

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

April 12, 2005

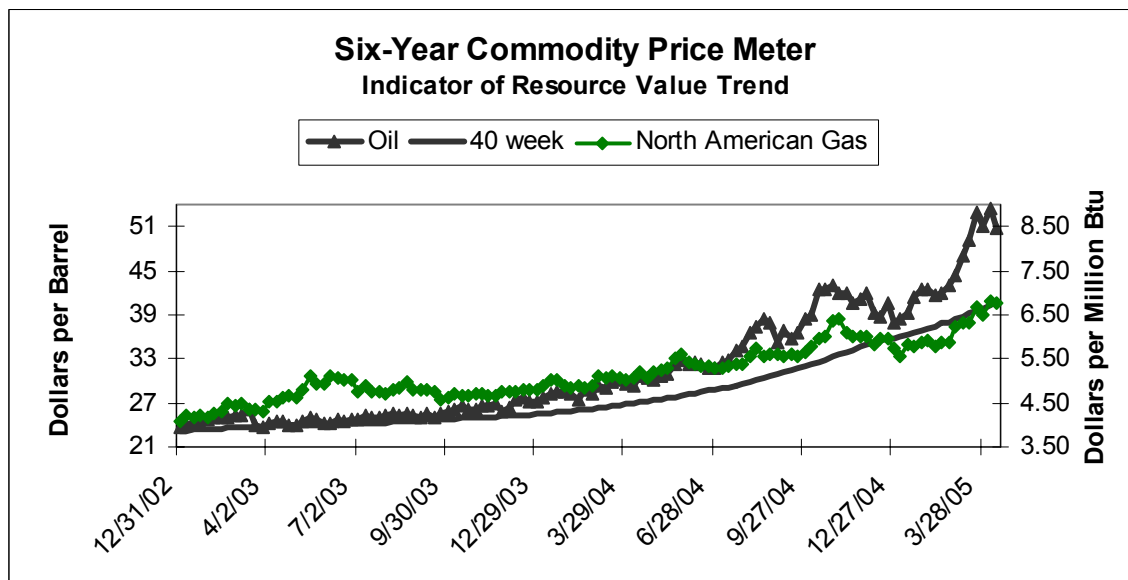
Positive Signs

Summary and Recommendation

From 1970 to 1980 the price of crude oil went up about ten times while since 2000 it is up less than three times. Sensing further opportunity ahead for oil, we note how natural gas appears to lag and refining margins are improving. Some of our favorite independent producer stocks were up more than the price of oil in the 1970s. **Canadian Oil Sands Trust (COSWF)** is a leading candidate to generate such gains while the management of **XTO Energy (XTO)** and **Encore Acquisition (EAC)** may be repeating their experiences of thirty years ago.

The Six-Year Commodity Price Meter Flashes the Trend

Oil for delivery over the next six years appears to be climbing gradually, now at about \$51 a barrel (see chart Six-Year Commodity Price Meter). Natural gas prices are also in a positive trend, but strongly lagging oil. The lag may be the exaggerated influence of short-term inventory trends. Heating oil supplies were tight this past winter while natural gas in storage was perceived to be more ample.



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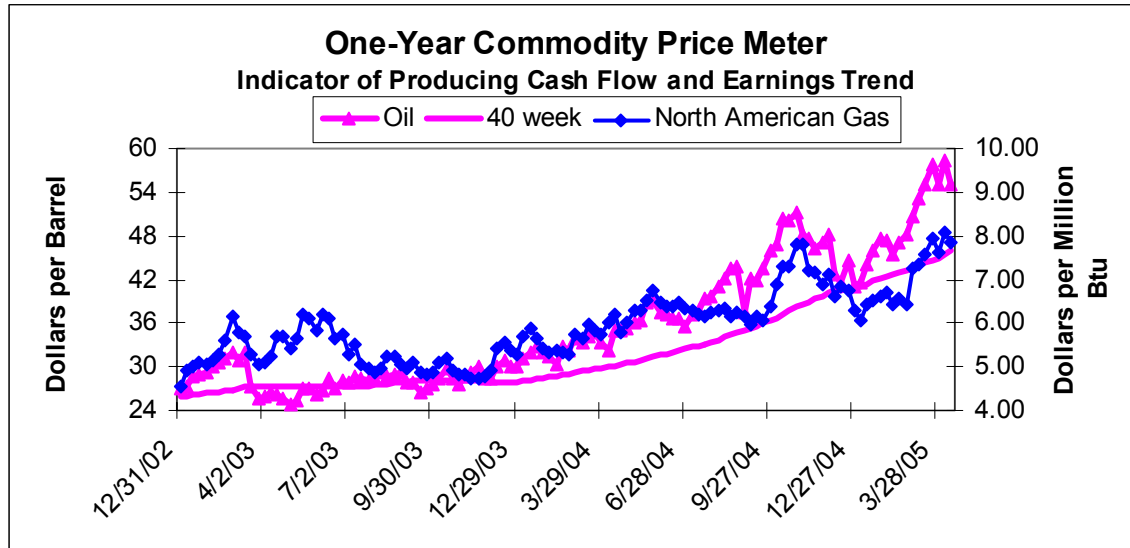
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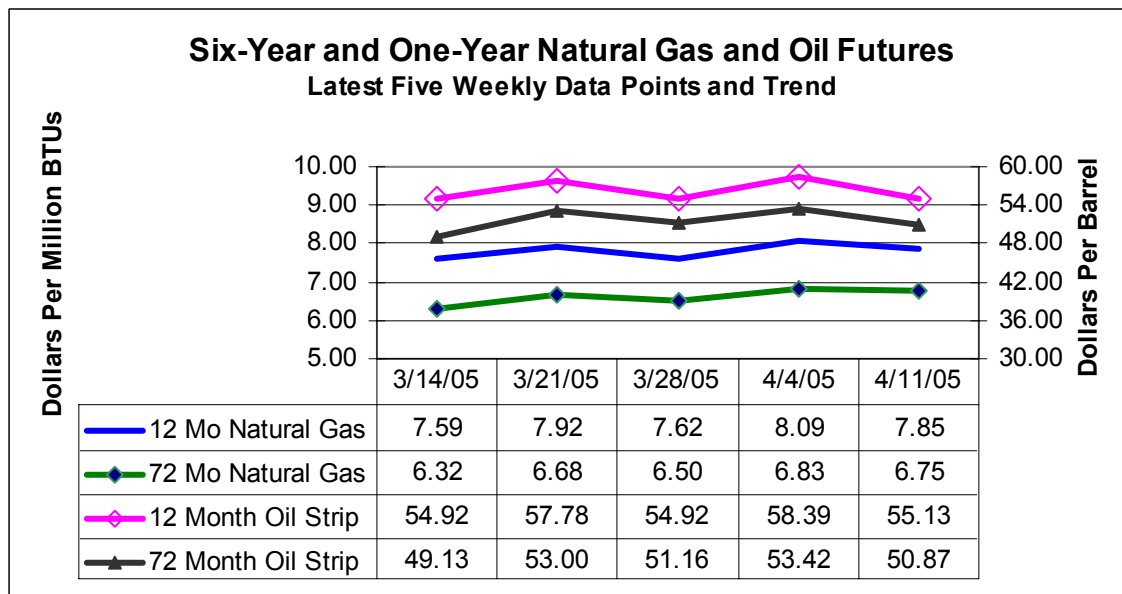
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The One-Year Commodity Price Meter Points to Quarterly Earnings

One-year oil and natural gas price expectations show a trend similar to that for six-year futures (see chart One-Year Commodity Price Meter). Since stock price is presumed to reflect the long-term value of a company we like to think that six-year quotes are more indicative of that value. Investors are also interested in earnings indicated by one-year futures. We recalculate weekly our projections for the next twelve months.



The weekly record of recent quotes may belie the larger trend (see chart Latest Five Weekly Data Points and Trend). We derive the data by downloading quotes from the New York Mercantile Exchange website, nymex.com.



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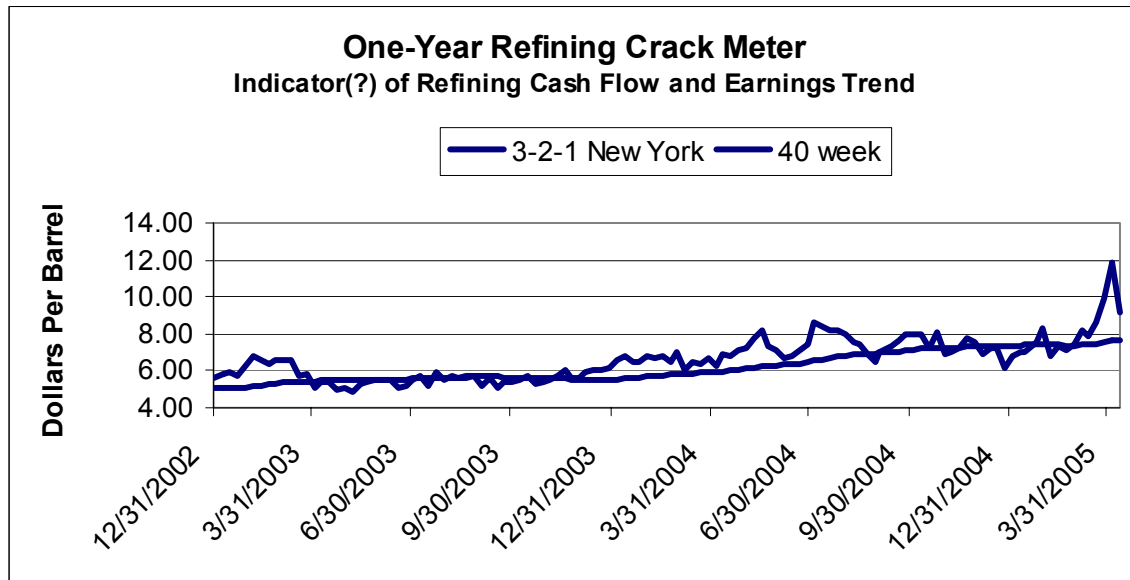
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Refining Margins Improving

The largest oil producers are also engaged in refining where the spread between the cost of crude oil and the price of heating oil and gasoline product is widening (see chart One-Year Refining Crack Meter). The trend is up, but not as clearly as for oil futures. Also the only publicly quoted components for calculating future refining margins start with light, sweet crude oil. We know in hindsight that the big refining profits in the last quarter of 2004 were from refining less desirable grades of crude oil.



We should also point out the nymex website usually quotes gasoline futures for fewer than twelve months. Filling in the missing months mechanically gives us less confidence in this indicator. Yet, when we recently tested our calculations against more complete pricing data available on Bloomberg, we were surprised to see that the greater detail did not materially change the results. In other words, as with interest rates, the whole term structure can move in the same direction in response to the same stimuli.

Buy Low McDep Ratio Stocks

McDep Ratios at a median of 0.93 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 5.0 times, median P/E is a low 9.4 and median dividend yield is 2.3% per year (see table Rank by EV/Ebitda).

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) 11-Apr 2005	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
Exxon Mobil Corporation	XOM	B	60.29	6,461	390,000	60.00	0.06	1.00
Shell Transport and Trading Co. plc	SC	B	55.98	1,587	89,000	55.90	0.16	1.00
BP plc	BP	B	63.62	3,601	229,000	64.00	0.12	0.99
Total S.A.	TOT	B	119.05	1,218	145,000	120.00	0.16	0.99
Royal Dutch Petroleum	RD	B	61.40	2,016	124,000	66.00	0.16	0.94
ChevronTexaco Corporation	CVX	B	56.87	2,123	121,000	76.00	0.10	0.77
<i>Total or Median</i>					<i>1,098,000</i>		<i>0.14</i>	<i>0.99</i>
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	76.01	125	9,500	20.00	0.74	1.74
Imperial Oil Limited (30%)	IMO	B	76.13	105	8,030	64.00	0.11	1.17
Marathon Oil Corporation	MRO	B	48.50	347	16,850	42.00	0.30	1.11
ConocoPhillips	COP	B	110.33	706	77,900	128.00	0.23	0.89
Norsk Hydro ASA	NHY	B	85.25	252	21,510	101.00	0.16	0.87
Petro-Canada	PCZ	B	57.17	264	15,100	70.00	0.17	0.85
Suncor Energy	SU	B	39.72	460	18,270	54.00	0.10	0.76
Lukoil Oil Company	LUKOY	B	144.50	209	30,000	208.00	0.03	0.70
PetroChina Company Ltd (10%)	PTR	B	63.64	176	11,190	94.00	0.05	0.69
<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	33.08	349	11,560	33.80	0.17	0.98
Unocal Corporation	UCL	B	58.94	271	16,000	65.00	0.21	0.93
Encana Corporation	ECA	B	70.40	471	33,100	77.00	0.16	0.93
Occidental Petroleum Corp.	OXY	B	72.77	406	29,600	87.00	0.15	0.86
CNOOC Limited (19%)	CEO	B	54.84	78	4,280	67.00	-	0.82
Burlington Resources	BR	B	51.07	391	20,000	67.00	0.12	0.79
Devon Energy Corporation	DVN	B	47.21	500	23,600	63.00	0.16	0.79
Anadarko Petroleum Corp.	APC	B	76.83	246	18,900	113.00	0.14	0.72
<i>Total or Median</i>					<i>157,000</i>		<i>0.15</i>	<i>0.84</i>
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	49.11	22	1,100	50.00	0.12	0.98
Energy Partners Ltd.	EPL	B	25.56	39	1,010	30.00	0.20	0.88
Cimarex Energy Company	XEC	B	38.41	81	3,100	50.00	0.15	0.80
Encore Acquisition Company	EAC	B	40.98	33	1,340	57.00	0.19	0.77
<i>Total or Median</i>					<i>6,600</i>		<i>0.17</i>	<i>0.84</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	46.52	150	6,980	15.00	0.52	2.02
Kinder Morgan Management, LLC	KMR	S3	42.73	56	2,410	15.00	0.52	1.89
Pengrowth Energy Trust	PGH		20.35	136	2,770	16.00	0.24	1.21
San Juan Basin Royalty Trust	SJT		36.56	47	1,700	32.00	-	1.14
Enerplus Resources Fund	ERF		34.93	104	3,630	32.00	0.16	1.08
Canadian Oil Sands Trust (US\$)	COSWF	B	70.95	91	6,470	94.00	0.15	0.79
<i>Total or Median</i>					<i>24,000</i>		<i>0.20</i>	<i>1.17</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) 11-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	60.29	11.1	6.6	6.6	12	1.8
BP plc	BP	B	63.62	9.4	5.7	5.7	11	3.2
Total S.A.	TOT	B	119.05	8.9	5.6	5.6	11	2.6
Shell Transport and Trading Co. plc	SC	B	55.98	7.6	5.0	5.0	10	3.5
Royal Dutch Petroleum	RD	B	61.40	7.6	5.0	4.7	9	3.8
ChevronTexaco Corporation	CVX	B	56.87	9.7	5.9	4.6	8	2.8
	<i>Median</i>			9.2	5.7	5.3	10	3.0
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	76.01		7.5	13.0	17	3.7
Suncor Energy	SU	B	39.72	18.2	10.6	8.1	20	0.5
Imperial Oil Limited (30%)	IMO	B	76.13	10.6	6.3	7.4	13	0.9
Marathon Oil Corporation	MRO	B	48.50	7.9	4.5	5.0	9	2.3
ConocoPhillips	COP	B	110.33	11.6	5.1	4.6	7	2.2
Petro-Canada	PCZ	B	57.17	7.6	5.2	4.4	8	0.9
Norsk Hydro ASA	NHY	B	85.25	8.5	4.9	4.3	10	3.7
PetroChina Company Ltd (10%)	PTR	B	63.64	13.5	5.8	4.0	7	5.0
Lukoil Oil Company	LUKOY	B	144.50	12.2	4.1	2.9	5	2.4
	<i>Median</i>			11.1	5.2	4.6	9	2.3
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	33.08	11.6	5.8	5.7	12	0.6
Occidental Petroleum Corp.	OXY	B	72.77	11.3	5.5	4.8	8	1.5
Encana Corporation	ECA	B	70.40	7.2	5.0	4.6	9	0.6
Burlington Resources	BR	B	51.07	9.8	5.8	4.6	10	0.7
Unocal Corporation	UCL	B	58.94	8.5	4.9	4.5	9	1.4
Anadarko Petroleum Corp.	APC	B	76.83	11.9	5.7	4.1	8	0.9
Devon Energy Corporation	DVN	B	47.21	7.9	4.9	3.8	9	0.6
CNOOC Limited (19%)	CEO	B	54.84	9.1	4.5	3.7	6	3.7
	<i>Median</i>			9.4	5.3	4.6	9	0.8
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRP	B	49.11	10.9	5.5	5.4	14	1.0
Encore Acquisition Company	EAC	B	40.98	15.6	6.6	5.1	11	-
Cimarex Energy Company	XEC	B	38.41	7.6	4.5	3.6	8	-
Energy Partners Ltd.	EPL	B	25.56	5.3	3.8	3.4	9	-
	<i>Median</i>			9.2	5.0	4.4	10	-
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	46.52		7.6	15.3	20	6.3
Kinder Morgan Management, LLC	KMR	S3	42.73		7.6	14.4	18	6.8
San Juan Basin Royalty Trust	SJT		36.56	12.1	8.5	9.7	11	9.3
Canadian Oil Sands Trust (US\$)	COSWF	B	70.95	20.0	9.0	7.1	8	2.3
Enerplus Resources Fund	ERF		34.93	8.3	5.6	6.0	11	9.7
Pengrowth Energy Trust	PGH		20.35	7.9	4.9	5.9	9	11.0
	<i>Median</i>			10.2	7.6	8.4	11	8.1

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>
8-Apr	NHY	Norsk Hydro ASA	New High for Oil and Aluminum
7-Apr	LUKOY	Lukoil Oil Company	National Treasure
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

Meter Reader - A Weekly Analysis

11-Apr		Positive Signs
5-Apr	*	Unocal Acquisition by ChevronTexaco
29-Mar	*	Value, Momentum and Growth
22-Mar	*	The Buy Stocks, Sell Commodity Futures Arbitrage
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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