

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

May 21, 2001

National Energy Policy

Summary and Recommendation

Released last week, the Report of the National Energy Policy Development Group (170 pages, available electronically) documents an electricity shortage, a natural gas shortage and an oil refining shortage. Those developments are normally accompanied by higher prices that raise profits to stimulate investment in new supply and encourage conservation to reduce uneconomic demand. Our Strong Buy recommendations **USX-Marathon Group** and **Energy Partners, Ltd.**, and our Buy recommendations **American Electric Power** and **Burlington Resources (BR)**, are well positioned to make money for investors while delivering valuable products for the economy.

Government Analysis Frames the Issues Constructively

Of course we must be sympathetic to those hit hard by high prices (Chapter 2 of the Report). Of course we must pay heed to environmental issues (Chapter 3 of the Report). Of course we should debate some non-price steps that encourage conservation (Chapter 4 of the Report).

Critics charge that increasing domestic supply (Chapter 5) is a selfish oil industry approach. Truthfully, less supply means higher price and more profit for current producers. Energy investors might be just as well off with less supply, but our economy might be worse off. Similarly, upgrading infrastructure (Chapter 7) benefits the whole economy more than energy companies.

Initiate Buy Rating for Burlington Resources

In a separate analysis we recommend purchase of the stock that represents the largest, concentrated natural gas resource readily available to investors or power generators or larger energy companies. BR is an obvious play on the natural gas shortage. The stock was a good gainer last year, but is still flat for this year and greatly behind for the past decade.

Monthly Distributions Better Than Expected

Latest disclosures prompt us to increase estimated next twelve months (NTM) distributions for three royalty trusts even before taking account of recently higher commodity prices. **San Juan Basin Royalty Trust** reported higher than expected volume that more than offset a lower than expected price netback at the wellhead.

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Hugoton Royalty Trust's natural gas price was stronger relative to the national benchmark while volume slipped ever so slightly. In both cases development spending, which subtracts initially from distributions, was under our cautious projections.

Weekly Changes Positive

Commodity price trends turned more positive last week with a 2% increase in natural gas and a 3% increase in oil measured as the average for futures months as far out as 5 years. Estimated next twelve months (NTM) cash flow increased a median 4% and present value a median 3% for five small cap stocks where we update estimates weekly. The stock market went in the same direction with price also up a median 3% resulting in no increase in median McDep Ratio. As a result the median of five small cap energy stocks is just as attractive today as a week ago. Lower McDep Ratio stocks generally have relative appeal regardless of the industry outlook.

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Rank by McDep Ratio	Symbol/ Rating	Price (\$/sh)		Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio	
		18-May 2001	Shares (mm)					
Mega Cap								
	Exxon Mobil Corporation	XOM	90.20	3,520	318,000	72.10	0.16	1.21
	BP PLC	BP	54.40	3,720	202,000	48.90	0.17	1.09
	TOTAL Fina Elf S.A.	TOT	77.30	1,400	108,000	72.00	0.16	1.06
	Royal Dutch/Shell	RD	61.94	3,580	222,000	60.80	0.09	1.02
	<i>Total or Median</i>				850,000		0.16	1.08
Large Cap Natural Gas and Oil								
	Chevron (incl. Texaco)	CHV	97.57	1,060	103,400	103.40	0.15	0.95
	Burlington Resources, Inc	BR 2	49.94	215	10,700	54.80	0.19	0.93
	Anadarko Petroleum Corp.	APC	68.34	249	17,000	90.90	0.17	0.79
	Conoco Inc.	COC.B	33.05	623	20,600	48.00	0.21	0.75
	Phillips (incl. Tosco)	P	67.52	379	25,600	102.10	0.27	0.75
	ENI S.p.A.	E	66.48	800	53,200	91.90	0.10	0.75
	<i>Total or Median</i>				231,000		0.18	0.77
Large Cap Power								
	Enron Corp.	ENE	54.90	795	43,600	14.50	0.70	1.83
	Mirant Corporation	MIR	45.45	353	16,000	9.70	0.78	1.81
	Calpine Corporation	CPN	54.75	313	17,100	21.80	0.47	1.80
	Williams Companies	WMB	41.76	485	20,300	16.60	0.69	1.47
	Duke Energy Corporation	DUK	46.00	752	34,600	20.90	0.62	1.46
	El Paso Corporation	EPG	65.00	521	33,900	40.00	0.50	1.31
	American Electric Power Co. Inc.	AEP 2	49.75	324	16,100	25.90	0.73	1.25
	Southern Company	SO	22.52	683	15,400	16.90	0.54	1.15
	<i>Total or Median</i>				197,000		0.66	1.46
Mid Cap								
	Barrett Resources Corporation	BRR	72.25	34	2,500	53.80	0.21	1.27
	PanCanadian Pete Ltd. (15%)	PCP.TO	47.65	38	1,800	49.10	0.07	0.97
	Occidental Petroleum	OXY	31.08	370	11,500	35.60	0.46	0.93
	PetroChina Company Ltd (10%)	PTR	22.89	176	4,000	28.40	0.24	0.85
	Valero Energy Corp.	VLO	51.59	64	3,300	65.00	0.25	0.85
	Unocal Corporation	UCL	39.72	256	10,200	51.90	0.27	0.83
	USX-Marathon Group	MRO 1	33.43	360	12,000	47.00	0.30	0.80
	Devon Energy Corporation	DVN	62.01	135	8,400	89.70	0.15	0.74
	Petro-Canada	PCZ	27.52	272	7,500	38.70	0.08	0.73
	Norsk Hydro ASA	NHY	41.55	262	10,900	65.90	0.15	0.68
	<i>Total or Median</i>				67,800		0.22	0.84
Small Cap								
	Cross Timbers Royalty Tr*	CRT	22.75	6.0	137	18.70	-	1.22
	Dorchester Hugoton, Ltd.*	DHULZ	14.24	10.7	153	13.50	-	1.06
	Encore Acquisition Corporation	EAC	16.75	30.0	500	16.70	0.12	1.00
	San Juan Basin Royalty Tr*	SJT	17.52	46.6	820	17.80	-	0.98
	Hugoton RoyaltyTrust*	HGT	16.61	40.0	660	18.80	-	0.88
	Energy Partners Ltd.*	EPL 1	10.94	27.0	300	19.10	0.04	0.59
	<i>Total or Median</i>				2,570		-	0.99

Buy/Sell rating after symbol: 1 - Strong Buy, 2 - Buy

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/	EV/	Dividend or		PV/	
			18-May 2001	Sales 2001E	Ebitda NTM	P/E NTM	NTM (%)	Ebitda NTM	
Mega Cap									
		Exxon Mobil Corporation	XOM	90.20	1.6	8.5	18	2.0	7.0
		BP PLC	BP	54.40	1.3	7.7	12	2.6	7.0
		TOTAL Fina Elf S.A.	TOT	77.30	1.1	7.4	18	1.4	7.0
		Royal Dutch/Shell	RD	61.94	1.5	7.1	15	2.3	7.0
		<i>Median</i>			<i>1.4</i>	<i>7.5</i>	<i>17</i>	<i>2.1</i>	<i>7.0</i>
Large Cap Natural Gas and Oil									
		Burlington Resources, Inc	BR 2	49.94	3.6	6.5	9	1.1	7.0
		Chevron (incl. Texaco)	CHV	97.57	1.1	5.7	11	2.7	6.0
		Anadarko Petroleum Corp.	APC	68.34	2.2	4.8	10	0.3	6.0
		Conoco Inc.	COC.B	33.05	0.7	4.5	9	2.3	6.0
		Phillips (incl. Tosco)	P	67.52	0.8	4.5	8	2.0	6.0
		ENI S.p.A.	E	66.48	1.2	3.8	7	2.4	5.0
		<i>Median</i>			<i>1.1</i>	<i>4.6</i>	<i>9</i>	<i>2.2</i>	<i>6.0</i>
Large Cap Power									
		Enron Corp.	ENE	54.90	0.4	18.3	31	0.9	10.0
		Calpine Corporation	CPN	54.75	4.7	18.0	30	-	10.0
		Mirant Corporation	MIR	45.45	0.9	14.5	24	-	8.0
		Williams Companies	WMB	41.76	3.8	11.7	18	1.4	8.0
		Duke Energy Corporation	DUK	46.00	1.0	11.7	18	2.4	8.0
		El Paso Corporation	EPG	65.00	0.8	10.5	20	1.3	8.0
		American Electric Power Co. Inc.	AEP 2	49.75	0.7	8.7	14	4.8	7.0
		Southern Company	SO	22.52	2.7	8.1	14	6.0	7.0
		<i>Median</i>			<i>0.9</i>	<i>11.7</i>	<i>19</i>	<i>1.4</i>	<i>8.0</i>
Mid Cap									
		Barrett Resources Corporation	BRR	72.25	5.5	7.6	16	-	6.0
		PanCanadian Pete Ltd. (15%)	PCP.TO	47.65	2.0	5.8	14	0.5	6.0
		Occidental Petroleum	OXY	31.08	1.3	5.6	9	3.2	6.0
		PetroChina Company Ltd (10%)	PTR	22.89	2.1	5.1	7	6.2	6.0
		Valero Energy Corp.	VLO	51.59	0.3	5.1	7	0.6	6.0
		Unocal Corporation	UCL	39.72	1.8	5.0	14	2.0	6.0
		USX-Marathon Group	MRO 1	33.43	0.4	4.8	7	2.8	6.0
		Petro-Canada	PCZ	27.52	1.1	4.4	10	1.0	6.0
		Devon Energy Corporation	DVN	62.01	3.1	4.1	9	0.3	5.5
		Norsk Hydro ASA	NHY	41.55	0.8	2.7	7	2.5	4.0
		<i>Median</i>			<i>1.6</i>	<i>5.0</i>	<i>9</i>	<i>1.5</i>	<i>6.0</i>
Small Cap									
		Cross Timbers Royalty Tr*	CRT	22.75	6.4	9.8	10	9.9	8.0
		San Juan Basin Royalty Tr*	SJT	17.52	6.2	7.6	10	10.0	7.7
		Dorchester Hugoton, Ltd.*	DHULZ	14.24	5.7	7.2	8	8.6	6.8
		Hugoton RoyaltyTrust*	HGT	16.61	5.0	6.9	9	11.0	7.8
		Encore Acquisition Corporation	EAC	16.75	4.4	6.0		-	6.0
		Energy Partners Ltd.*	EPL 1	10.94	1.7	2.6	9	-	4.4
		<i>Median</i>			<i>5.4</i>	<i>7.0</i>	<i>9</i>	<i>9.3</i>	<i>7.3</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

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