



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

August 10, 2010

Buy DVN, EOG and OXY among Large Cap U.S. Producers

Summary and Recommendation

Looking for growth in oil price and seeing value in natural gas price we recommend current purchase of pure plays **Devon Energy (DVN)**, **EOG Resources (EOG)** and **Occidental Petroleum (OXY)** for their low McDep Ratios and low debt. The drive for personal economic freedom and mobility in developing countries stimulates demand for oil that we expect will require a gradually higher price to satisfy. Demand for natural gas is growing faster though it has been slowed by a recession in developed countries where technology has also unlocked abundant new supply. A steep discount in natural gas price compared to oil price presents a “value” opportunity to be rewarded in 2011-2012, we believe. The current price situation is reflected in an uptrend for oil and a downtrend for natural gas compared to 40-week averages of \$86.50 a barrel and \$6.19 a million btu (see charts [Six-Year Commodity Price Meter](#) and [Six-Year and One-Year Natural Gas and Oil Futures](#) on page 2).

DVN has long kept a balance of oil and gas growth to protect against unexpected extremes as we are seeing once again. EOG is becoming oilier as it exploits its North Dakota Bakken Shale and Texas Eagle Ford Shale. OXY is primarily an oil producer and applies new technology to drilling in California and West Texas. The three stocks are priced attractively for new investment at McDep Ratios of 0.69 for DVN, 0.85 for EOG and 0.82 for OXY (see [Tables 1-3](#) on pages 3-5). Low ratios of debt to present value at 0.08, 0.06 and 0.12, respectively, signify financial strength. Cash flow forecasts and present value estimates for each of six companies take account of latest quarterly disclosures and daily commodity price settlements (see tables [Functional Cash Flow and Present Value](#) on pages 6-7). Those estimates are sensitive to cash flow (Ebitda) margin estimated for the next four quarters (see chart [Ebitda Margin](#) on page 9).

Today, we raise estimated Net Present Value (NPV) for **Anadarko Petroleum (APC)** to \$60 a share from \$54 on the basis of strong cash flow. Yet, an estimated \$6 billion oil spill liability raises APC debt to 0.41 times present value ---a manageable level in normal times and a source of vulnerability should the financial environment deteriorate.

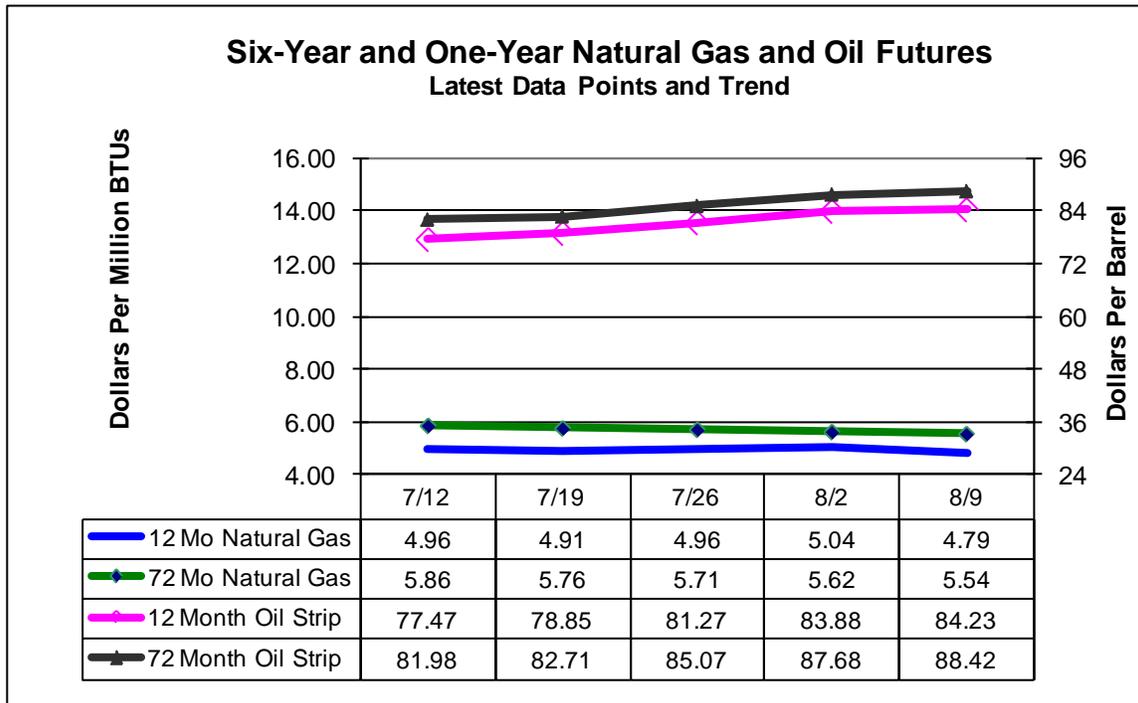
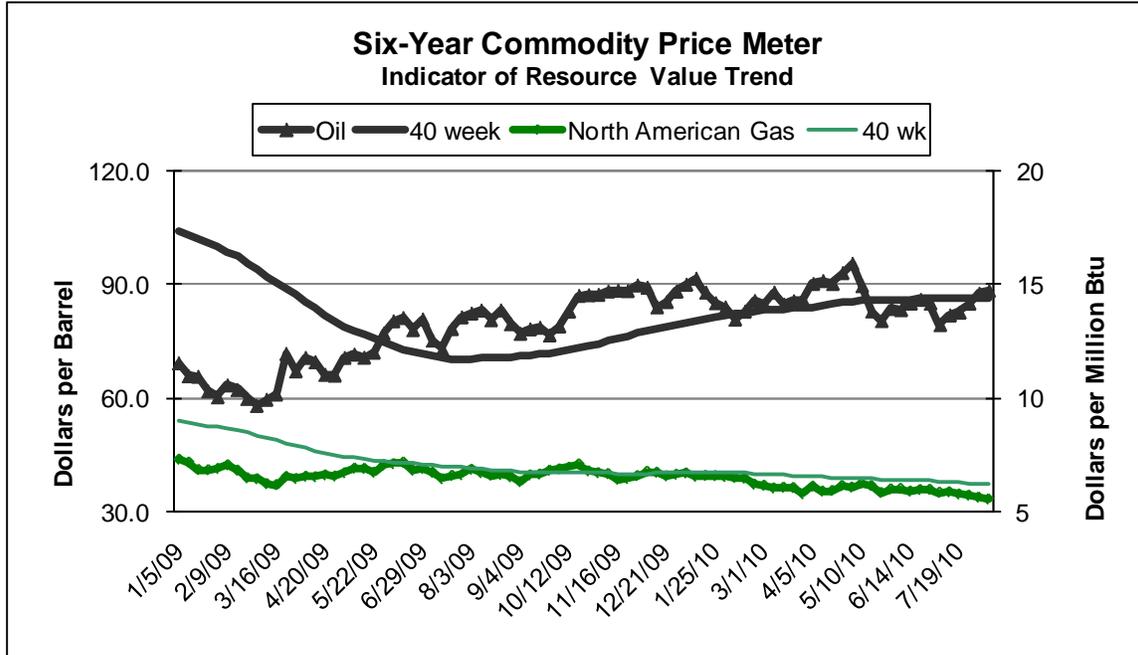
Kurt H. Wulff, CFA



Meter Reader

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Meter Reader

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Table 2								
McDep Large Cap Energy Portfolio								
Net Present Value and McDep Ratio								
			Price			Net		
			(US\$/sh)		Market	Present	Debt/	
	Symbol/Rating		9-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	62.45	5,141	321,000	89.00	0.12	0.74
Marathon Oil Corporation	MRO	B	34.48	712	24,550	53.00	0.23	0.73
Chevron Corporation	CVX	B	79.29	2,006	159,000	116.00	0.10	0.72
ConocoPhillips	COP	B	57.31	1,400	80,000	95.00	0.24	0.70
	<i>Total or Median</i>				585,000		0.18	0.72
Europe								
Royal Dutch Shell plc	RDS-A	B	58.17	3,072	179,000	79.00	0.20	0.79
BG Group plc	BRGXF		16.26	3,400	55,300	22.00	0.12	0.77
Statoil ASA (33%)	STO	CB	21.46	1,050	22,500	35.00	0.25	0.71
BP plc	BP		40.86	3,172	130,000	72.00	0.27	0.69
Total S.A.	TOT	CB	53.93	2,243	121,000	90.00	0.15	0.66
	<i>Total or Median</i>				508,000		0.20	0.71
Australia/Brazil/China/Russia								
CNOOC Limited (34%)	CEO		172.93	152	26,300	145.00	0.03	1.19
Woodside Petroleum Ltd.	WOPEY	CB	38.80	763	29,600	44.00	0.14	0.90
PetroChina Company Ltd (14%)	PTR	CB	116.55	256	29,900	150.00	0.15	0.81
Petrobras	PBR		38.10	4,387	167,100	58.00	0.20	0.72
Lukoil Oil Company	LUKOY	B	57.35	847	48,600	135.00	0.05	0.45
Gazprom (50%)	OGZPY	CB	22.67	2,915	66,100	64.00	0.11	0.42
	<i>Total or Median</i>				368,000		0.12	0.77
U.S. Independent								
Southwestern Energy Company	SWN		37.62	349	13,100	35.00	0.09	1.07
Anadarko Petroleum Corp.	APC		56.35	495	27,900	60.00	0.41	0.96
EOG Resources	EOG	B	99.94	250	25,000	120.00	0.12	0.85
Occidental Petroleum Corp.	OXY	CB	76.95	814	62,600	95.00	0.06	0.82
Chesapeake Energy Corp.	CHK		22.01	635	14,000	31.00	0.39	0.82
Devon Energy Corporation	DVN	CB	65.23	446	29,100	98.00	0.08	0.69
	<i>Total or Median</i>				171,700		0.11	0.84
Canada								
Imperial Oil Limited (30%)	IMO	B	39.04	257	10,000	48.00	0.08	0.83
Canadian Natural Resources	CNQ	B	35.88	1,089	39,100	45.00	0.18	0.83
Cenovus Energy Inc.	CVE	B	27.93	752	21,000	37.00	0.20	0.80
EnCana Corporation	ECA	CB	30.91	738	22,800	42.00	0.22	0.79
Suncor Energy	SU	B	33.39	1,572	52,500	48.00	0.19	0.75
Canadian Oil Sands Trust	COSWF	CB	26.51	484	12,800	38.00	0.07	0.72
	<i>Total or Median</i>				158,000		0.18	0.80
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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August 10, 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		9-Aug 2010	NTM	NTM	NTM	NTM	(%)
B = Buy, CB (see below)								
U.S. Integrated								
Exxon Mobil Corporation	XOM	CB	62.45	13.2	8.1	6.0	11	2.8
ConocoPhillips	COP	B	57.31	10.2	7.8	5.5	11	3.8
Marathon Oil Corporation	MRO	B	34.48	9.1	7.4	5.4	13	2.2
Chevron Corporation	CVX	B	79.29	9.1	6.4	4.6	9	3.6
<i>Total or Median</i>				9.7	7.6	5.4	11	3.2
Europe								
BG Group plc	BRGXF		16.26	14.5	8.6	6.6	12	1.2
Royal Dutch Shell plc	RDS-A	B	58.17	8.8	6.6	5.2	10	5.8
BP plc	BP		40.86	10.0	7.4	5.1	7	-
Total S.A.	TOT	CB	53.93	9.7	7.3	4.8	8	5.6
Statoil ASA (33%)	STO	CB	21.46	6.4	5.9	4.2	8	4.7
<i>Total or Median</i>				9.7	7.3	5.1	8	4.7
Australia/Brazil/China/Russia								
Woodside Petroleum Ltd.	WOPEY	CB	38.80	20.0	12.4	11.1	21	2.6
PetroChina Company Ltd (14%)	PTR	CB	116.55	13.8	7.8	6.3	14	3.5
Petrobras	PBR		38.10	9.1	8.7	6.3	10	3.5
CNOOC Limited (34%)	CEO		172.93	6.8	4.9	5.8	11	3.0
Gazprom (50%)	OGZPY	CB	22.67	30.2	9.5	4.0	5	0.2
Lukoil Oil Company	LUKOY	B	57.35	15.7	7.9	3.6	7	3.0
<i>Total or Median</i>				14.7	8.3	6.1	10	3.0
U.S. Independent								
Southwestern Energy Company	SWN		37.62	6.3	9.7	10.4	22	-
Chesapeake Energy Corp.	CHK		22.01	11.1	10.2	8.4	13	1.4
EOG Resources	EOG	B	99.94	9.1	9.6	8.2	42	0.6
Occidental Petroleum Corp.	OXY	CB	76.95	10.5	7.2	5.9	13	2.0
Anadarko Petroleum Corp.	APC		56.35	8.3	7.3	7.0		0.6
Devon Energy Corporation	DVN	CB	65.23	10.0	8.6	6.0	12	1.0
<i>Total or Median</i>				9.5	9.1	7.6	13	0.8
Canada								
Imperial Oil Limited (30%)	IMO	B	39.04	20.3	10.9	9.1	16	1.1
Canadian Natural Resources	CNQ	B	35.88	19.0	9.6	8.0	22	0.8
Canadian Oil Sands Trust	COSWF	CB	26.51	32.1	12.2	8.7	13	7.3
Cenovus Energy Inc.	CVE	B	27.93	19.6	11.3	9.1	21	2.8
Suncor Energy	SU	B	33.39	25.3	10.8	8.1	23	1.2
EnCana Corporation	ECA	CB	30.91	16.6	10.7	8.5	30	2.6
<i>Total or Median</i>				20.0	10.9	8.6	22	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 June 30, 2011; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



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Anadarko 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>	
North American Natural Gas	2,430	8.0	9.1	22,000	44%
Oil	4,210	8.6	6.2	26,300	52%
Downstream and Minerals	240		8.3	2,000	4%
	6,880	8.3	7.3	50,300	100%
Debt (US\$mm)					20,600
Net Present Value (US\$mm)					29,700
Shares (mm)					495
Net Present Value - Standard Estimate (US\$/sh)					60
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					65
Note: Debt includes \$6 billion for oil spill liability.					

Chesapeake Energy 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>	
North American Natural Gas	2,490	11.7	11.6	28,900	89%
Oil	680	5.7	5.3	3,600	11%
	3,170	11.1	10.3	32,500	100%
Debt (US\$mm)					12,800
Net Present Value (US\$mm)					19,700
Shares (mm)					635
Net Present Value - Standard Estimate (US\$/sh)					31
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					35

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	2,800	9.2	10.4	29,000	61%
Oil	2,750	11.6	6.8	18,700	39%
	5,550	10.0	8.6	47,700	100%
Debt (US\$mm)					4,000
Net Present Value (US\$mm)					43,700
Shares (mm)					446
Net Present Value - Standard Estimate (US\$/sh)					98
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					103



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

August 10, 2010

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	1,440	11.2	12.5	18,000	53%
Rest of World Natural Gas	180	7.2	8.3	1,500	4%
Oil	1,980	5.7	7.4	14,700	43%
	3,600	9.1	9.5	34,200	100%
Debt (US\$mm)					4,200
Net Present Value (US\$mm)					30,000
Shares (mm)					250
Net Present Value - Standard Estimate (US\$/sh)					120
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					102

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	748	9.5	10.7	8,000	10%
Rest of World Natural Gas	127	11.8	7.8	1,000	1%
Oil	9,804	10.6	6.8	66,800	82%
Downstream	640		9.4	6,000	7%
	11,320	10.5	7.2	81,800	100%
Debt (US\$mm)					4,500
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)					97

Southwestern Energy Company					
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	1,380	6.3	9.7	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)					30



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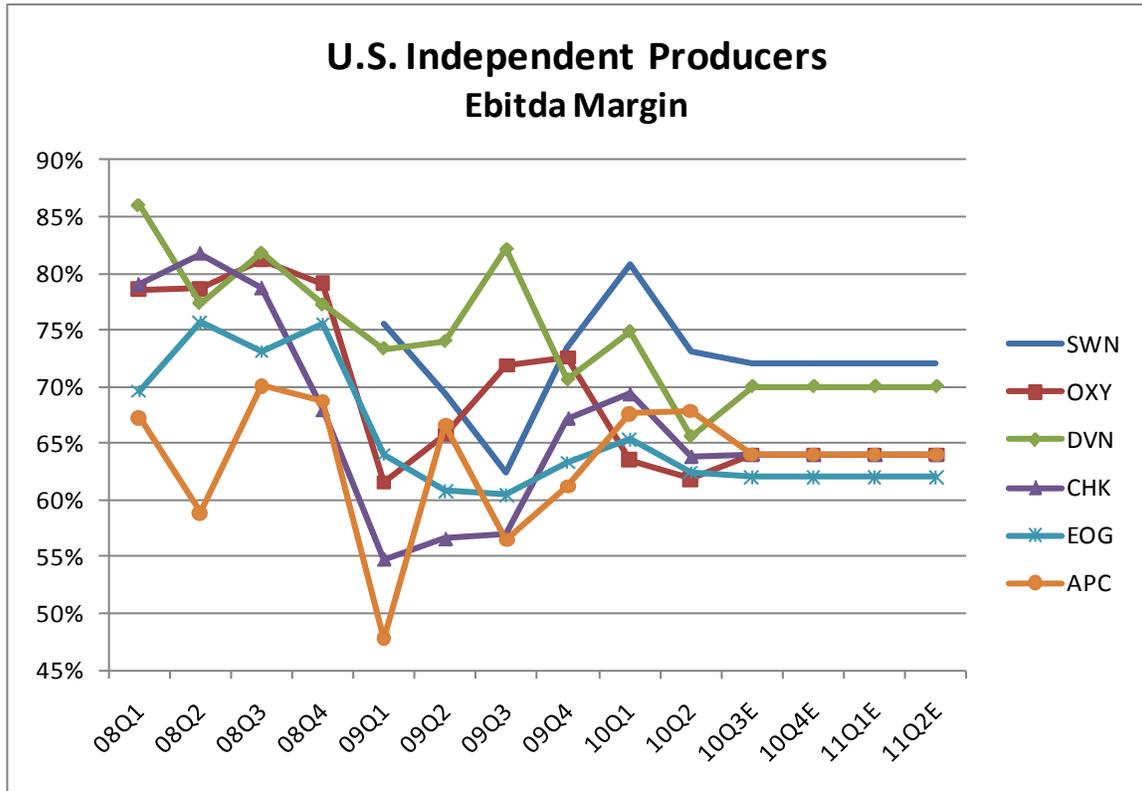
Index of Recent Research			
Stock Ideas			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
6-Aug	DMLP	Dorchester Minerals	Free Ride on Bakken and Fayetteville Shale (ISCW)
5-Aug	XEC	Cimarex Energy Company	Raise NPV to \$80 from \$75
5-Aug	DVN	Devon Energy Corporation	Onshore North American Value
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
27-Jul	WOPEY	Woodside Petroleum	Double WOPEY LNG in 2011 (Meter Reader)
23-Jul	HGT	Hugoton Royalty Trust	Pays 8% with Natural Gas Upside (ISCW)
21-Jul	ECA	Encana	Aggressive Growth at Lower Cost
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
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			
10-Aug		Weekly	
3-Aug		Weekly	Results Reinforce Euro and U.S. Buys
27-Jul	WOPEY	Woodside Petroleum	Double WOPEY LNG in 2011
20-Jul	* XOM	ExxonMobil	Stock Turning Up
Income and Small Cap Weekly			
6-Aug	DMLP	Dorchester Minerals	Free Ride on Bakken and Fayetteville Shale
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
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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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.

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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.