

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

February 15, 2005

Just Buy

Summary and Recommendation

B1, B2, and B3 ratings are now just simply B, for Buy. B3 stocks have performed well along with B2 and B1 stocks in a favorable environment for energy investment. The B3 rating, Alternative Buy, was added last spring for previously unrated stocks that had to be rated buy, sell or hold to qualify our work as independent research to be provided to clients of investment bankers. Differentiating by the McDep Ratio, the three stocks previously rated B3 that may have the most appreciation potential on current estimates are **Devon Energy (DVN)**, **Occidental Petroleum (OXY)**, and **Suncor Energy (SU)**.

McDep Energy Portfolio Stays Intact

The recommended McDep Energy Portfolio consisted of 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. There are no changes in the composition of the recommended portfolio while we simplify the buy rating.

Select Stocks by McDep Ratio and Industry Group

Our selection process is to look first for the lowest McDep Ratio stock. We consider diversification among the five groups. Then we move to the next lowest McDep Ratio stocks. The process can be repeated continuously. Add to or buy the lowest McDep Ratio stock up to a limiting position size and consistent with qualitative considerations.

B3 Rating a Temporary Distinction

Fifteen stocks are more than enough for the energy component of a diversified portfolio. Yet there are more energy stocks out there that could also be appealing and that we have known for a long time. That was the thought we had in mind in the spring of last year when we had an opportunity to qualify our work for independent consultants who would select independent research for investment banking firms under the “global settlement” (see *Meter Reader*, [Twelve New Buy Ratings](#), May 4, 2004). For our valuation ranking we designated twelve stocks as “B3 - Alternative Buy”

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.

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The B3 rating served a useful transition role and now we think it is time to keep it simple. Former B3's with lower McDep Ratios included **Suncor (SU)**, **Petro-Canada (PCZ)**, **Devon Energy (DVN)**, **Occidental Petroleum (OXY)**, **Unocal (UCL)** and **Energy Partners (EPL)**. B3's with higher, but still reasonable McDep Ratios included the bluest blue chips, **ExxonMobil (XOM)** and **Imperial (IMO)** in addition to top long-term performers **BP (BP)** and **Total (TOT)**. The final B3, **Marathon (MRO)**, was reinstated as a B3 on the basis of the industry outlook after a B1 rating had been removed a few months earlier.

Continuous Analysis

The oil and gas investment outlook continues to be favorable for all buy-rated stocks. A McDep Ratio of 1.0 implies a stock price consistent with \$40 oil constant real. The average oil 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 ever in recent weeks. 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](#)). That is a requirement for the single stock research selected by the independent consultants.

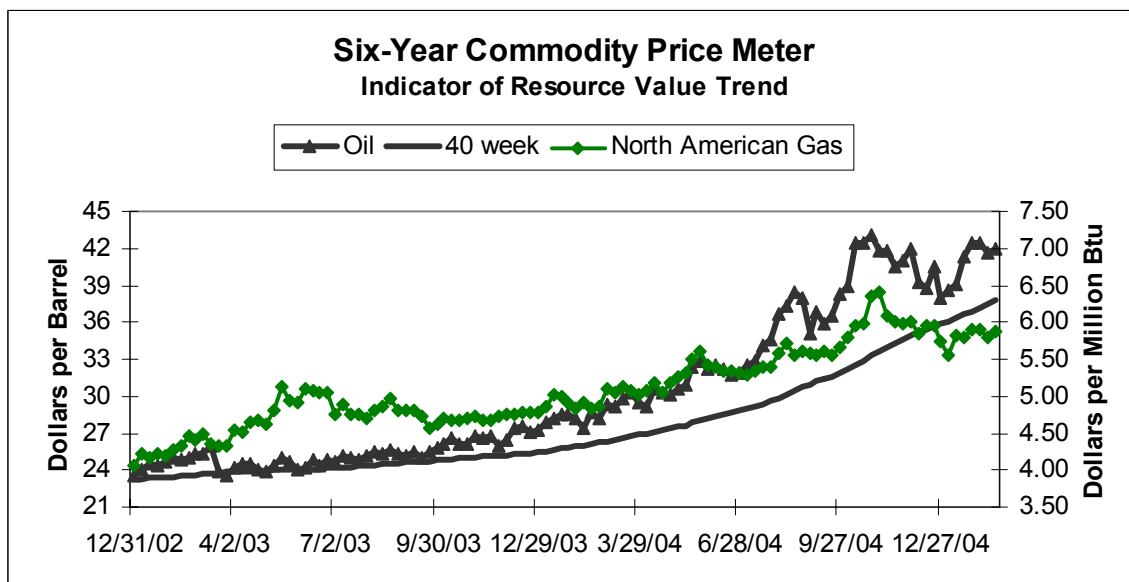
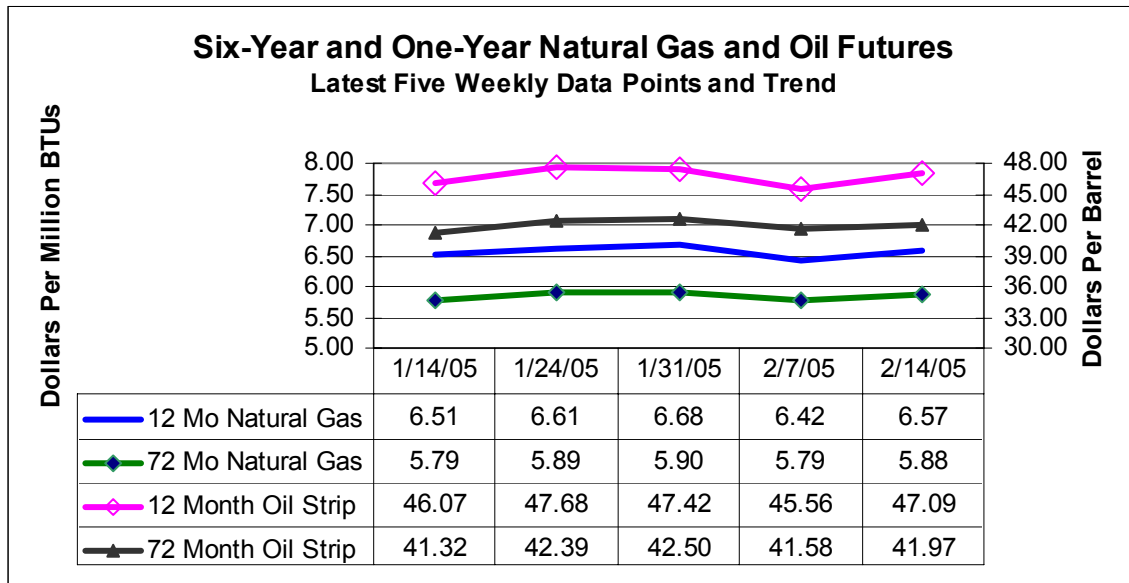
Also we have a weekly analysis of *U.S. Natural Gas Royalty Trusts* with related single trust analyses. Since the traditional investment banks have almost no royalty trust research coverage, there is no requirement for independent research on those stocks. That being the case we do not feel that ratings are necessary, particularly for the smaller cap issues that might be artificially impacted just by a rating.

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) 14-Feb 2005	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
Exxon Mobil Corporation	XOM	B	56.83	6,461	367,000	54.00	0.07	1.05
BP plc	BP	B	62.25	3,601	224,000	64.00	0.12	0.98
Shell Transport and Trading Co. plc	SC	B	53.59	1,587	85,000	55.90	0.16	0.96
Total S.A.	TOT	B	111.38	1,228	137,000	120.00	0.16	0.94
Royal Dutch Petroleum	RD	B	59.04	2,016	119,000	66.00	0.16	0.91
ChevronTexaco Corporation	CVX	B	58.11	2,123	123,000	76.00	0.10	0.79
<i>Total or Median</i>					<i>1,055,000</i>		<i>0.14</i>	<i>0.95</i>
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	77.20	125	9,650	20.00	0.74	1.75
Imperial Oil Limited (30%)	IMO	B	67.80	105	7,150	64.00	0.11	1.05
Marathon Oil Corporation	MRO	B	42.29	347	14,690	42.00	0.30	1.00
ConocoPhillips	COP	B	100.97	706	71,300	128.00	0.22	0.84
Petro-Canada	PCZ	B	54.48	264	14,390	70.00	0.17	0.82
Norsk Hydro ASA	NHY	B	78.86	254	20,040	101.00	0.15	0.81
Suncor Energy	SU	B	37.35	460	17,180	54.00	0.09	0.72
PetroChina Company Ltd (10%)	PTR	B	59.02	176	10,380	94.00	0.05	0.65
Lukoil Oil Company	LUKOY	B	125.75	209	26,000	208.00	0.03	0.62
<i>Total or Median</i>					<i>191,000</i>		<i>0.15</i>	<i>0.82</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	39.30	280	11,010	45.00	0.16	0.89
Encana Corporation	ECA	B	61.98	472	29,200	77.00	0.18	0.84
Unocal Corporation	UCL	B	49.90	271	13,500	65.00	0.21	0.82
CNOOC Limited (19%)	CEO	B	53.01	78	4,140	67.00	-	0.79
Occidental Petroleum Corp.	OXY	B	65.06	406	26,400	87.00	0.15	0.79
Burlington Resources	BR	B	46.70	391	18,300	67.00	0.12	0.73
Devon Energy Corporation	DVN	B	42.12	500	21,100	63.00	0.16	0.72
Anadarko Petroleum Corp.	APC	B	68.20	246	16,800	113.00	0.14	0.66
<i>Total or Median</i>					<i>140,000</i>		<i>0.15</i>	<i>0.79</i>
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	56.10	22	1,250	50.00	0.05	1.11
Energy Partners Ltd.	EPL	B	23.44	39	910	24.00	0.24	0.98
Cimarex Energy Company	XEC	B	36.38	43	1,560	44.00	0.00	0.83
Encore Acquisition Company	EAC	B	39.82	33	1,300	57.00	0.19	0.76
<i>Total or Median</i>					<i>5,000</i>		<i>0.12</i>	<i>0.90</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	45.96	150	6,890	15.00	0.52	2.00
Kinder Morgan Management, LLC	KMR	S3	42.00	56	2,370	15.00	0.52	1.87
Pengrowth Energy Trust	PGH		22.72	136	3,090	16.00	0.24	1.32
Enerplus Resources Fund	ERF		39.60	104	4,120	32.00	0.16	1.20
San Juan Basin Royalty Trust	SJT		34.38	47	1,600	30.00	-	1.14
Canadian Oil Sands Trust (US\$)	COSWF	B	64.25	91	5,860	94.00	0.15	0.73
<i>Total or Median</i>					<i>23,900</i>		<i>0.20</i>	<i>1.26</i>

B = 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) 14-Feb 2005	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Mega Cap								
Exxon Mobil Corporation	XOM	B	56.83	11.2	6.8	7.1	13	1.9
BP plc	BP	B	62.25	9.4	6.7	6.6	13	3.3
Total S.A.	TOT	B	111.38	9.6	6.7	6.3	11	2.8
ChevronTexaco Corporation	CVX	B	58.11	11.7	7.5	5.9	11	2.8
Shell Transport and Trading Co. plc	SC	B	53.59	7.6	5.7	5.5	12	3.7
Royal Dutch Petroleum	RD	B	59.04	7.6	5.7	5.2	11	3.9
	<i>Median</i>			9.5	6.7	6.1	11	3.0
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	77.20		7.5	13.1	17	3.6
Imperial Oil Limited (30%)	IMO	B	67.80	10.6	7.4	7.8	14	1.1
Suncor Energy	SU	B	37.35	18.4	10.1	7.3	16	0.5
Marathon Oil Corporation	MRO	B	42.29	7.9	5.9	5.9	12	2.6
Petro-Canada	PCZ	B	54.48	7.6	6.2	5.0	10	0.9
Norsk Hydro ASA	NHY	B	78.86	8.9	5.7	4.7	11	2.2
ConocoPhillips	COP	B	100.97	10.5	5.5	4.6	7	1.7
PetroChina Company Ltd (10%)	PTR	B	59.02	13.3	6.7	4.3	9	4.0
Lukoil Oil Company	LUKOY	B	125.75	12.2	4.6	2.9	5	2.7
	<i>Median</i>			10.5	6.2	5.0	11	2.2
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	39.30	11.6	7.4	6.7	13	0.5
Burlington Resources	BR	B	46.70	9.8	7.1	5.2	13	0.7
Occidental Petroleum Corp.	OXY	B	65.06	11.3	6.5	5.1	9	1.7
Anadarko Petroleum Corp.	APC	B	68.20	11.9	7.3	4.8	10	1.1
Unocal Corporation	UCL	B	49.90	8.5	5.6	4.6	10	1.6
Encana Corporation	ECA	B	61.98	6.8	5.4	4.5	11	0.6
CNOOC Limited (19%)	CEO	B	53.01	9.6	5.7	4.5	8	3.4
Devon Energy Corporation	DVN	B	42.12	7.9	5.9	4.2	10	0.9
	<i>Median</i>			9.7	6.2	4.7	10	1.0
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	56.10	11.9	6.3	7.0	16	0.9
Encore Acquisition Company	EAC	B	39.82	15.3	8.1	6.1	12	-
Energy Partners Ltd.	EPL	B	23.44	4.9	3.9	3.9	14	-
Cimarex Energy Company	XEC	B	36.38	5.2	4.6	3.8	11	-
	<i>Median</i>			8.5	5.4	5.0	13	-
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	45.96		7.7	15.3	20	6.4
Kinder Morgan Management, LLC	KMR	S3	42.00		7.7	14.3	18	7.0
San Juan Basin Royalty Trust	SJT		34.38	12.5	9.6	11.0	12	8.1
Canadian Oil Sands Trust (US\$)	COSWF	B	64.25	20.0	11.3	8.3	10	2.5
Enerplus Resources Fund	ERF		39.60	8.3	6.8	8.1	19	8.6
Pengrowth Energy Trust	PGH		22.72	7.9	6.0	8.0	15	9.8
	<i>Median</i>			10.4	7.7	9.6	17	7.5

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>
14-Feb	TOT	Total S.A.	Raise Net Present Value to \$120 a Share
10-Feb	UCL	Unocal Corporation	Raise Net Present Value to \$65 a Share
9-Feb	EPL	Energy Partners, Ltd.	South Timbalier Thrill
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	* 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

Meter Reader - A Weekly Analysis

8-Feb	*	Happy Birthday to Meter Reader
1-Feb	*	Downstream Compensation
25-Jan	*	Raise Present Value to \$40 Oil Constant Real
18-Jan	*	Basics Revisited

* Archived on www.mcdep.com

Also see

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

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