

## *Meter Reader*

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

June 14, 2005

# Canada Re-Capp

## Summary and Recommendation

Buy-recommended **Canadian Oil Sands Trust (COSWF)**, **Suncor Energy (SU)**, **Petro-Canada (PCZ)**, **Encana (ECA)** and **Imperial Oil (IMO)** are among the leading investment ideas at the Canadian Association of Petroleum Producers (CAPP) conference in Calgary on June 13-15. As global demand pushes the limits of conventional international oil supply, unconventional oil sands and unconventional natural gas are gaining in investment appeal. Canadian Oil Sands Trust produces high quality oil from an abundant resource while Encana produces more natural gas in North America than any company as it systematically exploits unbooked resources.

## Opportunity in Oil Sands and Natural Gas

Globally the future of energy is likely to have less light oil than commonly forecast and more natural gas. Oil from Canadian sands will fill some of the light oil gap. The demand for clean energy is likely to drive natural gas price to an increasing premium compared to oil. Four of the Canadian companies in our coverage are growing in oil sands mining and upgrading (see table Canadian Petroleum Producers). The fifth company is pursuing the boldest natural gas strategy in North America.

### Canadian Petroleum Producers

	<i>North Amer. Natural Gas (%)</i>	<i>Rest of World Natural Gas (%)</i>	<i>Oil Prod'n (%)</i>	<i>Oil Sands Mining/ Upgrade (%)</i>	<i>Down- stream (%)</i>	<i>Total Present Value (40) (US\$mm)</i>	<i>McDep Ratio</i>
Imperial Oil Limited	13	-	32	29	26	25,000	1.21
Encana Corporation	81	-	19		-	43,400	1.01
Petro-Canada	22	4	37	15	22	22,700	0.89
Suncor Energy	5	-		88	8	27,800	0.84
Canadian Oil Sands Trust (US\$)	-	-		100	-	10,300	0.79

Relating stock market cap and debt to present value, the McDep Ratio identifies degrees of appreciation potential. Lower ratios imply more potential. Meanwhile, present value is estimated for a long-term oil price of \$40 a barrel.

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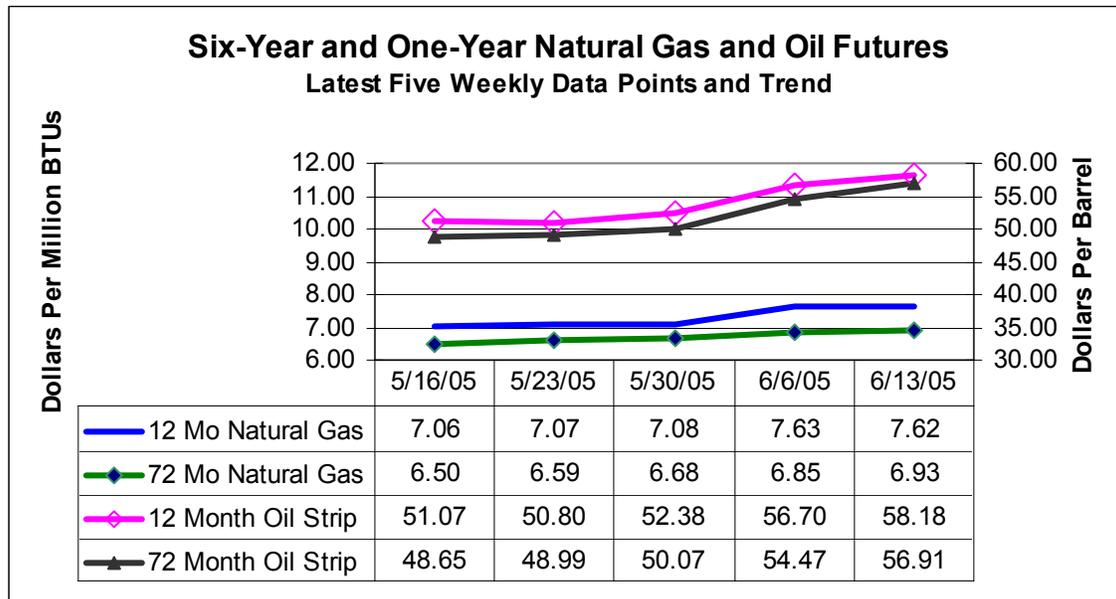
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### New Highs for Six-Year Futures

The futures market estimate for the long-term price has moved well past the \$40 a barrel standard in present value estimates. The current quote for six-year futures reached a new high of \$56.91 a barrel (see chart [Latest Five Weekly Data Points and Trend](#)). Six-year natural gas also reached a new high of \$6.93. Dividing the oil price by 5 to get the competitive equivalent of fuel for power generation implies that six-year natural gas should be 64% higher at \$11.38 a million btu.



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) 13-Jun 2005	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
<b>Mega Cap</b>								
BP plc	BP	B	62.40	3,574	223,000	64.00	0.13	0.98
Exxon Mobil Corporation	XOM	B	58.45	6,421	375,000	60.00	0.06	0.98
Shell Transport and Trading Co. plc	SC	B	54.34	1,587	86,000	56.00	0.14	0.98
Royal Dutch Petroleum	RD	B	60.36	2,018	122,000	66.00	0.14	0.93
Total S.A.	TOT	B	114.92	1,192	137,000	126.00	0.15	0.93
Chevron Corporation	CVX	B	56.01	2,311	129,000	70.00	0.13	0.83
<i>Total or Median</i>					1,072,000		0.13	0.95
<b>Producer/Refiners - Large Cap and Mid Cap</b>								
Kinder Morgan, Inc.	KMI	S2	80.34	125	10,040	20.00	0.74	1.79
Imperial Oil Limited (30%)	IMO	B	78.65	105	8,250	64.00	0.10	1.21
Marathon Oil Corporation	MRO	B	51.77	349	18,050	42.00	0.30	1.16
Petro-Canada	PCZ	B	60.76	263	16,000	70.00	0.19	0.89
ConocoPhillips	COP	B	56.00	1,420	79,500	70.00	0.21	0.84
Suncor Energy	SU	B	44.09	461	20,330	54.00	0.10	0.84
Norsk Hydro ASA	NHY	B	85.04	251	21,340	110.00	0.13	0.80
PetroChina Company Ltd (10%)	PTR	B	68.87	176	12,110	94.00	0.05	0.75
Lukoil Oil Company	LUKOY	B	35.55	834	30,000	52.00	0.03	0.69
<i>Total or Median</i>					216,000		0.13	0.84
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>								
Encana Corporation	ECA	B	39.14	909	35,600	38.50	0.19	1.01
Unocal Corporation	UCL	B	59.84	273	16,300	65.00	0.19	0.93
XTO Energy Inc.	XTO	B	32.50	366	11,900	36.00	0.19	0.92
Occidental Petroleum Corp.	OXY	B	75.82	406	30,800	94.00	0.13	0.83
Burlington Resources	BR	B	54.32	389	21,100	67.00	0.12	0.83
CNOOC Limited (19%)	CEO	B	54.10	78	4,230	67.00	0.01	0.81
Devon Energy Corporation	DVN	B	48.10	496	23,900	63.00	0.16	0.80
Anadarko Petroleum Corp.	APC	B	78.42	239	18,700	113.00	0.14	0.74
<i>Total or Median</i>					163,000		0.15	0.83
<b>Independent Natural Gas and Oil - Small Cap</b>								
Berry Petroleum Company	BRY	B	52.25	22	1,170	50.00	0.12	1.04
Energy Partners Ltd.	EPL	B	24.24	40	980	30.00	0.20	0.85
Cimarex Energy Company	XEC	B	39.99	81	3,240	50.00	0.17	0.83
Encore Acquisition Company	EAC	B	39.10	33	1,270	57.00	0.19	0.74
<i>Total or Median</i>					6,700		0.18	0.84
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S3	49.55	150	7,430	15.00	0.52	2.11
Kinder Morgan Management, LLC	KMR	S3	45.39	56	2,560	15.00	0.52	1.98
Pengrowth Energy Trust	PGH		22.14	153	3,390	16.00	0.19	1.31
San Juan Basin Royalty Trust	SJT		38.88	47	1,810	32.00	-	1.21
Enerplus Resources Fund	ERF		36.56	105	3,830	32.00	0.16	1.12
Canadian Oil Sands Trust (US\$)	COSWF	B	70.41	93	6,520	94.00	0.16	0.79
<i>Total or Median</i>					25,500		0.17	1.26

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) 13-Jun 2005	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
<b>Mega Cap</b>								
	XOM	B	58.45	11.2	6.3	6.1	11	1.8
	BP	B	62.40	9.4	5.2	5.1	9	3.3
	TOT	B	114.92	9.0	5.4	5.0	8	2.8
	SC	B	54.34	7.3	4.8	4.6	9	3.5
	RD	B	60.36	7.3	4.8	4.4	8	3.7
	CVX	B	56.01	9.6	5.1	4.2	7	3.2
	<i>Median</i>			9.2	5.2	4.8	8	3.2
<b>Producer/Refiners - Large Cap and Mid Cap</b>								
	KMI	S2	80.34		7.4	13.3	18	3.5
	IMO	B	78.65	9.9	6.6	8.0	15	0.9
	SU	B	44.09	20.1	8.8	7.4	16	0.4
	MRO	B	51.77	7.5	4.1	4.8	8	2.2
	PCZ	B	60.76	5.4	4.9	4.4	8	0.8
	PTR	B	68.87	13.7	5.8	4.3	8	4.6
	COP	B	56.00	11.6	5.1	4.3	7	4.4
	NHY	B	85.04	8.2	4.8	3.9	8	3.6
	LUKOY	B	35.55	20.0	4.4	3.1	5	2.8
	<i>Median</i>			10.7	5.1	4.4	8	2.8
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>								
	XTO	B	32.50	11.8	6.4	5.9	12	0.6
	ECA	B	39.14	7.2	5.3	5.4	11	1.5
	BR	B	54.32	9.9	5.5	4.6	10	0.6
	OXY	B	75.82	11.5	5.5	4.6	8	1.6
	APC	B	78.42	12.3	5.9	4.4	8	0.9
	UCL	B	59.84	8.5	4.6	4.3	8	1.3
	CEO	B	54.10	9.6	4.9	4.0	7	3.8
	DVN	B	48.10	7.8	4.8	3.9	8	0.6
	<i>Median</i>			9.7	5.4	4.5	8	1.1
<b>Independent Natural Gas and Oil - Small Cap</b>								
	BRY	B	52.25	11.2	5.2	5.4	14	0.9
	EAC	B	39.10	15.4	6.6	4.9	11	-
	XEC	B	39.99	7.5	4.6	3.8	9	-
	EPL	B	24.24	4.8	3.3	2.8	7	-
	<i>Median</i>			9.4	4.9	4.4	10	-
<b>Income</b>								
	KMP	S3	49.55		7.5	15.9	20	5.9
	KMR	S3	45.39		7.5	14.9	19	6.4
	SJT		38.88	12.0	8.5	10.3	11	8.8
	PGH		22.14	7.4	5.4	7.0	11	9.9
	ERF		36.56	9.4	5.6	6.2	11	9.1
	COSWF	B	70.41	20.0	7.2	5.7	6	2.3
	<i>Median</i>			10.7	7.4	8.7	11	7.6

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 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-Jun	CEO	CNOOC Ltd	Unocal Bid?
8-Jun	PTR	PetroChina Company Limited	News Pending
8-Jun	OXY	Occidental Petroleum Corporation	Raise Net Present Value to \$94 a Share
6-Jun	NHY	Norsk Hydro ASA	European Natural Gas Awakes
3-Jun	EPL	Energy Partners, Ltd.	Exploration Exposure
1-Jun	RD	Royal Dutch Petroleum	Nice Return for Low Risk
1-Jun	SC	Shell Transport & Trading Company, p.l.c.	Nice Return for Low Risk
1-Jun	BP	BP p.l.c.	Nice Return for Low Risk
1-Jun	XOM	Exxon Mobil Corporation	Nice Return for Low Risk
31-May	ECA	EnCana Corporation	Clean Fuel Supplier
31-May	DVN	Devon Energy Corporation	Clean Fuel Supplier
31-May	BR	Burlington Resources, Inc.	Clean Fuel Supplier
31-May	APC	Anadarko Petroleum Corporation	Clean Fuel Supplier
31-May	LUKOY	Lukoil Oil Company	Profits in Refining
26-May	UCL	Unocal Corporation	Buy Chevron at a Discount
26-May	CVX	ChevronTexaco Corporation	Reduce Net Present Value to \$70 a Share
25-May	XEC	Cimarex Energy Company	Natural Gas Growth
23-May	* SU	Suncor Energy Inc.	Syncrude Sister
20-May	* COP	ConocoPhillips	Raise Net Present Value to \$140 a Share
16-May	* EAC	Encore Acquisition Company	Momentum Test
11-May	* XTO	XTO Energy Inc.	Raise Net Present Value to \$36 a Share
9-May	* TOT	Total S.A.	Raise Net Present Value to \$120 a Share
6-May	* IMO	Imperial Oil Limited	Oil Sands Strategy
5-May	* BRY	Berry Petroleum Company	Oil in the Kitty Litter
29-Apr	* MRO	Marathon Oil Corporation	Between China and Canada
28-Apr	* SJT	San Juan Basin Royalty Trust	Ten Bagger
27-Apr	* PCZ	Petro-Canada	Oil Sands Strategy
26-Apr	* COSWF	Canadian Oil Sands Trust	If You Could Own Only One
14-Apr	* KMx	Kinder Morgan	Our Contrary View

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

14-Jun		Canada Re-Capp
7-Jun	*	Rest of World Natural Gas
31-May	*	Europe Bids Natural Gas Higher
24-May	*	Clean Air Tradeoff Indicator
17-May	*	Merger Stocks and Small Cap
10-May	*	Nice Return for Low Risk

\* Archived on [www.mcdep.com](http://www.mcdep.com)

Also see

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

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