

## Meter Reader

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

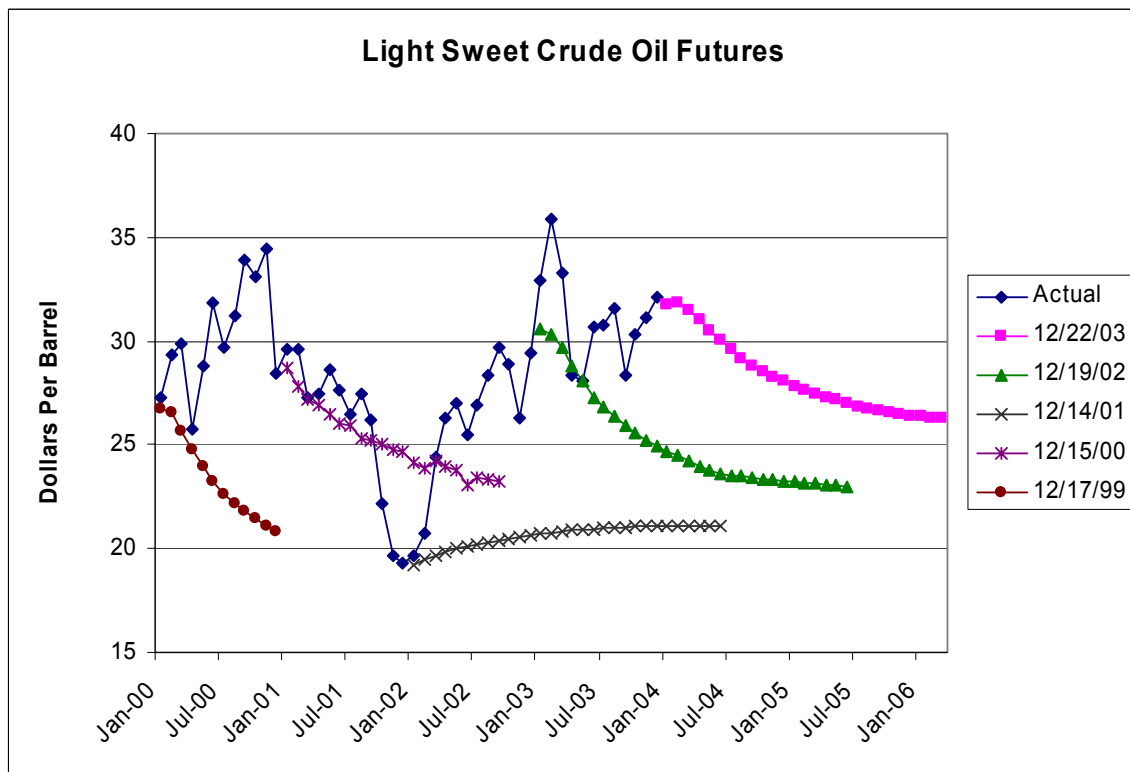
January 27, 2004

# Flawed Forecasts

## Summary and Recommendation

Futures prices for crude oil have understated actual prices for most of the current decade much as forecasters typically overestimated oil prices during the 1980s. Recent futures curves often look like “hockey sticks” upside down (see chart). The sports analogy popular in the post mortem characterization of 1980s forecasts pictured the long handle pointing up. Not pretending to know the near-term price outlook, we continue to use one-year futures in our projections of next twelve months cash flow. Believing that the long-term price outlook is stronger, we broke the link between six-year futures and present value, the denominator of the McDep Ratio, when we adopted our current standard that relates essentially to six-year futures for January 5, 2004 plus 20%. Long-term better than expected oil price implies the same for natural gas and favorable investment performance for buy recommendations including **XTO Energy (XTO)**, **CNOOC Limited (CEO)** and **Cimarex (XEC)**.

Kurt H. Wulff, CFA



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

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

	Symbol/ Rating	Price (\$/sh) 26-Jan 2004	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
<b>Mega Cap</b>							
Exxon Mobil Corporation	XOM	41.55	6,652	276,000	43.00	0.08	0.97
Total S.A.	TOT	91.39	1,261	115,200	105.00	0.17	0.89
Royal Dutch/Shell	RD B	48.10	3,473	167,000	60.00	0.17	0.83
BP plc	BP	48.60	3,682	179,000	60.00	0.13	0.83
ChevronTexaco Corporation	CVX B	87.60	1,064	93,200	115.00	0.17	0.80
<i>Total or Median</i>				830,000		0.17	0.83
<b>Producer/Refiners - Large Cap and Mid Cap</b>							
Kinder Morgan, Inc.	KMI S	61.96	124	7,710	14.00	0.80	1.69
Imperial Oil Limited (30%)	IMO	47.12	111	5,230	43.00	0.12	1.08
Murphy Oil Corporation	MUR	63.45	93	5,890	62.00	0.20	1.02
Valero Energy Corporation	VLO	53.45	120	6,410	55.00	0.42	0.98
Petro-Canada	PCZ	52.01	265	13,780	54.00	0.12	0.97
Suncor Energy	SU	26.50	475	12,590	30.00	0.12	0.90
ENI S.p.A.	E	94.75	755	71,600	108.00	0.16	0.90
Petroleo Brasileiro S. A.	PBR	33.05	1,096	36,200	40.00	0.28	0.88
ConocoPhillips	COP B	67.92	680	46,200	88.00	0.33	0.85
Marathon Oil Corporation	MRO B	34.56	310	10,710	47.00	0.27	0.81
PetroChina Company Ltd (10%)	PTR B	49.96	176	8,780	65.00	0.09	0.79
Lukoil Oil Company	LUKOY B	104.30	211	22,000	140.00	0.07	0.76
Norsk Hydro ASA	NHY B	65.06	257	16,720	95.00	0.19	0.75
<i>Total or Median</i>				264,000		0.19	0.90
<b>Independent Natural Gas and Oil</b>							
Pogo Producing Company	PPP	47.53	64	3,040	50.00	0.10	0.96
Occidental Petroleum Corp.	OXY	44.88	391	17,600	50.00	0.26	0.92
Apache Corporation	APA	42.19	324	13,700	47.00	0.19	0.92
CNOOC Limited (19%)	CEO B	42.15	78	3,290	48.00	-	0.88
XTO Energy Inc.	XTO B	27.60	186	5,140	33.00	0.19	0.87
Canadian Natural Resources Limited	CNQ	53.45	137	7,320	72.00	0.34	0.83
Unocal Corporation	UCL	38.67	273	10,600	52.00	0.28	0.82
Pioneer Natural Resources Company	PXD	33.84	119	4,030	45.00	0.26	0.82
Encana Corporation	ECA B	42.31	470	19,900	56.00	0.19	0.80
Burlington Resources	BR B	58.76	198	11,600	80.00	0.21	0.79
Anadarko Petroleum Corp.	APC B	52.39	251	13,100	76.00	0.26	0.77
Devon Energy	DVN	59.36	241	14,300	90.00	0.30	0.76
<i>Total or Median</i>				124,000		0.23	0.82
<b>Service</b>							
Baker Hughes Inc.	BHI	35.91	336	12,100	30.00	0.07	1.19
Halliburton Company	HAL	29.28	435	12,700	28.00	0.28	1.03
Schlumberger Ltd.	SLB	61.06	585	35,700	60.00	0.17	1.01
<i>Total or Median</i>				61,000		0.17	1.03

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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January 27, 2004

Table 1-2

#### Energy Producers

#### Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	Symbol/ Rating	Price (\$/sh) 26-Jan 2004	EV/ Sales NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)	PV/ Ebitda NTM
<b>Mega Cap</b>							
Exxon Mobil Corporation	XOM	41.55	1.2	8.2	16	2.4	8.4
Total S.A.	TOT	91.39	1.2	7.2	14	3.8	8.1
BP plc	BP	48.60	0.9	6.7	14	3.2	8.1
Royal Dutch/Shell	RD B	48.10	1.0	6.2	13	4.6	7.4
ChevronTexaco Corporation	CVX B	87.60	0.9	5.8	11	3.3	7.3
	<i>Median</i>		<i>1.0</i>	<i>6.7</i>	<i>14</i>	<i>3.3</i>	<i>8.1</i>
<b>Producer/Refiners - Large Cap and Mid Cap</b>							
Kinder Morgan, Inc.	KMI S	61.96	3.1	13.1	19	2.6	7.7
Imperial Oil Limited (30%)	IMO	47.12	1.4	8.1	16	1.4	7.4
Murphy Oil Corporation	MUR	63.45	1.6	7.6	19	1.3	7.5
Suncor Energy	SU	26.50	2.8	7.6	14	0.6	8.4
Valero Energy Corporation	VLO	53.45	0.3	6.7	10	0.9	6.9
ConocoPhillips	COP B	67.92	0.7	5.8	9	2.5	6.9
ENI S.p.A.	E	94.75	1.6	5.7	11	4.6	6.3
Marathon Oil Corporation	MRO B	34.56	0.4	5.6	12	2.9	6.9
Petro-Canada	PCZ	52.01	1.7	5.1	15	0.6	5.3
PetroChina Company Ltd (10%)	PTR B	49.96	2.6	4.7	9	4.1	5.9
Norsk Hydro ASA	NHY B	65.06	0.8	4.3	11	2.4	5.7
Petroleo Brasileiro S. A.	PBR	33.05	1.7	4.3	5	3.1	4.9
Lukoil Oil Company	LUKOY B	104.30	1.0	4.1	6	2.5	5.4
	<i>Median</i>		<i>1.6</i>	<i>5.7</i>	<i>11</i>	<i>2.5</i>	<i>6.9</i>
<b>Independent Natural Gas and Oil</b>							
CNOOC Limited (19%)	CEO B	42.15	4.9	6.2	12	3.8	7.0
XTO Energy Inc.	XTO B	27.60	4.2	5.5	10	0.1	6.4
Pioneer Natural Resources Company	PXD	33.84	3.9	5.5	14	-	6.7
Occidental Petroleum Corp.	OXY	44.88	2.5	5.3	9	2.3	5.8
Encana Corporation	ECA B	42.31	2.6	5.2	13	0.7	6.6
Unocal Corporation	UCL	38.67	2.5	5.2	11	2.1	6.3
Anadarko Petroleum Corp.	APC B	52.39	3.7	5.2	9	1.1	6.7
Apache Corporation	APA	42.19	3.6	5.1	10	0.6	5.5
Burlington Resources	BR B	58.76	3.5	4.8	11	1.0	6.1
Canadian Natural Resources Limited	CNQ	53.45	3.3	4.6	10	0.9	5.6
Devon Energy	DVN	59.36	2.8	4.2	7	-	5.4
Pogo Producing Company	PPP	47.53	2.8	4.0	9	0.4	4.2
	<i>Median</i>		<i>3.4</i>	<i>5.2</i>	<i>10</i>	<i>0.8</i>	<i>6.2</i>
<b>Service</b>							
Baker Hughes Inc.	BHI	35.91	2.4	13.0	33	1.3	11.0
Halliburton Company	HAL	29.28	1.1	12.5	26	1.7	12.1
Schlumberger Ltd.	SLB	61.06	3.0	10.8	37	1.2	10.7
	<i>Median</i>		<i>2.4</i>	<i>12.5</i>	<i>33</i>	<i>1.3</i>	<i>11.0</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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### A Weekly Analysis of Energy Stocks Using the McDep Ratio

January 27, 2004

**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) 26-Jan 2004</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>								
Spinnaker Exploration Company	SKE	35.80	33.9	1,210	28.00	0.08	1.26	
Southwestern Energy Company	SWN	23.66	36.0	850	21.00	0.28	1.09	
Energy Partners Ltd.	EPL	14.38	36.9	531	15.00	0.19	0.97	
Western Gas Resources	WGR	47.88	37.0	1,770	50.00	0.17	0.97	
Newfield Exploration Company	NFX	49.28	56.0	2,760	52.00	0.24	0.96	
Chesapeake Energy Corporation	CHK	13.25	220	2,920	18.00	0.35	0.83	
Stone Energy Company	SGY	44.58	26.6	1,190	58.00	0.23	0.82	
Range Resources Corporation	RRC	11.11	57.0	630	15.00	0.32	0.82	
Denbury Resources Inc.	DNR	14.70	55.7	820	20.00	0.25	0.80	
Westport Resources Corporation	WRC	31.10	68.0	2,120	42.00	0.22	0.80	
Cimarex Energy Company	XEC	B	27.38	42.0	1,150	35.00	0.00	0.78
The Houston Exploraton Company	THX		38.80	31.0	1,200	55.00	0.13	0.74
St. Mary Land and Exploration Company	SM		30.35	29.0	880	43.00	0.12	0.74
Forest Oil Corporation	FST		27.67	49.0	1,360	45.00	0.30	0.73
			<i>Total or Median</i>		<i>19,400</i>	<i>0.23</i>	<i>0.82</i>	
<b>Long Life</b>								
Ultra Petroleum Corp.	UPL	25.50	78.0	1,990	16.00	0.08	1.55	
Unit Corporation	UNT	26.30	43.7	1,150	22.00	0.02	1.19	
Penn Virginia Corporation	PVA	60.12	9.1	550	56.00	0.17	1.06	
Quicksilver Resources Inc.	KWK	36.00	23.0	830	37.00	0.25	0.98	
Berry Petroleum Company	BRY	20.34	22.1	450	22.00	0.12	0.93	
Swift Energy Company	SFY	18.89	27.4	520	22.00	0.37	0.91	
Evergreen Resources, Inc.	EVG	34.82	44.0	1,530	42.00	0.12	0.85	
Encore Acquisition Corp.	EAC	B	27.10	30.3	822	33.00	0.13	0.84
Magnum Hunter Resources, Inc.	MHR		9.46	68.0	640	15.00	0.38	0.77
Vintage Petroleum, Inc.	VPI		13.32	63.0	840	27.00	0.32	0.66
			<i>Total or Median</i>		<i>9,300</i>	<i>0.15</i>	<i>0.92</i>	
<b>Micro Cap</b>								
Abraxas Petroleum Corporation	ABP	1.76	35.8	63	1.00	0.84	1.12	
Purcell Energy, Ltd. (US\$)	PEL.TO	2.03	48.0	98	2.80	0.28	0.80	

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

McDep Ratio = **M**arket cap and **D**ebt to **P**resent value of oil and gas and other businesses

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#### Independent Natural Gas and Oil Producers - Small Cap

Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

		Price (\$/sh)	EV/ Sales	EV/ Ebitda	P/E	Divd or Distrib	PV/ Ebitda	
Symbol/ Rating		26-Jan 2004	NTM	NTM	NTM	NTM (%)	NTM	
<b>Short Life</b>								
Western Gas Resources	WGR	47.88	0.8	9.4	20	-	9.7	
Southwestern Energy Company	SWN	23.66	3.3	5.8	11	-	5.3	
Spinnaker Exploration Company	SKE	35.80	4.9	5.4	15	-	4.3	
Denbury Resources Inc.	DNR	14.70	3.0	4.4	7	-	5.4	
Chesapeake Energy Corporation	CHK	13.25	3.2	4.3	8	0.9	5.2	
Energy Partners Ltd.	EPL	14.38	2.7	4.3	15	-	4.4	
Stone Energy Company	SGY	44.58	3.1	4.2	9	-	5.1	
Newfield Exploration Company	NFX	49.28	2.9	4.0	9	-	4.2	
Cimarex Energy Company	XEC	B	27.38	3.1	4.0	9	-	5.2
Westport Resources Corporation	WRC	31.10	3.1	4.0	10	-	5.0	
Range Resources Corporation	RRC	11.11	3.2	4.0	7	0.4	4.9	
St. Mary Land and Exploration Company	SM	30.35	2.6	3.9	10	0.3	5.2	
Forest Oil Corporation	FST	27.67	2.8	3.8	6	-	5.2	
The Houston Exploraton Company	THX	38.80	2.4	2.9	6	-	3.9	
	<i>Median</i>		3.0	4.1	9	-	5.1	
<b>Long Life</b>								
Ultra Petroleum Corp.	UPL	25.50	12.8	16.7	29	-	10.8	
Quicksilver Resources Inc.	KWK	36.00	5.6	8.4	15	-	8.6	
Unit Corporation	UNT	26.30	3.5	7.7	18	-	6.4	
Berry Petroleum Company	BRY	20.34	3.6	7.5	15	2.2	8.0	
Evergreen Resources, Inc.	EVG	34.82	5.4	7.3	12	-	8.6	
Penn Virginia Corporation	PVA	60.12	3.6	6.3	14	1.5	5.9	
Swift Energy Company	SFY	18.89	3.9	5.9	14	-	6.5	
Encore Acquisition Corp.	EAC	B	27.10	3.8	5.2	10	-	6.2
Magnum Hunter Resources, Inc.	MHR	9.46	3.1	4.8	9	-	6.2	
Vintage Petroleum, Inc.	VPI	13.32	2.3	3.9	8	1.4	5.9	
	<i>Median</i>		3.7	6.8	14	-	6.5	
<b>Micro Cap</b>								
Abraxas Petroleum Corporation	ABP	1.76	7.3	11.4		-	10.1	
Purcell Energy, Ltd. (US\$)	PEL.TO	2.03	3.6	4.8	9	-	6.0	

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