



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

October 26, 2010

Euro Oil Income Buys

Summary and Recommendation

Buy Euro Oils -- **Total (TOT)**, **Statoil (STO)** and **Royal Dutch Shell (RDS)** -- for high dividend income ranging from an indicated 4.7% to 5.9% a year currently. From a median McDep Ratio near 0.7, the stocks may have total return potential comparable to the median 11% a year from eight years ago (see table below Euro Oil Income Buys – McDep Ratio 2010, 2002). We pick eight years for historical measurement because October 2002 was also a low point for stock market investments by the secular, four year and seasonal cycles. In a more generic sense, unlevered cash flow multiple (EV/Ebitda) is low at a median 4.7 times and debt is low at a median 0.20 ratio to present value (see Tables 1-4 on pages 2-5). RDS, the relative underperformer during the 2000s, has been setting new 52-week stock price highs recently under the leadership of its first non-Dutch, non-British chief executive, Mr. Peter Voser, a Swiss citizen. Each of the three stocks depends most on the price of crude oil, which is in a rising trend measured by the latest futures price for the next six years of \$88 a barrel tracking above the 40-week average of \$86 (see chart Six-Year and One-Year Natural Gas and Oil Futures on page 7). The three stocks depend 19% to 40% on the price of natural gas, which is in a declining trend by the 40-week measure. With most of their production in Europe or Asia, the companies are less directly sensitive to the North American natural gas price, which has dropped below the September lows on a one-year and six-year basis. Financially strong, the companies can withstand and take advantage of exaggerated price fluctuations.

Kurt H. Wulff, CFA

Euro Oil Income Buys								
McDep Ratio 2010, 2002								
October 25, 2010				October 24, 2002			Stock Price	Total
Symbol	Rating	Price (\$/sh)	McDep Ratio	Rating	Price (\$/sh)	McDep Ratio	Increase (%)	Return (%/yr)
RDS/A	B	62.83	0.84	B	42.26	0.75	49	9
STO	B	21.88	0.72		6.60		232	21
TOT	B	54.24	0.67		33.25	0.78	63	11
<i>Median</i>			0.72			0.77	63	11



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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>25-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	66.20	5,141	340,000	89.00	0.12	0.78
Chevron Corporation	CVX	B	84.87	2,006	170,000	116.00	0.10	0.76
Marathon Oil Corporation	MRO	B	35.89	712	25,550	53.00	0.23	0.75
ConocoPhillips	COP	B	61.34	1,400	86,000	95.00	0.24	0.73
	<i>Total or Median</i>				<i>622,000</i>		<i>0.18</i>	<i>0.75</i>
Europe								
BG Group plc	BRGXF		18.79	3,400	63,900	22.00	0.12	0.87
Royal Dutch Shell plc	RDS-A	B	62.83	3,072	193,000	79.00	0.20	0.84
Statoil ASA (33%)	STO	B	21.88	1,050	23,000	35.00	0.26	0.72
BP plc	BP		40.21	3,172	128,000	72.00	0.27	0.68
Total S.A.	TOT	B	54.24	2,243	122,000	90.00	0.16	0.67
	<i>Total or Median</i>				<i>530,000</i>		<i>0.20</i>	<i>0.72</i>
Australia/Brazil/China/Russia								
CNOOC Limited (34%)	CEO		206.55	152	31,500	170.00	0.05	1.20
Woodside Petroleum Ltd.	WOPEY	B	43.45	782	34,000	44.00	0.13	0.99
PetroChina Company Ltd (14%)	PTR	B	127.79	256	32,700	150.00	0.14	0.87
Petrobras	PBR		32.31	4,387	141,700	58.00	0.20	0.65
Lukoil Oil Company	LUKOY	B	57.42	848	48,700	135.00	0.05	0.45
Gazprom (50%)	OGZPY	B	22.47	2,870	64,500	64.00	0.09	0.41
	<i>Total or Median</i>				<i>353,000</i>		<i>0.11</i>	<i>0.76</i>
U.S. Independent								
Anadarko Petroleum Corp.	APC		62.78	495	31,100	60.00	0.41	1.03
Southwestern Energy Company	SWN		33.96	349	11,900	35.00	0.09	0.97
Occidental Petroleum Corp.	OXY	CB	80.06	814	65,200	95.00	0.06	0.85
EOG Resources	EOG	CB	97.46	250	24,400	120.00	0.12	0.84
Chesapeake Energy Corp.	CHK		21.16	635	13,400	31.00	0.39	0.81
Devon Energy Corporation	DVN	CB	65.02	446	29,000	98.00	0.08	0.69
	<i>Total or Median</i>				<i>175,000</i>		<i>0.11</i>	<i>0.84</i>
Canada								
Cenovus Energy Inc.	CVE	B	28.58	752	21,500	37.00	0.20	0.82
Imperial Oil Limited (30%)	IMO	B	38.52	257	9,900	48.00	0.08	0.82
Canadian Natural Resources	CNQ	B	35.94	1,089	39,100	50.00	0.17	0.77
Suncor Energy	SU	B	32.82	1,572	51,600	48.00	0.19	0.74
Canadian Oil Sands Trust	COSWF	CB	25.90	484	12,500	38.00	0.07	0.70
EnCana Corporation	ECA	CB	27.69	736	20,400	50.00	0.19	0.64
	<i>Total or Median</i>				<i>155,000</i>		<i>0.18</i>	<i>0.75</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		25-Oct 2010	NTM	NTM	NTM	NTM	(%)
B = Buy, CB (see below)								
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	66.20	13.2	8.3	6.4	12	2.7
ConocoPhillips	COP	B	61.34	10.3	8.0	5.9	13	3.6
Marathon Oil Corporation	MRO	B	35.89	9.2	7.3	5.5	13	2.8
Chevron Corporation	CVX	B	84.87	9.1	6.3	4.7	9	3.4
<i>Total or Median</i>				9.7	7.7	5.7	12	3.1
Europe								
BG Group plc	BRGXF		18.79	14.5	9.0	7.8	14	1.0
Royal Dutch Shell plc	RDS-A	B	62.83	8.8	6.5	5.5	11	5.3
BP plc	BP		40.21	10.0	7.3	4.9	7	-
Total S.A.	TOT	B	54.24	9.7	7.1	4.7	8	5.9
Statoil ASA (33%)	STO	B	21.88	6.5	5.8	4.2	8	4.7
<i>Total or Median</i>				9.7	7.1	4.9	8	4.7
Australia/Brazil/China/Russia								
Woodside Petroleum Ltd.	WOPEY	B	43.45	18.0	11.5	11.4	22	2.3
CNOOC Limited (34%)	CEO		206.55	6.6	5.6	6.8	13	2.6
PetroChina Company Ltd (14%)	PTR	B	127.79	13.6	7.1	6.2	16	3.4
Petrobras	PBR		32.31	9.6	8.4	5.5	8	3.7
Gazprom (50%)	OGZPY	B	22.47	30.2	9.3	3.8	5	0.2
Lukoil Oil Company	LUKOY	B	57.42	15.8	7.5	3.4	6	3.0
<i>Total or Median</i>				14.7	7.9	5.8	11	2.8
U.S. Independent								
Southwestern Energy Company	SWN		33.96	6.0	11.2	10.9	26	-
Chesapeake Energy Corp.	CHK		21.16	11.1	11.8	9.5	17	1.4
EOG Resources	EOG	CB	97.46	8.8	9.5	7.9	43	0.6
Anadarko Petroleum Corp.	APC		62.78	8.3	7.6	7.9		0.6
Devon Energy Corporation	DVN	CB	65.02	10.0	9.3	6.4	13	1.0
Occidental Petroleum Corp.	OXY	CB	80.06	10.4	7.0	5.9	13	1.9
<i>Total or Median</i>				9.4	9.4	7.9	17	0.8
Canada								
EnCana Corporation	ECA	CB	27.69	13.9	15.4	9.9	33	2.9
Cenovus Energy Inc.	CVE	B	28.58	18.3	11.6	9.5	22	2.7
Imperial Oil Limited (30%)	IMO	B	38.52	20.6	10.5	8.6	15	1.1
Canadian Oil Sands Trust	COSWF	CB	25.90	29.5	12.1	8.5	15	6.4
Suncor Energy	SU	B	32.82	22.3	10.6	7.9	22	1.2
Canadian Natural Resources	CNQ	B	35.94	17.4	9.6	7.4	18	0.8
<i>Total or Median</i>				19.5	11.1	8.6	20	2.0
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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Table 4									
McDep Large Cap Energy Portfolio									
Rank by Enterprise Value to 200 Day Average									
			Price						
			(\$/sh)	Enterprise Value/					
	Symbol		25-Oct	52Wk	52Wk	50 Day	200 Day	McDep	
	Ratin.		2010	High	Low	Avg.	Avg.	Ratio	
U.S. Integrated									
	Chevron Corporation	CVX	B	84.87	0.99	1.23	1.06	1.10	0.76
	ConocoPhillips	COP	B	61.34	0.99	1.19	1.06	1.09	0.73
	Marathon Oil Corporation	MRO	B	35.89	0.99	1.19	1.06	1.08	0.75
	Exxon Mobil Corporation	XOM	B	66.20	0.88	1.15	1.06	1.03	0.78
	<i>Median</i>			<i>0.99</i>	<i>1.19</i>	<i>1.06</i>	<i>1.09</i>	<i>0.75</i>	
Europe									
	BG Group plc	BRGXF		93.96	0.94	1.29	1.06	1.08	0.87
	Royal Dutch Shell plc	RDS-A	B	62.83	0.98	1.20	1.05	1.08	0.84
	Total S.A.	TOT	B	54.24	0.84	1.18	1.05	1.02	0.67
	Statoil ASA (33%)	STO	B	21.88	0.88	1.11	1.04	1.00	0.72
	BP plc	BP		40.21	0.75	1.25	1.02	0.92	0.68
	<i>Median</i>			<i>0.91</i>	<i>1.19</i>	<i>1.05</i>	<i>1.05</i>	<i>0.74</i>	
Australia/Brazil/China/Russia									
	CNOOC Limited (34%)	CEO		206.55	0.96	1.46	1.09	1.20	1.20
	PetroChina Company Ltd (14%)	PTR	B	127.79	0.95	1.23	1.09	1.09	0.87
	Woodside Petroleum Ltd.	WOPEY	B	43.45	0.93	1.27	1.05	1.08	0.99
	Lukoil Oil Company	LUKOY	B	57.42	0.88	1.26	1.02	1.04	0.45
	Gazprom (50%)	OGZPY	B	22.47	0.85	1.18	1.05	1.02	0.41
	Petrobras	PBR		32.31	0.69	1.02	0.95	0.88	0.65
	<i>Median</i>			<i>0.90</i>	<i>1.24</i>	<i>1.05</i>	<i>1.06</i>	<i>0.76</i>	
U.S. Independent									
	Anadarko Petroleum Corp.	APC		62.78	0.90	1.37	1.09	1.05	1.03
	Occidental Petroleum Corp.	OXY	CB	80.06	0.89	1.10	1.02	0.99	0.85
	Devon Energy Corporation	DVN	CB	65.02	0.86	1.10	1.02	0.99	0.69
	EOG Resources	EOG	CB	97.46	0.87	1.18	1.04	0.99	0.84
	Chesapeake Energy Corp.	CHK		21.16	0.84	1.04	0.99	0.95	0.81
	Southwestern Energy Company	SWN		45.02	0.66	1.10	1.02	0.88	0.97
	<i>Median</i>			<i>0.87</i>	<i>1.10</i>	<i>1.02</i>	<i>0.99</i>	<i>0.84</i>	
Canada									
	Cenovus Energy Inc.	CVE	B	28.58	0.95	1.18	1.02	1.04	0.82
	Canadian Natural Resources	CNQ	B	35.94	0.92	1.15	1.04	1.02	0.77
	Suncor Energy	SU	B	32.82	0.89	1.13	1.01	1.02	0.74
	Imperial Oil Limited (30%)	IMO	B	38.52	0.89	1.08	1.02	1.00	0.82
	Canadian Oil Sands Trust	COSWF	CB	25.90	0.81	1.11	1.03	0.96	0.70
	EnCana Corporation	ECA	CB	27.69	0.83	1.04	0.97	0.92	0.64
	<i>Median</i>			<i>0.89</i>	<i>1.12</i>	<i>1.02</i>	<i>1.01</i>	<i>0.75</i>	
CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average.									



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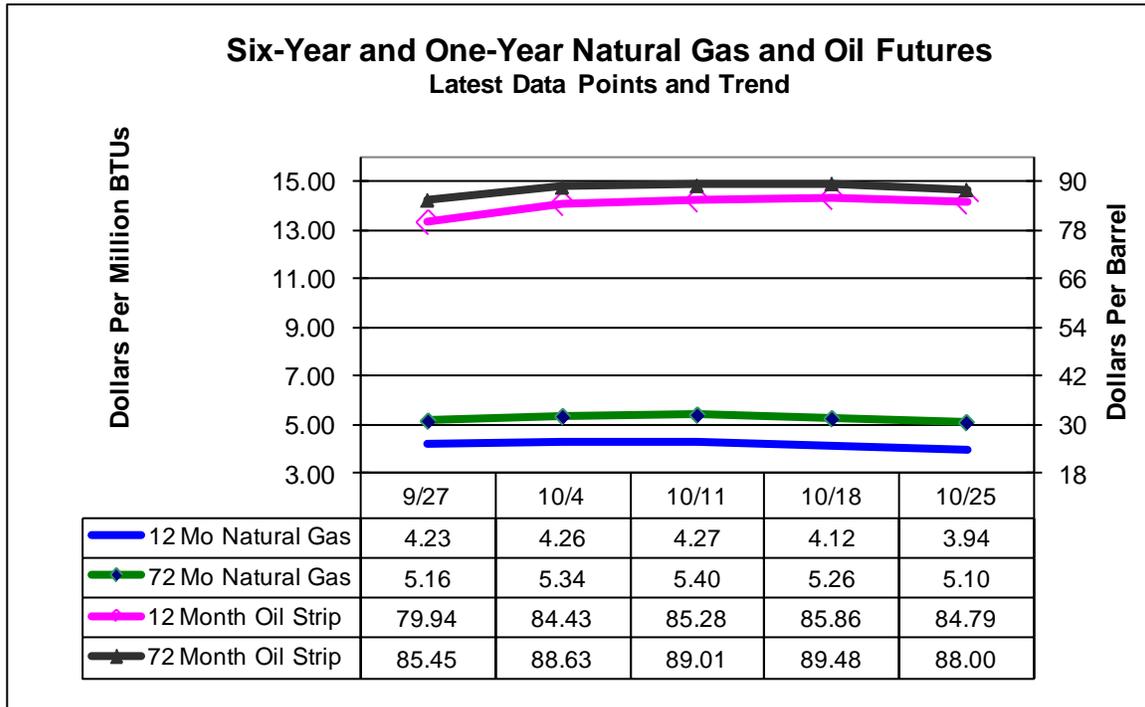
Index of Recent Research			
Stock Ideas			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
12-Oct	EOG	EOG Resources	Leads in Eagle Ford Shale (Meter Reader)
8-Oct	DMLP	Dorchester Minerals	Golden Stocks (Income and Small Cap Weekly)
5-Oct	* COSWF	Canadian Oil Sands Trust	Investment Appeal and Cross 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)
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			
26-Oct		Weekly Valuation	
19-Oct		Weekly Valuation	Invest 30-40% in Natural Gas, Half in Oil
12-Oct	EOG	EOG Resources	Leads in Eagle Ford Shale
5-Oct	* COSWF	Canadian Oil Sands Trust	Investment Appeal and Cross Currents
Income and Small Cap Weekly			
22-Oct		Weekly Valuation	Natural Gas Explorers Reduce Drilling
15-Oct	XEC, BIREF	Cimarex, Birchcliff	Looking for Latent Riches in Land
8-Oct		Top Line Cash Payers	Golden Stocks
1-Oct	*	Weekly Valuation	The Message of Gold Price
	*	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.