

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

April 30, 2001

Three-Dollar Gasoline?

Summary and Recommendation

We recommend refining/marketing exposure for a diversified energy portfolio in advance of what may be an even stronger summer than last year for gasoline. In addition to our Strong Buy, **USX Marathon Group (MRO)**, other stocks with downstream participation and low McDep Ratios include **Phillips, Conoco, Petro-Canada, ENI, and Valero**. At the same time, amid new signs of a pickup in inflation, oil and gas producers may have extra upside opportunity. Our new Strong Buy, **Energy Partners Ltd.**, is an efficient producer at current oil price. Meanwhile, after another week of appreciation, two of our favored royalty trusts have achieved most of the relative gain we expected by advancing to McDep Ratios of 1.0 or more.

Seasonal Strength in Gasoline Starts Early

Last year, the New York Harbor price for cargos of oxygenated unleaded regular gasoline did not climb above a dollar a gallon until late May. This year, that milestone was reached in early April and is already exceeding the price for almost all of last summer. Last year, retail gasoline broke the \$2 a gallon barrier in some places. Will we see \$3 this year? MRO, a major regional supplier serving the Midwest, appears well positioned to profit from delivering a vital product.

Invest in MRO as a Hedge Against Higher Energy Price

If \$3 gasoline is a problem for consumers, MRO stock is freely available for purchase as a hedge. A double in share price is easily conceivable as we see it, although that cannot be assured. We are especially gratified that management has announced its intention to separate oil from steel completely by the end of the year. The cost to oil will be a transfer of \$900 million of value to steel. The McDep Ratio for a stand-alone MRO would be lower if the separation is completed on the terms proposed, as we expect it to be.

Bond Market Inflation Expectations Rise

The yield on the ten-year Treasury Note now exceeds that on the ten-year Treasury Inflation Protected Security (TIPS) by more than 2.00% for the first time since last November. We apply that difference to escalation of natural gas and oil prices after 2006 for purposes of calculating present value, the denominator of the McDep Ratio.

Analyses are prepared from original sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Independent oil and gas investment research by Kurt Wulff is accessible at <http://www.mcdep.com>. Owning shares in about 16 oil and gas stocks, neither Mr. Wulff nor his spouse act contrary to a buy or sell rating. Mr. Wulff is not paid by covered companies. 1

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Aside from using TIPS for information purposes, we also like TIPS for inflation protection in a diversified portfolio. (Individuals considering TIPS in a taxable account should first be familiar with I-Bonds.) If consumer price inflation is more than 2% per year, TIPS will return more than the T-Note of similar maturity. Historically consumer price inflation has been 3 to 5% and is currently running in that range. The main risk in TIPS is the conflict of interest. The same party that owes the money, the U.S. government, calculates how much will be paid.

Meter Reader Tables Detail Higher Value, Lower Cash Flow

Median present value for 5 small cap stocks advanced 1% in the past week despite a decline in natural gas futures prices for the next 23 months. Gas futures prices increase thereafter, oil is up for all months and inflation is up. Near term lower natural gas price lowers estimated distributions and cash flow for the next twelve months.

Dynamic Distribution Yields for three royalty trusts now range 10 to 12%. Considering the historical rule of thumb that **San Juan Basin Royalty Trust** might sell at a trailing distribution yield of 10%, the current stock price is where it might be a year from now.

Kurt H. Wulff, CFA

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Rank by McDep Ratio		Price (\$/sh)		Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio	
	Symbol/ Rating	27-Apr 2001	Shares (mm)					
Mega Cap								
	Exxon Mobil Corporation	XOM	89.06	3,520	314,000	72.10	0.16	1.20
	BP Amoco p.l.c.	BP	54.25	3,720	202,000	48.90	0.17	1.09
	TOTAL Fina Elf S.A.	TOT	75.18	1,400	105,000	72.00	0.16	1.04
	Royal Dutch/Shell	RD	60.15	3,580	215,000	60.80	0.09	0.99
	<i>Total or Median</i>				836,000		0.16	1.06
Large Cap								
	Enron Corp.	ENE	63.50	795	50,500	38.80	0.47	1.34
	Chevron (incl. Texaco)	CHV	97.49	1,060	103,300	103.40	0.15	0.95
	Burlington Resources, Inc	BR	48.67	216	10,500	60.50	0.17	0.84
	ENI S.p.A.	E	69.20	800	55,400	91.90	0.10	0.78
	Anadarko Petroleum Corp.	APC	66.00	249	16,400	90.90	0.17	0.77
	Conoco Inc.	COC.B	30.56	623	19,000	48.00	0.21	0.71
	Phillips (incl. Tosco)	P	60.00	379	22,700	102.10	0.27	0.70
	<i>Total or Median</i>				278,000		0.17	0.78
Mid Cap								
	Barrett Resources Corporation	BRR	64.25	34	2,200	53.80	0.21	1.15
	PanCanadian Pete Ltd. (15%)	PCP.TO	47.00	38	1,800	49.10	0.07	0.96
	Occidental Petroleum	OXY	29.80	370	11,000	35.60	0.46	0.91
	Valero Energy Corp.	VLO	48.40	64	3,100	65.00	0.25	0.81
	PetroChina Company Ltd (10%)	PTR	21.18	176	3,700	28.40	0.24	0.81
	Unocal Corporation	UCL	37.55	256	9,600	51.90	0.27	0.80
	USX-Marathon Group	MRO 1	31.60	360	11,400	47.00	0.30	0.77
	Petro-Canada	PCZ	27.62	272	7,500	38.70	0.08	0.74
	Devon Energy Corporation	DVN	59.03	135	8,000	89.70	0.15	0.71
	Norsk Hydro ASA	NHY	43.24	262	11,300	65.90	0.15	0.71
	<i>Total or Median</i>				65,600		0.22	0.80
Small Cap								
	Cross Timbers Royalty Tr*	CRT	21.40	6.0	128	19.10	-	1.12
	Dorchester Hugoton, Ltd.*	DHULZ	14.05	10.7	151	13.60	-	1.03
	San Juan Basin Royalty Tr*	SJT	17.90	46.6	830	17.90	-	1.00
	Encore Acquisition Corporation	EAC	14.15	30.0	430	16.70	0.12	0.87
	Hugoton RoyaltyTrust*	HGT	16.45	40.0	660	19.10	-	0.86
	Energy Partners Ltd.*	EPL 1	10.60	27.1	290	19.20	0.04	0.57
	<i>Total or Median</i>				2,490		-	0.93

Buy/Sell rating after symbol: 1 - Strong Buy (only MRO rated as of 4/20/01)

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

* For small cap stocks marked with asterisk, estimated present value recalculated weekly.

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Rank by EV/Ebitda	Symbol	Price	EV/		Dividend or		PV/ Ebitda	
		(\$/sh) 27-Apr 2001	Sales 2001E	Ebitda NTM	P/E NTM	Distribution NTM (%)		
Mega Cap								
	Exxon Mobil Corporation	XOM	89.06	1.5	8.4	18	2.0	7.0
	BP Amoco p.l.c.	BP	54.25	1.3	7.6	12	2.6	7.0
	TOTAL Fina Elf S.A.	TOT	75.18	1.1	7.3	17	1.5	7.0
	Royal Dutch/Shell	RD	60.15	1.5	6.9	15	2.3	7.0
	<i>Median</i>			<i>1.4</i>	<i>7.5</i>	<i>16</i>	<i>2.2</i>	<i>7.0</i>
Large Cap								
	Enron Corp.	ENE	63.50	0.5	20.1	35	0.8	15.0
	Chevron (incl. Texaco)	CHV	97.49	1.1	5.7	11	2.7	6.0
	Burlington Resources, Inc	BR	48.67	3.5	5.0	9	1.1	6.0
	Anadarko Petroleum Corp.	APC	66.00	2.2	4.6	9	0.3	6.0
	Conoco Inc.	COC.B	30.56	0.6	4.3	8	2.5	6.0
	Phillips (incl. Tosco)	P	60.00	0.7	4.2	7	2.3	6.0
	ENI S.p.A.	E	69.20	1.2	3.9	7	2.3	5.0
	<i>Median</i>			<i>1.1</i>	<i>4.6</i>	<i>9</i>	<i>2.3</i>	<i>6.0</i>
Mid Cap								
	Barrett Resources Corporation	BRR	64.25	5.0	6.9	14	-	6.0
	PanCanadian Pete Ltd. (15%)	PCP.TO	47.00	2.0	5.8	13	0.6	6.0
	Occidental Petroleum	OXY	29.80	1.3	5.5	8	3.4	6.0
	Unocal Corporation	UCL	37.55	1.7	4.8	13	2.1	6.0
	Valero Energy Corp.	VLO	48.40	0.3	4.8	7	0.7	6.0
	PetroChina Company Ltd (10%)	PTR	21.18	2.0	4.8	7	6.7	6.0
	USX-Marathon Group	MRO	31.60	0.4	4.6	6	2.9	6.0
	Petro-Canada	PCZ	27.62	1.1	4.4	10	1.0	6.0
	Devon Energy Corporation	DVN	59.03	3.0	3.9	8	0.3	5.5
	Norsk Hydro ASA	NHY	43.24	0.8	2.8	7	2.4	4.0
	<i>Median</i>			<i>1.5</i>	<i>4.8</i>	<i>8</i>	<i>1.6</i>	<i>6.0</i>
Small Cap								
	Cross Timbers Royalty Tr*	CRT	21.40	5.8	8.9	9	10.7	8.0
	San Juan Basin Royalty Tr*	SJT	17.90	6.0	7.3	10	10.2	7.3
	Hugoton RoyaltyTrust*	HGT	16.45	4.7	6.3	8	11.8	7.3
	Dorchester Hugoton, Ltd.*	DHULZ	14.05	5.1	6.3	7	7.7	6.1
	Encore Acquisition Corporation	EAC	14.15	3.8	5.2		-	6.0
	Energy Partners Ltd.*	EPL	10.60	1.6	2.4	7	-	4.2
	<i>Median</i>			<i>4.9</i>	<i>6.3</i>	<i>8</i>	<i>8.9</i>	<i>6.7</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2002; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

* For small cap stocks marked with asterisk after the name, estimated sales, ebitda, earnings, distributions and present value are recalculated weekly to take account of latest commodity futures prices, inflation, interest rates and operational disclosures.

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