



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

January 25, 2011

Surprising Strength in Refining

Summary and Recommendation

An exciting reversal in the profit outlook for oil refining benefits buy-recommended major oil companies **Royal Dutch Shell (RDS)**, **ExxonMobil (XOM)**, **Total (TOT)**, **ConocoPhillips (COP)** and **Chevron (CVX)**. Futures prices for the New York Harbor 3-2-1 crack spread, the most widely quoted proxy for refining profits, point to an average margin 60% higher for 2011 compared to 2008-2009 (see chart [Downstream Cash Flow](#) on page 2). Futures have adjusted sharply in just the past few weeks perhaps in response to surprises in economic activity and winter weather (see chart [April Crack Spread](#) on page 2). Since downstream profits track the crack, we will likely be raising our cash flow estimates within the week. Investor enthusiasm for downstream can be volatile to the upside as it was in 2007. Considering the peak stock market action for **Marathon (MRO)** four years ago, it looks like management of the buy-recommended medium-sized producer/refiner may have timed the forthcoming spinoff brilliantly (see *Meter Reader*, January 18, 2011). Investors may have stock in the new Marathon Petroleum Company at mid-year during the heart of a promising gasoline season.

Meanwhile, crude oil price continues its upward trend while natural gas shows signs of a turn. Futures price for the next six years currently at \$94 a barrel is above the 40-week average of \$88 (see charts [Six-Year Commodity Price Meter](#) on page 3 and [Six-Year and One-Year Natural Gas and Oil Futures](#) on page 9). Six-year natural gas at \$5.33 a million btu remains below the 40-week average of \$5.56. Yet, we are encouraged that one-year natural gas futures at \$4.78 are above the 40-week average at \$4.66, signalling an uptrend by that measure (see chart [Natural Gas One-Year Futures Strip](#) on page 3).

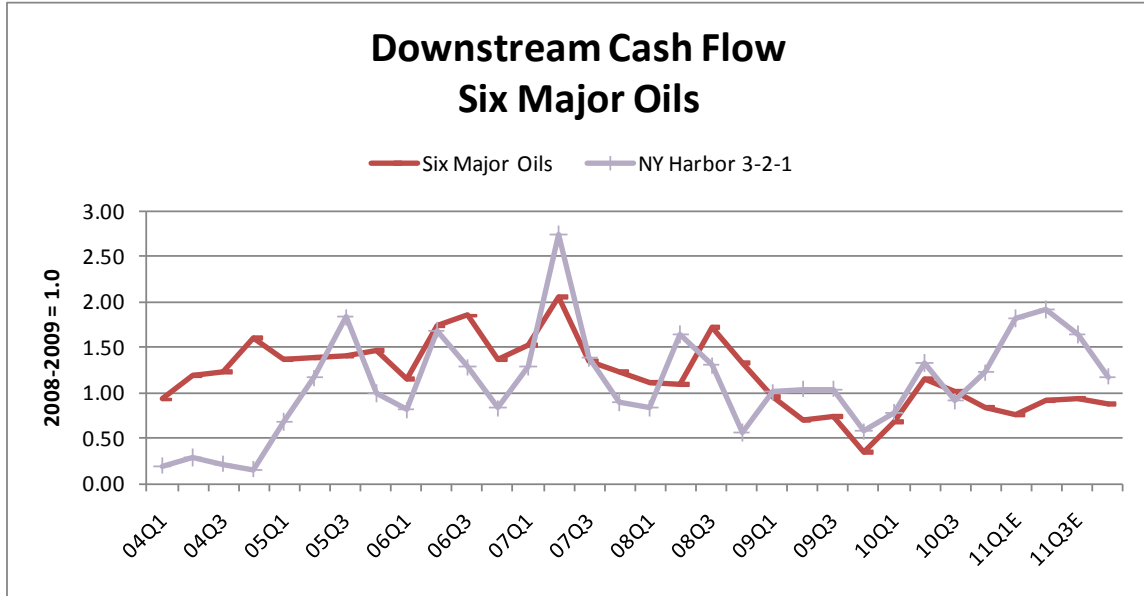
Large cap oil and gas stocks are concentrated by value 64% on crude oil, 22% on natural gas and 14% on downstream (see [Table 1](#) on page 4). The largest global refiners, XOM and RDS have 18% and 21% of NPV in downstream, respectively. Yet, advances and declines in refining profits have an impact on overall earnings out of proportion to their contribution to value. Should earnings from refining be surprising on the upside, stock price may surprise, too.

Kurt H. Wulff, CFA



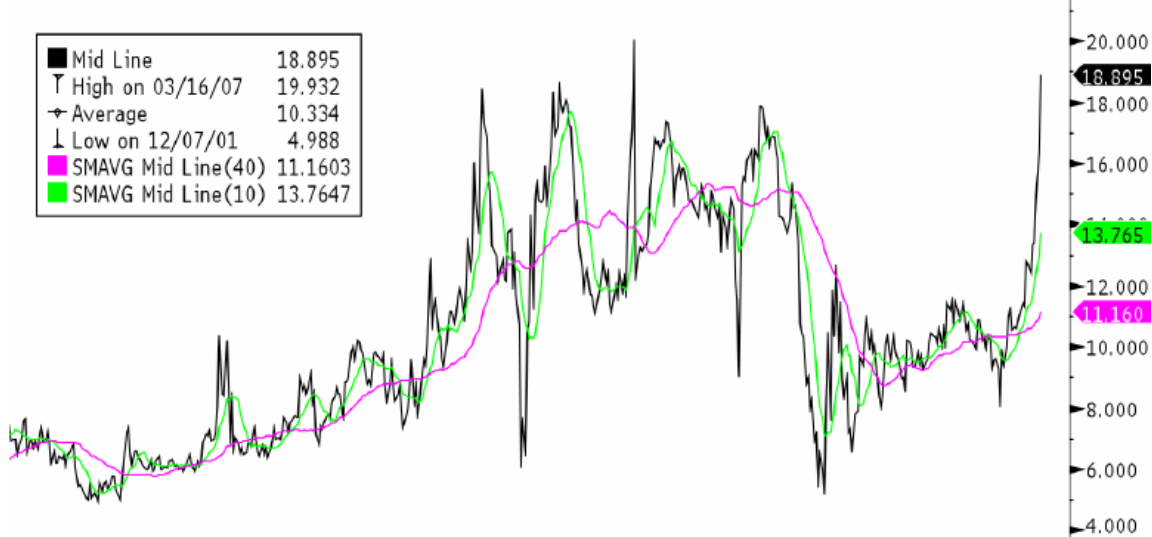
Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks
January 25, 2011



April Refining Crack

CRK321J INDEX	Save Chart	Hide	GP - Line Chart		Page 1/1
Range	01/26/01 - 01/21/11	Upper	Mid Line	Mov. Avgs	40 10
Period	Weekly	Lower	None	Mov. Avg	
					Events

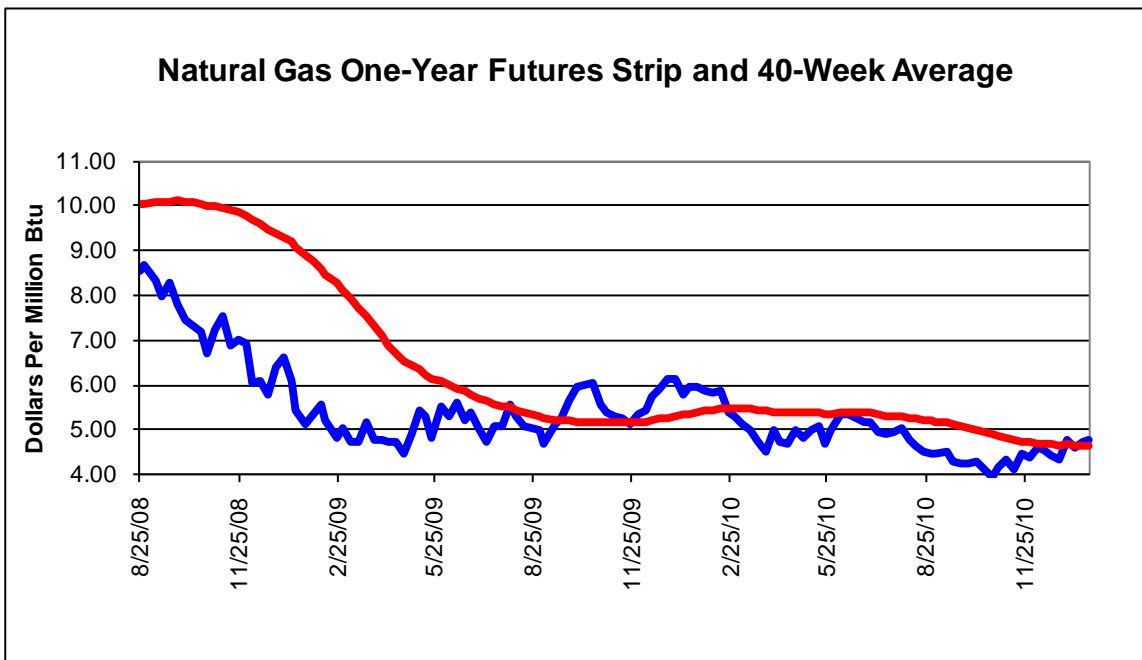
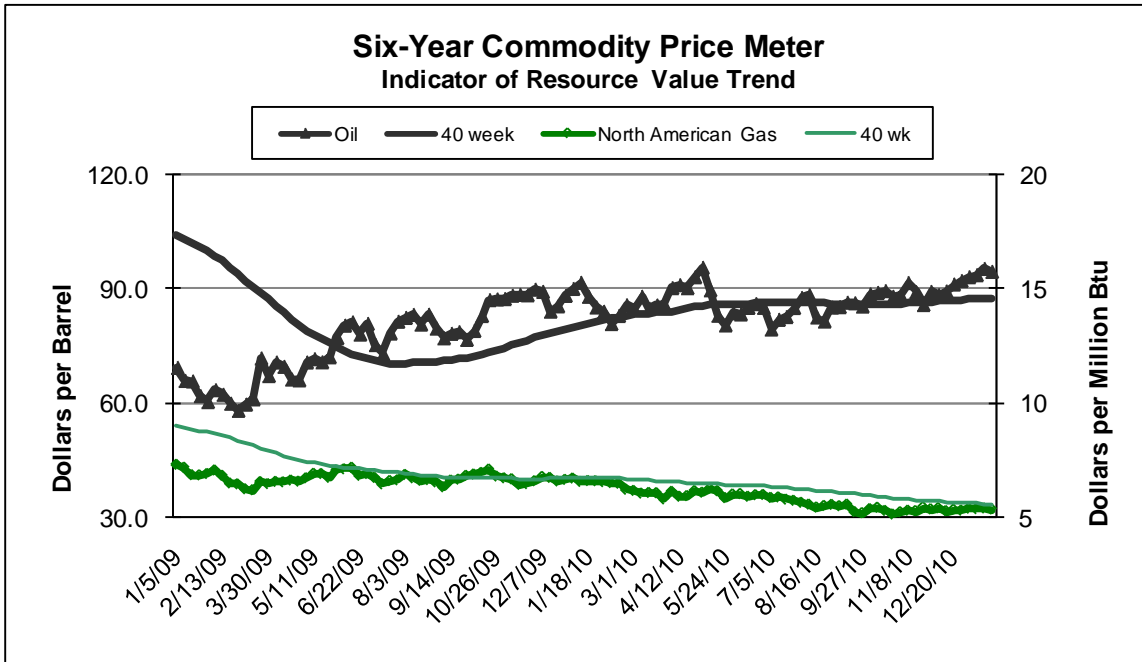


2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	20
Australia 61 2 9777 8600	Brazil 5511 3048 4500	Europe 44 20 7330 7500	Germany 49 69 9204 1210	Hong Kong 852 2977 6000	Japan 81 3 3201 8900	Singapore 65 6212 1000	U.S. 1 212 318 2000	Copyright 2011 Bloomberg Finance L.P. SN 184823 H621-951-1 24-Jan-2011 20:11:43		



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks
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Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

January 25, 2011

Table 1												
McDep Large Cap Energy Portfolio												
Geographic Domicile and Business Segments												
			Price (US\$/sh)	EV/ Market Cap	Enterprise Value (\$mm)	Present Value by Segment (%)					McDep Ratio	
						Symbol/Rating B = Buy, CB (see below)	24-Jan 2011	Natural Gas	Natural Gas	Oil Prod'n		Down- stream
U.S. Integrated												
Exon Mobil Corporation	XOM	B	78.59	1.17	467,000	8	14	60	18	0.76		
Marathon Oil Corporation	MRO	B	42.15	1.37	41,200	5	2	71	22	0.69		
Chevron Corporation	CVX	B	94.10	1.14	215,000	3	10	76	11	0.67		
ConocoPhillips	COP	B	68.10	1.41	134,000	14	8	65	14	0.65		
<i>Total or Median</i>					857,000			68		0.68		
Europe												
BG Group	BRGXF		21.25	1.15	83,100		26	46	28	0.87		
Royal Dutch Shell plc	RDS-A	B	69.53	1.33	283,000	2	20	56	21	0.78		
Statoil ASA (33%)	STO	B	24.65	1.47	38,000		34	66	-	0.65		
BP plc	BP		48.08	1.60	243,000	5	8	69	18	0.63		
Total S.A.	TOT	B	58.79	1.29	171,000		16	66	18	0.59		
<i>Total or Median</i>					818,000			66		0.65		
Australia/Brazil/China/Russia												
CNOOC Limited (34%)	CEO		242.89	1.04	38,400		8	92	-	1.10		
Woodside Petroleum Ltd.	WOPEY	B	42.75	1.15	39,000		63	37	-	0.89		
PetroChina Company Ltd (14%)	PTR	B	136.69	1.19	41,600		13	69	19	0.69		
Petrobras	PBR	B	36.73	1.22	287,000		3	81	16	0.64		
Gazprom (50%)	OGZPY	B	25.46	1.24	91,000		83	17	-	0.51		
Lukoil Oil Company	LUKOY	B	63.30	1.14	58,800			69	31	0.45		
<i>Total or Median</i>					556,000			69		0.66		
U.S. Independent												
Southwestern Energy Company	SWN		39.05	1.09	14,800	100			-	1.11		
Anadarko Petroleum Corp.	APC		77.26	1.55	59,300	37		60	3	0.99		
Chesapeake Energy Corp.	CHK		28.15	1.66	34,800	88		12	-	0.91		
EOG Resources, Inc.	EOG	B	101.73	1.19	30,400	48	4	48	-	0.81		
Occidental Petroleum Corp.	OXY	B	97.18	1.06	84,100	8	1	86	6	0.80		
Devon Energy Corporation	DVN	B	85.70	1.11	41,400	55		45	-	0.78		
<i>Total or Median</i>					265,000			48		0.86		
Canada												
Penn West Petroleum Ltd.	PWE		26.07	1.31	13,900	17		83	-	0.82		
Imperial Oil Limited (30%)	IMO	B	42.18	1.10	11,900	3		86	11	0.70		
Cenovus Energy Inc.	CVE	B	32.43	1.28	31,300	14		82	5	0.72		
EnCana Corporation	ECA	B	32.57	1.36	32,700	92		8	-	0.71		
Canadian Natural Resources Ltd	CNQ	B	42.32	1.23	56,800	12		88	-	0.68		
Suncor Energy	SU	B	38.48	1.27	76,800	4		88	9	0.66		
Canadian Oil Sands Limited	COSWF	B	26.95	1.12	14,600			100	-	0.55		
<i>Total or Median</i>					238,000			88		0.70		
Composite					2,734,000	9	13	64	14	0.69		

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



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

January 25, 2011

			Price (US\$/sh)		Market Cap	Net Present Value	Debt/ Present Value	McDep Ratio
	Symbol/Rating		24-Jan 2011	Shares (mm)	(US\$mm)	(US\$/sh)		
B = Buy, CB (see below)								
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	78.59	5,089	400,000	107.00	0.11	0.76
Marathon Oil Corporation	MRO	B	42.15	712	30,010	68.00	0.19	0.69
Chevron Corporation	CVX	B	94.10	2,007	189,000	146.00	0.08	0.67
ConocoPhillips	COP	B	68.10	1,400	95,000	119.00	0.19	0.65
<i>Total or Median</i>					714,000		0.15	0.68
Europe								
BG Group plc	BRGXF		21.25	3,402	72,300	25.00	0.11	0.87
Royal Dutch Shell plc	RDS-A	B	69.53	3,069	213,000	96.00	0.19	0.78
Statoil ASA (33%)	STO	B	24.65	1,050	25,900	44.00	0.21	0.65
BP plc	BP		48.08	3,156	152,000	93.00	0.24	0.63
Total S.A.	TOT	B	58.79	2,245	132,000	111.00	0.13	0.59
<i>Total or Median</i>					595,000		0.19	0.65
Australia/Brazil/China/Russia								
CNOOC Limited (34%)	CEO		242.89	152	37,000	220.00	0.04	1.10
Woodside Petroleum Ltd.	WOPEY	B	42.75	782	33,400	49.00	0.12	0.89
PetroChina Company Ltd (14%)	PTR	B	136.69	256	35,000	210.00	0.11	0.69
Petrobras	PBR	B	36.73	6,428	236,100	62.00	0.11	0.64
Gazprom (50%)	OGZPY	B	25.46	2,865	72,900	56.00	0.10	0.51
Lukoil Oil Company	LUKOY	B	63.30	814	51,600	150.00	0.06	0.45
<i>Total or Median</i>					466,000		0.10	0.66
U.S. Independent								
Southwestern Energy Company	SWN		39.05	349	13,600	35.00	0.09	1.11
Anadarko Petroleum Corp.	APC		77.26	496	38,300	78.00	0.35	0.99
Chesapeake Energy Corp.	CHK		28.15	744	20,900	33.00	0.36	0.91
EOG Resources, Inc.	EOG	B	101.73	250	25,500	130.00	0.13	0.81
Occidental Petroleum Corp.	OXY	B	97.18	814	79,100	123.00	0.05	0.80
Devon Energy Corporation	DVN	B	85.70	436	37,400	112.00	0.08	0.78
<i>Total or Median</i>					214,800		0.11	0.86
Canada								
Penn West Petroleum Ltd.	PWE		26.07	440	10,600	31.00	0.20	0.82
Cenovus Energy Inc.	CVE	B	32.43	752	24,400	49.00	0.16	0.72
EnCana Corporation	ECA	B	32.57	736	24,000	51.00	0.19	0.71
Imperial Oil Limited (30%)	IMO	B	42.18	257	10,800	62.00	0.07	0.70
Canadian Natural Resources Limited	CNQ	B	42.32	1,089	46,100	67.00	0.13	0.68
Suncor Energy	SU	B	38.48	1,572	60,500	64.00	0.14	0.66
Canadian Oil Sands Limited	COSWF	B	26.95	484	13,000	52.00	0.06	0.55
<i>Total or Median</i>					189,000		0.14	0.70
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.								



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

January 25, 2011

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		24-Jan 2011	NTM	NTM	NTM	NTM	(%)	
B = Buy, CB (see below)									
U.S. Integrated									
	Exxon Mobil Corporation	XOM	B	78.59	13.3	8.6	6.6	12	2.2
	ConocoPhillips	COP	B	68.10	10.4	8.6	5.6	12	3.2
	Marathon Oil Corporation	MRO	B	42.15	9.2	8.0	5.6	12	2.4
	Chevron Corporation	CVX	B	94.10	9.2	7.2	4.9	10	3.1
	<i>Total or Median</i>				9.8	8.3	5.6	12	2.7
Europe									
	BG Group plc	BRGXF		21.25	14.9	9.6	8.3	16	0.9
	Royal Dutch Shell plc	RDS-A	B	69.53	8.6	7.1	5.5	10	4.8
	BP plc	BP		48.08	10.2	8.5	5.4	8	-
	Total S.A.	TOT	B	58.79	9.5	7.9	4.7	8	5.3
	Statoil ASA (33%)	STO	B	24.65	7.0	6.7	4.4	9	4.2
	<i>Total or Median</i>				9.5	7.9	5.4	9	4.2
Australia/Brazil/China/Russia									
	Woodside Petroleum Ltd.	WOPEY	B	42.75	17.1	12.2	10.8	20	2.4
	Petrobras	PBR	B	36.73	10.0	11.2	7.1	12	3.2
	CNOOC Limited (34%)	CEO		242.89	5.6	5.7	6.3	11	2.2
	PetroChina Company Ltd (14%)	PTR	B	136.69	13.6	8.0	5.5	10	3.2
	Gazprom (50%)	OGZPY	B	25.46	30.2	7.8	4.0	5	1.3
	Lukoil Oil Company	LUKOY	B	63.30	16.0	7.7	3.5	6	2.8
	<i>Total or Median</i>				14.8	7.9	5.9	11	2.6
U.S. Independent									
	Chesapeake Energy Corp.	CHK		28.15	10.2	11.1	10.1	19	1.1
	Southwestern Energy Company	SWN		39.05	5.7	9.0	9.9	22	-
	Anadarko Petroleum Corp.	APC		77.26	8.5	8.4	8.4		0.5
	Devon Energy Corporation	DVN	B	85.70	10.1	9.8	7.7	15	0.7
	EOG Resources, Inc.	EOG	B	101.73	8.6	9.1	7.4	31	0.6
	Occidental Petroleum Corp.	OXY	B	97.18	10.4	8.3	6.7	14	1.9
	<i>Total or Median</i>				9.4	9.0	8.1	19	0.7
Canada									
	Cenovus Energy Inc.	CVE	B	32.43	18.2	13.3	9.5	23	2.5
	EnCana Corporation	ECA	B	32.57	13.9	13.1	9.3	28	2.5
	Penn West Petroleum Ltd.	PWE		26.07	9.3	10.8	8.9	36	4.1
	Imperial Oil Limited (30%)	IMO	B	42.18	21.0	12.6	8.9	15	1.0
	Canadian Natural Resources Limited	CNQ	B	42.32	18.2	12.0	8.1	20	0.7
	Suncor Energy	SU	B	38.48	21.9	12.2	8.0	22	1.0
	Canadian Oil Sands Limited	COSWF	B	26.95	29.2	13.6	7.4	13	3.0
	<i>Total or Median</i>				18.2	12.6	8.9	22	2.5
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									



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

January 25, 2011

Table 4									
McDep Large Cap Energy Portfolio									
Rank by Enterprise Value to 200 Day Average									
			Price	Enterprise Value/					
	Symbol		(\$/sh)	24-Jan	52Wk	52Wk	50 Day	200 Day	
		Ratin.	2011	High	Low	Avg.	Avg.	McDep	
								Ratio	
U.S. Integrated									
	Exxon Mobil Corporation	XOM	B	78.59	0.99	1.33	1.07	1.17	0.76
	Marathon Oil Corporation	MRO	B	42.15	0.95	1.33	1.11	1.17	0.69
	Chevron Corporation	CVX	B	94.10	1.00	1.34	1.06	1.15	0.67
	ConocoPhillips	COP	B	68.10	0.99	1.29	1.03	1.12	0.65
	<i>Median</i>				<i>0.99</i>	<i>1.33</i>	<i>1.06</i>	<i>1.16</i>	<i>0.68</i>
Europe									
	BG Group plc	BRGXF		106.23	0.97	1.43	1.04	1.17	0.87
	Royal Dutch Shell plc	RDS-A	B	69.53	1.00	1.28	1.05	1.12	0.78
	Total S.A.	TOT	B	58.79	0.97	1.26	1.08	1.11	0.59
	Statoil ASA (33%)	STO	B	24.65	0.99	1.21	1.06	1.09	0.65
	BP plc	BP		48.08	0.86	1.38	1.06	1.09	0.63
	<i>Median</i>				<i>0.98</i>	<i>1.31</i>	<i>1.06</i>	<i>1.11</i>	<i>0.67</i>
Australia/Brazil/China/Russia									
	CNOOC Limited (34%)	CEO		242.89	0.97	1.70	1.04	1.25	1.10
	PetroChina Company Ltd (14%)	PTR	B	136.69	0.98	1.30	1.05	1.13	0.69
	Lukoil Oil Company	LUKOY	B	63.30	0.98	1.36	1.08	1.12	0.45
	Gazprom (50%)	OGZPY	B	25.46	0.96	1.31	1.03	1.12	0.51
	Woodside Petroleum Ltd.	WOPEY	B	42.75	0.93	1.25	1.01	1.05	0.89
	Petrobras	PBR	B	36.73	0.81	1.14	1.04	1.01	0.64
	<i>Median</i>				<i>0.96</i>	<i>1.30</i>	<i>1.04</i>	<i>1.12</i>	<i>0.66</i>
U.S. Independent									
	Devon Energy Corporation	DVN	B	85.70	1.01	1.40	1.12	1.24	0.78
	Anadarko Petroleum Corp.	APC		77.26	0.98	1.56	1.07	1.19	0.99
	Occidental Petroleum Corp.	OXY	B	97.18	0.98	1.32	1.04	1.15	0.80
	Chesapeake Energy Corp.	CHK		28.15	1.00	1.22	1.09	1.13	0.91
	Southwestern Energy Company	SWN		48.46	0.85	1.25	1.05	1.05	1.11
	EOG Resources, Inc.	EOG	B	101.73	0.90	1.16	1.08	1.03	0.81
	<i>Median</i>				<i>0.98</i>	<i>1.28</i>	<i>1.07</i>	<i>1.14</i>	<i>0.86</i>
Canada									
	Penn West Petroleum Ltd.	PWE		77.26	0.93	1.35	1.03	1.12	0.82
	Suncor Energy	SU	B	38.48	0.98	1.28	1.05	1.12	0.66
	Canadian Natural Resources	CNQ	B	42.32	0.93	1.31	1.01	1.12	0.68
	Cenovus Energy Inc.	CVE	B	32.43	0.96	1.30	1.03	1.10	0.72
	Imperial Oil Limited (30%)	IMO	B	42.18	0.97	1.18	1.07	1.08	0.70
	EnCana Corporation	ECA	B	32.57	0.94	1.17	1.09	1.06	0.71
	Canadian Oil Sands Limited	COSWF	B	26.97	0.84	1.14	1.03	1.02	0.55
	<i>Median</i>				<i>0.94</i>	<i>1.28</i>	<i>1.03</i>	<i>1.10</i>	<i>0.70</i>
CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average.									



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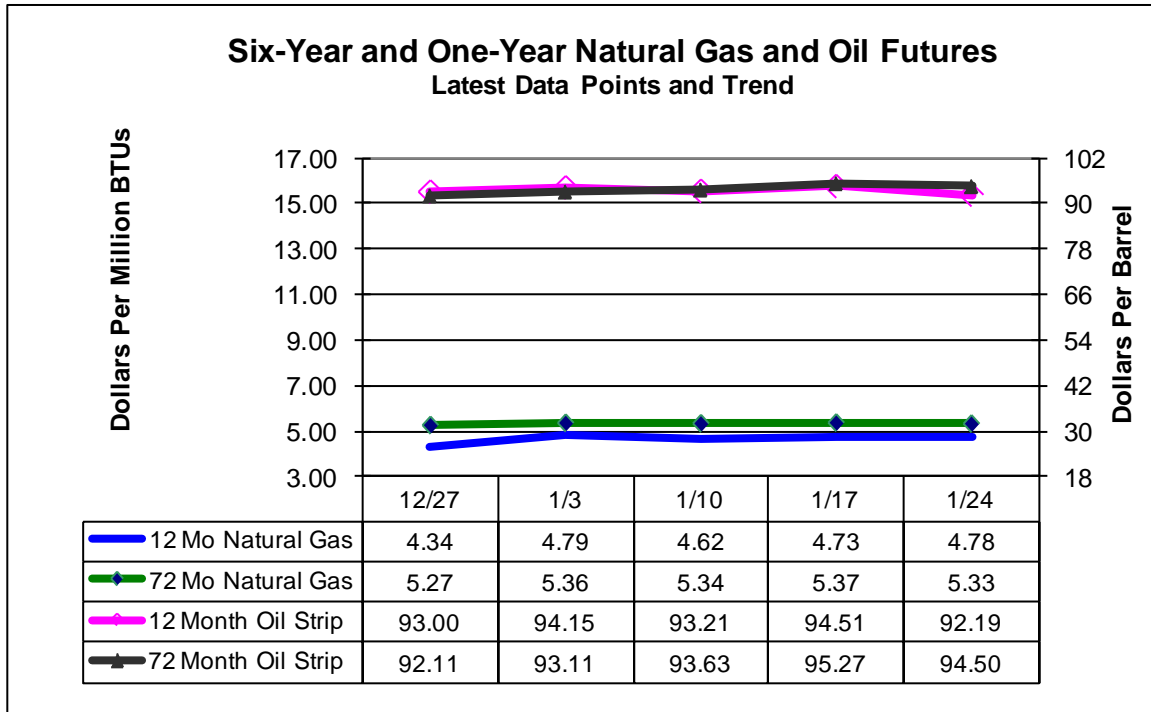
Index of Recent Research			
Stock Ideas			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
21-Jan	XEC	Cimarex Energy	Raise NPV to \$100 a Share (Income and Small Cap Weekly)
18-Jan	MRO	Marathon Oil	Refining/Marketing Spinoff May Boost Value 27% (MR)
17-Jan	BIREF	Birchcliff Energy Ltd.	High Volume Stock Trading
11-Jan	IMO	Imperial Oil	Accelerating Growth (Meter Reader)
7-Jan	WLL	Whiting Petroleum	Raise NPV to \$150 on North Dakota Oil (ISCW)
4-Jan	PBR	Petrobras	Restore Buy on Oil Growth (Meter Reader)
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	Core Energy Partners	Vanguard to Manage High-Income Encore (Income and SCW)
12-Nov	DMLP	Dorchester Minerals, L.P.	Volume Trend Strengthening (Income and Small Cap Weekly)
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)
For historical research by stock, go to mcdep.com , click on Stock Ideas , click on stock by name.			
Meter Reader			
25-Jan			
18-Jan	MRO	Marathon Oil	Refining/Marketing Spinoff May Boost Value 27%
11-Jan	IMO	Imperial Oil	Accelerating Growth
4-Jan	PBR	Petrobras	Restore Buy on Oil Growth
28-Dec	CVX OXY COSWF		Raise Long-Term Oil Price to \$100
For earlier editions, go to mcdep.com , click on Meter Reader .			
Income and Small Cap Weekly			
21-Jan	XEC	Cimarex Energy	Raise NPV to \$100 a Share
14-Jan			All Stock Price Trends Up
7-Jan	WLL	Whiting Petroleum	Raise NPV to \$150 on North Dakota Oil
31-Dec	WLL XEC		Longer Life, Higher Value
24-Dec	WLL DNR LGCY		Raise NPV on Long-Term Oil Price of \$100
For earlier editions, go to mcdep.com , click on Energy Income .			



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

January 25, 2011



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