



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

August 9, 2011

Buy Oil and Gas on the Decline

Summary and Recommendation

Investors targeting a policy portfolio weight for growth investments in oil and gas and global equities have a new opportunity to buy stocks at lower prices to rebuild to the target weight. The funds would come from protective investments, which have automatically increased in portfolio weight, such as cash, inflation-linked fixed income and gold. Considering that equity declines may persist for a while as market prices are below their 200-day averages, we would spread out new purchases. When economic activity is growing, McDep buy recommendations ought to deliver a competitive long-term return. There also remains a reasonable probability of stronger than normal oil gains leading up to the 2012 U.S. election when there may be a change in government ushering in a recession to set the stage for a resumption of growth.

Higher Oil Price Scenario

The trend in oil price has turned down with the latest quote for the next six years at \$90 a barrel compared to the 40-week average of \$98 (see chart [Six-Year Commodity Price Meter](#) below and chart [Six-Year and One-Year Natural Gas and Oil Futures](#) on page 10). Oil is mirroring the global stock markets which have declined sharply apparently amid concerns about slowing economic growth. Natural gas is more stable at the low level of \$5.21 a million Btu for the next six-years compared to the 40-week average of \$5.43.

Oil demand relates directly to economic activity and in the end we all want global economic growth. In our scenario, developed country efforts to print money to keep growth going may work initially, but not well enough to avert a change in U.S. political leadership. Inflation in growth countries raises concern that policy makers may restrain economic growth and oil demand. Growth in automobiles is booming in India and China apparently. People love their cars and may feed them increasing volume of gasoline or diesel even when economic growth slows.

Oil supply is tight, though we often say that all it takes for more supply is money and time. It also takes a supportive political climate for supply to expand. Taxes are too high in most cases. Regulations also are restrictive. The U.S. stalls on approving a pipeline from Canada and in making Federal lands accessible whether in the Gulf of Mexico, Alaska or in the Rocky Mountains. Government restraints on supply act to increase price.

We get the inspiration for our scenario of higher oil price from the experience of 1979-1980 when the U.S. had similar problems as it faces today. Political leadership was ineffective in reducing unemployment or inflation. Domestic energy producers were inhibited by regulation of price, allocation of volume and high taxes. Oil price tripled from the beginning of 1979 to the end of 1980 when there was a change in U.S. political leadership.



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Security is an ever present problem. Oil from Iran was unavailable 32 years ago while the U.S. president appeared powerless in dealing with Iran to secure the release of American hostages. Today Iran is threatening again as the largest military power in the Middle East just when the U.S. withdraws from Iraq and Afghanistan. At the same time the Afghan opposition demonstrates new strength as it avenges the U.S. killing of the notorious bin Laden. Egypt may be destabilizing as U.S. supported revolutionaries deposed the long-time dictator only to see Islamic extremists gain influence. Libyan oil has been lost for now in a stalemate between a long-time strongman and rebels who appear weak and disorganized despite developed country government support. Syrian troops are firing at their own people.

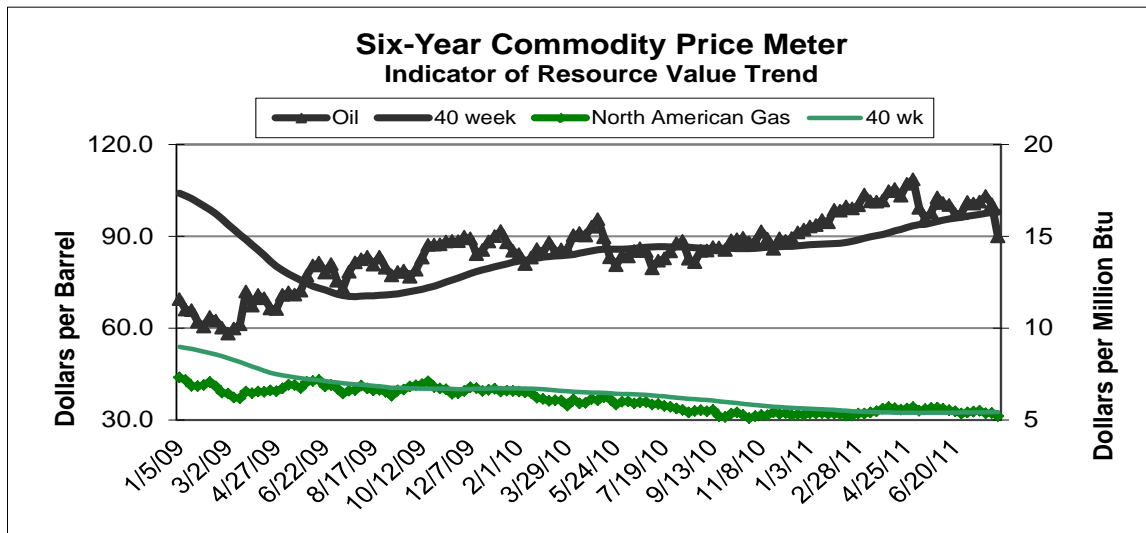
Numerous McDep Opportunities

Buy recommended stocks sport high appreciation potential measured by low McDep Ratios and low cash flow multiples (see Tables 1-3 on pages 3-5). All are trading below 200-day averages (see Table 4 on page 6). Buys which have declined most on the short-term Enterprise Value to 50-day average and have especially low McDep Ratios in their group include **Canadian Oil Sands Ltd. (COSWF)**, **Occidental Petroleum (OXY)** and **Petrobras (PBR)**. In contrast the six U.S. and European major oil buys have declined less.

Discontinue Canadian Natural Resources

We no longer cover Canadian Natural Resources (CNQ) in order to concentrate on our five large cap Canadian buy recommendations. Essentially, the natural gas, heavy oil, oil sands mining and international production representation in CNQ is available in the stocks we continue to cover.

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McDep Large Cap Energy Stocks								
Net Present Value and McDep Ratio								
			Price (US\$/sh)		Market	Net	Debt/	
	Symbol/Rating		8-Aug	Shares	Cap	Present	Present	McDep
	B = Buy, CB (see below)		2011	(mm)	(US\$mm)	(US\$/sh)	Value	Ratio
U.S. Integrated								
Exxon Mobil Corporation	XOM	CB	70.19	4,912	345,000	112.00	0.11	0.67
ConocoPhillips	COP	CB	61.92	1,388	86,000	119.00	0.20	0.62
Chevron Corporation	CVX	CB	90.25	2,009	181,000	170.00	0.07	0.57
<i>Total or Median</i>					612,000		0.11	0.62
Europe								
BG Group plc	BRGXF		19.60	3,410	66,800	25.00	0.15	0.82
Royal Dutch Shell plc	RDS-A	CB	60.01	3,114	187,000	96.00	0.18	0.69
Statoil ASA (33%)	STO	CB	20.16	1,050	21,200	44.00	0.21	0.57
Total S.A.	TOT	CB	45.91	2,256	104,000	100.00	0.16	0.55
BP plc	BP		38.20	3,186	122,000	93.00	0.23	0.54
<i>Total or Median</i>					501,000		0.18	0.57
Brazil/Russia/Australia/China								
Woodside Petroleum Ltd.	WOPEY		33.00	774	25,500	45.00	0.15	0.77
CNOOC Limited (36%)	CEO		181.69	161	29,200	250.00	0.04	0.74
PetroChina Company Ltd (14%)	PTR	CB	124.10	256	31,800	210.00	0.15	0.65
Petrobras	PBR	CB	26.15	6,539	171,000	62.00	0.13	0.49
Gazprom (50%)	OGZPY	CB	11.64	5,750	66,900	28.00	0.11	0.48
Lukoil Oil Company	LUKOY	CB	55.30	786	43,500	150.00	0.04	0.40
<i>Total or Median</i>					368,000		0.12	0.57
U.S. Independent								
Chesapeake Energy Corp.	CHK		27.20	774	21,100	33.00	0.36	0.89
Southwestern Energy Company	SWN		34.67	350	12,100	42.00	0.09	0.84
Anadarko Petroleum Corp.	APC		64.12	500	32,100	90.00	0.32	0.80
EOG Resources, Inc.	EOG	CB	88.60	250	22,200	130.00	0.13	0.72
Occidental Petroleum Corp.	OXY	CB	79.63	813	64,700	123.00	0.07	0.67
Devon Energy Corporation	DVN	CB	65.35	423	27,600	112.00	0.10	0.63
Marathon Oil Corporation	MRO	CB	23.39	717	16,770	54.00	0.22	0.56
<i>Total or Median</i>					196,600		0.13	0.72
Canada								
Cenovus Energy Inc.	CVE	CB	32.16	758	24,400	49.00	0.15	0.71
Penn West Exploration	PWE		17.80	440	7,900	31.00	0.23	0.68
Imperial Oil Limited (30%)	IMO	CB	38.35	256	9,800	62.00	0.09	0.65
EnCana Corporation	ECA	CB	23.32	739	17,200	51.00	0.23	0.58
Suncor Energy	SU	CB	30.26	1,587	48,000	64.00	0.12	0.53
Canadian Oil Sands Limited	COSWF	CB	22.47	485	10,900	52.00	0.05	0.46
<i>Total or Median</i>					118,000		0.14	0.62

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 Stocks								
Value Multiples and Distribution Yield								
			Price (US\$/sh)	Adjustd Resrvs/ Prod	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
	Symbol/Rating		8-Aug 2011	NTM	NTM	NTM	NTM	
	B = Buy, CB (see below)							
U.S. Integrated								
Exxon Mobil Corporation	XOM	CB	70.19	14.1	8.0	5.4	9	9.9
ConocoPhillips	COP	CB	61.92	12.0	8.2	5.0	9	4.3
Chevron Corporation	CVX	CB	90.25	8.5	7.3	4.1	8	3.5
	<i>Total or Median</i>			12.0	8.0	5.0	9	4.3
Europe								
BG Group plc	BRGXF		19.60	17.1	10.0	8.2	15	1.2
Royal Dutch Shell plc	RDS-A	CB	60.01	9.0	7.2	4.9	8	5.6
BP plc	BP		38.20	11.1	8.0	4.3	6	4.4
Total S.A.	TOT	CB	45.91	9.9	7.9	4.3	7	7.1
Statoil ASA (33%)	STO	CB	20.16	6.8	7.3	4.2	8	5.7
	<i>Total or Median</i>			9.9	7.9	4.3	8	5.6
Brazil/Russia/Australia/China								
Woodside Petroleum Ltd.	WOPEY		33.00	22.5	14.1	10.9	19	3.2
Petrobras	PBR	CB	26.15	13.3	12.2	6.0	10	4.5
PetroChina Company Ltd (14%)	PTR	CB	124.10	13.4	8.0	5.2	11	4.3
CNOOC Limited (36%)	CEO		181.69	6.5	6.1	4.5	8	3.2
Gazprom (50%)	OGZPY	CB	11.64	30.2	7.1	3.4	5	2.8
Lukoil Oil Company	LUKOY	CB	55.30	16.1	6.7	2.6	4	3.2
	<i>Total or Median</i>			14.8	7.6	4.9	9	3.2
U.S. Independent								
Chesapeake Energy Corp.	CHK		27.20	11.6	11.8	10.4	19	1.3
Southwestern Energy Company	SWN		34.67	7.9	11.6	9.8	21	-
Anadarko Petroleum Corp.	APC		64.12	7.2	8.6	6.9		0.6
Occidental Petroleum Corp.	OXY	CB	79.63	11.5	9.2	6.2	12	2.3
EOG Resources, Inc.	EOG	CB	88.60	9.3	8.3	6.0	26	0.7
Devon Energy Corporation	DVN	CB	65.35	10.2	9.6	6.0	12	1.0
Marathon Oil Corporation	MRO	CB	23.39	10.3	8.3	4.6	10	2.6
	<i>Total or Median</i>			10.2	9.2	6.2	16	1.0
Canada								
Cenovus Energy Inc.	CVE	CB	32.16	22.3	12.1	8.6	25	2.5
Imperial Oil Limited (30%)	IMO	CB	38.35	43.3	13.0	8.5	13	1.2
Penn West Exploration	PWE		17.80	8.8	12.0	8.2	18	6.1
EnCana Corporation	ECA	CB	23.32	12.3	13.8	8.0	33	3.4
Canadian Oil Sands Limited	COSWF	CB	22.47	26.4	13.3	6.1	10	5.4
Suncor Energy	SU	CB	30.26	25.2	10.5	5.6	15	1.5
	<i>Total or Median</i>			23.8	12.6	8.1	17	3.0
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 Stocks								
Rank by Enterprise Value to 200 Day Average								
			Price					
	Symbol		(\$/sh)	Enterprise Value/				
			8-Aug	52Wk	52Wk	50 Day	200 Day	McDep
	Rating		2011	High	Low	Avg.	Avg.	Ratio
U.S. Integrated								
Chevron Corporation	CVX	CB	90.25	0.84	1.21	0.89	0.93	0.57
ConocoPhillips	COP	CB	61.92	0.82	1.12	0.89	0.91	0.62
Exxon Mobil Corporation	XOM	CB	70.19	0.82	1.17	0.89	0.91	0.67
	<i>Median</i>			<i>0.82</i>	<i>1.17</i>	<i>0.89</i>	<i>0.91</i>	<i>0.62</i>
Europe								
BP plc	BP		38.20	0.85	1.07	0.92	0.91	0.54
BG Group plc	BRGXF		98.00	0.79	1.20	0.89	0.90	0.82
Royal Dutch Shell plc	RDS-A	CB	60.01	0.82	1.11	0.88	0.90	0.69
Statoil ASA (33%)	STO	CB	20.16	0.77	1.06	0.88	0.88	0.57
Total S.A.	TOT	CB	45.91	0.78	1.01	0.88	0.86	0.55
	<i>Median</i>			<i>0.80</i>	<i>1.09</i>	<i>0.89</i>	<i>0.90</i>	<i>0.60</i>
Brazil/Russia/Australia/China								
PetroChina Company Ltd (14%)	PTR	CB	124.10	0.82	1.12	0.90	0.92	0.65
Lukoil Oil Company	LUKOY	CB	55.30	0.75	1.05	0.88	0.88	0.40
Gazprom (50%)	OGZPY	CB	11.64	0.72	1.12	0.85	0.87	0.48
CNOOC Limited (36%)	CEO		181.69	0.68	1.11	0.80	0.79	0.74
Petrobras	PBR	CB	26.15	0.68	1.01	0.83	0.79	0.49
Woodside Petroleum Ltd.	WOPEY		33.00	0.68	0.99	0.79	0.78	0.77
	<i>Median</i>			<i>0.70</i>	<i>1.08</i>	<i>0.84</i>	<i>0.83</i>	<i>0.57</i>
U.S. Independent								
Chesapeake Energy Corp.	CHK		27.20	0.84	1.20	0.93	0.96	0.89
Anadarko Petroleum Corp.	APC		64.12	0.83	1.22	0.89	0.91	0.80
EOG Resources, Inc.	EOG	CB	88.60	0.77	1.03	0.88	0.89	0.72
Southwestern Energy Company	SWN		36.02	0.73	1.12	0.81	0.88	0.84
Devon Energy Corporation	DVN	CB	65.35	0.73	1.09	0.85	0.83	0.63
Occidental Petroleum Corp.	OXY	CB	79.63	0.70	1.09	0.80	0.83	0.67
Marathon Oil Corporation	MRO	CB	23.39					0.56
	<i>Median</i>			<i>0.75</i>	<i>1.10</i>	<i>0.86</i>	<i>0.88</i>	<i>0.72</i>
Canada								
Cenovus Energy Inc.	CVE	CB	32.16	0.83	1.23	0.90	0.94	0.71
Imperial Oil Limited (30%)	IMO	CB	38.35	0.72	1.07	0.86	0.87	0.65
EnCana Corporation	ECA	CB	23.32	0.76	1.00	0.84	0.83	0.58
Penn West Exploration	PWE		17.80	0.71	1.01	0.85	0.80	0.68
Suncor Energy	SU	CB	30.26	0.68	1.03	0.81	0.80	0.53
Canadian Oil Sands Limited	COSWF	CB	22.64	0.66	1.00	0.80	0.80	0.46
	<i>Median</i>			<i>0.72</i>	<i>1.03</i>	<i>0.85</i>	<i>0.83</i>	<i>0.65</i>

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



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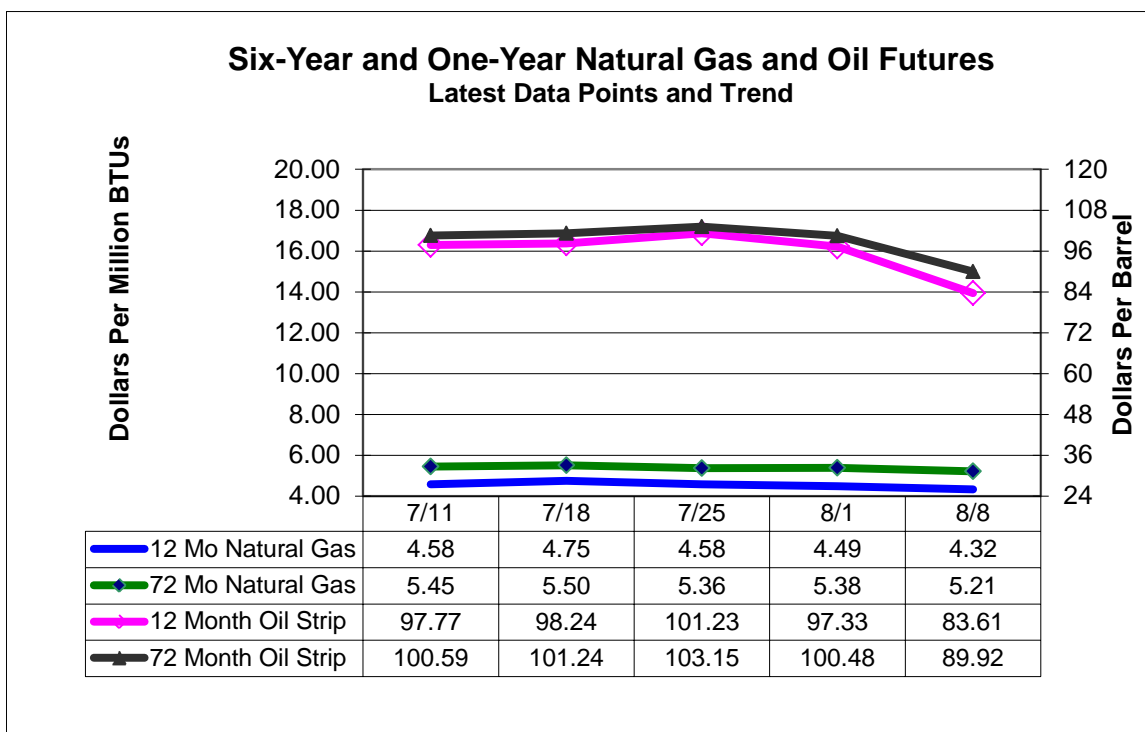
Index of Recent Research			
Stock Ideas			
<i>Date</i>	<i>Symbol</i>	<i>Subject</i>	<i>Theme</i>
9-Aug	HK	Petrohawk	Discontinue on Pending Acquisition at NPV Premium (ISCW)
9-Aug	RRC	Range Resources	Raise NPV to \$70 from \$60 a Share (Income and Small Cap)
9-Aug	XEC	Cimarex Energy	Confirm NPV at \$120 a Share (Income and Small Cap)
2-Aug	CVX	Chevron	Raise NPV to \$170 from \$154 on Cash Flow Margin
2-Aug	TOT	Total	Lower NPV to \$100 from \$111 on Cash Flow Margin (MReader)
29-Jul	WLL	Whiting Petroleum	Appreciation Potential after Stock Price Decline (ISCW)
27-Jul	APC	Anadarko Petroleum	Raise NPV to \$90 from \$78 on Oil Growth
27-Jul	COSWF	Canadian Oil Sands Limited	U.S. Dollar Alternative
26-Jul	ECA	Encana	High Margin at Low Natural Gas Price (Meter Reader)
19-Jul	COP	ConocoPhillips	Downstream Spinoff Promises to Unlock Value (Meter Reader)
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)
7-Jun	IMO	Imperial Oil	Double Oil Production by 2020 (Meter Reader)
31-May	OXY	Occidental Petroleum	Triple California Oil Production by 2020 (Meter Reader)
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)
29-Apr	BIREF	Birchcliff Energy	Independent Engineer Confirms Natural Gas Upside (ISCW)
22-Apr	ERF	Enerplus Corporation	New Buy - Bakken and Marcellus with 7% Income (ISCW)
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)
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			
2-Aug	TOT	Total	Lower NPV to \$100 from \$111 on Cash Flow Margin
26-Jul	ECA	Encana	High Margin at Low Natural Gas Price
19-Jul	COP	ConocoPhillips	Downstream Spinoff Promises to Unlock Value
12-Jul	EOG, DVN, OXY, ECA, MRO		Shale Strategy III
For earlier editions, go to mcdep.com , click on Meter Reader .			
Income and Small Cap Weekly			
5-Aug	RRC, XEC, HK		Market Motion May Mean Near-Term Downtrend
29-Jul	WLL	Whiting Petroleum	Appreciation Potential after Stock Price Decline
22-Jul			Income and Small Cap 23% of McDep Buy Portfolio
15-Jul			In Oil and Gas We Trust
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.