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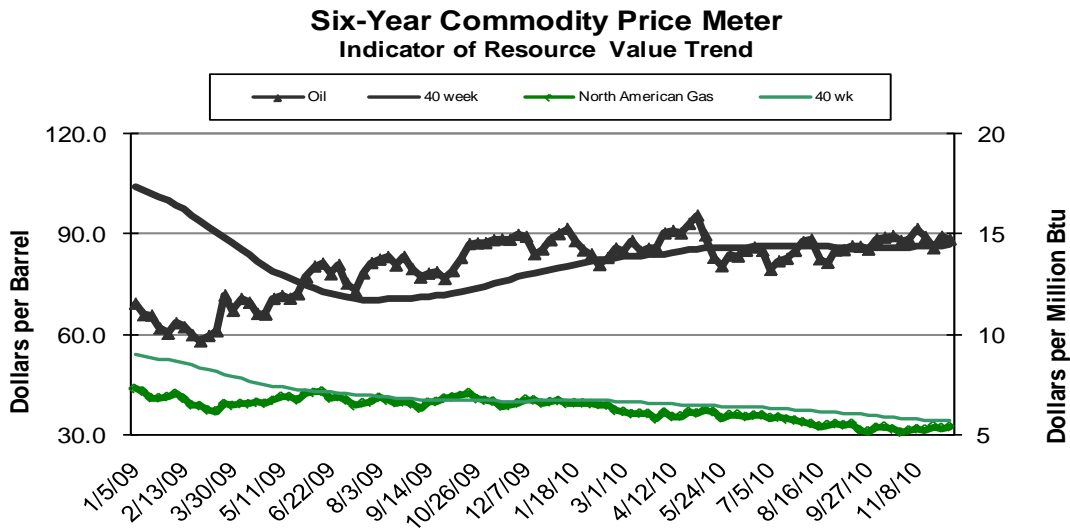
A Weekly Analysis of Large Cap Oil and Gas Stocks
December 7, 2010

Cash Machines

Summary and Recommendation

Six buy-recommended global energy stocks flow cash at a rate that exceeds stock market cap and debt in less than five years. Unlevered cash flow multiples (EV/Ebitda) below 5.0 identify the gushers. U.S. Integrated buy recommendations **Marathon Oil (MRO)** and **Chevron (CVX)** regenerate in an estimated 4.9 and 4.5 years, respectively. The measures for European buy recommendations **Total (TOT)** and **Statoil (STO)** are 4.3 and 4.1. Rounding out the six are Russian buy recommendations **Gazprom (OGZPY)** and **Lukoil (LUKOY)** at 4.1 and 3.4 (see [Table 3](#) on page 4). Cash flow responds to an uptrend in long-term oil futures price quoted for the next six years (see chart [Six-Year Commodity Price Meter](#) below). In the past week, one-year futures have seized leadership by crossing above six-year futures in a trading condition known as backwardation (see [Six-Year and One-Year Natural Gas and Oil Futures](#) on page 7). Refining margins are also strengthening with a diesel fuel shortage in rapidly growing China and strong demand for heating fuel with cold winter weather in the Northern Hemisphere. Among the six cash generators, CVX is most concentrated on oil at 71% (see [Table 1](#) on page 2). Gazprom is the natural gas leader at 82% while Lukoil is the refining leader at 34%. TOT and STO are high dividend payers at 5.9% and 4.6% a year (see [Table 3](#) on page 4). Lukoil's dividend of 2.8% is supplemented by the recent repurchase of stock. All of the stocks are in price uptrends compared to 200-day averages except TOT, which may soon join its up trending peers judging by recent market conditions (see [Table 4](#) on page 5).

Kurt H. Wulff, CFA



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Table 1										
McDep Large Cap Energy Portfolio										
Geographic Domicile and Business Segments										
				Present Value by Segment (%)						
				Price	EV/	Enterprise	North	Rest		
				(US\$/sh)	Market	Value	Amer.	of World		
		Symbol/Rating	6-Dec	Market	Value	Natural	Natural	Oil	Down-	McDep
		B = Buy, CB (see below)	2010	Cap	(\$mm)	Gas	Gas	Prod'n	stream	Ratio
U.S. Integrated										
Exxon Mobil Corporation	XOM	B	71.31	1.18	430,000	10	16	53	21	0.83
Chevron Corporation	CVX	B	84.95	1.15	196,000	4	12	71	13	0.76
ConocoPhillips	COP	B	64.18	1.43	129,000	16	9	58	16	0.75
Marathon Oil Corporation	MRO	B	34.78	1.45	35,900	7	2	64	27	0.73
<i>Total or Median *</i>		30%	8%	16%	791,000					0.75
Europe										
BG Group	BRGXF		20.03	1.16	79,000		29	40	31	0.92
Royal Dutch Shell plc	RDS-A	B	63.84	1.36	266,000	3	23	49	25	0.85
Statoil ASA (33%)	STO	B	21.88	1.51	34,700		41	59	-	0.72
BP plc	BP		42.81	1.67	226,000	6	10	62	22	0.71
Total S.A.	TOT	CB	51.52	1.33	154,000		19	60	22	0.64
<i>Total or Median *</i>		29%	10%	12%	760,000					0.72
Australia/Brazil/China/Russia										
CNOOC Limited (34%)	CEO		235.26	1.04	37,300		10	90	-	1.36
Woodside Petroleum Ltd.	WOPEY	B	42.10	1.15	38,000		70	30	-	0.96
PetroChina Company Ltd (14%)	PTR	B	128.95	1.20	39,500		15	62	22	0.79
Petrobras	PBR		34.62	1.23	274,000		3	77	20	0.72
Lukoil Oil Company	LUKOY	B	59.05	1.15	55,300			66	34	0.47
Gazprom (50%)	OGZPY	B	24.95	1.24	88,000		82	18	-	0.44
<i>Total or Median *</i>		20%	12%	16%	532,000					0.76
U.S. Independent										
Anadarko Petroleum Corp.	APC		70.25	1.60	55,800	43		53	4	1.10
Southwestern Energy Company	SWN		37.36	1.09	14,200	100			-	1.06
Occidental Petroleum Corp.	OXY	B	93.05	1.07	80,800	10	1	82	7	0.98
Chesapeake Energy Corp.	CHK		22.55	1.83	30,700	90		10	-	0.83
EOG Resources	EOG	CB	94.38	1.21	28,600	52	4	44	-	0.82
Devon Energy Corporation	DVN	B	73.93	1.12	36,200	62		38	-	0.77
<i>Total or Median *</i>		9%	12%	12%	246,000					0.91
Canada										
Cenovus Energy Inc.	CVE	B	32.21	1.28	31,000	17		77	6	0.90
Canadian Natural Resources	CNQ	B	42.54	1.23	56,900	15		85	-	0.87
Imperial Oil Limited (30%)	IMO	CB	37.00	1.12	10,600	4		82	15	0.79
Suncor Energy	SU	B	35.72	1.29	72,300	5		84	11	0.79
Canadian Oil Sands Trust	COSWF	CB	24.51	1.13	13,400			100	-	0.67
EnCana Corporation	ECA	CB	28.85	1.41	29,900	94		6	-	0.66
<i>Total or Median *</i>		8%	12%	24%	214,000					0.79
Income and Small Cap (see separate weekly analysis)										
		4%	47%	20%	103,300	49		51		1.06
Composite										
<i>Enterprise Value Weighting</i>		100%			2,646,000	11	14	58	16	0.79
<i>Equal Weighting</i>		100%				35	7	52	6	0.94
<i>Equal Weighted Buys</i>		100%				26	12	54	8	0.76

CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average.

* Percentages in Symbol column refer to current market Enterprise Value weightings; Rating column, equal weightings.

* Percentages in Price column refer to equal weighted buys.



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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		6-Dec	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	B	71.31	5,089	363,000	89.00	0.13	0.83
Chevron Corporation	CVX	B	84.95	2,007	171,000	116.00	0.10	0.76
ConocoPhillips	COP	B	64.18	1,400	90,000	95.00	0.23	0.75
Marathon Oil Corporation	MRO	B	34.78	712	24,760	53.00	0.23	0.73
<i>Total or Median</i>					649,000		0.18	0.75
Europe								
BG Group plc	BRGXF		20.03	3,402	68,100	22.00	0.13	0.92
Royal Dutch Shell plc	RDS-A	B	63.84	3,069	196,000	79.00	0.22	0.85
Statoil ASA (33%)	STO	B	21.88	1,050	23,000	35.00	0.24	0.72
BP plc	BP		42.81	3,156	135,000	72.00	0.29	0.71
Total S.A.	TOT	CB	51.52	2,245	116,000	90.00	0.16	0.64
<i>Total or Median</i>					538,000		0.22	0.72
Australia/Brazil/China/Russia								
CNOOC Limited (34%)	CEO		235.26	152	35,900	170.00	0.05	1.36
Woodside Petroleum Ltd.	WOPEY	B	42.10	782	32,900	44.00	0.13	0.96
PetroChina Company Ltd (14%)	PTR	B	128.95	256	33,000	170.00	0.13	0.79
Petrobras	PBR		34.62	6,428	222,500	51.00	0.13	0.72
Lukoil Oil Company	LUKOY	B	59.05	814	48,100	135.00	0.06	0.47
Gazprom (50%)	OGZPY	B	24.95	2,865	71,500	64.00	0.08	0.44
<i>Total or Median</i>					444,000		0.11	0.76
U.S. Independent								
Anadarko Petroleum Corp.	APC		70.25	496	34,800	60.00	0.41	1.10
Southwestern Energy Company	SWN		37.36	349	13,000	35.00	0.09	1.06
Occidental Petroleum Corp.	OXY	B	93.05	814	75,700	95.00	0.06	0.98
Chesapeake Energy Corp.	CHK		22.55	744	16,800	31.00	0.38	0.83
EOG Resources	EOG	CB	94.38	250	23,600	120.00	0.14	0.82
Devon Energy Corporation	DVN	B	73.93	436	32,200	98.00	0.09	0.77
<i>Total or Median</i>					196,100		0.12	0.91
Canada								
Cenovus Energy Inc.	CVE	B	32.21	752	24,200	37.00	0.20	0.90
Canadian Natural Resources	CNQ	B	42.54	1,089	46,300	50.00	0.16	0.87
Imperial Oil Limited (30%)	IMO	CB	37.00	257	9,500	48.00	0.08	0.79
Suncor Energy	SU	B	35.72	1,572	56,200	48.00	0.18	0.79
Canadian Oil Sands Trust	COSWF	CB	24.51	484	11,900	38.00	0.08	0.67
EnCana Corporation	ECA	CB	28.85	736	21,200	50.00	0.19	0.66
<i>Total or Median</i>					169,000		0.17	0.79
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		6-Dec 2010	NTM	NTM	NTM	NTM	(%)
B = Buy, CB (see below)								
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	71.31	13.3	7.5	6.2	11	2.5
ConocoPhillips	COP	B	64.18	10.4	7.3	5.5	12	3.4
Marathon Oil Corporation	MRO	B	34.78	9.2	6.7	4.9	11	2.9
Chevron Corporation	CVX	B	84.95	9.2	6.0	4.5	9	3.4
<i>Total or Median</i>				9.8	7.0	5.2	11	3.1
Europe								
BG Group plc	BRGXF		20.03	14.9	8.6	7.9	15	1.0
Royal Dutch Shell plc	RDS-A	B	63.84	8.6	6.2	5.3	10	5.3
BP plc	BP		42.81	10.2	7.2	5.1	7	-
Total S.A.	TOT	CB	51.52	9.5	6.8	4.3	7	5.9
Statoil ASA (33%)	STO	B	21.88	7.0	5.7	4.1	8	4.6
<i>Total or Median</i>				9.5	6.8	5.1	8	4.6
Australia/Brazil/China/Russia								
Woodside Petroleum Ltd.	WOPEY	B	42.10	17.1	11.2	10.7	20	2.4
Petrobras	PBR		34.62	10.0	9.6	6.9	12	3.4
CNOOC Limited (34%)	CEO		235.26	5.6	4.6	6.2	11	2.3
PetroChina Company Ltd (14%)	PTR	B	128.95	13.6	6.8	5.3	10	3.4
Gazprom (50%)	OGZPY	B	24.95	30.2	9.2	4.1	5	0.2
Lukoil Oil Company	LUKOY	B	59.05	16.0	7.1	3.4	5	2.8
<i>Total or Median</i>				14.8	8.1	5.8	11	2.6
U.S. Independent								
Southwestern Energy Company	SWN		37.36	5.7	9.1	9.7	21	-
Chesapeake Energy Corp.	CHK		22.55	10.2	10.9	9.1	16	1.3
Anadarko Petroleum Corp.	APC		70.25	8.5	7.3	8.1		0.5
EOG Resources	EOG	CB	94.38	8.6	8.7	7.1	31	0.7
Devon Energy Corporation	DVN	B	73.93	10.1	8.9	6.9	13	0.9
Occidental Petroleum Corp.	OXY	B	93.05	10.4	6.7	6.5	14	1.6
<i>Total or Median</i>				9.4	8.8	7.6	16	0.8
Canada								
Cenovus Energy Inc.	CVE	B	32.21	18.2	10.8	9.7	24	2.5
EnCana Corporation	ECA	CB	28.85	13.9	13.2	8.7	26	2.8
Canadian Natural Resources	CNQ	B	42.54	18.2	9.5	8.3	21	0.7
Imperial Oil Limited (30%)	IMO	CB	37.00	21.0	10.2	8.0	14	1.2
Suncor Energy	SU	B	35.72	21.9	9.8	7.7	21	1.1
Canadian Oil Sands Trust	COSWF	CB	24.51	29.2	10.5	7.1	13	3.2
<i>Total or Median</i>				19.6	10.3	8.2	21	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 December 31, 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		6-Dec	52Wk	52Wk	50 Day	200 Day	McDep
	Rating		2010	High	Low	Avg.	Avg.	Ratio
U.S. Integrated								
ConocoPhillips	COP	B	64.18	1.00	1.24	1.04	1.11	0.75
Exxon Mobil Corporation	XOM	B	71.31	0.96	1.22	1.05	1.10	0.83
Chevron Corporation	CVX	B	84.95	0.99	1.23	1.02	1.08	0.76
Marathon Oil Corporation	MRO	B	34.78	0.97	1.16	1.01	1.05	0.73
	<i>Median</i>			<i>0.98</i>	<i>1.22</i>	<i>1.03</i>	<i>1.09</i>	<i>0.75</i>
Europe								
BG Group plc	BRGXF		100.15	0.95	1.35	1.04	1.14	0.92
Royal Dutch Shell plc	RDS-A	B	63.84	0.95	1.20	1.00	1.07	0.85
Statoil ASA (33%)	STO	B	21.88	0.87	1.12	1.02	1.01	0.72
Total S.A.	TOT	CB	51.52	0.81	1.14	0.98	0.99	0.64
BP plc	BP		42.81	0.79	1.29	1.02	0.99	0.71
	<i>Median</i>			<i>0.91</i>	<i>1.21</i>	<i>1.02</i>	<i>1.04</i>	<i>0.73</i>
Australia/Brazil/China/Russia								
CNOOC Limited (34%)	CEO		235.26	0.99	1.65	1.10	1.29	1.36
Gazprom (50%)	OGZPY	B	24.95	0.94	1.29	1.11	1.12	0.44
PetroChina Company Ltd (14%)	PTR	B	128.95	0.95	1.24	1.03	1.09	0.79
Lukoil Oil Company	LUKOY	B	59.05	0.97	1.28	1.03	1.06	0.47
Woodside Petroleum Ltd.	WOPEY	B	42.10	0.92	1.23	0.99	1.04	0.96
Petrobras	PBR		34.62	0.72	1.09	1.01	0.93	0.72
	<i>Median</i>			<i>0.95</i>	<i>1.26</i>	<i>1.03</i>	<i>1.08</i>	<i>0.76</i>
U.S. Independent								
Occidental Petroleum Corp.	OXY	B	93.05	1.00	1.27	1.11	1.13	0.98
Anadarko Petroleum Corp.	APC		70.25	0.96	1.46	1.08	1.12	1.10
Devon Energy Corporation	DVN	B	73.93	0.97	1.23	1.07	1.11	0.77
Chesapeake Energy Corp.	CHK		22.55	0.86	1.08	1.01	1.00	0.83
Southwestern Energy Company	SWN		42.06	0.73	1.20	1.05	0.99	1.06
EOG Resources	EOG	CB	94.38	0.85	1.10	1.00	0.96	0.82
	<i>Median</i>			<i>0.91</i>	<i>1.21</i>	<i>1.06</i>	<i>1.05</i>	<i>0.91</i>
Canada								
Canadian Natural Resources	CNQ	B	42.54	1.00	1.32	1.11	1.15	0.87
Cenovus Energy Inc.	CVE	B	32.21	1.00	1.29	1.08	1.12	0.90
Suncor Energy	SU	B	35.72	0.95	1.21	1.04	1.08	0.79
Imperial Oil Limited (30%)	IMO	CB	37.00	0.86	1.05	0.98	0.96	0.79
EnCana Corporation	ECA	CB	28.85	0.86	1.07	1.00	0.96	0.66
Canadian Oil Sands Trust	COSWF	CB	24.61	0.77	1.05	0.95	0.92	0.67
	<i>Median</i>			<i>0.91</i>	<i>1.14</i>	<i>1.02</i>	<i>1.02</i>	<i>0.79</i>
CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average.								



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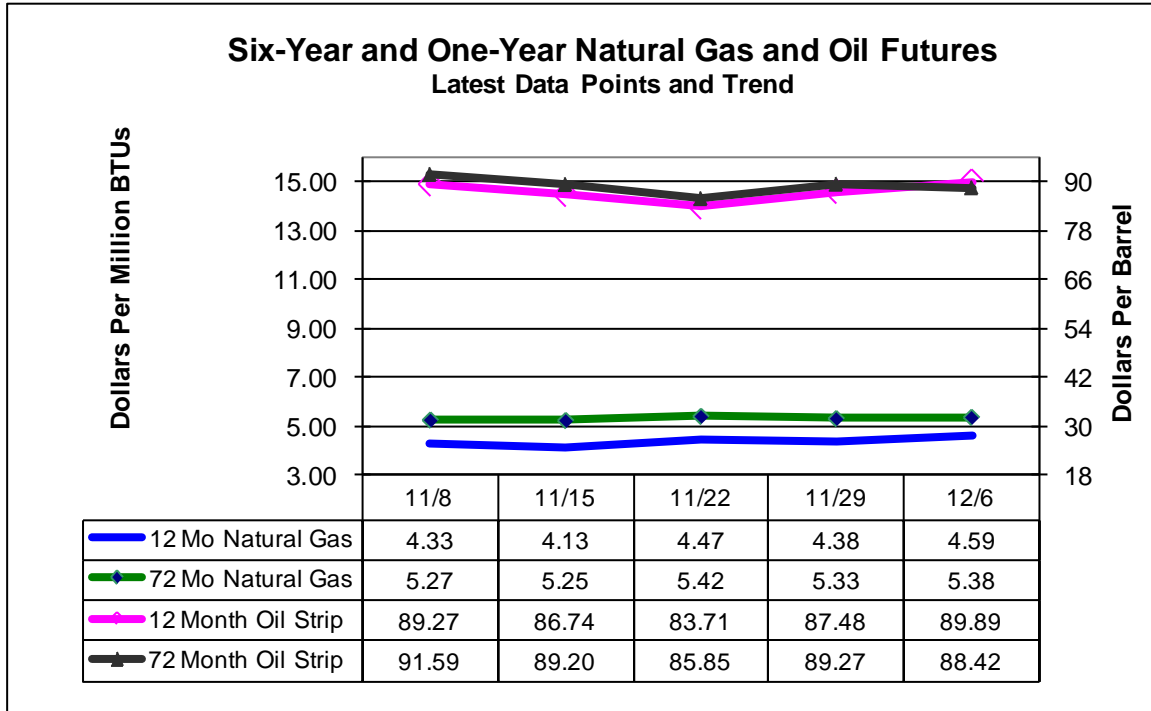
Index of Recent Research			
Stock Ideas			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
6-Dec	COSWF	Canadian Oil Sands Trust	Buy on Stock Price Drop
3-Dec	HK	Petrohawk	New Buy - Selling Pressure Exhausted (I and Small Cap Wkly)
3-Dec	RRC	Range Resources	New Buy - Selling Pressure Exhausted (I and Small Cap Wkly)
26-Nov	SBR	Sabine Royalty Trust	Raise NPV on Proven Performance (Income and SC Weekly)
22-Nov	SJT	San Juan Basin Royalty Trust	Distribution Yield 5.8%, Not 4.6%
19-Nov	VNR	Vanguard Natural Resources	Vanguard to Manage High-Income Encore (Income and SCW)
19-Nov	ENP	Encore Energy Partners	Vanguard to Manage High-Income Encore (Income and SCW)
16-Nov	PBR	Petrobras	Digesting Record Stock Offering (Meter Reader)
12-Nov	DMLP	Dorchester Minerals, L.P.	Volume Trend Strengthening (Income and Small Cap Weekly)
11-Nov	BIREF	Birchcliff Energy Ltd.	Production Ahead of Forecast
9-Nov	OGZPY	Gazprom	Breakout from a Long Stock Price Base (Meter Reader)
9-Nov	SU	Suncor Energy	Breakout from a Long Stock Price Base (Meter Reader)
9-Nov	DVN	Devon Energy Corporation	Breakout from a Long Stock Price Base (Meter Reader)
4-Nov	EOG	EOG Resources	Buy on Stock Price Drop
2-Nov	XOM	ExxonMobil	Political Trends Turning (Meter Reader)
29-Oct	HGT	Hugoton Royalty Trust	Natural Gas Income at Low Price (Income and SC Weekly)
28-Oct	PTR	PetroChina	Raise NPV to \$170 from \$150 on Natural Gas and Downstream
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)
7-Sep	LUKOY	Lukoil	Russian Growth in Oil (Meter Reader)
24-Aug	CEO	CNOOC Ltd	Raise NPV on Volume and Profit (Meter Reader)
For historical research by stock, go to mcdep.com , click on Stock Ideas , click on stock by name.			
Meter Reader			
30-Nov		Weekly Valuation	Free Money Enhances Energy Outlook for 2011
23-Nov	DVN, ECA, RDS, LUKOY, MRO		A Little Life in Natural Gas Price and Oil Refining Margin
16-Nov	PBR	Petrobras	Digesting Record Stock Offering
9-Nov	DVN, SU, OGZPY		Breakout from a Long Stock Price Base
2-Nov	XOM	ExxonMobil	Political Trends Turning
26-Oct	TOT, STO, RDS		Euro Oil Income Buys
19-Oct		Weekly Valuation	Invest 30-40% in Natural Gas, Half in Oil
For earlier editions, go to mcdep.com , click on Meter Reader .			
Income and Small Cap Weekly			
3-Dec	RRC, HK	Range Resources, Petrohawk	New Buys - Selling Pressure Exhausted
26-Nov	SBR	Sabine Royalty Trust	Raise NPV on Proven Performance
19-Nov	ENP, VNR	Encore Energy, Vanguard Natural	Vanguard (VNR) to Manage High-Income Encore (ENP)
12-Nov	DMLP	Dorchester Minerals, L.P.	Volume Trend Strengthening
5-Nov		Weekly Valuation	Frac Shortage Limits Energy Supply
29-Oct	SJT, HGT	San Juan RT, Hugoton RT	Natural Gas Income at Low Price
22-Oct		Weekly Valuation	Natural Gas Explorers Reduce Drilling
For earlier editions, go to mcdep.com , click on Energy Income .			



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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.