

## Meter Reader

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

May 18, 2004

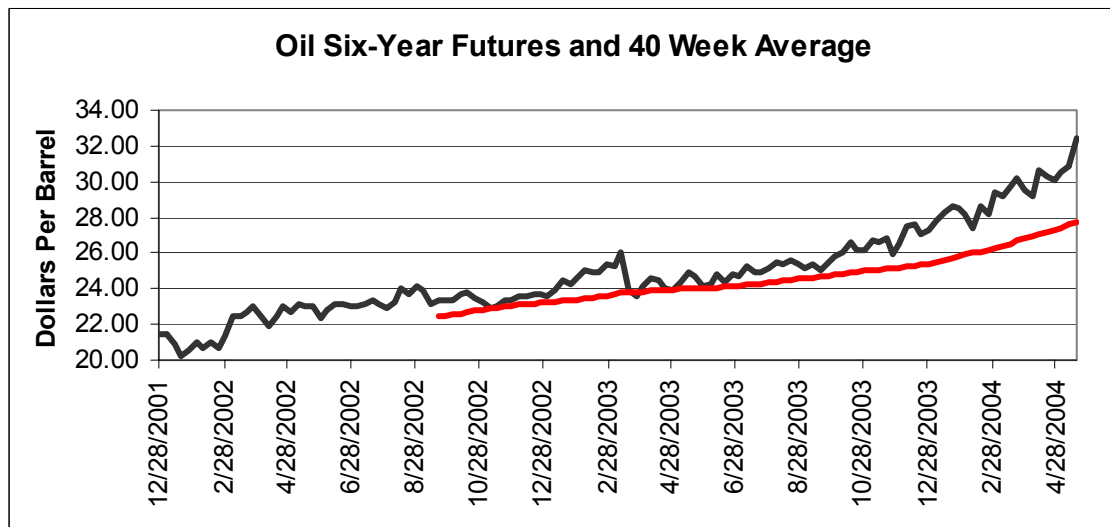
# Riding the Price Trends

## Summary and Recommendation

Accelerating natural gas and oil price gains point to further profit gains for buy recommendations including **Encana (ECA)**, **XTO Energy (XTO)** and **Anadarko (APC)**. While the headline number is \$41 a barrel for Light Sweet Crude Oil delivered in June, one-year futures are almost \$39 and six-year futures are \$32. Six-year futures could drop back to \$28 and still be in an uptrend compared to the 40-week moving average. Alternatively near-month futures could reach \$52 before triggering the alert of a 70% year over year gain. Louisiana natural gas is holding heating equivalence with oil at \$5.50 a million btu for six-year futures. The one-year refinery crack is at a new high above \$8 a barrel.

## The Whole Oil and Gas Price Structure is Moving Up

Six-year oil futures have been moving up for more than two years (see chart). Not even the toppling of Saddam Hussein broke the trend. The rate of gain is accelerating to 33% for the past year. Any six-year futures price above \$28 a barrel now would constitute a continuing uptrend on a 40-week basis.



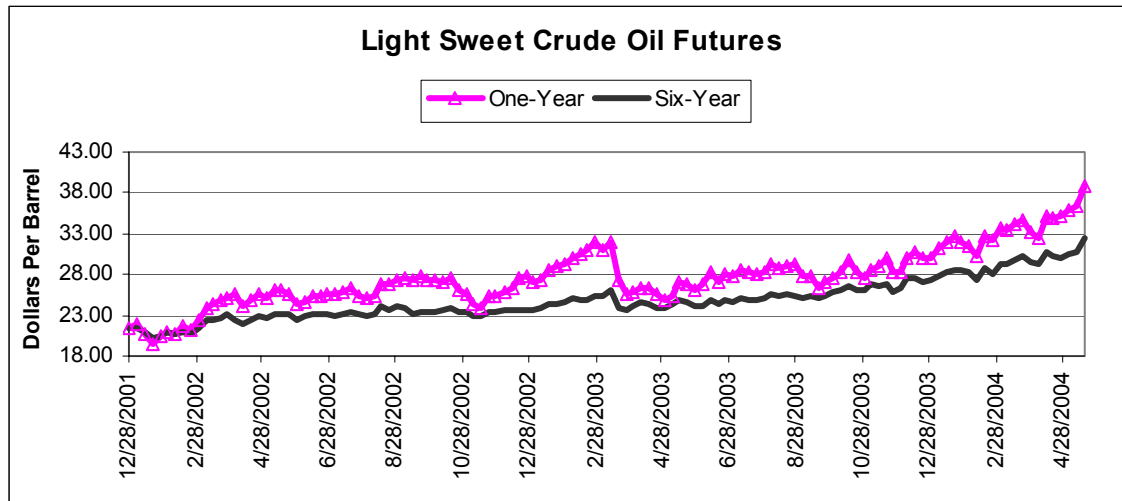
One-year futures have been leading six-year for the past two years. While on any given day the futures market says the price is going down in what is known as “backwardation”, the starting point keeps going up.

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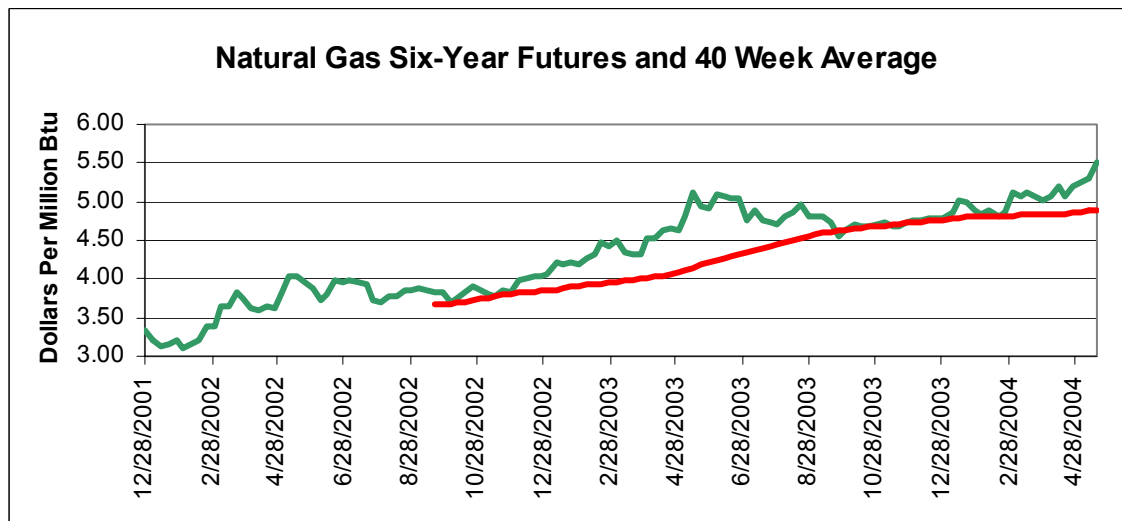
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Natural gas advanced so much in 2003 that gains in six-year futures slowed before picking up again (see chart).



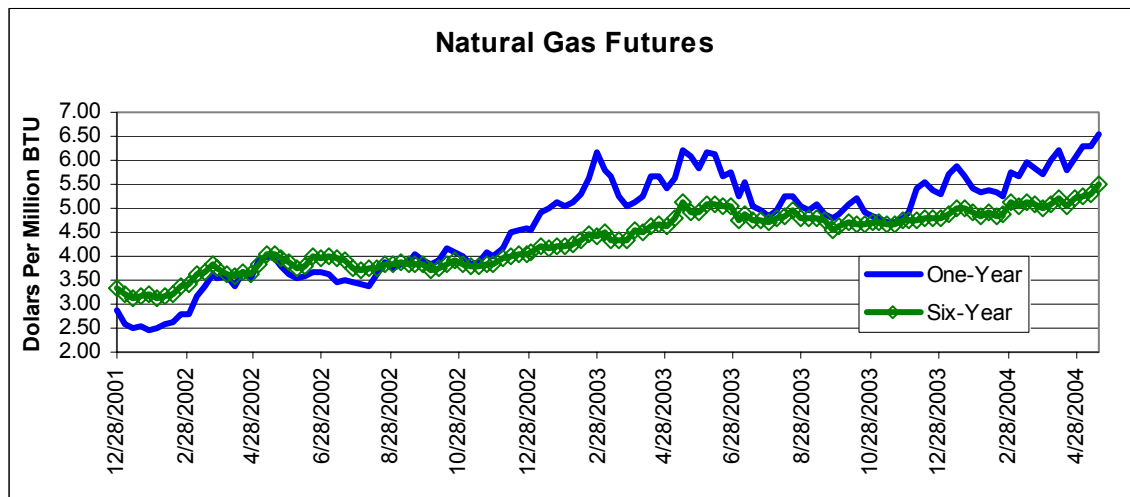
Two years ago, six-year futures for natural gas were higher than one-year futures, a condition known as “contango” (see chart). That was short lived and natural gas has joined crude oil in sustained backwardation that has mistakenly implied lower price.

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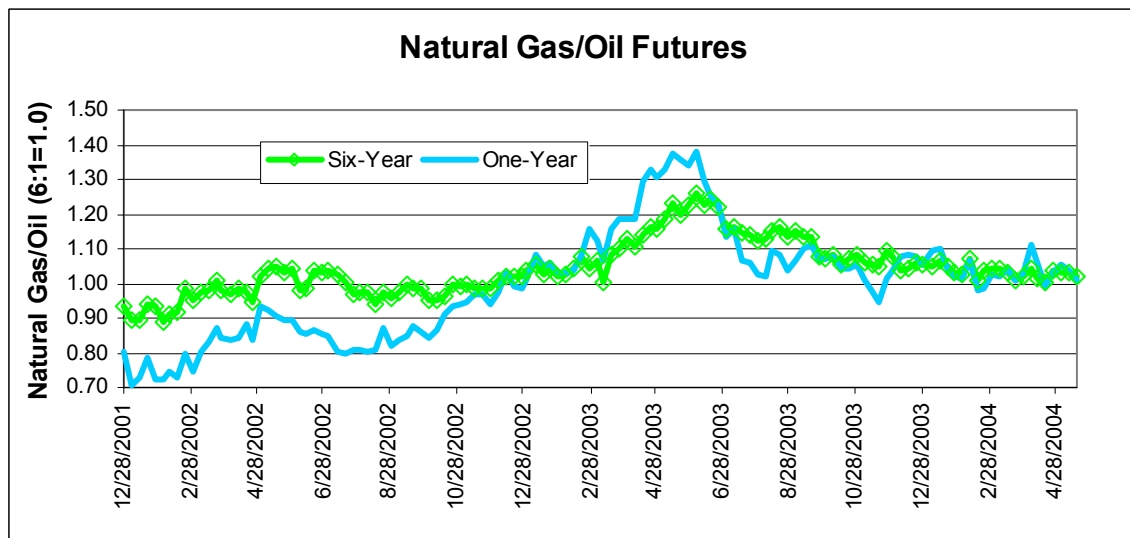
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Natural gas rose to a record premium to oil in 2003 and now seems to be tracking oil at about heating equivalence (see chart). We expect natural gas to advance relative to oil again, possibly in the next hot summer or cold winter.



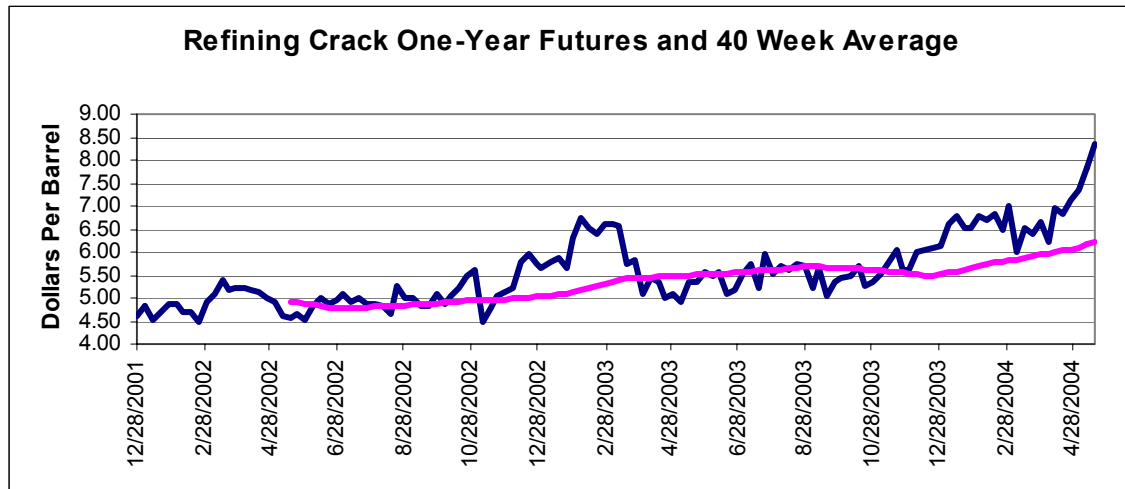
While producers make their money on crude oil and natural gas, producer/refiners also make money on the crack spread. Crude oil is distilled into refined products and some heavier molecules are cracked into lighter gasoline and heating oil. Refining is a notoriously cyclical and often low margin business that seems to be facing prospects of record profits ahead as signaled in the one-year refining crack futures (see chart).

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### How Much Is Too Much?

Last week we picked 70% as the amount of year over year gain in oil price that would trigger concern that the increase might have a negative economic impact. June futures at \$41 a barrel would have to exceed \$52 a barrel to trigger a 70% warning.

### XTO Energy Buys Domestic Reserves from ChevronTexaco

The rising price trends suggest it is a better time to be a buyer than a seller of oil and gas. Thus it is with some irony that a buy-recommended stock is on both sides of a just-announced billion dollar deal. Perhaps some of the justification is that the seller has \$120 billion of enterprise value compared to the buyer's \$8 billion. Perhaps the buyer will be more attentive to the development opportunities because they have relatively more importance in a smaller company.

XTO does not present its purchase as particularly expensive. Taking the press release purchase price of \$1.1 billion and dividing by 786 billion cubic feet implies a price of only \$1.40 an mcf. Chairman Bob Simpson expects that after hedging the first two year's production the net purchase price declines below \$1.00 an mcf. That looks like a pre-historic price, not one that reflects six-year futures of \$5.50.

Meanwhile, XTO is well into its second ten bagger era having already gone up more than ten times since its initial public offering in the early 1990s. There is no need for us to say more good things now as the company is likely to get widespread support from Wall Street in an expected underwriting of new shares to help finance the latest acquisition.

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) 17-May 2004	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
<b>Mega Cap</b>								
Exxon Mobil Corporation	XOM	B3	43.05	6,582	283,000	43.00	0.09	1.00
BP plc	BP	B3	52.47	3,681	193,000	60.00	0.13	0.89
Shell Transport and Trading Co. plc	SC	B3	42.63	1,587	68,000	51.30	0.18	0.86
Total S.A.	TOT	B3	93.60	1,246	116,600	113.00	0.16	0.86
Royal Dutch Petroleum	RD	B1	48.47	2,033	99,000	60.00	0.18	0.84
ChevronTexaco Corporation	CVX	B1	91.55	1,066	97,600	125.00	0.14	0.77
	<i>Total or Median</i>				857,000		0.15	0.86
<b>Producer/Refiners - Large Cap and Mid Cap</b>								
Kinder Morgan, Inc.	KMI	S2	58.83	124	7,290	14.00	0.80	1.63
Valero Energy Corporation	VLO		65.74	121	7,930	55.00	0.43	1.11
Murphy Oil Corporation	MUR		65.85	93	6,110	62.00	0.20	1.05
Imperial Oil Limited (30%)	IMO	B3	44.46	110	4,880	44.00	0.12	1.01
Marathon Oil Corporation	MRO	B3	33.10	350	11,590	41.00	0.31	0.87
ConocoPhillips	COP	B1	73.54	680	50,000	110.00	0.28	0.76
ENI S.p.A.	E		98.60	755	74,500	150.00	0.12	0.70
Petro-Canada	PCZ	B3	44.00	265	11,660	68.00	0.10	0.68
Norsk Hydro ASA	NHY	B1	59.38	256	15,180	120.00	0.12	0.56
Lukoil Oil Company	LUKOY	B2	110.50	211	23,000	208.00	0.05	0.55
Suncor Energy	SU	B3	24.25	475	11,520	48.00	0.08	0.55
Petroleo Brasileiro S. A.	PBR		25.87	1,096	28,400	65.00	0.20	0.52
PetroChina Company Ltd (10%)	PTR	B2	41.63	176	7,320	88.00	0.07	0.51
	<i>Total or Median</i>				259,000		0.12	0.70
<b>Independent Natural Gas and Oil</b>								
Canadian Natural Resources Limited	CNQ		57.00	137	7,810	88.00	0.29	0.75
XTO Energy Inc.	XTO	B1	26.66	236	6,290	38.00	0.16	0.75
Encana Corporation	ECA	B1	41.01	472	19,300	63.00	0.20	0.72
Pogo Producing Company	PPP		47.77	64	3,060	70.00	0.07	0.71
Apache Corporation	APA		41.29	324	13,400	64.00	0.15	0.70
Occidental Petroleum Corp.	OXY	B3	46.23	396	18,300	75.00	0.19	0.69
Anadarko Petroleum Corp.	APC	B1	55.38	252	14,000	94.00	0.21	0.68
Unocal Corporation	UCL	B3	35.04	274	9,600	60.00	0.22	0.68
Devon Energy	DVN	B3	61.08	247	15,100	110.00	0.24	0.66
Pioneer Natural Resources Company	PXD		31.60	119	3,760	57.00	0.22	0.65
Burlington Resources	BR	B1	67.29	198	13,300	115.00	0.15	0.65
CNOOC Limited (19%)	CEO	B2	35.12	78	2,740	55.00	-	0.64
	<i>Total or Median</i>				127,000		0.19	0.68

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

May 18, 2004

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

	Symbol/ Rating		Price (\$/sh) 17-May 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	B3	43.05	1.1	6.5	11	2.3	6.5
Total S.A.	TOT	B3	93.60	1.0	5.4	9	4.4	6.3
BP plc	BP	B3	52.47	0.8	5.2	9	3.1	5.8
Shell Transport and Trading Co. plc	SC	B3	42.63	0.9	4.9	8	4.2	5.7
Royal Dutch Petroleum	RD	B1	48.47	0.9	4.8	8	4.4	5.7
ChevronTexaco Corporation	CVX	B1	91.55	0.9	4.7	8	3.2	6.1
	<i>Median</i>			<i>0.9</i>	<i>5.0</i>	<i>9</i>	<i>3.7</i>	<i>6.0</i>
<b>Producer/Refiners - Large Cap and Mid Cap</b>								
Kinder Morgan, Inc.	KMI	S2	58.83	2.9	12.7	18	2.7	7.8
Imperial Oil Limited (30%)	IMO	B3	44.46	1.3	6.4	11	1.4	6.3
Murphy Oil Corporation	MUR		65.85	1.3	6.3	12	1.2	6.0
Suncor Energy	SU	B3	24.25	2.3	5.4	9	0.6	9.8
Valero Energy Corporation	VLO		65.74	0.3	5.0	6	0.7	4.5
Marathon Oil Corporation	MRO	B3	33.10	0.4	4.9	9	3.0	5.7
ConocoPhillips	COP	B1	73.54	0.7	4.9	7	2.3	6.4
ENI S.p.A.	E		98.60	1.5	4.2	7	4.6	6.0
Petro-Canada	PCZ	B3	44.00	1.3	3.6	8	1.0	5.3
PetroChina Company Ltd (10%)	PTR	B2	41.63	1.8	3.4	6	5.2	6.6
Norsk Hydro ASA	NHY	B1	59.38	0.9	3.3	7	2.7	5.9
Petroleo Brasileiro S. A.	PBR		25.87	1.3	2.8	3	3.9	5.4
Lukoil Oil Company	LUKOY	B2	110.50	0.9	2.6	4	2.3	4.7
	<i>Median</i>			<i>1.3</i>	<i>4.9</i>	<i>7</i>	<i>2.3</i>	<i>6.0</i>
<b>Independent Natural Gas and Oil</b>								
XTO Energy Inc.	XTO	B1	26.66	4.4	5.9	10	0.2	7.8
Anadarko Petroleum Corp.	APC	B1	55.38	3.5	4.9	9	1.0	7.3
Occidental Petroleum Corp.	OXY	B3	46.23	2.3	4.8	8	2.4	7.0
CNOOC Limited (19%)	CEO	B2	35.12	3.6	4.7	10	4.5	7.4
Pioneer Natural Resources Company	PXD		31.60	3.2	4.7	14	-	7.2
Apache Corporation	APA		41.29	2.9	4.1	7	0.6	5.8
Canadian Natural Resources Limited	CNQ		57.00	2.8	4.0	7	0.8	5.3
Unocal Corporation	UCL	B3	35.04	2.0	4.0	8	2.3	5.9
Burlington Resources	BR	B1	67.29	3.0	4.0	8	0.9	6.2
Encana Corporation	ECA	B1	41.01	2.1	4.0	8	1.0	5.5
Devon Energy	DVN	B3	61.08	2.7	3.3	5	0.7	5.1
Pogo Producing Company	PPP		47.77	2.4	3.3	7	0.4	4.6
	<i>Median</i>			<i>2.9</i>	<i>4.0</i>	<i>8</i>	<i>0.8</i>	<i>6.1</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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### A Weekly Analysis of Energy Stocks Using the McDep Ratio

May 18, 2004

**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) 17-May 2004	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio	
<b>Short Life</b>								
Spinnaker Exploration Company	SKE	33.41	34.2	1,140	28.00	0.11	1.17	
Western Gas Resources	WGR	54.52	37.0	2,020	50.00	0.17	1.07	
Southwestern Energy Company	SWN	25.56	36.0	920	29.00	0.22	0.91	
The Houston Exploraton Company	THX	45.25	31.0	1,400	55.00	0.20	0.86	
Denbury Resources Inc.	DNR	18.10	55.7	1,010	25.00	0.21	0.78	
Newfield Exploration Company	NFX	49.45	56.6	2,800	73.00	0.17	0.73	
Cimarex Energy Company	XEC	B2	27.52	42.7	1,180	38.00	0.00	0.72
St. Mary Land and Exploration Company	SM	33.14	29.0	960	50.00	0.10	0.70	
Stone Energy Company	SGY	44.65	26.6	1,190	72.00	0.20	0.70	
Chesapeake Energy Corporation	CHK	13.58	220	2,990	24.00	0.29	0.69	
Westport Resources Corporation	WRC	34.49	68.0	2,350	57.00	0.17	0.67	
Energy Partners Ltd.	EPL	B3	13.12	37.7	495	22.00	0.14	0.65
PetroKazakhstan Inc.	PKZ	25.32	81.0	2,050	42.00	0.03	0.62	
Range Resources Corporation	RRC	11.20	57.0	640	24.00	0.26	0.61	
Forest Oil Corporation	FST	24.83	53.5	1,330	53.00	0.25	0.60	
		<i>Total or Median</i>		22,500		0.17	0.70	
<b>Long Life</b>								
Ultra Petroleum Corp.	UPL	31.50	78.0	2,460	25.00	0.06	1.24	
Unit Corporation	UNT	27.75	44.1	1,220	25.00	0.01	1.11	
Quicksilver Resources Inc.	KWK	48.00	25.2	1,210	50.00	0.19	0.97	
Penn Virginia Corporation	PVA	63.31	9.1	580	72.00	0.14	0.90	
Swift Energy Company	SFY	20.04	27.4	550	32.00	0.29	0.73	
Evergreen Resources, Inc.	EVG	38.48	44.0	1,690	59.00	0.10	0.69	
Whiting Petroleum Corporation	WLL	23.80	18.8	450	40.00	0.21	0.68	
Magnum Hunter Resources, Inc.	MHR	10.00	68.0	680	20.00	0.32	0.66	
Encore Acquisition Corp.	EAC	B2	27.00	30.6	825	47.00	0.18	0.65
Berry Petroleum Company	BRY	B2	26.85	22.3	599	43.00	0.07	0.65
Vintage Petroleum, Inc.	VPI	14.37	63.0	910	33.00	0.28	0.59	
		<i>Total or Median</i>		11,200		0.18	0.69	
<b>Micro Cap</b>								
Abraxas Petroleum Corporation	ABP	1.89	35.8	68	1.50	0.77	1.06	
Purcell Energy, Ltd. (US\$)	PEL.TO	1.74	48.0	84	2.80	0.27	0.73	

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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		<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>Distrib</i>	<i>Ebitda</i>
	<i>Rating</i>	<i>17-May</i>	<i>NTM</i>	<i>NTM</i>	<i>P/E</i>	<i>NTM</i>
		<i>2004</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>(%)</i>
						<i>NTM</i>
<b>Short Life</b>						
Western Gas Resources	WGR	54.52	0.9	9.3	19	- 8.7
Southwestern Energy Company	SWN	25.56	3.2	5.5	10	- 6.1
Spinnaker Exploration Company	SKE	33.41	4.3	4.8	12	- 4.1
Denbury Resources Inc.	DNR	18.10	3.0	4.5	8	- 5.8
Range Resources Corporation	RRC	11.20	3.2	4.1	7	0.4 6.8
Chesapeake Energy Corporation	CHK	13.58	2.9	4.1	7	0.9 6.0
Westport Resources Corporation	WRC	34.49	2.9	3.8	8	- 5.7
Cimarex Energy Company	XEC	B2 27.52	2.8	3.7	9	- 5.1
Stone Energy Company	SGY	44.65	2.7	3.7	7	- 5.2
St. Mary Land and Exploration Company	SM	33.14	2.5	3.6	8	0.3 5.2
Forest Oil Corporation	FST	24.83	2.6	3.5	13	- 5.8
The Houston Exploraton Company	THX	45.25	2.7	3.4	7	- 4.0
Newfield Exploration Company	NFX	49.45	2.6	3.3	7	- 4.5
Energy Partners Ltd.	EPL	B3 13.12	2.1	2.9	9	- 4.5
PetroKazakhstan Inc.	PKZ	25.32	1.6	2.6	4	- 4.2
	<i>Median</i>		2.7	3.7	8	- 5.2
<b>Long Life</b>						
Ultra Petroleum Corp.	UPL	31.50	10.3	13.2	21	- 10.6
Quicksilver Resources Inc.	KWK	48.00	6.8	10.0	19	- 10.4
Unit Corporation	UNT	27.75	3.4	7.8	19	- 7.0
Evergreen Resources, Inc.	EVG	38.48	5.2	7.3	12	- 10.6
Penn Virginia Corporation	PVA	63.31	3.4	5.8	12	1.4 6.5
Encore Acquisition Corp.	EAC	B2 27.00	4.0	5.6	9	- 8.5
Swift Energy Company	SFY	20.04	3.5	5.2	10	- 7.0
Berry Petroleum Company	BRY	B2 26.85	3.0	4.8	9	1.6 7.3
Whiting Petroleum Corporation	WLL	23.80	3.1	4.6	9	- 6.8
Magnum Hunter Resources, Inc.	MHR	10.00	2.8	4.2	6	- 6.3
Vintage Petroleum, Inc.	VPI	14.37	2.0	3.3	6	1.3 5.7
	<i>Median</i>		3.4	5.6	10	- 7.0
<b>Micro Cap</b>						
Abraxas Petroleum Corporation	ABP	1.89	6.5	9.4		- 8.9
Purcell Energy, Ltd. (US\$)	PEL.TO	1.74	2.8	3.7	6	- 5.1

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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