

## Meter Reader

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

January 11, 2005

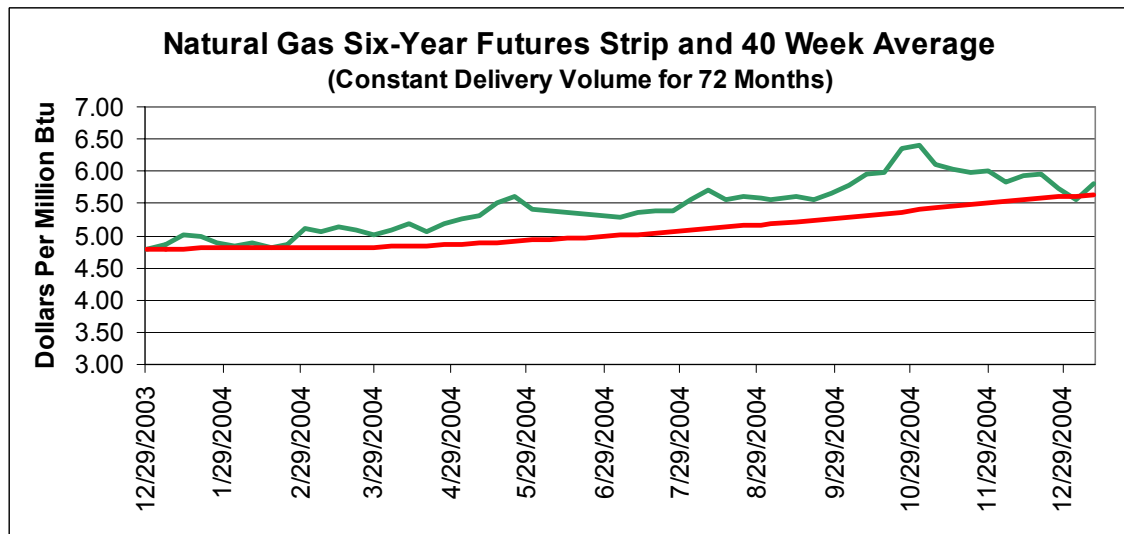
# When, Not If

## Summary and Recommendation

Energy investment profits lie ahead, in our opinion, while the timing of gains may be delayed occasionally. Energy stock performance was encouraging in 2004 as in 1976 two years after a stock market bottom in 2002 and 1974. Energy stock accumulation in 1977 and 1978 proved highly rewarding in 1979 and 1980. Yet, not much appreciation occurred for two years before the next gains flowed. Meanwhile the long-term uptrend in oil and gas price continues for economic, monetary, environmental and security reasons, we believe. Energy stocks offering growth with inflation protection and deflation resistance include buy-recommended **Cimarex Energy (XEC)**, **Anadarko Petroleum (APC)** and **ConocoPhillips (COP)**.

## Natural Gas Defies Inventory Cycle

Why should producers sell natural gas cheap just because a few more billion cubic feet are in storage for a few months and the weather is occasionally warmer than normal in winter? Short-term inventory analysis might have been helpful in anticipating price moves when long-term energy supplies seemed more ample, but is less helpful in anticipating price moves when energy supplies become tighter. A recent bounce back in six-year natural gas keeps the long-term quote on a rising trend (see chart Natural Gas Futures Six-Year Strip and 40-Week Average).



Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at [www.mcdep.com](http://www.mcdep.com). Analyses are prepared from sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Mr. Wulff is not paid by covered companies. Neither he nor his spouse trade a subject stock within a week before or after a change in rating.

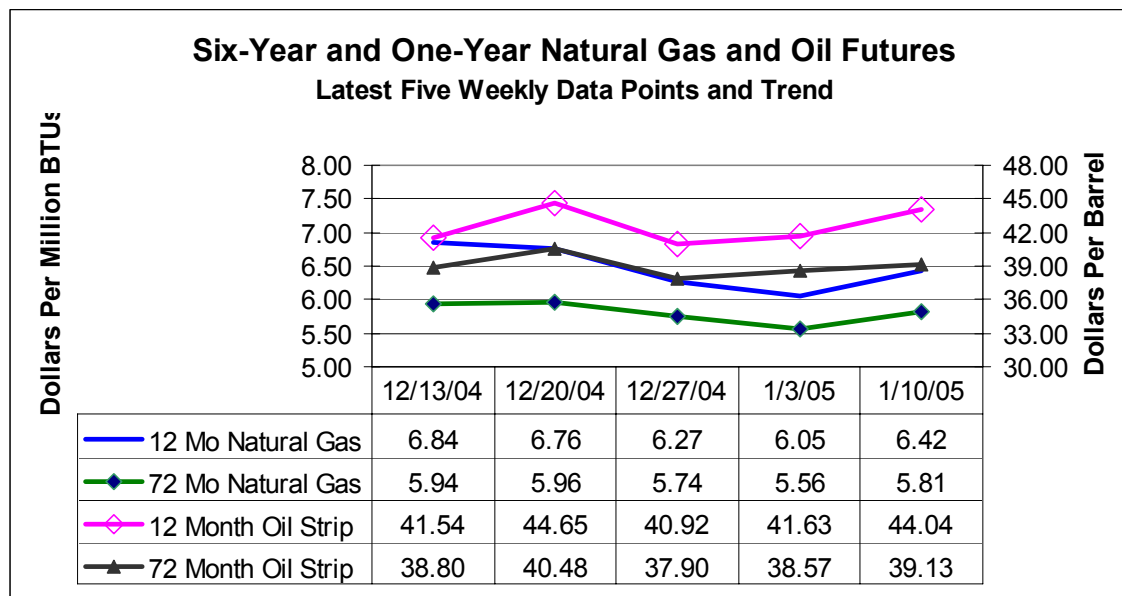
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### Oil Moves Up Again

Our forecast of oil price for the next twelve months is now \$44.04 a barrel for Light, Sweet Crude Oil. That is the 12 Month Oil Strip at the settlement price after regular trading on the New York Mercantile Exchange on January 10, 2005 (see chart [Six-Year and One-Year Natural Gas and Oil Futures](#)). We use futures prices for oil along with its natural gas and oil product counterparts to calculate next twelve months cash flow for specific companies.



An assumed constant real price of \$35 underlies our present value estimates for each stock. The calculations were detailed in Stock Ideas published around the third quarter of 2004. As stock prices are below present value typically, investors are assuming a lower oil price as best we can tell.

### 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) 10-Jan 2005	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
<b>Mega Cap</b>								
Exxon Mobil Corporation	XOM	B3	49.98	6,508	325,000	50.00	0.07	1.00
Shell Transport and Trading Co. plc	SC	B3	50.03	1,587	79,000	51.00	0.17	0.99
BP plc	BP	B3	57.18	3,614	207,000	60.00	0.13	0.96
Royal Dutch Petroleum	RD	B1	55.77	2,021	113,000	60.00	0.17	0.94
Total S.A.	TOT	B3	104.70	1,228	129,000	113.00	0.17	0.94
ChevronTexaco Corporation	CVX	B1	51.38	2,126	109,000	62.50	0.13	0.84
<i>Total or Median</i>					962,000		0.15	0.95
<b>Producer/Refiners - Large Cap and Mid Cap</b>								
Kinder Morgan, Inc.	KMI	S2	72.19	125	9,000	20.00	0.74	1.68
Imperial Oil Limited (30%)	IMO	B3	56.85	107	6,080	58.00	0.10	0.98
Marathon Oil Corporation	MRO	B3	37.27	347	12,930	40.00	0.31	0.95
Norsk Hydro ASA	NHY	B1	75.75	254	19,250	90.00	0.17	0.87
ConocoPhillips	COP	B1	85.63	702	60,100	110.00	0.25	0.83
Suncor Energy	SU	B3	32.84	460	15,110	42.00	0.12	0.81
Petro-Canada	PCZ	B3	49.19	269	13,250	68.00	0.18	0.77
PetroChina Company Ltd (10%)	PTR	B2	52.21	176	9,180	82.00	0.06	0.66
Lukoil Oil Company	LUKOY	B2	118.00	209	25,000	208.00	0.06	0.59
<i>Total or Median</i>					170,000		0.17	0.83
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>								
XTO Energy Inc.	XTO	B1	33.04	272	9,000	38.00	0.19	0.89
Encana Corporation	ECA	B1	54.52	472	25,700	63.00	0.21	0.89
Unocal Corporation	UCL	B3	45.74	274	12,500	54.00	0.24	0.88
CNOOC Limited (19%)	CEO	B2	50.33	78	3,930	59.00	-	0.85
Occidental Petroleum Corp.	OXY	B3	55.75	403	22,500	75.00	0.17	0.79
Devon Energy Corporation	DVN	B3	37.61	500	18,800	55.00	0.22	0.75
Burlington Resources	BR	B1	41.45	395	16,400	58.00	0.14	0.75
Anadarko Petroleum Corp.	APC	B1	62.40	253	15,800	94.00	0.20	0.73
<i>Total or Median</i>					125,000		0.20	0.82
<b>Independent Natural Gas and Oil - Small Cap</b>								
Berry Petroleum Company	BRY	B2	44.98	22	1,010	43.00	0.06	1.05
Cimarex Energy Company	XEC	B2	35.53	43	1,520	38.00	0.00	0.93
Energy Partners Ltd.	EPL	B3	18.73	39	730	22.00	0.15	0.87
Encore Acquisition Company	EAC	B2	33.06	33	1,080	47.00	0.22	0.77
<i>Total or Median</i>					4,300		0.10	0.90
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S3	44.95	145	6,520	15.00	0.52	1.96
Kinder Morgan Management, LLC	KMR	S3	40.93	55	2,250	15.00	0.52	1.83
Pengrowth Energy Trust	PGH		20.24	136	2,750	14.00	0.26	1.33
Enerplus Resources Fund	ERF		34.99	104	3,640	28.00	0.18	1.20
San Juan Basin Royalty Trust	SJT	H	28.00	47	1,310	27.00	-	1.04
Canadian Oil Sands Trust (US\$)	COSWF	B1	52.94	91	4,820	72.00	0.19	0.78
<i>Total or Median</i>					21,300		0.22	1.27

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) 10-Jan 2005	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	57.18	9.9	7.3	7.0	14	3.0
Exxon Mobil Corporation	XOM	B3	49.98	11.1	6.8	6.8	12	2.2
Total S.A.	TOT	B3	104.70	9.6	6.6	6.2	11	3.0
Shell Transport and Trading Co. plc	SC	B3	50.03	8.1	5.7	5.6	11	3.9
Royal Dutch Petroleum	RD	B1	55.77	8.1	5.7	5.3	10	4.2
ChevronTexaco Corporation	CVX	B1	51.38	11.4	5.8	4.9	8	3.1
	<i>Median</i>			9.7	6.2	5.9	11	3.1
<b>Producer/Refiners - Large Cap and Mid Cap</b>								
Kinder Morgan, Inc.	KMI	S2	72.19		8.3	13.9	18	3.1
Suncor Energy	SU	B3	32.84	18.4	8.7	7.0	15	0.6
Imperial Oil Limited (30%)	IMO	B3	56.85	11.3	6.7	6.6	12	1.3
Marathon Oil Corporation	MRO	B3	37.27	7.8	6.1	5.8	12	3.0
ConocoPhillips	COP	B1	85.63	11.9	5.9	4.9	8	2.0
Norsk Hydro ASA	NHY	B1	75.75	9.4	5.5	4.8	12	2.3
Petro-Canada	PCZ	B3	49.19	7.6	5.9	4.6	9	1.0
PetroChina Company Ltd (10%)	PTR	B2	52.21	13.3	5.9	3.9	8	4.5
Lukoil Oil Company	LUKOY	B2	118.00	12.2	6.1	3.6	6	2.9
	<i>Median</i>			11.6	6.1	4.9	12	2.3
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>								
XTO Energy Inc.	XTO	B1	33.04	11.7	6.8	6.0	11	0.6
Occidental Petroleum Corp.	OXY	B3	55.75	11.2	6.2	4.8	8	2.0
Unocal Corporation	UCL	B3	45.74	8.9	5.5	4.8	11	1.7
Burlington Resources	BR	B1	41.45	9.9	6.1	4.6	10	0.8
CNOOC Limited (19%)	CEO	B2	50.33	9.6	5.3	4.5	8	3.6
Encana Corporation	ECA	B1	54.52	6.4	4.9	4.4	10	0.7
Anadarko Petroleum Corp.	APC	B1	62.40	10.9	5.9	4.3	9	0.9
Devon Energy Corporation	DVN	B3	37.61	6.6	5.1	3.9	8	1.1
	<i>Median</i>			9.7	5.7	4.5	10	1.0
<b>Independent Natural Gas and Oil - Small Cap</b>								
Berry Petroleum Company	BRY	B2	44.98	12.5	6.2	6.5	14	1.1
Encore Acquisition Company	EAC	B2	33.06	11.9	7.5	5.7	11	-
Cimarex Energy Company	XEC	B2	35.53	5.2	4.2	4.0	12	-
Energy Partners Ltd.	EPL	B3	18.73	4.9	4.2	3.6	13	-
	<i>Median</i>			8.6	5.2	4.8	12	-
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S3	44.95		8.0	15.6	21	6.5
Kinder Morgan Management, LLC	KMR	S3	40.93		8.0	14.6	19	7.1
San Juan Basin Royalty Trust	SJT	H	28.00	12.5	8.4	8.7	10	10.4
Canadian Oil Sands Trust (US\$)	COSWF	B1	52.94	20.0	10.3	8.1	10	3.1
Pengrowth Energy Trust	PGH		20.24	7.9	5.9	7.9	17	11.2
Enerplus Resources Fund	ERF		34.99	8.3	6.5	7.8	24	9.8
	<i>Median</i>			10.4	8.0	8.4	18	8.5

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>
7-Jan	BR	Burlington Resources, Inc.	Royalty Trust Candidate
29-Dec	LUKOY	Lukoil Oil Company	After Yukos
29-Dec	CEO	CNOOC Ltd	Natural Gas Progress
27-Dec	PTR	PetroChina Company Limited	West to East Pipeline Flowing
22-Dec	RD	Royal Dutch Petroleum	Historic Streamlining
22-Dec	SC	Shell Transport & Trading Company, p.l.c.	Historic Streamlining
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

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

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