



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

February 8, 2011

Natural Gas Price Action for Gazprom and Statoil

Summary and Recommendation

Buy recommendations **Gazprom (OGZPY)** and **Statoil (STO)** may be among the most important beneficiaries of a marked upturn in natural gas price outside North America as traced in 2010 fourth quarter results from buy recommendations **ExxonMobil (XOM)**, **Royal Dutch Shell (RDS)** and **ConocoPhillips (COP)** (see chart on page 2). Gazprom is concentrated 84% by value on Rest of World (ROW) natural gas while Statoil is concentrated 34% by our estimates (see [Table 1](#) on page 3). Oil price, after a time lag of six months or more, has traditionally been the main determinant of natural gas price in European and North East Asian markets. While buyers like lower price, results from XOM, RDS and COP suggest any reductions have not been noticeable. Meanwhile the high cost of new projects and the recent interruption of Egyptian production reinforces the contract price structure. New supplies offshore Israel may not be competitive as the government attempts to change taxes to as high as an 80% rate after the fact of discovery. Natural gas helps propel Net Present Value (NPV) for Gazprom to \$56 a share and for Statoil to \$44 leading to McDep Ratios of 0.57 and 0.65 respectively (see [Table 2](#) on page 4). Enterprise values are among the lowest at 4.4 and 4.3 times unlevered cash flow (see [EV/Ebitda in Table 3](#) on page 5). Gazprom stock is performing at the top of the range in Enterprise Value to 200 Day average (see [Table 4](#) on page 6). The Russian producer will likely report 2010 third quarter results according to international accounting on or before its investor presentations in Moscow, London and New York on February 15-17. Norwegian producer Statoil expects to report fourth quarter results on February 9.

Common Geopolitical Interests of Germany and Russia in Natural Gas

Strategic forecaster George Friedman, in his latest book *The Next Decade*, identifies natural gas as the most important future energy source. The choice fuel may form the basis for a strengthening relationship between two historic global powers. Russia has the natural gas Germany needs and Germany has the technology Russia needs. At the same time, Germany may meet its need for labor by building factories in Russia that employ underemployed Russians and help diversify Russia's economy. On the downside, the author cautions against the combined countries becoming strong enough to impose their will on others. On the upside, we see global economic growth as a force for peace and investment opportunity.

U.S. Natural Gas Price Stable

While ROW natural gas price is moving up, the U.S. futures price for the next six years trades flat (see charts [Six-Year Commodity Price Meter](#) below and [Six-Year and One-Year Natural Gas and Oil Futures](#) on page 11). Bored commodity traders are shifting their interests away from natural gas to more volatile metals markets according to *Natural Gas Week*.

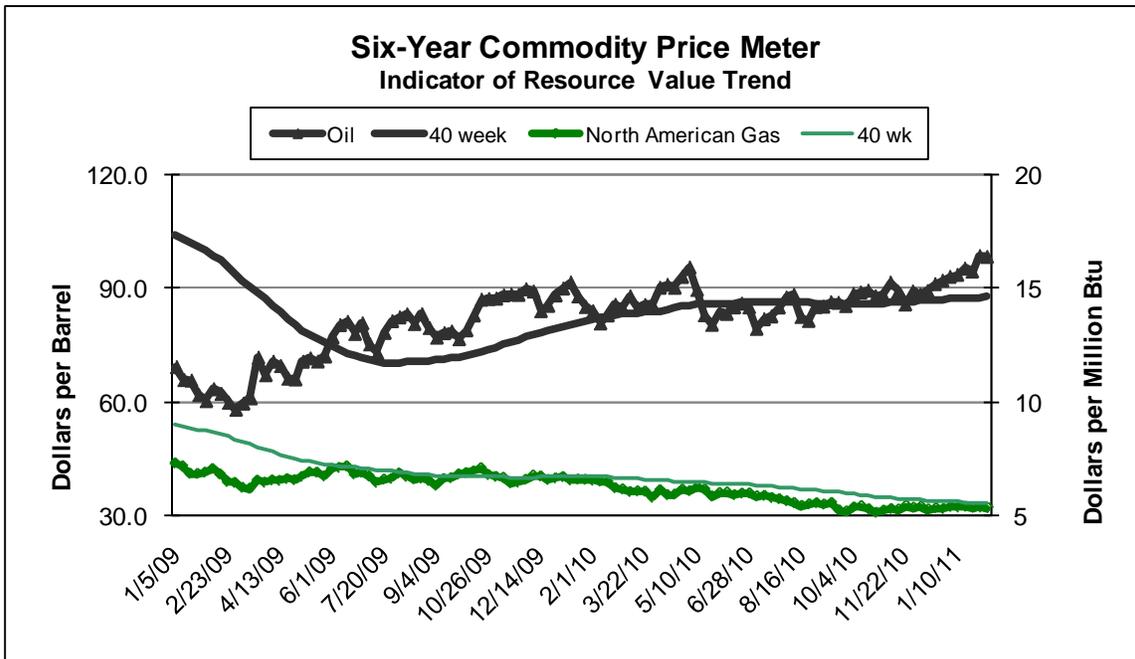
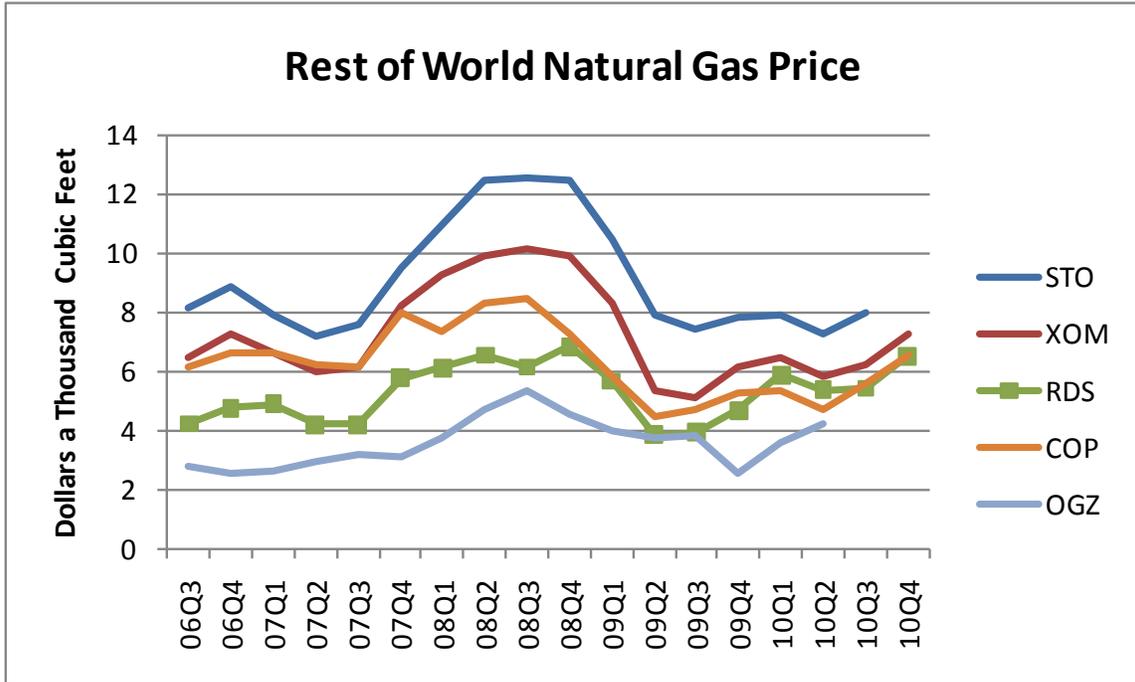
Kurt H. Wulff, CFA



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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>7-Feb</i>	<i>(mm)</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	<i>McDep</i>
			<i>2011</i>		<i>(US\$mm)</i>	<i>(US\$/sh)</i>	<i>Value</i>	<i>Ratio</i>
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	83.93	5,031	422,000	107.00	0.11	0.81
Marathon Oil Corporation	MRO	B	46.40	713	33,080	68.00	0.19	0.74
Chevron Corporation	CVX	B	97.66	2,009	196,000	146.00	0.06	0.69
ConocoPhillips	COP	B	72.29	1,425	103,000	119.00	0.19	0.68
	<i>Total or Median</i>				<i>754,000</i>		<i>0.15</i>	<i>0.72</i>
Europe								
BG Group plc	BRGXF		23.40	3,402	79,600	25.00	0.11	0.94
Royal Dutch Shell plc	RDS-A	B	70.15	3,074	216,000	96.00	0.19	0.78
Statoil ASA (33%)	STO	B	24.62	1,050	25,900	44.00	0.21	0.65
BP plc	BP		46.54	3,168	147,000	93.00	0.24	0.62
Total S.A.	TOT	B	59.06	2,245	133,000	111.00	0.13	0.59
	<i>Total or Median</i>				<i>602,000</i>		<i>0.19</i>	<i>0.65</i>
Australia/Brazil/China/Russia								
CNOOC Limited (34%)	CEO		222.68	152	33,900	220.00	0.04	1.01
Woodside Petroleum Ltd.	WOPEY	B	43.50	782	34,000	49.00	0.12	0.90
PetroChina Company Ltd (14%)	PTR	B	139.35	256	35,700	210.00	0.11	0.70
Petrobras	PBR	B	36.85	6,428	236,900	62.00	0.11	0.64
Gazprom (50%)	OGZPY	B	29.10	2,865	83,400	56.00	0.10	0.57
Lukoil Oil Company	LUKOY	B	67.25	814	54,800	150.00	0.06	0.48
	<i>Total or Median</i>				<i>479,000</i>		<i>0.11</i>	<i>0.67</i>
U.S. Independent								
Southwestern Energy Company	SWN		39.46	349	13,800	35.00	0.09	1.12
Anadarko Petroleum Corp.	APC		79.27	498	39,500	78.00	0.35	1.01
Chesapeake Energy Corp.	CHK		31.27	744	23,300	33.00	0.36	0.97
EOG Resources, Inc.	EOG	B	105.59	250	26,400	130.00	0.13	0.84
Occidental Petroleum Corp.	OXY	B	97.54	814	79,400	123.00	0.05	0.80
Devon Energy Corporation	DVN	B	86.98	436	37,900	112.00	0.08	0.79
	<i>Total or Median</i>				<i>220,300</i>		<i>0.11</i>	<i>0.90</i>
Canada								
Penn West Petroleum Ltd.	PWE		26.52	440	10,600	31.00	0.20	0.82
Imperial Oil Limited (30%)	IMO	B	45.27	256	11,600	62.00	0.07	0.75
Cenovus Energy Inc.	CVE	B	34.29	752	25,800	49.00	0.16	0.75
Canadian Natural Resources Limited	CNQ	B	44.50	1,089	48,500	67.00	0.13	0.71
EnCana Corporation	ECA	B	31.97	736	23,500	51.00	0.19	0.70
Suncor Energy	SU	B	40.79	1,575	64,200	64.00	0.14	0.69
Canadian Oil Sands Limited	COSWF	B	28.83	484	14,000	52.00	0.06	0.58
	<i>Total or Median</i>				<i>198,000</i>		<i>0.14</i>	<i>0.71</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\$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	P/E	Divd or Distrib NTM
	Symbol/Rating		7-Feb 2011	NTM	NTM	NTM	NTM	(%)
B = Buy, CB (see below)								
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	83.93	12.5	7.4	6.0	10	2.1
ConocoPhillips	COP	B	72.29	10.5	7.8	5.3	10	3.0
Marathon Oil Corporation	MRO	B	46.40	8.6	6.4	4.7	10	2.2
Chevron Corporation	CVX	B	97.66	9.0	6.6	4.5	9	2.9
<i>Total or Median</i>				9.7	7.0	5.0	10	2.6
Europe								
BG Group plc	BRGXF		23.40	14.9	9.6	9.0	17	0.8
Royal Dutch Shell plc	RDS-A	B	70.15	8.4	6.7	5.2	9	4.8
BP plc	BP		46.54	10.4	7.6	4.7	6	3.6
Total S.A.	TOT	B	59.06	9.5	7.8	4.6	8	5.2
Statoil ASA (33%)	STO	B	24.62	7.0	6.6	4.3	9	4.2
<i>Total or Median</i>				9.5	7.6	4.7	9	4.2
Australia/Brazil/China/Russia								
Woodside Petroleum Ltd.	WOPEY	B	43.50	19.6	13.7	12.3	24	2.3
Petrobras	PBR	B	36.85	10.0	10.9	7.0	12	3.2
CNOOC Limited (34%)	CEO		222.68	5.6	5.6	5.7	10	2.4
PetroChina Company Ltd (14%)	PTR	B	139.35	13.6	7.8	5.5	10	3.2
Gazprom (50%)	OGZPY	B	29.10	30.2	7.7	4.4	6	1.1
Lukoil Oil Company	LUKOY	B	67.25	16.0	7.6	3.6	6	2.6
<i>Total or Median</i>				14.8	7.8	5.6	10	2.5
U.S. Independent								
Chesapeake Energy Corp.	CHK		31.27	10.2	11.7	11.3	23	1.0
Southwestern Energy Company	SWN		39.46	5.7	9.6	10.8	25	-
Anadarko Petroleum Corp.	APC		79.27	8.9	8.5	8.6		0.5
Devon Energy Corporation	DVN	B	86.98	10.1	10.0	8.0	15	0.7
EOG Resources, Inc.	EOG	B	105.59	8.6	9.1	7.6	33	0.6
Occidental Petroleum Corp.	OXY	B	97.54	11.0	8.4	6.7	14	1.9
<i>Total or Median</i>				9.5	9.4	8.3	23	0.7
Canada								
Cenovus Energy Inc.	CVE	B	34.29	18.2	13.3	9.9	24	2.4
EnCana Corporation	ECA	B	31.97	13.9	14.0	9.7	30	2.5
Imperial Oil Limited (30%)	IMO	B	45.27	21.0	12.1	9.0	15	1.0
Penn West Petroleum Ltd.	PWE		26.52	9.3	10.7	8.8	36	4.0
Canadian Natural Resources Limited	CNQ	B	44.50	18.2	11.8	8.4	21	0.7
Canadian Oil Sands Limited	COSWF	B	28.83	28.9	12.9	7.5	13	2.8
Suncor Energy	SU	B	40.79	21.1	10.8	7.4	16	1.0
<i>Total or Median</i>				18.2	12.1	8.8	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						
			(\$/sh)	Enterprise Value/					
	Symbol		7-Feb	52Wk	52Wk	50 Day	200 Day	McDep	
		Ratin.	2011	High	Low	Avg.	Avg.	Ratio	
U.S. Integrated									
	Marathon Oil Corporation	MRO	B	46.40	0.98	1.42	1.14	1.24	0.74
	Exxon Mobil Corporation	XOM	B	83.93	1.00	1.40	1.10	1.23	0.81
	Chevron Corporation	CVX	B	97.66	0.99	1.40	1.07	1.18	0.69
	ConocoPhillips	COP	B	72.29	1.00	1.34	1.06	1.16	0.68
	<i>Median</i>			<i>1.00</i>	<i>1.40</i>	<i>1.09</i>	<i>1.21</i>	<i>0.72</i>	
Europe									
	BG Group plc	BRGXF		117.00	0.98	1.55	1.11	1.26	0.94
	Royal Dutch Shell plc	RDS-A	B	70.15	0.96	1.29	1.04	1.12	0.78
	Total S.A.	TOT	B	59.06	0.97	1.27	1.06	1.11	0.59
	Statoil ASA (33%)	STO	B	24.62	0.96	1.21	1.04	1.09	0.65
	BP plc	BP		46.54	0.84	1.36	1.02	1.08	0.62
	<i>Median</i>			<i>0.97</i>	<i>1.33</i>	<i>1.05</i>	<i>1.12</i>	<i>0.68</i>	
Australia/Brazil/China/Russia									
	Gazprom (50%)	OGZPY	B	29.10	1.00	1.46	1.11	1.24	0.57
	Lukoil Oil Company	LUKOY	B	67.25	1.00	1.43	1.11	1.17	0.48
	CNOOC Limited (34%)	CEO		222.68	0.89	1.51	0.95	1.14	1.01
	PetroChina Company Ltd (14%)	PTR	B	139.35	0.97	1.32	1.05	1.14	0.70
	Woodside Petroleum Ltd.	WOPEY	B	43.50	0.94	1.27	1.02	1.07	0.90
	Petrobras	PBR	B	36.85	0.81	1.14	1.03	1.02	0.64
	<i>Median</i>			<i>0.96</i>	<i>1.38</i>	<i>1.04</i>	<i>1.14</i>	<i>0.67</i>	
U.S. Independent									
	Devon Energy Corporation	DVN	B	86.98	0.97	1.42	1.10	1.24	0.79
	Anadarko Petroleum Corp.	APC		79.27	0.99	1.58	1.06	1.21	1.01
	Chesapeake Energy Corp.	CHK		31.27	0.98	1.30	1.13	1.20	0.97
	Occidental Petroleum Corp.	OXY	B	97.54	0.98	1.32	1.02	1.15	0.80
	EOG Resources, Inc.	EOG	B	105.59	0.93	1.19	1.09	1.06	0.84
	Southwestern Energy Company	SWN		49.23	0.87	1.26	1.05	1.06	1.12
	<i>Median</i>			<i>0.97</i>	<i>1.31</i>	<i>1.07</i>	<i>1.17</i>	<i>0.90</i>	
Canada									
	Suncor Energy	SU	B	40.79	0.95	1.35	1.07	1.16	0.69
	Canadian Natural Resources	CNQ	B	44.50	0.97	1.36	1.04	1.16	0.71
	Imperial Oil Limited (30%)	IMO	B	45.27	0.96	1.26	1.11	1.15	0.75
	Cenovus Energy Inc.	CVE	B	34.29	0.98	1.36	1.05	1.14	0.75
	Penn West Petroleum Ltd.	PWE		79.27	0.90	1.35	1.00	1.10	0.82
	Canadian Oil Sands Limited	COSWF	B	28.72	0.89	1.22	1.09	1.08	0.58
	EnCana Corporation	ECA	B	31.97	0.93	1.16	1.05	1.04	0.70
	<i>Median</i>			<i>0.95</i>	<i>1.35</i>	<i>1.05</i>	<i>1.14</i>	<i>0.71</i>	
CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average.									



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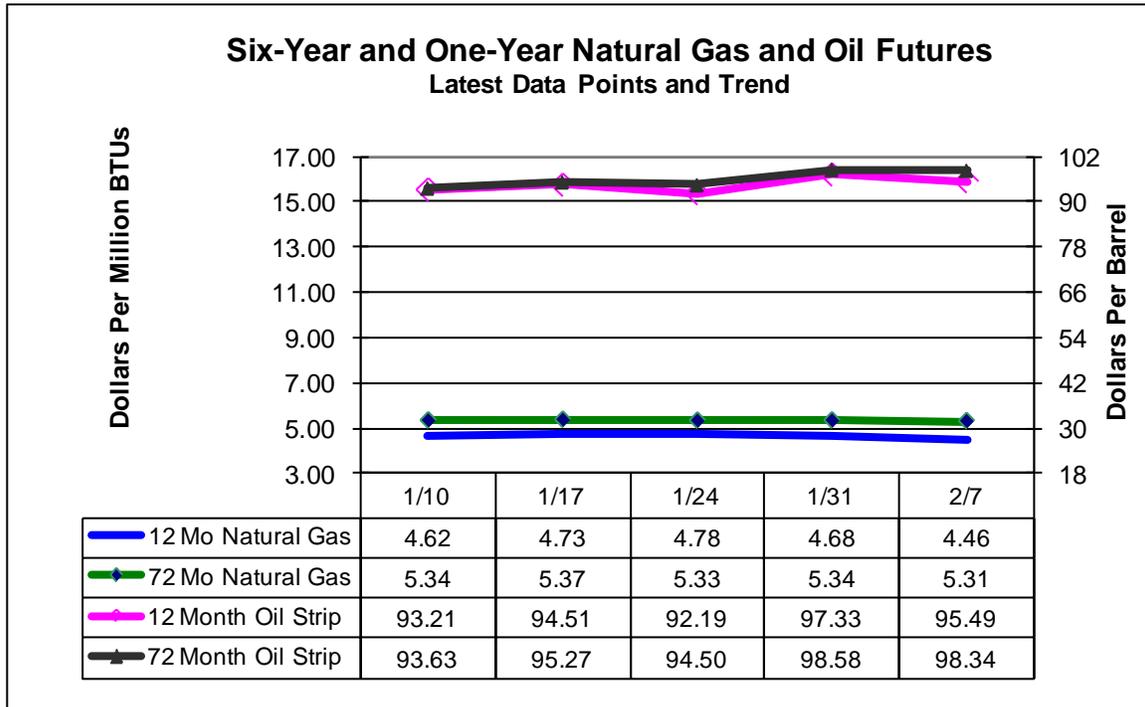
Index of Recent Research			
Stock Ideas			
<i>Date</i>	<i>Symbol</i>	<i>Subject</i>	<i>Theme</i>
4-Feb	HK	Petrohawk	Raise NPV to \$24 a Share from \$20 (Income and Small Cap)
1-Feb	COP	ConocoPhillips	Rising Trends (Meter Reader)
1-Feb	CVX	Chevron Corporation	Rising Trends (Meter Reader)
1-Feb	XOM	ExxonMobil	Rising Trends (Meter Reader)
28-Jan	COSWF	Canadian Oil Sands Limited	Ethical Oil for Generations
26-Jan	OXY	Occidental Petroleum	Growing U.S. Oil Production
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)
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)
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
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
For historical research by stock, go to mcdep.com , click on Stock Ideas , click on stock by name.			
Meter Reader			
1-Feb	XOM CVX COP		Rising Trends for XOM, CVX, and COP
25-Jan	RDS XOM TOT COP CVX MRO		Surprising Strength in Refining
18-Jan	MRO	Marathon Oil	Refining/Marketing Spinoff May Boost Value 27%
11-Jan	IMO	Imperial Oil	Accelerating Growth
For earlier editions, go to mcdep.com , click on Meter Reader .			
Income and Small Cap Weekly			
4-Feb	HK	Petrohawk	Raise NPV to \$24 a Share from \$20
28-Jan			Rioting in Egypt Strengthens Obama/Carter Parallel
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
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.