

## Meter Reader

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

December 21, 2004

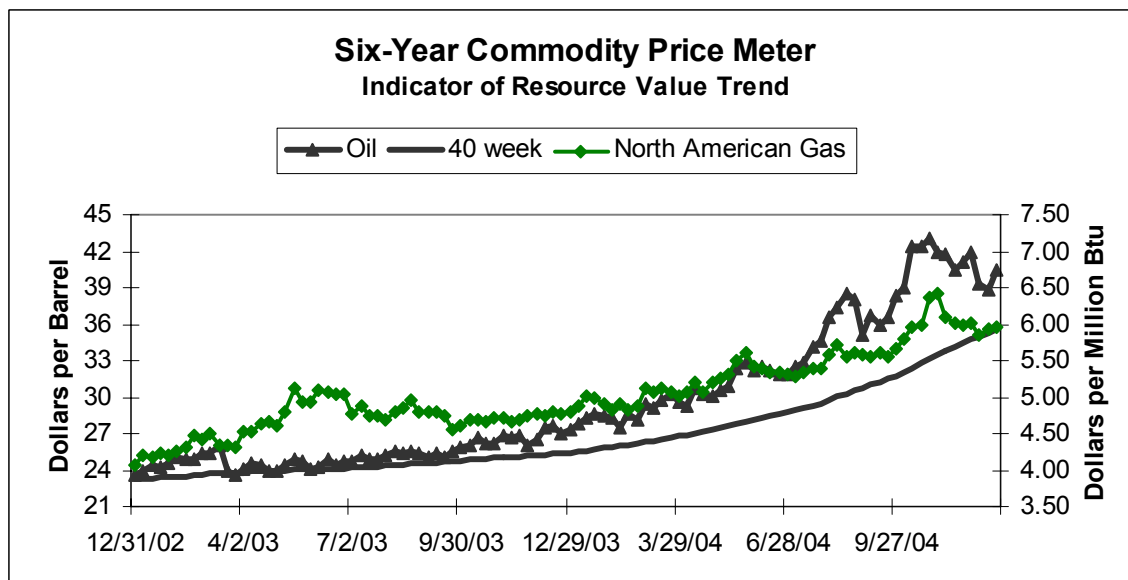
# Staying on the Message

## Summary and Recommendation

Possible multi-fold upside for oil and gas price, good looking charts for long-term futures and cheap stock prices for oil and gas producers is the message to justify our buy recommendations that include **Royal Dutch/Shell (RD/SC)**, **ChevronTexaco (CVX)**, **Norsk Hydro (NHY)**, and **CNOOC Limited (CEO)**. Those were the fundamental points we discussed in more detail last week as we stay on the message (see Meter Reader, *Oil and Gas at Mid Decade*, December 14, 2004). Continuous meter readings indicate progress.

## Six-Year Futures Trend Looks Good

Tracking the average futures price for the next six-years we see that the current quote is above the 40-week average (see chart Six-Year Commodity Price Meter). The uptrend remains intact after sharper fluctuations in near-term futures recently.



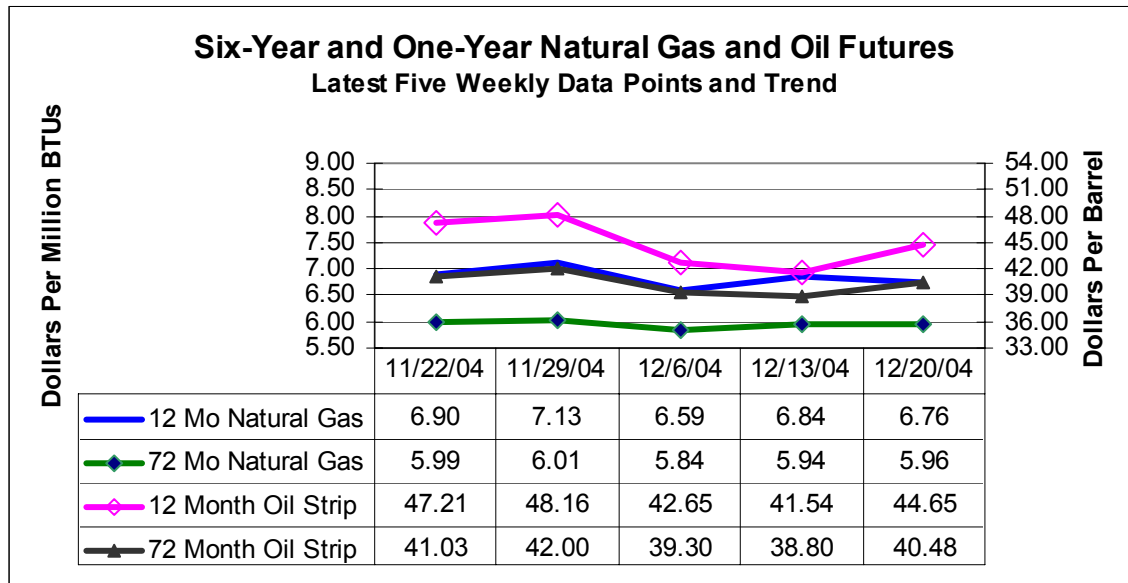
We print the detailed result of our calculations for the record (see chart Six-Year and One-Year Natural Gas and Oil Futures ). We take monthly quotes that go into the calculation from nymex.com.

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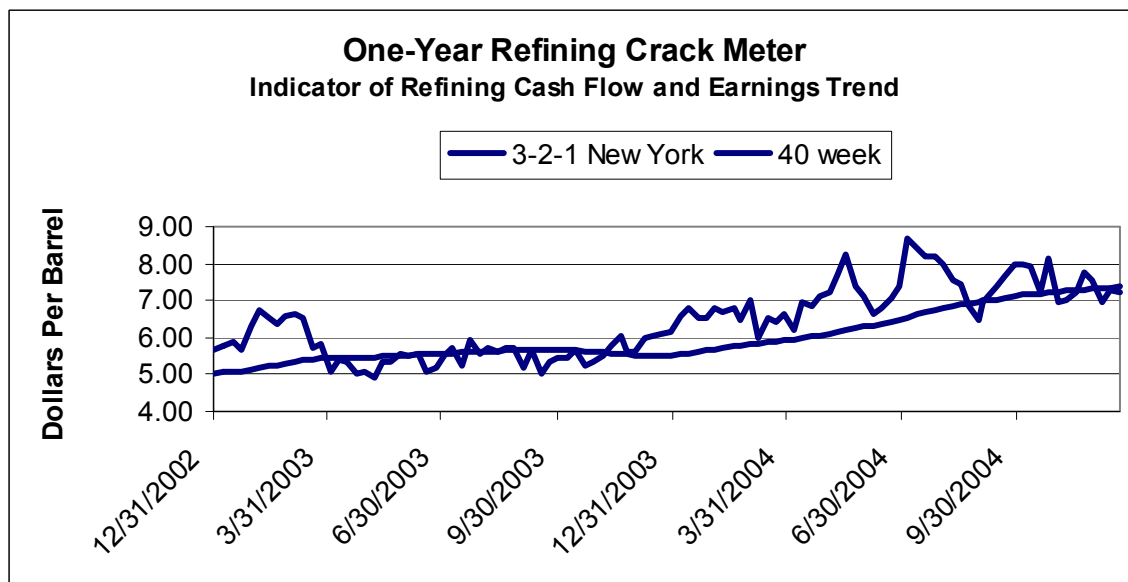
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## Refining Crack Trend Understates Potential



## Buy Recommended Stocks

For recommendations and valuation measures, see tables [Rank by McDep Ratio](#) and [Rank by EV/Ebitda](#). Ebitda estimates are consistent with latest Next Twelve Months future prices. For recent single-stock research, see [Index of Stock Ideas](#).

Kurt H. Wulff, CFA

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

	Symbol/ Rating		Price (\$/sh) 20-Dec 2004	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
<b>Mega Cap</b>								
Exxon Mobil Corporation	XOM	B3	51.06	6,508	332,000	50.00	0.07	1.02
Shell Transport and Trading Co. plc	SC	B3	50.55	1,587	80,000	51.00	0.17	0.99
BP plc	BP	B3	58.79	3,614	213,000	60.00	0.13	0.98
Total S.A.	TOT	B3	106.42	1,228	131,000	113.00	0.17	0.95
Royal Dutch Petroleum	RD	B1	56.24	2,021	114,000	60.00	0.17	0.95
ChevronTexaco Corporation	CVX	B1	52.56	2,126	112,000	62.50	0.13	0.86
<i>Total or Median</i>					982,000		0.15	0.97
<b>Producer/Refiners - Large Cap and Mid Cap</b>								
Kinder Morgan, Inc.	KMI	S2	72.89	125	9,090	20.00	0.74	1.69
Imperial Oil Limited (30%)	IMO	B3	57.40	107	6,130	58.00	0.10	0.99
Marathon Oil Corporation	MRO	B3	37.11	347	12,880	40.00	0.31	0.95
Norsk Hydro ASA	NHY	B1	77.70	254	19,750	90.00	0.18	0.89
ConocoPhillips	COP	B1	88.00	702	61,800	110.00	0.25	0.85
Suncor Energy	SU	B3	33.66	460	15,480	42.00	0.12	0.82
Petro-Canada	PCZ	B3	49.85	269	13,430	68.00	0.18	0.78
PetroChina Company Ltd (10%)	PTR	B2	54.45	176	9,570	82.00	0.06	0.68
Lukoil Oil Company	LUKOY	B2	109.75	209	23,000	208.00	0.06	0.56
<i>Total or Median</i>					171,000		0.18	0.85
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>								
CNOOC Limited (19%)	CEO	B2	56.22	78	4,390	59.00	-	0.95
XTO Energy Inc.	XTO	B1	33.97	272	9,250	38.00	0.19	0.91
Encana Corporation	ECA	B1	56.11	472	26,500	63.00	0.21	0.91
Unocal Corporation	UCL	B3	43.28	274	11,900	54.00	0.24	0.85
Occidental Petroleum Corp.	OXY	B3	58.68	403	23,700	75.00	0.17	0.82
Devon Energy Corporation	DVN	B3	40.48	500	20,200	55.00	0.22	0.79
Burlington Resources	BR	B1	44.14	395	17,400	58.00	0.14	0.79
Anadarko Petroleum Corp.	APC	B1	66.00	253	16,700	94.00	0.20	0.76
<i>Total or Median</i>					130,000		0.20	0.84
<b>Independent Natural Gas and Oil - Small Cap</b>								
Berry Petroleum Company	BRY	B2	49.42	22	1,110	43.00	0.06	1.15
Cimarex Energy Company	XEC	B2	37.33	43	1,600	38.00	0.00	0.98
Energy Partners Ltd.	EPL	B3	20.31	39	790	22.00	0.15	0.93
Encore Acquisition Company	EAC	B2	33.39	33	1,090	47.00	0.22	0.77
<i>Total or Median</i>					4,600		0.10	0.96
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S3	45.06	145	6,530	15.00	0.52	1.97
Kinder Morgan Management, LLC	KMR	S3	40.87	55	2,250	15.00	0.52	1.83
Pengrowth Energy Trust	PGH		20.61	136	2,800	14.00	0.26	1.35
Enerplus Resources Fund	ERF		35.44	104	3,690	28.00	0.18	1.22
San Juan Basin Royalty Trust	SJT	H	30.09	47	1,400	27.00	-	1.11
Canadian Oil Sands Trust (US\$)	COSWF	B1	51.31	91	4,670	72.00	0.18	0.77
<i>Total or Median</i>					21,300		0.22	1.28

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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#### Oil and Gas Producers

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

	Symbol/ Rating		Price (\$/sh) 20-Dec 2004	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
<b>Mega Cap</b>								
BP plc	BP	B3	58.79	9.9	6.9	6.7	13	2.9
Exxon Mobil Corporation	XOM	B3	51.06	11.1	6.5	6.7	12	2.1
Total S.A.	TOT	B3	106.42	9.6	6.4	6.1	11	3.0
Shell Transport and Trading Co. plc	SC	B3	50.55	8.1	5.5	5.4	10	2.4
Royal Dutch Petroleum	RD	B1	56.24	8.1	5.5	5.2	10	2.6
ChevronTexaco Corporation	CVX	B1	52.56	11.4	5.6	4.8	8	3.0
	<i>Median</i>			9.7	6.0	5.8	11	2.7
<b>Producer/Refiners - Large Cap and Mid Cap</b>								
Kinder Morgan, Inc.	KMI	S2	72.89		8.3	14.0	18	3.1
Suncor Energy	SU	B3	33.66	18.4	8.3	6.8	15	0.6
Imperial Oil Limited (30%)	IMO	B3	57.40	11.3	6.4	6.3	11	1.2
Marathon Oil Corporation	MRO	B3	37.11	7.8	5.7	5.4	10	3.0
Norsk Hydro ASA	NHY	B1	77.70	9.4	5.4	4.8	12	2.3
ConocoPhillips	COP	B1	88.00	11.9	5.6	4.8	7	2.0
PetroChina Company Ltd (10%)	PTR	B2	54.45	13.5	6.5	4.5	9	4.3
Petro-Canada	PCZ	B3	49.85	7.6	5.6	4.4	8	1.0
Lukoil Oil Company	LUKOY	B2	109.75	12.2	5.8	3.2	5	3.1
	<i>Median</i>			11.6	5.8	4.8	10	2.3
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>								
XTO Energy Inc.	XTO	B1	33.97	11.7	6.1	5.6	10	0.6
CNOOC Limited (19%)	CEO	B2	56.22	9.6	5.2	4.9	9	3.2
Occidental Petroleum Corp.	OXY	B3	58.68	11.2	5.9	4.8	8	1.9
Burlington Resources	BR	B1	44.14	9.9	5.6	4.4	9	0.8
Unocal Corporation	UCL	B3	43.28	8.9	5.2	4.4	9	1.8
Anadarko Petroleum Corp.	APC	B1	66.00	10.9	5.6	4.3	9	0.8
Encana Corporation	ECA	B1	56.11	6.4	4.5	4.2	10	0.7
Devon Energy Corporation	DVN	B3	40.48	6.6	4.7	3.7	8	1.0
	<i>Median</i>			9.7	5.4	4.4	9	0.9
<b>Independent Natural Gas and Oil - Small Cap</b>								
Berry Petroleum Company	BRY	B2	49.42	12.5	5.9	6.8	15	1.0
Encore Acquisition Company	EAC	B2	33.39	11.9	7.1	5.4	11	-
Cimarex Energy Company	XEC	B2	37.33	5.2	3.8	3.8	10	-
Energy Partners Ltd.	EPL	B3	20.31	4.9	3.8	3.5	11	-
	<i>Median</i>			8.6	4.9	4.6	11	-
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S3	45.06		7.9	15.6	21	6.5
Kinder Morgan Management, LLC	KMR	S3	40.87		7.9	14.6	19	7.1
San Juan Basin Royalty Trust	SJT	H	30.09	12.5	7.6	8.5	9	10.7
Canadian Oil Sands Trust (US\$)	COSWF	B1	51.31	20.0	10.0	7.7	9	3.2
Pengrowth Energy Trust	PGH		20.61	7.9	5.4	7.3	14	10.9
Enerplus Resources Fund	ERF		35.44	8.3	5.9	7.2	18	9.6
	<i>Median</i>			10.4	7.8	8.1	16	8.4

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 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>
20-Dec	BP	BP p.l.c.	Cash Flows to Owners
9-Dec	SU	Suncor Energy Inc.	Raise Net Present Value to US\$42 a Share
8-Dec	CVX	ChevronTexaco Corporation	Mega Cap at a Discount
3-Dec	COSWF	Canadian Oil Sands Trust	After Hubbert's Peak
3-Dec	COP	ConocoPhillips	Connecting with Lukoil
29-Nov	XEC	Cimarex Energy Company	Timely Talent
26-Nov	XTO	XTO Energy Inc.	Twenty Per Cent per Year per Share
24-Nov	APC	Anadarko Petroleum Corporation	Asset Upgrade
22-Nov	EAC	Encore Acquisition Company	Opportunity in Hedging Impact
22-Nov	* MTR	Mesa Royalty Trust	Hugoton Predictability, San Juan Surprise
17-Nov	* TOT	Total S.A.	African Oil, European Refining
17-Nov	* UCL	Unocal Corporation	Incremental Production in 2005
15-Nov	* EPL	Energy Partners, Ltd.	Lowest Cash Flow Multiple
15-Nov	* OXY	Occidental Petroleum Corporation	Still Cheap
12-Nov	* CRT	Cross Timbers Royalty Trust	Low Risk, Long Life
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	* 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

\* Archived on [www.mcdep.com](http://www.mcdep.com)

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