

## MRO, DVN, COP, OXY, EOG Resilient Large Cap Independent Producers

						Present Value by Segment (%)					
		Price			North	Rest of			Dist.		
		(US\$/sh)	EV/	Enterprise	Amer.	World			Yield		
Symbol/Rating		31-Aug	Market	Value	Natural	Natural	Oil	Down-	NTM	McDep	
		2015	Cap	(\$mm)	Gas	Gas	Prod'n	stream	(%)	Ratio	
<b>Large Independent</b>											
EOG Resources, Inc.	EOG	78.31	1.15	49,400	16	2	82		0.9	0.98	
Occidental Petroleum Corp.	OXY	73.01	1.16	64,700	5	1	78	17	4.1	0.98	
ConocoPhillips	COP	49.15	1.62	99,000	16	9	75		6.0	0.81	
Devon Energy Corporation	DVN B	42.64	1.64	28,700	29		54	17	2.3	0.76	
Marathon Oil Corporation	MRO B	17.29	1.79	21,000	9	1	90		4.9	0.65	
<i>Total or Median</i>			1.62	263,000	16		78		4.1	0.81	

### Summary and Recommendation

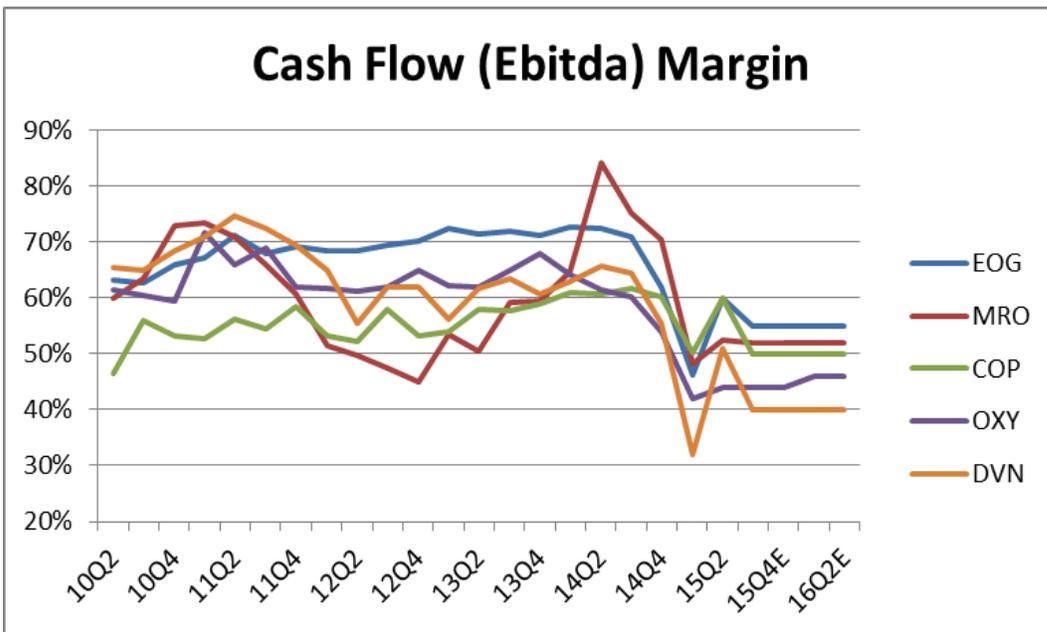
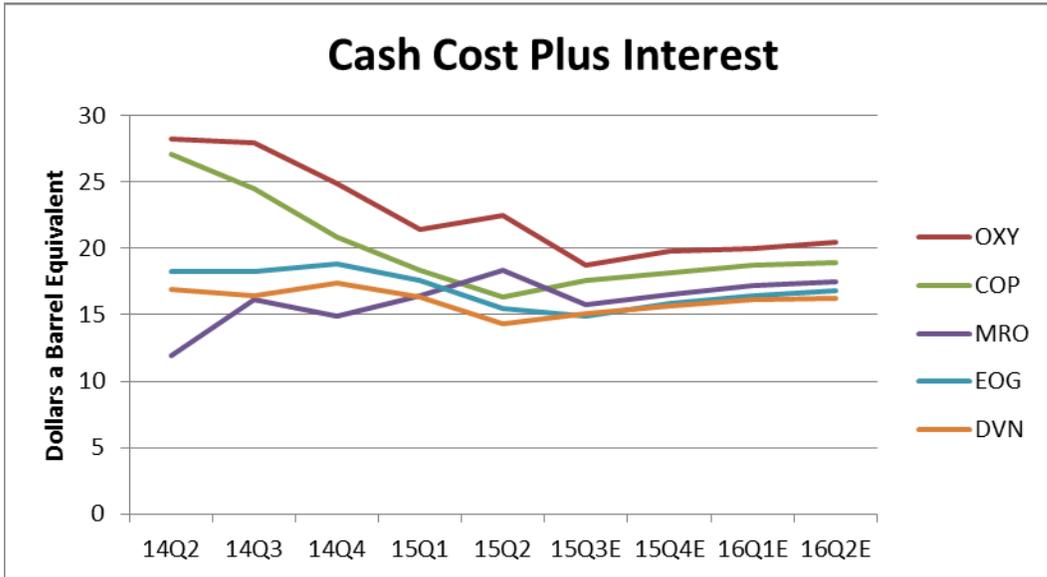
Large Cap Independent Producers handily survived a few days of sub \$40 a barrel oil because cash operating costs and interest are less than \$20 a barrel (see chart [Cash Cost](#) on page 2). Now that the bottom in oil price may have been set, the same companies can look toward more positive operations on rising prices heading toward \$70 a barrel, perhaps by the end of 2016. We recommend **Marathon Oil (MRO)** as the lowest McDep Ratio stock and down the most in 2015 at 25% negative unlevered return (see [Tables 1 - 4](#) on pages 2 - 5). MRO's McDep Ratio of 0.65 implies 50% unlevered appreciation potential. By latest relative unlevered stock price action, **Devon Energy (DVN)** displaces **ConocoPhillips (COP)** as our second Buy recommendation. **Occidental Petroleum (OXY)** held its value by staying comparatively steady in stock price in the tumultuous trading of 2015. **EOG Resources (EOG)** may appear least undervalued, but in fact demonstrated the highest growth in Net Present Value during the shale oil boom of the 2010s that it helped to create. EOG's McDep Ratio measures past superior corporate results, but does not presume future superior corporate results. COP is in the same three shale trends as EOG – North Dakota Bakken, Texas Eagle Ford and West Texas/New Mexico Permian. MRO is in the Bakken and Eagle Ford, DVN in the Eagle Ford and Permian, and Oxy is big in the Permian. Each company has multiple years of drilling opportunity fully profitable at \$70 a barrel or less. Not to be overlooked, dividend yields are high for COP at 6%, MRO at 5% and OXY at 4% a year.

Kurt H. Wulff, CFA



# Industry Idea

Analysis of Oil and Gas Stocks  
September 1, 2015



<b>Table 1</b>										
<b>McDep Energy Stocks</b>										
<b>Enterprise Value, Segments, Yield and McDep Ratio</b>										
	Symbol/Rating	Price (US\$/sh) 31-Aug 2015	EV/ Market Cap	Enterprise Value (\$mm)	Present Value by Segment (%)				Dist. Yield NTM (%)	McDep Ratio
					North Amer. Natural Gas	Rest of World Natural Gas	Oil Prod'n	Down- stream		
<b>Global Integrated</b>										
Exxon Mobil Corporation	XOM	75.28	1.26	398,000	8	10	62	20	3.9	0.85
Royal Dutch Shell (BG pro form)	RDS-A	52.92	1.60	329,000					7.1	0.85
Chevron Corporation	CVX B	80.99	1.37	208,000	3	6	68	23	5.3	0.79
Total S.A.	TOT B	46.15	1.55	164,000		12	60	28	5.9	0.74
	<i>Total or Median</i>		<i>1.46</i>	<i>1,099,000</i>			<i>62</i>	<i>23</i>	<i>5.6</i>	<i>0.82</i>
<b>Large Independent</b>										
EOG Resources, Inc.	EOG	78.31	1.15	49,400	16	2	82		0.9	0.98
Occidental Petroleum Corp.	OXY	73.01	1.16	64,700	5	1	78	17	4.1	0.98
ConocoPhillips	COP	49.15	1.62	99,000	16	9	75		6.0	0.81
Devon Energy Corporation	DVN B	42.64	1.64	28,700	29		54	17	2.3	0.76
Marathon Oil Corporation	MRO B	17.29	1.79	21,000	9	1	90		4.9	0.65
	<i>Total or Median</i>		<i>1.62</i>	<i>263,000</i>	<i>16</i>		<i>78</i>		<i>4.1</i>	<i>0.81</i>
<b>Small Independent</b>										
Cimarex Energy Company	XEC	110.49	1.11	11,600	41		59		0.6	1.02
Range Resources	RRC	38.61	1.64	10,500	80		20		0.4	0.85
California Resources	CRC	3.88	5.59	8,300	12		88		1.0	0.78
Continental Resources (32%)	CLR B	32.11	1.60	6,100	21		79		-	0.66
Whiting Petroleum Corporation	WLL B	19.32	2.41	9,500	5		95		-	0.59
	<i>Total or Median</i>		<i>1.64</i>	<i>46,000</i>	<i>21</i>		<i>79</i>		<i>0.4</i>	<i>0.78</i>
<b>Income</b>										
San Juan Basin Royalty Trust	SJT	10.91	1.00	510	100		-		4.1	0.73
Permian Basin RT	PBT	7.57	1.00	350	23		77		5.7	0.63
Sabine Royalty Trust	SBR	32.76	1.00	480	43		58		7.7	0.60
Dorchester Minerals, L.P.	DMLP B	15.32	1.00	470	38		62		4.9	0.55
Cross Timbers Royalty Trust	CRT B	15.60	1.00	90	56		44		6.3	0.51
	<i>Total or Median</i>		<i>1.00</i>	<i>1,900</i>	<i>43</i>		<i>58</i>		<i>5.7</i>	<i>0.60</i>
<b>Canada</b>										
Imperial Oil Limited (30%)	IMO	35.25	1.30	11,700	1		67	32	1.1	0.91
EnCana Corporation	ECA	7.46	2.40	15,100	56		44		3.8	0.77
Cenovus Energy Inc.	CVE	14.48	1.41	16,800	9		74	17	3.4	0.71
Birchcliff Energy Ltd.	BIREF B	5.20	1.69	1,400	77		23		-	0.57
Canadian Oil Sands Limited	COSWF B	5.84	2.01	5,700			100		2.6	0.54
	<i>Total or Median</i>		<i>1.69</i>	<i>51,000</i>			<i>67</i>		<i>2.6</i>	<i>0.71</i>

Estimated present value presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.50 a million btu.  
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

			<i>Price</i> <i>(US\$/sh)</i>	<i>Shares</i>	<i>Market</i> <i>Cap</i> <i>(US\$mm)</i>	<i>Net</i> <i>Present</i> <i>Value</i> <i>(US\$/sh)</i>	<i>Debt/</i> <i>Present</i> <i>Value</i>	<i>McDep</i> <i>Ratio</i>
	<i>Symbol/Rating</i>	<i>31-Aug</i> <i>2015</i>		<i>(mm)</i>				
	<i>B = Buy</i>							
<b>Global Integrated</b>								
Exxon Mobil Corporation	XOM		75.28	4,200	316,000	92.00	0.18	0.85
Royal Dutch Shell (BG pro forma)	RDS-A		52.92	3,900	206,000	68.00	0.32	0.85
Chevron Corporation	CVX	B	80.99	1,877	152,000	111.00	0.21	0.79
Total S.A.	TOT	B	46.15	2,292	106,000	71.00	0.26	0.74
	<i>Total or Median</i>				<i>780,000</i>		<i>0.24</i>	<i>0.82</i>
<b>Large Independent</b>								
EOG Resources, Inc.	EOG		78.31	550	43,100	80.00	0.13	0.98
Occidental Petroleum Corp.	OXY		73.01	766	55,900	75.00	0.13	0.98
ConocoPhillips	COP		49.15	1,241	61,000	68.00	0.31	0.81
Devon Energy Corporation	DVN	B	42.64	411	17,500	65.00	0.30	0.76
Marathon Oil Corporation	MRO	B	17.29	677	11,710	34.00	0.29	0.65
	<i>Total or Median</i>				<i>189,200</i>		<i>0.29</i>	<i>0.81</i>
<b>Small Independent</b>								
Cimarex Energy Company	XEC		110.49	95	10,500	108.00	0.10	1.02
Range Resources	RRC		38.61	166	6,400	50.00	0.33	0.85
California Resources	CRC		3.88	382	1,500	10.00	0.64	0.78
Continental Resources (32%)	CLR	B	32.11	119	3,800	58.00	0.25	0.66
Whiting Petroleum Corporation	WLL	B	19.32	204	3,900	52.00	0.34	0.59
	<i>Total or Median</i>				<i>26,000</i>		<i>0.33</i>	<i>0.78</i>
<b>Income</b>								
San Juan Basin Royalty Trust	SJT		10.91	47	510	15.00	-	0.73
Permian Basin RT	PBT		7.57	47	350	12.00	-	0.63
Sabine Royalty Trust	SBR		32.76	15	480	55.00	-	0.60
Dorchester Minerals, L.P.	DMLP	B	15.32	31	470	28.00	-	0.55
Cross Timbers Royalty Trust	CRT	B	15.60	6	90	31.00	-	0.51
	<i>Total or Median</i>				<i>1,900</i>		<i>-</i>	<i>0.60</i>
<b>Canada</b>								
Imperial Oil Limited (30%)	IMO		35.25	255	9,000	40.00	0.21	0.91
EnCana Corporation	ECA		7.46	841	6,300	13.00	0.45	0.77
Cenovus Energy Inc.	CVE		14.48	824	11,900	23.00	0.20	0.71
Birchcliff Energy Ltd.	BIREF	B	5.20	155	800	12.00	0.23	0.57
Canadian Oil Sands Limited	COSWF	B	5.84	485	2,800	16.00	0.27	0.54
	<i>Total or Median</i>				<i>31,000</i>		<i>0.23</i>	<i>0.71</i>
Estimated present value presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.50 a million btu.								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								

<b>Table 3</b>								
<b>McDep Energy Stocks</b>								
<b>Value Multiples and Dividend</b>								
<b>Ranked by EV/Ebitda</b>								
			<i>Price</i>	<i>Adjustd</i>				
			<i>(US\$/sh)</i>	<i>Resrvs/</i>	<i>PV/</i>	<i>EV/</i>	<i>Dividend</i>	
	<i>Symbol/Rating</i>		<i>31-Aug</i>	<i>Prod</i>	<i>Ebitda</i>	<i>Ebitda</i>	<i>P/E</i>	
	<i>B = Buy</i>		<i>2015</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	
							<i>(\$/sh)</i>	
<b>Global Integrated</b>								
Exxon Mobil Corporation	XOM		75.28	14.6	10.5	8.9	19	2.92
Chevron Corporation	CVX	B	80.99	9.1	8.5	6.7	27	4.28
Total S.A.	TOT	B	46.15	10.1	7.7	5.7	11	2.74
Royal Dutch Shell (BG pro forma)	RDS-A		52.92					3.76
	<i>Median</i>			<i>10.1</i>	<i>8.5</i>	<i>6.7</i>	<i>19</i>	
<b>Large Independent</b>								
EOG Resources, Inc.	EOG		78.31	9.2	13.3	13.1	29	0.67
Occidental Petroleum Corp.	OXY		73.01	9.1	12.3	12.1	112	3.00
Devon Energy Corporation	DVN	B	42.64	10.2	14.2	10.7	63	0.96
ConocoPhillips	COP		49.15	11.2	12.1	9.8		2.96
Marathon Oil Corporation	MRO	B	17.29	12.1	12.9	8.4		0.84
	<i>Median</i>			<i>10.2</i>	<i>12.9</i>	<i>10.7</i>	<i>63</i>	
<b>Small Independent</b>								
Range Resources	RRC		38.61	14.5	23.4	19.8	155	0.16
Cimarex Energy Company	XEC		110.49	7.9	15.5	15.8		0.64
California Resources	CRC		3.88	12.1	18.1	14.1		0.04
Continental Resources (32%)	CLR	B	32.11	11.4	14.1	9.4	118	-
Whiting Petroleum Corporation	WLL	B	19.32	10.9	15.8	9.3		-
	<i>Median</i>			<i>11.4</i>	<i>15.8</i>	<i>14.1</i>	<i>136</i>	
<b>Income</b>								
San Juan Basin Royalty Trust	SJT		10.91	8.3	24.8	18.0	25	0.44
Sabine Royalty Trust	SBR		32.76	9.1	21.9	13.1	13	2.51
Dorchester Minerals, L.P.	DMLP	B	15.32	7.8	21.7	11.9	24	0.74
Cross Timbers Royalty Trust	CRT	B	15.60	12.6	22.4	11.3	16	0.98
Permian Basin RT	PBT		7.57	9.9	16.7	10.5	18	0.43
	<i>Median</i>			<i>9.1</i>	<i>21.9</i>	<i>11.9</i>	<i>18</i>	
<b>Canada</b>								
Imperial Oil Limited (30%)	IMO		35.25	27.5	12.6	11.4	17	0.39
EnCana Corporation	ECA		7.46	6.6	14.9	11.4	77	0.28
Cenovus Energy Inc.	CVE		14.48	16.2	13.7	9.7		0.49
Canadian Oil Sands Limited	COSWF	B	5.84	17.2	16.0	8.6	423	0.15
Birchcliff Energy Ltd.	BIREF	B	5.20	12.6	15.0	8.5		-
	<i>Median</i>			<i>16.2</i>	<i>14.9</i>	<i>9.7</i>	<i>77</i>	
	<i>Grand Median</i>			<i>11</i>	<i>15</i>	<i>11</i>		

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2016; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

<b>Table 4</b>										
<b>McDep Energy Stocks</b>										
<b>Total Return Year-to-Date 2015</b>										
<b>Ranked by Unlevered Total Return</b>										
			Price	Price			Equity	Unlevered		
			(\$/sh)	(\$/sh)	Price	Cash	Total	Debt	Return	McDep
	Symbol/Rat		31-Aug	29-Dec	Change	Distrib.	Return	(\$/sh)	(%)	Ratio
			2015	2014	(%)	(%)	(%)			
<b>Global Integrated</b>										
Total S.A.	TOT	B	46.15	52.74	(12)	3	(10)	25	(7)	0.74
Royal Dutch Shell (BG pro forma)	RDS-A		52.92	68.31	(23)	3	(20)	32	(13)	0.85
Exxon Mobil Corporation	XOM		75.28	93.07	(19)	2	(18)	20	(14)	0.85
Chevron Corporation	CVX	B	80.99	113.32	(29)	2	(27)	30	(20)	0.79
	<i>Median</i>				(21)		(19)		(13)	0.82
<b>Large Independent</b>										
Occidental Petroleum Corp.	OXY		73.01	81.71	(11)	2	(9)	11	(8)	0.98
EOG Resources, Inc.	EOG		78.31	94.33	(17)	0	(17)	12	(15)	0.98
ConocoPhillips	COP		49.15	70.11	(30)	2	(28)	30	(19)	0.81
Devon Energy Corporation	DVN	B	42.64	61.15	(30)	1	(29)	27	(20)	0.76
Marathon Oil Corporation	MRO	B	17.29	28.58	(40)	1	(38)	14	(25)	0.65
	<i>Median</i>				(30)		(28)		(19)	0.81
<b>Small Independent</b>										
Cimarex Energy Company	XEC		110.49	110.27	0	0	0	12	0	1.02
California Resources	CRC		3.88	5.77	(33)	0	(32)	18	(8)	0.78
Continental Resources (32%)	CLR	B	32.11	38.26	(16)	-	(16)	19	(11)	0.66
Range Resources	RRC		38.61	56.00	(31)	0	(31)	25	(21)	0.85
Whiting Petroleum Corporation	WLL	B	19.32	34.09	(43)	-	(43)	27	(24)	0.59
	<i>Median</i>				(31)		(31)		(11)	0.78
<b>Income</b>										
Sabine Royalty Trust	SBR		32.76	36.68	(11)	5	(5)	-	(5)	0.60
Cross Timbers Royalty Trust	CRT	B	15.60	18.07	(14)	5	(9)	-	(9)	0.51
Permian Basin RT	PBT		7.57	9.12	(17)	2	(15)	-	(14)	0.63
San Juan Basin Royalty Trust	SJT		10.91	13.97	(22)	1	(20)	-	(20)	0.73
Dorchester Minerals, L.P.	DMLP	B	15.32	25.16	(39)	4	(35)	-	(35)	0.55
	<i>Median</i>				(17)		(15)		(14)	0.60
<b>Canada</b>										
Imperial Oil Limited (30%)	IMO		35.25	43.49	(19)	0	(18)	11	(15)	0.91
Birchcliff Energy Ltd.	BIREF	B	5.20	6.75	(23)	-	(23)	4	(15)	0.57
Canadian Oil Sands Limited	COSWF	B	5.84	9.20	(37)	1	(36)	6	(21)	0.54
Cenovus Energy Inc.	CVE		14.48	20.95	(31)	2	(29)	6	(22)	0.71
EnCana Corporation	ECA		7.46	13.94	(46)	1	(45)	11	(26)	0.77
	<i>Median</i>				(31)		(29)		(21)	0.71
	<i>Grand Median</i>				(23)		(22)		(15)	0.75
<b>Natural Gas (\$/mmbtu)</b>			2.68	3.19	(16)					
<b>Oil - West Texas Intermediate (\$/bbl)</b>			49.20	53.69	(8)					

Source: McDep LLC, Yahoo, CME Group, Bloomberg

<b>Index of 2015 Research</b>				
<u>Date</u>	<u>Series</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
25-Aug	II	CLR, XEC, WLL, RRC, CRC		Small Cap Producer Survivors
11-Aug	MR			Bottom May Be Near
3-Aug	II	XOM, RDS, CVX, TOT		Global Energy Stalwarts
27-Jul	ISI	ECA	Encana Corporation	Depressed Stock Price
22-Jul	II	SBR, CRT, SJT, PBT		Use Volatility to Advantage
17-Jul	ISI	DMLP	Dorchester Minerals, L.P.	Top Line Distribution Support
14-Jul	MR			Lower Long-Term Oil to \$70 from \$90
7-Jul	ISI	PBT	Permian Basin Royalty Trust	Buy Underestimated Future Oil & Gas Production
22-Jun	II	DMLP, SBR, CRT, SJT, PBT		Understated Reserves, June Distributions Up
16-Jun	MR	RDS, MRO, EOG, CLR, DMLP		Oil and Gas Strengthen U.S. Security
28-May	II	DMLP, SBR, CRT, SJT, PBT		Distributions Rise on Roll Forward
12-May	MR	MRO	Marathon Oil	New Buy on Independent Shale Oil
1-May	ISI		CVX, XOM, RDS, TOT	Raise NPV for XOM and TOT on Cash Flow Margin
30-Apr	ISI	SJT	San Juan Basin Royalty Trust	New Buy on Depressed Natural Gas
29-Apr	ISI	CVE	Cenovus Energy	New Buy on Operating Leverage
28-Apr		TOT	Total	Operating Strength Reinforces New Buy
14-Apr	MR	RDS	Royal Dutch Shell plc	Shell to Acquire BG - Catalyst for Confidence
1-Apr	II			Recommitting to Oil and Gas Stocks
10-Mar	MR	DMLP, SBR, CRT, SJT		RTF Income Tracks Oil Price
9-Mar	ISI	XOM	Exxon Mobil	Safe at Any Likely Oil Price
27-Feb	ISI	EOG	EOG Resources	Top Value Creator
10-Feb	MR	CRT, CRC, COP, CVX		Oil Price Cycle Advances
30-Jan	ISI	COSWF	Canadian Oil Sands Ltd.	Syncrude Lowers Breakeven to \$US32 a Barrel
13-Jan	MR	SBR, XEC, COSWF, DVN, XOM		Oil and Gas Stocks on Sale
				MR = Meter Reader (published monthly on second or third Tuesday)
				ISI = Independent Stock Idea
				II = Industry Idea
				For historical research by stock, go to <a href="http://mcdep.com">mcdep.com</a> , click on <a href="#">Stock Ideas</a> , click on stock by name.

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