



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

October 12, 2010

EOG Resources Leads in Eagle Ford Shale

Summary and Recommendation

Prospects for buy-recommended **EOG Resources (EOG)** in the Eagle Ford Shale Trend of Texas gain further credibility with new billion-dollar investments in the area by overseas producers. China-based **CNOOC Limited (CEO)** announced on October 11 its acquisition of rights from **Chesapeake Energy (CHK)** for \$2 billion at the deemed price of \$10,800 an acre. Contrarian buy-recommended Norwegian-based **Statoil ASA (STO)** announced on the same day a deal with Talisman Energy (TLM) and private company Enduring Resources worth \$800 million at the deemed price of \$10,900 an acre. The prices paid validate our increase in NPV for EOG to \$120 from \$92 a share earlier, which was prompted by the company's Eagle Ford disclosures (see *Meter Reader*, July 6, 2010). After the latest transactions, we have EOG leading the companies in our coverage when measured by nominal acreage value as a percentage of Enterprise Value (see table Eagle Ford Shale Explorers on page 3). The CEO and STO deals are part of a trend of overseas companies investing in North American resources and technology and taking advantage of the devaluation of the U.S. dollar. Those are also good reasons, we believe, to invest in our low McDep Ratio large cap buy recommendations (see Tables 1-3 on pages 5-7).

EOG Grows in Oil, Looks Ahead in Natural Gas

Price trends have turned up for most buy recommendations including low-debt, low-cost, high growth EOG (see Table 4 on page 8). The price trend is up for oil with the latest quote for futures over the next six-years of \$89 above its 40-week average of \$86 a barrel (see chart Six-Year and One-Year Natural Gas and Oil Futures on page 10). Out-of-favor natural gas is holding above the seven-year lows with the latest quote for futures for the next six-years at \$5.40 a million btu. Seeing the oil trend, EOG has been quick to concentrate on the oil in Eagle Ford Shale along with its growth in oil in the Bakken Shale. Should the natural gas price trend turn positive again, as we believe it will, EOG can renew its emphasis on Marcellus Shale and Rocky Mountain natural gas in the U.S. and Canada.

Eagle Ford by the Players and the Regulators

EOG's Eagle Ford acreage is concentrated throughout the portion of the trend that appears oiliest and most valuable at today's prices (see slide on page 3). CEO bought into CHK's position which also seems to be well represented in the oil window (see slide on page 4). STO bought into lands that appear more concentrated in the liquids rich window where it estimates that its future revenue will be 60% oil and 40% natural gas (see slide on page 4). **Anadarko Petroleum (APC)** is a leader near the Mexican border end of the trend (see slide on page 5). Setting the rules of competition, the Texas Railroad Commission offers a succinct discussion (see text on page 5).

Kurt H. Wulff, CFA



Meter Reader

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October 12, 2010

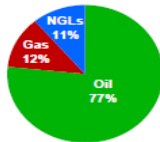
Eagle Ford Shale Explorers					
Company	Symbol	Rating	Eagle Ford Acres	Percent of	
				Enterprise Value at \$10,000/Acre	McDep Ratio
EOG Resources	EOG	CB	580,000	20	0.85
Chesapeake Energy Corp.	CHK		400,000	15	0.85
Anadarko Petroleum Corp.	APC		300,000	6	0.99
CNOOC Limited	CEO		200,000	2	1.24
ConocoPhillips	COP	B	240,000	2	0.72
Royal Dutch Shell plc	RDS-A	B	250,000	1	0.84
Statoil ASA	STO	CB	67,000	1	0.72

Source: Company disclosures, McDep LLC

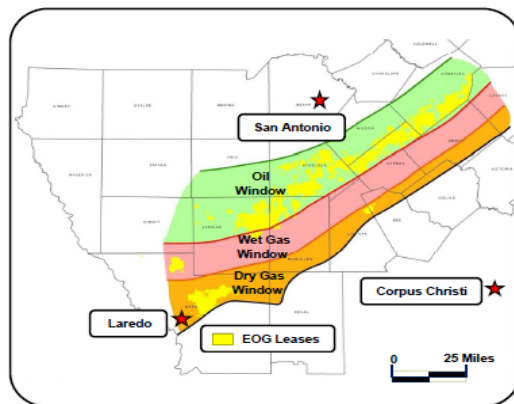
EOG Resources South Texas Eagle Ford Oil

- Captured Reserves* 900 MMboe, NAR
 - Oil 690 MMbo
 - NGLs 100 MMBbl
 - Gas 661 Bcf
- EOG Cherry-Picked Optimum Oil Window Acreage
- Volatile Oil Maturity Window Provides Solution Gas Drive and Overpressure
- Consistent Results from 31 Hz Wells Across Acreage
 - Recent IP Rates ≈ 622 to >2,000 Bopd

Window	Net Acres
Mature Oil	505,000
Wet Gas	26,000
Dry Gas	49,000
Total	580,000



Typical Well

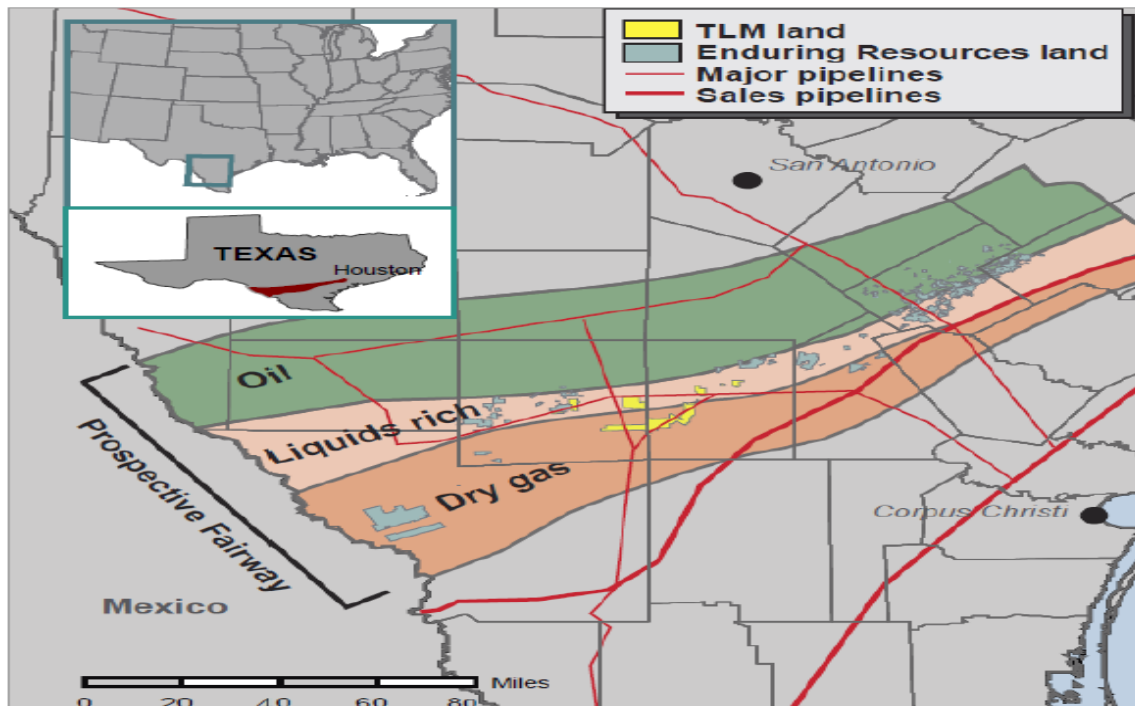
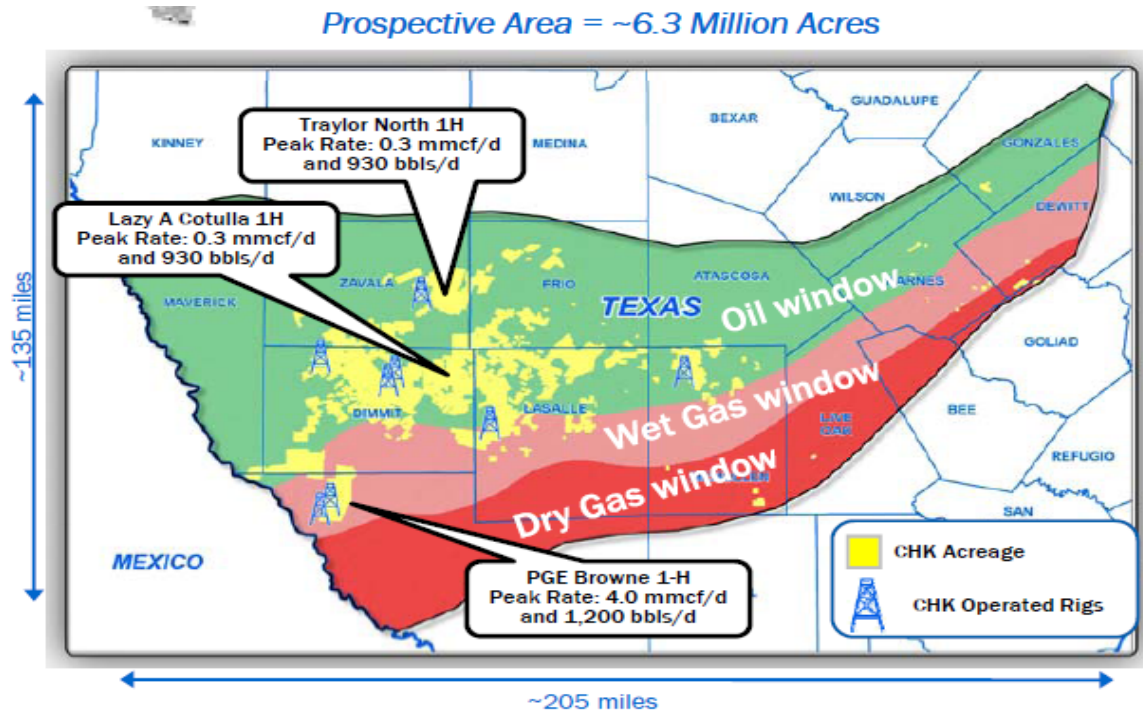


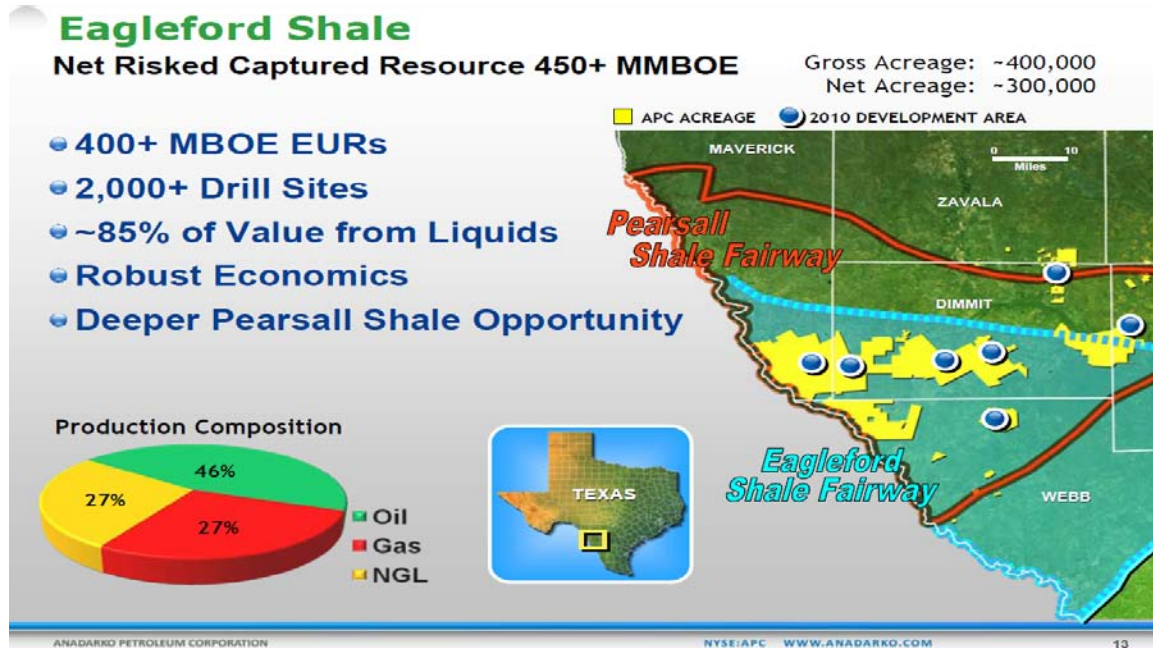
* Potential, not proved reserves. Includes 6.4 MMboe booked at December 31, 2009.

Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

October 12, 2010





Eagle Ford Shale Play

Highlights from the Texas Railroad Commission

- The Eagle Ford Shale trends across Texas from the Mexican border in South Texas into East Texas, roughly 50 miles wide and 400 miles long.
- It is Cretaceous in age resting between the Buda Lime and the Austin Chalk. It is the source rock for the Chalk and the giant East Texas Field.
- Like the Barnett and Haynesville Shales, it has become an attractive target for hydrocarbon exploitation – made possible by the introduction of horizontal drilling and fracturing procedures.
- Petrohawk drilled the first of the Eagle Ford wells in 2008. Joining Petrohawk as key operators are Anadarko, BP, ConocoPhillips, EOG Resources and Shell. As of September 2, 2010, there have been 690 permitted and 192 completed wells. The trend occurs at an average depth of 11,000 feet, is over-pressured (meaning wells drilled into this formation are expected to have high production rates). Additionally, in contrast to the Newark East (Barnett Shale), which primarily produces natural gas and condensate, The Eagle Ford Shale produces oil in addition to natural gas and condensate.
- Most of the operators are drilling horizontal well laterals of 3,500 to 5,000 feet and are fracing the wells with slick water or acid in at least 10 different stages. The average well cost is between \$5 million to \$6 million dollars.
- In the best parts of the shale that produces oil, the wells are producing at rates of up to 1,000 barrels of oil per day (BOPD), and the estimated reserves are 500,000 barrels of oil equivalents (oil equivalents factor in the casinghead gas along with the oil produced) per well.



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

October 12, 2010

Table 2								
McDep Large Cap Energy Portfolio								
Net Present Value and McDep Ratio								
			<i>Price</i>			<i>Net</i>		
	<i>Symbol/Rating</i>		<i>(US\$/sh)</i>	<i>Shares</i>	<i>Market</i>	<i>Present</i>	<i>Debt/</i>	
	B = Buy, CB (see below)		<i>11-Oct</i>	<i>(mm)</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	<i>McDep</i>
			<i>2010</i>		<i>(US\$mm)</i>	<i>(US\$/sh)</i>	<i>Value</i>	<i>Ratio</i>
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	64.55	5,141	332,000	89.00	0.12	0.76
Chevron Corporation	CVX	B	83.71	2,006	168,000	116.00	0.10	0.75
Marathon Oil Corporation	MRO	B	35.26	712	25,110	53.00	0.23	0.74
ConocoPhillips	COP	B	59.79	1,400	84,000	95.00	0.24	0.72
	<i>Total or Median</i>				<i>609,000</i>		<i>0.18</i>	<i>0.75</i>
Europe								
BG Group plc	BRGXF		18.33	3,400	62,300	22.00	0.12	0.85
Royal Dutch Shell plc	RDS-A	B	62.87	3,072	193,000	79.00	0.20	0.84
Statoil ASA (33%)	STO	CB	21.78	1,050	22,900	35.00	0.26	0.72
BP plc	BP		41.24	3,172	131,000	72.00	0.27	0.69
Total S.A.	TOT	B	53.39	2,243	120,000	90.00	0.16	0.66
	<i>Total or Median</i>				<i>529,000</i>		<i>0.20</i>	<i>0.72</i>
Australia/Brazil/China/Russia								
CNOOC Limited (34%)	CEO		213.15	152	32,500	170.00	0.05	1.24
Woodside Petroleum Ltd.	WOPEY	B	44.00	782	34,400	44.00	0.13	1.00
PetroChina Company Ltd (14%)	PTR	B	126.56	256	32,400	150.00	0.14	0.87
Petrobras	PBR		34.60	4,387	151,800	58.00	0.20	0.68
Lukoil Oil Company	LUKOY	B	58.51	848	49,600	135.00	0.05	0.46
Gazprom (50%)	OGZPY	CB	22.03	2,870	63,200	64.00	0.10	0.41
	<i>Total or Median</i>				<i>364,000</i>		<i>0.11</i>	<i>0.77</i>
U.S. Independent								
Anadarko Petroleum Corp.	APC		58.78	495	29,100	60.00	0.41	0.99
Southwestern Energy Company	SWN		33.70	349	11,800	35.00	0.09	0.97
Occidental Petroleum Corp.	OXY	B	83.72	814	68,100	95.00	0.06	0.89
Chesapeake Energy Corp.	CHK		23.30	635	14,800	31.00	0.39	0.85
EOG Resources	EOG	B	99.56	250	24,900	120.00	0.12	0.85
Devon Energy Corporation	DVN	B	67.14	446	29,900	98.00	0.08	0.71
	<i>Total or Median</i>				<i>178,600</i>		<i>0.11</i>	<i>0.87</i>
Canada								
Cenovus Energy Inc.	CVE	B	29.38	752	22,100	37.00	0.20	0.84
Imperial Oil Limited (30%)	IMO	B	39.50	257	10,100	48.00	0.08	0.84
Canadian Natural Resources	CNQ	B	37.60	1,089	40,900	50.00	0.17	0.79
Suncor Energy	SU	B	34.60	1,572	54,400	48.00	0.19	0.77
Canadian Oil Sands Trust	COSWF	CB	26.12	484	12,600	38.00	0.07	0.71
EnCana Corporation	ECA	CB	30.57	738	22,600	50.00	0.19	0.69
	<i>Total or Median</i>				<i>163,000</i>		<i>0.18</i>	<i>0.78</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.								



Meter Reader

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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
	Symbol/Rating		11-Oct 2010	NTM	NTM	NTM	NTM	NTM (%)
B = Buy, CB (see below)								
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	64.55	13.2	8.2	6.2	11	2.7
ConocoPhillips	COP	B	59.79	10.3	7.9	5.7	12	3.7
Marathon Oil Corporation	MRO	B	35.26	9.2	7.3	5.4	13	2.8
Chevron Corporation	CVX	B	83.71	9.1	6.3	4.7	9	3.4
<i>Total or Median</i>				9.7	7.6	5.6	12	3.1
Europe								
BG Group plc	BRGXF		18.33	14.5	8.8	7.5	14	1.1
Royal Dutch Shell plc	RDS-A	B	62.87	8.8	6.5	5.5	11	5.3
BP plc	BP		41.24	10.0	7.3	5.0	7	-
Total S.A.	TOT	B	53.39	9.7	7.1	4.7	8	5.9
Statoil ASA (33%)	STO	CB	21.78	6.5	5.8	4.2	8	4.7
<i>Total or Median</i>				9.7	7.1	5.0	8	4.7
Australia/Brazil/China/Russia								
Woodside Petroleum Ltd.	WOPEY	B	44.00	18.0	11.9	11.9	23	2.3
CNOOC Limited (34%)	CEO		213.15	6.6	5.7	7.0	14	2.5
PetroChina Company Ltd (14%)	PTR	B	126.56	13.6	7.2	6.2	16	3.4
Petrobras	PBR		34.60	9.6	8.5	5.7	8	3.4
Gazprom (50%)	OGZPY	CB	22.03	30.2	9.1	3.7	5	0.2
Lukoil Oil Company	LUKOY	B	58.51	15.8	7.5	3.5	6	3.0
<i>Total or Median</i>				14.7	8.0	6.0	11	2.8
U.S. Independent								
Southwestern Energy Company	SWN		33.70	6.0	10.4	10.1	23	-
Chesapeake Energy Corp.	CHK		23.30	11.1	11.2	9.5	17	1.3
EOG Resources	EOG	B	99.56	8.8	9.3	7.9	40	0.6
Anadarko Petroleum Corp.	APC		58.78	8.3	7.5	7.4		0.6
Devon Energy Corporation	DVN	B	67.14	10.0	9.0	6.4	13	1.0
Occidental Petroleum Corp.	OXY	B	83.72	10.5	7.1	6.3	14	1.8
<i>Total or Median</i>				9.4	9.2	7.7	17	0.8
Canada								
Cenovus Energy Inc.	CVE	B	29.38	18.3	11.4	9.5	22	2.7
EnCana Corporation	ECA	CB	30.57	13.7	13.7	9.4	31	2.6
Imperial Oil Limited (30%)	IMO	B	39.50	20.6	10.5	8.8	16	1.1
Canadian Oil Sands Trust	COSWF	CB	26.12	29.5	12.4	8.8	15	6.4
Suncor Energy	SU	B	34.60	22.3	10.6	8.2	23	1.1
Canadian Natural Resources	CNQ	B	37.60	17.4	9.6	7.6	19	0.8
<i>Total or Median</i>				19.5	11.0	8.8	21	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								



Meter Reader

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October 12, 2010

Table 4									
McDep Large Cap Energy Portfolio									
Rank by Enterprise Value to 200 Day Average									
			Price		Enterprise Value/				
	Symbol		11-Oct	52Wk	52Wk	50 Day	200 Day	McDep	
	Ratin.		2010	High	Low	Avg.	Avg.	Ratio	
U.S. Integrated									
	Chevron Corporation	CVX	B	83.71	0.99	1.21	1.06	1.09	0.75
	ConocoPhillips	COP	B	59.79	0.99	1.17	1.05	1.08	0.72
	Marathon Oil Corporation	MRO	B	35.26	0.99	1.18	1.05	1.07	0.74
	Exxon Mobil Corporation	XOM	B	64.55	0.87	1.13	1.05	1.01	0.76
	<i>Median</i>			<i>0.99</i>	<i>1.17</i>	<i>1.05</i>	<i>1.08</i>	<i>0.75</i>	
Europe									
	Royal Dutch Shell plc	RDS-A	B	62.87	0.99	1.20	1.07	1.08	0.84
	BG Group plc	BRGXF		91.66	0.92	1.26	1.06	1.06	0.85
	Total S.A.	TOT	B	53.39	0.83	1.17	1.04	1.00	0.66
	Statoil ASA (33%)	STO	CB	21.78	0.87	1.11	1.04	0.99	0.72
	BP plc	BP		41.24	0.76	1.27	1.04	0.93	0.69
	<i>Median</i>			<i>0.90</i>	<i>1.19</i>	<i>1.05</i>	<i>1.03</i>	<i>0.73</i>	
Australia/Brazil/China/Russia									
	CNOOC Limited (34%)	CEO		213.15	0.99	1.50	1.17	1.26	1.24
	Woodside Petroleum Ltd.	WOPEY	B	44	0.90	1.28	1.09	1.09	1.00
	PetroChina Company Ltd (14%)	PTR	B	126.56	0.94	1.22	1.10	1.09	0.87
	Lukoil Oil Company	LUKOY	B	58.51	0.88	1.28	1.04	1.06	0.46
	Gazprom (50%)	OGZPY	CB	22.03	0.84	1.16	1.03	0.99	0.41
	Petrobras	PBR		34.60	0.72	1.07	0.98	0.91	0.68
	<i>Median</i>			<i>0.89</i>	<i>1.25</i>	<i>1.07</i>	<i>1.07</i>	<i>0.77</i>	
U.S. Independent									
	Occidental Petroleum Corp.	OXY	B	83.72	0.92	1.15	1.08	1.04	0.89
	Devon Energy Corporation	DVN	B	67.14	0.89	1.13	1.05	1.01	0.71
	EOG Resources	EOG	B	99.56	0.88	1.20	1.06	1.01	0.85
	Anadarko Petroleum Corp.	APC		58.78	0.86	1.32	1.06	1.00	0.99
	Chesapeake Energy Corp.	CHK		23.30	0.87	1.09	1.04	0.99	0.85
	<i>Median</i>			<i>0.88</i>	<i>1.15</i>	<i>1.06</i>	<i>1.01</i>	<i>0.85</i>	
Canada									
	Cenovus Energy Inc.	CVE	B	29.38	0.97	1.20	1.05	1.07	0.84
	Canadian Natural Resources	CNQ	B	37.60	0.95	1.19	1.09	1.06	0.79
	Suncor Energy	SU	B	34.60	0.90	1.18	1.05	1.05	0.77
	Imperial Oil Limited (30%)	IMO	B	39.50	0.92	1.11	1.04	1.02	0.84
	EnCana Corporation	ECA	CB	30.57	0.89	1.12	1.04	0.98	0.69
	Canadian Oil Sands Trust	COSWF	CB	26.12	0.79	1.11	1.03	0.96	0.71
	<i>Median</i>			<i>0.91</i>	<i>1.15</i>	<i>1.05</i>	<i>1.04</i>	<i>0.78</i>	
CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average.									



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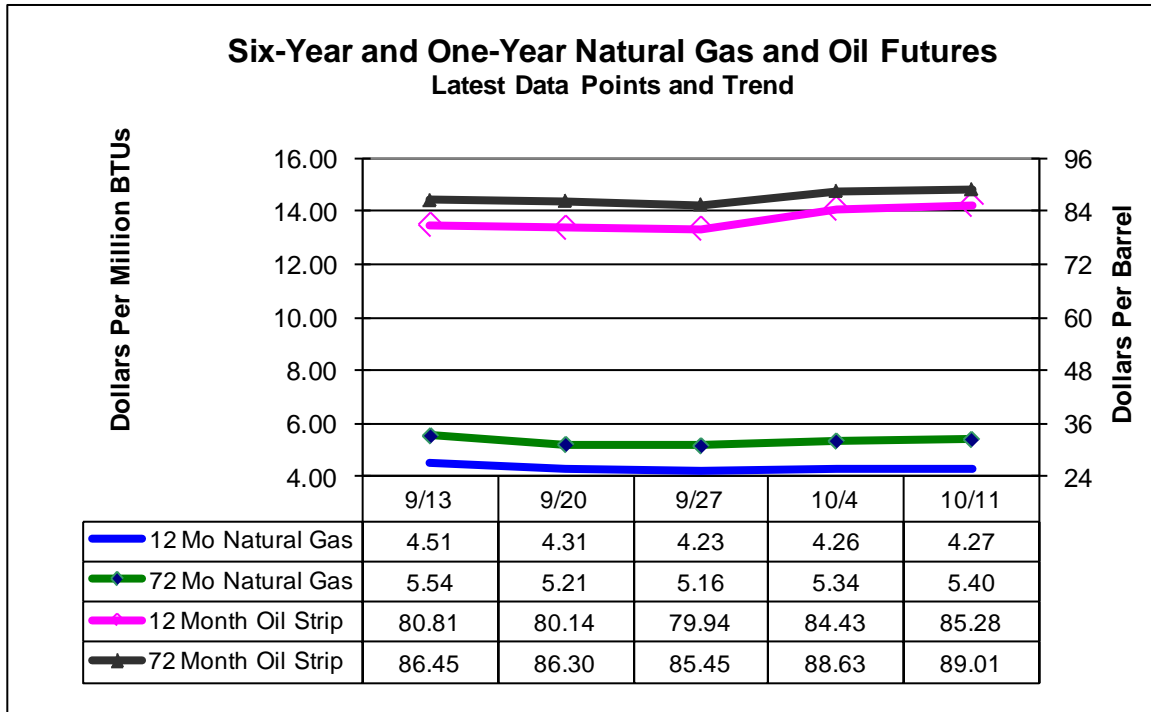
Index of Recent Research			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
Stock Ideas			
8-Oct	DMLP	Dorchester Minerals	Golden Stocks (Income and Small Cap Weekly)
5-Oct	COSWF	Canadian Oil Sands Trust	Investment Appeal and Cross Currents (Meter Reader)
28-Sep	XOM	ExxonMobil	Reload Oil Stock Classics (Meter Reader)
28-Sep	CVX	Chevron Corporation	Reload Oil Stock Classics (Meter Reader)
28-Sep	MRO	Marathon Oil Company	Reload Oil Stock Classics (Meter Reader)
28-Sep	COP	ConocoPhillips	Reload Oil Stock Classics (Meter Reader)
21-Sep	* PBR	Petrobras	Record Deal, Reasonable Price (Meter Reader)
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
5-Aug	* XEC	Cimarex Energy Company	Raise NPV to \$80 from \$75
5-Aug	* DVN	Devon Energy Corporation	Onshore North American Value
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)
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)
Meter Reader			
12-Oct		Weekly Valuation	
5-Oct	COSWF	Canadian Oil Sands Trust	Investment Appeal and Cross Currents
28-Sep	COP,MRO, CVX,XOM		Reload Oil Stock Classics
21-Sep	* PBR	Petrobras	Record Deal, Reasonable Price
Income and Small Cap Weekly			
8-Oct		Top Line Cash Payers	Golden Stocks
1-Oct		Weekly Valuation	The Message of Gold Price
24-Sep	COSWF, PEYUF		Big Income in Canada
17-Sep	*	Weekly Valuation	Natural Gas Opportunity for the Tens Decade
	* 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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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.