

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

April 13, 2004

More Ratings Ahead

Summary and Recommendation

More of the energy stocks in our coverage are likely to be rated buy, sell, or neutral over the next several weeks as we communicate our research in a manner that may qualify McDep Associates as an Independent Research Provider under the terms of the Global Settlement of Conflicts of Interest between Research and Investment Banking. The Independent Consultants charged with procuring independent research apparently seek single stock analyses that include a rating with an initial rationale and quarterly updates. Meanwhile six-year and one-year natural gas and oil all notched new highs in a steady trend that supports buy recommendations **ConocoPhillips (COP)**, **Lukoil (LUKOY)**, **Berry Petroleum (BRY)** and **Cimarex (XEC)** among others.

Fundamental Valuation Alternative

If, indeed, our research is chosen by one or more Independent Consultant(s), the McDep analysis may gain new attention. Presumably, whenever a representative of the broker-dealer or a client of the same firm calls up research on a stock after mid-year 2004, the in-house analysis would appear side by side with an independent analysis. A buy or sell rating by the in-house analyst would be confirmed or contradicted by the rating in our independent work.

In each analysis we would likely explain how our opinion is supported by the McDep Ratio, an unlevered measure that compares Enterprise Value to Present Value of energy resources and other businesses, if any. A levered predecessor of the technique was especially successful during the 1970s when resource values appreciated rapidly as they seem to be doing again now. The unlevered technique was helpful in the 1980s identifying takeover candidates among larger companies.

The technique continues to be useful in anticipating future performance, we believe. The first main reason is its fundamental resource, or business value, orientation that looks beyond short-term factors. A second reason may be emphasis on accounting for leverage that is often overlooked. A third reason could be the tendency of stock prices to revert to a mean valuation. Ranking stocks by value highlights extremes.

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Independent Sources Rare

The Independent Consultants are challenged to find qualified sources. The goal appears to be to have an independent analysis on each stock covered by the settlement firm.

The regulatory parties to the settlement, the New York Attorney General, the Securities and Exchange Commission, NASD and the New York Stock Exchange, appear to be most insistent that the independent source not be an investment banker. Nor should the qualified provider be a competing broker dealer. Those two requirements rule out most sell-side research.

Obviously, a source would not be independent if it were paid a specific fee by a company that was the subject of a recommendation. Consultants who sell their services to industry have difficulty being objective about investment advice and often specifically avoid giving it. A data provider may have a conflict if it is owned by a media company that relies on advertising and subscription revenue from companies rated. An equity rater may have a conflict if it also gets paid for bond ratings by the companies rated.

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) 12-Apr 2004	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap							
Exxon Mobil Corporation	XOM	43.11	6,612	285,000	43.00	0.09	1.00
BP plc	BP	53.80	3,684	198,000	60.00	0.13	0.91
Total S.A.	TOT	95.59	1,251	119,600	113.00	0.16	0.87
Royal Dutch/Shell	RD B	49.07	3,389	166,000	60.00	0.18	0.85
ChevronTexaco Corporation	CVX B	91.47	1,064	97,300	125.00	0.14	0.77
<i>Total or Median</i>				866,000		0.14	0.87
Producer/Refiners - Large Cap and Mid Cap							
Kinder Morgan, Inc.	KMI s	62.75	124	7,780	14.00	0.80	1.68
Valero Energy Corporation	VLO	60.25	121	7,270	55.00	0.43	1.05
Imperial Oil Limited (30%)	IMO	46.55	110	5,110	44.00	0.12	1.05
Murphy Oil Corporation	MUR	64.86	93	6,020	62.00	0.20	1.04
Marathon Oil Corporation	MRO	34.05	350	11,920	41.00	0.31	0.88
ConocoPhillips	COP B	72.36	680	49,200	110.00	0.28	0.75
ENI S.p.A.	E	102.81	755	77,600	150.00	0.12	0.72
Petro-Canada	PCZ	45.30	265	12,000	68.00	0.10	0.70
Lukoil Oil Company	LUKOY b	132.00	211	28,000	208.00	0.05	0.65
Petroleo Brasileiro S. A.	PBR	35.14	1,096	38,500	65.00	0.20	0.63
PetroChina Company Ltd (10%)	PTR b	50.79	176	8,930	88.00	0.07	0.61
Suncor Energy	SU	27.00	475	12,830	48.00	0.08	0.60
Norsk Hydro ASA	NHY B	65.17	257	16,730	120.00	0.12	0.60
<i>Total or Median</i>				282,000		0.12	0.72
Independent Natural Gas and Oil							
Canadian Natural Resources Limited	CNQ	59.32	137	8,130	88.00	0.29	0.77
CNOOC Limited (19%)	CEO b	42.25	78	3,300	55.00	-	0.77
Encana Corporation	ECA B	44.49	472	21,000	63.00	0.18	0.76
XTO Energy Inc.	XTO B	26.59	225	6,000	38.00	0.15	0.74
Apache Corporation	APA	43.22	324	14,000	64.00	0.15	0.72
Unocal Corporation	UCL	37.60	274	10,300	60.00	0.22	0.71
Occidental Petroleum Corp.	OXY	47.51	396	18,800	75.00	0.19	0.70
Pogo Producing Company	PPP	46.25	64	2,960	70.00	0.07	0.69
Pioneer Natural Resources Company	PXD	32.98	119	3,930	57.00	0.22	0.67
Anadarko Petroleum Corp.	APC B	53.99	252	13,600	94.00	0.21	0.66
Burlington Resources	BR B	66.54	198	13,200	115.00	0.15	0.64
Devon Energy	DVN	61.75	242	14,900	120.00	0.24	0.63
<i>Total or Median</i>				130,000		0.18	0.71
Service							
Baker Hughes Inc.	BHI	36.80	336	12,400	30.00	0.07	1.21
Halliburton Company	HAL	30.50	435	13,300	28.00	0.28	1.07
Schlumberger Ltd.	SLB	62.76	585	36,700	60.00	0.17	1.04
<i>Total or Median</i>				62,000		0.17	1.07

Buy/Sell rating after symbol: B - Buy full position, b - buy half position, s - short half position

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

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April 13, 2004

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

	Symbol/ Rating	Price (\$/sh) 12-Apr 2004	EV/ Sales NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)	PV/ Ebitda NTM	
Mega Cap								
Exxon Mobil Corporation	XOM	43.11	1.2	7.8	14	2.3	7.7	
Total S.A.	TOT	95.59	1.0	6.5	12	4.6	7.4	
BP plc	BP	53.80	0.9	6.4	14	3.0	7.1	
ChevronTexaco Corporation	CVX	B	91.47	1.0	5.7	10	3.2	7.4
Royal Dutch/Shell	RD	B	49.07	1.0	5.6	12	4.4	6.6
	<i>Median</i>		<i>1.0</i>	<i>6.4</i>	<i>12</i>	<i>3.2</i>	<i>7.4</i>	
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	s	62.75	3.0	13.2	19	2.5	7.8
Imperial Oil Limited (30%)	IMO		46.55	1.3	7.8	15	1.4	7.4
Murphy Oil Corporation	MUR		64.86	1.5	6.9	15	1.2	6.7
Suncor Energy	SU		27.00	2.7	6.7	12	0.6	11.1
Valero Energy Corporation	VLO		60.25	0.3	6.0	8	0.8	5.7
ConocoPhillips	COP	B	72.36	0.7	5.7	9	2.4	7.5
Marathon Oil Corporation	MRO		34.05	0.4	5.2	10	2.9	5.9
ENI S.p.A.	E		102.81	1.6	5.1	10	4.4	7.1
PetroChina Company Ltd (10%)	PTR	b	50.79	2.5	4.5	9	4.2	7.5
Norsk Hydro ASA	NHY	B	65.17	0.8	4.1	12	2.4	6.9
Petro-Canada	PCZ		45.30	1.4	4.1	10	1.0	5.9
Lukoil Oil Company	LUKOY	b	132.00	1.1	3.9	6	1.9	6.0
Petroleo Brasileiro S. A.	PBR		35.14	1.7	3.9	5	2.9	6.1
	<i>Median</i>		<i>1.4</i>	<i>5.2</i>	<i>10</i>	<i>2.4</i>	<i>6.9</i>	
Independent Natural Gas and Oil								
CNOOC Limited (19%)	CEO	b	42.25	4.8	6.4	13	3.8	8.3
XTO Energy Inc.	XTO	B	26.59	4.4	5.9	10	0.2	7.9
Occidental Petroleum Corp.	OXY		47.51	2.5	5.4	9	2.3	7.7
Anadarko Petroleum Corp.	APC	B	53.99	3.6	5.1	9	1.0	7.7
Pioneer Natural Resources Company	PXD		32.98	3.6	5.1	17	-	7.6
Burlington Resources	BR	B	66.54	3.5	4.7	10	0.9	7.3
Unocal Corporation	UCL		37.60	2.2	4.6	10	2.1	6.5
Apache Corporation	APA		43.22	3.3	4.6	9	0.6	6.3
Canadian Natural Resources Limited	CNQ		59.32	3.1	4.5	9	0.8	5.8
Encana Corporation	ECA	B	44.49	2.2	4.4	11	0.9	5.8
Pogo Producing Company	PPP		46.25	2.5	3.5	8	0.4	5.1
Devon Energy	DVN		61.75	3.0	3.5	6	0.3	5.5
	<i>Median</i>			<i>3.2</i>	<i>4.7</i>	<i>10</i>	<i>0.8</i>	<i>6.9</i>
Service								
Baker Hughes Inc.	BHI		36.80	2.5	13.3	34	1.3	11.0
Halliburton Company	HAL		30.50	1.1	12.9	28	1.6	12.1
Schlumberger Ltd.	SLB		62.76	3.1	11.1	38	1.2	10.7
	<i>Median</i>			<i>2.5</i>	<i>12.9</i>	<i>34</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 March 31, 2005; 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) 12-Apr 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>
Short Life							
Spinnaker Exploration Company	SKE	36.66	34.2	1,250	28.00	0.11	1.28
Western Gas Resources	WGR	51.91	37.0	1,920	50.00	0.17	1.03
Southwestern Energy Company	SWN	24.96	36.0	900	29.00	0.22	0.89
The Houston Exploraton Company	THX	45.80	31.0	1,420	55.00	0.20	0.87
Newfield Exploration Company	NFX	49.60	56.0	2,780	67.00	0.20	0.79
Denbury Resources Inc.	DNR	18.15	55.7	1,010	25.00	0.21	0.78
Stone Energy Company	SGY	48.94	26.6	1,300	72.00	0.20	0.74
Cimarex Energy Company	XEC	27.95	42.7	1,190	38.00	0.00	0.74
PetroKazakhstan Inc.	PKZ	30.47	81.0	2,470	42.00	0.03	0.73
St. Mary Land and Exploration Company	SM	34.70	29.0	1,010	50.00	0.10	0.72
Chesapeake Energy Corporation	CHK	13.95	220	3,070	24.00	0.29	0.70
Westport Resources Corporation	WRC	35.22	68.0	2,400	57.00	0.17	0.68
Energy Partners Ltd.	EPL	13.60	37.4	509	22.00	0.14	0.67
Range Resources Corporation	RRC	12.61	57.0	720	24.00	0.26	0.65
Forest Oil Corporation	FST	26.02	53.5	1,390	53.00	0.25	0.62
		<i>Total or Median</i>		<i>23,300</i>		<i>0.20</i>	<i>0.74</i>
Long Life							
Ultra Petroleum Corp.	UPL	34.71	78.0	2,710	25.00	0.06	1.36
Unit Corporation	UNT	28.83	44.1	1,270	25.00	0.01	1.15
Penn Virginia Corporation	PVA	64.60	9.1	590	72.00	0.14	0.91
Quicksilver Resources Inc.	KWK	41.71	25.2	1,050	50.00	0.19	0.87
Swift Energy Company	SFY	19.55	27.4	540	32.00	0.29	0.72
Whiting Petroleum Corporation	WLL	24.73	18.8	460	40.00	0.21	0.70
Encore Acquisition Corp.	EAC	28.94	30.5	882	47.00	0.18	0.69
Magnum Hunter Resources, Inc.	MHR	10.73	68.0	730	20.00	0.32	0.68
Berry Petroleum Company	BRY	28.17	22.1	623	43.00	0.07	0.68
Evergreen Resources, Inc.	EVG	35.67	44.0	1,570	59.00	0.10	0.64
Vintage Petroleum, Inc.	VPI	15.08	63.0	950	33.00	0.28	0.61
		<i>Total or Median</i>		<i>11,400</i>		<i>0.18</i>	<i>0.70</i>
Micro Cap							
Abraxas Petroleum Corporation	ABP	2.74	35.8	98	1.50	0.77	1.19
Purcell Energy, Ltd. (US\$)	PEL.TO	2.05	48.0	98	2.80	0.27	0.80

Buy/Sell rating after symbol: b - buy half unlevered position in diversified energy portfolio

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

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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>EV/</i>	<i>EV/</i>	<i>Divd or</i>	<i>PV/</i>	
	<i>Symbol/</i>	<i>(\$/sh)</i>	<i>Sales</i>	<i>Ebitda</i>	<i>P/E</i>	<i>Ebitda</i>	
	<i>Rating</i>	<i>12-Apr</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	
		<i>2004</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	
					<i>Distrib</i>		
					<i>(%)</i>		
Short Life							
Western Gas Resources	WGR	51.91	0.8	9.2	19	-	9.0
Southwestern Energy Company	SWN	24.96	3.3	5.7	10	-	6.4
Spinnaker Exploration Company	SKE	36.66	4.9	5.6	15	-	4.4
Denbury Resources Inc.	DNR	18.15	3.3	4.9	9	-	6.3
Range Resources Corporation	RRC	12.61	3.7	4.8	9	0.3	7.4
Chesapeake Energy Corporation	CHK	13.95	3.2	4.3	8	0.9	6.2
Cimarex Energy Company	XEC	b 27.95	3.2	4.2	11	-	5.8
Stone Energy Company	SGY	48.94	3.1	4.2	9	-	5.7
Westport Resources Corporation	WRC	35.22	3.2	4.2	10	-	6.1
St. Mary Land and Exploration Company	SM	34.70	2.8	4.0	10	0.3	5.6
Forest Oil Corporation	FST	26.02	2.8	3.9	19	-	6.3
Newfield Exploration Company	NFX	49.60	2.8	3.8	8	-	4.8
The Houston Exploraton Company	THX	45.80	2.9	3.7	8	-	4.2
PetroKazakhstan Inc.	PKZ	30.47	2.0	3.5	5	-	4.8
Energy Partners Ltd.	EPL	13.60	2.2	3.2	10	-	4.7
	<i>Median</i>		<i>3.1</i>	<i>4.2</i>	<i>10</i>	<i>-</i>	<i>5.8</i>
Long Life							
Ultra Petroleum Corp.	UPL	34.71	11.9	15.4	25	-	11.3
Quicksilver Resources Inc.	KWK	41.71	6.4	9.7	18	-	11.2
Unit Corporation	UNT	28.83	3.6	8.5	21	-	7.4
Evergreen Resources, Inc.	EVG	35.67	5.1	7.2	12	-	11.2
Penn Virginia Corporation	PVA	64.60	3.6	6.3	13	1.4	6.9
Berry Petroleum Company	BRY	b 28.17	3.6	6.3	10	1.6	9.2
Encore Acquisition Corp.	EAC	b 28.94	4.2	5.7	9	-	8.3
Swift Energy Company	SFY	19.55	3.8	5.6	12	-	7.7
Whiting Petroleum Corporation	WLL	24.73	3.4	5.3	11	-	7.6
Magnum Hunter Resources, Inc.	MHR	10.73	3.1	4.7	8	-	6.9
Vintage Petroleum, Inc.	VPI	15.08	2.3	3.9	7	1.2	6.4
	<i>Median</i>		<i>3.6</i>	<i>6.3</i>	<i>12</i>	<i>-</i>	<i>7.7</i>
Micro Cap							
Abraxas Petroleum Corporation	ABP	2.74	7.8	11.7		-	9.9
Purcell Energy, Ltd. (US\$)	PEL.TO	2.05	3.3	4.4	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, 2005; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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