



# Meter Reader

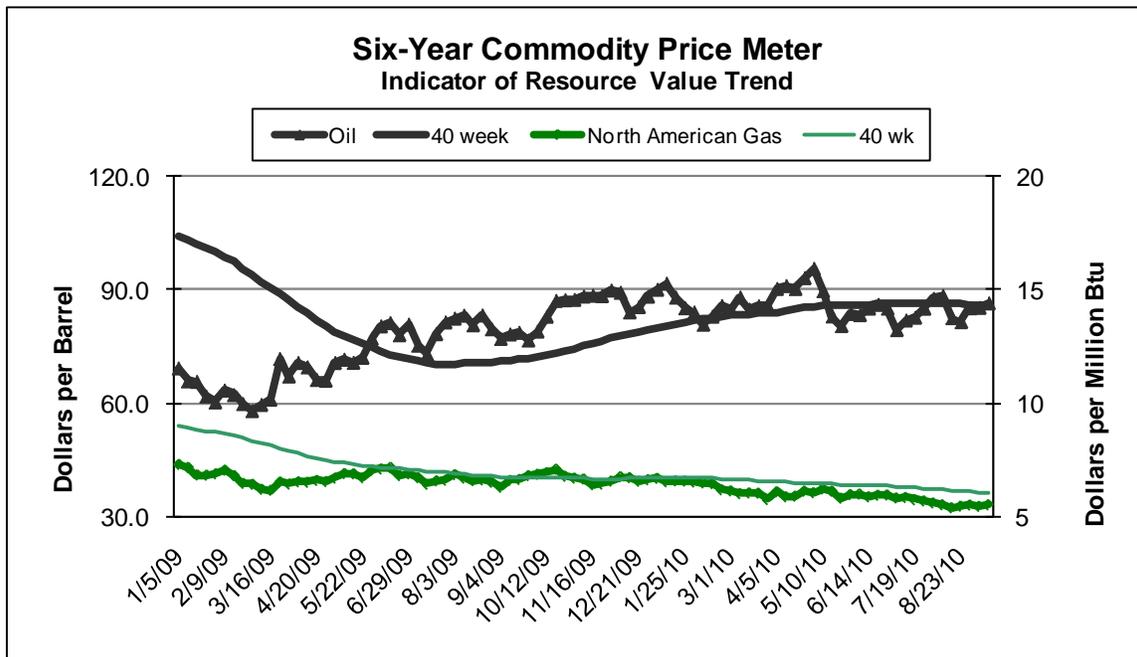
A Weekly Analysis of Large Cap Oil and Gas Stocks  
September 14, 2010

## CVX, RDS, SU Promise High Oil Returns

### Summary and Recommendation

Oil-oriented buy recommendations **Chevron (CVX)**, **Royal Dutch Shell (RDS)** and **Suncor (SU)** need a long-term oil price of just \$56 a barrel to deliver an estimated unlevered total return of 7% a year before inflation as implied by latest McDep Ratios of 0.72, 0.78 and 0.75 respectively (see [Tables 1-4](#) on pages 2-5). Realized return may be higher since six-year futures price for oil settled on September 13 at \$86.45 a barrel. The timing of new commitments may also be supported by price uptrends with the three stocks trading above their 200-day averages. Six-year oil, too, has also crossed above its 40-week average of \$85.96 a barrel (see chart below [Six-Year Commodity Price Meter](#) and chart [Six-Year and One-Year Natural Gas and Oil Futures](#) on page 7). At the same time, declining confidence in U.S. political leadership may be a concern. The persisting threat to punish successful oil companies with discriminatory taxes is disturbing from a fairness point of view. Yet, the portfolio impact is lessened by likely reduced supply that would drive up oil price and by participation in the corresponding higher oil profits outside the U.S. RDS and SU are headquartered outside the U.S. CVX has the option of reincorporating outside the U.S. as some have done, unpatriotic as that may seem. Fortunately, investors usually become more confident as we get past November mid-term elections either because the current leadership changes course or in anticipation that the current leadership will be replaced.

Kurt H. Wulff, CFA







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<b>Table 2</b>								
<b>McDep Large Cap Energy Portfolio</b>								
<b>Net Present Value and McDep Ratio</b>								
			<i>Price</i>			<i>Net</i>		
			<i>(US\$/sh)</i>		<i>Market</i>	<i>Present</i>	<i>Debt/</i>	
	<i>Symbol/Rating</i>		<i>13-Sep</i>	<i>Shares</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	<i>McDep</i>
	B = Buy, CB (see below)		<i>2010</i>	<i>(mm)</i>	<i>(US\$mm)</i>	<i>(US\$/sh)</i>	<i>Value</i>	<i>Ratio</i>
<b>U.S. Integrated</b>								
Exxon Mobil Corporation	XOM	CB	61.00	5,141	314,000	89.00	0.12	0.72
Chevron Corporation	CVX	B	79.25	2,006	159,000	116.00	0.10	0.72
Marathon Oil Corporation	MRO	B	32.25	712	22,960	53.00	0.23	0.70
ConocoPhillips	COP	B	55.38	1,400	78,000	95.00	0.24	0.68
	<i>Total or Median</i>				<i>574,000</i>		<i>0.18</i>	<i>0.71</i>
<b>Europe</b>								
BG Group plc	BRGXF		16.90	3,400	57,500	22.00	0.12	0.80
Royal Dutch Shell plc	RDS-A	B	57.33	3,072	176,000	79.00	0.20	0.78
Statoil ASA (33%)	STO	CB	20.70	1,050	21,700	35.00	0.25	0.69
BP plc	BP		38.35	3,172	122,000	72.00	0.27	0.66
Total S.A.	TOT	CB	50.56	2,243	113,000	90.00	0.15	0.63
	<i>Total or Median</i>				<i>490,000</i>		<i>0.20</i>	<i>0.69</i>
<b>Australia/Brazil/China/Russia</b>								
CNOOC Limited (34%)	CEO		189.05	152	28,800	170.00	0.05	1.11
Woodside Petroleum Ltd.	WOPEY	B	40.00	782	31,300	44.00	0.13	0.92
PetroChina Company Ltd (14%)	PTR	CB	111.90	256	28,700	150.00	0.14	0.78
Petrobras	PBR		36.42	4,387	159,800	58.00	0.20	0.70
Lukoil Oil Company	LUKOY	CB	55.60	848	47,100	135.00	0.05	0.44
Gazprom (50%)	OGZPY	CB	21.44	2,870	61,500	64.00	0.09	0.40
	<i>Total or Median</i>				<i>357,000</i>		<i>0.11</i>	<i>0.74</i>
<b>U.S. Independent</b>								
Southwestern Energy Company	SWN		33.06	349	11,500	35.00	0.09	0.95
Anadarko Petroleum Corp.	APC		53.32	495	26,400	60.00	0.41	0.93
Occidental Petroleum Corp.	OXY	CB	78.61	814	64,000	95.00	0.06	0.84
Chesapeake Energy Corp.	CHK		21.66	635	13,800	31.00	0.39	0.82
EOG Resources	EOG	CB	92.29	250	23,100	120.00	0.12	0.80
Devon Energy Corporation	DVN	CB	61.73	446	27,500	98.00	0.08	0.66
	<i>Total or Median</i>				<i>166,300</i>		<i>0.11</i>	<i>0.83</i>
<b>Canada</b>								
Imperial Oil Limited (30%)	IMO	CB	38.14	257	9,800	48.00	0.08	0.81
Cenovus Energy Inc.	CVE	CB	27.64	752	20,800	37.00	0.20	0.80
Suncor Energy	SU	B	33.26	1,572	52,300	48.00	0.19	0.75
Canadian Natural Resources	CNQ	CB	34.07	1,089	37,100	50.00	0.17	0.73
Canadian Oil Sands Trust	COSWF	CB	25.33	484	12,300	38.00	0.07	0.69
EnCana Corporation	ECA	CB	29.23	738	21,600	50.00	0.19	0.66
	<i>Total or Median</i>				<i>154,000</i>		<i>0.18</i>	<i>0.74</i>
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 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		13-Sep 2010	NTM	NTM	NTM	NTM	(%)	
B = Buy, CB (see below)									
<b>U.S. Integrated</b>									
	Exxon Mobil Corporation	XOM	CB	61.00	13.2	8.3	6.0	11	2.9
	ConocoPhillips	COP	B	55.38	10.3	8.1	5.5	12	4.0
	Marathon Oil Corporation	MRO	B	32.25	9.2	7.6	5.3	13	3.1
	Chevron Corporation	CVX	B	79.25	9.1	6.5	4.7	9	3.6
	<i>Total or Median</i>				9.7	7.8	5.4	12	3.4
<b>Europe</b>									
	BG Group plc	BRGXF		16.90	14.5	8.8	7.0	13	1.2
	Royal Dutch Shell plc	RDS-A	B	57.33	8.8	6.8	5.3	10	5.9
	BP plc	BP		38.35	10.0	7.6	5.0	7	-
	Total S.A.	TOT	CB	50.56	9.7	7.4	4.6	8	5.7
	Statoil ASA (33%)	STO	CB	20.70	6.5	6.0	4.1	8	4.7
	<i>Total or Median</i>				9.7	7.4	5.0	8	4.7
<b>Australia/Brazil/China/Russia</b>									
	Woodside Petroleum Ltd.	WOPEY	B	40.00	18.0	12.4	11.5	22	2.5
	CNOOC Limited (34%)	CEO		189.05	6.6	5.9	6.5	13	2.9
	Petrobras	PBR		36.42	9.6	8.8	6.2	9	3.7
	PetroChina Company Ltd (14%)	PTR	CB	111.90	13.6	7.4	5.8	15	3.8
	Gazprom (50%)	OGZPY	CB	21.44	30.2	9.4	3.7	5	0.2
	Lukoil Oil Company	LUKOY	CB	55.60	15.8	7.7	3.4	6	3.0
	<i>Total or Median</i>				14.7	8.3	6.0	11	2.9
<b>U.S. Independent</b>									
	Southwestern Energy Company	SWN		33.06	6.0	9.8	9.3	20	-
	Chesapeake Energy Corp.	CHK		21.66	11.1	10.7	8.7	15	1.4
	EOG Resources	EOG	CB	92.29	8.8	9.4	7.5	38	0.7
	Anadarko Petroleum Corp.	APC		53.32	8.3	7.6	7.1		0.7
	Occidental Petroleum Corp.	OXY	CB	78.61	10.5	7.4	6.2	14	1.9
	Devon Energy Corporation	DVN	CB	61.73	10.0	8.9	5.9	12	1.0
	<i>Total or Median</i>				9.4	9.1	7.3	15	0.9
<b>Canada</b>									
	Cenovus Energy Inc.	CVE	CB	27.64	18.3	11.8	9.4	22	2.8
	EnCana Corporation	ECA	CB	29.23	13.7	12.9	8.6	28	2.7
	Imperial Oil Limited (30%)	IMO	CB	38.14	20.0	10.6	8.6	15	1.1
	Suncor Energy	SU	B	33.26	22.3	11.0	8.3	24	1.2
	Canadian Oil Sands Trust	COSWF	CB	25.33	26.7	11.6	8.0	13	7.6
	Canadian Natural Resources	CNQ	CB	34.07	17.4	9.9	7.2	18	0.9
	<i>Total or Median</i>				19.2	11.3	8.4	20	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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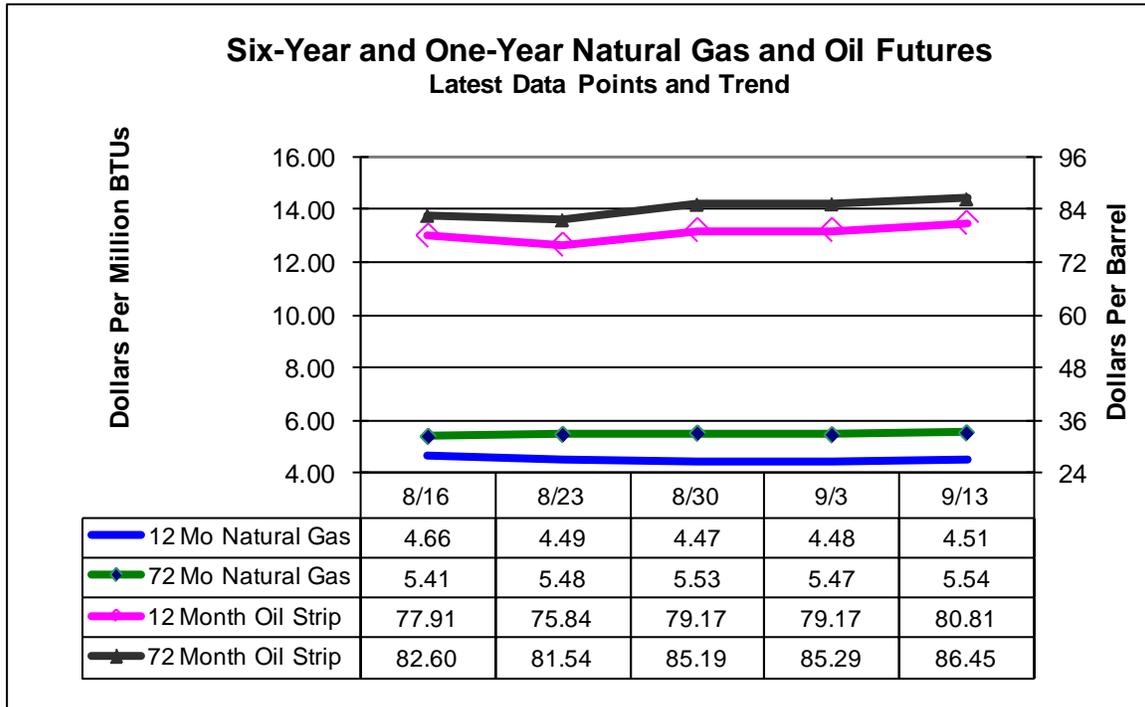
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<b>Index of Recent Research</b>			
<b>Stock Ideas</b>			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
7-Sep	LUKOY	Lukoil	Russian Growth in Oil (Meter Reader)
7-Sep	OGZPY	Gazprom	Russian Growth in Natural Gas (Meter Reader)
31-Aug	PTR	PetroChina	Leader in Largest Energy Economy (Meter Reader)
24-Aug	* CEO	CNOOC Ltd	Raise NPV on Volume and Profit (Meter Reader)
17-Aug	* ECA, CNQ	Encana, Canadian Natural	Raise NPV for ECA and CNQ on Probable Reserves (MR)
13-Aug	* PEYUF	Peyto Energy Trust	Raise NPV to US\$18 from \$15 (Income and Small Cap Weekly)
13-Aug	* BIREF	Birchcliff Energy Ltd.	Alberta Small Cap Natural Gas Growth
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 Haynseville (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)
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)
3-Jun	* LUKOY	Lukoil Oil Company	Underrated Oil Performer
<b>Meter Reader</b>			
14-Sep		Weekly Valuation	
7-Sep	OGZPY, LUKOY		Russian Growth - Gazprom for Natural Gas - Lukoil for Oil
31-Aug	PTR	PetroChina	Leader in Largest Energy Economy
24-Aug	* CEO	CNOOC Ltd	Raise NPV on Volume and Profit
<b>Income and Small Cap Weekly</b>			
10-Sep		Weekly Valuation	Patience is Free
3-Sep		Weekly Valuation	Natural Gas Futures May Be Bottoming
27-Aug		Weekly Valuation	Rockies Ideas
20-Aug	*	Weekly Valuation	Mid-Term Election Year Prospects
	* Archived on <a href="http://www.mcdep.com">www.mcdep.com</a>		



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