



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

April 26, 2011

## Sell in May? No Way

### Summary and Recommendation

In addition to political, economic and environmental trends supporting long-term investment in oil and gas, we think there is a reasonable chance the near-term gains could be unusually strong. As a result, we do not counsel “Sell in May and Go Away” as the popular expression summarizes the historical seasonal pattern during which the stock market gains from May to November are slight compared to those from November to May. Instead we see a strong historical comparison to May 1979 when we wrote one of our better-timed buy recommendations *A Change in Fundamentals – The Case for Major Upward Revaluation of Domestic Oils*. The ten stocks gained an average 24% in price from May 1 to November 1 en route to further advances (see table U.S. Domestic Oils, 1979 below). The list reads like a page from oil and gas history. Each of the underlying companies was acquired, merged or restructured in subsequent years. Today our large cap buys are more global with integrated companies domiciled in Europe, Russia, China and Brazil as well as the U.S. (see Tables 1-4 on pages 2-5). Another distinction today is the creation of new high-potential independent producers in the U.S. and Canada that have grown to large cap size. To build a new large cap portfolio, pick the lowest McDep Ratio buy in each group which would be **Chevron (CVX)**, **Total (TOT)**, **Lukoil (LUKOY)**, **Devon (DVN)**, and **Canadian Oil Sands Ltd. (COSWF)**. Then choose other stocks to substitute or supplement, for example, to gain more natural gas exposure. Meanwhile, oil price, the most direct indicator of industry conditions, trends up with the latest quote for the next six years at \$107 a barrel compared to the 40-week average of \$93 (see table Six-Year and One-Year Natural Gas and Oil Futures on page 7).

Kurt H. Wulff, CFA

U.S. Domestic Oils, 1979				
Stock Buys	Concentration	Price		Change (%)
		11/1/1979	5/1/1979	
Atlantic Richfield	Alaska Oil	73	66	11
Standard Oil of Ohio	Alaska Oil	75	51	47
Phillips Petroleum	North Sea Oil	43	36	19
Getty Oil	U.S. Oil	67	46	46
Marathon Oil	U.S. Oil	45	37	22
Cities Service	U.S. Oil and Natural Gas	76	67	13
Shell Oil	U.S. Oil and Natural Gas	50	42	19
Standard Oil of Indiana	U.S. Oil and Natural Gas	79	64	23
Sun Oil	U.S. Oil and Natural Gas	58	52	12
Union Oil of California	U.S. Oil and Natural Gas	43	35	25
Average				24
Median				21





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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		25-Apr 2011	(mm)				
	B = Buy, CB (see below)							
<b>U.S. Integrated</b>								
Marathon Oil Corporation	MRO	B	52.59	713	37,500	68.00	0.19	0.82
Exxon Mobil Corporation	XOM	B	86.22	5,031	434,000	112.00	0.11	0.79
ConocoPhillips	COP	B	80.48	1,454	117,000	119.00	0.19	0.74
Chevron Corporation	CVX	B	107.42	2,009	216,000	154.00	0.06	0.72
	<i>Total or Median</i>				805,000		0.15	0.77
<b>Europe</b>								
BG Group plc	BRGXF		25.35	3,407	86,400	25.00	0.13	1.01
Royal Dutch Shell plc	RDS-A	B	75.05	3,074	231,000	96.00	0.19	0.82
Statoil ASA (33%)	STO	B	28.04	1,050	29,400	44.00	0.22	0.72
BP plc	BP		45.98	3,168	146,000	93.00	0.24	0.61
Total S.A.	TOT	B	61.30	2,248	138,000	111.00	0.14	0.61
	<i>Total or Median</i>				631,000		0.19	0.72
<b>Brazil/Russia/Australia/China</b>								
CNOOC Limited (34%)	CEO		253.00	152	38,600	220.00	0.04	1.14
Woodside Petroleum Ltd.	WOPEY	B	51.20	774	39,600	49.00	0.14	1.04
PetroChina Company Ltd (14%)	PTR	B	151.39	256	38,800	210.00	0.15	0.76
Petrobras	PBR	B	37.93	6,544	248,200	62.00	0.12	0.66
Gazprom (50%)	OGZPY	B	33.60	2,875	96,600	56.00	0.11	0.64
Lukoil Oil Company	LUKOY	B	69.60	781	54,400	150.00	0.05	0.49
	<i>Total or Median</i>				516,000		0.11	0.71
<b>U.S. Independent</b>								
Anadarko Petroleum Corp.	APC		79.00	498	39,300	78.00	0.35	1.01
Chesapeake Energy Corp.	CHK		32.51	746	24,300	33.00	0.40	0.99
Southwestern Energy Company	SWN		40.52	349	14,100	42.00	0.09	0.97
EOG Resources, Inc.	EOG	B	110.34	251	27,700	130.00	0.15	0.87
Occidental Petroleum Corp.	OXY	B	100.39	814	81,700	123.00	0.05	0.83
Devon Energy Corporation	DVN	B	88.21	434	38,300	112.00	0.08	0.80
	<i>Total or Median</i>				225,400		0.12	0.92
<b>Canada</b>								
Penn West Exploration	PWE		25.25	440	11,300	31.00	0.22	0.86
Imperial Oil Limited (30%)	IMO	B	52.43	256	13,400	62.00	0.07	0.86
Cenovus Energy Inc.	CVE	B	37.39	753	28,200	49.00	0.17	0.80
Suncor Energy	SU	B	44.89	1,575	70,700	64.00	0.14	0.74
Canadian Natural Resources Limited	CNQ		45.95	1,089	50,000	67.00	0.14	0.73
EnCana Corporation	ECA	B	32.25	738	23,800	51.00	0.22	0.71
Canadian Oil Sands Limited	COSWF	B	33.42	484	16,200	52.00	0.06	0.66
	<i>Total or Median</i>				214,000		0.14	0.74
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	Adjustd				Divd or	
			(US\$/sh)	Resrvs/	PV/	EV/		Distrib	
	Symbol/Rating		25-Apr	Prod	Ebitda	Ebitda	P/E	NTM	
	B = Buy, CB (see below)		2011	NTM	NTM	NTM	NTM	(%)	
<b>U.S. Integrated</b>									
	Exxon Mobil Corporation	XOM	B	86.22	13.5	7.0	5.5	9	2.0
	ConocoPhillips	COP	B	80.48	11.6	7.2	5.3	10	3.3
	Marathon Oil Corporation	MRO	B	52.59	8.6	5.7	4.6	9	1.9
	Chevron Corporation	CVX	B	107.42	8.3	5.7	4.1	8	2.7
	<i>Total or Median</i>				10.1	6.3	5.0	9	2.4
<b>Europe</b>									
	BG Group plc	BRGXF		25.35	13.8	8.5	8.6	16	0.9
	Royal Dutch Shell plc	RDS-A	B	75.05	8.4	6.0	5.0	8	4.5
	BP plc	BP		45.98	10.4	6.7	4.1	5	3.7
	Statoil ASA (33%)	STO	B	28.04	6.7	5.5	4.0	7	4.2
	Total S.A.	TOT	B	61.30	9.4	6.3	3.8	8	5.4
	<i>Total or Median</i>				9.4	6.3	4.1	8	4.2
<b>Brazil/Russia/Australia/China</b>									
	Woodside Petroleum Ltd.	WOPEY	B	51.20	15.1	9.9	10.3	17	2.1
	Petrobras	PBR	B	37.93	13.3	9.7	6.4	11	3.1
	PetroChina Company Ltd (14%)	PTR	B	151.39	13.6	7.1	5.4	8	3.5
	CNOOC Limited (34%)	CEO		253.00	5.6	4.7	5.4	9	2.1
	Gazprom (50%)	OGZPY	B	33.60	30.2	6.9	4.4	6	1.0
	Lukoil Oil Company	LUKOY	B	69.60	15.9	5.8	2.8	4	2.7
	<i>Total or Median</i>				14.3	7.0	5.4	9	2.4
<b>U.S. Independent</b>									
	Chesapeake Energy Corp.	CHK		32.51	12.3	11.3	11.2	20	0.9
	Southwestern Energy Company	SWN		40.52	8.3	11.4	11.0	23	-
	Anadarko Petroleum Corp.	APC		79.00	8.8	7.5	7.6		0.5
	Devon Energy Corporation	DVN	B	88.21	10.9	8.8	7.1	13	0.8
	EOG Resources, Inc.	EOG	B	110.34	8.7	7.3	6.3	19	0.6
	Occidental Petroleum Corp.	OXY	B	100.39	10.9	7.2	5.9	11	1.8
	<i>Total or Median</i>				9.8	8.2	7.3	19	0.7
<b>Canada</b>									
	EnCana Corporation	ECA	B	32.25	12.7	12.9	9.2	38	2.5
	Imperial Oil Limited (30%)	IMO	B	52.43	21.0	10.6	9.1	15	0.9
	Cenovus Energy Inc.	CVE	B	37.39	21.0	11.2	9.0	23	2.2
	Penn West Exploration	PWE		25.25	8.8	9.2	8.0	26	4.5
	Canadian Natural Resources Limited	CNQ		45.95	21.0	10.4	7.6	17	0.8
	Suncor Energy	SU	B	44.89	21.1	9.3	6.9	14	0.9
	Canadian Oil Sands Limited	COSWF	B	33.42	29.0	9.0	6.0	9	2.5
	<i>Total or Median</i>				21.0	10.4	8.0	17	2.2
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 March 31, 2012; 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-Apr	52Wk	52Wk	50 Day	200 Day	McDep
	Rating		2011	High	Low	Avg.	Avg.	Ratio
<b>U.S. Integrated</b>								
Marathon Oil Corporation	MRO	B	52.59	0.98	1.53	1.03	1.25	0.82
Chevron Corporation	CVX	B	107.42	0.98	1.53	1.03	1.19	0.72
Exxon Mobil Corporation	XOM	B	86.22	0.98	1.44	1.02	1.17	0.79
ConocoPhillips	COP	B	80.48	0.99	1.43	1.03	1.17	0.74
	<i>Median</i>			<i>0.98</i>	<i>1.48</i>	<i>1.03</i>	<i>1.18</i>	<i>0.77</i>
<b>Europe</b>								
BG Group plc	BRGXF		126.76	0.99	1.65	1.04	1.21	1.01
Statoil ASA (33%)	STO	B	28.04	0.96	1.31	1.03	1.14	0.72
Royal Dutch Shell plc	RDS-A	B	75.05	1.00	1.36	1.04	1.12	0.82
Total S.A.	TOT	B	61.30	0.99	1.30	1.02	1.09	0.61
BP plc	BP		45.98	0.84	1.35	1.00	1.05	0.61
	<i>Median</i>			<i>0.98</i>	<i>1.35</i>	<i>1.03</i>	<i>1.13</i>	<i>0.74</i>
<b>Brazil/Russia/Australia/China</b>								
Gazprom (50%)	OGZPY	B	33.60	0.97	1.63	1.07	1.27	0.64
CNOOC Limited (34%)	CEO		253.00	0.93	1.67	1.06	1.18	1.14
Woodside Petroleum Ltd.	WOPEY	B	51.20	0.99	1.45	1.10	1.18	1.04
PetroChina Company Ltd (14%)	PTR	B	151.39	0.96	1.38	1.05	1.14	0.76
Lukoil Oil Company	LUKOY	B	69.60	0.92	1.49	1.00	1.13	0.49
Petrobras	PBR	B	37.93	0.89	1.17	0.97	1.04	0.66
	<i>Median</i>			<i>0.95</i>	<i>1.47</i>	<i>1.06</i>	<i>1.16</i>	<i>0.71</i>
<b>U.S. Independent</b>								
Devon Energy Corporation	DVN	B	88.21	0.95	1.44	0.99	1.16	0.80
Chesapeake Energy Corp.	CHK		32.51	0.94	1.31	0.99	1.14	0.99
Anadarko Petroleum Corp.	APC		79.00	0.95	1.58	0.99	1.12	1.01
Occidental Petroleum Corp.	OXY	B	100.39	0.94	1.36	0.99	1.12	0.83
EOG Resources, Inc.	EOG	B	110.34	0.92	1.23	1.00	1.09	0.87
Southwestern Energy Company	SWN		50.78	0.90	1.29	1.02	1.09	0.97
	<i>Median</i>			<i>0.94</i>	<i>1.34</i>	<i>0.99</i>	<i>1.12</i>	<i>0.92</i>
<b>Canada</b>								
Imperial Oil Limited (30%)	IMO	B	52.43	0.95	1.42	1.02	1.22	0.86
Canadian Oil Sands Limited	COSWF	B	33.42	0.95	1.42	1.04	1.19	0.66
Suncor Energy	SU	B	44.89	0.94	1.45	1.00	1.17	0.74
Cenovus Energy Inc.	CVE	B	37.39	0.93	1.40	0.99	1.14	0.80
Canadian Natural Resources	CNQ		45.95	0.90	1.39	0.97	1.11	0.73
Penn West Exploration	PWE		25.25	0.91	1.39	0.95	1.07	0.86
EnCana Corporation	ECA	B	32.25	0.94	1.15	0.99	1.04	0.71
	<i>Median</i>			<i>0.94</i>	<i>1.40</i>	<i>0.99</i>	<i>1.14</i>	<i>0.74</i>
CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average.								



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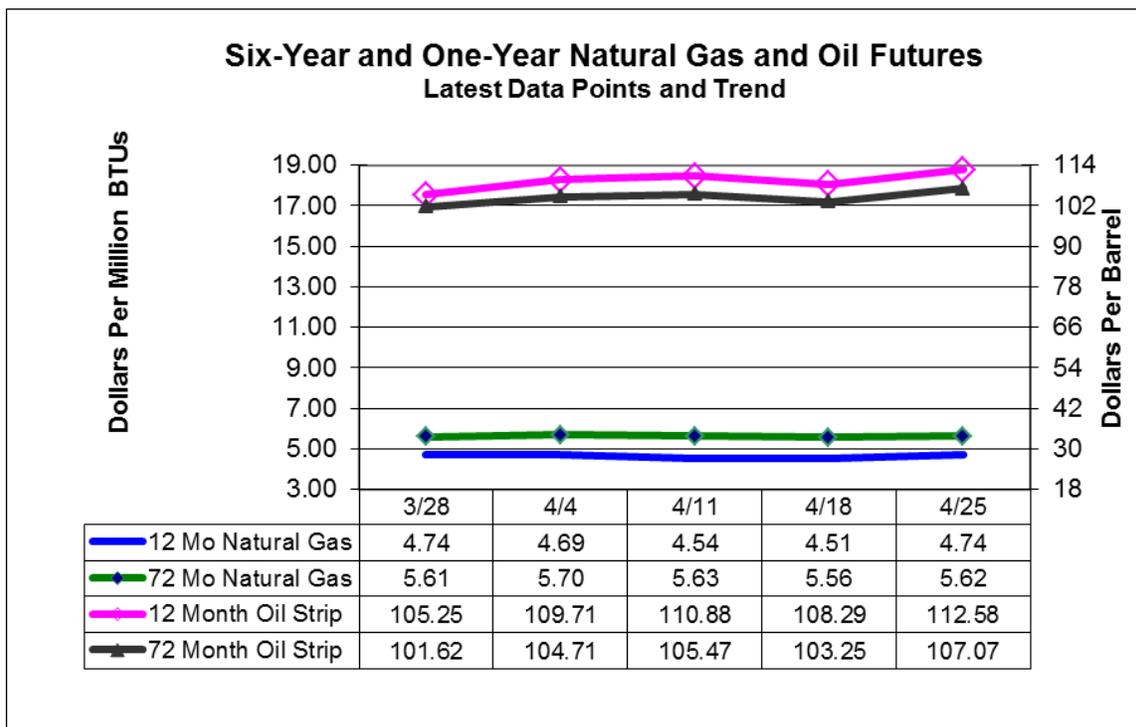
<b>Index of Recent Research</b>			
<b>Stock Ideas</b>			
<i>Date</i>	<i>Symbol</i>	<i>Subject</i>	<i>Theme</i>
22-Apr	ERF	Enerplus Corporation	New Buy - Bakken and Marcellus with 7% Income (ISCW)
19-Apr	DVN	Devon Energy	Rich Resources, Low McDep, Low Debt (Meter Reader)
15-Apr	WLL	Whiting Petroleum	New Buy on Chairman Volker's Prudhoe Bay (ISCW)
12-Apr	COP	ConocoPhillips	Bad Government Actions Good for Oil Profits (Meter Reader)
8-Apr	RRC	Range Resources	Raise NPV to \$60 from \$50 a Share (Income and Small Cap)
5-Apr	CVX	Chevron	Raise NPV to \$154 a Share from \$146 (Meter Reader)
4-Apr	COSWF	Canadian Oil Sands Limited	Outperforming 10% on Oil Volume, 50% on Price
1-Apr	SJT	San Juan Basin Royalty Trust	Remove Buy at McDep Ratio of 1.10 (ISCW)
29-Mar	XOM	Exxon Mobil	Natural Gas Enhanced by Nuclear (Meter Reader)
22-Mar	PTR	PetroChina	Overlooked Oil in PTR Stock (Meter Reader)
18-Mar	BIREF	Birchcliff Energy Ltd.	Long-Term Natural Gas Resource for Asia
15-Mar	LUKOY	Lukoil	Lukoil and Russia Ride the Rise of Oil (Meter Reader)
11-Mar	HGT	Hugoton Royalty Trust	Contrarian Commodity Income (Income and SC Weekly)
8-Mar	CNQ	Canadian Natural Resources	End Buy (Meter Reader)
1-Mar	CVE	Cenovus Energy	High Growth in Deep Oil Sands (Meter Reader)
25-Feb	DMLP	Dorchester Minerals, L.P.	Profitable Production amid Unstable Politics (ISCW)
23-Feb	WOPEY	Woodside Petroleum Ltd.	Double LNG Late 2011
22-Feb	OGZPY	Gazprom	Nearer Accord on Natural Gas to China (Meter Reader)
18-Feb	PEYUF	Peyto Exploration	Raise NPV to \$24 a Share from \$20 (Income and Small Cap)
16-Feb	XEC	Cimarex Energy	Raise NPV to \$120 on Oil Reserves
10-Feb	ECA	Encana	\$C5.4 Billion Joint Venture Highlights Undervaluation
4-Feb	HK	Petrohawk	Raise NPV to \$24 a Share from \$20 (Income and Small Cap)
26-Jan	OXY	Occidental Petroleum	Growing U.S. Oil Production
18-Jan	MRO	Marathon Oil	Refining/Marketing Spinoff May Boost Value 27% (MR)
11-Jan	IMO	Imperial Oil	Accelerating Growth (Meter Reader)
4-Jan	PBR	Petrobras	Restore Buy on Oil Growth (Meter Reader)
21-Dec	CHK	Chesapeake Energy	Carl Icahn Owns 5.8% (Meter Reader)
For historical research by stock, go to <a href="http://mcdep.com">mcdep.com</a> , click on <b>Stock Ideas</b> , click on stock by name.			
<b>Meter Reader</b>			
19-Apr	DVN	Devon Energy	Rich Resources, Low McDep, Low Debt
12-Apr	COP	ConocoPhillips	Bad Government Actions Good for Oil Profits
5-Apr	CVX	Chevron	Raise NPV to \$154 a Share from \$146
29-Mar	XOM	Exxon Mobil	Natural Gas Enhanced by Nuclear
For earlier editions, go to <a href="http://mcdep.com">mcdep.com</a> , click on <b>Meter Reader</b> .			
<b>Income and Small Cap Weekly</b>			
22-Apr	ERF	Enerplus Corporation	New Buy - Bakken and Marcellus with 7% Income
15-Apr	WLL	Whiting Petroleum	New Buy on Chairman Volker's Prudhoe Bay
8-Apr	RRC	Range Resources	Raise NPV to \$60 from \$50 a Share
1-Apr	SJT	San Juan Basin Royalty Trust	Remove Buy at McDep Ratio of 1.10
For earlier editions, go to <a href="http://mcdep.com">mcdep.com</a> , click on <b>Energy Income</b> .			



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**Disclaimer:** This analysis was prepared by Kurt Wulff, Manager of McDep LLC. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

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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.