

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

May 4, 2004

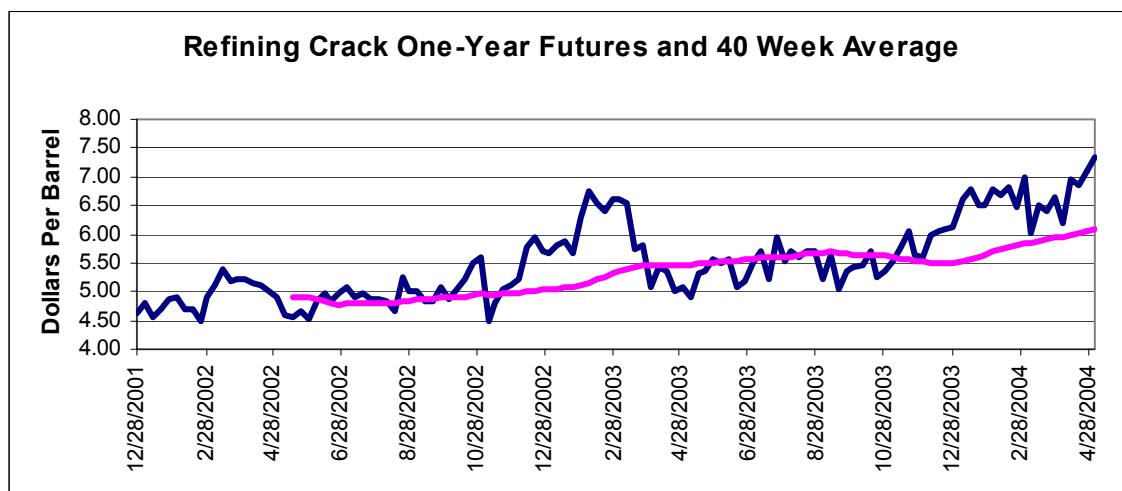
Twelve New Buy Ratings

Summary and Recommendation

In addition to the 16 buys (B1 and B2) and 3 sells in the recommended McDep Energy Portfolio, we initiate alternative buy (B3) ratings on twelve stocks whose ticker symbols are XOM, SC, TOT, BP, MRO, SU, PCZ, IMO, DVN, OXY, UCL and EPL. The new category is for stocks in addition to our existing recommendations that we are attempting to qualify under the Global Settlement of Conflicts of Interest between Investment Banking and Research. Considering that a buy, sell, or hold rating is required, we choose buy in view of rapidly strengthening signs of future earnings for energy producers.

Strong Upstream and Improving Downstream

Eight of the twelve new B3 stocks are integrated companies with downstream refining/marketing operations to go along with oil and gas production. Currently the companies are hitting on all cylinders as the saying goes. Strong upstream business prospects captured in the rising trend of six-year futures are complemented by improving downstream prospects captured in the trend of one-year refining crack futures (see chart).



Compared to the two previous years, there has been no sign yet of a seasonal peak in the trend. Oil analysts like to play the cycle of refining-sensitive stocks that seems to rise in advance of the summer gasoline season and taper off after that. Perhaps there will be some falloff this year as in the past, but it would occur from a higher level. Meanwhile, integrated oil stocks seem cheap to us.

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The crack spread we measure is the price of two-thirds barrel of gasoline plus one-third barrel of heating oil minus a barrel of crude oil. While there are innumerable components for current prices around the world there is only one source of transparent, public quotes of futures prices for the next year, the New York Mercantile Exchange. Even at Nymex there are times for gasoline when the last month may not be quoted. In those cases we add an estimate. There is also the complication of multiple environmental blends required in the market place. Despite the possible seasonal cycle noted above, the crack spread should be seasonally neutral because it always includes twelve months.

Rate Four Mega Caps as B3

Mega Caps are among the strongest investments anyone can make for the next several years in our opinion. Our more selective B1 recommendations have been **ChevronTexaco (CVX)** and **Royal Dutch (RD)** that account for two of thirteen full buy positions in the McDep Energy portfolio. Now we add B3 ratings on **ExxonMobil (XOM)**, **BP plc (BP)**, and **Total S.A. (TOT)**. We also separate **Shell Transport (SC)** from Royal Dutch/Shell. We had used RD as representative of the Royal Dutch/Shell Group that is owned 60% by the Dutch company and 40% by the English company.

Projections for XOM, BP, RD, SC and CVX take account of most recent quarterly results. The financial reports made good reading with the expected improvement showing through with perhaps a little extra. A drop in cash flow multiple is partly because of favorable company operations, but mostly because of improving industry conditions (see Table 1-2). We use 12 months crack futures to guide the quarterly progression of our estimates for downstream cash flow for the next twelve months.

Rate Four Producer/Refiners as B3

Our interest in the natural resources of our neighbor to the north shows up in three new B3 ratings – **Imperial Oil (IMO)**, **Petro-Canada (PCZ)** and **Suncor (SU)**. The fourth new B3, **Marathon (MRO)**, may seem a contradiction since we recently discontinued our buy recommendation of that stock. Yet we made our major upgrading of present value estimates since that change. We still encourage investors to concentrate on lower McDep Ratio recommendations. Buy recommended **ConocoPhillips (COP)**, **Norsk Hydro (NHY)**, **PetroChina (PTR)** and **Lukoil (LUKOY)** account for three of thirteen unlevered positions in the McDep Energy Portfolio. COP and NHY are B1 for full unlevered positions while PTR and LUKOY are B2 for half positions.

Rate Four Independent Producers B3

Devon Energy (DVN), **Occidental Petroleum (OXY)**, and **Unocal (UCL)** attract new B3 ratings among Large Independents. DVN appears to be a standout with the lowest McDep Ratio.

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Energy Partners (EPL), also a recently discontinued buy, gets a new B3 designation among Small Cap Independents. We made our major upgrade in present value since our previous change of recommendation.

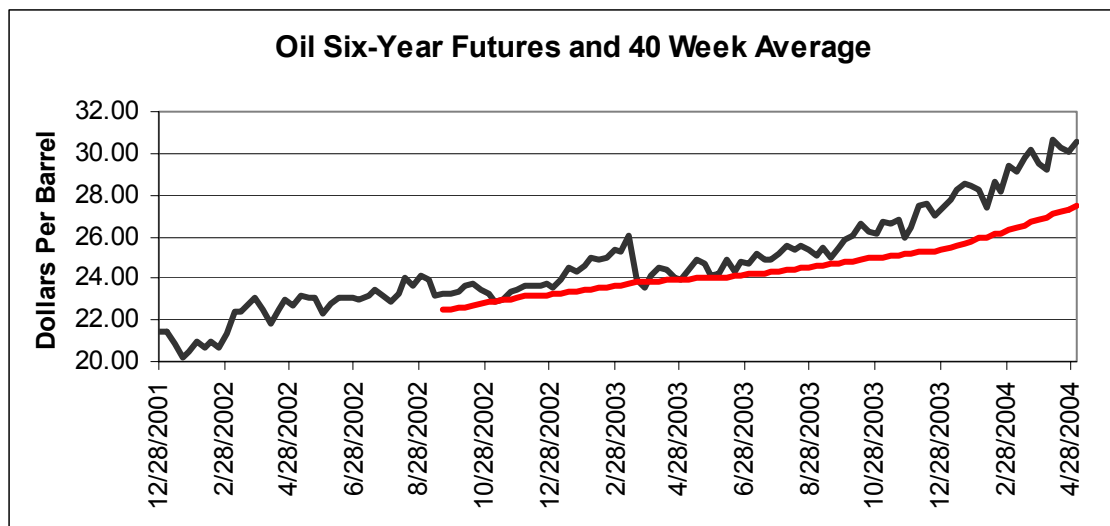
Bold Experiment in Independent Research

Until now our policy has been to have just a few recommendations spread across industry sub sectors. At the same time we regularly calculate McDep Ratios on more companies for perspective in gauging the potential for our recommendations and for identifying new recommendations. With more ratings the McDep Ratio may get more attention for signaling degrees of relative appreciation potential.

The other change is that we are likely to put more emphasis on single stock analyses. Presumably we will have a single stock analysis on each of the new buys before long though the timing remains to be determined.

Conceivably, if our work is chosen by more than one Independent Consultant, it could become more valuable to investors than that of any single Wall Street house. That, in turn, could generate more interest in multi-stock comparative analysis that would not be available under the Global Settlement. Taking the logic further, there could in the end be more interest in lesser-known stocks. We notice that some of our best ideas are not in much demand under the Global Settlement.

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) 3-May 2004	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
Exxon Mobil Corporation	XOM	B3	43.68	6,582	288,000	43.00	0.09	1.01
BP plc	BP	B3	53.28	3,681	196,000	60.00	0.13	0.90
Shell Transport and Trading Co. plc	SC	B3	42.69	1,587	68,000	51.30	0.18	0.86
Total S.A.	TOT	B3	94.05	1,251	117,700	113.00	0.16	0.86
Royal Dutch Petroleum	RD	B1	49.28	2,033	100,000	60.00	0.18	0.85
ChevronTexaco Corporation	CVX	B1	93.19	1,066	99,300	125.00	0.14	0.78
	<i>Total or Median</i>				<i>869,000</i>		<i>0.15</i>	<i>0.86</i>
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	60.61	124	7,520	14.00	0.80	1.65
Murphy Oil Corporation	MUR		70.20	93	6,510	62.00	0.20	1.10
Valero Energy Corporation	VLO		64.94	121	7,840	55.00	0.43	1.10
Imperial Oil Limited (30%)	IMO	B3	44.61	110	4,900	44.00	0.12	1.01
Marathon Oil Corporation	MRO	B3	33.74	350	11,810	41.00	0.31	0.88
ConocoPhillips	COP	B1	73.90	680	50,300	110.00	0.28	0.76
ENI S.p.A.	E		102.80	755	77,600	150.00	0.12	0.72
Petro-Canada	PCZ	B3	45.08	265	11,950	68.00	0.10	0.70
Suncor Energy	SU	B3	24.83	475	11,790	48.00	0.08	0.56
Petroleo Brasileiro S. A.	PBR		29.09	1,096	31,900	65.00	0.20	0.56
Norsk Hydro ASA	NHY	B1	58.95	257	15,130	120.00	0.12	0.55
Lukoil Oil Company	LUKOY	B2	109.00	211	23,000	208.00	0.05	0.55
PetroChina Company Ltd (10%)	PTR	B2	44.43	176	7,810	88.00	0.07	0.54
	<i>Total or Median</i>				<i>268,000</i>		<i>0.12</i>	<i>0.72</i>
Independent Natural Gas and Oil								
XTO Energy Inc.	XTO	B1	27.73	236	6,540	38.00	0.16	0.77
Canadian Natural Resources Limited	CNQ		56.59	137	7,750	88.00	0.29	0.75
Pogo Producing Company	PPP		49.32	64	3,160	70.00	0.07	0.73
Apache Corporation	APA		43.02	324	13,900	64.00	0.15	0.72
Occidental Petroleum Corp.	OXY	B3	48.75	396	19,300	75.00	0.19	0.72
Encana Corporation	ECA	B1	40.60	472	19,200	63.00	0.20	0.72
Unocal Corporation	UCL	B3	36.64	274	10,000	60.00	0.22	0.70
Anadarko Petroleum Corp.	APC	B1	56.11	252	14,100	94.00	0.21	0.68
Pioneer Natural Resources Company	PXD		33.52	119	3,990	57.00	0.22	0.68
Burlington Resources	BR	B1	69.49	198	13,800	115.00	0.15	0.67
CNOOC Limited (19%)	CEO	B2	36.50	78	2,850	55.00	-	0.66
Devon Energy	DVN	B3	63.56	242	15,400	120.00	0.24	0.64
	<i>Total or Median</i>				<i>130,000</i>		<i>0.19</i>	<i>0.71</i>

B1 = Buy full unlevered position, B2 = Buy half unlevered position, B3 = Alternative buy

S2 = Short half unlevered position

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) 3-May 2004	EV/ Sales NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)	PV/ Ebitda NTM
Mega Cap								
Exxon Mobil Corporation	XOM	B3	43.68	1.2	7.0	13	2.3	6.9
Total S.A.	TOT	B3	94.05	1.0	6.1	11	4.7	7.1
BP plc	BP	B3	53.28	0.8	5.7	11	3.0	6.3
Shell Transport and Trading Co. plc	SC	B3	42.69	0.9	5.3	10	4.2	6.1
Royal Dutch Petroleum	RD	B1	49.28	0.9	5.2	9	4.3	6.1
ChevronTexaco Corporation	CVX	B1	93.19	0.9	5.2	9	3.1	6.7
	<i>Median</i>			<i>0.9</i>	<i>5.5</i>	<i>10</i>	<i>3.7</i>	<i>6.5</i>
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	60.61	3.0	12.9	18	2.6	7.8
Murphy Oil Corporation	MUR		70.20	1.5	7.1	15	1.1	6.4
Imperial Oil Limited (30%)	IMO	B3	44.61	1.3	7.1	13	1.5	7.0
Suncor Energy	SU	B3	24.83	2.5	6.0	10	0.6	10.7
Valero Energy Corporation	VLO		64.94	0.3	5.6	8	0.7	5.1
ConocoPhillips	COP	B1	73.90	0.7	5.4	8	2.3	7.1
Marathon Oil Corporation	MRO	B3	33.74	0.4	5.2	10	3.0	5.9
ENI S.p.A.	E		102.80	1.6	4.8	9	4.5	6.6
Petro-Canada	PCZ	B3	45.08	1.4	4.0	10	1.0	5.7
PetroChina Company Ltd (10%)	PTR	B2	44.43	2.1	3.9	7	4.9	7.2
Norsk Hydro ASA	NHY	B1	58.95	0.8	3.7	10	2.7	6.7
Petroleo Brasileiro S. A.	PBR		29.09	1.4	3.3	4	3.5	5.9
Lukoil Oil Company	LUKOY	B2	109.00	0.9	3.0	4	2.3	5.5
	<i>Median</i>			<i>1.4</i>	<i>5.2</i>	<i>10</i>	<i>2.3</i>	<i>6.6</i>
Independent Natural Gas and Oil								
XTO Energy Inc.	XTO	B1	27.73	4.7	6.3	11	0.1	8.2
Occidental Petroleum Corp.	OXY	B3	48.75	2.5	5.3	9	2.3	7.5
CNOOC Limited (19%)	CEO	B2	36.50	4.0	5.3	11	4.4	8.0
Anadarko Petroleum Corp.	APC	B1	56.11	3.6	5.2	9	1.0	7.6
Pioneer Natural Resources Company	PXD		33.52	3.5	5.1	16	-	7.5
Apache Corporation	APA		43.02	3.2	4.4	8	0.6	6.2
Unocal Corporation	UCL	B3	36.64	2.1	4.4	9	2.2	6.3
Burlington Resources	BR	B1	69.49	3.2	4.3	8	0.9	6.5
Canadian Natural Resources Limited	CNQ		56.59	3.0	4.2	8	0.8	5.7
Encana Corporation	ECA	B1	40.60	2.2	4.1	8	1.0	5.8
Pogo Producing Company	PPP		49.32	2.6	3.6	8	0.4	4.9
Devon Energy	DVN	B3	63.56	2.9	3.5	6	0.3	5.3
	<i>Median</i>			<i>3.1</i>	<i>4.4</i>	<i>9</i>	<i>0.8</i>	<i>6.4</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

	Symbol/ Rating	Price (\$/sh) 3-May 2004	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio	
Short Life								
Spinnaker Exploration Company	SKE	37.06	34.2	1,270	28.00	0.11	1.29	
Western Gas Resources	WGR	55.24	37.0	2,040	50.00	0.17	1.09	
Southwestern Energy Company	SWN	26.36	36.0	950	29.00	0.22	0.93	
The Houston Exploraton Company	THX	44.87	31.0	1,390	55.00	0.20	0.85	
Newfield Exploration Company	NFX	53.00	56.0	2,970	67.00	0.20	0.83	
Denbury Resources Inc.	DNR	18.98	55.7	1,060	25.00	0.21	0.81	
Stone Energy Company	SGY	50.50	26.6	1,340	72.00	0.20	0.76	
Cimarex Energy Company	XEC	B2	28.26	42.7	1,210	38.00	0.00	0.74
St. Mary Land and Exploration Compan	SM		35.03	29.0	1,020	50.00	0.10	0.73
Chesapeake Energy Corporation	CHK		14.06	220	3,090	24.00	0.29	0.70
Energy Partners Ltd.	EPL	B3	14.40	37.4	539	22.00	0.14	0.70
Westport Resources Corporation	WRC		34.98	68.0	2,380	57.00	0.17	0.68
PetroKazakhstan Inc.	PKZ		27.57	81.0	2,230	42.00	0.03	0.67
Range Resources Corporation	RRC		13.06	57.0	740	24.00	0.26	0.66
Forest Oil Corporation	FST		27.01	53.5	1,450	53.00	0.25	0.63
			<i>Total or Median</i>		<i>23,700</i>	<i>0.20</i>	<i>0.74</i>	
Long Life								
Ultra Petroleum Corp.	UPL		34.05	78.0	2,660	25.00	0.06	1.34
Unit Corporation	UNT		29.42	44.1	1,300	25.00	0.01	1.17
Penn Virginia Corporation	PVA		68.10	9.1	620	72.00	0.14	0.95
Quicksilver Resources Inc.	KWK		46.17	25.2	1,160	50.00	0.19	0.94
Swift Energy Company	SFY		22.75	27.4	620	32.00	0.29	0.79
Whiting Petroleum Corporation	WLL		26.18	18.8	490	40.00	0.21	0.73
Evergreen Resources, Inc.	EVG		40.63	44.0	1,790	59.00	0.10	0.72
Encore Acquisition Corp.	EAC	B2	30.30	30.5	923	47.00	0.18	0.71
Magnum Hunter Resources, Inc.	MHR		11.00	68.0	750	20.00	0.32	0.69
Berry Petroleum Company	BRY	B2	27.76	22.1	613	43.00	0.07	0.67
Vintage Petroleum, Inc.	VPI		15.55	63.0	980	33.00	0.28	0.62
			<i>Total or Median</i>		<i>11,900</i>	<i>0.18</i>	<i>0.73</i>	
Micro Cap								
Abraxas Petroleum Corporation	ABP		2.29	35.8	82	1.50	0.77	1.12
Purcell Energy, Ltd. (US\$)	PEL.TO		1.89	48.0	91	2.80	0.27	0.77

Buy (B) and Sell (S) rated stocks scheduled for quarterly single stock analyses.

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

Numeral after B or S signifies half position recommended(2) or alternative idea(3).

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

			<i>Price</i>			<i>Divd or</i>	
			<i>(\$/sh)</i>	<i>EV/</i>	<i>EV/</i>	<i>Distrib</i>	<i>PV/</i>
	<i>Symbol/</i>		<i>3-May</i>	<i>Sales</i>	<i>Ebitda</i>	<i>P/E</i>	<i>Ebitda</i>
	<i>Rating</i>		<i>2004</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>
						<i>(%)</i>	
Short Life							
Western Gas Resources	WGR		55.24	0.9	9.6	20	- 8.9
Southwestern Energy Company	SWN		26.36	3.4	5.8	11	- 6.3
Spinnaker Exploration Company	SKE		37.06	4.9	5.5	14	- 4.3
Denbury Resources Inc.	DNR		18.98	3.3	4.9	9	- 6.1
Range Resources Corporation	RRC		13.06	3.7	4.8	8	0.3 7.2
Chesapeake Energy Corporation	CHK		14.06	3.1	4.3	8	0.9 6.1
Stone Energy Company	SGY		50.50	3.1	4.2	8	- 5.5
Westport Resources Corporation	WRC		34.98	3.1	4.1	9	- 6.0
St. Mary Land and Exploration Company	SM		35.03	2.7	4.0	9	0.3 5.4
Cimarex Energy Company	XEC	B2	28.26	3.0	3.9	9	- 5.3
Newfield Exploration Company	NFX		53.00	2.8	3.9	8	- 4.7
Forest Oil Corporation	FST		27.01	2.8	3.9	17	- 6.1
The Houston Exploraton Company	THX		44.87	2.8	3.5	7	- 4.1
Energy Partners Ltd.	EPL	B3	14.40	2.3	3.2	10	- 4.6
PetroKazakhstan Inc.	PKZ		27.57	1.8	3.0	5	- 4.6
	<i>Median</i>			<i>3.0</i>	<i>4.1</i>	<i>9</i>	<i>- 5.5</i>
Long Life							
Ultra Petroleum Corp.	UPL		34.05	11.5	14.8	24	- 11.0
Quicksilver Resources Inc.	KWK		46.17	6.8	10.2	19	- 10.9
Unit Corporation	UNT		29.42	3.7	8.5	21	- 7.2
Evergreen Resources, Inc.	EVG		40.63	5.6	7.9	13	- 11.0
Penn Virginia Corporation	PVA		68.10	3.7	6.5	14	1.3 6.8
Berry Petroleum Company	BRY	B2	27.76	3.5	5.8	9	1.6 8.7
Swift Energy Company	SFY		22.75	4.0	5.9	13	- 7.5
Encore Acquisition Corp.	EAC	B2	30.30	4.2	5.7	9	- 8.0
Whiting Petroleum Corporation	WLL		26.18	3.4	5.3	11	- 7.3
Magnum Hunter Resources, Inc.	MHR		11.00	3.1	4.6	8	- 6.7
Vintage Petroleum, Inc.	VPI		15.55	2.3	3.8	7	1.2 6.1
	<i>Median</i>			<i>3.7</i>	<i>5.9</i>	<i>13</i>	<i>- 7.5</i>
Micro Cap							
Abraxas Petroleum Corporation	ABP		2.29	7.2	10.6		- 9.5
Purcell Energy, Ltd. (US\$)	PEL.TO		1.89	3.1	4.1	7	- 5.3

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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