



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

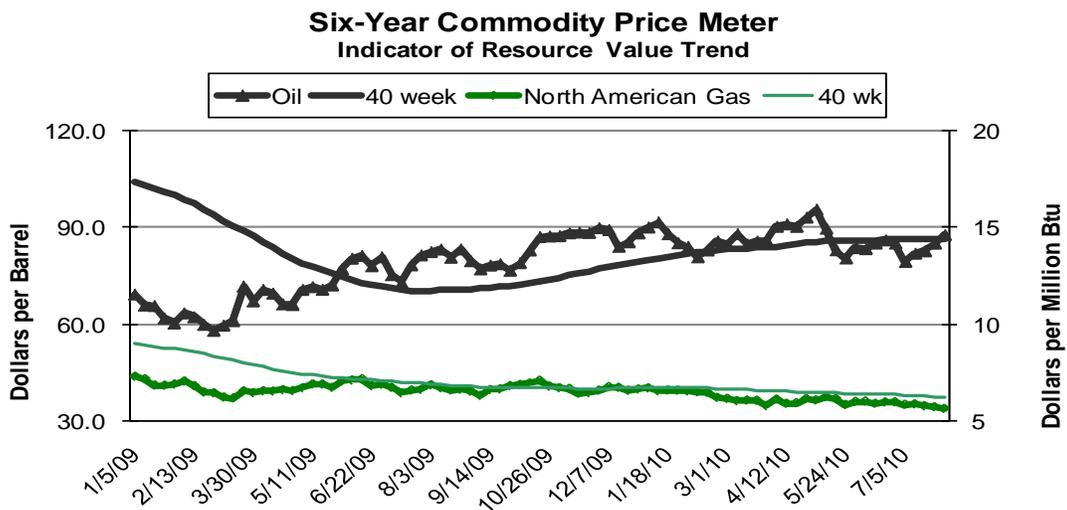
August 3, 2010

Results Reinforce Euro and U.S. Buys

Summary and Recommendation

Second quarter disclosures fortify low McDep Ratios in a tight range of 0.65 to 0.79 for large cap U.S. and Euro oils, including six buy recommendations **Total S.A. (TOT)**, **ConocoPhillips (COP)**, **Statoil ASA (STO)**, **ExxonMobil (XOM)**, **Chevron (CVX)** and **Royal Dutch Shell (RDS)** (see [Tables 1-3](#) on pages 2-4). Low McDep Ratios point to high potential investment returns. Small differences in McDep Ratio offer more latitude to select stocks for strategic balance by oil or natural gas as well as by political or geographic considerations. Latest results showed upstream cash flow (Ebitda) margins tracking toward estimates for the next four quarters (see charts [U.S. Integrated Producers](#) and [European Oil Majors](#) on page 5). Chevron's breakout from the pack prompted us to raise estimated net present value (NPV) for the company (see *Stock Idea, CVX*, 8/2/10). The recovery in downstream refining, marketing and chemicals reached a higher level than we have built into our forward estimates for the volatile, but long-term profitable operations (see chart [Downstream Cash Flow](#) on page 6). Next, comparative multiples of present values to cash flow of each business validate estimates of NPV and McDep Ratio for the buy recommendations plus peers **BP plc (BP)** and **BG Group (BRGXF)** (see tables [Functional Cash Flow and Present Value](#) on pages 6-9). Finally, six-year oil price, the important industry variable, resumed an uptrend with the latest settlement of \$87.70 a barrel above the 40-week average of \$86.50 (see charts [Six-Year Commodity Price Meter](#) below and [Six-Year and One-Year Natural Gas and Oil Futures](#) on last page).

Kurt H. Wulff, CFA





Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

August 3, 2010

Table 2								
McDep Large Cap Energy Portfolio								
Net Present Value and McDep Ratio								
			Price			Net		
			(US\$/sh)		Market	Present	Debt/	
	Symbol/Rating		2-Aug	Shares	Cap	Value	Present	McDep
	B = Buy, CB (see below)		2010	(mm)	(US\$mm)	(US\$/sh)	Value	Ratio
U.S. Integrated								
Exxon Mobil Corporation	XOM	CB	61.83	5,141	318,000	89.00	0.12	0.73
Marathon Oil Corporation	MRO	B	34.19	711	24,310	53.00	0.23	0.73
Chevron Corporation	CVX	B	77.78	2,006	156,000	116.00	0.11	0.71
ConocoPhillips	COP	B	57.53	1,400	81,000	95.00	0.24	0.70
	<i>Total or Median</i>				579,000		0.18	0.72
Europe								
Royal Dutch Shell plc	RDS-A	B	57.98	3,072	178,000	79.00	0.20	0.79
BG Group plc	BRGXF		16.60	3,400	56,400	22.00	0.12	0.78
Statoil ASA (33%)	STO	CB	21.12	1,050	22,200	35.00	0.25	0.70
BP plc	BP		39.28	3,172	125,000	72.00	0.27	0.67
Total S.A.	TOT	CB	52.67	2,243	118,000	90.00	0.15	0.65
	<i>Total or Median</i>				500,000		0.20	0.70
Australia/Brazil/China/Russia								
CNOOC Limited (34%)	CEO		174.17	152	26,500	145.00	0.03	1.20
Woodside Petroleum Ltd.	WOPEY	CB	38.25	763	29,200	44.00	0.14	0.89
PetroChina Company Ltd (14%)	PTR	B	117.63	256	30,100	150.00	0.15	0.82
Petrobras	PBR		37.47	4,387	164,400	58.00	0.20	0.72
Lukoil Oil Company	LUKOY	B	57.65	847	48,800	135.00	0.05	0.45
Gazprom (50%)	OGZPY	CB	22.65	2,915	66,000	64.00	0.11	0.42
	<i>Total or Median</i>				365,000		0.12	0.77
U.S. Independent								
Southwestern Energy Company	SWN		37.14	349	13,000	35.00	0.09	1.06
Anadarko Petroleum Corp.	APC		52.82	496	26,200	54.00	0.35	0.99
EOG Resources	EOG	B	102.42	250	25,600	120.00	0.10	0.87
Occidental Petroleum Corp.	OXY	CB	80.18	814	65,300	95.00	0.06	0.85
Chesapeake Energy Corp.	CHK		21.79	647	14,100	31.00	0.40	0.82
Devon Energy Corporation	DVN	CB	64.32	448	28,800	98.00	0.03	0.67
	<i>Total or Median</i>				173,000		0.10	0.86
Canada								
Imperial Oil Limited (30%)	IMO	B	40.12	256	10,300	48.00	0.08	0.85
Canadian Natural Resources	CNQ	B	35.30	1,086	38,300	45.00	0.18	0.82
Cenovus Energy Inc.	CVE	B	28.80	752	21,700	37.00	0.20	0.82
EnCana Corporation	ECA	CB	31.40	738	23,200	42.00	0.22	0.80
Suncor Energy	SU	B	34.01	1,572	53,500	48.00	0.19	0.76
Canadian Oil Sands Trust	COSWF	CB	26.81	484	13,000	38.00	0.07	0.73
	<i>Total or Median</i>				160,000		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

A Weekly Analysis of Large Cap Oil and Gas Stocks

August 3, 2010

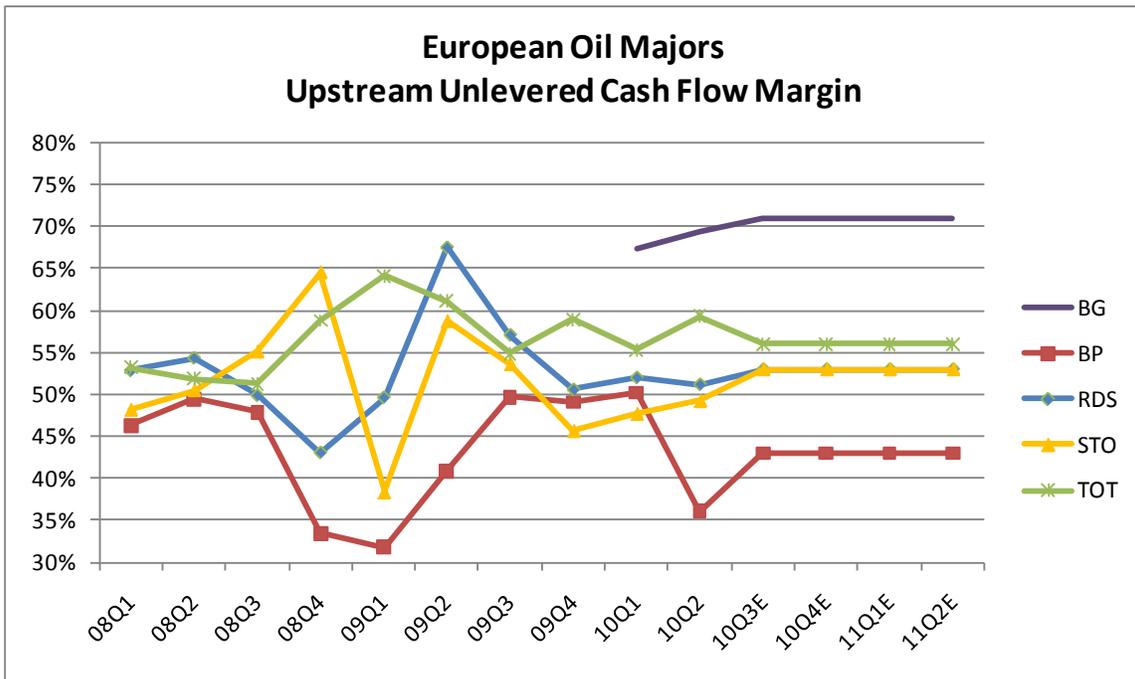
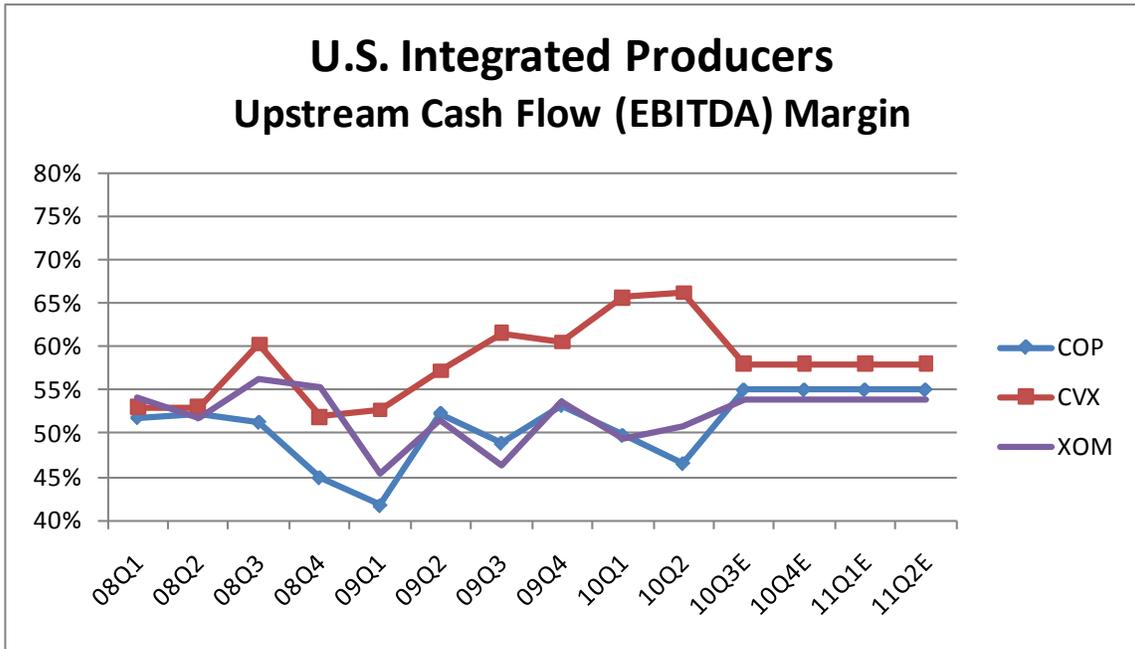
Table 3								
McDep Large Cap Energy Portfolio								
Value Multiples and Distribution Yield								
			Price (US\$/sh)	Adjustd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	P/E	Divd or Distrib NTM
	Symbol/Rating		2-Aug 2010	NTM	NTM	NTM	NTM	(%)
B = Buy, CB (see below)								
U.S. Integrated								
Exxon Mobil Corporation	XOM	CB	61.83	13.2	8.1	5.9	11	2.8
ConocoPhillips	COP	B	57.53	10.2	7.9	5.5	12	3.8
Marathon Oil Corporation	MRO	B	34.19	9.1	7.5	5.5	12	2.2
Chevron Corporation	CVX	B	77.78	9.1	6.6	4.7	9	3.7
<i>Total or Median</i>				9.7	7.7	5.5	11	3.3
Europe								
BG Group plc	BRGXF		16.60	14.5	8.6	6.7	12	1.2
Royal Dutch Shell plc	RDS-A	B	57.98	8.8	6.7	5.3	10	5.8
BP plc	BP		39.28	10.0	7.6	5.1	7	-
Total S.A.	TOT	CB	52.67	9.7	7.4	4.8	9	5.7
Statoil ASA (33%)	STO	CB	21.12	6.4	6.0	4.2	8	4.8
<i>Total or Median</i>				9.7	7.4	5.1	9	4.8
Australia/Brazil/China/Russia								
Woodside Petroleum Ltd.	WOPEY	CB	38.25	20.0	12.5	11.1	21	2.6
PetroChina Company Ltd (14%)	PTR	B	117.63	13.8	8.0	6.5	15	3.4
Petrobras	PBR		37.47	9.1	8.9	6.4	10	3.6
CNOOC Limited (34%)	CEO		174.17	6.8	5.0	6.0	11	3.0
Gazprom (50%)	OGZPY	CB	22.65	30.2	9.5	4.0	5	0.2
Lukoil Oil Company	LUKOY	B	57.65	15.7	8.0	3.7	7	3.0
<i>Total or Median</i>				14.7	8.5	6.2	10	3.0
U.S. Independent								
Southwestern Energy Company	SWN		37.14	6.5	8.9	9.4	19	-
Chesapeake Energy Corp.	CHK		21.79	12.0	10.9	8.9	13	1.4
EOG Resources	EOG	B	102.42	9.7	10.3	8.9	34	0.6
Occidental Petroleum Corp.	OXY	CB	80.18	10.5	7.5	6.4	14	1.9
Anadarko Petroleum Corp.	APC		52.82	8.4	6.0	5.9		0.7
Devon Energy Corporation	DVN	CB	64.32	10.0	8.0	5.3	12	1.0
<i>Total or Median</i>				9.8	8.4	7.7	14	0.8
Canada								
Imperial Oil Limited (30%)	IMO	B	40.12	20.4	11.6	9.8	19	1.0
Canadian Natural Resources	CNQ	B	35.30	20.2	11.5	9.5	34	0.8
Canadian Oil Sands Trust	COSWF	CB	26.81	32.1	12.9	9.4	15	7.3
Cenovus Energy Inc.	CVE	B	28.80	19.6	11.4	9.4	22	2.7
Suncor Energy	SU	B	34.01	25.3	11.0	8.4	25	1.1
EnCana Corporation	ECA	CB	31.40	16.6	10.3	8.3	28	2.5
<i>Total or Median</i>				20.3	11.4	9.4	23	1.8
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								



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

August 3, 2010

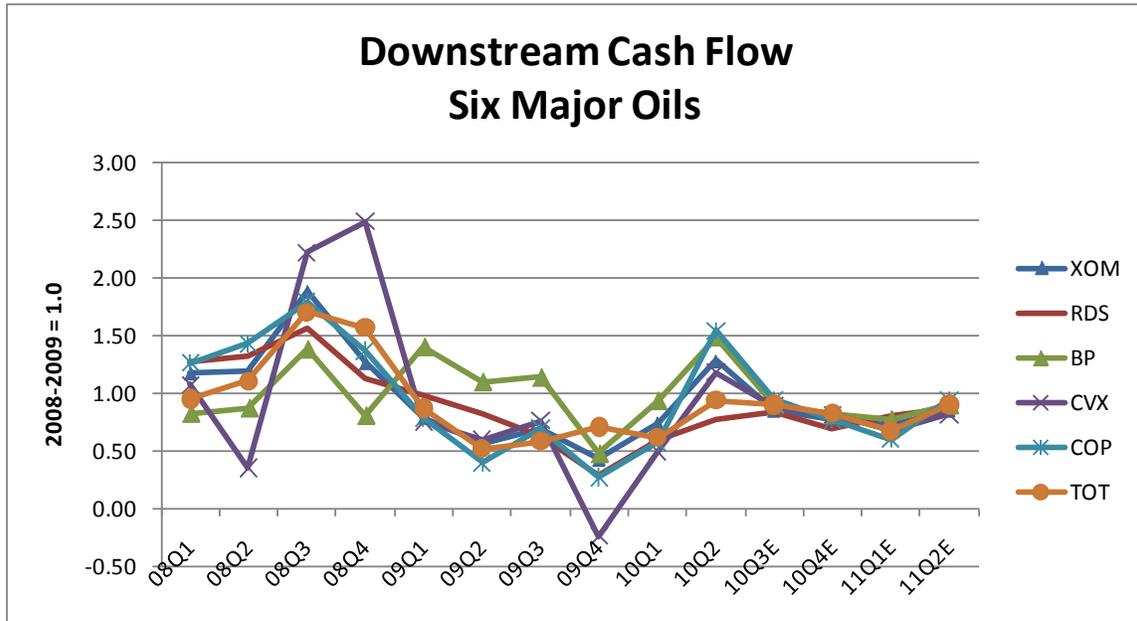




Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

August 3, 2010



Royal Dutch Shell 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	1,170	4.3	6.8	8,000	3%
Rest of World Natural Gas	8,660	11.5	8.4	73,000	24%
Oil	23,780	7.1	6.1	145,000	48%
Downstream	11,500		6.8	78,000	26%
	45,110	8.8	6.7	304,000	100%
Debt (US\$mm)					61,000
Net Present Value (US\$mm)					243,000
Shares (mm)					3,072
Net Present Value - Standard Estimate (US\$/sh)					79
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					83



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

August 3, 2010

Statoil ASA					
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>	
Natural Gas	7,689	9.6	7.8	60,000	40%
Oil	17,149	4.3	5.2	89,200	60%
	24,838	6.4	6.0	149,200	100%
Debt (US\$mm)					37,800
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)					36

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	5,360	11.0	8.4	45,000	19%
Oil	20,940	8.7	6.8	142,000	59%
Downstream	5,800		9.0	52,000	22%
	32,100	9.7	7.4	239,000	100%
Debt (US\$mm)					37,000
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)					87
Note: Downstream includes about \$5 billion present value for the company's 6% ownership of pharmaceutical company Sanofi-Aventis.					



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

August 3, 2010

Chevron 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	1,340	5.2	7.5	10,000	4%
Rest of World Natural Gas	3,440	12.9	8.4	29,000	11%
Oil	30,090	8.4	6.3	189,000	72%
Downstream	4,700		7.2	34,000	13%
	39,570	9.1	6.6	262,000	100%
Debt (US\$mm)					29,000
Net Present Value (US\$mm)					233,000
Shares (mm)					2,006
Net Present Value - Standard Estimate (US\$/sh)					116
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					122

ConocoPhillips					
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	2,670	9.9	10.5	28,000	16%
Rest of World Natural Gas	2,060	10.8	8.3	17,000	10%
Oil	13,750	10.2	7.5	103,000	59%
Downstream	3,800		7.4	28,000	16%
	22,280	10.2	7.9	176,000	100%
Debt (US\$mm)					43,000
Net Present Value (US\$mm)					133,000
Shares (mm)					1,400
Net Present Value - Standard Estimate (US\$/sh)					95
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					92



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

August 3, 2010

Exxon Mobil Corporation					
Functional Cash Flow and Present Value					
	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>Ebitda</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
North American Natural Gas	4,250	11.6	12.2	52,000	10%
Rest of World Natural Gas	10,860	15.9	9.2	100,000	19%
Oil	36,910	11.0	7.5	278,000	53%
Downstream	12,000		7.5	90,000	17%
	64,020	13.2	8.1	520,000	100%
Debt					62,000
Net Present Value (\$mm)					458,000
Shares					5,141
Net Present Value - Standard Estimate (US\$/sh)					89
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					88

BG Group 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>	
Rest of World Natural Gas	3,030	12.1	8.3	25,000	29%
Oil	3,310	20.7	10.0	33,000	39%
Downstream	3,560		7.6	27,000	32%
	9,900	14.5	8.6	85,000	100%
Debt (US\$mm)					10,000
Net Present Value (US\$mm)					75,000
Shares (mm)					3,400
Net Present Value - Standard Estimate (US\$/sh)					22
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					23

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	1,240	15.2	14.5	18,000	6%
Rest of World Natural Gas	3,840	9.5	8.3	32,000	10%
Oil	28,230	9.4	7.2	204,000	63%
Downstream	8,300		8.4	70,000	22%
Unrecognized Oil Spill Liability				(9,000)	-3%
	41,610	10.0	7.6	315,000	97%
Debt (US\$mm)					86,500
Net Present Value (US\$mm)					228,400
Shares (mm)					3,172
Net Present Value - Standard Estimate (US\$/sh)					72
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					66



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

August 3, 2010

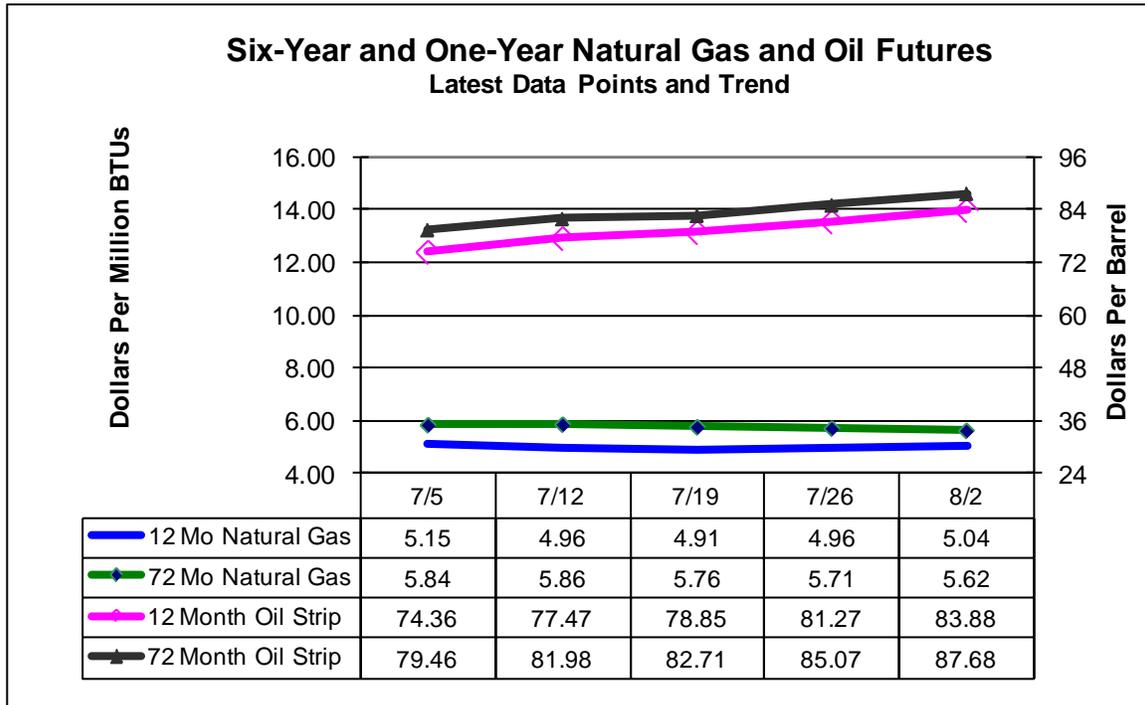
Index of Recent Research			
Stock Ideas			
<i>Date</i>	<i>Symbol</i>	<i>Subject</i>	<i>Theme</i>
30-Jul	COSWF	Canadian Oil Sands Trust	Distribution Yield of 7% with Long Life and Oil Upside (ISCW)
29-Jul	XOM	ExxonMobil	Downstream Profits Restored
28-Jul	COP	ConocoPhillips	From Russia to Australia
21-Jul	ECA	Encana	Aggressive Growth at Lower Cost
20-Jul	XOM	ExxonMobil	Stock Turning Up (Meter Reader)
16-Jul	SJT	San Juan Basin Royalty Trust	Raise NPV to \$25 from \$23 (Income and Small Cap Weekly)
9-Jul	* HK	Petrohawk	Early in Haynesville (Income and Small Cap Weekly)
7-Jul	* EOG	EOG Resources	Raise NPV to \$120 from \$92 a Share (Meter Reader)
1-Jul	* RRC	Range Resources	First in Marcellus (Income and Small Cap Weekly)
29-Jun	* WOPEY, PTR, LUKOY, OGZPY, PBR, CNOOC		Value in Developing Country Growth (Meter Reader)
25-Jun	* DNR	Denbury Resources	Small Cap Oil Growth (Income and Small Cap Weekly)
22-Jun	* CVE	Cenovus Energy	Quintuple in Deep Oil Sands (Meter Reader)
18-Jun	* BIREF, FRHLF, PWE, COSWF		Montney Buzz from Calgary (Income and Small Cap Weekly)
15-Jun	* XOM, COP, OXY, CVE, BP, APC		Onshore On, Offshore Off (Meter Reader)
11-Jun	* HGT, SJT, MTR, LGCY, LINE, ENP		Bright Outlook for Pure Play Oil and Gas (ISCW)
8-Jun	* OXY, DVN, EOG, SWN, CHK, APC		U.S. Independent Producers Unlocking Resources (MReader)
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
13-May	* BIREF	Birchcliff Energy Ltd.	New Buy for Small Cap Natural Gas Growth
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.l.c.	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)
Meter Reader			
3-Aug		Weekly	
27-Jul	WOPEY	Woodside Petroleum	Double WOPEY LNG in 2011
20-Jul	XOM	ExxonMobil	Stock Turning Up
13-Jul	*	Weekly	Abundant Value
Income and Small Cap Weekly			
30-Jul	COSWF	Canadian Oil Sands Trust	Distribution Yield of 7% with Long Life and Oil Price Upside
23-Jul	HGT	Hugoton Royalty Trust	Pays 8% with Natural Gas Upside
16-Jul	SJT	San Juan Basin Royalty Trust	Raise NPV to \$25 from \$23
9-Jul	* HK	Petrohawk	Early in Haynesville
Industry Ideas			
30-Apr	* PBR, BG, APC and BP		Remove Buys - Accident May Delay Deep Water Oil
			* Archived on www.mcdep.com



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

August 3, 2010



Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

Certification: I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

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.