



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

January 12, 2010

U.S. Independent Producers Buy Devon, Rebalance EOG Resources

Summary and Recommendation

ExxonMobil's offer to acquire buy-recommended **XTO Energy (XTO)** sparks renewed investor interest in U.S. Independent Producer buy recommendations **Devon Energy (DVN)**, **EOG Resources (EOG)** and **Anadarko Petroleum (APC)**. We suggest overweighting DVN because of its lower McDep Ratio (see Tables 1 and 2 on pages 5-6). Much to our frustration, DVN has remained the lowest McDep Ratio stock most of the past three years without performing notably better for long (see charts on page 2, McDep Ratio and Unlevered Total Return). Because of such a possibility, we suggest that after achieving a reasonable overweight in a low McDep Ratio stock, move on to the next one. Buy-recommended **Occidental Petroleum (OXY)** was second lowest three years ago and subsequently delivered the best performance, helped by the highest oil concentration. During the same period, EOG has outperformed to reach a higher McDep Ratio compared to peers, underperformed to reach a lower McDep Ratio and then outperformed again to reach a higher McDep Ratio, currently above 1.0. As a result, we would consider reducing, or rebalancing, any large holding in EOG to average in Enterprise Value.

Devon Delivers Volume Growth without Deep Gulf of Mexico

Performance measurement is often sensitive to the time period chosen. At the beginning of the past three year period, Devon started with Net Present Value (NPV) that had just been raised about 13% to account for the company's new discoveries and future potential in the deep Gulf of Mexico. Gradually, that extra value disappeared from NPV as we could justify undervaluation on current cash flow that did not include those properties (see chart on page 3, Net Present Value). Now Devon has begun a divestiture of its Gulf of Mexico and international properties to raise about \$6 billion, coincidentally the amount we had once attributed to the Gulf of Mexico properties. The proceeds are to be directed mostly to expanding production of natural gas from shale where Devon is a leader with the largest position in the largest producing field, the Barnett Shale of North Texas.

While Devon looked for extra growth offshore, XTO and EOG appeared to grow more rapidly by staying closer to home (see chart on page 3, Volume Unadjusted). Yet, when we consider the financing of growth and trace volume per unit, we see that Devon's record is comparable (see chart on page 4, Volume per Share Adjusted for Debt and Dividends). In the end, the similarities may be stronger than the differences. Each of our four continuing large cap buy recommendations is well-positioned to make money in oil and gas after XTO disappears into XOM.

Kurt H. Wulff, CFA

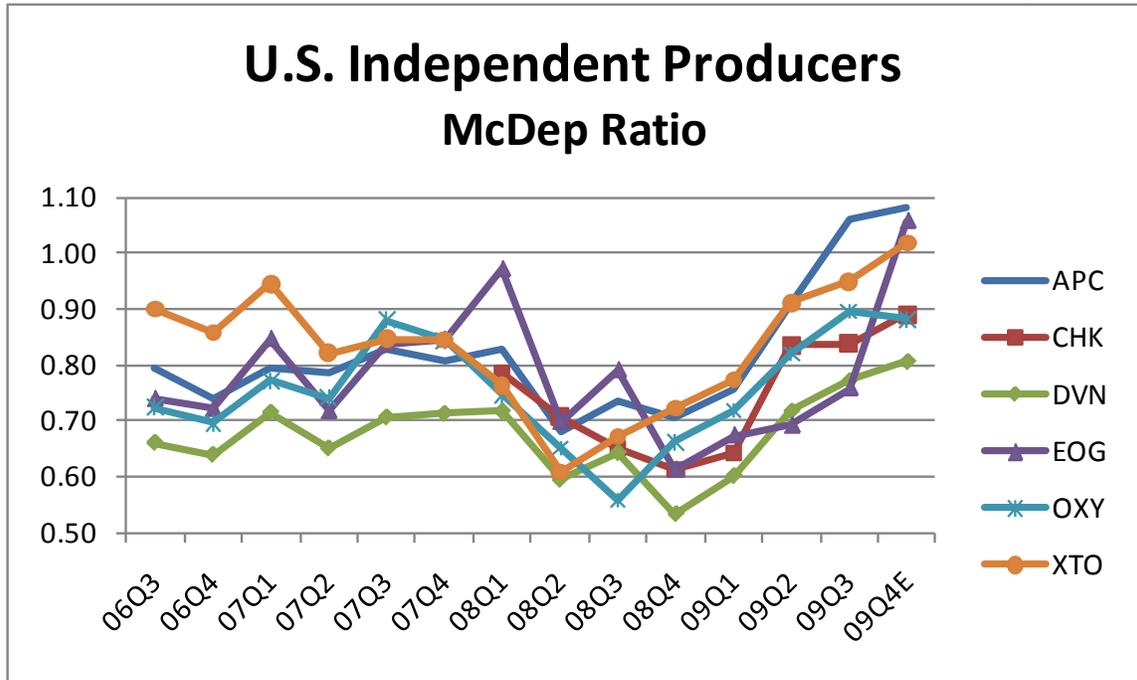
For the weekly charts, see page 4, Six-Year Commodity Price Meter and page 9, Six-Year and One-Year Natural Gas and Oil Futures.



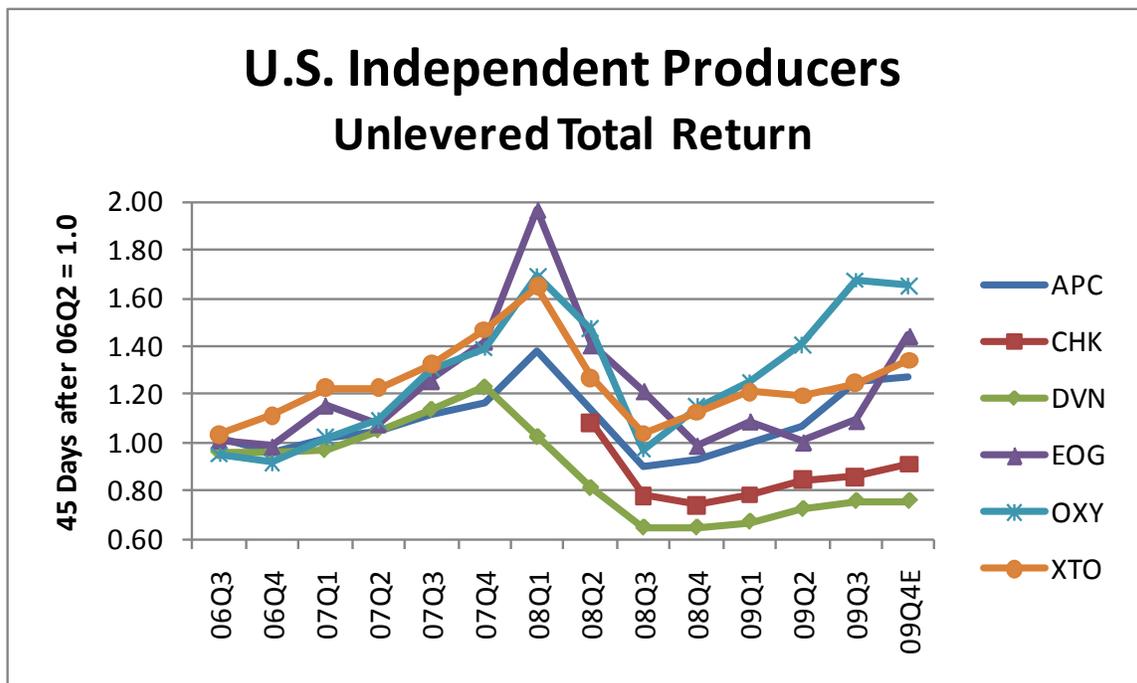
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Note: Data points at end of quarter plus about 45 days

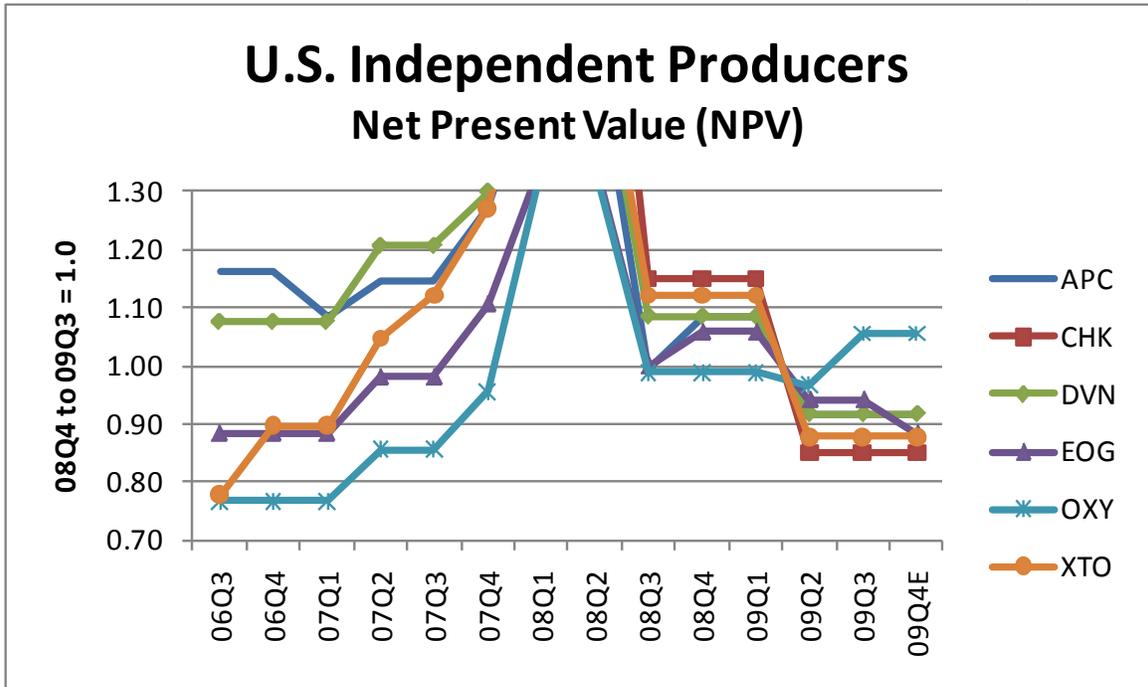




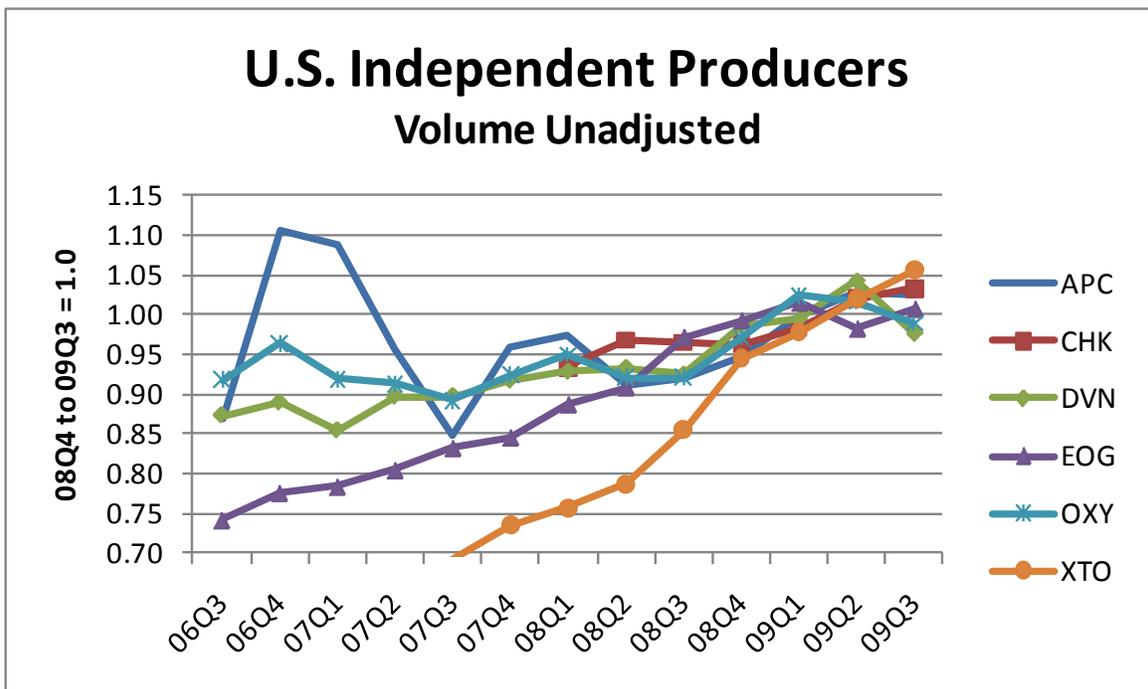
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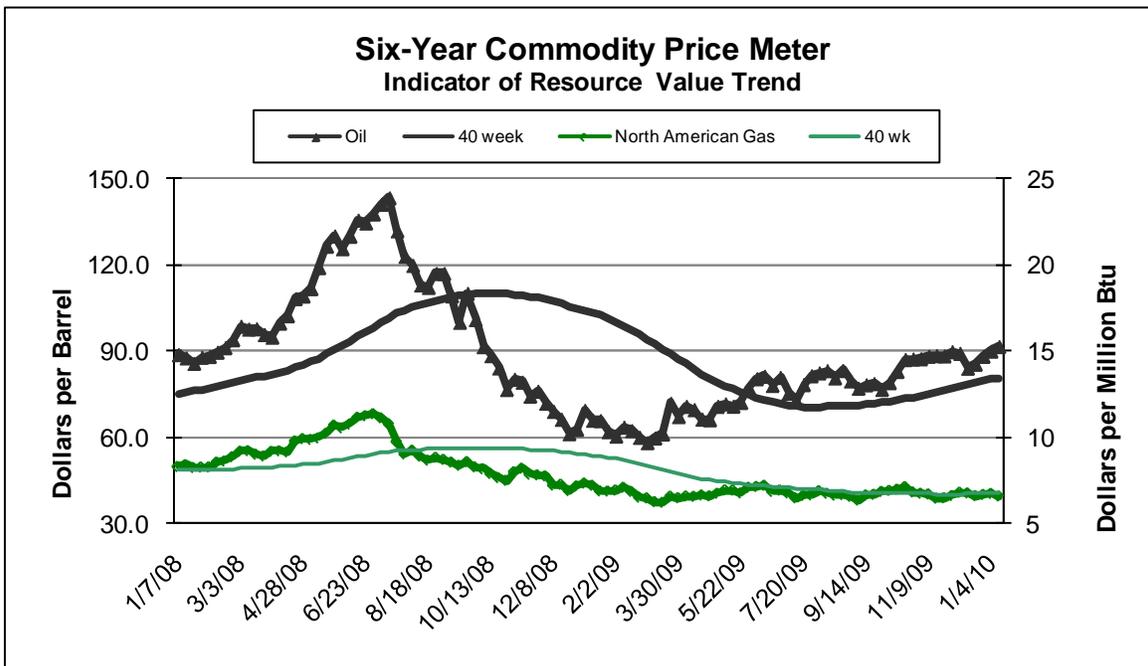
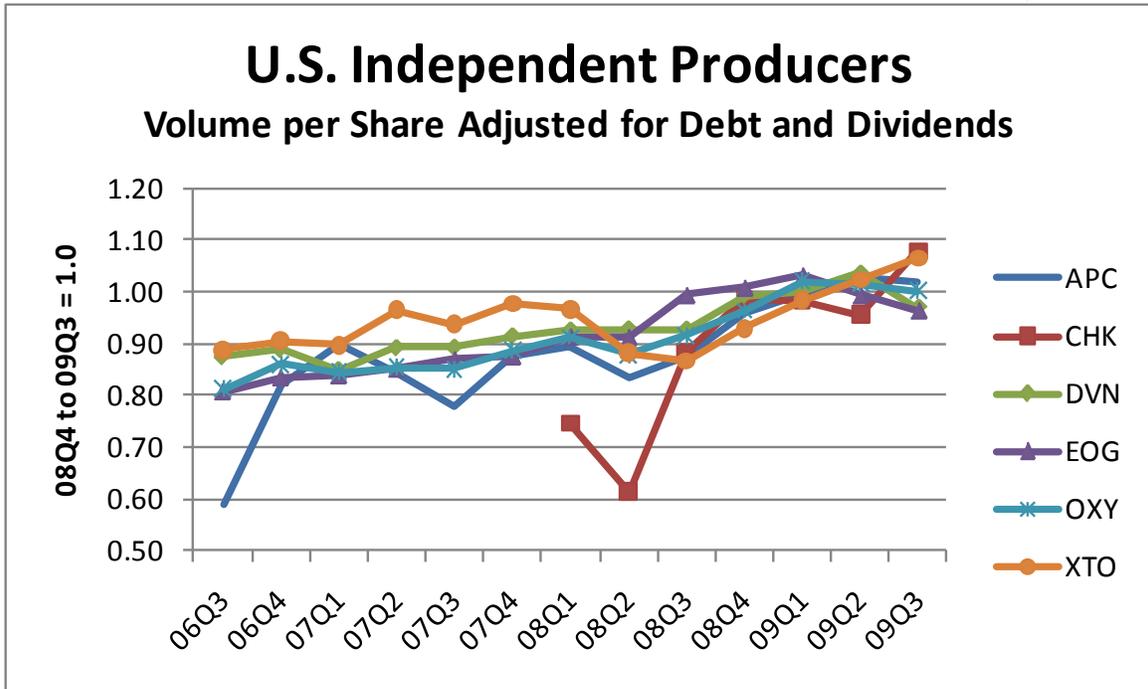




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McDep Energy Portfolio								
Net Present Value and McDep Ratio								
			<i>Price</i>			<i>Net</i>		
	<i>Symbol/Rating</i>		<i>(US\$/sh)</i>	<i>Shares</i>	<i>Market</i>	<i>Present</i>	<i>Debt/</i>	
	<i>B = Buy</i>	<i>11-Jan</i>	<i>2010</i>	<i>(mm)</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	<i>McDep</i>
					<i>(US\$mm)</i>	<i>(US\$/sh)</i>	<i>Value</i>	<i>Ratio</i>
U.S. Integrated								
Chevron Corporation	CVX	B	80.88	2,001	162,000	102.00	0.13	0.82
Exxon Mobil Corporation	XOM	B	70.30	4,803	338,000	89.00	0.11	0.81
Marathon Oil Corporation	MRO	B	32.70	711	23,250	53.00	0.23	0.71
ConocoPhillips	COP	B	53.57	1,498	80,000	105.00	0.25	0.63
<i>Total or Median</i>					<i>603,000</i>		<i>0.18</i>	<i>0.76</i>
Europe								
BG Group plc	BRGXF	B	19.83	3,390	67,200	22.00	0.11	0.91
Royal Dutch Shell plc	RDS-A	B	62.48	3,066	192,000	79.00	0.20	0.83
BP plc	BP	B	61.89	3,156	195,000	80.00	0.20	0.82
Statoil ASA (33%)	STO	B	26.47	1,051	27,800	35.00	0.22	0.81
Total S.A.	TOT	B	67.25	2,237	150,000	90.00	0.15	0.79
<i>Total or Median</i>					<i>632,000</i>		<i>0.20</i>	<i>0.82</i>
Australia/Brazil/China/Russia								
CNOOC Limited (34%)	CEO	B	169.73	152	25,800	135.00	0.01	1.25
Woodside Petroleum Ltd.	WOPEY	B	45.50	709	32,300	44.00	0.17	1.03
PetroChina Company Ltd (14%)	PTR	B	130.40	256	33,400	150.00	0.06	0.88
Petrobras	PBR	B	48.10	4,387	211,000	58.00	0.17	0.86
Gazprom (50%)	OGZPY	B	26.65	2,965	79,000	64.00	0.10	0.47
Lukoil Oil Company	LUKOY	B	59.55	847	50,400	135.00	0.05	0.47
<i>Total or Median</i>					<i>432,000</i>		<i>0.08</i>	<i>0.87</i>
U.S. Independent								
Anadarko Petroleum Corp.	APC	B	66.31	493	32,700	59.00	0.32	1.08
EOG Resources	EOG	B	98.14	251	24,600	92.00	0.13	1.06
XTO Energy Inc.	XTO	B	48.20	580	28,000	47.00	0.29	1.02
Chesapeake Energy Corp.	CHK		28.00	626	17,500	34.00	0.38	0.89
Occidental Petroleum Corp.	OXY	B	82.96	814	67,500	95.00	0.06	0.88
Devon Energy Corporation	DVN	B	75.08	450	33,800	98.00	0.17	0.81
<i>Total or Median</i>					<i>204,100</i>		<i>0.23</i>	<i>0.95</i>
Canada								
EnCana Corporation	ECA	B	34.48	751	25,900	35.00	0.28	0.99
Cenovus Energy Inc.	CVE	B	26.15	751	19,600	27.00	0.23	0.98
Canadian Natural Resources	CNQ	B	72.03	542	39,000	80.00	0.21	0.92
Imperial Oil Limited (30%)	IMO	B	39.62	256	10,200	48.00	0.07	0.84
Suncor Energy	SU	B	37.31	1,572	58,700	52.00	0.18	0.77
Canadian Oil Sands Trust	COSWF	B	29.33	484	14,200	42.00	0.07	0.72
<i>Total or Median</i>					<i>168,000</i>		<i>0.20</i>	<i>0.88</i>

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

Estimated present value presumes a long-term price for oil of US\$75 a barrel and natural gas, \$8 a million btu.



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Table 3								
McDep Energy Portfolio								
Value Multiples and Distribution Yield								
			<i>Price</i>	<i>Adjustd</i>				<i>Divd or</i>
			<i>(US\$/sh)</i>	<i>Resrvs/</i>	<i>PV/</i>	<i>EV/</i>		<i>Distrib</i>
	<i>Symbol/Rating</i>		<i>11-Jan</i>	<i>Prod</i>	<i>Ebitda</i>	<i>Ebitda</i>	<i>P/E</i>	<i>NTM</i>
	<i>B = Buy</i>		<i>2010</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>(%)</i>
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	70.30	12.4	8.2	6.7	12	2.4
Chevron Corporation	CVX	B	80.88	9.7	6.7	5.5	12	3.4
ConocoPhillips	COP	B	53.57	11.2	8.0	5.1	9	3.7
Marathon Oil Corporation	MRO	B	32.70	9.3	6.8	4.8	9	2.9
	<i>Total or Median</i>			<i>10.4</i>	<i>7.4</i>	<i>5.3</i>	<i>10</i>	<i>3.1</i>
Europe								
BG Group plc	BRGXF	B	19.83	8.1	8.9	8.1	16	1.1
Total S.A.	TOT	B	67.25	9.4	7.1	5.6	10	4.9
Royal Dutch Shell plc	RDS-A	B	62.48	7.9	6.5	5.4	11	5.4
BP plc	BP	B	61.89	9.6	6.6	5.4	9	5.4
Statoil ASA (33%)	STO	B	26.47	7.5	6.1	4.9	20	4.9
	<i>Total or Median</i>			<i>8.1</i>	<i>6.6</i>	<i>5.4</i>	<i>11</i>	<i>4.9</i>
Australia/Brazil/China/Russia								
Woodside Petroleum Ltd.	WOPEY	B	45.50	15.0	12.3	12.6	29	2.2
Petrobras	PBR	B	48.10	9.1	8.7	7.4	13	2.8
CNOOC Limited (34%)	CEO	B	169.73	6.9	5.6	7.0	12	3.0
PetroChina Company Ltd (14%)	PTR	B	130.40	13.9	7.4	6.5	16	3.1
Lukoil Oil Company	LUKOY	B	59.55	16.4	8.4	3.9	8	2.2
Gazprom (50%)	OGZPY	B	26.65	24.6	8.2	3.9	5	0.2
	<i>Total or Median</i>			<i>14.5</i>	<i>8.3</i>	<i>6.7</i>	<i>13</i>	<i>2.5</i>
U.S. Independent								
Chesapeake Energy Corp.	CHK		28.00	11.1	12.2	10.9	23	1.1
EOG Resources	EOG	B	98.14	9.8	9.3	9.8	32	0.6
XTO Energy Inc.	XTO	B	48.20	10.7	9.5	9.7	19	1.0
Anadarko Petroleum Corp.	APC	B	66.31	8.9	6.5	7.1		0.5
Occidental Petroleum Corp.	OXY	B	82.96	11.2	7.4	6.5	14	1.6
Devon Energy Corporation	DVN	B	75.08	8.9	7.1	5.7	11	0.9
	<i>Total or Median</i>			<i>10.3</i>	<i>8.3</i>	<i>8.4</i>	<i>19</i>	<i>0.9</i>
Canada								
Imperial Oil Limited (30%)	IMO	B	39.62	20.9	12.4	10.4	21	1.0
EnCana Corporation	ECA	B	34.48	8.7	9.1	9.0	28	2.3
Canadian Oil Sands Trust	COSWF	B	29.33	23.1	12.5	9.0	14	6.1
Cenovus Energy Inc.	CVE	B	26.15	9.8	8.6	8.4	20	3.1
Suncor Energy	SU	B	37.31	13.9	9.8	7.6	25	1.0
Canadian Natural Resources	CNQ	B	72.03	7.5	7.8	7.2	14	0.5
	<i>Total or Median</i>			<i>11.8</i>	<i>9.5</i>	<i>8.7</i>	<i>20</i>	<i>1.7</i>
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2010; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



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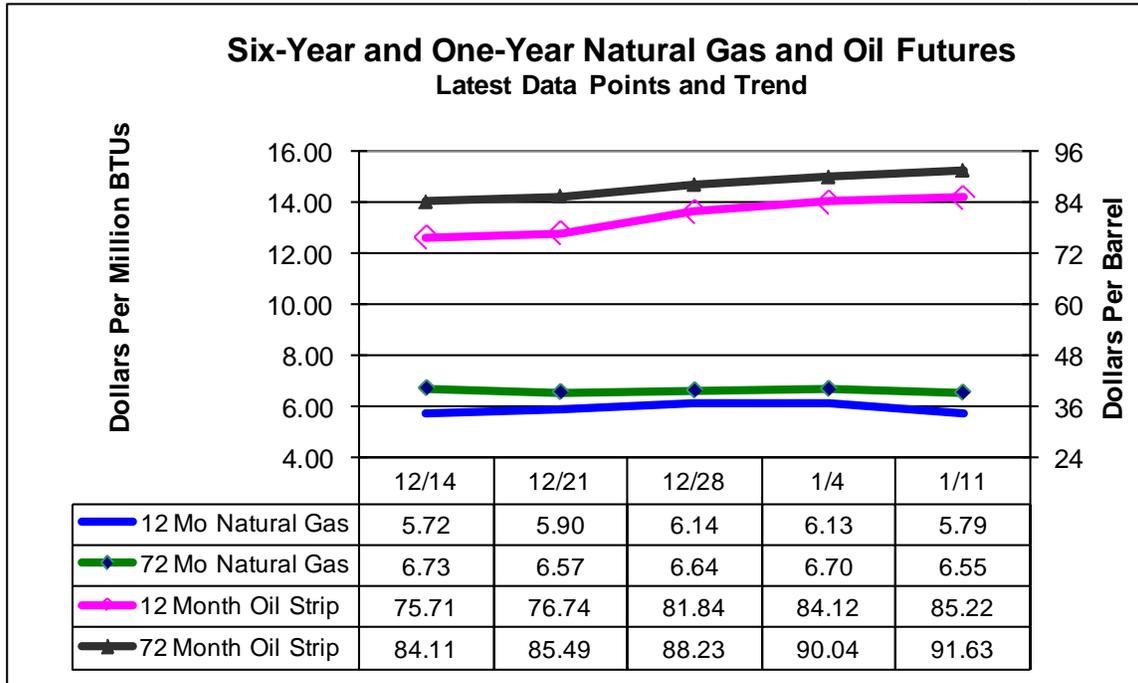
Index of Recent Research			
Stock Ideas			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
31-Dec	WLL	Whiting Petroleum	North Dakota Bakken Oil Producer (ISC Weekly)
29-Dec	WOPEY	Woodside Petroleum	Buy for Australian LNG (Meter Reader)
22-Dec	* XOM	ExxonMobil	Exquisite Timing (Meter Reader)
18-Dec	* CRT, SBR	Top Line Cash Payers	Raise CRT NPV 21%; Lower SBR NPV 18% (ISCW)
15-Dec	* XTO, XOM	XTO Energy, ExxonMobil	ExxonMobil Offers \$52 a Share for XTO Energy (MR)
11-Dec	* SJT	San Juan Basin Royalty Trust	Natural Gas Income with Upside (ISC Weekly)
8-Dec	* LUKOY	Lukoil Oil Company	Reemphasizing Oil
8-Dec	* PBR	Petrobras	Buy for Long-Term Growth (Meter Reader)
4-Dec	* COSWF	Canadian Oil Sands Trust	November Production below Capacity (ISCW)
1-Dec	* ECA, CVE	EnCana, Cenovus Energy Inc.	Buy EnCana, Buy Cenovus (Meter Reader)
20-Nov	* FRHLF	Freehold Royalty Trust	Highest Distribution Rate Unhedged (ISC Weekly)
17-Nov	* BRGXF	BG Group	Oil Price Trend Validates Offshore Brazil (Meter Reader)
13-Nov	* ECA	EnCana Corporation	Approaching November 30 Split into Two Companies
13-Nov	* PEYUF	Peyto Energy Trust	Deep Basin Drilling "Going to Explode" (ISC Weekly)
9-Nov	* OGZPY	Gazprom	Sharp Recovery from Sharp Dip
6-Nov	* SU	Suncor Energy	Expects to Keep 12% Syncrude
6-Nov	* EOG	EOG Resources Inc.	Accenting Oil
6-Nov	* DMLP	Dorchester Minerals, L.P.	More Drilling on DMLP Land
6-Nov	* HGT	Hugoton Royalty Trust	Distribution Trend Up (Income and Small Cap Weekly)
6-Nov	* MRO	Marathon Oil Corporation	Refinery Expansion Nearly Complete
6-Nov	* APC	Anadarko Petroleum Corporation	McDep Ratio above 1.0
5-Nov	* CNQ	Canadian Natural Resources	Oil Sands Mining Challenge
5-Nov	* TOT	Total S.A.	New Projects for Growth
5-Nov	* STO	Statoil ASA	Oil Price Leading Natural Gas Price
4-Nov	* DVN	Devon Energy Corporation	Progress in Shale Gas
4-Nov	* XEC	Cimarex Energy Company	Raise Net Present Value to \$50 a Share from \$46
3-Nov	* CEO	CNOOC Ltd	Buy China Oil and Gas (Meter Reader)
3-Nov	* PTR	PetroChina Company Limited	Buy China Oil and Gas (Meter Reader)
2-Nov	* IMO	Imperial Oil Limited	<i>In Situ</i> Oil Production Cumulates Past a Billion Barrels
2-Nov	* EAC	Encore Acquisition Company	Denbury Resources Offers \$50 a Share to Acquire Encore
2-Nov	* CVX	Chevron Corporation	Raise Net Present Value to \$102 a Share from \$97
29-Oct	* RDSA	Royal Dutch Shell plc	Shedding Downstream Image
28-Oct	* COP	ConocoPhillips	Downsizing to Revitalize
27-Oct	* BP	BP p.l.c.	Raise Net Present Value to \$80 a Share from \$72
23-Oct	* OXY	Occidental Petroleum Corporation	Raise Net Present Value to \$95 a Share from \$87
Meter Reader			
12-Jan		Weekly	
5-Jan		Weekly	Natural Gas and Oil for the Twenty-Tens
29-Dec	WOPEY	Woodside Petroleum	Buy for Australian LNG
22-Dec	* XOM	ExxonMobil	Exquisite Timing
Income and Small Cap Weekly			
8-Jan	HGT, SJT	Bottom Line Cash Payers	Raise LINE NPV 13%; Lower HGT NPV 9%
31-Dec	WLL	Whiting Petroleum	North Dakota Bakken Oil Producer
24-Dec		Weekly	Trending Up for the Tens
18-Dec	* CRT, SBR	Top Line Cash Payers	Raise CRT NPV 21%; Lower SBR NPV 18%
	* Archived on www.mcdep.com		



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Research Methodology/Ratings Description: McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the forty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.