

Exchange Dollars for Oil and Gas

Summary and Recommendation

Buy-recommended **CNOOC (CEO)**'s bid for buy-recommended **Unocal (UCL)** seems likely to help drive oil and gas price to largely unexpected heights to the benefit of other buy recommendations ranging from small independent producers to mega cap global producers. China's investment in U.S. Treasury debt seemed to help drive bond prices to largely unexpected heights. CEO, owned 71% by the Chinese government, advances a sensible strategic emphasis on exchanging dollars for more valuable oil and gas.

Whether the winning bidder is buy-recommended **Chevron (CVX)** or CEO, the price paid to Unocal shareholders seems likely to be higher than signaled by starting bids.

Stocks Cheap at Today's Oil Price

As the near month futures contract for Light Sweet Crude Oil closes above \$60 a barrel for the first time we are reminded that stock prices are behind by that measure. There is good reason for stock price to be somewhat behind commodity price because long-term commodity futures are somewhat lower at \$59 a barrel. Meanwhile the bids for Unocal are in line with about \$40 a barrel.

Whether the winning bidder is Chevron or CNOOC, the deal would dilute the unlevered resource value of either company. The dilution would be hardly noticeable in Chevron because of the buyer's size. The dilution for CNOOC would take the McDep Ratio from 0.83 for CEO now to 0.92 assuming the purchase of UCL for \$67 a share (see table [Unocal Acquisition Dilution](#)).

The deal would still be dilutive on an unlevered basis if we assumed a long-term oil price of \$50 a barrel. But, the McDep Ratios of all three stocks would be lower indicating more investment appeal.

On a levered basis the deal becomes accretive in net present value to CNOOC at \$50 oil because the buyer is offering an all-cash deal. In the end the possible transaction could boil down to China exchanging dollars for oil and gas. That looks to us like a smart potential move.

Despite not knowing who is going to win the bidding battle, we can keep our buy-ratings on both potential buyers on the basis of nearly identical low McDep Ratios. Normally the McDep Ratio for Unocal would look a little high at 1.01, but some of our buy-recommendations are higher. Moreover the trend in present value continues to be up.

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Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

June 28, 2005

Unocal Acquisition Dilution

	Target	Buyer	Combined
	<i>Unocal</i>	<i>Chevron</i>	
Price	65.80	57.25	57.25
Date	6/27/05	6/27/05	
McDep Ratio	1.01	0.83	0.84
Shares	273	2100	2311
Exchange	205		
Cash	68		
Debt	4,100	16,500	25,000
Enterprise Value	22,100	136,700	157,300
Present Value	21,800	165,200	187,000
Debt/PV	0.19	0.10	0.13

\$65 for 25%

1.03 CVX for 75%

	<i>Unocal</i>	<i>CNOOC</i>	
Price	65.80	55.80	55.80
Date	6/27/05	6/27/05	
McDep Ratio	1.01	0.83	0.92
Shares	273	411	411
Cash	18300		
Debt	4,100	300	22,700
Enterprise Value	22,100	23,200	45,600
Present Value	21,800	27,900	49,700
Debt/PV	0.19	0.01	0.46

\$67 for 100%

\$50 Oil

	<i>Unocal</i>	<i>CNOOC</i>	
Price	65.80	55.80	55.80
Date	6/27/05	6/27/05	
McDep Ratio	0.80	0.66	0.73
Shares	273	411	411
Cash	18300		
Debt	4,100	300	22,700
Enterprise Value	22,100	23200	45,600
Present Value	27,500	34,900	62,400
Debt/PV	0.15	0.01	0.36

\$67 for 100%

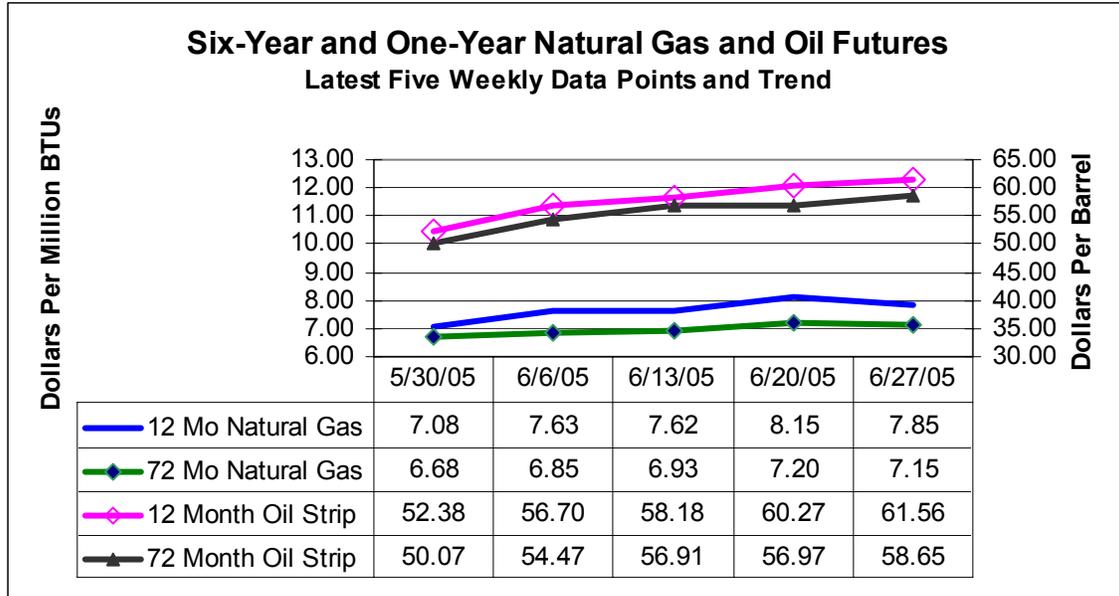
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Another Oil Price Record



Kurt H. Wulff, CFA

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June 28, 2005

Oil and Gas Producers Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/ Rating		Price (\$/sh) 27-Jun 2005	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
Shell Transport and Trading Co. plc	SC	B	57.92	1,587	92,000	56.00	0.14	1.03
BP plc	BP	B	64.05	3,574	229,000	64.00	0.13	1.00
Exxon Mobil Corporation	XOM	B	59.30	6,421	381,000	60.00	0.06	0.99
Royal Dutch Petroleum	RD	B	64.45	2,018	130,000	66.00	0.14	0.98
Total S.A.	TOT	B	118.04	1,192	141,000	126.00	0.15	0.95
Chevron Corporation	CVX	B	57.25	2,311	132,000	70.00	0.13	0.84
<i>Total or Median</i>					<i>1,105,000</i>		<i>0.13</i>	<i>0.98</i>
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	83.31	124	10,330	20.00	0.74	1.82
Imperial Oil Limited (30%)	IMO	B	84.10	105	8,820	64.00	0.11	1.28
Marathon Oil Corporation	MRO	B	55.58	349	19,380	42.00	0.30	1.22
Petro-Canada	PCZ	B	67.01	263	17,650	70.00	0.19	0.97
Suncor Energy	SU	B	48.90	461	22,550	54.00	0.10	0.92
ConocoPhillips	COP	B	59.52	1,420	84,500	70.00	0.21	0.88
Norsk Hydro ASA	NHY	B	89.84	251	22,540	110.00	0.13	0.84
PetroChina Company Ltd (10%)	PTR	B	73.75	176	12,970	94.00	0.05	0.80
Lukoil Oil Company	LUKOY	B	36.30	834	30,000	52.00	0.03	0.71
<i>Total or Median</i>					<i>229,000</i>		<i>0.13</i>	<i>0.92</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap								
Encana Corporation	ECA	B	41.35	909	37,600	38.50	0.19	1.06
Unocal Corporation	UCL	B	65.80	273	18,000	65.00	0.19	1.01
XTO Energy Inc.	XTO	B	34.60	366	12,670	36.00	0.19	0.97
Occidental Petroleum Corp.	OXY	B	80.33	406	32,600	94.00	0.13	0.87
Burlington Resources	BR	B	56.45	389	22,000	67.00	0.12	0.86
Devon Energy Corporation	DVN	B	52.03	496	25,800	63.00	0.16	0.85
CNOOC Limited (29%)	CEO	B	55.80	119	6,650	67.00	0.01	0.83
Anadarko Petroleum Corp.	APC	B	84.66	239	20,200	113.00	0.14	0.78
<i>Total or Median</i>					<i>176,000</i>		<i>0.15</i>	<i>0.87</i>
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	53.28	22	1,200	50.00	0.12	1.06
Energy Partners Ltd.	EPL	B	26.40	40	1,060	30.00	0.20	0.90
Cimarex Energy Company	XEC	B	40.09	81	3,250	50.00	0.17	0.84
Encore Acquisition Company	EAC	B	41.75	33	1,370	57.00	0.18	0.78
<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	51.32	153	7,850	15.00	0.51	2.18
Kinder Morgan Management, LLC	KMR	S3	46.44	58	2,700	15.00	0.51	2.02
San Juan Basin Royalty Trust	SJT		43.32	47	2,020	32.00	-	1.35
Pengrowth Energy Trust	PGH		22.61	153	3,460	16.00	0.19	1.33
Enerplus Resources Fund	ERF		38.34	105	4,020	32.00	0.16	1.17
Canadian Oil Sands Trust (US\$)	COSWF	B	76.58	93	7,090	94.00	0.16	0.84
<i>Total or Median</i>					<i>27,100</i>		<i>0.18</i>	<i>1.34</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) 27-Jun 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	59.30	11.2	6.0	6.0	10	1.8
BP plc	BP	B	64.05	9.4	5.0	5.0	8	3.2
Total S.A.	TOT	B	118.04	9.0	5.2	4.9	8	2.8
Shell Transport and Trading Co. plc	SC	B	57.92	7.3	4.5	4.7	9	3.3
Royal Dutch Petroleum	RD	B	64.45	7.3	4.5	4.4	8	3.5
Chevron Corporation	CVX	B	57.25	9.6	4.9	4.1	7	3.1
		<i>Median</i>		9.2	4.9	4.8	8	3.2
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	83.31		7.7	13.9	20	3.4
Imperial Oil Limited (30%)	IMO	B	84.10	9.9	6.3	8.1	15	0.9
Suncor Energy	SU	B	48.90	20.1	8.3	7.6	16	0.4
Marathon Oil Corporation	MRO	B	55.58	7.5	3.9	4.8	8	2.0
Petro-Canada	PCZ	B	67.01	5.4	4.7	4.5	8	0.7
PetroChina Company Ltd (10%)	PTR	B	73.75	13.7	5.6	4.5	8	4.3
ConocoPhillips	COP	B	59.52	11.6	4.9	4.3	7	4.2
Norsk Hydro ASA	NHY	B	89.84	8.2	4.6	3.8	8	3.4
Lukoil Oil Company	LUKOY	B	36.30	20.0	4.2	3.0	5	2.7
		<i>Median</i>		10.7	4.9	4.5	8	2.7
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	34.60	11.8	6.2	6.0	12	0.6
Encana Corporation	ECA	B	41.35	7.2	5.1	5.4	11	1.5
Burlington Resources	BR	B	56.45	9.9	5.3	4.6	9	0.6
Occidental Petroleum Corp.	OXY	B	80.33	11.5	5.2	4.5	8	1.5
Unocal Corporation	UCL	B	65.80	8.5	4.4	4.5	9	1.2
Anadarko Petroleum Corp.	APC	B	84.66	12.3	5.7	4.4	8	0.9
Devon Energy Corporation	DVN	B	52.03	7.8	4.6	3.9	9	0.6
CNOOC Limited (29%)	CEO	B	55.80	9.6	4.7	3.9	7	3.7
		<i>Median</i>		9.7	5.2	4.5	9	1.0
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	53.28	11.2	4.8	5.1	13	0.9
Encore Acquisition Company	EAC	B	41.75	15.4	6.3	4.9	11	-
Cimarex Energy Company	XEC	B	40.09	7.5	4.4	3.7	8	-
Energy Partners Ltd.	EPL	B	26.40	4.8	3.2	2.8	7	-
		<i>Median</i>		9.4	4.6	4.3	10	-
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	51.32		7.4	16.1	23	5.9
Kinder Morgan Management, LLC	KMR	S3	46.44		7.4	14.9	21	6.5
San Juan Basin Royalty Trust	SJT		43.32	12.1	8.5	11.5	13	7.9
Pengrowth Energy Trust	PGH		22.61	7.4	5.1	6.8	10	9.9
Enerplus Resources Fund	ERF		38.34	9.4	5.3	6.2	10	8.9
Canadian Oil Sands Trust (US\$)	COSWF	B	76.58	20.0	7.3	6.2	6	2.1
		<i>Median</i>		10.8	7.4	9.2	11	7.2

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>
23-Jun	CEO	CNOOC, Unocal, Chevron	Bidding Battle
23-Jun	KMx	Kinder Morgan	Unlevered Underperformer
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

Meter Reader - A Weekly Analysis

28-Jun		Exchange Dollars for Oil and Gas
21-Jun	*	Oil Sands Miners
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

* Archived on www.mcdep.com

Also see

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

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