



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks
December 28, 2010

Raise Long-Term Oil Price to \$100

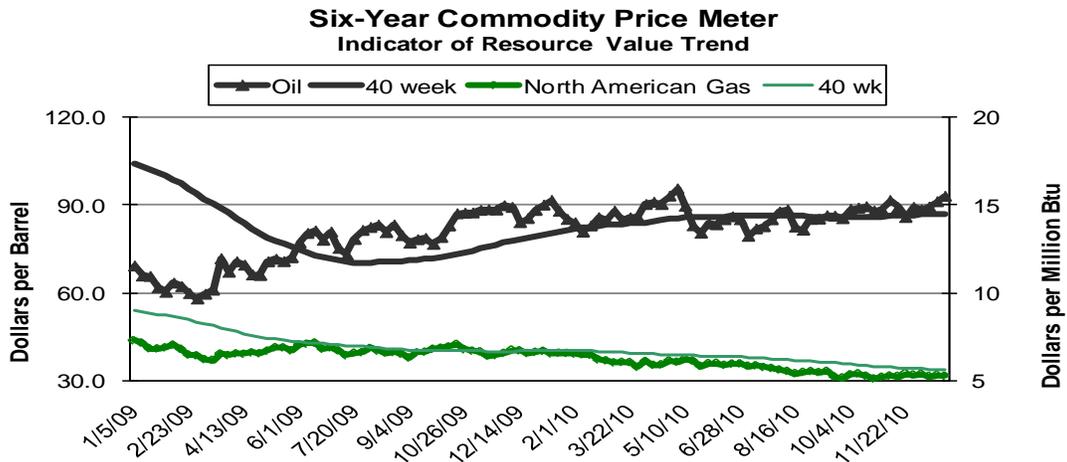
Summary and Recommendation

Higher oil values demonstrated in the futures market for crude oil and in the stock market for income and small cap securities are less recognized in large cap stocks including buy recommendations **Chevron (CVX)**, **Occidental Petroleum (OXY)** and **Canadian Oil Sands (COSWF)**. The three stocks' concentration on oil is among the highest at 76%, 86% and 100% respectively, while McDep Ratios are low at 0.65, 0.80, and 0.53 (see [Tables 1-2](#)). We capture higher oil value in our estimates by raising our expectation of long-term price to \$100 a barrel from \$75. Futures prices are not there yet, but are in an uptrend with the average for the next six years at \$92 (see chart [Six-Year Commodity Price Meter](#) below and chart [Six-Year and One-Year Natural Gas and Oil Futures](#) on page 7). Income and small cap stocks have advanced to an average McDep Ratio of 0.95 where 1.0 would ratify \$100 oil (see *ISCW*, December 24, 2010).

Oil Opportunities Abound in Canada

Including COSWF, five buy recommendations in our Canadian group have oil concentration ranging 82-100% and McDep Ratios ranging 0.53-0.72. Rich in oil sands resources and having a comparatively constructive political climate for international investors, Canada may be the most attractive place in the world to invest in oil production. A safe and friendly place to visit, Canada has also welcomed environmentalist demonstrators protesting oil development. Investors ought not to be overly concerned. The really serious environmental targets are in places of the world where demonstrators might fear to tread as in the nickel mines of Russia, gold mines of Africa and coal plants in China or Appalachia. Canada has among the world's highest enviro standards.

Kurt H. Wulff, CFA





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Table 2								
McDep Large Cap Energy Portfolio								
Net Present Value and McDep Ratio								
			Price (US\$/sh)	Shares	Market Cap (US\$mm)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
	Symbol/Rating		27-Dec 2010	(mm)				
	B = Buy, CB (see below)							
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	73.01	5,089	372,000	107.00	0.11	0.72
Chevron Corporation	CVX	B	90.12	2,007	181,000	146.00	0.08	0.65
ConocoPhillips	COP	B	67.15	1,400	94,000	119.00	0.19	0.65
Marathon Oil Corporation	MRO	B	36.51	712	26,000	68.00	0.19	0.62
	<i>Total or Median</i>				673,000		0.15	0.65
Europe								
BG Group plc	BRGXF		20.29	3,402	69,000	25.00	0.11	0.83
Royal Dutch Shell plc	RDS-A	B	66.08	3,069	203,000	96.00	0.19	0.75
Statoil ASA (33%)	STO	B	23.32	1,050	24,500	44.00	0.20	0.63
BP plc	BP		43.97	3,156	139,000	93.00	0.24	0.60
Total S.A.	TOT	B	52.85	2,245	119,000	111.00	0.13	0.54
	<i>Total or Median</i>				555,000		0.19	0.63
Australia/Brazil/China/Russia								
CNOOC Limited (34%)	CEO		233.76	152	35,600	220.00	0.04	1.06
Woodside Petroleum Ltd.	WOPEY	B	42.80	782	33,500	49.00	0.12	0.89
PetroChina Company Ltd (14%)	PTR	B	127.71	256	32,700	210.00	0.11	0.65
Petrobras	PBR		34.76	6,428	223,400	62.00	0.11	0.61
Gazprom (50%)	OGZPY	B	25.72	2,865	73,700	56.00	0.10	0.51
Lukoil Oil Company	LUKOY	B	57.34	814	46,700	150.00	0.06	0.42
	<i>Total or Median</i>				446,000		0.10	0.63
U.S. Independent								
Southwestern Energy Company	SWN		36.19	349	12,600	35.00	0.09	1.03
Anadarko Petroleum Corp.	APC		68.76	496	34,100	78.00	0.35	0.92
Chesapeake Energy Corp.	CHK		25.57	744	19,000	33.00	0.36	0.86
Occidental Petroleum Corp.	OXY	B	96.87	814	78,800	123.00	0.05	0.80
EOG Resources, Inc.	EOG	CB	90.12	250	22,600	130.00	0.13	0.73
Devon Energy Corporation	DVN	B	77.14	436	33,600	112.00	0.08	0.71
	<i>Total or Median</i>				200,700		0.11	0.83
Canada								
Penn West Petroleum Ltd.	PWE		24.00	440	10,600	31.00	0.20	0.82
Cenovus Energy Inc.	CVE	B	32.62	752	24,500	49.00	0.16	0.72
Canadian Natural Resources Limited	CNQ	B	43.56	1,089	47,400	67.00	0.13	0.69
Imperial Oil Limited (30%)	IMO	B	40.05	257	10,300	62.00	0.07	0.67
EnCana Corporation	ECA	CB	28.66	736	21,100	51.00	0.19	0.64
Suncor Energy	SU	B	37.02	1,572	58,200	64.00	0.14	0.64
Canadian Oil Sands Limited	COSWF	CB	25.88	484	12,500	52.00	0.06	0.53
	<i>Total or Median</i>				185,000		0.14	0.67
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\$100 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	Divd or Distrib		
	Symbol/Rating		27-Dec 2010	NTM	NTM	NTM	NTM (%)		
B = Buy, CB (see below)									
U.S. Integrated									
	Exxon Mobil Corporation	XOM	B	73.01	13.3	8.7	6.2	11	2.4
	ConocoPhillips	COP	B	67.15	10.4	8.7	5.6	12	3.3
	Marathon Oil Corporation	MRO	B	36.51	9.2	8.0	5.0	11	2.7
	Chevron Corporation	CVX	B	90.12	9.2	7.2	4.7	10	3.2
	<i>Total or Median</i>				9.8	8.3	5.3	11	3.0
Europe									
	BG Group plc	BRGXF		20.29	14.9	9.7	8.1	15	1.0
	Royal Dutch Shell plc	RDS-A	B	66.08	8.6	7.1	5.3	10	5.1
	BP plc	BP		43.97	10.2	8.4	5.0	7	-
	Total S.A.	TOT	B	52.85	9.5	7.9	4.3	7	5.7
	Statoil ASA (33%)	STO	B	23.32	7.0	6.6	4.1	8	4.3
	<i>Total or Median</i>				9.5	7.9	5.0	8	4.3
Australia/Brazil/China/Russia									
	Woodside Petroleum Ltd.	WOPEY	B	42.80	17.1	12.1	10.7	20	2.4
	Petrobras	PBR		34.76	10.0	11.1	6.8	12	3.4
	CNOOC Limited (34%)	CEO		233.76	5.6	5.7	6.0	11	2.3
	PetroChina Company Ltd (14%)	PTR	B	127.71	13.6	7.9	5.2	10	3.4
	Gazprom (50%)	OGZPY	B	25.72	30.2	8.0	4.1	5	0.2
	Lukoil Oil Company	LUKOY	B	57.34	16.0	7.7	3.2	5	3.0
	<i>Total or Median</i>				14.8	8.0	5.6	10	2.7
U.S. Independent									
	Chesapeake Energy Corp.	CHK		25.57	10.2	11.8	10.1	19	1.2
	Southwestern Energy Company	SWN		36.19	5.7	9.6	9.9	23	-
	Anadarko Petroleum Corp.	APC		68.76	8.5	8.6	7.9		0.5
	Devon Energy Corporation	DVN	B	77.14	10.1	10.1	7.2	14	0.8
	EOG Resources, Inc.	EOG	CB	90.12	8.6	9.3	6.8	29	0.7
	Occidental Petroleum Corp.	OXY	B	96.87	10.4	8.3	6.6	14	1.9
	<i>Total or Median</i>				9.4	9.4	7.6	19	0.8
Canada									
	Cenovus Energy Inc.	CVE	B	32.62	18.2	13.4	9.6	23	2.4
	EnCana Corporation	ECA	CB	28.66	13.9	14.0	9.0	27	2.8
	Penn West Petroleum Ltd.	PWE		24.00	9.9	10.9	8.9	34	4.5
	Imperial Oil Limited (30%)	IMO	B	40.05	21.0	12.6	8.4	15	1.1
	Canadian Natural Resources Limited	CNQ	B	43.56	18.2	12.0	8.3	20	0.7
	Suncor Energy	SU	B	37.02	21.9	12.1	7.7	21	1.1
	Canadian Oil Sands Limited	COSWF	CB	25.88	29.2	13.2	7.0	12	3.1
	<i>Total or Median</i>				18.2	12.6	8.4	21	2.4
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	Enterprise Value/				
	Symbol		(\$/sh)	27-Dec	52Wk	52Wk	50 Day	200 Day
		Ratin.	2010	High	Low	Avg.	Avg.	McDep
								Ratio
U.S. Integrated								
ConocoPhillips	COP	B	67.15	1.00	1.28	1.05	1.13	0.65
Chevron Corporation	CVX	B	90.12	0.99	1.29	1.05	1.13	0.65
Exxon Mobil Corporation	XOM	B	73.01	1.00	1.25	1.04	1.11	0.72
Marathon Oil Corporation	MRO	B	36.51	1.00	1.20	1.04	1.07	0.62
	<i>Median</i>			<i>1.00</i>	<i>1.26</i>	<i>1.05</i>	<i>1.12</i>	<i>0.65</i>
Europe								
BG Group plc	BRGXF		101.45	0.96	1.37	1.02	1.14	0.83
Royal Dutch Shell plc	RDS-A	B	66.08	0.97	1.24	1.02	1.09	0.75
Statoil ASA (33%)	STO	B	23.32	0.91	1.17	1.05	1.06	0.63
BP plc	BP		43.97	0.80	1.31	1.03	1.02	0.60
Total S.A.	TOT	B	52.85	0.83	1.16	0.99	1.02	0.54
	<i>Median</i>			<i>0.94</i>	<i>1.25</i>	<i>1.03</i>	<i>1.07</i>	<i>0.64</i>
Australia/Brazil/China/Russia								
CNOOC Limited (34%)	CEO		233.76	0.98	1.64	1.05	1.25	1.06
Gazprom (50%)	OGZPY	B	25.72	0.96	1.32	1.09	1.14	0.51
PetroChina Company Ltd (14%)	PTR	B	127.71	0.95	1.23	1.01	1.08	0.65
Woodside Petroleum Ltd.	WOPEY	B	42.80	0.93	1.25	1.01	1.05	0.89
Lukoil Oil Company	LUKOY	B	57.34	0.95	1.24	1.01	1.03	0.42
Petrobras	PBR		34.76	0.75	1.09	1.02	0.95	0.61
	<i>Median</i>			<i>0.95</i>	<i>1.25</i>	<i>1.02</i>	<i>1.06</i>	<i>0.63</i>
U.S. Independent								
Occidental Petroleum Corp.	OXY	B	96.87	0.99	1.32	1.10	1.16	0.80
Devon Energy Corporation	DVN	B	77.14	0.99	1.27	1.08	1.15	0.71
Anadarko Petroleum Corp.	APC		68.76	0.95	1.45	1.04	1.11	0.92
Chesapeake Energy Corp.	CHK		25.57	0.92	1.16	1.07	1.07	0.86
Southwestern Energy Company	SWN		43.47	0.70	1.16	1.00	0.97	1.03
EOG Resources, Inc.	EOG	CB	90.12	0.82	1.04	0.97	0.93	0.73
	<i>Median</i>			<i>0.93</i>	<i>1.22</i>	<i>1.06</i>	<i>1.09</i>	<i>0.83</i>
Canada								
Canadian Natural Resources	CNQ	B	43.56	0.98	1.34	1.08	1.16	0.69
Penn West Petroleum Ltd.	PWE		68.76	1.00	1.35	1.05	1.13	0.82
Cenovus Energy Inc.	CVE	B	32.62	0.99	1.31	1.07	1.12	0.72
Suncor Energy	SU	B	37.02	0.98	1.25	1.05	1.10	0.64
Imperial Oil Limited (30%)	IMO	B	40.05	0.93	1.12	1.05	1.03	0.67
Canadian Oil Sands Limited	COSWF	CB	26.03	0.81	1.11	1.00	0.97	0.53
EnCana Corporation	ECA	CB	28.66	0.85	1.07	1.00	0.96	0.64
	<i>Median</i>			<i>0.98</i>	<i>1.25</i>	<i>1.05</i>	<i>1.10</i>	<i>0.67</i>
CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average.								



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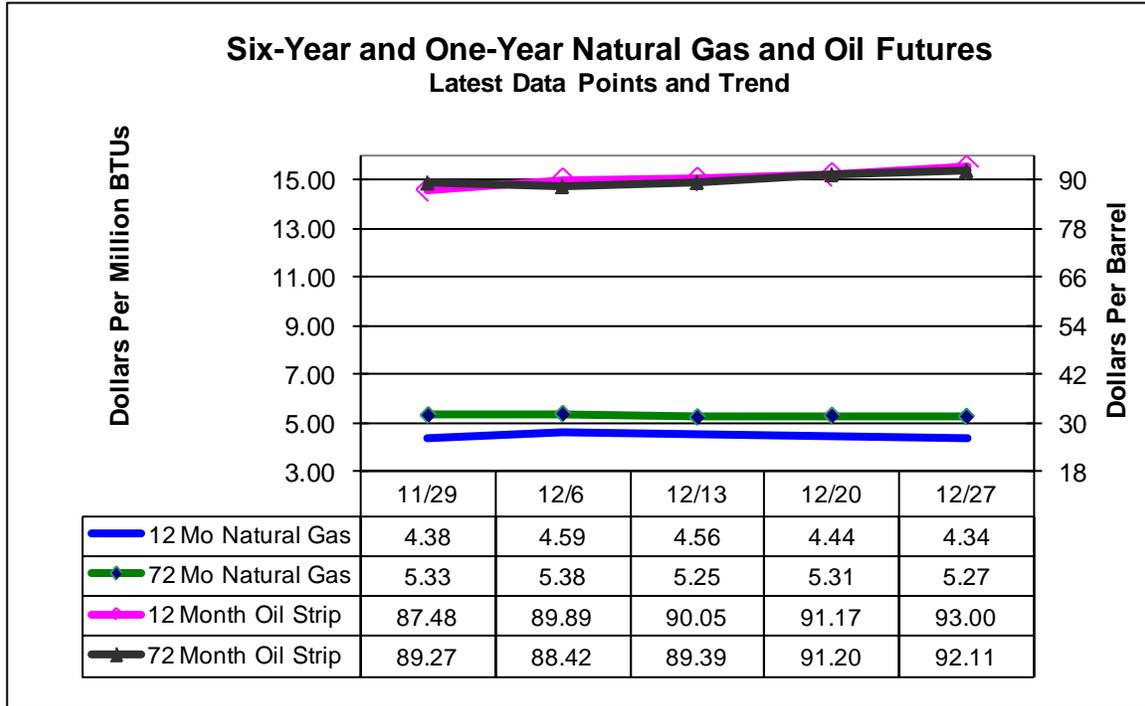
Index of Recent Research			
Stock Ideas			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
21-Dec	CHK	Chesapeake Energy	Carl Icahn Owns 5.8% (Meter Reader)
6-Dec	COSWF	Canadian Oil Sands Trust	Buy on Stock Price Drop
3-Dec	HK	Petrohawk	New Buy - Selling Pressure Exhausted (I and Small Cap Wkly)
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)
For historical research by stock, go to mcdep.com , click on Stock Ideas , click on stock by name.			
Meter Reader			
14-Dec	EOG ECA IMO COSWF		A Few Good Contrarian Buys Left
7-Dec	MRO CVX STO TOT OGZPY LUKOY		Cash Machines
30-Nov	COP TOT COSWF		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
For earlier editions, go to mcdep.com , click on Meter Reader .			
Income and Small Cap Weekly			
24-Dec	WLL DNR LGCY		Raise NPV on Long-Term Oil Price of \$100
17-Dec			Canadian Income Trusts R.I.P.
10-Dec	PWE BRY FRHLF ENP		Reverse McDep Identifies Higher Oil Values
3-Dec	RRC, HK	Range Resources, Petrohawk	New Buys - Selling Pressure Exhausted
26-Nov	SBR		Raise NPV on Proven Performance
19-Nov	ENP, VNR	Encore Energy, Vanguard Natural	Vanguard (VNR) to Manage High-Income Encore (ENP)
12-Nov	DMLP		Volume Trend Strengthening
For earlier editions, go to mcdep.com , click on Energy Income .			



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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.