

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

June 18, 2001

Calm Returns

Summary and Recommendation

While unusually high near term prices for electricity, natural gas and gasoline have subsided, the multi-year opportunity in energy investment is still powerful in our opinion. Even though we know that unusually high commodity prices are temporary by definition, some of the declines have spilled over into stock prices. For the five stocks on which we initiated buy ratings in the past two and a half months the early Strong Buys are ahead, while the more recent Buys are behind their price on the date of recommendation. Emotionally, we do not want to see any decline after recommendation. Realistically, some of the better future timing of investments may occur when a stock whose prospects we already like suffers unexpected weakness in price. Our fundamental conviction remains strong for recommendations **PetroChina (PTR)**, **American Electric Power (AEP)**, **Marathon Group (MRO)**, **Burlington Resources (BR)** and **Energy Partners (EPL)** (see Valuation Tables L-1, L-2, S-1, S-2).

PetroChina Pays Dividends in a Format Similar to Royal Dutch/Shell

We recognize that our analytical style is long on numbers and short on explanation. As a result, we are grateful to an investor who asks for an explanation after not being able to verify the dividend policy of PetroChina in some other sources. Our analysis indicated on the masthead a dividend yield for the next twelve months of 7.9% (see <http://www.mcdep.com/ptr0518.PDF>). Multiplying *Div'd NTM (%)* by stock price leads to an expected dividend of \$1.71 per American Depositary Share (ADS). We used the most recent past dividends as an indication of future dividends.

Past dividend payments are cited in the annual report (see www.petrochina.com and be prepared to decompress a file by the unzip procedure if you choose to download). On October 5, 2000, the company paid an interim dividend of RMB 0.059042 per ordinary share. On the basis of 100 ADS's per ordinary share that is 5.90 Renminbi per ADS. The expected final dividend was RMB 8.22 per ADS. Choosing an interim and final format, PetroChina emulates the largest non-U.S. publicly traded energy company, **Royal Dutch/Shell**. **TotalFinaElf**, **ENI** and **Norsk Hydro** among other overseas companies in our coverage, pay only once a year.

Dividends declared in home currency are usually translated to U.S. dollars at the exchange rate in effect on the dividend payment date. The Chinese Yuan (currency) trades at a fixed rate of about 8.28 Renminbi (units) per dollar. The total of the interim and final dividend is RMB 14.14, or \$1.71 per ADS.

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PetroChina Protected Against Currency Devaluation

Another thoughtful investor wonders, "What would happen to the stock price, earnings, dividend, etc. if the Chinese Yuan were to be devalued?"

Like most tough questions, "It depends."

Theoretically, devaluation should not affect the value of PetroChina stock. Oil is an international commodity, the most important, after money itself. The fundamental value of oil production is independent of currency. Yet, price controls, taxes and regulations can distort that value.

The most immediate question would be, "Could PetroChina charge world prices for its own oil production?"

Next, "Could higher raw material price be passed on in refining/marketing?"

We think the answer to both questions should be, "Yes." Yet, there might be a lag in time.

Dividends would be somewhat less sensitive than earnings. Management has discretion to maintain dividends subject to the approval of owners.

Stock price may already reflect some devaluation risk. A low McDep Ratio and low EV/Ebitda give weight to the low P/E and high dividend yield as indicators of value that offers enough appreciation potential to offset risk.

The question of devaluation of the Yuan comes up as the U.S. dollar continues strong. Americans have been blessed with an appreciating currency. Yet economic trends inevitably move in cycles. Just when we get confident we might be surprised. Energy investments offer protection against currency inflation whether it is in the dollar, or any other denomination.

Kurt H. Wulff, CFA

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Table L-1
Mega Cap and Large Cap Energy Companies
Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 15-Jun 2001</i>	<i>Shares (mm)</i>	<i>Market Cap (\$mm)</i>	<i>Net Present Value (\$/sh)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>
Mega Cap							
Exxon Mobil Corporation	XOM	88.90	3,510	312,000	74.30	0.09	1.18
BP PLC	BP	53.32	3,720	198,000	48.90	0.17	1.08
TOTAL Fina Elf S.A.	TOT	74.95	1,400	105,000	72.00	0.16	1.03
Royal Dutch/Shell	RD	61.67	3,580	221,000	60.80	0.09	1.01
Chevron (incl. Texaco)	CHV	96.69	1,060	102,500	103.40	0.15	0.95
	<i>Total or Median</i>			<i>939,000</i>		<i>0.15</i>	<i>1.03</i>
Power							
Enron Corp.	ENE	47.26	814	38,500	16.90	0.68	1.58
Calpine Corporation	CPN	43.00	313	13,500	21.40	0.48	1.53
Dynegy Inc.	DYN	45.39	338	15,300	20.60	0.56	1.53
Mirant Corporation	MIR	35.25	353	12,400	11.70	0.75	1.51
Williams Companies	WMB	35.83	485	17,400	16.60	0.69	1.36
Duke Energy Corporation	DUK	40.82	752	30,700	20.90	0.62	1.36
AES Corporation	AES	42.93	538	23,100	23.00	0.65	1.31
American Electric Power Co. Inc.	AEP 2	46.87	324	15,200	25.90	0.73	1.22
El Paso Corporation	EPG	55.17	521	28,700	40.00	0.50	1.19
Southern Company	SO	22.71	683	15,500	16.90	0.54	1.16
Exelon Corporation	EXC	65.30	324	21,200	55.30	0.51	1.09
	<i>Total or Median</i>			<i>232,000</i>		<i>0.62</i>	<i>1.36</i>
Natural Gas and Oil							
Occidental Petroleum	OXY	29.35	370	10,900	35.60	0.46	0.90
Burlington Resources, Inc	BR 2	42.44	215	9,100	56.30	0.19	0.80
ENI S.p.A.	E	67.63	800	54,100	91.90	0.10	0.76
Phillips (incl. Tosco)	P	60.67	379	23,000	102.10	0.27	0.70
Anadarko Petroleum Corp.	APC	58.99	249	14,700	90.90	0.17	0.71
Conoco Inc.	COC.B	30.44	623	19,000	48.00	0.21	0.71
	<i>Total or Median</i>			<i>131,000</i>		<i>0.20</i>	<i>0.74</i>
Service							
Halliburton Company	HAL	43.12	430	18,500	27.20	0.13	1.51
Schlumberger Ltd.	SLB	57.30	581	33,300	44.00	0.12	1.27

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

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Table L-2
Mega Cap and Large Cap Energy Companies
Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	<i>Symbol</i>	<i>Price (\$/sh) 15-Jun 2001</i>	<i>EV/ Sales 2001E</i>	<i>EV/ Ebitda NTM</i>	<i>P/E NTM</i>	<i>Dividend or Distribution NTM (%)</i>	<i>PV/ Ebitda NTM</i>
Mega Cap							
	XOM	88.90	1.6	8.3	16	2.0	7.0
	BP	53.32	1.3	7.5	12	2.6	7.0
	TOT	74.95	1.1	7.2	17	1.5	7.0
	RD	61.67	1.5	7.1	15	2.3	7.0
	CHV	96.69	1.1	5.7	11	2.7	6.0
	<i>Median</i>		<i>1.3</i>	<i>7.2</i>	<i>15</i>	<i>2.3</i>	<i>7.0</i>
Power							
	ENE	47.26	0.4	15.8	27	1.1	10.0
	CPN	43.00	4.0	13.8	22	-	9.0
	DYN	45.39	0.4	13.8	22	0.7	9.0
	MIR	35.25	0.7	12.1	17	-	8.0
	AES	42.93	4.2	11.8	21	-	9.0
	DUK	40.82	0.9	10.9	16	2.7	8.0
	WMB	35.83	3.5	10.8	16	1.7	8.0
	EPG	55.17	0.7	9.5	17	1.5	8.0
	AEP 2	46.87	0.7	8.5	13	5.1	7.0
	SO	22.71	2.7	8.1	14	5.9	7.0
	EXC	65.30	2.6	7.6	14	2.6	7.0
	<i>Median</i>		<i>0.9</i>	<i>10.9</i>	<i>17</i>	<i>1.5</i>	<i>8.0</i>
Natural Gas and Oil							
	BR 2	42.44	3.1	5.6	8	1.3	7.0
	OXY	29.35	1.3	5.4	8	3.4	6.0
	COC.B	30.44	0.6	4.3	8	2.5	6.0
	APC	58.99	2.0	4.2	8	0.3	6.0
	P	60.67	0.7	4.2	7	2.2	6.0
	E	67.63	1.2	3.8	7	2.4	5.0
	<i>Median</i>		<i>1.2</i>	<i>4.3</i>	<i>8</i>	<i>2.3</i>	<i>6.0</i>
Service							
	HAL	43.12	1.5	12.0	29	1.2	8.0
	SLB	57.30	2.9	10.1	28	1.3	8.0

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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Table S-1
Mid Cap and Small Cap Energy Companies
Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 15-Jun 2001</i>	<i>Shares (mm)</i>	<i>Market Cap (\$mm)</i>	<i>Net Present Value (\$/sh)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>
Power							
	CMS	28.58	128	3,700	19.80	0.80	1.09
	CEG	41.75	152	6,400	37.10	0.45	1.07
	SRE	25.80	203	5,200	23.10	0.65	1.04
	<i>Total or Median</i>			<i>15,300</i>		<i>0.65</i>	<i>1.07</i>
Natural Gas and Oil							
	TPP	29.55	38	1,120	13.20	0.65	1.43
	PCZ	27.94	272	7,600	35.20	0.09	0.81
	UCL	36.75	256	9,400	51.90	0.27	0.79
	MRO 1	31.66	309	9,800	44.80	0.23	0.77
	VLO	39.97	112	4,500	70.70	0.42	0.75
	PCP.TO	30.40	38	1,160	41.80	0.07	0.74
	DVN	55.28	135	7,500	80.10	0.16	0.74
	NHY	43.00	128	5,500	65.90	0.15	0.70
	PTR 2	20.63	176	3,600	32.50	0.15	0.69
	<i>Total or Median</i>			<i>50,180</i>		<i>0.16</i>	<i>0.75</i>
Small Cap							
	DHULZ	14.10	10.7	151	12.70	-	1.11
	CRT	18.95	6.0	114	17.70	-	1.07
	EAC	14.05	30.0	420	16.40	0.15	0.88
	HGT	15.25	40.0	610	17.40	-	0.88
	SJT	13.85	46.6	650	16.70	-	0.83
	EPL 1	12.05	27.0	330	17.70	0.04	0.69
	<i>Total or Median</i>			<i>2,280</i>		<i>-</i>	<i>0.88</i>
Micro Cap							
	PEL.TO	3.06	26.0	80	3.70	0.07	0.85

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: Enterprise Value to Earnings Before Interest, Tax, Deprec.

		Price (\$/sh)	EV/ Sales	EV/ Ebitda	P/E	Dividend or Distribution	PV/ Ebitda
	Symbol	15-Jun 2001	2001E	NTM	NTM	NTM (%)	NTM
Power							
	CMS Energy Corporation	CMS	28.58	0.9	7.6	10	5.1
	Constellation Energy Group	CEG	41.75	2.2	7.5	13	1.1
	Sempra Energy	SRE	25.80	1.1	7.3	10	3.9
	<i>Median</i>			<i>1.1</i>	<i>7.5</i>	<i>10</i>	<i>3.9</i>
Natural Gas and Oil							
	TEPPCO Partners, L.P.	TPP	29.55	0.7	11.4	15	7.1
	Unocal Corporation	UCL	36.75	1.7	4.7	13	2.2
	Petro-Canada	PCZ	27.94	1.1	4.5	10	1.0
	Valero Energy Corp.(with UDS)	VLO	39.97	0.3	4.1	4	0.8
	PanCanadian Pete (15%)(US\$)	PCP.TO	30.40	1.3	4.1	8	0.9
	USX-Marathon Group	MRO 1	31.66	0.4	3.9	6	2.9
	Devon Energy Corporation	DVN	55.28	2.8	3.7	8	0.4
	Norsk Hydro ASA (49%)	NHY	43.00	0.8	2.8	7	2.4
	PetroChina Company Ltd (10%)	PTR 2	20.63	1.5	2.8	5	8.3
	<i>Median</i>			<i>1.1</i>	<i>4.1</i>	<i>8</i>	<i>2.2</i>
Small Cap							
	Cross Timbers Royalty Tr*	CRT	18.95	5.5	8.5	9	11.3
	Dorchester Hugoton, Ltd.*	DHULZ	14.10	5.9	7.5	8	8.7
	Hugoton RoyaltyTrust*	HGT	15.25	4.9	6.7	9	11.3
	San Juan Basin Royalty Tr*	SJT	13.85	5.2	6.4	8	12.0
	Encore Acquisition Corporation	EAC	14.05	3.6	5.3	12	-
	Energy Partners Ltd.*	EPL 1	12.05	1.9	3.0	11	-
	<i>Median</i>			<i>5.0</i>	<i>6.5</i>	<i>9</i>	<i>10.0</i>
Micro Cap							
	Purcell Energy, Ltd. (US\$)	PEL.TO	3.06	4.0	5.1	17	-

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