



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

May 18, 2010

European Oil for Contrarians

Summary and Recommendation

We classify buy recommendations **Royal Dutch Shell, plc (RDS-A)**, **Statoil ASA (STO)**, and **Total S.A. (TOT)** as Contrarian Buys to acknowledge that the current stock price trend is down in comparison to the 200-day average. By a similar measure, oil price may have begun a downtrend measured by six-year futures at \$83 a barrel settling below the 40-week average of \$86 (see charts on page 2, Six-Year Commodity Price Meter and Six-Year and One-Year Natural Gas and Oil Futures). The Contrarian Buys are attractive on a value basis with McDep Ratios at 0.75, 0.71 and 0.60 respectively (see Tables 1-2 on pages 6-7). Income is strong with dividend yields indicated at 6.2%, 4.3% and 5.9% (see Table 3 on page 8). The abrupt change in price trend in currency markets may have contributed to the greater stock price decline for TOT, the only large cap in our coverage headquartered in a country that uses the euro. The currency effect may be temporary as oil price tends to adjust to a global level in real terms. The oil price decline does not cause us much concern as our long-term assumption for calculating McDep Ratios is \$75 a barrel adjusted for inflation. At the same time, we are optimistic that natural gas price may be near an upturn before next winter.

Analyzing each company by business segment, we see TOT most concentrated on oil at 58% (see tables on pages 3-4, Functional Cash Flow and Present Value). STO is the leader in natural gas with concentration of Net Present Value (NPV) at 49%. Traditionally having a high downstream concentration, RDS apparently intends to reduce its 26% concentration further. During the past few weeks it may have been an advantage to have more downstream for a natural hedge on crude oil price.

The main determinants of present value can be captured by initial cash flow and the time it lasts. Along those lines for oil reserves, TOT, RDS and STO have adjusted life indices of 8.5, 6.8 and 4.1. In the same order of reserve life, the three companies have present value multiples of unlevered cash flow (PV/Ebitda) for oil of 6.7, 5.6 and 4.5.

Cash flow margin for upstream production may have stabilized somewhat after fluctuating wildly in the three quarters after the global financial panic in September 2008 (see chart on page 5, Upstream Cash Flow). Behind the fluctuations in downstream cash flow there may be a broad trend that bottomed in late 2009 (see chart on page 5, Downstream Cash Flow).

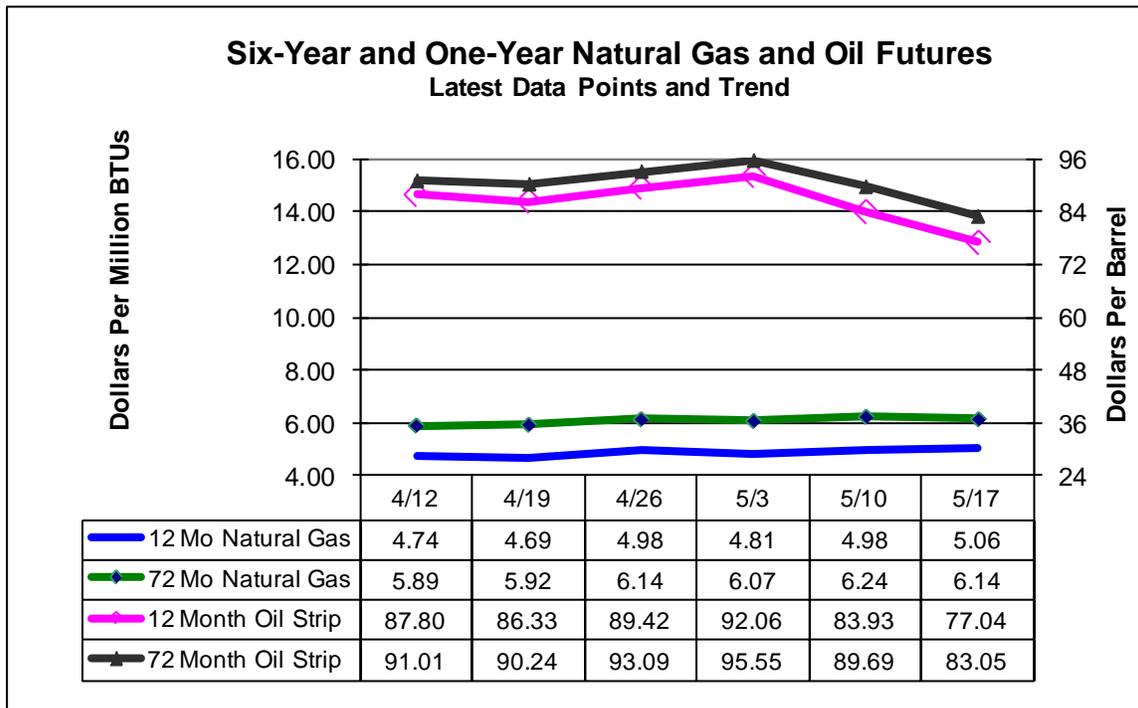
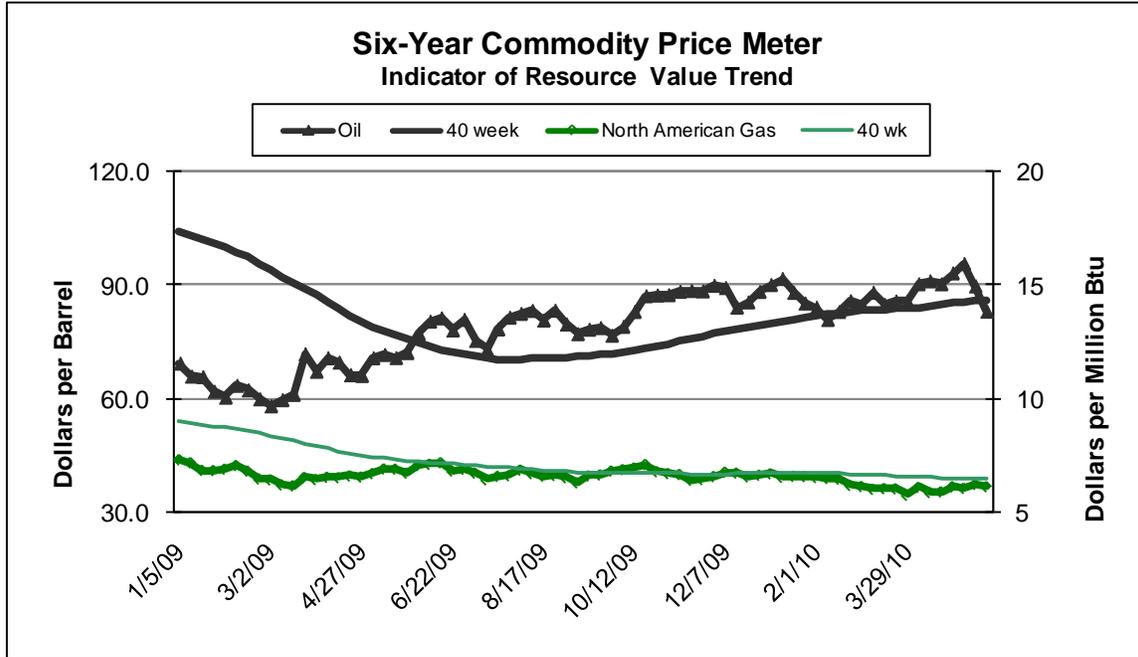
We like systematic accumulation of low McDep Ratio stocks of strongly financed companies with valuable oil and gas resources. McDep Ratios have declined further while investors may be concerned about the debt of lesser European countries among other factors. Meanwhile, Total, Statoil and Royal Dutch Shell are engines of economic growth, which is much of the solution to current problems.

Kurt H. Wulff, CFA



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Royal Dutch Shell plc					
Functional Cash Flow and Present Value					
				<i>Present</i>	
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Value</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>(US\$mm)</i>	
North American Natural Gas	1,130	4.5	8.0	9,000	3%
Rest of World Natural Gas	8,020	11.8	8.9	71,000	23%
Oil	26,030	6.8	5.6	147,000	48%
Downstream	10,500		7.4	78,000	26%
	45,680	8.7	6.7	305,000	100%
Debt (US\$mm)					63,000
Net Present Value (US\$mm)					242,000
Shares (mm)					3,066
Net Present Value - Standard Estimate (US\$/sh)					79
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					78

Statoil ASA					
Functional Cash Flow and Present Value					
				<i>Present</i>	
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Value</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>(US\$mm)</i>	
Natural Gas	7,604	9.9	9.2	70,000	49%
Oil	15,835	4.1	4.5	71,800	51%
	23,439	6.4	6.0	141,800	100%
Debt (US\$mm)					30,400
Net Present Value (US\$mm)					111,400
Shares (mm)					3,183
Net Present Value - Standard Estimate (US\$/sh)					35
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					31



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

May 18, 2010

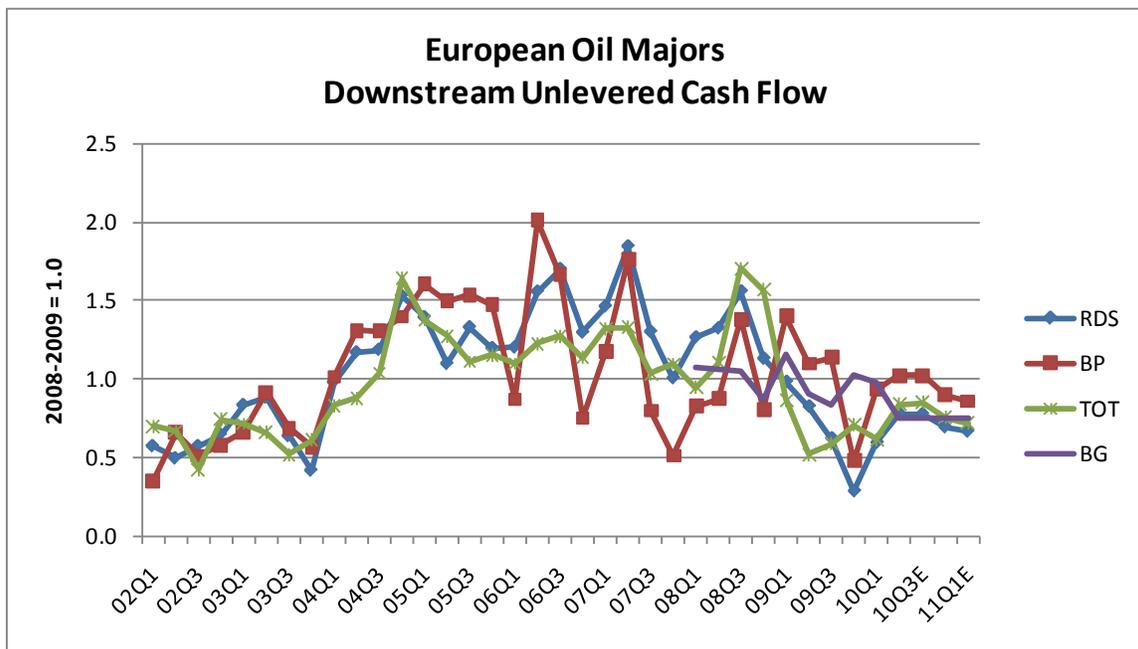
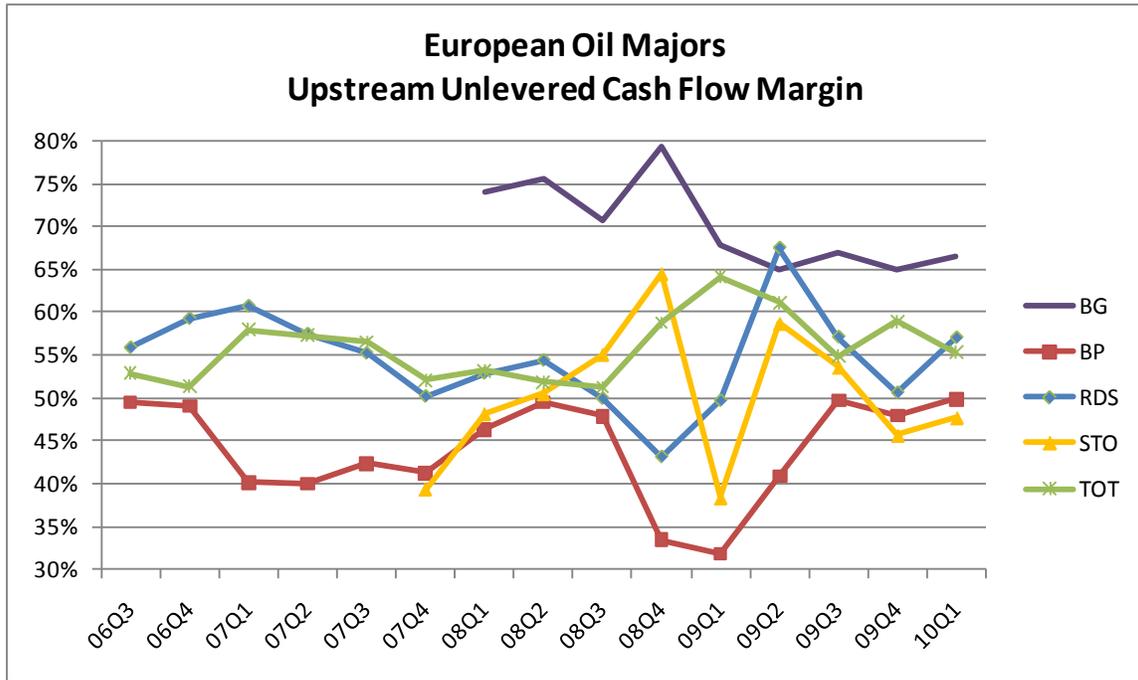
Total					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
Rest of World Natural Gas	5,250	11.5	8.6	45,000	19%
Oil	20,300	8.5	6.7	136,000	58%
Downstream	5,550		9.4	52,000	22%
	31,100	9.6	7.5	233,000	100%
Debt (US\$mm)					31,000
Net Present Value (US\$mm)					202,000
Shares (mm)					2,243
Net Present Value - Standard Estimate (US\$/sh)					90
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					85
Note: Downstream includes about \$5 billion present value for the company's 6% ownership of pharmaceutical company Sanofi-Aventis.					

BP plc					
Functional Cash Flow and Present Value					
	<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	1,440	15.3	13.2	19,000	6%
Rest of World Natural Gas	4,360	9.5	8.7	38,000	12%
Oil	31,960	8.9	6.3	201,000	61%
Downstream	9,300		7.5	70,000	21%
	47,060	9.7	7.0	328,000	100%
Debt (US\$mm)					58,300
Net Present Value (US\$mm)					269,200
Shares (mm)					3,167
Net Present Value - Standard Estimate (US\$/sh)					85
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					88



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks
 May 18, 2010





Meter Reader

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May 18, 2010

Table 2								
McDep Energy Portfolio								
Net Present Value and McDep Ratio								
			Price			Net		
	Symbol/Rating		(US\$/sh)	Shares	Market	Present	Debt/	
	B = Buy, CB (see below)		17-May	(mm)	Cap	Value	Present	McDep
			2010		(US\$mm)	(US\$/sh)	Value	Ratio
U.S. Integrated								
Exxon Mobil Corporation	XOM	CB	63.27	5,215	330,000	89.00	0.12	0.74
Chevron Corporation	CVX	B	77.73	2,004	156,000	110.00	0.11	0.74
ConocoPhillips	COP	B	55.19	1,504	83,000	95.00	0.27	0.69
Marathon Oil Corporation	MRO	B	31.61	711	22,470	53.00	0.23	0.69
<i>Total or Median</i>					591,000		0.18	0.72
Europe								
Royal Dutch Shell plc	RDS-A	CB	54.06	3,066	166,000	79.00	0.21	0.75
BG Group plc	BRGXF		14.85	3,400	50,500	22.00	0.11	0.71
Statoil ASA (33%)	STO	CB	22.08	1,050	23,200	35.00	0.21	0.71
BP plc	BP		46.57	3,167	148,000	85.00	0.18	0.63
Total S.A.	TOT	CB	48.15	2,243	108,000	90.00	0.13	0.60
<i>Total or Median</i>					496,000		0.18	0.71
Australia/Brazil/China/Russia								
CNOOC Limited (34%)	CEO	B	160.98	152	24,500	145.00	0.03	1.11
Woodside Petroleum Ltd.	WOPEY	CB	37.80	794	31,100	44.00	0.13	0.91
PetroChina Company Ltd (14%)	PTR	CB	109.26	256	28,000	150.00	0.15	0.77
Petrobras	PBR		37.05	4,387	162,500	58.00	0.19	0.71
Lukoil Oil Company	LUKOY	CB	51.35	847	43,500	135.00	0.05	0.41
Gazprom (50%)	OGZPY	CB	21.05	2,915	61,400	64.00	0.10	0.40
<i>Total or Median</i>					351,000		0.12	0.74
U.S. Independent								
Southwestern Energy Company	SWN		38.46	349	13,400	32.00	0.09	1.18
EOG Resources	EOG	B	103.23	251	25,900	92.00	0.13	1.11
Anadarko Petroleum Corp.	APC		57.18	496	28,400	64.00	0.31	0.93
Occidental Petroleum Corp.	OXY	B	80.53	814	65,500	95.00	0.06	0.86
Chesapeake Energy Corp.	CHK		22.29	628	14,000	34.00	0.39	0.79
Devon Energy Corporation	DVN	CB	65.37	448	29,300	98.00	0.03	0.68
<i>Total or Median</i>					176,500		0.11	0.89
Canada								
Cenovus Energy Inc.	CVE	B	25.91	752	19,500	27.00	0.26	0.97
Imperial Oil Limited (30%)	IMO	B	39.84	256	10,200	48.00	0.06	0.84
Canadian Natural Resources	CNQ	B	69.13	542	37,500	90.00	0.19	0.81
EnCana Corporation	ECA	B	31.44	749	23,500	42.00	0.22	0.80
Canadian Oil Sands Trust	COSWF	CB	26.72	484	12,900	38.00	0.07	0.72
Suncor Energy	SU	CB	30.21	1,572	47,500	48.00	0.19	0.70
<i>Total or Median</i>					151,000		0.19	0.81
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.								



Meter Reader

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			<i>Price</i> <i>(US\$/sh)</i>	<i>Adjustd</i> <i>Resrvs/</i>	<i>PV/</i>	<i>EV/</i>		<i>Divd or</i> <i>Distrib</i>
	<i>Symbol/Rating</i>		<i>17-May</i>	<i>Prod</i>	<i>Ebitda</i>	<i>Ebitda</i>	<i>P/E</i>	<i>NTM</i>
	<i>B = Buy, CB (see below)</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	CB	63.27	13.5	8.9	6.6	12	2.7
Marathon Oil Corporation	MRO	B	31.61	9.4	7.9	5.5	12	3.2
ConocoPhillips	COP	B	55.19	10.4	7.6	5.3	9	4.0
Chevron Corporation	CVX	B	77.73	9.1	6.8	5.1	10	3.5
<i>Total or Median</i>				9.9	7.7	5.4	11	3.3
Europe								
BG Group plc	BRGXF		14.85	8.3	9.2	6.5	12	0.8
Royal Dutch Shell plc	RDS-A	CB	54.06	8.7	6.7	5.0	8	6.2
Total S.A.	TOT	CB	48.15	9.6	7.5	4.5	8	5.9
BP plc	BP		46.57	9.7	7.0	4.4	7	7.2
Statoil ASA (33%)	STO	CB	22.08	6.4	6.1	4.3	9	4.3
<i>Total or Median</i>				8.7	7.0	4.5	8	5.9
Australia/Brazil/China/Russia								
Woodside Petroleum Ltd.	WOPEY	CB	37.80	17.8	13.1	11.9	20	2.6
Petrobras	PBR		37.05	9.1	9.8	6.9	12	3.6
PetroChina Company Ltd (14%)	PTR	CB	109.26	13.8	7.9	6.1	13	3.7
CNOOC Limited (34%)	CEO	B	160.98	6.8	5.2	5.8	11	3.2
Gazprom (50%)	OGZPY	CB	21.05	24.6	9.9	4.0	5	0.2
Lukoil Oil Company	LUKOY	CB	51.35	15.8	9.0	3.7	7	3.2
<i>Total or Median</i>				14.8	9.4	5.9	11	3.2
U.S. Independent								
Southwestern Energy Company	SWN		38.46	6.7	8.9	10.5	21	-
EOG Resources	EOG	B	103.23	9.8	8.7	9.6	41	0.6
Chesapeake Energy Corp.	CHK		22.29	11.8	11.9	9.4	19	1.3
Occidental Petroleum Corp.	OXY	B	80.53	10.5	7.8	6.7	16	1.7
Anadarko Petroleum Corp.	APC		57.18	8.4	7.0	6.5		0.6
Devon Energy Corporation	DVN	CB	65.37	10.0	8.3	5.6	13	1.0
<i>Total or Median</i>				9.9	8.5	8.0	19	0.8
Canada								
Imperial Oil Limited (30%)	IMO	B	39.84	20.3	11.7	9.9	20	1.0
Canadian Oil Sands Trust	COSWF	CB	26.72	31.4	13.4	9.7	16	7.2
Canadian Natural Resources	CNQ	B	69.13	15.6	11.6	9.4	15	0.8
EnCana Corporation	ECA	B	31.44	7.7	11.1	8.9	28	2.5
Suncor Energy	SU	CB	30.21	16.9	11.7	8.2	20	1.3
Cenovus Energy Inc.	CVE	B	25.91	9.4	8.3	8.1	14	3.1
<i>Total or Median</i>				16.3	11.6	9.1	18	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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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.