

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

April 5, 2005

Unocal Acquisition by ChevronTexaco

Summary and Recommendation

Buy recommendations **Unocal (UCL)** and **ChevronTexaco (CVX)** appear timely and attractive for new commitments following price declines on the announcement of a combination. In a deal expected to be completed by year-end 2005, the two companies would become one. Shareholders of UCL would receive Chevron stock and cash worth close to our estimated present value assuming \$40 oil. CVX would wring extra value out of the transaction by “synergies” and by repurchasing some of the stock offered. Recommended peer companies with low McDep Ratios that could be future targets include **Anadarko (APC)**, **Burlington Resources (BR)**, and **Devon Energy (DVN)**.

Purchase Price Approximates McDep Ratio of 0.96

Unocal shareholders would have a choice of 1.03 shares of CVX or \$65 in cash for each Unocal share subject to an overall limit of 75% stock and 25% cash. CVX prices the deal at an average \$62 a Unocal share counting CVX stock at the \$59 price where it traded on Friday, April 1, before the deal was announced on Monday, April 4.

Unocal at \$62 a share is close to our estimate of present value of \$65. Taking account of debt, the unlevered ratio of deal price to present value, the McDep Ratio, is 0.96. That compares to a current median of about 0.92 for 34 stocks.

Viewed another way our estimate of present value would be \$62 a share if we assumed an oil price of \$37 instead of \$40 a barrel for the benchmark grade. In Unocal's case 27% of the value is in North American natural gas, 27% in Overseas natural gas and the remainder in Global oil.

ChevronTexaco Stock Seems Undervalued

By offering stock to Unocal, CVX is giving up something that intrinsically is worth more than current price. That is good for Unocal shareholders because there would be no tax due on the stock portion of the transaction for taxable holders and there is the promise of higher future stock price.

At the \$59 price for CVX, the McDep Ratio would be 0.80. Thus for CVX shareholders at first glance it does not seem so great to trade a security worth 0.80 for one worth 0.96. But there are two possible offsetting considerations. One is that CVX expects to achieve cost savings of \$325 million annually almost as soon as the deal is consummated. That 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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would be worth about \$1.5 billion at the current multiple of present value to cash flow, reducing the effective McDep Ratio of UCL from 0.96 to 0.90. CVX may bring down the effective purchase price by some undetermined further amount if it can repurchase more of its own shares at a McDep Ratio less than one.

The deal would look especially positive for CVX as investors recognize greater value for oil and gas stocks. No one can guarantee that, but our sense is the trend still has a long way to go.

Commodity Price Trend Remains Favorable

Oil for delivery over the next six years exceeds \$53 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](#)).

Buy Low McDep Ratio Stocks

McDep Ratios at a median of 0.92 suggest stocks are valued as though oil were to be priced at about \$37 a barrel, or less (see table [Rank by McDep Ratio](#)). The median unlevered cash flow multiple is a low 4.7 times, median P/E is a low 8.9 and median dividend yield is 2.3% per year (see table [Rank by EV/Ebitda](#)).

More Research Available

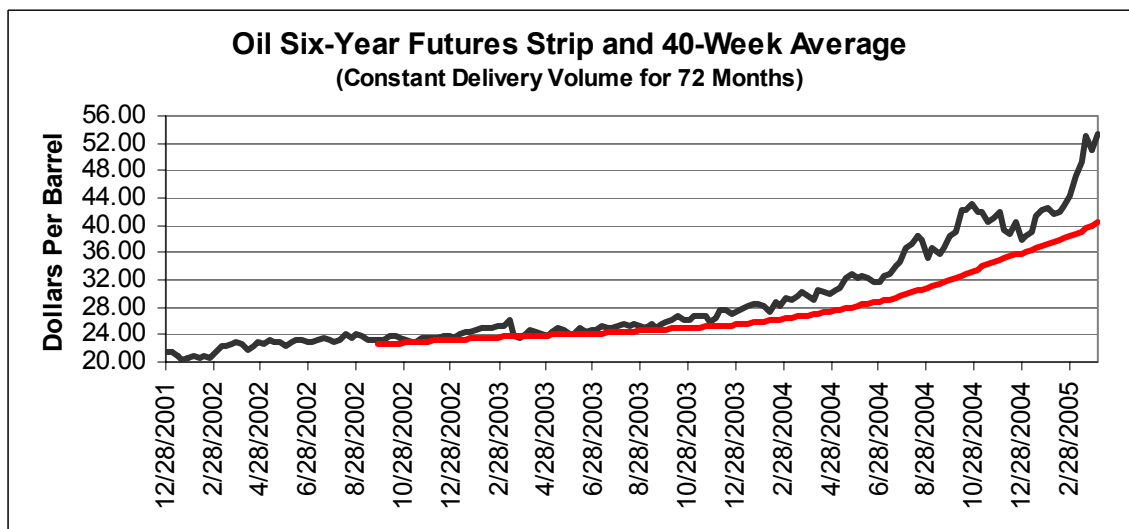
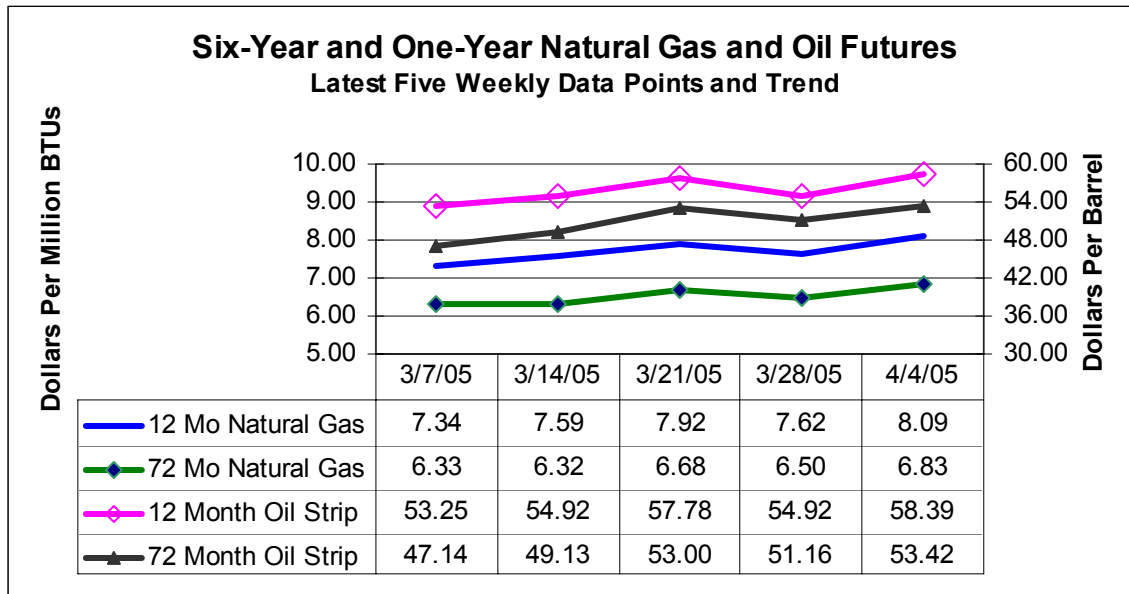
Besides the weekly *Meter Reader* we update most of our single stock analyses at least once a quarter (see [Index of Recent Research](#)). Also we have a weekly analysis of *U.S. Natural Gas Royalty Trusts* with related single trust analyses.

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) 4-Apr 2005	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
Exxon Mobil Corporation	XOM	B	60.65	6,461	392,000	60.00	0.06	1.01
BP plc	BP	B	62.82	3,601	226,000	64.00	0.12	0.98
Total S.A.	TOT	B	117.36	1,218	143,000	120.00	0.16	0.98
Shell Transport and Trading Co. plc	SC	B	54.15	1,587	86,000	55.90	0.16	0.97
Royal Dutch Petroleum	RD	B	59.76	2,016	121,000	66.00	0.16	0.92
ChevronTexaco Corporation	CVX	B	56.98	2,123	121,000	76.00	0.10	0.77
<i>Total or Median</i>					<i>1,089,000</i>		<i>0.14</i>	<i>0.98</i>
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	76.25	125	9,530	20.00	0.74	1.74
Imperial Oil Limited (30%)	IMO	B	78.83	105	8,310	64.00	0.11	1.21
Marathon Oil Corporation	MRO	B	48.25	347	16,760	42.00	0.30	1.10
ConocoPhillips	COP	B	110.57	706	78,100	128.00	0.23	0.90
Petro-Canada	PCZ	B	58.76	264	15,520	70.00	0.18	0.87
Norsk Hydro ASA	NHY	B	83.18	252	20,990	101.00	0.16	0.85
Suncor Energy	SU	B	40.76	460	18,750	54.00	0.10	0.78
PetroChina Company Ltd (10%)	PTR	B	64.26	176	11,300	94.00	0.05	0.70
Lukoil Oil Company	LUKOY	B	138.50	209	29,000	208.00	0.03	0.68
<i>Total or Median</i>					<i>208,000</i>		<i>0.16</i>	<i>0.87</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	35.33	349	12,350	33.80	0.17	1.04
Encana Corporation	ECA	B	71.73	471	33,800	77.00	0.16	0.94
Unocal Corporation	UCL	B	59.60	271	16,200	65.00	0.21	0.94
Occidental Petroleum Corp.	OXY	B	73.64	406	29,900	87.00	0.15	0.87
CNOOC Limited (19%)	CEO	B	55.58	78	4,340	67.00	-	0.83
Devon Energy Corporation	DVN	B	49.53	500	24,800	63.00	0.16	0.82
Burlington Resources	BR	B	52.12	391	20,400	67.00	0.12	0.80
Anadarko Petroleum Corp.	APC	B	78.72	246	19,400	113.00	0.14	0.74
<i>Total or Median</i>					<i>161,000</i>		<i>0.15</i>	<i>0.85</i>
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	52.50	22	1,180	50.00	0.12	1.04
Energy Partners Ltd.	EPL	B	26.77	39	1,050	30.00	0.20	0.91
Cimarex Energy Company	XEC	B	40.08	81	3,230	50.00	0.15	0.83
Encore Acquisition Company	EAC	B	43.56	33	1,420	57.00	0.19	0.81
<i>Total or Median</i>					<i>6,900</i>		<i>0.17</i>	<i>0.87</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	46.04	150	6,910	15.00	0.52	2.00
Kinder Morgan Management, LLC	KMR	S3	41.70	56	2,350	15.00	0.52	1.86
Pengrowth Energy Trust	PGH		20.35	136	2,770	16.00	0.24	1.21
San Juan Basin Royalty Trust	SJT		37.48	47	1,750	32.00	-	1.17
Enerplus Resources Fund	ERF		36.46	104	3,790	32.00	0.17	1.12
Canadian Oil Sands Trust (US\$)	COSWF	B	72.45	91	6,610	94.00	0.15	0.81
<i>Total or Median</i>					<i>24,200</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) 4-Apr 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	60.65	11.1	6.3	6.4	11	1.8
Total S.A.	TOT	B	117.36	8.9	5.5	5.4	10	2.6
BP plc	BP	B	62.82	9.4	5.4	5.3	10	3.2
Shell Transport and Trading Co. plc	SC	B	54.15	7.6	4.8	4.7	9	3.6
Royal Dutch Petroleum	RD	B	59.76	7.6	4.8	4.4	8	3.9
ChevronTexaco Corporation	CVX	B	56.98	9.7	5.7	4.4	7	2.8
	<i>Median</i>			9.2	5.4	5.0	9	3.0
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	76.25		7.5	13.0	17	3.7
Suncor Energy	SU	B	40.76	18.2	9.7	7.6	18	0.5
Imperial Oil Limited (30%)	IMO	B	78.83	10.6	5.9	7.2	13	0.9
Marathon Oil Corporation	MRO	B	48.25	7.9	4.3	4.7	8	2.3
ConocoPhillips	COP	B	110.57	11.6	4.9	4.4	7	1.8
Petro-Canada	PCZ	B	58.76	7.6	4.9	4.2	8	0.8
Norsk Hydro ASA	NHY	B	83.18	8.5	4.7	4.0	9	3.8
PetroChina Company Ltd (10%)	PTR	B	64.26	13.5	5.6	3.9	7	4.9
Lukoil Oil Company	LUKOY	B	138.50	12.2	3.0	2.1	3	2.5
	<i>Median</i>			11.1	4.9	4.4	8	2.3
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	35.33	11.6	5.5	5.7	12	0.6
Occidental Petroleum Corp.	OXY	B	73.64	11.3	5.2	4.6	8	1.5
Encana Corporation	ECA	B	71.73	7.2	4.8	4.5	9	0.6
Burlington Resources	BR	B	52.12	9.8	5.5	4.4	9	0.7
Unocal Corporation	UCL	B	59.60	8.5	4.7	4.4	9	1.3
Anadarko Petroleum Corp.	APC	B	78.72	11.9	5.3	3.9	7	0.9
Devon Energy Corporation	DVN	B	49.53	7.9	4.6	3.8	8	0.6
CNOOC Limited (19%)	CEO	B	55.58	9.1	4.2	3.5	6	3.7
	<i>Median</i>			9.4	5.0	4.4	9	0.8
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRP	B	52.50	10.9	5.0	5.3	13	0.9
Encore Acquisition Company	EAC	B	43.56	15.6	6.2	5.0	11	-
Cimarex Energy Company	XEC	B	40.08	7.6	4.3	3.5	8	-
Energy Partners Ltd.	EPL	B	26.77	5.3	3.6	3.3	9	-
	<i>Median</i>			9.2	4.7	4.3	10	-
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	46.04		7.6	15.1	19	6.3
Kinder Morgan Management, LLC	KMR	S3	41.70		7.6	14.1	18	7.0
San Juan Basin Royalty Trust	SJT		37.48	12.0	8.1	9.6	11	9.5
Canadian Oil Sands Trust (US\$)	COSWF	B	72.45	20.0	8.2	6.6	7	2.3
Enerplus Resources Fund	ERF		36.46	8.3	5.3	5.9	10	9.5
Pengrowth Energy Trust	PGH		20.35	7.9	4.6	5.5	8	11.1
	<i>Median</i>			10.2	7.6	8.1	10	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>
31-Mar	BR	Burlington Resources, Inc.	San Juan Basin Value Expanding
29-Mar	CEO	CNOOC Ltd	Nice Dividend
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
29-Dec	* LUKOY	Lukoil Oil Company	After Yukos

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5-Apr		Unocal Acquisition by ChevronTexaco
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

* Archived on www.mcdep.com

Also see

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

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