

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

July 19, 2005

An Incentive, Not a Tax

Summary and Recommendation

Higher energy prices can be a stimulus to economic activity. Price gains in the 1970s launched the twenty-year bull market after the punitive price controls and windfall profits taxes were relaxed and price was eventually allowed to do its job. Embrace oil price gains in the 2000s. Invest in oil and gas production, liquefied natural gas, gasified coal and energy efficiency that enhance economic growth and well-being. Shun the apparent anti-oil predisposition lingering in our culture that drives propagandists to characterize oil price increases as a tax and natural gas price increases as demand destruction.

Clean Power

Thankfully, the coal-fired power plant near our boyhood home north of Milwaukee, Wisconsin, has been replaced by a natural-gas fired plant. Those who live south of Milwaukee may not be so fortunate. A giant pulverized coal power plant appears to be the choice for new and replacement capacity. Apparently the state regulatory body rejected gasified coal, the cleaner source, as too expensive. Since that decision, oil and gas prices have increased and gasified coal looks more competitive as an alternative. Coal burning is too unhealthful to be pursued anywhere, particularly in urban areas.

Safe LNG

There is more than enough future value in liquefied natural gas (LNG) to accommodate the residents of Fall River, Massachusetts, who don't want a tanker terminal in the city. There are two terminals advancing in Canada, one in New Brunswick and one in Nova Scotia that could serve New England. Excelerate Energy proposes innovative onboard regasification to a submerged buoy 13 miles offshore in Massachusetts Bay.

Luxury Performance Hybrid

The Lexus automobile people embrace higher fuel price. The hybrid car with its combination of electric and gasoline power is more fuel-efficient. The energy savings are reinvested in more horsepower and higher performance. Add in the luxury features and the capital costs of the product exceed fuel cost by such a wide margin that energy price is practically insignificant.

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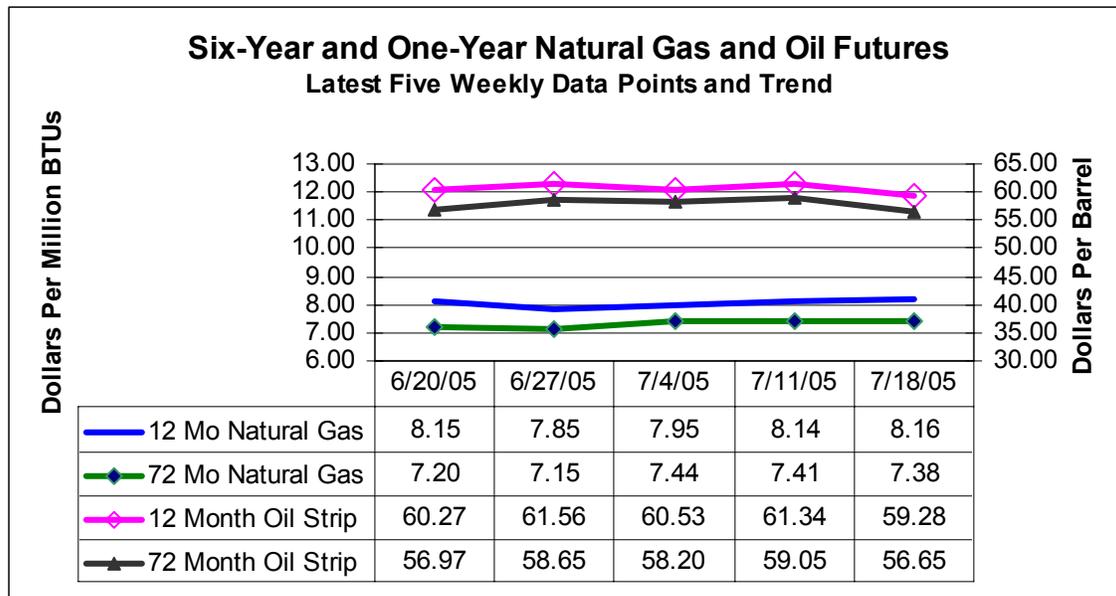
Incentive to Invest

With reasonable global policies, economic activity should continue to grow and energy consumption along with it. Higher energy prices stimulate investments that can use energy more efficiently with less negative environmental consequence. Economic activity and energy investment beget more economic activity and energy investment.

Oil and gas price retreated little during the 1970s in the march to ten-fold gain. In the 2000s we are up threefold in oil so far. Sustained retreat seems unlikely. Stock prices reflect a long-term oil price of about \$39 a barrel that is lagging the average price for delivery over the next six years quoted at about \$56 a barrel in the futures market.

Meanwhile, the hard-working people of Milwaukee can justify something better than another coal-burning power plant. The hard-working people of Fall River can procure clean fuel without taking unnecessary risk. Finally, we hope everyone makes enough money to buy a luxury performance hybrid.

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) 18-Jul 2005	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap							
BP plc	BP B	65.47	3,574	234,000	64.00	0.13	1.02
Shell Transport and Trading Co. plc	SC B	56.60	1,587	90,000	56.00	0.14	1.01
Total S.A.	TOT B	123.75	1,192	148,000	126.00	0.15	0.98
Exxon Mobil Corporation	XOM B	58.15	6,421	373,000	60.00	0.06	0.97
Royal Dutch Petroleum	RD B	63.71	2,018	129,000	66.00	0.14	0.97
Chevron Corporation	CVX B	56.36	2,311	130,000	70.00	0.13	0.83
<i>Total or Median</i>				<i>1,104,000</i>		<i>0.13</i>	<i>0.98</i>
Producer/Refiners - Large Cap and Mid Cap							
Kinder Morgan, Inc.	KMI S2	87.95	124	10,910	20.00	0.74	1.88
Imperial Oil Limited (30%)	IMO B	84.94	105	8,910	64.00	0.11	1.29
Marathon Oil Corporation	MRO B	54.69	349	19,060	42.00	0.30	1.21
Petro-Canada	PCZ B	67.67	263	17,820	70.00	0.20	0.97
Suncor Energy	SU B	47.82	461	22,050	54.00	0.11	0.90
ConocoPhillips	COP B	59.20	1,420	84,100	70.00	0.21	0.88
Norsk Hydro ASA	NHY B	94.26	251	23,650	110.00	0.13	0.88
PetroChina Company Ltd (10%)	PTR B	76.85	176	13,510	94.00	0.05	0.83
Lukoil Oil Company	LUKOY B	38.50	830	32,000	52.00	0.02	0.75
<i>Total or Median</i>				<i>232,000</i>		<i>0.13</i>	<i>0.90</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap							
Encana Corporation	ECA B	39.50	909	35,900	38.50	0.19	1.02
Unocal Corporation	UCL B	64.82	273	17,700	65.00	0.19	1.00
XTO Energy Inc.	XTO B	35.07	366	12,840	36.00	0.19	0.98
CNOOC Limited (29%)	CEO B	59.67	119	7,120	67.00	0.01	0.89
Burlington Resources	BR B	58.36	389	22,700	67.00	0.12	0.89
Occidental Petroleum Corp.	OXY B	78.94	406	32,100	94.00	0.13	0.86
Devon Energy Corporation	DVN B	51.74	496	25,700	63.00	0.16	0.85
Anadarko Petroleum Corp.	APC B	85.07	239	20,300	113.00	0.14	0.79
<i>Total or Median</i>				<i>174,000</i>		<i>0.15</i>	<i>0.89</i>
Independent Natural Gas and Oil - Small Cap							
Berry Petroleum Company	BRY B	52.89	22	1,190	50.00	0.12	1.05
Energy Partners Ltd.	EPL B	25.92	40	1,040	30.00	0.20	0.89
Cimarex Energy Company	XEC B	39.91	81	3,230	50.00	0.17	0.83
Encore Acquisition Company	EAC B	29.80	49	1,470	38.00	0.18	0.82
<i>Total or Median</i>				<i>6,900</i>		<i>0.17</i>	<i>0.86</i>
Income							
Kinder Morgan Energy Partners, L.P.	KMP S3	52.45	153	8,020	15.00	0.51	2.21
Kinder Morgan Management, LLC	KMR S3	47.75	58	2,780	15.00	0.51	2.07
San Juan Basin Royalty Trust	SJT	42.75	47	1,990	32.00	-	1.33
Pengrowth Energy Trust	PGH	22.49	153	3,440	16.00	0.19	1.33
Enerplus Resources Fund	ERF	39.20	105	4,110	32.00	0.16	1.19
Canadian Oil Sands Trust (US\$)	COSWF B	78.13	93	7,230	94.00	0.16	0.86
<i>Total or Median</i>				<i>27,600</i>		<i>0.18</i>	<i>1.33</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) 18-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	58.15	11.2	6.2	6.0	11	1.9
Total S.A.	TOT	B	123.75	9.0	5.4	5.3	9	2.6
BP plc	BP	B	65.47	9.4	5.1	5.2	9	3.1
Shell Transport and Trading Co. plc	SC	B	56.60	7.3	4.7	4.7	9	3.3
Royal Dutch Petroleum	RD	B	63.71	7.3	4.7	4.5	8	3.5
Chevron Corporation	CVX	B	56.36	9.6	5.0	4.2	7	3.2
	<i>Median</i>			9.2	5.1	5.0	9	3.2
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	87.95		7.7	14.4	21	3.2
Imperial Oil Limited (30%)	IMO	B	84.94	9.9	6.5	8.3	15	0.9
Suncor Energy	SU	B	47.82	20.1	8.7	7.8	17	0.4
Marathon Oil Corporation	MRO	B	54.69	7.5	4.0	4.8	8	2.0
PetroChina Company Ltd (10%)	PTR	B	76.85	13.7	5.7	4.7	9	4.1
Petro-Canada	PCZ	B	67.67	5.4	4.8	4.7	9	0.7
ConocoPhillips	COP	B	59.20	11.6	5.0	4.4	7	2.1
Norsk Hydro ASA	NHY	B	94.26	8.2	4.7	4.1	9	3.2
Lukoil Oil Company	LUKOY	B	38.50	19.8	4.5	3.4	6	2.5
	<i>Median</i>			10.7	5.0	4.7	9	2.1
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	35.07	11.8	6.1	5.9	12	0.6
Encana Corporation	ECA	B	39.50	7.2	5.0	5.1	10	1.5
Burlington Resources	BR	B	58.36	9.9	5.3	4.7	10	0.6
Occidental Petroleum Corp.	OXY	B	78.94	11.5	5.4	4.6	8	1.6
Unocal Corporation	UCL	B	64.82	8.5	4.5	4.5	9	1.2
Anadarko Petroleum Corp.	APC	B	85.07	12.3	5.7	4.5	8	0.8
CNOOC Limited (29%)	CEO	B	59.67	9.6	4.9	4.3	8	3.4
Devon Energy Corporation	DVN	B	51.74	7.8	4.6	3.9	8	0.6
	<i>Median</i>			9.7	5.1	4.5	9	1.0
Independent Natural Gas and Oil - Small Cap								
Encore Acquisition Company	EAC	B	29.80	15.4	6.4	5.3	12	-
Berry Petroleum Company	BRY	B	52.89	11.2	5.0	5.3	13	0.9
Cimarex Energy Company	XEC	B	39.91	7.5	4.3	3.6	8	-
Energy Partners Ltd.	EPL	B	25.92	4.8	3.2	2.8	6	-
	<i>Median</i>			9.4	4.7	4.4	10	-
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	52.45		7.4	16.4	23	5.8
Kinder Morgan Management, LLC	KMR	S3	47.75		7.4	15.3	21	6.4
San Juan Basin Royalty Trust	SJT		42.75	12.1	8.3	11.1	12	8.2
Canadian Oil Sands Trust (US\$)	COSWF	B	78.13	20.0	8.1	6.9	7	2.1
Pengrowth Energy Trust	PGH		22.49	7.4	5.2	6.9	11	10.1
Enerplus Resources Fund	ERF		39.20	9.4	5.4	6.4	11	8.8
	<i>Median</i>			10.7	7.4	9.0	11	7.3

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>
14-Jul	RD	Royal Dutch Petroleum	Frontier Challenge
14-Jul	SC	Shell Transport & Trading Company, p.l.c.	Frontier Challenge
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

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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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