



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

June 8, 2010

U.S. Independent Producers Unlocking Resources

Summary and Recommendation

Buy recommendations **Occidental Petroleum (OXY)**, **Devon Energy (DVN)** and **EOG Resources (EOG)** along with other covered independents **Southwestern Energy (SWN)**, **Chesapeake Energy (CHK)** and **Anadarko Petroleum (APC)** have sturdy resource potential enhanced by the technology of horizontal multistage fracturing. DVN appears most undervalued at a McDep Ratio of 0.65 and it is nearly debt-free (see Tables 1-2 on pages 2-3). It also trades at the lowest cash flow multiple (EV/Ebitda) despite a competitive reserve life (see Table 3 on page 4). Only EOG stock is in an uptrend currently as compared to its 200-day average. Like the stock market as a whole, long-term oil and gas prices are also in a downtrend, at least for now. Oil price measured by six-year futures at \$83 a barrel is close to the 40-week average of \$86. Natural gas price measured by six-year futures at \$6.01 a million btu is close to the 40-week average of \$6.40 (see charts on page 5, Six-Year Commodity Price Meter and Six-Year and One-Year Natural Gas and Oil Futures). We believe the long-term trends are up for patient investors.

Continually refining our estimates of Net Present Value (NPV), we reaffirm \$95; \$98 and \$92 a share for OXY, DVN and EOG respectively (see tables on pages 6-7, Functional Cash Flow and Present Value). Today, we raise NPV for SWN to \$35 a share from \$32 and we lower NPV for CHK to \$31 from \$34 to increase comparability with our estimates for peers.

There was scope to raise NPV for Anadarko before the Gulf of Mexico oil spill where APC is a 25% participant in the well. Cleanup costs will undoubtedly eat into the NPV cushion. There remains ample value to justify holding the stock subject to a high debt ratio that could be problematic in the worst case.

OXY, the largest land holder in California, may increase its volume in that state by 45% to more than 200 thousand barrels equivalent daily (mboed) in the next four years. Unlocking large undiscovered resources may add more volumes as management discussed on May 19.

EOG, with current total production of 360 mboed, expects added production of 180 mboed from the Eagle Ford shale in Texas in the next six years. To help pay the cost of oil expansion and to keep debt low, EOG expects to sell natural gas properties.

Property sales can be confusing for awhile in analyzing the current outlook. That may be happening at Devon. The company has closed its advantageously timed sale of deep water oil leases in the Gulf of Mexico. Proceeds from international sales are expected in the second half of 2010.

Kurt H. Wulff, CFA



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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)		7-Jun	(mm)	Cap	Value	Present	McDep
			2010		(US\$mm)	(US\$/sh)	Value	Ratio
U.S. Integrated								
Exxon Mobil Corporation	XOM	CB	59.30	5,215	309,000	89.00	0.12	0.71
Chevron Corporation	CVX	CB	71.35	2,004	143,000	110.00	0.11	0.69
Marathon Oil Corporation	MRO	CB	31.04	711	22,070	53.00	0.23	0.68
ConocoPhillips	COP	CB	49.59	1,504	75,000	95.00	0.27	0.65
<i>Total or Median</i>					549,000		0.18	0.69
Europe								
Royal Dutch Shell plc	RDS-A	CB	51.19	3,066	157,000	79.00	0.21	0.72
BG Group plc	BRGXF		15.01	3,400	51,000	22.00	0.11	0.72
Statoil ASA (33%)	STO	CB	19.64	1,050	20,600	35.00	0.20	0.65
Total S.A.	TOT	CB	44.93	2,243	101,000	90.00	0.13	0.56
BP plc	BP		36.76	3,167	116,000	85.00	0.18	0.53
<i>Total or Median</i>					446,000		0.18	0.65
Australia/Brazil/China/Russia								
CNOOC Limited (34%)	CEO		152.39	152	23,200	145.00	0.03	1.05
Woodside Petroleum Ltd.	WOPEY	CB	34.79	795	28,000	44.00	0.12	0.83
PetroChina Company Ltd (14%)	PTR	CB	104.07	256	26,700	150.00	0.15	0.74
Petrobras	PBR		36.10	4,387	158,400	58.00	0.20	0.70
Lukoil Oil Company	LUKOY	CB	50.20	847	42,500	135.00	0.05	0.40
Gazprom (50%)	OGZPY	CB	19.95	2,915	58,200	64.00	0.10	0.38
<i>Total or Median</i>					337,000		0.11	0.72
U.S. Independent								
Southwestern Energy Company	SWN		41.85	349	14,600	35.00	0.09	1.18
EOG Resources	EOG	B	101.14	250	25,300	92.00	0.13	1.09
Chesapeake Energy Corp.	CHK		23.95	647	15,500	31.00	0.40	0.86
Occidental Petroleum Corp.	OXY	CB	78.74	814	64,100	95.00	0.06	0.84
Anadarko Petroleum Corp.	APC		44.82	496	22,200	64.00	0.31	0.79
Devon Energy Corporation	DVN	CB	63.01	448	28,200	98.00	0.03	0.65
<i>Total or Median</i>					169,900		0.11	0.85
Canada								
EnCana Corporation	ECA	B	32.81	749	24,600	42.00	0.22	0.83
Imperial Oil Limited (30%)	IMO	CB	37.54	256	9,600	48.00	0.08	0.80
Canadian Natural Resources	CNQ	CB	33.78	1,086	36,700	45.00	0.18	0.80
Cenovus Energy Inc.	CVE	B	26.25	752	19,700	37.00	0.19	0.77
Suncor Energy	SU	CB	30.01	1,572	47,200	48.00	0.19	0.70
Canadian Oil Sands Trust	COSWF	CB	25.59	484	12,400	38.00	0.07	0.70
<i>Total or Median</i>					150,000		0.18	0.78

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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			<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>7-Jun</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	59.30	13.5	8.8	6.2	11	2.8
Marathon Oil Corporation	MRO	CB	31.04	9.1	7.8	5.3	12	2.4
ConocoPhillips	COP	CB	49.59	10.5	7.6	4.9	8	3.3
Chevron Corporation	CVX	CB	71.35	9.1	6.9	4.7	10	3.8
	<i>Total or Median</i>			<i>9.8</i>	<i>7.7</i>	<i>5.1</i>	<i>10</i>	<i>3.1</i>
Europe								
BG Group plc	BRGXF		15.01	13.4	8.8	6.3	11	0.8
Royal Dutch Shell plc	RDS-A	CB	51.19	8.7	6.6	4.7	8	6.6
Total S.A.	TOT	CB	44.93	9.6	7.6	4.3	7	6.0
Statoil ASA (33%)	STO	CB	19.64	6.4	6.0	3.9	8	4.6
BP plc	BP		36.76	9.7	7.0	3.7	6	9.1
	<i>Total or Median</i>			<i>9.6</i>	<i>7.0</i>	<i>4.3</i>	<i>8</i>	<i>6.0</i>
Australia/Brazil/China/Russia								
Woodside Petroleum Ltd.	WOPEY	CB	34.79	17.8	14.2	11.7	20	2.6
Petrobras	PBR		36.10	9.1	9.3	6.5	10	3.7
PetroChina Company Ltd (14%)	PTR	CB	104.07	13.8	8.3	6.2	14	3.8
CNOOC Limited (34%)	CEO		152.39	6.8	5.3	5.6	11	3.4
Gazprom (50%)	OGZPY	CB	19.95	30.2	10.0	3.8	5	0.2
Lukoil Oil Company	LUKOY	CB	50.20	15.7	8.3	3.3	6	3.3
	<i>Total or Median</i>			<i>14.7</i>	<i>8.8</i>	<i>5.9</i>	<i>10</i>	<i>3.3</i>
U.S. Independent								
Southwestern Energy Company	SWN		41.85	6.5	8.2	9.7	19	-
Chesapeake Energy Corp.	CHK		23.95	12.0	10.4	9.0	13	1.3
EOG Resources	EOG	B	101.14	9.7	8.1	8.8	34	0.6
Occidental Petroleum Corp.	OXY	CB	78.74	10.5	7.8	6.6	15	1.3
Anadarko Petroleum Corp.	APC		44.82	8.4	6.8	5.4		0.8
Devon Energy Corporation	DVN	CB	63.01	10.0	7.9	5.2	12	1.0
	<i>Total or Median</i>			<i>9.8</i>	<i>8.0</i>	<i>7.7</i>	<i>15</i>	<i>0.9</i>
Canada								
Imperial Oil Limited (30%)	IMO	CB	37.54	20.2	11.9	9.5	18	1.0
Canadian Natural Resources	CNQ	CB	33.78	20.2	11.8	9.4	33	0.8
Canadian Oil Sands Trust	COSWF	CB	25.59	31.0	13.2	9.2	16	7.4
EnCana Corporation	ECA	B	32.81	17.0	10.1	8.4	25	2.4
Suncor Energy	SU	CB	30.01	25.3	11.8	8.2	19	1.3
Cenovus Energy Inc.	CVE	B	26.25	19.5	10.4	8.0	17	2.9
	<i>Total or Median</i>			<i>20.2</i>	<i>11.8</i>	<i>8.8</i>	<i>19</i>	<i>1.8</i>

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 June 30, 2011; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

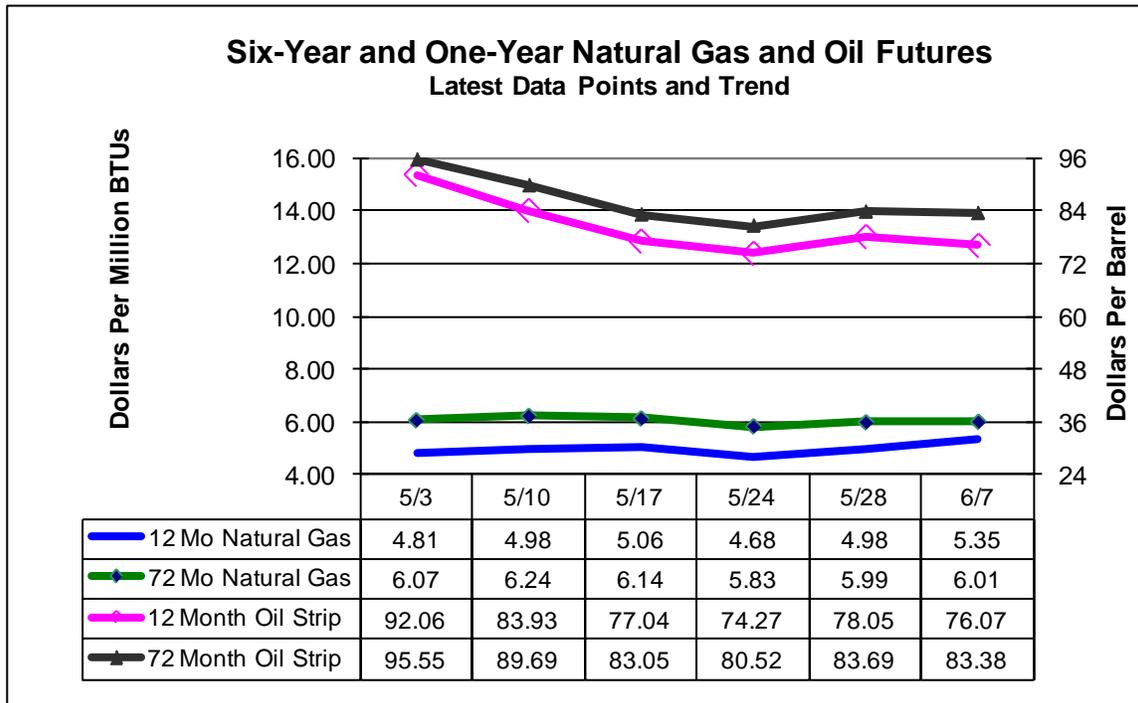
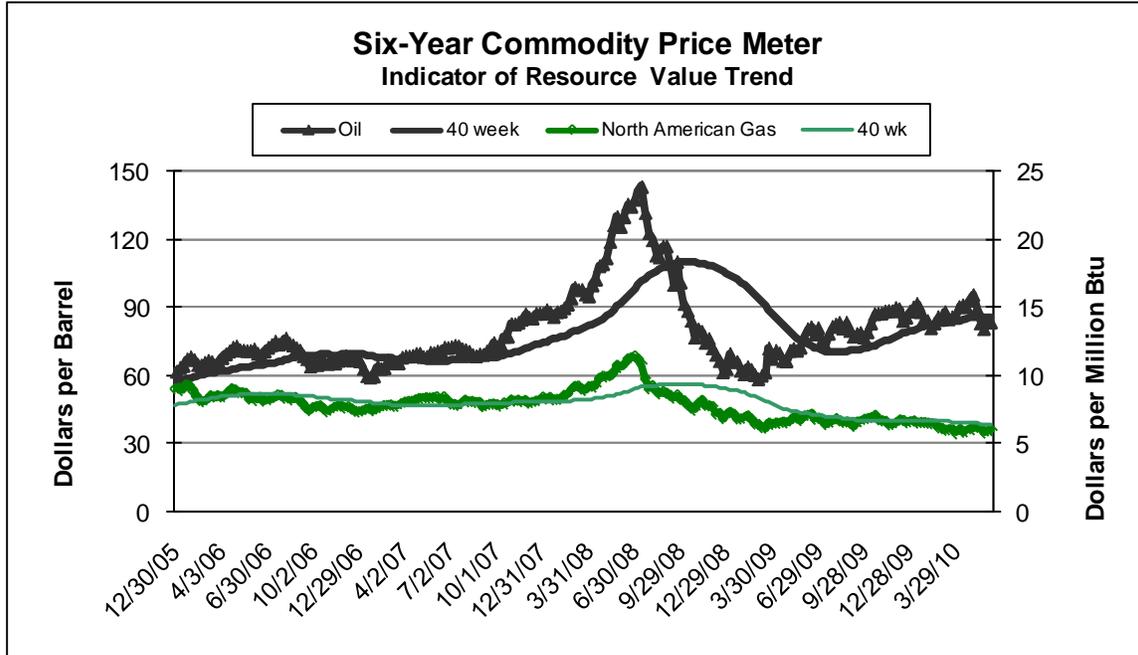
Please see disclosures on the final page.



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Occidental Petroleum Corporation					
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>	
U.S. Natural Gas	767	9.6	10.4	8,000	10%
Rest of World Natural Gas	119	11.9	8.4	1,000	1%
Oil	9,031	10.5	7.4	67,100	82%
Downstream	582		10.3	6,000	7%
	10,499	10.5	7.8	82,100	100%
Debt (US\$mm)					4,800
Net Present Value (US\$mm)					77,300
Shares (mm)					814
Net Present Value - Standard Estimate (US\$/sh)					95
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					94

Devon Energy					
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	3,010	9.3	8.6	26,000	57%
Oil	2,700	11.4	7.1	19,300	43%
	5,710	10.0	7.9	45,300	100%
Debt (US\$mm)					1,400
Net Present Value (US\$mm)					43,900
Shares (mm)					448
Net Present Value - Standard Estimate (US\$/sh)					98
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					110

EOG Resources Inc.					
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	1,410	12.5	11.3	16,000	60%
Rest of World Natural Gas	220	6.0	6.8	1,500	6%
Oil	1,670	6.2	5.4	9,000	34%
	3,300	9.7	8.0	26,500	100%
Debt (US\$mm)					3,500
Net Present Value (US\$mm)					23,000
Shares (mm)					250
Net Present Value - Standard Estimate (US\$/sh)					92
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					93



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Southwestern Energy Company					
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	1,637	6.5	8.2	13,400	100%
Debt (US\$mm)					1,200
Net Present Value (US\$mm)					12,200
Shares (mm)					349
Net Present Value - Standard Estimate (US\$/sh)					35
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					35

Chesapeake Energy Corporation					
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	2,610	12.6	11.5	29,900	89%
Oil	610	6.4	5.9	3,600	11%
	3,220	12.0	10.4	33,500	100%
Debt (US\$mm)					13,400
Net Present Value (US\$mm)					20,100
Shares (mm)					647
Net Present Value - Standard Estimate (US\$/sh)					31
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					31

Anadarko Petroleum Corporation					
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	2,480	8.4	8.5	21,000	46%
Oil	4,050	8.5	5.7	23,000	50%
Downstream and Minerals	240		8.3	2,000	4%
	6,770	8.4	6.8	46,000	100%
Debt (US\$mm)					14,300
Net Present Value (US\$mm)					31,700
Shares (mm)					496
Net Present Value - Standard Estimate (US\$/sh)					64
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					74



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Index of Recent Research			
Stock Ideas			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
4-Jun	DMLP, FRHLF, CRT, PBT, SBR		Top Line Cash - Pure Plays in Reawakening Oil and Gas (ISC)
3-Jun	LUKOY	Lukoil Oil Company	Underrated Oil Performer
1-Jun	ECA, COSWF, CNQ, CVE, IMO, SU		Long-Life Resources in Canada (Meter Reader)
28-May	XEC, BIREF, WLL, BRY, RRC, HK, UPL		Shell Shale Gas Deal Boosts Independent Producers (ISCW)
25-May	XOM, BP, TOT		Large Caps Go Contrarian (Meter Reader)
21-May	COSWF, PWE, ERF, PGH, PEYUF		Canadian Income Trusts for Value and Distributions (ISCW)
20-May	CEO	CNOOC Ltd	Remove Buy on Valuation and Trend
18-May	RDSA, STO, TOT		European Oil for Contrarians (Meter Reader)
13-May	BIREF	Birchcliff Energy Ltd.	New Buy for Small Cap Natural Gas Growth
11-May	XOM, CVX, COP, MRO		U.S. Integrated Oil in New Trend (Meter Reader)
10-May	* XEC	Cimarex Energy Company	Raise NPV Again on More Production
5-May	* DVN	Devon Energy Corporation	Stock Repurchase Compelling
4-May	* BP	BP p.Lc.	Oil Spill and BP Stock Spill (Meter Reader)
30-Apr	* WLL	Whiting Petroleum Corporation	Raise NPV to \$95 a Share on Onshore Oil Drilling (ISCW)
30-Apr	* PBR, BG, APC and BP		Remove Buys - Accident May Delay Deep Water Oil
23-Apr	* LGCY, LINE	Legacy Reserves L.P., Linn Energy	Oily Cash Payers - Add Legacy, Raise Linn NPV (ISCW)
20-Apr	* SWN	Southwestern Energy	Shale Gas Slowdown (Meter Reader)
2-Apr	* SJT	San Juan Basin Royalty Trust	Low Cost Natural Gas (Income and Small Cap Weekly)
26-Mar	* PTR	PetroChina Company Limited	Gas Growth - Natural Gas and Gasoline
22-Mar	* HGT	Hugoton Royalty Trust	Monthly Volume Distortion
25-Feb	* WOPEY	Woodside Petroleum	Financing in Place for 2010
15-Feb	* EOG	EOG Resources Inc.	Proven Reserves Increase 24%
Meter Reader			
8-Jun			Weekly
1-Jun	ECA, COSWF, CNQ, CVE, IMO, SU		Long-Life Resources in Canada
25-May	XOM, BP, TOT		Large Caps Go Contrarian
18-May	* RDSA, STO, TOT		European Oil for Contrarians
Income and Small Cap Weekly			
4-Jun	DMLP, FRHLF, CRT, PBT, SBR		Top Line Cash Payers - Pure Plays in Reawakening Oil and Gas
28-May	XEC, BIREF, WLL, BRY, RRC, HK and UPL		Shell Shale Gas Deal Boosts Independent Producers
21-May	COSWF, PWE, ERF, PGH and PEYUF		Canadian Income Trusts for Value and Distributions
14-May	* Weekly		Euroworries and the Appeal of Income and Small Cap
Industry Ideas			
30-Apr	* PBR, BG, APC and BP		Remove Buys - Accident May Delay Deep Water Oil
	* 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.