

The Dollar Again

Summary and Recommendation

Oil and gas investments can be helpful to domestic investors as a renewed decline in the dollar poses the ultimate challenge to preserving wealth, let alone enhancing it. The dollar has lost 30% of its value against the second most important currency, the euro, in just two years. The devaluation of the currency neutralizes the whole gain in the stock market over the same time. One-year and six-year oil have gained some 70% and 60% respectively in two years and are likely to continue to beat devaluation though not necessarily every week or month. Favored buy-recommendation **Canadian Oil Sands Trust (COSWF)** appears timely for new commitments. The prospects for more than offsetting devaluation also appear favorable for alternative buy-rated **Devon Energy (DVN)**, **Imperial Oil (IMO)** and **Occidental Petroleum (OXY)** among others.

The Challenge of Currency

When the currency is losing value, investors have to run hard just to stay even. Sure, life may not have changed yet at home, but the signs of impoverishment are there not to be ignored by anyone who cares about the investment future.

Currency devaluation may be a greater threat to U.S. investors in this century than in the last. Most declines in the twentieth century were offset by gains. Now the U.S. may be showing signs of maturity as a dominant world power. Our leadership does not have to wane, but it might.

When a currency loses value, inflation can follow. The inflation we already have seems underreported. Ultimately the loss of value through inflation could exceed the loss in value of one currency against another. Presumably the motivation for cheapening the dollar is to cut the price of our exports, move more volume and settle past deficits with cheaper dollars. Our trading partners may accept that partly, but may also cheapen their own currencies to keep competitive in the export market. If the dollar buys fewer goods and services denominated in other currencies and other currencies also buy fewer goods and services, dollar investors lose twice.

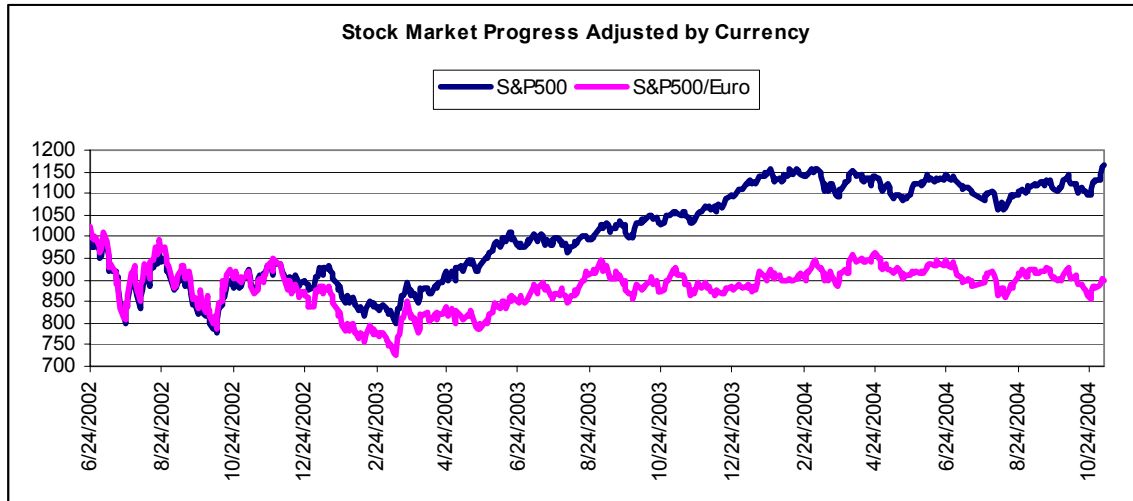
Though a lower dollar may be good for the economic activity of U.S. exporters, even the most conservative investors must speculate if the seemingly safest dollar-denominated investments are losing value. Anything that goes up more in dollar terms than the dollar goes down will put an investor ahead of the game.

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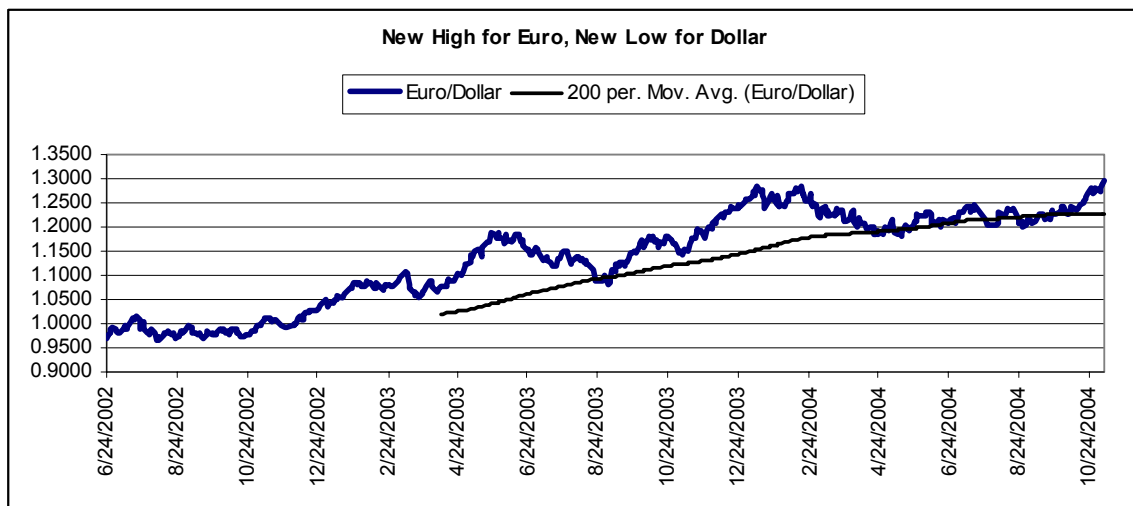
A Weekly Analysis of Energy Stocks Using the McDep Ratio

November 9, 2004

Investing in the stock market alone was not enough to offset dollar decline. The stock market remains flat for the past two years when repriced in euros (see chart Stock Market Progress Adjusted by Currency).



While we cannot know where the dollar is headed, the devaluation trend looks strong (see chart New High for Euro, New Low for Dollar). A new move for the euro above the 200-day average has just begun roughly coincident with the U.S. Presidential Election that returned the incumbent to power.



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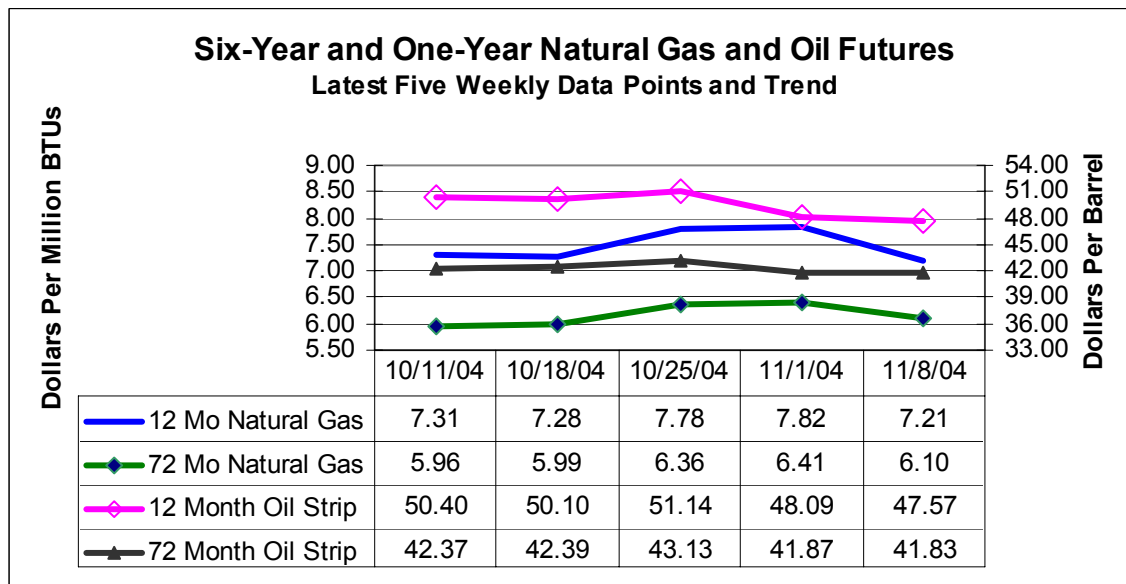
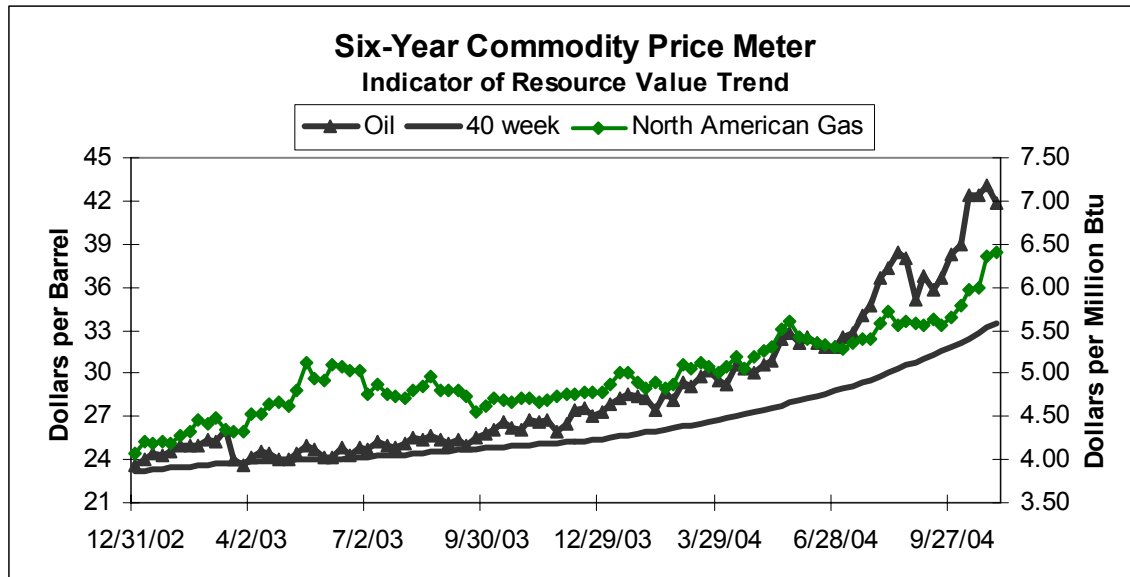
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Oil and Gas Price Trend Continues Upward

One-year and six-year futures remain above the 40-week average defining an upward trend. The recent pullback appears less noticeable in the out years. While the near month oil future is down 10% in two weeks, the 2010 future is off only a half percent.



For recommendations and valuation measures, see tables [Rank by McDep Ratio](#) and [Rank by EV/Ebitda](#). For recent single-stock research, see [Index of Stock Ideas](#).

Kurt H. Wulff, CFA

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Rated Oil and Gas Producers Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/ Rating	Price (\$/sh) 8-Nov 2004	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap							
Exxon Mobil Corporation	XOM B3	50.17	6,508	327,000	50.00	0.07	1.00
BP plc	BP B3	59.54	3,614	215,000	60.00	0.13	0.99
Shell Transport and Trading Co. plc	SC B3	48.36	1,587	77,000	51.00	0.17	0.96
Total S.A.	TOT B3	106.40	1,237	132,000	113.00	0.17	0.95
Royal Dutch Petroleum	RD B1	55.26	2,021	112,000	60.00	0.17	0.93
ChevronTexaco Corporation	CVX B1	53.36	2,125	113,000	62.50	0.13	0.87
				<i>Total or Median</i>	976,000	0.15	0.95
Producer/Refiners - Large Cap and Mid Cap							
Kinder Morgan, Inc.	KMI S2	64.85	125	8,090	20.00	0.74	1.58
Imperial Oil Limited (30%)	IMO B3	57.30	107	6,120	58.00	0.10	0.99
Marathon Oil Corporation	MRO B3	37.72	347	13,090	40.00	0.31	0.96
Suncor Energy	SU B3	33.63	460	15,470	38.00	0.13	0.90
Norsk Hydro ASA	NHY B1	76.16	254	19,360	90.00	0.17	0.87
ConocoPhillips	COP B1	86.77	699	60,700	110.00	0.25	0.84
Petro-Canada	PCZ B3	52.42	269	14,120	68.00	0.15	0.81
PetroChina Company Ltd (10%)	PTR B2	54.27	176	9,540	82.00	0.06	0.68
Lukoil Oil Company	LUKOY B2	130.25	209	27,000	208.00	0.05	0.64
				<i>Total or Median</i>	173,000	0.15	0.87
Independent Natural Gas and Oil - Large Cap and Mid Cap							
CNOOC Limited (19%)	CEO B2	53.80	78	4,200	59.00	-	0.91
XTO Energy Inc.	XTO B1	33.13	266	8,810	38.00	0.19	0.90
Encana Corporation	ECA B1	51.49	472	24,300	63.00	0.21	0.86
Unocal Corporation	UCL B3	42.63	274	11,700	54.00	0.24	0.84
Occidental Petroleum Corp.	OXY B3	57.36	399	22,900	75.00	0.18	0.81
Anadarko Petroleum Corp.	APC B1	66.76	253	16,900	94.00	0.20	0.77
Devon Energy Corporation	DVN B3	75.52	250	18,900	110.00	0.22	0.76
Burlington Resources	BR B1	41.07	395	16,200	58.00	0.14	0.75
				<i>Total or Median</i>	124,000	0.20	0.82
Independent Natural Gas and Oil - Small Cap							
Cimarex Energy Company	XEC B2	36.80	43	1,580	38.00	0.00	0.97
Berry Petroleum Company	BRY B2	38.12	22	850	43.00	0.06	0.89
Energy Partners Ltd.	EPL B3	17.15	39	670	22.00	0.15	0.81
Encore Acquisition Company	EAC B2	30.80	33	1,010	47.00	0.20	0.72
				<i>Total or Median</i>	4,100	0.10	0.85
Income							
Kinder Morgan Energy Partners, L.P.	KMP S3	45.51	145	6,600	15.00	0.52	1.98
Kinder Morgan Management, LLC	KMR S3	40.62	54	2,200	15.00	0.52	1.82
San Juan Basin Royalty Trust	SJT H	29.98	47	1,400	27.00	-	1.11
Canadian Oil Sands Trust (US\$)	COSWF B1	47.25	92	4,360	72.00	0.18	0.72
				<i>Total or Median</i>	14,600	0.35	1.47

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

S2 = Short half unlevered position, S3 = Short quarter unlevered position

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

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Rated Oil and Gas Producers

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

	Symbol/ Rating		Price (\$/sh) 8-Nov 2004	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Mega Cap								
BP plc	BP	B3	59.54	9.9	6.6	6.5	12	2.9
Exxon Mobil Corporation	XOM	B3	50.17	11.1	6.3	6.4	11	2.2
Total S.A.	TOT	B3	106.40	9.1	6.5	6.2	11	2.9
Shell Transport and Trading Co. plc	SC	B3	48.36	8.0	5.2	5.0	9	4.0
Royal Dutch Petroleum	RD	B1	55.26	8.0	5.2	4.9	9	4.1
ChevronTexaco Corporation	CVX	B1	53.36	11.3	5.4	4.7	8	3.0
	<i>Median</i>			9.5	5.8	5.6	10	2.9
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	64.85		8.3	13.1	16	3.5
Suncor Energy	SU	B3	33.63	18.4	7.2	6.5	15	0.6
Imperial Oil Limited (30%)	IMO	B3	57.30	11.3	6.1	6.1	11	1.3
Marathon Oil Corporation	MRO	B3	37.72	7.7	5.4	5.2	9	3.0
ConocoPhillips	COP	B1	86.77	11.2	5.4	4.6	7	2.0
Norsk Hydro ASA	NHY	B1	76.16	9.4	5.1	4.4	10	2.3
PetroChina Company Ltd (10%)	PTR	B2	54.27	13.5	6.5	4.4	9	4.3
Petro-Canada	PCZ	B3	52.42	7.6	5.2	4.2	8	1.0
Lukoil Oil Company	LUKOY	B2	130.25	12.2	5.2	3.3	6	2.6
	<i>Median</i>			11.3	5.4	4.6	9	2.3
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B1	33.13	11.7	5.4	4.9	9	0.1
CNOOC Limited (19%)	CEO	B2	53.80	9.6	5.0	4.5	8	3.3
Occidental Petroleum Corp.	OXY	B3	57.36	11.2	5.6	4.5	7	1.9
Unocal Corporation	UCL	B3	42.63	8.9	5.0	4.2	8	1.9
Anadarko Petroleum Corp.	APC	B1	66.76	10.9	5.3	4.1	8	0.8
Burlington Resources	BR	B1	41.07	9.9	5.4	4.0	8	0.8
Encana Corporation	ECA	B1	51.49	6.5	4.3	3.7	8	0.8
Devon Energy Corporation	DVN	B3	75.52	6.6	4.4	3.3	7	0.5
	<i>Median</i>			9.7	5.2	4.1	8	0.8
Independent Natural Gas and Oil - Small Cap								
Encore Acquisition Company	EAC	B2	30.80	12.0	7.7	5.6	11	-
Berry Petroleum Company	BRY	B2	38.12	12.5	5.3	4.7	10	1.3
Cimarex Energy Company	XEC	B2	36.80	5.2	3.6	3.5	8	-
Energy Partners Ltd.	EPL	B3	17.15	4.9	3.5	2.8	8	-
	<i>Median</i>			8.6	4.5	4.1	9	-
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	45.51	12.0	7.9	15.6	20	6.4
Kinder Morgan Management, LLC	KMR	S3	40.62	12.0	7.9	14.4	18	7.2
San Juan Basin Royalty Trust	SJT	H	29.98	12.5	7.9	8.8	10	10.2
Canadian Oil Sands Trust (US\$)	COSWF	B1	47.25	20.0	10.2	7.4	10	3.5
	<i>Median</i>			12.2	7.9	11.6	14	6.8

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2005; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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Index of Stock Ideas Recent Written Analyses

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
9-Nov	IMO	Imperial Oil Limited	Raise Present Value to US\$58 a Share
9-Nov	DVN	Devon Energy Corporation	Large Cap Natural Gas
8-Nov	BRY	Berry Petroleum Company	Smart Oil Contract
8-Nov	PCZ	Petro-Canada	Looking for Long Life
5-Nov	SJT	San Juan Basin Royalty Trust	High Winter Distributions Ahead
4-Nov	ECA	EnCana Corporation	Bold Moves
3-Nov	MRO	Marathon Oil Corporation	Lower Net Present Value to \$40 a Share
2-Nov	XOM	Exxon Mobil Corporation	Raise Present Value to \$50 a Share
26-Oct	KMP	Kinder Morgan Energy Partners, L.P.	Fallen Star
26-Oct	KMI	Kinder Morgan Inc.	Fallen Star
26-Oct	KMR	Kinder Morgan Management, LLC	Fallen Star
18-Oct	NHY	Norsk Hydro ASA	High Cash Flow
11-Oct	BR	Burlington Resources, Inc.	Natural Gas Sensitivity
11-Oct	COSWF	Canadian Oil Sands Trust	Raise Present Value to US\$72 a Unit
11-Oct	SJT	San Juan Basin Royalty Trust	Raise Present Value to \$27 a Unit
6-Oct	* COSWF	Canadian Oil Sands Trust	Ten Percent Holder Surfaces
5-Oct	* LUKOY	Lukoil Oil Company	SEC Standard Reduces Reserves
30-Sep	* COP	ConocoPhillips	Lukoil Investment Confirmed
30-Sep	* LUKOY	Lukoil Oil Company	ConocoPhillips Partner Confirmed
28-Sep	* RD	Royal Dutch Petroleum	Low Risk, Attractive Reward
28-Sep	* SC	Shell Transport & Trading Company, p.l.c.	Low Risk, Attractive Reward
20-Sep	* BP	BP p.l.c.	Betting on Putin
20-Sep	* LUKOY	Lukoil Oil Company	ConocoPhillips Partner
8-Sep	* CEO	CNOOC Ltd ADS	Higher Dividend, Higher Present Value
8-Sep	* PTR	PetroChina Company Limited	Dividend Raised, Present Value Trimmed
8-Sep	* XTO	XTO Energy Inc.	High Performance, High Compensation
7-Sep	* APC	Anadarko Petroleum Corporation	Commodity Alternative
7-Sep	* XEC	Cimarex Energy Company	High Present Value per Barrel
3-Sep	* EAC	Encore Acquisition Company	Rising Recovery and Leadership
31-Aug	* COP	ConocoPhillips	Lukoil Investor?
27-Aug	* EPL	Energy Partners, Ltd.	Volume Acceleration
27-Aug	* MRO	Marathon Oil Corporation	Tilting to Refining
26-Aug	* BP	BP p.l.c.	Russia Distinction
26-Aug	* TOT	Total S.A.	Shell Acquirer?
23-Aug	* OXY	Occidental Petroleum Corporation	Oil Rich
23-Aug	* UCL	Unocal Corporation	Asian Natural Gas and Oil
16-Aug	* SU	Suncor Energy Inc.	A Boone and Charlie Favorite
4-Aug	* CVX	ChevronTexaco Corporation	Stock Price Lagging Oil Price

* Archived on www.mcdep.com

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