

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

March 1, 2005

Asset Reallocation

Summary and Recommendation

Managers of large sums of U.S. pension and retirement money may be reallocating investments toward oil and gas producers. The market capitalization of relevant stocks appears to be small compared to the amount of money that could be invested in them and the level of profit likely to be earned from oil and gas production. **ExxonMobil (XOM)** alone is more than half the market cap of widely traded U.S. based producers. Other buy recommendations in descending order of market cap include **ChevronTexaco (CVX)**, **ConocoPhillips (COP)**, **Occidental (OXY)**, **Devon (DVN)**, **Burlington (BR)** and **Anadarko (APC)**.

Because They are There

An asset allocator may not care much about relative values among stocks. He or she just needs representation in a sector. The number of stocks with ample trading liquidity is limited (see table U.S.- Based Oil and Gas Producers).

U.S.-Based Oil and Gas Producers

	<i>Symbol/</i>	<i>Rating</i>	<i>Price</i> <i>(\$/sh)</i>	<i>Shares</i> <i>(mm)</i>	<i>Market</i> <i>Cap</i> <i>(\$mm)</i>	<i>Net</i> <i>Present</i> <i>Value</i> <i>(\$/sh)</i>	<i>Debt/</i> <i>Present</i> <i>Value</i>	<i>McDep</i> <i>Ratio</i>
Exxon Mobil Corporation	XOM	B	63.31	6,461	409,000	54.00	0.07	1.16
ChevronTexaco Corporation	CVX	B	62.08	2,123	132,000	76.00	0.10	0.84
ConocoPhillips	COP	B	110.89	706	78,300	128.00	0.22	0.90
Occidental Petroleum Corp.	OXY	B	70.27	406	28,600	87.00	0.15	0.84
Devon Energy Corporation	DVN	B	46.79	500	23,400	63.00	0.16	0.78
Burlington Resources	BR	B	49.63	391	19,400	67.00	0.12	0.77
Anadarko Petroleum Corp.	APC	B	76.86	246	18,900	113.00	0.14	0.72
Marathon Oil Corporation	MRO	B	47.28	347	16,430	42.00	0.30	1.09
Unocal Corporation	UCL	B	54.10	271	14,700	65.00	0.21	0.87
XTO Energy Inc.	XTO	B	45.52	280	12,750	45.00	0.16	1.01
<i>Total or Median</i>					<i>753,000</i>		<i>0.15</i>	<i>0.85</i>

While all the stocks listed above are buys in our framework, we expect lower McDep Ratio stocks to outperform usually. At the same time, the McDep Ratio presumes an average return on reinvestment of future cash flow. Historical successes like XOM and XTO may continue to do well despite their higher McDep Ratios.

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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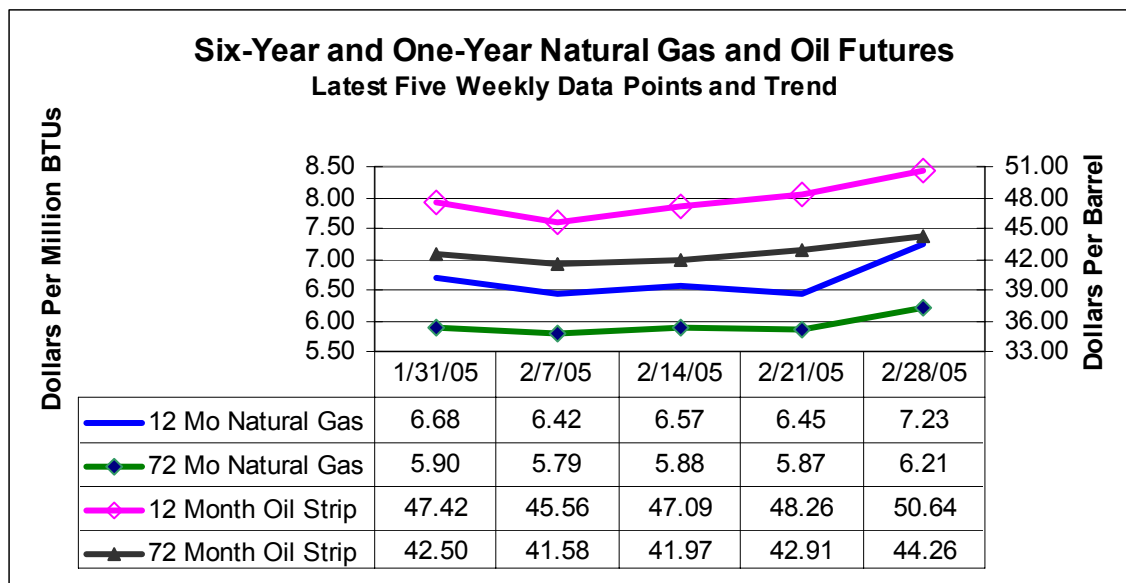
Continuous Analysis

A strong trend of gradually rising long-term expectations persists in the oil futures market. The average oil price for the next six years of \$44.26 a barrel is a new high (see chart Latest Five Weekly Data Points and Trend).

A regular weekly table offers valuation perspective by the McDep Ratio that depends in part on our analysis of value (see table Rank by McDep Ratio). A McDep Ratio of 1.0 implies a stock price consistent with \$40 oil constant real. A second weekly table offers valuation perspective by the cash flow multiple without our interpretation (see table Rank by EV/Ebitda). By adding a column on adjusted reserve life we provide a clue to whether the cash flow multiple is at an appropriate level.

Besides the weekly *Meter Reader* we update most of our single stock analyses at least once a quarter (see Index of Recent Research). Also we have a weekly analysis of *U.S. Natural Gas Royalty Trusts* 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) 28-Feb 2005	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
Exxon Mobil Corporation	XOM	B	63.31	6,461	409,000	54.00	0.07	1.16
BP plc	BP	B	64.92	3,601	234,000	64.00	0.12	1.01
Shell Transport and Trading Co. plc	SC	B	56.71	1,587	90,000	55.90	0.16	1.01
Total S.A.	TOT	B	119.20	1,218	145,000	120.00	0.16	0.99
Royal Dutch Petroleum	RD	B	63.09	2,016	127,000	66.00	0.16	0.96
ChevronTexaco Corporation	CVX	B	62.08	2,123	132,000	76.00	0.10	0.84
<i>Total or Median</i>					<i>1,137,000</i>		<i>0.14</i>	<i>1.00</i>
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	80.17	125	10,020	20.00	0.74	1.79
Imperial Oil Limited (30%)	IMO	B	72.63	105	7,660	64.00	0.11	1.12
Marathon Oil Corporation	MRO	B	47.28	347	16,430	42.00	0.30	1.09
ConocoPhillips	COP	B	110.89	706	78,300	128.00	0.22	0.90
Norsk Hydro ASA	NHY	B	86.31	254	21,930	101.00	0.16	0.88
Petro-Canada	PCZ	B	55.74	264	14,720	70.00	0.17	0.83
Suncor Energy	SU	B	39.05	460	17,960	54.00	0.10	0.75
PetroChina Company Ltd (10%)	PTR	B	62.93	176	11,060	94.00	0.05	0.69
Lukoil Oil Company	LUKOY	B	139.75	209	29,000	208.00	0.03	0.68
<i>Total or Median</i>					<i>207,000</i>		<i>0.16</i>	<i>0.88</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	45.52	280	12,750	45.00	0.16	1.01
Encana Corporation	ECA	B	66.89	472	31,600	77.00	0.18	0.89
Unocal Corporation	UCL	B	54.10	271	14,700	65.00	0.21	0.87
CNOOC Limited (19%)	CEO	B	57.21	78	4,470	67.00	-	0.85
Occidental Petroleum Corp.	OXY	B	70.27	406	28,600	87.00	0.15	0.84
Devon Energy Corporation	DVN	B	46.79	500	23,400	63.00	0.16	0.78
Burlington Resources	BR	B	49.63	391	19,400	67.00	0.12	0.77
Anadarko Petroleum Corp.	APC	B	76.86	246	18,900	113.00	0.14	0.72
<i>Total or Median</i>					<i>154,000</i>		<i>0.15</i>	<i>0.85</i>
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	61.91	22	1,380	50.00	0.05	1.22
Energy Partners Ltd.	EPL	B	25.85	39	1,020	24.00	0.24	1.06
Cimarex Energy Company	XEC	B	40.67	43	1,740	44.00	0.00	0.92
Encore Acquisition Company	EAC	B	42.55	33	1,390	57.00	0.19	0.80
<i>Total or Median</i>					<i>5,500</i>		<i>0.12</i>	<i>0.99</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	46.99	150	7,050	15.00	0.52	2.03
Kinder Morgan Management, LLC	KMR	S3	42.92	56	2,420	15.00	0.52	1.90
Pengrowth Energy Trust	PGH		21.56	136	2,930	16.00	0.24	1.26
San Juan Basin Royalty Trust	SJT		35.76	47	1,670	30.00	-	1.19
Enerplus Resources Fund	ERF		37.59	104	3,910	32.00	0.16	1.15
Canadian Oil Sands Trust (US\$)	COSWF	B	68.25	91	6,230	94.00	0.15	0.77
<i>Total or Median</i>					<i>24,200</i>		<i>0.20</i>	<i>1.23</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) 28-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	63.31	11.2	6.3	7.3	13	1.7
BP plc	BP	B	64.92	9.4	6.2	6.3	12	3.1
Total S.A.	TOT	B	119.20	8.9	5.9	5.8	12	2.7
Shell Transport and Trading Co. plc	SC	B	56.71	7.6	5.3	5.4	11	3.5
ChevronTexaco Corporation	CVX	B	62.08	11.7	6.4	5.4	10	2.6
Royal Dutch Petroleum	RD	B	63.09	7.6	5.3	5.2	10	3.8
	<i>Median</i>			9.2	6.0	5.6	11	2.9
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	80.17		7.5	13.4	18	3.5
Suncor Energy	SU	B	39.05	18.2	12.0	9.0	23	0.5
Imperial Oil Limited (30%)	IMO	B	72.63	10.6	6.9	7.7	14	1.0
Marathon Oil Corporation	MRO	B	47.28	7.9	5.6	6.1	12	2.4
ConocoPhillips	COP	B	110.89	10.5	5.5	4.9	8	1.8
Petro-Canada	PCZ	B	55.74	7.6	5.7	4.7	9	0.9
Norsk Hydro ASA	NHY	B	86.31	8.9	5.4	4.7	11	2.0
PetroChina Company Ltd (10%)	PTR	B	62.93	13.3	6.6	4.5	9	3.7
Lukoil Oil Company	LUKOY	B	139.75	12.2	4.2	2.9	5	2.5
	<i>Median</i>			10.5	5.7	4.9	11	2.0
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	45.52	11.6	6.7	6.8	14	0.4
Occidental Petroleum Corp.	OXY	B	70.27	11.3	6.0	5.0	9	1.6
Burlington Resources	BR	B	49.63	9.8	6.4	5.0	11	0.7
CNOOC Limited (19%)	CEO	B	57.21	9.6	5.4	4.6	8	3.1
Encana Corporation	ECA	B	66.89	6.8	5.1	4.6	11	0.6
Unocal Corporation	UCL	B	54.10	8.5	5.2	4.5	10	1.5
Anadarko Petroleum Corp.	APC	B	76.86	11.9	6.2	4.5	9	0.9
Devon Energy Corporation	DVN	B	46.79	7.9	5.3	4.2	10	0.9
	<i>Median</i>			9.7	5.7	4.6	10	0.9
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRP	B	61.91	11.9	5.5	6.8	16	0.8
Encore Acquisition Company	EAC	B	42.55	15.6	7.3	5.8	13	-
Cimarex Energy Company	XEC	B	40.67	5.2	4.2	3.9	10	-
Energy Partners Ltd.	EPL	B	25.85	5.3	3.6	3.8	12	-
	<i>Median</i>			8.6	4.9	4.9	12	-
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	46.99		7.6	15.5	20	6.2
Kinder Morgan Management, LLC	KMR	S3	42.92		7.6	14.5	18	6.8
San Juan Basin Royalty Trust	SJT		35.76	12.5	8.9	10.6	12	8.4
Canadian Oil Sands Trust (US\$)	COSWF	B	68.25	20.0	10.2	7.8	9	2.4
Enerplus Resources Fund	ERF		37.59	8.3	6.1	7.0	14	9.0
Pengrowth Energy Trust	PGH		21.56	7.9	5.4	6.8	11	10.3
	<i>Median</i>			10.4	7.6	9.2	13	7.6

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

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
28-Feb	CVX	ChevronTexaco Corporation	Raise Net Present Value to \$76 a Share
25-Feb	COP	ConocoPhillips	Raise Net Present Value to \$128 a Share
18-Feb	EAC	Encore Acquisition Company	Raise Net Present Value to \$57 a Share
17-Feb	APC	Anadarko Petroleum Corporation	Raise Net Present Value to \$113 a Share
17-Feb	XTO	XTO Energy Inc.	Raise Net Present Value to \$45 a Share
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
29-Nov	* XEC	Cimarex Energy Company	Timely Talent

Meter Reader - A Weekly Analysis

22-Feb		Wall of Worry
15-Feb	*	Just Buy
8-Feb	*	Happy Birthday to Meter Reader
1-Feb	*	Downstream Compensation
25-Jan	*	Raise Present Value to \$40 Oil Constant Real

* Archived on www.mcdep.com

Also see

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

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