



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

April 20, 2010

## Southwestern Energy (SWN) Shale Gas Slowdown

<i>Symbol</i>	SWN	<i>Ebitda Next Twelve Months ending 3/31/11 (US\$m)</i>	1,286
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	100
<i>Price (\$/sh)</i>	39.70	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	3/29/10	<i>Adjusted Reserves/Production NTM</i>	6.7
<i>Shares (mm)</i>	349	<i>EV/Ebitda</i>	11.7
<i>Market Capitalization (\$mm)</i>	13,860	<i>PV/Ebitda</i>	9.6
<i>Debt (\$mm)</i>	1,100	<i>Undeveloped Reserves (%)</i>	46
<i>Enterprise Value (EV) (\$mm)</i>	14,980	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	3.10
<i>Present Value (PV) (\$mm)</i>	12,290	<i>Present Value Proven Reserves(\$/boe)</i>	20.20
<i>Net Present Value (\$/share)</i>	32	<i>Oil and Gas Ebitda Margin (%)</i>	74
<i>Debt/Present Value</i>	0.09	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.62
<i>McDep Ratio - EV/PV</i>	1.22	<i>Price/Earnings Next Twelve Months</i>	24
<i>Dividend Yield (%/year)</i>	0.0	<i>Indicated Annual Dividend (US\$/sh)</i>	0.00
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$75 a barrel and natural gas, \$8 a million btu.			

### Summary and Recommendation

We add natural gas producer **Southwestern Energy (SWN)** to our large cap (including some mid cap) research coverage at an initial McDep Ratio of 1.22 (see Tables 1-3). Considering that natural gas has not yet resumed an uptrend and that SWN stock price may be in a downtrend, there may be a better McDep Ratio opportunity to participate in SWN's long-term potential. After doubling and redoubling in the past two years, reserves in the Fayetteville Shale of Arkansas now account for 85% of proven reserves, dominating the outlook for production. Management guides to production in 2010 of 400 billion cubic feet equivalent, which is up a third from 2009 (see table [Next Twelve Months Operating and Financial Estimates](#)). Projected cash flow combined with adjusted reserve life index points to estimated Net Present Value (NPV) of \$32 a share in our industry context (see table [Functional Cash Flow and Present Value](#)). Testing is underway to determine whether drilling can be concentrated to 10 wells a square mile from the 2 wells that may be represented in currently proven reserves. SWN's McDep Ratio implies that investors are already anticipating another doubling of reported proven reserves. Yet, after seeing strong operating and stock price performance the past few years, investors in SWN may now be more concerned about a slowdown. Last week at the Independent Petroleum Association of America meeting in New York, Chief Financial Officer Greg Kerley addressed such questions. Should futures prices decline to \$4 a million Btu, compared to the latest quote of \$4.69 for the next twelve months, SWN would reduce its current drilling rate of 600 wells a year. At \$3.50 it would drill 200 wells a year for the next two years to fulfill lease requirements. The company's low 0.09 ratio of debt to present value gives it the financial strength to withstand any continued weakness, or delayed recovery, in pricing of clean fuel for economic growth.



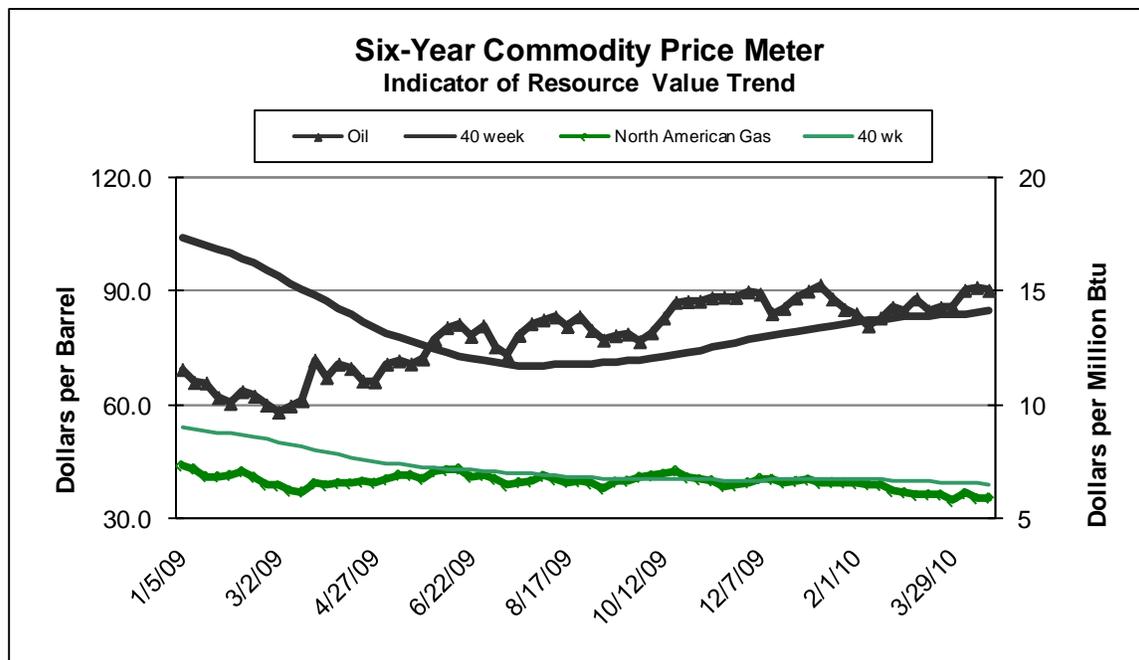
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Meanwhile, oil for the next six years trends up with a current quote of \$90 a barrel, which is above the 40-week average of \$85. Natural gas for the next six years trends down with a current quote of \$5.92 a million Btu, which is below the 40-week average of \$6.51 (see chart below, Six-Year Commodity Price Meter and on page 8, Six-Year and One-Year Natural Gas and Oil Futures).

Kurt H. Wulff, CFA



<b>Southwestern Energy Company</b>					
<b>Functional Cash Flow and Present Value</b>					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	1,286	6.7	9.6	12,300	100%
Oil					0%
	1,286	6.7	9.6	12,300	100%
Debt (US\$mm)					1,100
Net Present Value (US\$mm)					11,200
Shares (mm)					349
Net Present Value - Standard Estimate (US\$/sh)					32
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					32



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Southwestern Energy Company									
Next Twelve Months Operating and Financial Estimates									
									Next
	Q1	Q4	Year	Q1E	Q2E	Q3E	Q4E	Year	Twelve
	3/31/09	12/31/09	2009	3/31/10	6/30/10	9/30/10	12/31/10	2010	Months
									3/31/11
<b>Volume</b>									
Natural Gas (bcf)	64.0	88.9	300	91.3	96.9	102.9	108.1	399	419
Natural Gas (mmcf)	711	966	822	1,015	1,065	1,119	1,175	1,094	1,148
Days	90	92	365	90	91	92	92	365	365
Oil (mmb)	0.03	0.03	0.12	0.03	0.03	0.03	0.04	0.13	0.14
Oil (mbd)	0.38	0.32	0.34	0.33	0.35	0.36	0.38	0.36	0.37
Total (bcfe)	64.2	89.1	301	91.5	97.1	103.1	108.3	400	420
Total (mmcfed)	713	968	824	1,017	1,067	1,121	1,177	1,096	1,150
<b>Price</b>									
Henry Hub (\$/mmbtu)	4.90	4.16	3.99	5.32	3.95	4.25	4.80	4.58	4.54
Differential (\$/mmbtu)	1.09	0.38	0.64	0.49	0.36	0.39	0.44	0.43	0.40
Company (\$/mcf)	3.81	3.78	3.34	4.83	3.58	3.86	4.36	4.15	4.14
WTI Cushing (\$/bbl)	42.96	76.09	61.70	78.67	82.68	85.58	87.21	83.54	85.72
Differential	8.06	3.57	6.76	3.69	3.88	4.01	4.09	3.72	3.93
Company (\$/bbl)	34.90	72.52	54.94	74.99	78.80	81.57	83.13	79.81	81.79
Total (\$/bbl)	3.82	3.80	3.36	4.85	3.60	3.88	4.38	4.17	4.16
<b>Revenue (\$mm)</b>									
Natural Gas	244	336	1,003	441	348	397	471	1,657	1,736
Oil	1	2	7	2	2	3	3	10	11
Total	245	338	1,009	443	350	400	474	1,667	1,747
<b>Expense</b>									
Lease operating	27	39	136	46	49	52	54	200	210
Production taxes	9	13	36	16	13	14	17	60	63
General and administrative	24	38	123	41	44	46	49	180	189
Total	60	90	295	103	105	112	120	440	462
<b>Ebitda</b>	185	248	714	340	245	287	354	1,227	1,286
Deprec., Deplet., & Amort.	124	138	494	137	146	155	162	600	630
Other	(132)	(137)	(599)	(60)	(60)	(60)	(60)	(240)	(240)
<b>Ebit</b>	193	248	819	263	159	193	252	867	896
Interest	4	6	18	6	6	6	6	24	24
<b>Ebt</b>	189	242	802	257	153	187	246	843	872
Income Tax	66	85	281	90	54	65	86	295	305
<b>Net Income (\$mm)</b>	123	157	521	167	100	121	160	548	567
Per Share (\$)	0.36	0.45	1.50	0.48	0.29	0.35	0.46	1.57	1.62
<b>Shares (millions)</b>	342	349	347	349	349	349	349	349	349
Ebitda Margin	76%	73%	71%	77%	70%	72%	75%	74%	74%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%





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Table 2								
McDep Energy Portfolio								
Net Present Value and McDep Ratio								
			Price (US\$/sh)	Shares	Market Cap (US\$mm)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
	Symbol/Rating		19-Apr 2010	(mm)				
B = Buy, CB (see below)								
<b>U.S. Integrated</b>								
Exxon Mobil Corporation	XOM	CB	68.23	5,215	356,000	89.00	0.12	0.79
Chevron Corporation	CVX	B	81.32	2,004	163,000	110.00	0.12	0.77
Marathon Oil Corporation	MRO	B	32.05	711	22,790	53.00	0.24	0.70
ConocoPhillips	COP	B	56.64	1,501	85,000	95.00	0.27	0.71
<i>Total or Median</i>					627,000		0.18	0.74
<b>Europe</b>								
BG Group plc	BRGXF	B	17.66	3,397	60,000	22.00	0.10	0.82
Royal Dutch Shell plc	RDS-A	B	61.00	3,064	187,000	79.00	0.21	0.82
BP plc	BP	B	59.48	3,162	188,000	80.00	0.19	0.79
Statoil ASA (33%)	STO	B	24.17	1,050	25,400	35.00	0.22	0.76
Total S.A.	TOT	CB	58.09	2,241	130,000	90.00	0.15	0.70
<i>Total or Median</i>					590,000		0.19	0.79
<b>Australia/Brazil/China/Russia</b>								
CNOOC Limited (34%)	CEO	B	175.17	152	26,600	145.00	0.03	1.20
Woodside Petroleum Ltd.	WOPEY	B	42.20	763	32,200	44.00	0.14	0.96
PetroChina Company Ltd (14%)	PTR	B	117.89	256	30,200	150.00	0.15	0.82
Petrobras	PBR	CB	42.88	4,387	188,100	58.00	0.19	0.79
Lukoil Oil Company	LUKOY	B	57.60	847	48,800	135.00	0.05	0.46
Gazprom (50%)	OGZPY	B	23.88	2,955	70,600	64.00	0.10	0.44
<i>Total or Median</i>					397,000		0.12	0.80
<b>U.S. Independent</b>								
Southwestern Energy Company	SWN		39.70	349	13,900	32.00	0.09	1.22
EOG Resources	EOG	B	107.99	251	27,100	92.00	0.12	1.15
Anadarko Petroleum Corp.	APC	B	73.32	494	36,200	64.00	0.32	1.10
Occidental Petroleum Corp.	OXY	B	84.69	814	68,900	95.00	0.06	0.90
Chesapeake Energy Corp.	CHK		23.75	628	14,900	34.00	0.39	0.82
Devon Energy Corporation	DVN	CB	65.19	450	29,400	98.00	0.03	0.68
<i>Total or Median</i>					190,400		0.11	1.00
<b>Canada</b>								
Cenovus Energy Inc.	CVE	B	28.24	751	21,200	27.00	0.25	1.03
Canadian Natural Resources	CNQ	B	75.74	542	41,100	90.00	0.19	0.87
Imperial Oil Limited (30%)	IMO	B	40.85	256	10,500	48.00	0.07	0.86
EnCana Corporation	ECA	B	31.00	751	23,300	42.00	0.22	0.80
Canadian Oil Sands Trust	COSWF	B	29.37	484	14,200	38.00	0.07	0.79
Suncor Energy	SU	B	33.49	1,566	52,500	48.00	0.20	0.76
<i>Total or Median</i>					163,000		0.20	0.83

CB=Contrarian Buy, Stock Price may 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.



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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		19-Apr 2010	NTM	NTM	NTM	NTM	(%)
B = Buy, CB (see below)								
<b>U.S. Integrated</b>								
Exxon Mobil Corporation	XOM	CB	68.23	13.6	8.3	6.6	12	2.5
ConocoPhillips	COP	B	56.64	10.4	7.5	5.3	10	3.9
Marathon Oil Corporation	MRO	B	32.05	8.9	7.2	5.0	10	3.0
Chevron Corporation	CVX	B	81.32	9.0	6.3	4.9	10	3.3
<i>Total or Median</i>				9.7	7.3	5.2	10	3.2
<b>Europe</b>								
BG Group plc	BRGXF	B	17.66	8.2	8.6	7.1	13	1.1
Royal Dutch Shell plc	RDS-A	B	61.00	8.9	6.4	5.3	10	5.5
BP plc	BP	B	59.48	9.5	6.5	5.1	9	5.6
Total S.A.	TOT	CB	58.09	9.6	6.9	4.8	9	5.3
Statoil ASA (33%)	STO	B	24.17	6.9	5.9	4.4	10	4.2
<i>Total or Median</i>				8.9	6.5	5.1	10	5.3
<b>Australia/Brazil/China/Russia</b>								
Woodside Petroleum Ltd.	WOPEY	B	42.20	17.8	11.7	11.3	19	2.4
Petrobras	PBR	CB	42.88	9.1	8.9	7.0	12	3.1
PetroChina Company Ltd (14%)	PTR	B	117.89	14.0	7.3	6.0	13	3.4
CNOOC Limited (34%)	CEO	B	175.17	6.8	4.8	5.8	11	2.9
Lukoil Oil Company	LUKOY	B	57.60	15.8	8.4	3.8	7	3.0
Gazprom (50%)	OGZPY	B	23.88	24.6	8.2	3.6	5	0.2
<i>Total or Median</i>				14.9	8.3	5.9	11	3.0
<b>U.S. Independent</b>								
Southwestern Energy Company	SWN		39.70	6.7	9.6	11.7	24	-
EOG Resources	EOG	B	107.99	10.8	9.7	11.2	55	0.6
Chesapeake Energy Corp.	CHK		23.75	11.8	12.2	10.0	22	1.3
Anadarko Petroleum Corp.	APC	B	73.32	9.2	7.7	8.5		0.5
Occidental Petroleum Corp.	OXY	B	84.69	12.1	7.3	6.5	14	1.6
Devon Energy Corporation	DVN	CB	65.19	10.4	8.6	5.8	14	1.0
<i>Total or Median</i>				10.6	9.1	9.2	22	0.8
<b>Canada</b>								
Imperial Oil Limited (30%)	IMO	B	40.85	19.8	10.9	9.4	18	1.0
Cenovus Energy Inc.	CVE	B	28.24	10.4	9.1	9.4	20	2.8
Canadian Natural Resources	CNQ	B	75.74	15.6	10.7	9.3	16	0.8
EnCana Corporation	ECA	B	31.00	7.6	11.6	9.2	107	2.6
Canadian Oil Sands Trust	COSWF	B	29.37	31.4	11.0	8.7	15	4.7
Suncor Energy	SU	B	33.49	15.2	9.8	7.4	19	1.2
<i>Total or Median</i>				15.4	10.8	9.3	19	1.9
CB=Contrarian Buy, Stock Price may be 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 March 31, 2011; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								

Please see disclosures on the final page.



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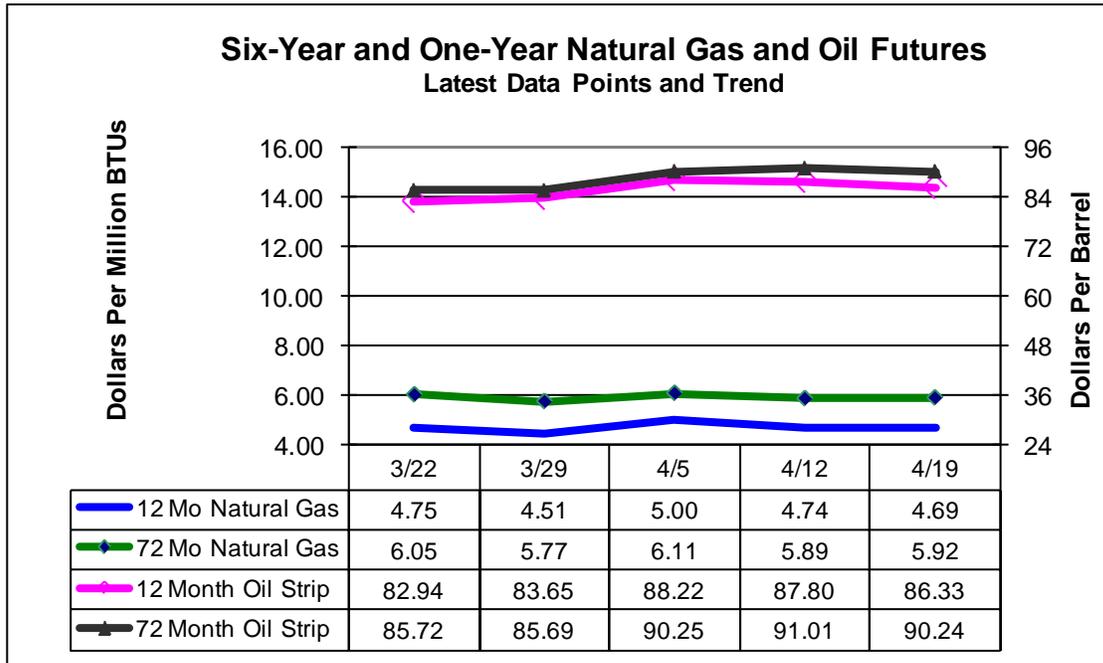
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<b>Index of Recent Research</b>			
<b>Stock Ideas</b>			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
16-Apr	ERF	Enerplus Resources Fund	Attractive for 9% Distribution Yield
2-Apr	SJT	San Juan Basin Royalty Trust	Low Cost Natural Gas (Income and Small Cap Weekly)
31-Mar	CEO	CNOOC Ltd	Raise NPV to \$145 from \$135 a Share on Reserves
31-Mar	LUKOY	Lukoil Oil Company	Shares Available
30-Mar	* COP	ConocoPhillips	Lower NPV to \$95 from \$105 (Meter Reader)
26-Mar	* PEYUF	Peyto Energy Trust	Raise NPV to US\$15 from \$13 (ISC Weekly)
26-Mar	PTR	PetroChina Company Limited	Gas Growth - Natural Gas and Gasoline
23-Mar	* ECA	EnCana Corporation	Raise NPV to \$42 from \$35 (MR)
22-Mar	* HGT	Hugoton Royalty Trust	Monthly Volume Distortion
16-Mar	* XOM	ExxonMobil Corporation	Upstream Growth (Meter Reader)
16-Mar	* CVX	Chevron Corporation	Upstream Growth (Meter Reader)
12-Mar	* DVN	Devon Energy Corporation	Virtually Eliminates Debt
9-Mar	* APC	Anadarko Petroleum Corporation	Upside in Oil and Gas Portfolio (Meter Reader)
5-Mar	* CNQ	Canadian Natural Resources	Raise NPV to US\$90 a Share from \$80
2-Mar	* COSWF	Canadian Oil Sands Trust	Oil Growth of 70% to 2020 (Meter Reader)
26-Feb	* DMLP	Dorchester Minerals, L.P.	Replaces Reserves and Pays 8% Income (ISCW)
25-Feb	* WOPEY	Woodside Petroleum	Financing in Place for 2010
19-Feb	* BIREF	Birchcliff Energy Ltd.	Raise NPV to US\$11 a Share from US\$9
19-Feb	* XEC	Cimarex Energy Company	On a Roll - Raise NPV to \$65 (ISC Weekly)
15-Feb	* CVE	Cenovus Energy Inc.	Quadruple Bitumen by 2017
15-Feb	* STO	Statoil ASA	Reposition Dividend for Growth
15-Feb	* EOG	EOG Resources Inc.	Proven Reserves Increase 24%
12-Feb	* TOT	Total S.A.	Secure Income at 5.5%
5-Feb	* BRGXF	BG Group	Natural Gas Growth in Australia
4-Feb	* RDSA	Royal Dutch Shell plc	Cautious Outlook, Nice Dividend
3-Feb	* IMO	Imperial Oil Limited	Hom River Shale Gas Explorer
3-Feb	* MRO	Marathon Oil Corporation	Ready for Recovery in Demand for Diesel Fuel
2-Feb	* SU	Suncor Energy	Reduce Net Present Value to US\$48 a Share from US\$52
2-Feb	* BP	BP p.l.c.	Credibility Reestablished
1-Feb	* OGZPY	Gazprom	European Natural Gas Sales Rebound
28-Jan	* OXY	Occidental Petroleum Corporation	Volume Growth Supporting Appreciation Potential
8-Dec	* PBR	Petrobras	Buy for Long-Term Growth (Meter Reader)
<b>Meter Reader</b>			
20-Apr		Weekly	
13-Apr		COP,COSWF	Syncrude Priced at a McDep Ratio of 0.96
6-Apr		Weekly	Canadian Values
30-Mar	* COP	ConocoPhillips	Lower NPV to \$95 from \$105
<b>Income and Small Cap Weekly</b>			
16-Apr	ERF	Enerplus Resources Fund	Attractive for 9% Distribution Yield
9-Apr	UPL RRC HK	Ultra Pete, Range Resources, Petrohawk	Add Ultra, Range, Petrohawk to Coverage
2-Apr	SJT	San Juan Basin Royalty Trust	Low Cost Natural Gas
26-Mar	* PEYUF	Peyto Energy Trust	Raise NPV to US\$15 from \$13
			* Archived on <a href="http://www.mcdep.com">www.mcdep.com</a>



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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.