

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

February 1, 2005

Downstream Compensation

Summary and Recommendation

In the strong cash flow reported for the latest quarter by each of the three largest U.S. energy companies, greater downstream results compensated for lesser upstream results compared to our projections. A wider spread between the price of light crude oil, the grade traded in the futures market, and heavier grades explains the pattern in each case. The refining margin was higher for products made from heavier crude oil just as the producing margin was lower for heavier crude compared to the projected relationships. Meanwhile for the diversified energy portfolio started two weeks ago, the next three stocks we would buy today are **ConocoPhillips (COP)**, **Burlington Resources (BR)** and **Cimarex (XEC)**.

Select Stocks by Rating, McDep Ratio, and Industry Group

The principles of the McDep Energy Portfolio are to own a full unlevered position in each of nine B1-rated stocks and a half unlevered position in each of six B-2-rated stocks. A final full position could be a single royalty trust or a package of more than one. The technique could be implemented in a personal portfolio and the ideas could be relevant to any energy investor. Two weeks ago we picked the three lowest McDep Ratio stocks in each of three groups, **Lukoil (LUKOY)**, **Anadarko (APC)** and **Encore Acquisition (EAC)**. Last week we moved on to three more stocks, **ChevronTexaco (CVX)**, **Canadian Oil Sands Trust (COSWF)** and **PetroChina (PTR)**.

ConocoPhillips appears to offer the best value among the producer/refiners domiciled in the U.S. Present value could be higher than we estimate on the basis of the company's current cash flow outlook and the adjusted reserve life we measure from the company's disclosure. Yet, we want to see some more confirmation of the seemingly better numbers with the continuing disclosures of the next several months.

Burlington Resources continues to offer natural gas resource value well in excess of stock price, we believe. Fourth quarter results were slightly under our most recent published projections in part because average natural gas price lagged the benchmark traded in the futures market.

Cimarex stock price dropped on the announcement of the acquisition of Magnum Hunter. Because we think the acquisition adds value we would use the common reaction in stock price of the acquiring company as an opportunity.

Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at 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.

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

February 1, 2005

Not All Crude Oil is the Same

The oil industry is a good example of how prices simplify complex relationships. For example, last quarter was a surprising one for buyers and sellers of LLOYDMINSTER BLEND (LLB), the marker price for Canadian heavy oil. Chief Executive Officer Jim Mulva of ConocoPhillips points out that LLB dropped to \$22 a barrel below Light, Sweet Crude in December. The differential is five standard deviations away from the mean differential of \$7 a barrel since 1987. Five standard deviations is an extreme event. The deviation would seem less extreme if measured as a percent of marker, but the story would not be as colorful.

The point is that not all grades of crude oil advanced in price with the Light, Sweet grade traded in the futures market. As a result the cash flow we projected for the typical producer might have been too optimistic in some cases. At the same time refiners who can turn heavy oil into light products have a lower relative cost of raw material.

ExxonMobil (XOM), CVX and COP, the three largest domiciled in the U.S. and who have reported earnings already, did just that. In each case the downstream business was surprisingly profitable and offset the less than expected increase in producing profit.

Continuous Analysis

The average price for the next six years in the futures market is \$42 a barrel (see chart [Latest Five Weekly Data Points and Trend](#)). In addition, there appears to be a strong trend of gradually rising long-term expectations (see chart [Six-Year Commodity Price Meter](#)).

A regular weekly table offers valuation perspective by the partially subjective McDep Ratio (see table [Rank by McDep Ratio](#)). In a new milestone, the market cap of mega caps went over a trillion dollars for the first time we have noted. Another weekly table offers valuation perspective by the less subjective cash flow multiple (see table [Rank by EV/Ebitda](#)).

Besides the weekly *Meter Reader* we update most of our single stock analyses at least once a quarter (see [Index of Recent Research](#)). In addition we have a weekly analysis of *U.S. Natural Gas Royalty Trusts* also with related single trust analyses.

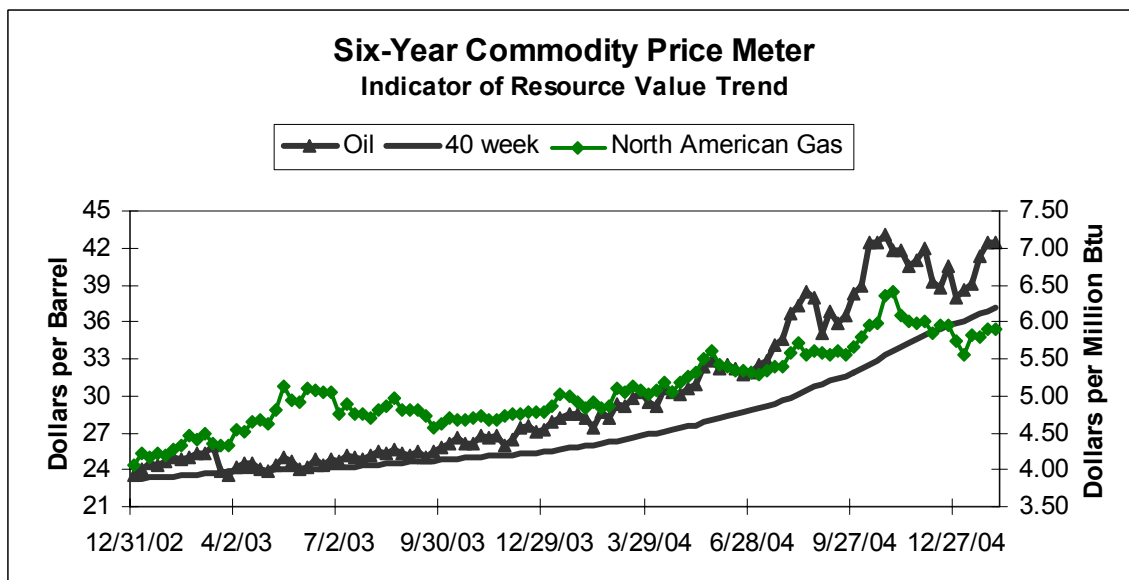
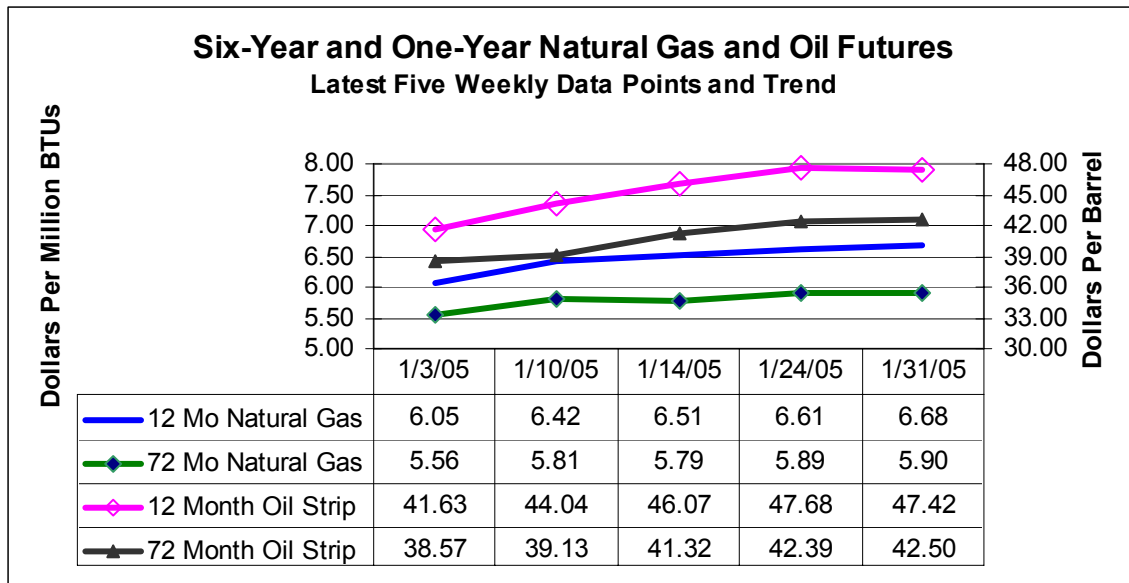
Kurt H. Wulff, CFA

Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at 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.

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

February 1, 2005



Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at 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.

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

February 1, 2005

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

	Symbol/ Rating		Price (\$/sh) 31-Jan 2005	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
Exxon Mobil Corporation	XOM	B3	51.60	6,508	336,000	54.00	0.07	0.96
Shell Transport and Trading Co. plc	SC	B3	52.78	1,587	84,000	56.10	0.16	0.95
BP plc	BP	B3	59.62	3,614	216,000	64.00	0.12	0.94
Total S.A.	TOT	B3	107.55	1,228	132,000	120.00	0.16	0.91
Royal Dutch Petroleum	RD	B1	58.47	2,021	118,000	66.00	0.16	0.90
ChevronTexaco Corporation	CVX	B1	54.40	2,123	116,000	76.00	0.10	0.74
<i>Total or Median</i>					<i>1,002,000</i>		<i>0.14</i>	<i>0.93</i>
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	75.04	125	9,380	20.00	0.74	1.72
Imperial Oil Limited (30%)	IMO	B3	61.74	105	6,510	64.00	0.11	0.97
Marathon Oil Corporation	MRO	B3	38.73	347	13,450	42.00	0.30	0.95
Norsk Hydro ASA	NHY	B1	76.66	254	19,480	101.00	0.16	0.80
ConocoPhillips	COP	B1	92.79	706	65,500	128.00	0.22	0.78
Petro-Canada	PCZ	B3	51.64	264	13,640	70.00	0.17	0.78
Suncor Energy	SU	B3	32.00	460	14,720	54.00	0.10	0.63
PetroChina Company Ltd (10%)	PTR	B2	56.10	176	9,860	94.00	0.05	0.62
Lukoil Oil Company	LUKOY	B2	124.00	209	26,000	208.00	0.03	0.61
<i>Total or Median</i>					<i>179,000</i>		<i>0.16</i>	<i>0.78</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B1	35.91	279	10,010	45.00	0.16	0.83
Encana Corporation	ECA	B1	59.09	472	27,900	77.00	0.18	0.81
CNOOC Limited (19%)	CEO	B2	53.54	78	4,180	67.00	-	0.80
Unocal Corporation	UCL	B3	47.57	274	13,000	65.00	0.21	0.79
Occidental Petroleum Corp.	OXY	B3	58.38	406	23,700	87.00	0.15	0.72
Devon Energy Corporation	DVN	B3	40.67	500	20,300	63.00	0.20	0.72
Burlington Resources	BR	B1	43.71	391	17,100	67.00	0.12	0.69
Anadarko Petroleum Corp.	APC	B1	66.21	246	16,300	113.00	0.14	0.64
<i>Total or Median</i>					<i>132,000</i>		<i>0.15</i>	<i>0.75</i>
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B2	54.14	22	1,210	50.00	0.05	1.08
Energy Partners Ltd.	EPL	B3	21.95	39	850	24.00	0.14	0.92
Cimarex Energy Company	XEC	B2	36.25	43	1,550	44.00	0.00	0.82
Encore Acquisition Company	EAC	B2	37.30	33	1,220	57.00	0.19	0.72
<i>Total or Median</i>					<i>4,800</i>		<i>0.09</i>	<i>0.87</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	46.26	150	6,940	15.00	0.52	2.01
Kinder Morgan Management, LLC	KMR	S3	42.24	56	2,380	15.00	0.52	1.88
Pengrowth Energy Trust	PGH		20.75	136	2,820	16.00	0.24	1.23
Enerplus Resources Fund	ERF		37.93	104	3,940	32.00	0.17	1.15
San Juan Basin Royalty Trust	SJT	H	30.92	47	1,440	30.00	-	1.03
Canadian Oil Sands Trust (US\$)	COSWF	B1	60.14	91	5,490	94.00	0.15	0.70
<i>Total or Median</i>					<i>23,000</i>		<i>0.20</i>	<i>1.19</i>

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

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

Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at 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.

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

February 1, 2005

Oil and Gas Producers

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

	Symbol/ Rating		Price (\$/sh) 31-Jan 2005	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Mega Cap								
BP plc	BP	B3	59.62	9.9	7.0	6.6	13	2.9
Exxon Mobil Corporation	XOM	B3	51.60	11.1	6.7	6.4	11	2.1
Total S.A.	TOT	B3	107.55	9.6	6.6	6.1	11	2.9
Shell Transport and Trading Co. plc	SC	B3	52.78	8.1	5.7	5.4	10	3.7
ChevronTexaco Corporation	CVX	B1	54.40	11.7	7.1	5.3	9	2.9
Royal Dutch Petroleum	RD	B1	58.47	8.1	5.7	5.1	9	4.0
	<i>Median</i>			9.7	6.7	5.7	10	2.9
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	75.04		7.5	12.9	17	3.7
Imperial Oil Limited (30%)	IMO	B3	61.74	11.0	7.3	7.0	13	1.2
Suncor Energy	SU	B3	32.00	18.4	10.0	6.3	14	0.6
Marathon Oil Corporation	MRO	B3	38.73	7.9	5.5	5.2	10	2.9
Petro-Canada	PCZ	B3	51.64	7.6	6.2	4.8	10	0.9
Norsk Hydro ASA	NHY	B1	76.66	8.9	5.7	4.6	11	2.3
ConocoPhillips	COP	B1	92.79	10.5	5.5	4.3	7	1.9
PetroChina Company Ltd (10%)	PTR	B2	56.10	13.3	6.6	4.1	8	4.2
Lukoil Oil Company	LUKOY	B2	124.00	12.2	4.5	2.8	5	2.8
	<i>Median</i>			10.8	6.2	4.8	10	2.3
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B1	35.91	11.7	7.5	6.2	12	0.6
Burlington Resources	BR	B1	43.71	9.8	7.0	4.9	12	0.8
Unocal Corporation	UCL	B3	47.57	8.9	5.9	4.7	10	1.7
Occidental Petroleum Corp.	OXY	B3	58.38	11.3	6.4	4.6	8	1.9
Anadarko Petroleum Corp.	APC	B1	66.21	11.9	7.1	4.6	9	1.1
CNOOC Limited (19%)	CEO	B2	53.54	9.6	5.6	4.5	8	3.4
Encana Corporation	ECA	B1	59.09	6.8	5.4	4.3	10	0.7
Devon Energy Corporation	DVN	B3	40.67	6.6	5.4	3.8	8	1.0
	<i>Median</i>			9.7	6.2	4.6	10	1.0
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRP	B2	54.14	12.5	6.4	6.9	15	0.9
Encore Acquisition Company	EAC	B2	37.30	15.3	8.0	5.8	11	-
Energy Partners Ltd.	EPL	B3	21.95	4.9	4.1	3.8	13	-
Cimarex Energy Company	XEC	B2	36.25	5.2	4.6	3.8	10	-
	<i>Median</i>			8.9	5.5	4.8	12	-
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	46.26		7.7	15.4	20	6.3
Kinder Morgan Management, LLC	KMR	S3	42.24		7.7	14.4	18	6.9
San Juan Basin Royalty Trust	SJT	H	30.92	12.5	9.5	9.8	11	9.1
Enerplus Resources Fund	ERF		37.93	8.3	6.7	7.8	18	9.1
Canadian Oil Sands Trust (US\$)	COSWF	B1	60.14	20.0	11.0	7.7	9	2.7
Pengrowth Energy Trust	PGH		20.75	7.9	6.0	7.4	14	11.0
	<i>Median</i>			10.4	7.7	8.8	16	8.0

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2006; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at 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. 5

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

February 1, 2005

Index of Recent Research

Stock Ideas

<i>Date</i>	<i>Symbol</i>	<i>Stock</i>	<i>Theme</i>
31-Jan	XOM	Exxon Mobil Corporation	Raise Present Value to \$54 a Share
31-Jan	COSWF	Canadian Oil Sands Trust	Raise Net Present Value to US\$94 a Share
31-Jan	MRO	Marathon Oil Corporation	Raise Net Present Value to \$42 a Share
26-Jan	XEC	Cimarex Energy Company	Magnum Hunter Acquisition Adds Value
26-Jan	OXY	Occidental Petroleum Corporation	Raise Net Present Value to \$87 a Share
25-Jan	ECA	EnCana Corporation	Raise Net Present Value to US\$77 a Share
19-Jan	KMP	Kinder Morgan Energy Partners, L.P.	Energy Houdini
19-Jan	KMI	Kinder Morgan Inc.	Energy Houdini
19-Jan	KMR	Kinder Morgan Management, LLC	Energy Houdini
13-Jan	NHY	Norsk Hydro ASA	Oil, Natural Gas and Aluminum
12-Jan	LUKOY	Lukoil Oil Company	Profits Advance
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
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
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

Meter Reader - A Weekly Analysis

25-Jan	*	Raise Present Value to \$40 Oil Constant Real
18-Jan	*	Basics Revisited
11-Jan	*	When, Not If
4-Jan	*	January Thaw

* Archived on www.mcdep.com

Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at 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.