



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

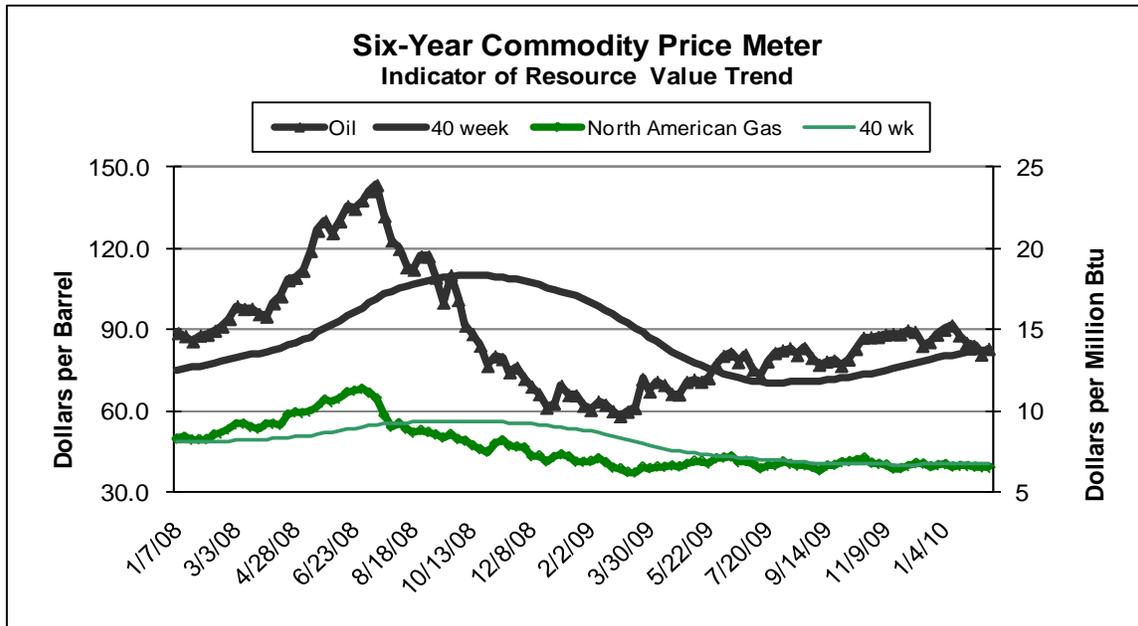
February 16, 2010

## Free Downstream in Stock Prices

### Summary and Recommendation

McDep Ratios for companies with downstream operations are lower than McDep Ratios of companies without downstream operations by as much as the whole value of downstream. For example, the median McDep Ratio of U.S. Integrated Companies at 0.67 is 0.24 less than the median McDep Ratio of U.S. Independent Producers at 0.91. That discount is more than the median 17% of value for downstream in the same integrated companies (see Table 1). One could say that investors buying integrated companies are getting the downstream for free. Even if recent conditions have been highly competitive, the petroleum products and other economically sensitive businesses may see moderate improvement in unlevered cash flow (Ebitda) in 2010 (see charts on page 2, [Downstream Cash Flow](#)). Of the seven U.S. and European oil companies in the charts, **ConocoPhillips (COP)** and **BP plc (BP)** are Buy recommendations with stock price in an uptrend indicated by current price above the 200-day average. The other five are Contrarian Buys with current stock price below the 200-day average. The number of Contrarian Buys reclassified from Buy expands by one to fourteen this week with the addition of **Gazprom (OGZPY)**. At the same time, six-year oil at \$83 a barrel crosses back above the 40-week average of \$82 (see chart below, [Six-Year Commodity Price Meter](#) and on last page, [Six-Year and One-Year Natural Gas and Oil Futures](#)). Whether the companies are integrated or independent, whether stock price is above or below the moving average, McDep Ratios imply attractive investment value by our fundamental analysis (see Tables 1-3).

Kurt H. Wulff, CFA

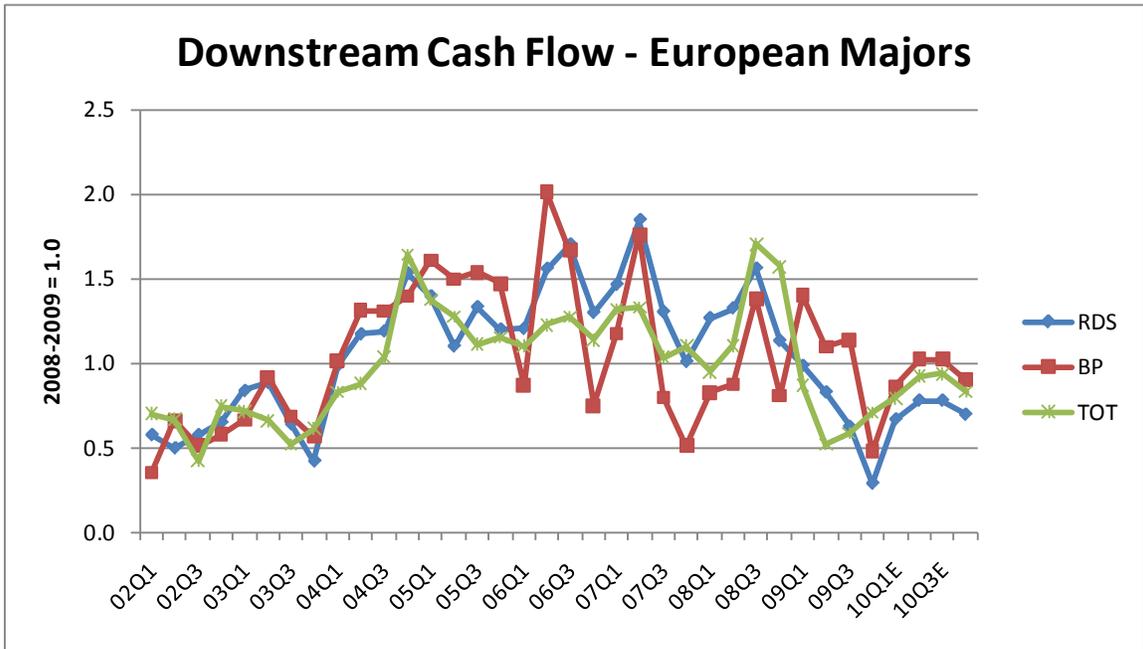
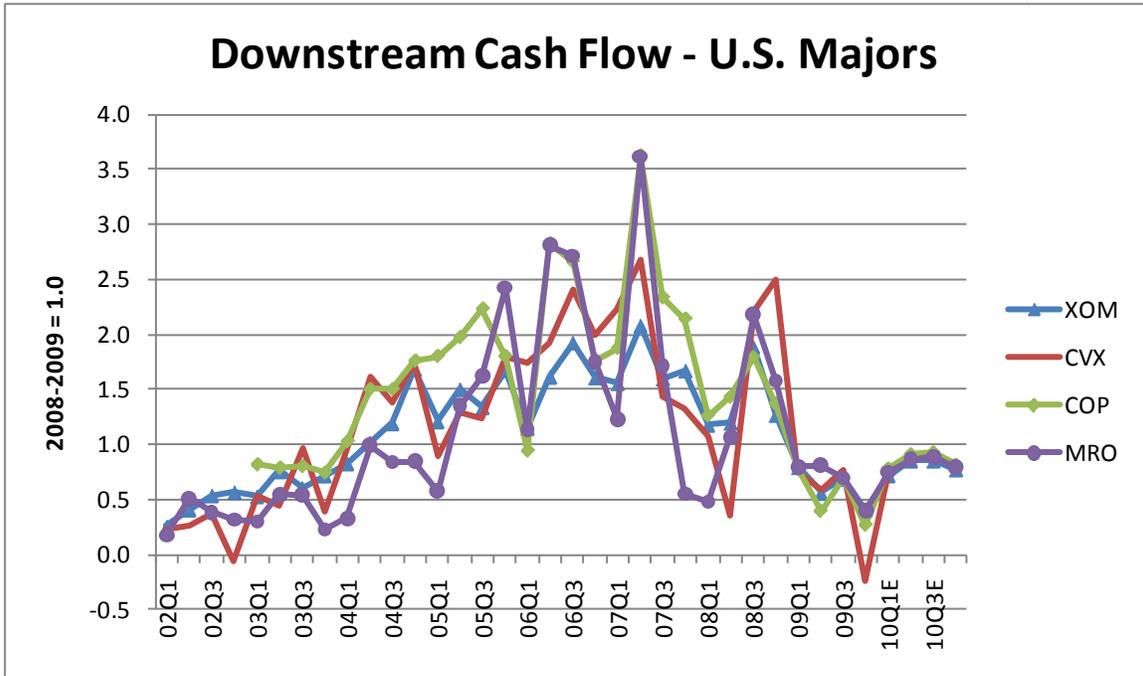




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<b>Table 2</b>								
<b>McDep Energy Portfolio</b>								
<b>Net Present Value and McDep Ratio</b>								
			<i>Price</i>			<i>Net</i>		
	<i>Symbol/Rating</i>		<i>(US\$/sh)</i>	<i>Shares</i>	<i>Market</i>	<i>Present</i>	<i>Debt/</i>	
	B = Buy, CB (see below)		<i>12-Feb</i>	<i>(mm)</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	<i>McDep</i>
			<i>2010</i>		<i>(US\$mm)</i>	<i>(US\$/sh)</i>	<i>Value</i>	<i>Ratio</i>
<b>U.S. Integrated</b>								
Exxon Mobil Corporation	XOM	CB	64.80	5,215	338,000	89.00	0.12	0.76
Chevron Corporation	CVX	CB	71.01	2,004	142,000	110.00	0.12	0.69
Marathon Oil Corporation	MRO	CB	28.61	711	20,340	53.00	0.23	0.65
ConocoPhillips	COP	B	48.67	1,501	73,000	105.00	0.25	0.60
<i>Total or Median</i>					<i>573,000</i>		<i>0.18</i>	<i>0.67</i>
<b>Europe</b>								
BG Group plc	BRGXF	CB	17.89	3,397	60,800	22.00	0.10	0.83
Royal Dutch Shell plc	RDS-A	CB	54.55	3,064	167,000	79.00	0.21	0.75
BP plc	BP	B	54.67	3,162	173,000	80.00	0.19	0.74
Statoil ASA (33%)	STO	CB	21.74	1,050	22,800	35.00	0.22	0.70
Total S.A.	TOT	CB	56.94	2,241	128,000	90.00	0.15	0.69
<i>Total or Median</i>					<i>552,000</i>		<i>0.19</i>	<i>0.74</i>
<b>Australia/Brazil/China/Russia</b>								
CNOOC Limited (34%)	CEO	B	155.15	152	23,600	135.00	0.01	1.15
Woodside Petroleum Ltd.	WOPEY	CB	38.00	709	26,900	44.00	0.16	0.89
Petrobras	PBR	CB	40.88	4,387	179,300	58.00	0.17	0.76
PetroChina Company Ltd (14%)	PTR	CB	109.71	256	28,100	150.00	0.06	0.75
Gazprom (50%)	OGZPY	CB	21.90	2,955	64,700	64.00	0.10	0.41
Lukoil Oil Company	LUKOY	CB	50.60	847	42,900	135.00	0.05	0.40
<i>Total or Median</i>					<i>366,000</i>		<i>0.08</i>	<i>0.75</i>
<b>U.S. Independent</b>								
Anadarko Petroleum Corp.	APC	B	65.32	494	32,300	64.00	0.31	1.02
EOG Resources	EOG	B	90.98	251	22,900	92.00	0.12	0.99
XTO Energy Inc.	XTO	B	45.63	580	26,500	47.00	0.29	0.98
Occidental Petroleum Corp.	OXY	B	79.80	814	64,900	95.00	0.06	0.85
Chesapeake Energy Corp.	CHK		24.96	626	15,600	34.00	0.38	0.83
Devon Energy Corporation	DVN	B	67.08	450	30,200	98.00	0.17	0.74
<i>Total or Median</i>					<i>192,400</i>		<i>0.23</i>	<i>0.91</i>
<b>Canada</b>								
EnCana Corporation	ECA	B	31.91	751	24,000	35.00	0.25	0.93
Cenovus Energy Inc.	CVE	B	23.94	751	18,000	27.00	0.25	0.92
Canadian Natural Resources	CNQ	B	66.99	542	36,300	80.00	0.21	0.87
Imperial Oil Limited (30%)	IMO	CB	37.43	256	9,600	48.00	0.06	0.79
Canadian Oil Sands Trust	COSWF	B	27.83	484	13,500	38.00	0.07	0.75
Suncor Energy	SU	CB	29.20	1,562	45,600	48.00	0.20	0.69
<i>Total or Median</i>					<i>147,000</i>		<i>0.20</i>	<i>0.83</i>
CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.								
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.								

Please see disclosures on the final page.

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Table 3								
McDep Energy Portfolio								
Value Multiples and Distribution Yield								
			Price (US\$/sh)	Adjustd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	P/E	Divd or Distrib NTM
	Symbol/Rating		12-Feb 2010	NTM	NTM	NTM	NTM	(%)
B = Buy, CB (see below)								
<b>U.S. Integrated</b>								
Exxon Mobil Corporation	XOM	CB	64.80	12.1	8.4	6.4	12	2.6
Marathon Oil Corporation	MRO	CB	28.61	10.9	7.6	4.9	10	3.4
ConocoPhillips	COP	B	48.67	11.0	8.1	4.8	9	4.1
Chevron Corporation	CVX	CB	71.01	9.5	6.9	4.7	10	3.8
<i>Total or Median</i>				<i>11.0</i>	<i>7.8</i>	<i>4.9</i>	<i>10</i>	<i>3.6</i>
<b>Europe</b>								
BG Group plc	BRGXF	CB	17.89	8.3	9.1	7.6	15	1.1
BP plc	BP	B	54.67	9.5	7.0	5.2	9	6.1
Total S.A.	TOT	CB	56.94	9.3	7.5	5.2	10	5.5
Royal Dutch Shell plc	RDS-A	CB	54.55	7.8	6.6	5.0	10	6.2
Statoil ASA (33%)	STO	CB	21.74	7.4	6.4	4.5	11	4.7
<i>Total or Median</i>				<i>8.3</i>	<i>7.0</i>	<i>5.2</i>	<i>10</i>	<i>5.5</i>
<b>Australia/Brazil/China/Russia</b>								
Woodside Petroleum Ltd.	WOPEY	CB	38.00	15.0	13.3	11.8	27	2.6
Petrobras	PBR	CB	40.88	9.1	9.5	7.2	12	3.3
CNOOC Limited (34%)	CEO	B	155.15	6.5	5.7	6.5	12	3.3
PetroChina Company Ltd (14%)	PTR	CB	109.71	13.9	7.7	5.8	14	3.6
Lukoil Oil Company	LUKOY	CB	50.60	16.4	8.9	3.6	7	2.5
Gazprom (50%)	OGZPY	CB	21.90	24.6	8.6	3.5	4	0.2
<i>Total or Median</i>				<i>14.5</i>	<i>8.7</i>	<i>6.1</i>	<i>12</i>	<i>2.9</i>
<b>U.S. Independent</b>								
Chesapeake Energy Corp.	CHK		24.96	11.1	12.5	10.4	21	1.2
XTO Energy Inc.	XTO	B	45.63	10.7	9.9	9.7	19	1.1
EOG Resources	EOG	B	90.98	10.8	9.2	9.1	37	0.7
Anadarko Petroleum Corp.	APC	B	65.32	9.1	7.4	7.6		0.6
Occidental Petroleum Corp.	OXY	B	79.80	10.9	7.9	6.7	15	1.7
Devon Energy Corporation	DVN	B	67.08	8.9	7.5	5.6	10	1.0
<i>Total or Median</i>				<i>10.7</i>	<i>8.5</i>	<i>8.3</i>	<i>19</i>	<i>1.0</i>
<b>Canada</b>								
Canadian Oil Sands Trust	COSWF	B	27.83	23.1	15.2	11.4	27	4.8
Imperial Oil Limited (30%)	IMO	CB	37.43	19.2	12.2	9.7	19	1.0
EnCana Corporation	ECA	B	31.91	9.1	8.9	8.3	42	2.5
Cenovus Energy Inc.	CVE	B	23.94	10.2	9.0	8.3	17	3.3
Canadian Natural Resources	CNQ	B	66.99	7.5	8.5	7.4	13	0.6
Suncor Energy	SU	CB	29.20	14.3	10.7	7.3	22	1.3
<i>Total or Median</i>				<i>12.2</i>	<i>9.9</i>	<i>8.3</i>	<i>21</i>	<i>1.9</i>

CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.

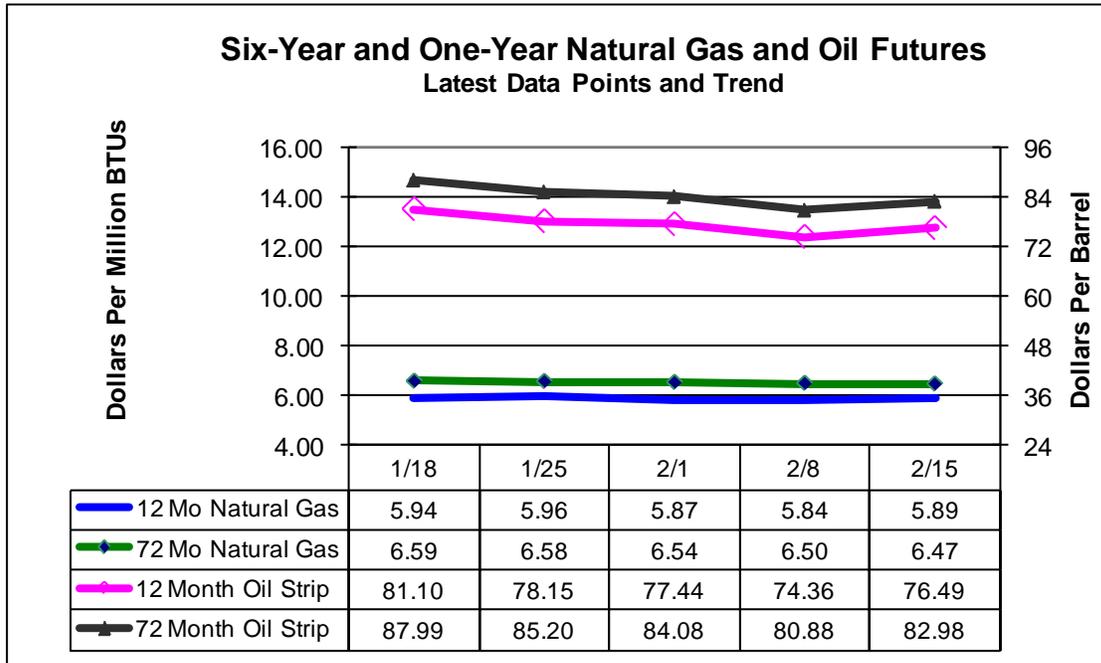
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2010; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses





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