

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

February 8, 2005

Happy Birthday to Meter Reader

Summary and Recommendation

With this edition, *Meter Reader* starts its sixth year of weekly analysis. Sampling the performance of recommendations on a one, three and five year basis we see absolute appreciation of 44, 30 and 57 percent a year, respectively. There are many qualifications to that performance and we can not be sure of such results in the future. Meanwhile for the diversified energy portfolio started three weeks ago, the next three stocks we would buy today are **CNOOC Limited (CEO)**, **Encana (ECA)** and **XTO Energy (XTO)**.

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. Three weeks ago we picked the three lowest McDep Ratio stocks in each of three groups, **Lukoil (LUKOY)**, **Anadarko (APC)** and **Encore Acquisition (EAC)**. Two weeks ago we moved on to three more stocks, **ChevronTexaco (CVX)**, **Canadian Oil Sands Trust (COSWF)** and **PetroChina (PTR)**. Last week we picked **ConocoPhillips (COP)**, **Burlington Resources (BR)** and **Cimarex (XEC)**.

CNOOC, the Chinese independent producer, seemed to decline in stock price coincident with news that some of its expected future growth in oil and gas production might be delayed. That looks like a new opportunity to acquire the stock closer to its 200 day moving average. The fundamental outlook seems solid irrespective of recent news or the stock price chart.

Encana is our favorite among the handful of largest independents for natural gas production growth prospects in North America. XTO has the top record of growth that is propelling the mid cap into the large cap category.

Meter Reader Begins with Royalty Trusts

For a long time we did a monthly analysis titled *Oil and Gas Valuation*. At the turn of the century we initiated *Meter Reader* as a weekly analysis. The first edition updated McDep Ratio for four stocks that had just been reintroduced in single-stock analyses. We show the performance of those stocks for the full five year period (see table [Meter Reader Five Year Performance Illustration](#)).

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Meter Reader Five Year Performance Illustration

Stock		Price		Price 1/31/05 (\$/sh)	Percent Gain		Debt-Normalzd Percent Gain	
		2/2/04 (\$/sh)	Distrib. (\$/sh)		Abs	Rel	Abs	Rel
Cross Timbers Royalty Trust	CRT	12.00	10.48	40.46	325	408	464	583
Hugoton Royalty Trust	HGT	8.81	8.33	26.90	300	379	428	541
San Juan Basin Royalty Trust	SJT	10.06	8.25	31.49	295	373	421	532
Dorchester Minerals, L.P.	DMLP	9.50	7.78	24.10	236	302	337	431
S&P 500		1424		1190	-16			
Average					289	365	412	522
Median					297	376	425	537
Average (%/yr)					57	67	72	84
Median (%/yr)					58	68	74	85

Meter Reader Expands with More Recommendations

Next we look at the buy recommendations in place three years ago and measure performance to date without any recognition of subsequent change in recommendation (see table [Meter Reader Three Year Performance Illustration](#)). It is not our purpose to make a definitive performance analysis. Just a glance at the stocks tells a story.

Meter Reader Three Year Performance Illustration

Stock		Price		Price 1/31/05 (\$/sh)	Percent Gain		Debt-Normalzd Percent Gain	
		2/2/04 (\$/sh)	Distrib. (\$/sh)		Abs	Rel	Abs	Rel
San Juan Basin Royalty Trust	SJT	9.60	5.36	30.92	278	262	397	374
PetroChina Co. Ltd. ADS	PTR	18.60	5.63	56.10	232	218	278	261
CNOOC Ltd ADS	CEO	20.84	4.05	53.54	176	164	252	235
Energy Partners, Ltd.	EPL	7.00		21.95	214	200	201	189
Burlington Resources Inc.	BR	17.63	0.89	43.71	153	142	153	142
EnCana Corporation	ECA	28.08	1.02	59.09	114	105	140	129
Exelon	EXC	25.06	3.07	44.25	89	81	76	69
Marathon Oil Corporation	MRO	28.37	2.98	38.73	47	41	49	42
Forest Oil	FST	24.94		33.69	35	29	37	31
Purcell Energy	PEL.TO	1.92		2.06	7	2	9	3
American Electric Power	AEP	41.81	5.2	35.25	-3	-7	-2	-4
S&P 500		1130		1190	5			
Average					122	112	145	134
Median					114	105	140	129
Average (%/yr)					30	29	35	33
Median (%/yr)					29	27	34	32

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Just about every investor knows by now that last year was a good one for energy stocks. Here is a snapshot of the trend for stocks recommended a year ago (see table [Meter Reader One Year Performance Illustration](#)). Again for simplicity sake we are not attempting to catalog changes in recommendations. We have also left out sell recommendations. Nor have we tried to account for differences in recommended position sizes other than adjustment for leverage.

Meter Reader One Year Performance Illustration

Stock		Price		Price 1/31/05 (\$/sh)	Percent Gain		Debt-Normalzd Percent Gain	
		2/2/04 (\$/sh)	Distrib. (\$/sh)		Abs	Rel	Abs	Rel
San Juan Basin Royalty Trust	SJT	18.94	2.53	30.92	77	68	109	98
Canadian Oil Sands Trust	COS	35.30	1.60	60.14	75	67	85	75
XTO Energy, Inc.	XTO	20.85	0.11	35.91	73	65	84	75
Burlington Resources Inc.	BR	27.40	0.32	43.71	61	53	68	60
Encore Acquisition Company	EAC	25.30		37.3	47	41	59	50
EnCana Corporation	ECA	39.75	0.40	59.09	50	43	57	49
CNOOC Ltd ADS	CEO	39.48	1.79	53.54	40	34	57	48
Cimarex Energy, Inc.	XEC	26.08		36.25	39	33	56	47
Norsk Hydro AS ADR	NHY	61.65	8.63	76.66	38	32	44	37
ConocoPhillips	COP	66.31	2.19	92.79	43	37	41	35
ChevronTexaco Corporation	CVX	43.10	1.53	54.40	30	24	35	28
Anadarko Petroleum Corporation	APC	50.96	0.56	66.21	31	25	33	27
Lukoil	LUKOY	101.50	3.41	124.00	26	20	34	26
Royal Dutch Petroleum	RD	47.46	2.11	58.47	28	22	33	26
PetroChina Co. Ltd. ADS	PTR	47.89	2.36	56.10	22	16	29	21
Marathon Oil Corporation	MRO	32.65	1.03	38.73	22	16	23	17
S&P 500		1135		1190	5			
Average					44	37	53	45
Median					40	33	50	42

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](#)).

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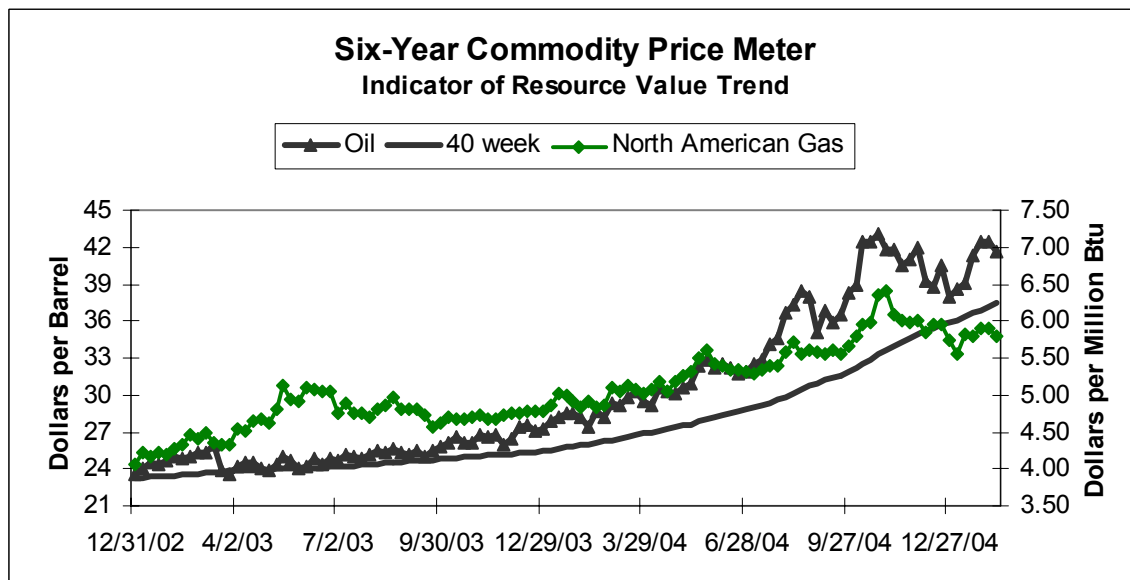
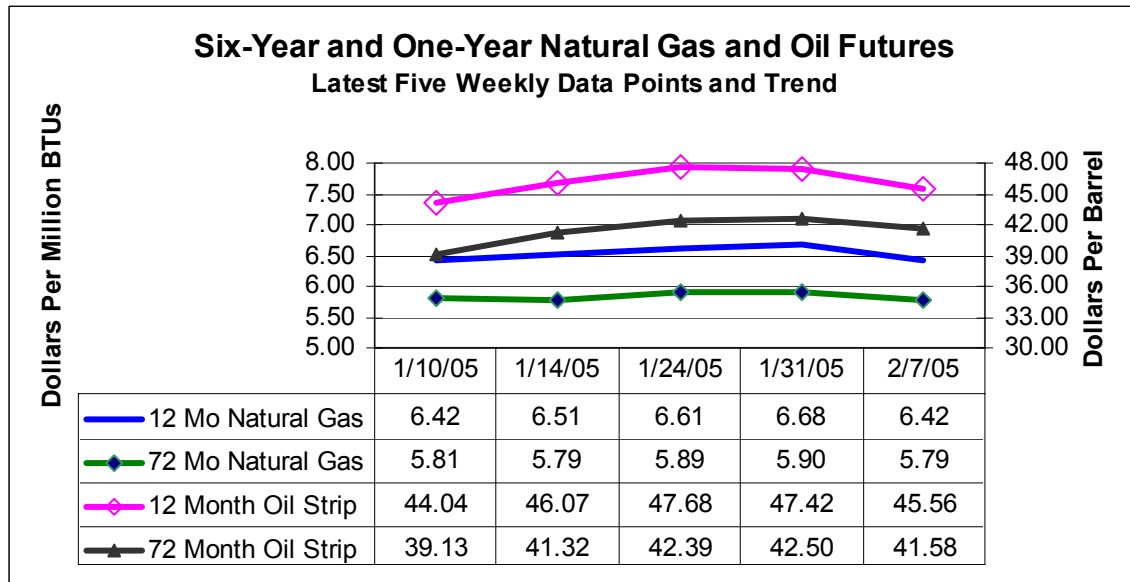
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Besides the weekly *Meter Reader* we update most of our single stock analyses at least once a quarter (see [Index of Recent Research](#)). In addition we have a weekly analysis of *U.S. Natural Gas Royalty Trusts* also with related single trust analyses.

Kurt H. Wulff, CFA



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

	Symbol/ Rating		Price (\$/sh) 7-Feb 2005	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
Exxon Mobil Corporation	XOM	B3	55.40	6,461	358,000	54.00	0.07	1.02
Shell Transport and Trading Co. plc	SC	B3	54.30	1,587	86,000	55.90	0.16	0.98
BP plc	BP	B3	60.77	3,614	220,000	64.00	0.12	0.96
Total S.A.	TOT	B3	108.83	1,228	134,000	120.00	0.16	0.92
Royal Dutch Petroleum	RD	B1	58.69	2,016	118,000	66.00	0.16	0.91
ChevronTexaco Corporation	CVX	B1	56.26	2,123	119,000	76.00	0.10	0.77
<i>Total or Median</i>					<i>1,035,000</i>		<i>0.14</i>	<i>0.94</i>
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	76.53	125	9,570	20.00	0.74	1.74
Imperial Oil Limited (30%)	IMO	B3	63.56	105	6,700	64.00	0.11	0.99
Marathon Oil Corporation	MRO	B3	40.35	347	14,020	42.00	0.30	0.97
Norsk Hydro ASA	NHY	B1	77.60	254	19,720	101.00	0.15	0.80
ConocoPhillips	COP	B1	96.09	706	67,800	128.00	0.22	0.80
Petro-Canada	PCZ	B3	51.55	264	13,610	70.00	0.17	0.78
Suncor Energy	SU	B3	33.19	460	15,270	54.00	0.09	0.65
PetroChina Company Ltd (10%)	PTR	B2	57.36	176	10,080	94.00	0.05	0.63
Lukoil Oil Company	LUKOY	B2	126.00	209	26,000	208.00	0.03	0.62
<i>Total or Median</i>					<i>183,000</i>		<i>0.15</i>	<i>0.80</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B1	36.62	279	10,220	45.00	0.16	0.84
Encana Corporation	ECA	B1	60.27	472	28,400	77.00	0.18	0.82
Unocal Corporation	UCL	B3	48.97	271	13,300	65.00	0.21	0.81
CNOOC Limited (19%)	CEO	B2	50.70	78	3,960	67.00	-	0.76
Occidental Petroleum Corp.	OXY	B3	60.05	406	24,400	87.00	0.15	0.74
Burlington Resources	BR	B1	44.01	391	17,200	67.00	0.12	0.70
Devon Energy Corporation	DVN	B3	40.21	500	20,100	63.00	0.16	0.69
Anadarko Petroleum Corp.	APC	B1	65.83	246	16,200	113.00	0.14	0.64
<i>Total or Median</i>					<i>134,000</i>		<i>0.15</i>	<i>0.75</i>
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B2	55.66	22	1,240	50.00	0.05	1.10
Energy Partners Ltd.	EPL	B3	22.85	39	890	24.00	0.14	0.96
Cimarex Energy Company	XEC	B2	34.92	43	1,500	44.00	0.00	0.79
Encore Acquisition Company	EAC	B2	38.50	33	1,260	57.00	0.19	0.74
<i>Total or Median</i>					<i>4,900</i>		<i>0.09</i>	<i>0.88</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	45.33	150	6,800	15.00	0.52	1.98
Kinder Morgan Management, LLC	KMR	S3	41.36	56	2,330	15.00	0.52	1.85
Pengrowth Energy Trust	PGH		21.67	136	2,950	16.00	0.23	1.27
Enerplus Resources Fund	ERF		38.85	104	4,040	32.00	0.16	1.18
San Juan Basin Royalty Trust	SJT	H	32.00	47	1,490	30.00	-	1.07
Canadian Oil Sands Trust (US\$)	COSWF	B1	59.68	91	5,450	94.00	0.15	0.69
<i>Total or Median</i>					<i>23,100</i>		<i>0.20</i>	<i>1.23</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

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Oil and Gas Producers

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

	Symbol/ Rating		Price (\$/sh) 7-Feb 2005	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)	
Mega Cap									
BP plc	BP	B3	60.77	9.9	7.7	7.3	15	2.8	
Exxon Mobil Corporation	XOM	B3	55.40	11.2	6.9	7.1	13	1.9	
Total S.A.	TOT	B3	108.83	9.6	6.9	6.3	11	2.8	
ChevronTexaco Corporation	CVX	B1	56.26	11.7	8.0	6.1	12	2.8	
Shell Transport and Trading Co. plc	SC	B3	54.30	7.6	5.8	5.6	12	3.6	
Royal Dutch Petroleum	RD	B1	58.69	7.6	5.8	5.2	11	4.0	
	<i>Median</i>				9.7	6.9	6.2	12	2.8
Producer/Refiners - Large Cap and Mid Cap									
Kinder Morgan, Inc.	KMI	S2	76.53		7.5	13.1	17	3.7	
Imperial Oil Limited (30%)	IMO	B3	63.56	10.6	7.2	7.2	13	1.1	
Suncor Energy	SU	B3	33.19	18.4	10.5	6.8	15	0.6	
Marathon Oil Corporation	MRO	B3	40.35	7.9	6.2	6.0	12	2.8	
Petro-Canada	PCZ	B3	51.55	7.6	6.4	5.0	10	0.9	
Norsk Hydro ASA	NHY	B1	77.60	8.9	5.9	4.7	12	2.2	
ConocoPhillips	COP	B1	96.09	10.5	5.6	4.5	7	1.8	
PetroChina Company Ltd (10%)	PTR	B2	57.36	13.3	6.7	4.2	8	4.1	
Lukoil Oil Company	LUKOY	B2	126.00	12.2	5.0	3.1	5	2.7	
	<i>Median</i>				10.5	6.4	5.0	12	2.2
Independent Natural Gas and Oil - Large Cap and Mid Cap									
XTO Energy Inc.	XTO	B1	36.62	11.7	7.8	6.6	13	0.5	
Burlington Resources	BR	B1	44.01	9.8	7.3	5.1	13	0.8	
Occidental Petroleum Corp.	OXY	B3	60.05	11.3	6.7	4.9	9	1.8	
Anadarko Petroleum Corp.	APC	B1	65.83	11.9	7.5	4.8	10	1.1	
Encana Corporation	ECA	B1	60.27	6.8	5.6	4.6	11	0.7	
Unocal Corporation	UCL	B3	48.97	8.5	5.5	4.5	10	1.6	
CNOOC Limited (19%)	CEO	B2	50.70	9.6	5.9	4.4	8	3.5	
Devon Energy Corporation	DVN	B3	40.21	7.9	5.8	4.0	10	1.0	
	<i>Median</i>				9.7	6.3	4.7	10	1.0
Independent Natural Gas and Oil - Small Cap									
Berry Petroleum Company	BRP	B2	55.66	11.9	6.1	6.8	16	0.9	
Encore Acquisition Company	EAC	B2	38.50	15.3	8.4	6.2	12	-	
Energy Partners Ltd.	EPL	B3	22.85	4.9	4.3	4.2	15	-	
Cimarex Energy Company	XEC	B2	34.92	5.2	4.8	3.8	11	-	
	<i>Median</i>				8.5	5.5	5.2	14	-
Income									
Kinder Morgan Energy Partners, L.P.	KMP	S3	45.33		7.7	15.2	20	6.4	
Kinder Morgan Management, LLC	KMR	S3	41.36		7.7	14.2	18	7.1	
San Juan Basin Royalty Trust	SJT	H	32.00	12.5	9.6	10.3	12	8.6	
Enerplus Resources Fund	ERF		38.85	8.3	6.9	8.2	20	8.6	
Pengrowth Energy Trust	PGH		21.67	7.9	6.2	7.9	15	10.1	
Canadian Oil Sands Trust (US\$)	COSWF	B1	59.68	20.0	11.0	7.6	9	2.7	
	<i>Median</i>				10.4	7.7	9.2	17	7.8

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

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Index of Recent Research

Stock Ideas

<i>Date</i>	<i>Symbol</i>	<i>Stock</i>	<i>Theme</i>
7-Feb	IMO	Imperial Oil Limited	Raise Net Present Value to US\$64 a Share
7-Feb	DVN	Devon Energy Corporation	Raise Net Present Value to \$63 a Share
7-Feb	BRY	Berry Petroleum Company	A Touch of Glamour
3-Feb	SJT	San Juan Basin Royalty Trust	Real Value with Income
1-Feb	PCZ	Petro-Canada	Raise Net Present Value to US\$70 a Share
31-Jan	XOM	Exxon Mobil Corporation	Raise Net 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

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1-Feb	*	Downstream Compensation
25-Jan	*	Raise Present Value to \$40 Oil Constant Real
18-Jan	*	Basics Revisited
11-Jan	*	When, Not If

* Archived on www.mcdep.com

Also see

U.S. Natural Gas Royalty Trusts - A Weekly Analysis, and Single-Trust Analyses

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