

## ***Meter Reader***

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

March 29, 2005

# **Value, Momentum and Growth**

## **Summary and Recommendation**

After favorable performance in the first quarter of 2005, buy-recommended oil and gas stocks continue to offer attractive value, positive price trends and participation in global growth. Whether measured by the McDep Ratio, earnings or dividends, recommended stocks appear inexpensive. Commodity price and stock price appear to be in a rising trend that shows little sign of reversing soon. Global growth demands more energy that is also clean and secure. Current stock picks with low McDep Ratios and balancing characteristics include **PetroChina (PTR)**, **Encana (ECA)** and **Cimarex (XEC)**

## **McDep is the Name, Valuation is the Game**

McDep Ratios at a median of 0.89 suggest stocks are valued as though oil were to be priced at about \$36 a barrel (see table [Rank by McDep Ratio](#)). A McDep Ratio of 1.0 would mean that stock market cap and debt would equal the value of resources assuming a price of oil at \$40 a barrel. The median unlevered cash flow multiple is a low 4.8 times, median P/E is a low 9.5 and median dividend yield is 2.4% per year (see table [Rank by EV/Ebitda](#)).

## **No One Knows How Far Momentum Can Carry**

Meanwhile, after a new high last week in the futures market, oil for delivery over the next six years settled back to about \$51 a barrel (see chart [Latest Five Weekly Data Points and Trend](#)). The current six-year average is well ahead of its 40-week moving average (see chart [Six-Year Futures Strip and 40-Week Average](#)). At the same time a pullback from the recent high for the one-year average makes us more comfortable that price is not going up too fast too soon (see chart [One-Year Oil Futures](#)).

Aside from the rate of gain, there is no obvious limit on oil price. Non-inflammatory sources like the *Wall Street Journal* point out that the current price of crude oil is below the inflation-adjusted historic high of about \$90 a barrel. The measure of inflation is the consumer price index as calculated by the government with “quality” adjustments and “substitution” of less expensive items for more expensive items. Taking account of real estate inflation and financial asset inflation could lead to the conclusion that the inflation-adjustment should be higher and that \$90 understates the past peak.

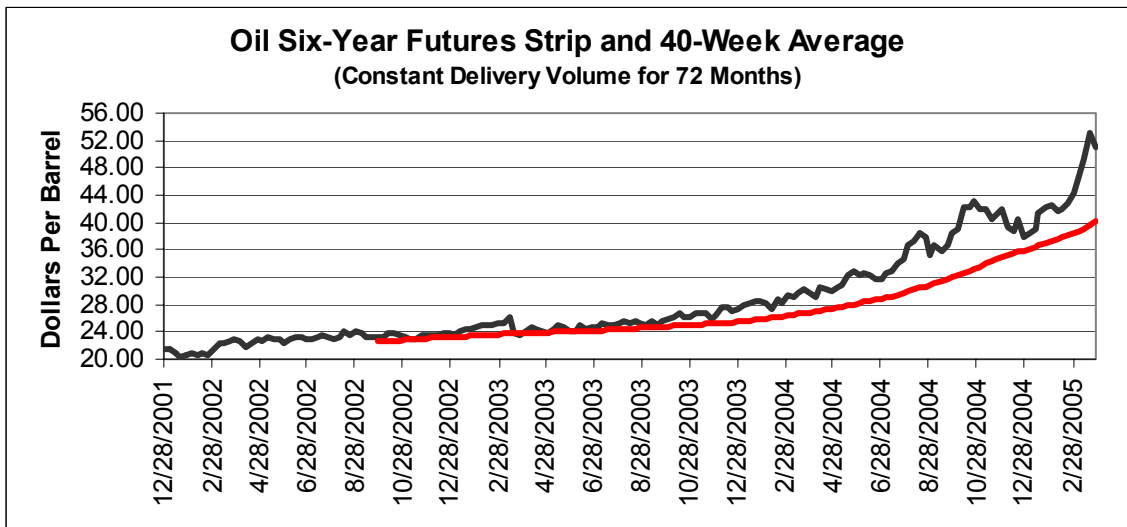
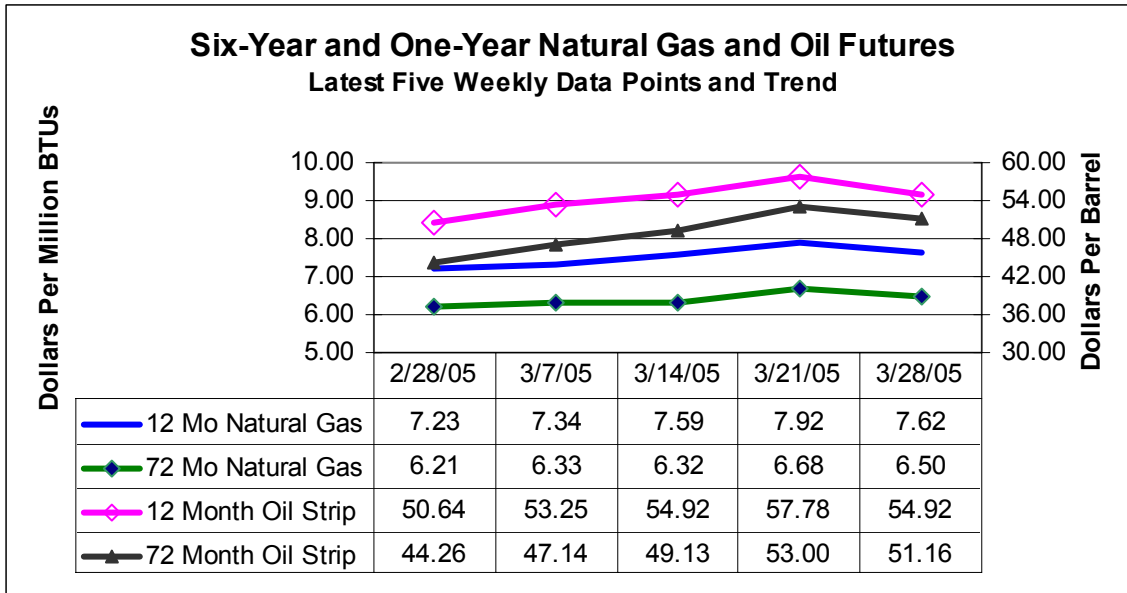
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We talk about a three to five fold gain in five to thirteen years as an interpretation of the last cycle. From a \$40 base, that implies \$120 to \$200, but not immediately. The upper end might not be sustained, but the lower end could be, particularly if it unfolds gradually.

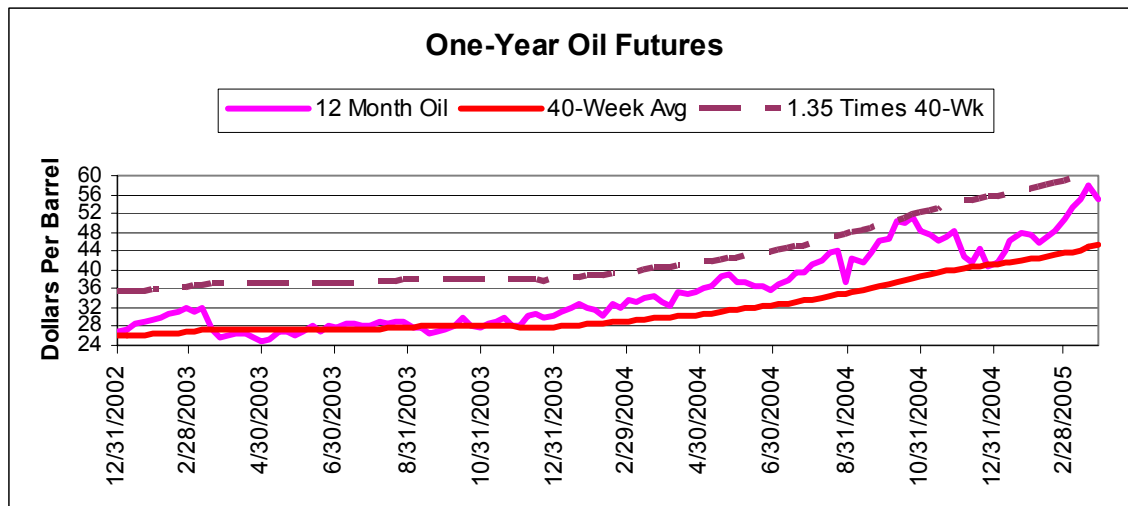


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### Energy Powers Economies

It is hard to imagine economic growth without a growing supply of energy. That becomes particularly obvious for developing countries that are only beginning to experience the amenities of developed countries. As a result, investment in oil and gas production is an investment in global growth.

Moreover we believe that natural gas is the cleanest fuel widely available. Oil is next. Because coal is most polluting, its use should be restricted to a political minimum. The fact that coal is used anywhere makes the case for the undervaluation of natural gas and oil from an environmental standpoint.

### Continuous Analysis

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-Mar 2005	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
<b>Mega Cap</b>								
Exxon Mobil Corporation	XOM	B	58.89	6,461	381,000	60.00	0.06	0.98
Total S.A.	TOT	B	115.71	1,218	141,000	120.00	0.16	0.97
BP plc	BP	B	61.47	3,601	221,000	64.00	0.12	0.97
Shell Transport and Trading Co. plc	SC	B	53.57	1,587	85,000	55.90	0.16	0.96
Royal Dutch Petroleum	RD	B	59.32	2,016	120,000	66.00	0.16	0.92
ChevronTexaco Corporation	CVX	B	58.29	2,123	124,000	76.00	0.10	0.79
<i>Total or Median</i>					<i>1,072,000</i>		<i>0.14</i>	<i>0.97</i>
<b>Producer/Refiners - Large Cap and Mid Cap</b>								
Kinder Morgan, Inc.	KMI	S2	75.15	125	9,390	20.00	0.74	1.72
Imperial Oil Limited (30%)	IMO	B	71.88	105	7,580	64.00	0.11	1.11
Marathon Oil Corporation	MRO	B	45.40	347	15,770	42.00	0.30	1.06
ConocoPhillips	COP	B	105.25	706	74,300	128.00	0.23	0.86
Norsk Hydro ASA	NHY	B	82.06	252	20,700	101.00	0.16	0.84
Petro-Canada	PCZ	B	56.05	264	14,800	70.00	0.17	0.84
Suncor Energy	SU	B	38.24	460	17,590	54.00	0.10	0.74
PetroChina Company Ltd (10%)	PTR	B	60.87	176	10,700	94.00	0.05	0.67
Lukoil Oil Company	LUKOY	B	134.75	209	28,000	208.00	0.03	0.66
<i>Total or Median</i>					<i>199,000</i>		<i>0.16</i>	<i>0.84</i>
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>								
XTO Energy Inc.	XTO	B	31.90	349	11,150	33.80	0.17	0.95
Unocal Corporation	UCL	B	59.10	271	16,000	65.00	0.21	0.93
Encana Corporation	ECA	B	66.80	471	31,400	77.00	0.16	0.89
Occidental Petroleum Corp.	OXY	B	69.23	406	28,100	87.00	0.15	0.83
CNOOC Limited (19%)	CEO	B	54.60	78	4,270	67.00	-	0.82
Burlington Resources	BR	B	49.72	391	19,400	67.00	0.12	0.77
Devon Energy Corporation	DVN	B	45.89	500	22,900	63.00	0.16	0.77
Anadarko Petroleum Corp.	APC	B	73.97	246	18,200	113.00	0.14	0.70
<i>Total or Median</i>					<i>151,000</i>		<i>0.15</i>	<i>0.82</i>
<b>Independent Natural Gas and Oil - Small Cap</b>								
Berry Petroleum Company	BRY	B	50.05	22	1,120	50.00	0.12	1.00
Energy Partners Ltd.	EPL	B	25.05	39	990	30.00	0.20	0.87
Cimarex Energy Company	XEC	B	38.83	81	3,130	50.00	0.15	0.81
Encore Acquisition Company	EAC	B	39.38	33	1,280	57.00	0.19	0.75
<i>Total or Median</i>					<i>6,500</i>		<i>0.17</i>	<i>0.84</i>
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S3	45.07	150	6,760	15.00	0.52	1.97
Kinder Morgan Management, LLC	KMR	S3	40.60	56	2,290	15.00	0.52	1.83
San Juan Basin Royalty Trust	SJT		35.84	47	1,670	30.00	-	1.19
Pengrowth Energy Trust	PGH		20.03	136	2,720	16.00	0.24	1.19
Enerplus Resources Fund	ERF		35.51	104	3,690	32.00	0.16	1.09
Canadian Oil Sands Trust (US\$)	COSWF	B	67.37	91	6,150	94.00	0.15	0.76
<i>Total or Median</i>					<i>23,300</i>		<i>0.20</i>	<i>1.19</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-Mar 2005	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
<b>Mega Cap</b>								
Exxon Mobil Corporation	XOM	B	58.89	11.1	6.6	6.5	11	1.8
BP plc	BP	B	61.47	9.4	5.7	5.5	10	3.3
Total S.A.	TOT	B	115.71	8.9	5.6	5.5	11	2.7
Shell Transport and Trading Co. plc	SC	B	53.57	7.6	5.0	4.8	10	3.7
ChevronTexaco Corporation	CVX	B	58.29	9.7	6.0	4.7	8	2.7
Royal Dutch Petroleum	RD	B	59.32	7.6	5.0	4.6	9	4.0
	<i>Median</i>			9.2	5.7	5.2	10	3.0
<b>Producer/Refiners - Large Cap and Mid Cap</b>								
Kinder Morgan, Inc.	KMI	S2	75.15		7.5	12.9	17	3.7
Suncor Energy	SU	B	38.24	18.2	10.6	7.8	19	0.5
Imperial Oil Limited (30%)	IMO	B	71.88	10.6	6.4	7.1	13	1.0
Marathon Oil Corporation	MRO	B	45.40	7.9	4.8	5.1	9	2.5
ConocoPhillips	COP	B	105.25	11.6	5.2	4.4	7	1.9
Petro-Canada	PCZ	B	56.05	7.6	5.2	4.4	8	0.9
Norsk Hydro ASA	NHY	B	82.06	8.5	4.9	4.1	9	3.9
PetroChina Company Ltd (10%)	PTR	B	60.87	13.5	5.8	3.8	7	5.2
Lukoil Oil Company	LUKOY	B	134.75	12.2	3.5	2.3	4	2.6
	<i>Median</i>			11.1	5.2	4.4	9	2.5
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>								
XTO Energy Inc.	XTO	B	31.90	11.6	5.9	5.6	11	0.6
Occidental Petroleum Corp.	OXY	B	69.23	11.3	5.6	4.6	8	1.6
Burlington Resources	BR	B	49.72	9.8	5.9	4.6	10	0.7
Unocal Corporation	UCL	B	59.10	8.5	4.9	4.5	10	1.4
Encana Corporation	ECA	B	66.80	7.2	5.1	4.5	9	0.6
Anadarko Petroleum Corp.	APC	B	73.97	11.9	5.8	4.0	8	1.0
Devon Energy Corporation	DVN	B	45.89	7.9	5.0	3.8	9	0.7
CNOOC Limited (19%)	CEO	B	54.60	9.1	4.5	3.7	6	3.3
	<i>Median</i>			9.4	5.3	4.5	9	0.8
<b>Independent Natural Gas and Oil - Small Cap</b>								
Berry Petroleum Company	BRYP	B	50.05	10.9	5.5	5.5	14	1.0
Encore Acquisition Company	EAC	B	39.38	15.6	6.7	5.0	11	-
Cimarex Energy Company	XEC	B	38.83	7.6	4.7	3.8	9	-
Energy Partners Ltd.	EPL	B	25.05	5.3	3.9	3.4	10	-
	<i>Median</i>			9.2	5.1	4.4	10	-
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S3	45.07		7.6	14.9	19	6.5
Kinder Morgan Management, LLC	KMR	S3	40.60		7.6	13.9	17	7.2
San Juan Basin Royalty Trust	SJT		35.84	12.5	8.4	10.0	11	9.1
Canadian Oil Sands Trust (US\$)	COSWF	B	67.37	20.0	8.9	6.8	7	2.4
Enerplus Resources Fund	ERF		35.51	8.3	5.7	6.2	11	9.7
Pengrowth Energy Trust	PGH		20.03	7.9	5.0	5.9	9	11.3
	<i>Median</i>			10.4	7.6	8.4	11	8.2

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>
23-Mar	CEO	CNOOC Ltd	Volume Gains Expected in 2005
21-Mar	PTR	PetroChina Company Limited	Nice Dividend
18-Mar	RD	Royal Dutch Petroleum	Transformation Approaching
18-Mar	SC	Shell Transport & Trading Company, p.l.c.	Transformation Approaching
17-Mar	BP	BP p.l.c.	More Cash Flow to Owners
7-Mar	EPL	Energy Partners, Ltd.	Layer Cake
7-Mar	DVN	Devon Energy Corporation	Target Diversification
7-Mar	XEC	Cimarex Energy Company	Raise Net Present Value to \$50 a Share
7-Mar	XOM	Exxon Mobil Corporation	Raise Net Present Value to \$60 a Share
2-Mar	SU	Suncor Energy Inc.	Fire Tests Patience
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	* BRY	Berry Petroleum Company	A Touch of Glamour
7-Feb	* DVN	Devon Energy Corporation	Raise Net Present Value to \$63 a Share
7-Feb	* IMO	Imperial Oil Limited	Raise Net Present Value to US\$64 a Share
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	* 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

##### **Meter Reader - A Weekly Analysis**

29-Mar		Value, Momentum and Growth
22-Mar	*	The Buy Stocks, Sell Commodity Futures Arbitrag
15-Mar	*	Indexing Consequences
8-Mar	*	Powerful Trends
1-Mar	*	Asset Reallocation

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