

## Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

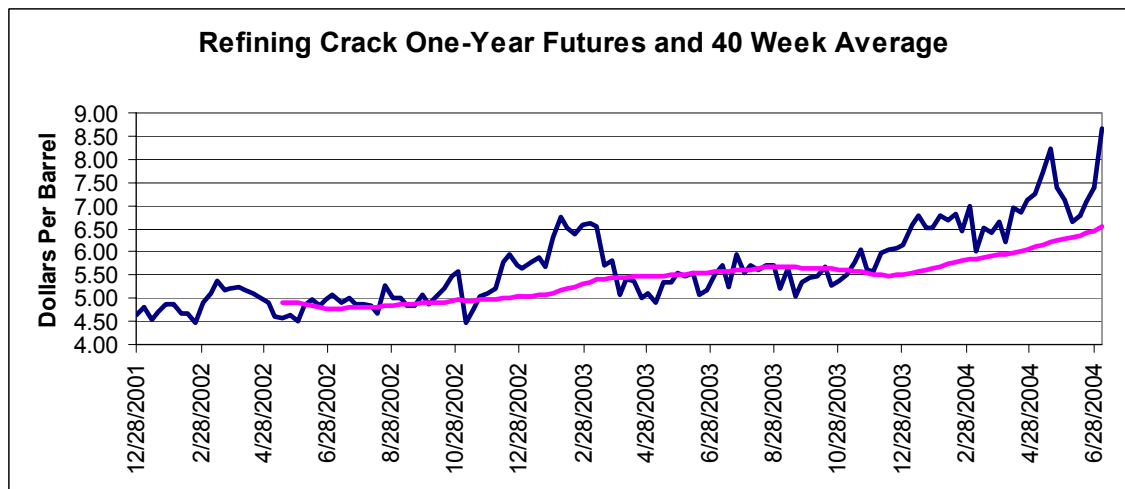
July 6, 2004

# Refining Cracks New High

## Summary and Recommendation

A new high for One-Year Refining Crack futures points to rising profits ahead for Buy recommendations, B1 – full position, **Royal Dutch (RD)**, **ConocoPhillips (COP)**, and **ChevronTexaco (CVX)** with respective downstream concentration of 38%, 33% and 26%. The implications are also positive for Buy recommendations, B2 – half position, **Lukoil (LUKOY)** and **PetroChina (PTR)** as well as for B3 – alternative buys, **Shell (SC)**, **ExxonMobil (XOM)**, **Imperial Oil (IMO)**, **Marathon Oil (MRO)**, **BP (BP)**, **Total (TOT)**, **Petro-Canada (PCZ)**, and **Suncor (SU)**. Using latest futures to project financial results for the next twelve months ended June 30, 2005 translates to unlevered cash flow multiples of only 5 times and price/earnings ratios of just 8 or 9 typically (see Table 1-2).

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) 2-Jul 2004	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
<b>Mega Cap</b>							
Exxon Mobil Corporation	XOM B3	44.72	6,582	294,000	43.00	0.09	1.04
BP plc	BP B3	53.08	3,681	195,000	60.00	0.13	0.90
Shell Transport and Trading Co. plc	SC B3	44.65	1,587	71,000	51.30	0.18	0.89
Royal Dutch Petroleum	RD B1	51.72	2,033	105,000	60.00	0.18	0.89
Total S.A.	TOT B3	96.44	1,246	120,100	113.00	0.16	0.88
ChevronTexaco Corporation	CVX B1	93.25	1,066	99,400	125.00	0.14	0.78
	<i>Total or Median</i>			885,000		0.15	0.89
<b>Producer/Refiners - Large Cap and Mid Cap</b>							
Kinder Morgan, Inc.	KMI S2	60.21	125	7,530	20.00	0.73	1.54
Valero Energy Corporation	VLO	75.14	121	9,070	55.00	0.43	1.21
Murphy Oil Corporation	MUR	75.77	93	7,030	62.00	0.20	1.18
Marathon Oil Corporation	MRO B3	38.00	352	13,370	41.00	0.29	0.95
Imperial Oil Limited (30%)	IMO B3	47.26	109	5,130	52.00	0.10	0.92
ConocoPhillips	COP B1	76.19	688	52,400	110.00	0.27	0.78
Suncor Energy	SU B3	25.84	465	12,020	38.00	0.14	0.73
ENI S.p.A.	E	101.00	755	76,300	150.00	0.12	0.71
Petroleo Brasileiro S. A.	PBR	28.05	1,096	30,700	50.00	0.28	0.68
Petro-Canada	PCZ B3	43.57	266	11,590	68.00	0.11	0.68
Norsk Hydro ASA	NHY B1	64.60	256	16,520	120.00	0.12	0.60
PetroChina Company Ltd (10%)	PTR B2	46.15	176	8,110	88.00	0.07	0.56
Lukoil Oil Company	LUKOY B2	104.25	210	22,000	208.00	0.05	0.53
	<i>Total or Median</i>			272,000		0.14	0.73
<b>Independent Natural Gas and Oil</b>							
XTO Energy Inc.	XTO B1	29.81	260	7,750	38.00	0.22	0.83
CNOOC Limited (19%)	CEO B2	43.88	78	3,430	55.00	-	0.80
Unocal Corporation	UCL B3	38.43	276	10,600	54.00	0.26	0.79
Canadian Natural Resources Limited	CNQ	30.60	271	8,300	44.00	0.29	0.78
Encana Corporation	ECA B1	43.13	472	20,300	63.00	0.20	0.75
Apache Corporation	APA	43.73	324	14,200	64.00	0.15	0.73
Occidental Petroleum Corp.	OXY B3	48.29	397	19,200	75.00	0.19	0.71
Devon Energy	DVN B3	68.18	247	16,800	110.00	0.24	0.71
Anadarko Petroleum Corp.	APC B1	59.07	254	15,000	94.00	0.21	0.71
Pioneer Natural Resources Company	PXD	35.05	119	4,170	57.00	0.22	0.70
Burlington Resources	BR B1	36.63	396	14,500	58.00	0.15	0.69
Pogo Producing Company	PPP	45.01	64	2,880	70.00	0.07	0.67
	<i>Total or Median</i>			137,000		0.20	0.72

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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July 6, 2004

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

	Symbol/ Rating	Price (\$/sh) 2-Jul 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	44.72	1.2	7.0	12	2.2	6.7
Total S.A.	TOT	B3	96.44	1.1	5.8	10	2.9	6.7
BP plc	BP	B3	53.08	0.8	5.5	10	3.1	6.1
Shell Transport and Trading Co. plc	SC	B3	44.65	0.9	5.2	9	4.0	5.9
Royal Dutch Petroleum	RD	B1	51.72	0.9	5.2	9	4.1	5.9
ChevronTexaco Corporation	CVX	B1	93.25	0.9	5.0	8	3.1	6.4
	<i>Median</i>			<i>0.9</i>	<i>5.4</i>	<i>10</i>	<i>3.1</i>	<i>6.3</i>
<b>Producer/Refiners - Large Cap and Mid Cap</b>								
Kinder Morgan, Inc.	KMI	S2	60.21	3.0	12.4	15	3.7	8.0
Suncor Energy	SU	B3	25.84	2.7	8.4	17	0.7	11.6
Murphy Oil Corporation	MUR		75.77	1.5	7.4	15	1.1	6.3
Imperial Oil Limited (30%)	IMO	B3	47.26	1.2	6.0	10	1.4	6.5
Marathon Oil Corporation	MRO	B3	38.00	0.5	5.5	10	2.6	5.8
Valero Energy Corporation	VLO		75.14	0.4	5.4	7	0.6	4.5
ConocoPhillips	COP	B1	76.19	0.7	4.7	7	2.3	6.1
ENI S.p.A.	E		101.00	1.5	4.4	8	4.5	6.1
Petroleo Brasileiro S. A.	PBR		28.05	1.6	4.3	5	2.6	6.3
Norsk Hydro ASA	NHY	B1	64.60	1.0	3.7	8	2.5	6.1
PetroChina Company Ltd (10%)	PTR	B2	46.15	2.0	3.6	7	4.7	6.5
Petro-Canada	PCZ	B3	43.57	1.3	3.4	6	1.0	4.9
Lukoil Oil Company	LUKOY	B2	104.25	0.9	2.5	4	2.5	4.8
	<i>Median</i>			<i>1.3</i>	<i>4.7</i>	<i>8</i>	<i>2.5</i>	<i>6.1</i>
<b>Independent Natural Gas and Oil</b>								
CNOOC Limited (19%)	CEO	B2	43.88	4.6	5.9	12	3.6	7.4
XTO Energy Inc.	XTO	B1	29.81	4.5	5.8	11	0.1	7.0
Pioneer Natural Resources Company	PXD		35.05	3.6	5.2	17	-	7.4
Occidental Petroleum Corp.	OXY	B3	48.29	2.4	5.0	9	2.3	7.1
Unocal Corporation	UCL	B3	38.43	2.0	4.9	9	2.1	6.3
Anadarko Petroleum Corp.	APC	B1	59.07	3.5	4.9	9	0.9	7.0
Burlington Resources	BR	B1	36.63	3.3	4.5	9	1.6	6.5
Apache Corporation	APA		43.73	3.2	4.5	8	0.5	6.1
Encana Corporation	ECA	B1	43.13	2.2	4.2	8	0.9	5.7
Canadian Natural Resources Limited	CNQ		30.60	2.8	4.1	7	1.0	5.3
Devon Energy	DVN	B3	68.18	3.1	3.8	6	0.6	5.3
Pogo Producing Company	PPP		45.01	2.3	3.3	7	0.4	4.9
	<i>Median</i>			<i>3.1</i>	<i>4.7</i>	<i>9</i>	<i>0.9</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 June 30, 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) 2-Jul 2004	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
<b>Short Life</b>							
Spinnaker Exploration Company	SKE	39.63	34.2	1,360	28.00	0.11	1.37
Western Gas Resources	WGR	32.99	74.0	2,440	25.00	0.17	1.26
Southwestern Energy Company	SWN	30.37	36.0	1,090	29.00	0.22	1.04
The Houston Exploraton Company	THX	51.94	31.0	1,610	55.00	0.20	0.96
Denbury Resources Inc.	DNR	21.40	55.7	1,190	25.00	0.21	0.89
Penn West Petroleum Ltd. (US\$)	PWT.TO	47.21	54.7	2,580	57.00	0.21	0.86
Newfield Exploration Company	NFX	56.16	56.6	3,180	73.00	0.17	0.81
Cimarex Energy Company	XEC B2	30.48	42.6	1,300	38.00	0.00	0.80
Energy Partners Ltd.	EPL B3	15.61	37.7	588	22.00	0.14	0.75
St. Mary Land and Exploration Company	SM	35.70	29.0	1,040	50.00	0.10	0.74
Chesapeake Energy Corporation	CHK	15.16	220	3,340	24.00	0.29	0.74
Range Resources Corporation	RRC	15.11	57.0	860	24.00	0.26	0.73
Stone Energy Company	SGY	46.50	26.6	1,240	72.00	0.20	0.72
PetroKazakhstan Inc.	PKZ	28.16	80.7	2,270	42.00	0.01	0.68
Forest Oil Corporation	FST	27.37	53.5	1,460	53.00	0.25	0.64
	<i>Total or Median</i>			25,500		0.20	0.80
<b>Long Life</b>							
Ultra Petroleum Corp.	UPL	37.23	78.0	2,900	25.00	0.06	1.46
Quicksilver Resources Inc.	KWK	34.68	50.4	1,750	25.00	0.19	1.31
Unit Corporation	UNT	31.79	44.1	1,400	25.00	0.01	1.27
Penn Virginia Corporation	PVA	36.60	18.2	670	36.00	0.14	1.01
Swift Energy Company	SFY	22.94	27.4	630	32.00	0.29	0.80
Berry Petroleum Company	BRY B2	29.52	22.3	658	43.00	0.07	0.71
Whiting Petroleum Corporation	WLL	24.96	18.8	470	40.00	0.21	0.70
Magnum Hunter Resources, Inc.	MHR	10.50	68.0	710	20.00	0.32	0.68
Encore Acquisition Company	EAC B2	28.05	30.6	857	47.00	0.18	0.67
Vintage Petroleum, Inc.	VPI	17.25	63.0	1,090	33.00	0.28	0.65
	<i>Total or Median</i>			11,100		0.19	0.75
<b>Micro Cap</b>							
Abraxas Petroleum Corporation	ABP	1.55	35.8	55	1.50	0.77	1.01
Purcell Energy, Ltd. (US\$)	PEL.TO	2.10	62.0	130	2.80	0.26	0.82

B2 = Buy half unlevered position, B3 = Alternative buy

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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.

		Price (\$/sh)	EV/ Sales	EV/ Ebitda	P/E	Divd or Distrib NTM (%)	PV/ Ebitda NTM
Symbol/ Rating		2-Jul 2004	NTM	NTM	NTM		
<b>Short Life</b>							
Western Gas Resources	WGR	32.99	1.0	11.2	24	-	8.9
Southwestern Energy Company	SWN	30.37	3.8	6.5	12	-	6.3
Spinnaker Exploration Company	SKE	39.63	5.2	5.9	15	-	4.3
Denbury Resources Inc.	DNR	21.40	3.7	5.5	11	-	6.2
Range Resources Corporation	RRC	15.11	4.1	5.3	10	0.3	7.2
Penn West Petroleum Ltd. (US\$)	PWT.TO	47.21	3.7	5.1	11	0.8	5.9
Chesapeake Energy Corporation	CHK	15.16	3.3	4.5	8	0.8	6.1
St. Mary Land and Exploration Company	SM	35.70	2.8	4.1	10	0.3	5.5
Stone Energy Company	SGY	46.50	2.9	4.0	8	-	5.6
The Houston Exploraton Company	THX	51.94	3.1	4.0	9	-	4.2
Cimarex Energy Company	XEC	B2 30.48	3.1	3.9	9	-	4.9
Forest Oil Corporation	FST	27.37	2.9	3.9	18	-	6.2
Newfield Exploration Company	NFX	56.16	3.0	3.8	8	-	4.7
Energy Partners Ltd.	EPL	B3 15.61	2.6	3.6	12	-	4.8
PetroKazakhstan Inc.	PKZ	28.16	1.8	3.4	6	-	5.0
	<i>Median</i>		<i>3.1</i>	<i>4.1</i>	<i>10</i>	<i>-</i>	<i>5.6</i>
<b>Long Life</b>							
Ultra Petroleum Corp.	UPL	37.23	12.1	15.6	25	-	10.7
Quicksilver Resources Inc.	KWK	34.68	9.6	14.4	29	-	10.9
Unit Corporation	UNT	31.79	4.0	9.2	22	-	7.3
Penn Virginia Corporation	PVA	36.60	4.0	6.9	15	1.2	6.8
Swift Energy Company	SFY	22.94	4.1	6.1	14	-	7.6
Berry Petroleum Company	BRY	B2 29.52	3.6	6.1	12	1.5	8.6
Encore Acquisition Company	EAC	B2 28.05	4.0	5.6	13	-	8.4
Whiting Petroleum Corporation	WLL	24.96	3.4	5.2	11	-	7.4
Magnum Hunter Resources, Inc.	MHR	10.50	3.0	4.6	8	-	6.8
Vintage Petroleum, Inc.	VPI	17.25	2.5	4.1	8	1.0	6.3
	<i>Median</i>		<i>4.0</i>	<i>6.1</i>	<i>13</i>	<i>-</i>	<i>7.5</i>
<b>Micro Cap</b>							
Abraxas Petroleum Corporation	ABP	1.55	6.5	9.7		-	9.6
Purcell Energy, Ltd. (US\$)	PEL.TO	2.10	4.3	5.9	13	-	7.2

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