

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

July 12, 2005

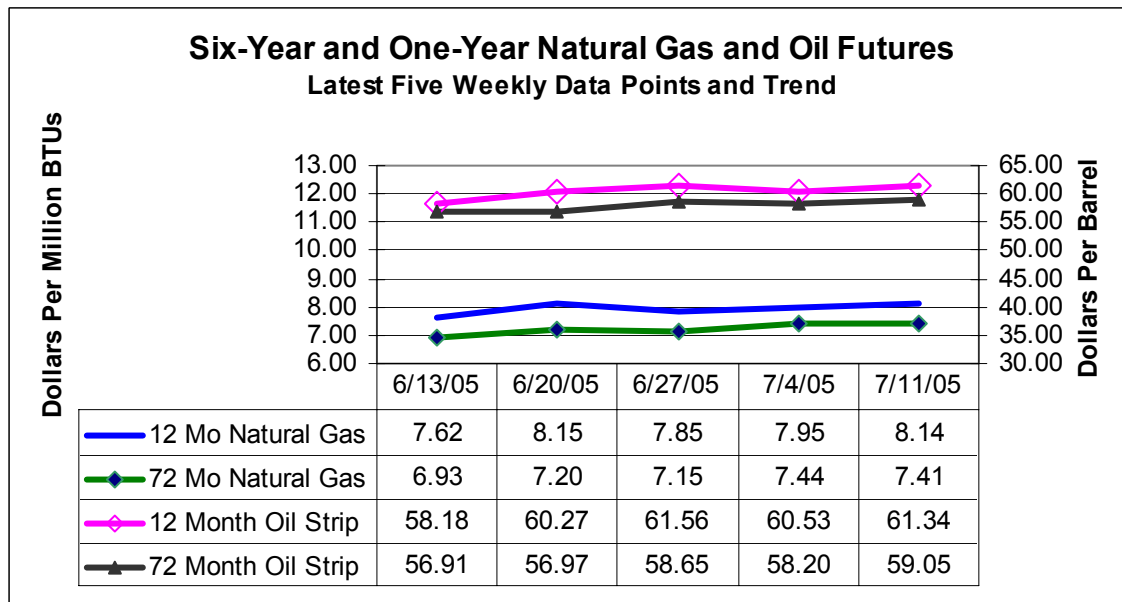
Up to Par

Summary and Recommendation

Futures prices seem to justify an increasingly higher long-term oil price. The average price of Light, Sweet Crude Oil to be delivered over the next six-years stands currently at \$59.05 a barrel. Stock prices have nearly caught up to the present value of oil and gas resources calculated for a long-term real price of \$40 a barrel as evidenced by a median McDep Ratio of 0.99. At 1.00, “par” as the title suggests, an enterprise would earn 7% a year after inflation on its market cap and debt. Mega caps dominate total industry present value for buy-recommended companies that is concentrated 46% on oil production, 30% on downstream and 12% each on North American and Rest of World natural gas.

New High for Six-Year Oil

The 72-Month Oil Strip that we calculate from New York Mercantile Exchange futures reached a new high above \$59 in our weekly tally (see chart Six-Year and One-Year Natural Gas Futures).



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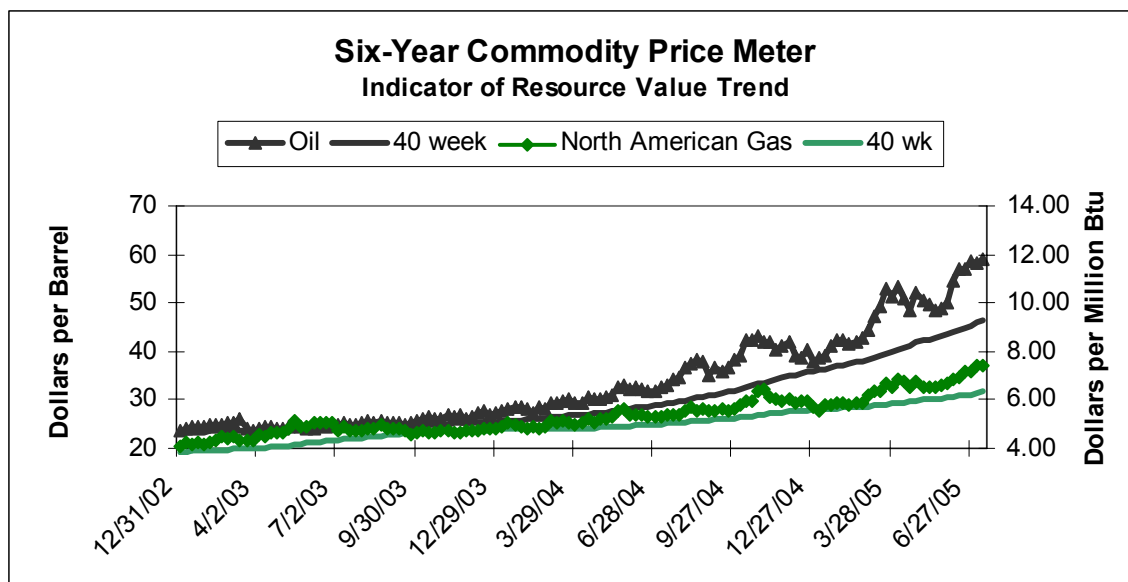
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Meters Flash Buy

The average of six-year futures for the past 40-weeks (200 days) of \$46 may be a new minimum to use for estimating present value (see chart Six-Year Commodity Price Meter). Considering the continuing trend, an assumption of \$50 would be reasonable for estimates of present value that would still appear timely a few months from now.



Six-year natural gas price also exhibits a positive trend, but the level is just two-thirds of what we expect before the end of the decade relative to oil. Record natural gas price in the U.K. is a foretaste of possible sharp moves ahead in U.S. natural gas.

Futures investors have been more alert than equity investors and corporate managers in anticipating price trends. That adds credibility to our practice of using futures prices as the basis for cash flow estimates for the next twelve months. Those estimates track the uptrend in futures (see chart One-Year Commodity Price Meter).

Refining Margin Trends Strengthen

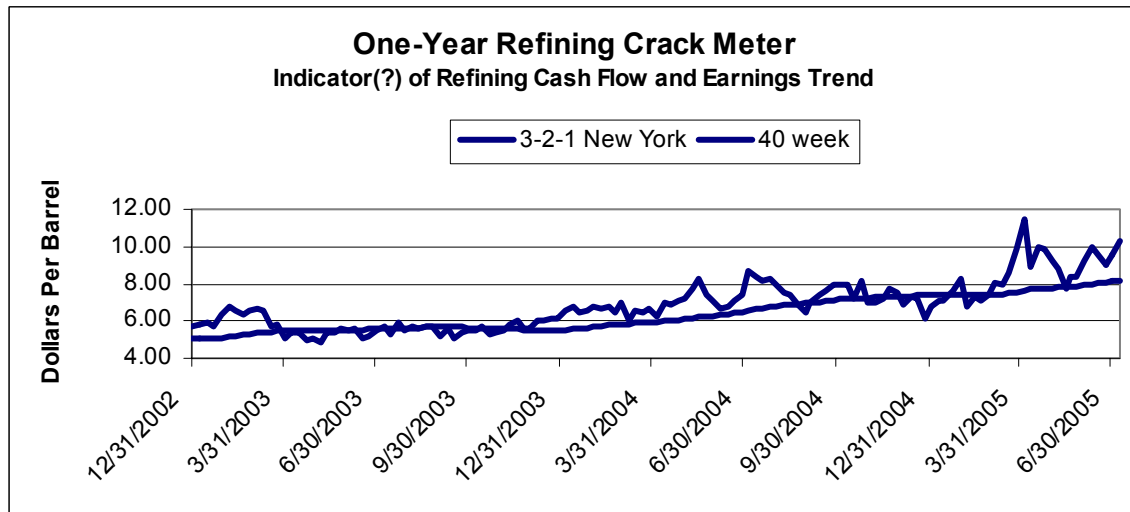
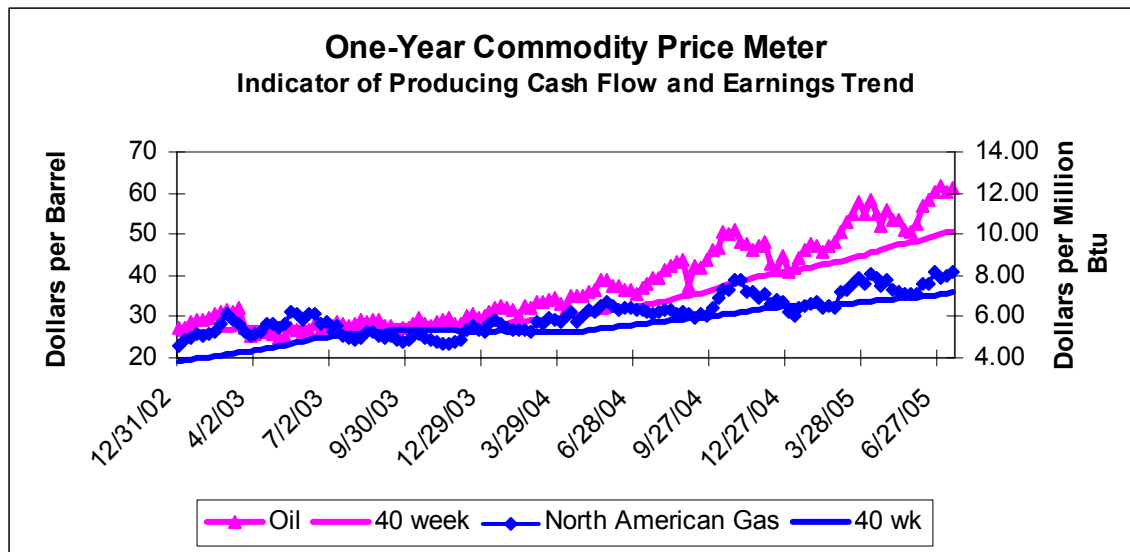
Anticipating the future price of refined products is more complex than for crude oil or natural gas. As a result refining margins calculated from the difference between the price of crude oil and products are less reliable as indicators of future cash flow. For most of the companies in our coverage with refining operations we are using more cautious projections for cash flow. Nonetheless, the trend is increasingly positive as the rising 40-week average crosses \$8 a barrel (see chart One-Year Refining Crack Meter). Despite the improving profit flow to refiners, the 40-week average is below a presumed level of \$10 a barrel (\$0.24 a gallon) to justify new investment in refining capacity.

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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-Jul 2005	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
BP plc	BP	B	66.43	3,574	237,000	64.00	0.13	1.03
Shell Transport and Trading Co. plc	SC	B	58.05	1,587	92,000	56.00	0.14	1.03
Exxon Mobil Corporation	XOM	B	59.97	6,421	385,000	60.00	0.06	1.00
Royal Dutch Petroleum	RD	B	65.10	2,018	131,000	66.00	0.14	0.99
Total S.A.	TOT	B	123.33	1,192	147,000	126.00	0.15	0.98
Chevron Corporation	CVX	B	57.30	2,311	132,000	70.00	0.13	0.84
<i>Total or Median</i>					1,124,000		0.13	0.99
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	87.08	124	10,800	20.00	0.74	1.87
Imperial Oil Limited (30%)	IMO	B	89.66	105	9,400	64.00	0.11	1.36
Marathon Oil Corporation	MRO	B	56.43	349	19,670	42.00	0.30	1.24
Petro-Canada	PCZ	B	68.85	263	18,140	70.00	0.20	0.99
Suncor Energy	SU	B	51.56	461	23,770	54.00	0.11	0.96
ConocoPhillips	COP	B	60.91	1,420	86,500	70.00	0.21	0.90
Norsk Hydro ASA	NHY	B	96.90	251	24,310	110.00	0.13	0.90
PetroChina Company Ltd (10%)	PTR	B	77.60	176	13,640	94.00	0.05	0.83
Lukoil Oil Company	LUKOY	B	39.70	830	33,000	52.00	0.02	0.77
<i>Total or Median</i>					239,000		0.13	0.96
Independent Natural Gas and Oil - Large Cap and Mid Cap								
Encana Corporation	ECA	B	43.13	909	39,200	38.50	0.19	1.10
XTO Energy Inc.	XTO	B	36.78	366	13,470	36.00	0.19	1.02
Unocal Corporation	UCL	B	65.97	273	18,000	65.00	0.19	1.01
CNOOC Limited (29%)	CEO	B	63.05	119	7,520	67.00	0.01	0.94
Burlington Resources	BR	B	59.13	389	23,000	67.00	0.12	0.90
Devon Energy Corporation	DVN	B	54.42	496	27,000	63.00	0.16	0.89
Occidental Petroleum Corp.	OXY	B	81.23	406	33,000	94.00	0.13	0.88
Anadarko Petroleum Corp.	APC	B	88.88	239	21,200	113.00	0.14	0.81
<i>Total or Median</i>					182,000		0.15	0.92
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	58.42	22	1,310	50.00	0.12	1.15
Energy Partners Ltd.	EPL	B	27.50	40	1,110	30.00	0.20	0.93
Encore Acquisition Company	EAC	B	48.10	33	1,580	57.00	0.18	0.87
Cimarex Energy Company	XEC	B	40.74	81	3,300	50.00	0.17	0.85
<i>Total or Median</i>					7,300		0.17	0.90
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	52.43	153	8,020	15.00	0.51	2.21
Kinder Morgan Management, LLC	KMR	S3	48.12	58	2,800	15.00	0.51	2.08
San Juan Basin Royalty Trust	SJT		43.18	47	2,010	32.00	-	1.35
Pengrowth Energy Trust	PGH		22.87	153	3,500	16.00	0.19	1.35
Enerplus Resources Fund	ERF		39.37	105	4,130	32.00	0.16	1.19
Canadian Oil Sands Trust (US\$)	COSWF	B	79.52	93	7,360	94.00	0.16	0.87
<i>Total or Median</i>					27,800		0.18	1.35

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-Jul 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	59.97	11.2	6.0	6.0	11	1.8
Total S.A.	TOT	B	123.33	9.0	5.2	5.1	9	2.6
BP plc	BP	B	66.43	9.4	5.0	5.1	9	3.1
Shell Transport and Trading Co. plc	SC	B	58.05	7.3	4.6	4.7	9	3.2
Royal Dutch Petroleum	RD	B	65.10	7.3	4.6	4.5	8	3.4
Chevron Corporation	CVX	B	57.30	9.6	4.9	4.1	7	3.1
		<i>Median</i>		9.2	4.9	4.9	9	3.1
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	87.08		7.7	14.3	20	3.2
Imperial Oil Limited (30%)	IMO	B	89.66	9.9	6.3	8.6	16	0.8
Suncor Energy	SU	B	51.56	20.1	8.4	8.0	17	0.4
Marathon Oil Corporation	MRO	B	56.43	7.5	3.9	4.9	8	2.0
PetroChina Company Ltd (10%)	PTR	B	77.60	13.7	5.6	4.7	9	4.1
Petro-Canada	PCZ	B	68.85	5.4	4.7	4.6	8	0.7
ConocoPhillips	COP	B	60.91	11.6	4.9	4.4	7	2.0
Norsk Hydro ASA	NHY	B	96.90	8.2	4.6	4.1	8	3.2
Lukoil Oil Company	LUKOY	B	39.70	19.8	4.4	3.4	6	2.5
		<i>Median</i>		10.7	4.9	4.7	8	2.0
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	36.78	11.8	6.0	6.1	12	0.5
Encana Corporation	ECA	B	43.13	7.2	5.0	5.5	11	1.4
Burlington Resources	BR	B	59.13	9.9	5.2	4.7	10	0.6
Occidental Petroleum Corp.	OXY	B	81.23	11.5	5.2	4.6	8	1.5
Anadarko Petroleum Corp.	APC	B	88.88	12.3	5.6	4.6	8	0.8
Unocal Corporation	UCL	B	65.97	8.5	4.4	4.5	9	1.2
CNOOC Limited (29%)	CEO	B	63.05	9.6	4.7	4.4	8	3.2
Devon Energy Corporation	DVN	B	54.42	7.8	4.5	4.0	9	0.6
		<i>Median</i>		9.7	5.1	4.6	9	1.0
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	58.42	11.2	4.8	5.5	14	0.8
Encore Acquisition Company	EAC	B	48.10	15.4	6.2	5.4	13	-
Cimarex Energy Company	XEC	B	40.74	7.5	4.3	3.6	8	-
Energy Partners Ltd.	EPL	B	27.50	4.8	3.1	2.9	7	-
		<i>Median</i>		9.4	4.6	4.5	10	-
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	52.43		7.4	16.4	23	5.8
Kinder Morgan Management, LLC	KMR	S3	48.12		7.4	15.4	21	6.3
San Juan Basin Royalty Trust	SJT		43.18	12.1	8.4	11.3	12	8.1
Pengrowth Energy Trust	PGH		22.87	7.4	5.1	6.8	10	9.9
Canadian Oil Sands Trust (US\$)	COSWF	B	79.52	20.0	7.7	6.7	7	2.1
Enerplus Resources Fund	ERF		39.37	9.4	5.3	6.3	10	8.8
		<i>Median</i>		10.7	7.4	9.1	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>
6-Jul	COSWF	Canadian Oil Sands Trust	Free (Cash Flow) at Last
29-Jun	LUKOY	Lukoil Oil Company	Profits and Taxes Rising
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
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

Meter Reader - A Weekly Analysis

12-Jul		Up to Par
5-Jul	*	Oil Cheap, Natural Gas Cheaper
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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