChina Company Ltd (10%)	PTR B	54.10	3.2	5.7	12	3.8	5.3
Petro-Canada	PCZ	49.09	1.7	5.5	19	0.6	5.1
Norsk Hydro ASA (49%)	NHY	60.79	0.9	5.0	15	2.4	5.3
Petroleo Brasileiro S. A.	PBR	29.27	1.7	4.6	6	3.5	4.7
	<i>Median</i>		<i>1.6</i>	<i>6.8</i>	<i>14</i>	<i>2.7</i>	<i>6.7</i>
<b>Independent Natural Gas and Oil</b>							
XTO Energy Inc.	XTO B	29.15	5.2	7.1	14	0.1	6.5
CNOOC Limited (19%)	CEO B	42.55	5.5	7.1	14	3.7	6.6
Burlington Resources	BR B	56.90	4.2	6.1	16	1.1	6.8
Pioneer Natural Resources Company	PXD	32.75	4.5	6.0	18	-	6.2
Occidental Petroleum Corp.	OXY	42.63	2.6	5.9	11	2.4	5.6
Unocal Corporation	UCL	36.86	2.6	5.9	15	2.2	6.2
Apache Corporation	APA	82.60	4.0	5.9	13	0.6	5.4
Encana Corporation	ECA B	39.42	2.7	5.8	17	0.8	6.4
Anadarko Petroleum Corp.	APC B	51.29	4.0	5.7	11	1.1	6.3
Canadian Natural Resources Limited	CNQ	50.52	3.6	5.2	15	0.9	5.5
Pogo Producing Company	PPP	49.64	3.3	4.9	13	0.4	4.2
Devon Energy	DVN	57.70	3.1	4.9	9	-	5.5
	<i>Median</i>		<i>3.8</i>	<i>5.9</i>	<i>14</i>	<i>0.8</i>	<i>6.2</i>
<b>Service</b>							
Baker Hughes Inc.	BHI	32.49	2.2	11.8	30	1.4	9.3
Halliburton Company	HAL	26.17	1.0	11.6	24	1.9	10.3
Schlumberger Ltd.	SLB	55.67	2.8	10.1	34	1.3	9.2
	<i>Median</i>		<i>2.2</i>	<i>11.6</i>	<i>30</i>	<i>1.4</i>	<i>9.3</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2004; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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**Table 2-1**  
**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) 29-Dec 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>	
<b>Short Life</b>								
Southwestern Energy Company	SWN	24.75	36.0	890	17.00	0.33	1.31	
Spinnaker Exploration Company	SKE	33.31	33.9	1,130	25.00	0.09	1.30	
Energy Partners Ltd.	EPL	B	13.90	38.6	536	12.00	0.22	1.12
Newfield Exploration Company	NFX	45.20	51.7	2,340	40.00	0.31	1.09	
Cimarex Energy Company	XEC	B	28.14	42.0	1,180	27.00	0.00	1.04
Westport Resources Corporation	WRC	30.35	68.0	2,060	30.00	0.28	1.01	
Chesapeake Energy Corporation	CHK	13.95	220	3,070	14.00	0.41	1.00	
Western Gas Resources	WGR	47.50	37.0	1,760	50.00	0.17	0.96	
Stone Energy Company	SGY	42.65	26.5	1,130	46.00	0.27	0.95	
Denbury Resources Inc.	DNR	13.78	55.7	770	15.00	0.31	0.94	
Forest Oil Corporation	FST	29.35	48.2	1,420	35.00	0.33	0.89	
Range Resources Corporation	RRC	9.52	57.0	540	12.00	0.37	0.87	
The Houston Exploraton Company	THX	37.50	31.0	1,160	45.00	0.16	0.86	
St. Mary Land and Exploration Company	SM	29.05	29.0	840	35.00	0.14	0.85	
	<i>Total or Median</i>			<i>18,800</i>		<i>0.27</i>	<i>0.98</i>	
<b>Long Life</b>								
Ultra Petroleum Corp.	UPL	25.45	78.0	1,990	13.00	0.10	1.86	
Unit Corporation	UNT	24.35	43.7	1,060	18.00	0.02	1.34	
Penn Virginia Corporation	PVA	57.00	9.1	520	45.00	0.21	1.21	
Quicksilver Resources Inc.	KWK	32.82	23.0	760	25.00	0.33	1.21	
Evergreen Resources, Inc.	EVG	33.31	44.0	1,470	30.00	0.16	1.09	
Swift Energy Company	SFY	17.96	27.4	490	16.00	0.45	1.07	
Encore Acquisition Corp.	EAC	B	24.98	30.3	758	24.00	0.17	1.03
Berry Petroleum Company	BRY	20.66	22.1	457	20.00	0.13	1.03	
Magnum Hunter Resources, Inc.	MHR	9.84	69.0	680	11.00	0.45	0.94	
Vintage Petroleum, Inc.	VPI	12.82	63.0	810	20.00	0.39	0.78	
	<i>Total or Median</i>			<i>9,000</i>		<i>0.19</i>	<i>1.08</i>	
<b>Micro Cap</b>								
Abraxas Petroleum Corporation	ABP	1.27	35.8	45	1.00	0.84	1.04	
Purcell Energy, Ltd. (US\$)	PEL.TO	1.89	48.0	91	2.80	0.28	0.77	

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

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**Table 2-2**  
**Independent Natural Gas and Oil Producers - Small Cap**  
**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>Distribution</i>	<i>PV/</i>
	<i>Symbol/</i>		<i>29-Dec</i>	<i>Sales</i>	<i>Ebitda</i>	<i>P/E</i>	<i>NTM</i>	<i>Ebitda</i>
	<i>Rating</i>		<i>2003</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>(%)</i>	<i>NTM</i>
<b>Short Life</b>								
Western Gas Resources	WGR		47.50	0.8	9.3	20	-	9.7
Southwestern Energy Company	SWN		24.75	3.7	6.7	13	-	5.1
Forest Oil Corporation	FST		29.35	3.7	5.7	15	-	6.4
Spinnaker Exploration Company	SKE		33.31	5.0	5.7	17	-	4.4
Energy Partners Ltd.	EPL	B	13.90	3.0	4.9	24	-	4.4
Chesapeake Energy Corporation	CHK		13.95	3.6	4.7	9	0.9	4.7
Cimarex Energy Company	XEC	B	28.14	3.6	4.6	12	-	4.4
Denbury Resources Inc.	DNR		13.78	3.1	4.6	8	-	4.9
Westport Resources Corporation	WRC		30.35	3.3	4.3	12	-	4.3
St. Mary Land and Exploration Company	SM		29.05	2.7	4.2	12	0.3	4.9
Range Resources Corporation	RRC		9.52	3.2	4.1	8	0.4	4.7
Stone Energy Company	SGY		42.65	3.0	4.0	8	-	4.2
Newfield Exploration Company	NFX		45.20	3.0	3.8	8	-	3.5
The Houston Exploraton Company	THX		37.50	2.9	3.5	8	-	4.0
	<i>Median</i>			<i>3.2</i>	<i>4.6</i>	<i>12</i>	<i>-</i>	<i>4.6</i>
<b>Long Life</b>								
Ultra Petroleum Corp.	UPL		25.45	14.1	18.5	32	-	9.9
Berry Petroleum Company	BRY		20.66	3.9	9.0	20	2.1	8.7
Quicksilver Resources Inc.	KWK		32.82	5.8	8.9	17	-	7.4
Unit Corporation	UNT		24.35	3.3	7.7	18	-	5.7
Evergreen Resources, Inc.	EVG		33.31	5.6	7.6	13	-	7.0
Penn Virginia Corporation	PVA		57.00	3.6	6.6	15	1.6	5.4
Swift Energy Company	SFY		17.96	4.1	6.3	18	-	5.9
Magnum Hunter Resources, Inc.	MHR		9.84	3.4	5.8	13	-	6.1
Encore Acquisition Corp.	EAC	B	24.98	3.8	5.4	11	-	5.2
Vintage Petroleum, Inc.	VPI		12.82	2.4	4.2	11	1.4	5.4
	<i>Median</i>			<i>3.9</i>	<i>7.1</i>	<i>16</i>	<i>-</i>	<i>6.0</i>
<b>Micro Cap</b>								
Abraxas Petroleum Corporation	ABP		1.27	7.6	12.6		-	12.1
Purcell Energy, Ltd. (US\$)	PEL.TO		1.89	3.7	5.2	11	-	6.8

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2004; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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