



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

July 12, 2011

Shale Strategy III

Summary and Recommendation

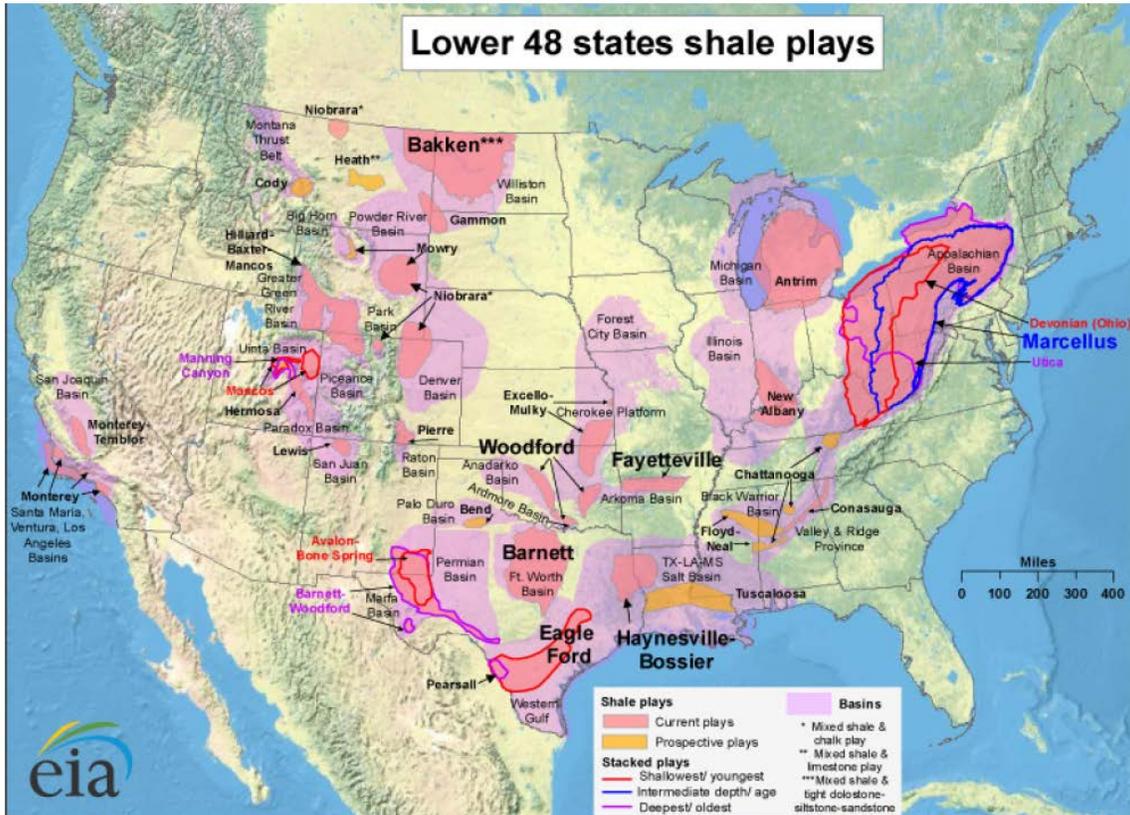
Five large cap independent producer buy-recommendations **EOG Resources (EOG)**, **Devon Energy (DVN)**, **Occidental Petroleum (OXY)**, **Encana (ECA)** and **Marathon Oil (MRO)** are concentrated investment opportunities in exploiting the shale formations that have reversed the declining trend of U.S. crude oil and carried natural gas production to all-time highs. Shale gas and shale oil opportunities range across the country from the Marcellus in the East to the Monterey in the West (see map [Lower 48 Shale Plays](#) on page 2). Helped by shale oil production from the Bakken formation in North Dakota, U.S. crude oil production may be on the rise again after declining to half its 1970 peak (see chart [Monthly U.S. Field Production of Crude Oil](#) on page 2). Shale gas has contributed practically all of the 25% growth in five years that has taken U.S. natural gas to a new level (see chart [Monthly U.S. Natural Gas Marketed Production](#) on page 3). In shale oil, EOG is the top producer in the Bakken and Eagle Ford while OXY is the largest acreage holder in the Monterey (see table [Participation by Shale Formation](#) on page 3). In shale gas, DVN is the top producer in the Barnett. Price has diverged to the point where the current quote for oil for the next six years is more than three times the heating equivalent of natural gas (see charts [Six-Year Commodity Price Meter](#) on page 3 and [Six-Year and One-Year Natural Gas and Oil Futures](#) on page 9). An uptrend appears well-established for oil and an uptrend may be in the early stages for natural gas. The five buy recommendations look attractively priced for making money in oil and gas production including from shale (see [Tables 1-4](#) on pages 4-7).

Shale Gas Good for Economic Growth

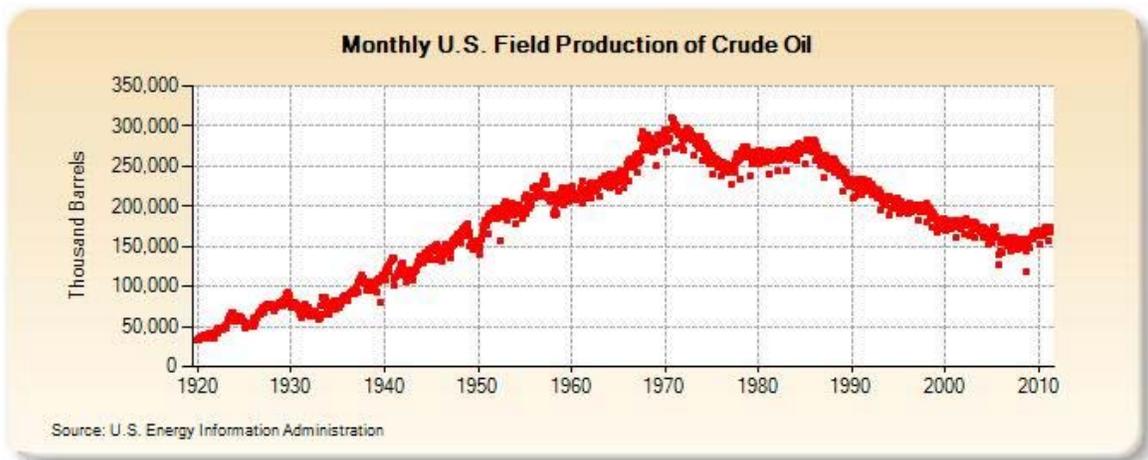
Though producers might prefer a higher price for natural gas, the lower price as a result of abundant shale supply is a boon for consumers. There is a large market for coal to be replaced by natural gas with its consequent upgrading of quality of life. Also as governments struggle with the heavy fiscal burdens imposed by subsidies for wind and solar power, natural gas is a more welcoming alternative at a more economical price. The same trends point to direct burning of natural gas in transportation. To the extent that the electric car is a favored future alternative and that electricity is increasingly generated from natural gas, it is only logical that natural gas be burned directly in vehicles at an advantage in thermodynamic efficiency. Just as natural gas has become the preferred fuel for space heating over coal, oil and electricity, natural gas could become the preferred fuel for transportation. Electric heating is nice, but natural gas is lot cheaper. Similarly gasoline is a convenient fuel, but natural gas is lot cheaper. For now, increased use of natural gas in electrical generation is underway and it will take more time for transportation to have much volume impact. Meanwhile, we may have seen the bottom in natural gas price and most of the producers are doing well on the oil side of their business.

Kurt H. Wulff, CFA

Figure 1. Map of U.S. shale gas and shale oil plays (as of May 9, 2011)



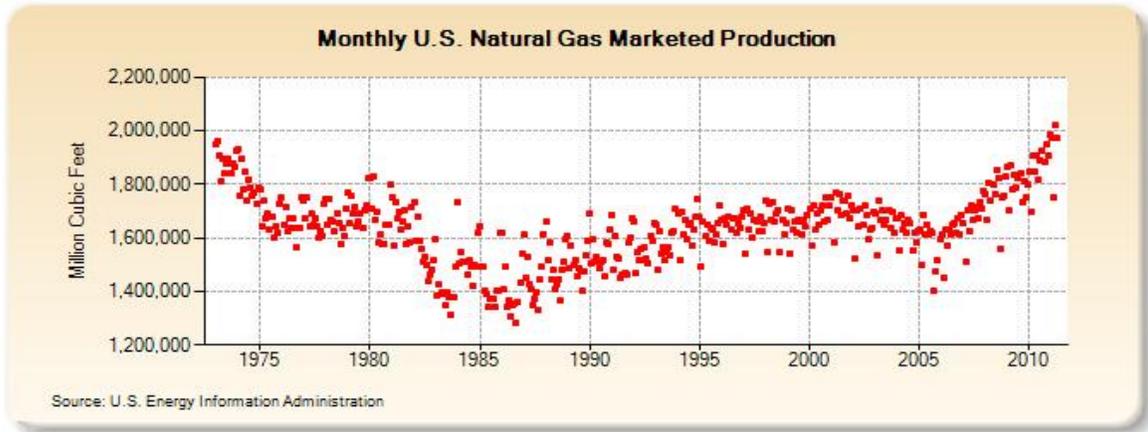
Source U.S. Energy Information Administration based on data from various published studies.



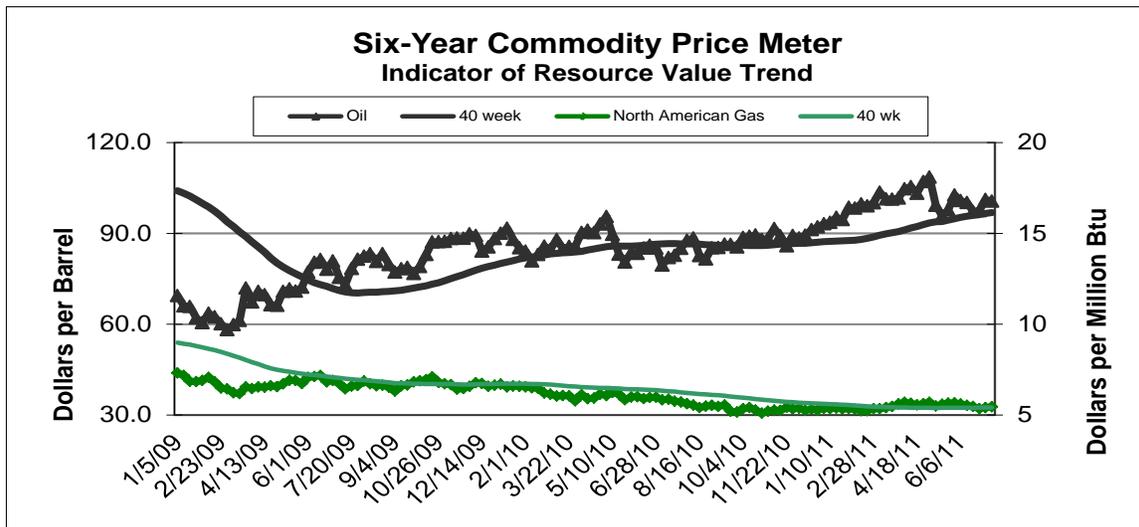


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Participation by Shale Formation (1 = Largest Producer or Acreage Holder)						
		<i>EOG</i>	<i>DVN</i>	<i>OXY</i>	<i>ECA</i>	<i>MRO</i>
Oil Shales						
	Bakken	1				x
	Eagle Ford	1				x
	Monterey			1		
Natural Gas Shales						
	Barnett	x	1		x	
	Haynesville	x	x		x	
	Marcellus	x	x			





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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		11-Jul 2011	(mm)				
	B = Buy, CB (see below)							
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	81.90	4,971	407,000	112.00	0.11	0.76
Chevron Corporation	CVX	B	104.41	2,009	210,000	154.00	0.08	0.70
ConocoPhillips	COP	B	74.70	1,445	108,000	119.00	0.19	0.70
	<i>Total or Median</i>				725,000		0.11	0.70
Europe								
BG Group plc	BRGXF		22.35	3,410	76,200	25.00	0.14	0.91
Royal Dutch Shell plc	RDS-A	B	71.04	3,087	219,000	96.00	0.18	0.79
Statoil ASA (33%)	STO	B	24.42	1,050	25,700	44.00	0.21	0.65
BP plc	BP		43.84	3,173	139,000	93.00	0.23	0.59
Total S.A.	TOT	CB	54.97	2,251	124,000	111.00	0.13	0.56
	<i>Total or Median</i>				584,000		0.18	0.65
Brazil/Russia/Australia/China								
Woodside Petroleum Ltd.	WOPEY		42.22	774	32,700	45.00	0.15	0.95
CNOOC Limited (36%)	CEO		229.65	161	36,900	250.00	0.04	0.92
PetroChina Company Ltd (14%)	PTR	B	146.38	256	37,500	210.00	0.15	0.74
Petrobras	PBR	CB	32.78	6,539	214,300	62.00	0.13	0.59
Gazprom (50%)	OGZPY	B	14.26	5,750	82,000	28.00	0.11	0.56
Lukoil Oil Company	LUKOY	B	64.17	786	50,400	150.00	0.04	0.45
	<i>Total or Median</i>				454,000		0.12	0.66
U.S. Independent								
Southwestern Energy Company	SWN		42.70	350	15,000	42.00	0.09	1.02
Anadarko Petroleum Corp.	APC		76.90	499	38,400	78.00	0.35	0.99
Chesapeake Energy Corp.	CHK		29.75	774	23,000	33.00	0.36	0.94
Occidental Petroleum Corp.	OXY	B	101.76	813	82,800	123.00	0.07	0.84
EOG Resources, Inc.	EOG	CB	99.01	250	24,800	130.00	0.14	0.79
Devon Energy Corporation	DVN	CB	78.26	430	33,700	112.00	0.08	0.72
Marathon Oil Corporation	MRO	B	32.01	715	22,890	54.00	0.11	0.64
	<i>Total or Median</i>				240,600		0.11	0.84
Canada								
Penn West Exploration	PWE		22.72	440	10,300	31.00	0.24	0.81
Cenovus Energy Inc.	CVE	B	36.81	753	27,700	49.00	0.18	0.79
Imperial Oil Limited (30%)	IMO	B	45.88	256	11,800	62.00	0.09	0.76
EnCana Corporation	ECA	CB	29.91	738	22,100	51.00	0.22	0.68
Canadian Natural Resources Limited	CNQ		40.68	1,106	45,000	67.00	0.15	0.67
Suncor Energy	SU	B	39.56	1,581	62,500	64.00	0.12	0.67
Canadian Oil Sands Limited	COSWF	CB	28.00	485	13,600	52.00	0.06	0.57
	<i>Total or Median</i>				193,000		0.15	0.68
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		11-Jul 2011	NTM	NTM	NTM	NTM	
	B = Buy, CB (see below)							
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	81.90	13.8	7.2	5.5	9	2.1
ConocoPhillips	COP	B	74.70	11.9	7.8	5.5	10	3.5
Chevron Corporation	CVX	B	104.41	8.4	6.2	4.3	8	2.8
	<i>Total or Median</i>			11.9	7.2	5.5	9	2.8
Europe								
BG Group plc	BRGXF		22.35	20.3	9.1	8.3	15	1.0
Royal Dutch Shell plc	RDS-A	B	71.04	8.9	6.6	5.2	9	4.7
BP plc	BP		43.84	10.5	7.0	4.2	5	3.8
Total S.A.	TOT	CB	54.97	9.6	6.9	3.9	6	5.9
Statoil ASA (33%)	STO	B	24.42	6.6	5.8	3.8	8	4.7
	<i>Total or Median</i>			9.6	6.9	4.2	8	4.7
Brazil/Russia/Australia/China								
Woodside Petroleum Ltd.	WOPEY		42.22	22.5	13.0	12.3	22	2.5
Petrobras	PBR	CB	32.78	13.3	10.8	6.4	10	3.6
PetroChina Company Ltd (14%)	PTR	B	146.38	13.4	7.3	5.4	10	3.6
CNOOC Limited (36%)	CEO		229.65	6.5	5.3	4.9	8	2.6
Gazprom (50%)	OGZPY	B	14.26	30.2	6.9	3.9	6	2.4
Lukoil Oil Company	LUKOY	B	64.17	16.1	6.1	2.8	4	2.9
	<i>Total or Median</i>			14.8	7.1	5.2	9	2.7
U.S. Independent								
Southwestern Energy Company	SWN		42.70	7.9	10.9	11.1	24	-
Chesapeake Energy Corp.	CHK		29.75	11.6	10.9	10.2	18	1.2
Anadarko Petroleum Corp.	APC		76.90	7.0	7.3	7.2		0.5
Occidental Petroleum Corp.	OXY	B	101.76	11.3	8.3	6.9	14	1.8
Devon Energy Corporation	DVN	CB	78.26	10.3	9.1	6.6	13	0.9
EOG Resources, Inc.	EOG	CB	99.01	9.0	7.7	6.1	21	0.6
Marathon Oil Corporation	MRO	B	32.01	10.1	7.6	4.8	15	1.9
	<i>Total or Median</i>			10.1	8.3	6.9	17	0.9
Canada								
Imperial Oil Limited (30%)	IMO	B	45.88	42.7	12.5	9.6	15	1.0
Cenovus Energy Inc.	CVE	B	36.81	21.0	11.7	9.3	27	2.3
Penn West Exploration	PWE		22.72	8.8	10.6	8.6	19	5.0
EnCana Corporation	ECA	CB	29.91	12.3	12.7	8.6	33	2.7
Canadian Natural Resources Limited	CNQ		40.68	20.4	11.1	7.4	17	0.9
Suncor Energy	SU	B	39.56	25.6	10.0	6.7	13	1.1
Canadian Oil Sands Limited	COSWF	CB	28.00	26.4	10.8	6.1	10	4.5
	<i>Total or Median</i>			21.0	11.1	8.6	17	2.3
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 June 30, 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						
	Symbol		(\$/sh)	Enterprise Value/					
			11-Jul	52Wk	52Wk	50 Day	200 Day	McDep	
	Rating		2011	High	Low	Avg.	Avg.	Ratio	
U.S. Integrated									
	Chevron Corporation	CVX	B	104.41	0.96	1.40	1.02	1.08	0.70
	Exxon Mobil Corporation	XOM	B	81.90	0.94	1.34	1.00	1.05	0.76
	ConocoPhillips	COP	B	74.70	0.94	1.30	1.02	1.05	0.70
	<i>Median</i>			<i>0.94</i>	<i>1.34</i>	<i>1.02</i>	<i>1.05</i>	<i>0.70</i>	
Europe									
	Royal Dutch Shell plc	RDS-A	B	71.04	0.93	1.26	1.00	1.03	0.79
	BG Group plc	BRGXF		111.76	0.88	1.34	0.99	1.02	0.91
	Statoil ASA (33%)	STO	B	24.42	0.87	1.20	0.97	1.00	0.65
	BP plc	BP		43.84	0.93	1.16	1.00	0.99	0.59
	Total S.A.	TOT	CB	54.97	0.88	1.14	0.97	0.98	0.56
	<i>Median</i>			<i>0.90</i>	<i>1.23</i>	<i>1.00</i>	<i>1.01</i>	<i>0.68</i>	
Brazil/Russia/Australia/China									
	PetroChina Company Ltd (14%)	PTR	B	146.38	0.94	1.31	1.04	1.06	0.74
	Gazprom (50%)	OGZPY	B	14.26	0.85	1.32	0.98	1.04	0.56
	Lukoil Oil Company	LUKOY	B	64.17	0.86	1.22	1.01	1.02	0.45
	CNOOC Limited (36%)	CEO		229.65	0.85	1.45	0.97	1.00	0.92
	Woodside Petroleum Ltd.	WOPEY		42.22	0.84	1.15	0.92	0.95	0.95
	Petrobras	PBR	CB	32.78	0.81	1.03	0.98	0.93	0.59
	<i>Median</i>			<i>0.85</i>	<i>1.26</i>	<i>0.98</i>	<i>1.01</i>	<i>0.66</i>	
U.S. Independent									
	Southwestern Energy Company	SWN		43.39	0.96	1.35	1.00	1.09	1.02
	Occidental Petroleum Corp.	OXY	B	101.76	0.87	1.36	0.98	1.05	0.84
	Anadarko Petroleum Corp.	APC		76.90	0.93	1.38	1.02	1.04	0.99
	Chesapeake Energy Corp.	CHK		29.75	0.89	1.27	0.99	1.04	0.94
	Devon Energy Corporation	DVN	CB	78.26	0.85	1.28	0.97	0.98	0.72
	EOG Resources, Inc.	EOG	CB	99.01	0.84	1.13	0.95	0.97	0.79
	Marathon Oil Corporation	MRO	B	32.01					0.64
	<i>Median</i>			<i>0.88</i>	<i>1.31</i>	<i>0.99</i>	<i>1.04</i>	<i>0.84</i>	
Canada									
	Cenovus Energy Inc.	CVE	B	36.81	0.92	1.35	1.03	1.07	0.79
	Imperial Oil Limited (30%)	IMO	B	45.88	0.84	1.24	0.97	1.03	0.76
	Suncor Energy	SU	B	39.56	0.84	1.27	0.98	1.01	0.67
	EnCana Corporation	ECA	CB	29.91	0.89	1.10	0.96	0.98	0.68
	Canadian Oil Sands Limited	COSWF	CB	28.02	0.81	1.21	0.93	0.98	0.57
	Penn West Exploration	PWE		22.72	0.86	1.21	0.97	0.97	0.81
	Canadian Natural Resources	CNQ		40.68	0.82	1.25	0.98	0.97	0.67
	<i>Median</i>			<i>0.84</i>	<i>1.24</i>	<i>0.97</i>	<i>0.98</i>	<i>0.68</i>	
CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average.									



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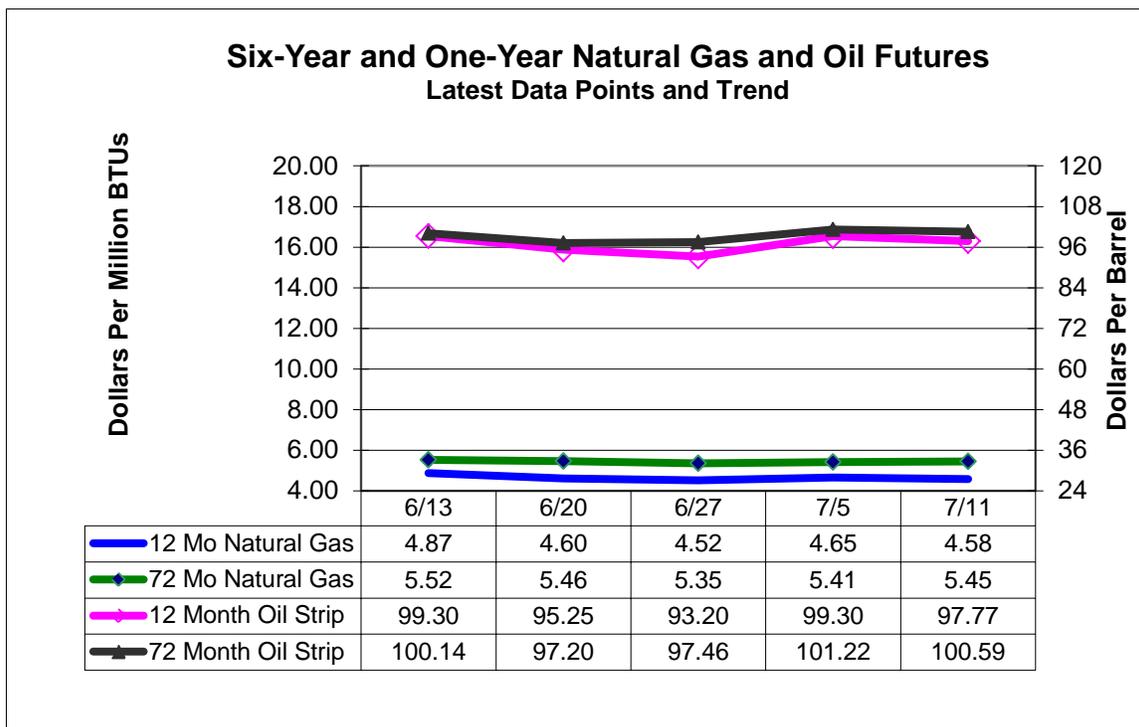
Index of Recent Research			
Stock Ideas			
<i>Date</i>	<i>Symbol</i>	<i>Subject</i>	<i>Theme</i>
5-Jul	DVN	Devon Energy	Thermal Oil Growth in Canada (Meter Reader)
28-Jun	MRO	Marathon Oil	Buy New U.S. Independent Producer (Meter Reader)
24-Jun	HGT, SJT, MTR	Hugoton, San Juan, Mesa RTrust	Income Enhancers (ISC Weekly)
21-Jun	WOPEY	Woodside Petroleum	Remove Buy on Costs and Delay (Meter Reader)
17-Jun	PEYUF	Peyto Exploration	Update Growth (Income and Small Cap)
14-Jun	CVE	Cenovus Energy	Accelerating Deep Oil Sands (Meter Reader)
10-Jun	WLL	Whiting Petroleum	Bakken Backlog (Income and Small Cap Weekly)
7-Jun	IMO	Imperial Oil	Double Oil Production by 2020 (Meter Reader)
3-Jun	HK	Petrohawk	Raise NPV to \$34 a Share from \$24 on Eagle Ford (ISCW)
31-May	OXY	Occidental Petroleum	Triple California Oil Production by 2020 (Meter Reader)
27-May	XEC	Cimarex Energy	Timely Buy on Stock Price Underperformance (ISCW)
24-May	STO	Statoil	Nordic Oil and Gas Stalwart (Meter Reader)
20-May	SBR	Sabine Royalty Trust	Raise NPV to \$70 from \$59 on Rising Volume (ISCW)
17-May	PBR	Petrobras	Out-of-Favor Oil Growth (Meter Reader)
13-May	DMLP	Dorchester Minerals, L.P.	Fayetteville and Bakken Growth (Income and Small Cap Weekly)
10-May	EOG	EOG Resources	High-Profit Light Sweet North American Oil (Meter Reader)
3-May	TOT	Total	Profiting Outside U.S. (Meter Reader)
29-Apr	BIREF	Birchcliff Energy	Independent Engineer Confirms Natural Gas Upside (ISCW)
29-Apr	COSWF	Canadian Oil Sands Limited	Dividend Increased 50%
22-Apr	ERF	Enerplus Corporation	New Buy - Bakken and Marcellus with 7% Income (ISCW)
21-Apr	ECA	Encana	North America's Natural Gas Pure Play
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)
29-Mar	XOM	Exxon Mobil	Natural Gas Enhanced by Nuclear (Meter Reader)
22-Mar	PTR	PetroChina	Overlooked Oil in PTR Stock (Meter Reader)
15-Mar	LUKOY	Lukoil	Lukoil and Russia Ride the Rise of Oil (Meter Reader)
8-Mar	CNQ	Canadian Natural Resources	End Buy (Meter Reader)
22-Feb	OGZPY	Gazprom	Nearer Accord on Natural Gas to China (Meter Reader)
For historical research by stock, go to mcdep.com , click on Stock Ideas , click on stock by name.			
Meter Reader			
5-Jul	DVN	Devon Energy	Thermal Oil Growth in Canada
28-Jun	MRO	Marathon Oil	Buy New U.S. Independent Producer
21-Jun	WOPEY	Woodside Petroleum	Remove Buy on Costs and Delay
14-Jun	CVE	Cenovus Energy	Accelerating Deep Oil Sands
For earlier editions, go to mcdep.com , click on Meter Reader .			
Income and Small Cap Weekly			
8-Jul			Shale Strategy II
1-Jul			Shale Strategy
24-Jun	HGT, SJT, MTR	Hugoton, San Juan, Mesa RTrust	Income Enhancers
17-Jun	PEYUF, UPL, PGH	Peyto Exploration	Update Growth
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.