



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

August 16, 2011

Canadian Oil Sands Ltd. – Undervalued Laggard

Summary and Recommendation

Weakened investor confidence in the stock of buy-recommended **Canadian Oil Sands Ltd. (COSWF)** distinguishes it as *undervalued* by having near the lowest McDep Ratio and a *laggard* by having the lowest ratio of enterprise value to 50-day average, an unlevered measure of recent stock price performance. That distinction may signal the prospect for more rapid stock price recovery, the need for new shareholder-friendly action by management or perhaps COSWF's increased attraction to an eventual acquirer. Stock prices may increase for Canadian oil producers should the long-delayed approval by the U.S. Federal administration of the Keystone XL export pipeline be received at year end as expected. The new pipeline would run from Canada to the U.S. Gulf Coast providing the U.S. consumers with valuable new oil supply and Canadian producers with more market growth. Meanwhile, we think management could do more for shareholders to overcome the disenchantment of backing away from paying out cash flow. Last week's registration of new securities including equity issues may have created unnecessary concern about acquisition strategy when taken together with a following Bloomberg story. The new registration of securities apparently is intended to renew an expiring registration with no change in strategy contemplated. At the same time, corporate buyers look at similar measures of value incorporated in the McDep Ratio. The natural acquirers of COSWF (37% of Syncrude) are buy-recommended **ExxonMobil (XOM)** (25% of Syncrude through buy-recommended **Imperial Oil (IMO)**) and partner Sinopec (SNP) (9% owner of Syncrude). Korean and Japanese buyers are prospects as might be leveraged buyout funds backed by pension or sovereign investors looking for a direct resource participation operated by a respected industry leader like XOM. In any case, we believe that COSWF is a high-quality asset with strong appreciation potential.

Rebounding from a sharp drop, oil price for the next six years is \$93 a barrel compared to the 40-week average of \$98 (see chart [Six-Year and One-Year Natural Gas and Oil Futures](#) on page 7). Natural gas turned up also to \$5.26 a million Btu for the next six-years compared to the 40-week average of \$5.43. Buy recommended stocks sport high appreciation potential measured by low McDep Ratios and low cash flow multiples (see Tables 1-3 on pages 2-4). All but two buys are trading below 200-day averages (see Table 4 on page 5).

Kurt H. Wulff, CFA



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			Price (US\$/sh)	Shares (mm)	Market Cap (US\$mm)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
	Symbol/Rating		15-Aug 2011					
	B = Buy, CB (see below)							
U.S. Integrated								
Exxon Mobil Corporation	XOM	CB	74.29	4,912	365,000	112.00	0.11	0.70
ConocoPhillips	COP	CB	67.48	1,388	94,000	119.00	0.20	0.65
Chevron Corporation	CVX	B	99.10	2,009	199,000	170.00	0.07	0.61
	<i>Total or Median</i>				658,000		0.11	0.65
Europe								
BG Group plc	BRGXF		21.55	3,410	73,500	25.00	0.15	0.88
Royal Dutch Shell plc	RDS-A	CB	66.66	3,114	208,000	96.00	0.18	0.75
Statoil ASA (33%)	STO	CB	22.65	1,050	23,800	44.00	0.21	0.62
BP plc	BP		41.65	3,186	133,000	93.00	0.23	0.57
Total S.A.	TOT	CB	48.63	2,256	110,000	100.00	0.17	0.57
	<i>Total or Median</i>				548,000		0.18	0.62
Brazil/Russia/Australia/China								
Woodside Petroleum Ltd.	WOPEY		40.55	774	31,400	45.00	0.15	0.92
CNOOC Limited (36%)	CEO		198.36	161	31,900	250.00	0.04	0.80
PetroChina Company Ltd (14%)	PTR	CB	127.34	256	32,600	210.00	0.15	0.66
Petrobras	PBR	CB	29.23	6,539	191,100	62.00	0.13	0.54
Gazprom (50%)	OGZPY	CB	12.17	5,750	70,000	28.00	0.11	0.50
Lukoil Oil Company	LUKOY	CB	57.50	786	45,200	150.00	0.04	0.41
	<i>Total or Median</i>				402,000		0.12	0.60
U.S. Independent								
Chesapeake Energy Corp.	CHK		32.29	751	24,300	33.00	0.38	0.99
Southwestern Energy Company	SWN		39.88	350	14,000	42.00	0.09	0.95
Anadarko Petroleum Corp.	APC		74.32	500	37,200	90.00	0.32	0.88
EOG Resources, Inc.	EOG	CB	96.29	250	24,100	130.00	0.13	0.78
Occidental Petroleum Corp.	OXY	CB	89.31	813	72,600	123.00	0.07	0.75
Devon Energy Corporation	DVN	CB	69.78	423	29,500	112.00	0.10	0.66
Marathon Oil Corporation	MRO	CB	27.54	717	19,750	54.00	0.22	0.62
	<i>Total or Median</i>				221,500		0.13	0.78
Canada								
Cenovus Energy Inc.	CVE	B	36.69	758	27,800	49.00	0.16	0.79
Penn West Exploration	PWE		20.51	440	9,000	31.00	0.23	0.74
Imperial Oil Limited (30%)	IMO	CB	42.45	256	10,900	62.00	0.09	0.71
EnCana Corporation	ECA	CB	26.28	739	19,400	51.00	0.23	0.62
Suncor Energy	SU	CB	33.13	1,587	52,600	64.00	0.12	0.57
Canadian Oil Sands Limited	COSWF	CB	24.06	485	11,700	52.00	0.05	0.49
	<i>Total or Median</i>				131,000		0.14	0.67
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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			<i>Price</i> <i>(US\$/sh)</i>	<i>Adjustd</i> <i>Resrvs/</i>	<i>PV/</i>	<i>EV/</i>		<i>Divd or</i> <i>Distrib</i>
	<i>Symbol/Rating</i>		<i>15-Aug</i>	<i>Prod</i>	<i>Ebitda</i>	<i>Ebitda</i>	<i>P/E</i>	<i>NTM</i>
	B = Buy, CB (see below)		<i>2011</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>(%)</i>
U.S. Integrated								
Exxon Mobil Corporation	XOM	CB	74.29	14.1	7.7	5.4	9	2.5
ConocoPhillips	COP	CB	67.48	12.0	7.9	5.1	9	3.9
Chevron Corporation	CVX	B	99.10	8.5	7.0	4.3	8	3.1
	<i>Total or Median</i>			<i>12.0</i>	<i>7.7</i>	<i>5.1</i>	<i>9</i>	<i>3.1</i>
Europe								
BG Group plc	BRGXF		21.55	17.1	9.8	8.6	16	1.0
Royal Dutch Shell plc	RDS-A	CB	66.66	9.0	6.9	5.2	8	5.0
BP plc	BP		41.65	11.1	7.6	4.4	6	4.0
Total S.A.	TOT	CB	48.63	9.9	7.6	4.4	7	6.8
Statoil ASA (33%)	STO	CB	22.65	6.8	7.0	4.3	8	5.1
	<i>Total or Median</i>			<i>9.9</i>	<i>7.6</i>	<i>4.4</i>	<i>8</i>	<i>5.0</i>
Brazil/Russia/Australia/China								
Woodside Petroleum Ltd.	WOPEY		40.55	22.5	13.6	12.5	22	2.6
Petrobras	PBR	CB	29.23	13.3	11.6	6.2	10	4.0
PetroChina Company Ltd (14%)	PTR	CB	127.34	13.4	7.7	5.1	10	4.2
CNOOC Limited (36%)	CEO		198.36	6.5	5.7	4.6	8	3.0
Gazprom (50%)	OGZPY	CB	12.17	30.2	7.0	3.5	6	2.7
Lukoil Oil Company	LUKOY	CB	57.50	16.1	6.4	2.6	4	3.2
	<i>Total or Median</i>			<i>14.8</i>	<i>7.4</i>	<i>4.9</i>	<i>9</i>	<i>3.1</i>
U.S. Independent								
Chesapeake Energy Corp.	CHK		32.29	10.8	11.2	11.0	20	1.1
Southwestern Energy Company	SWN		39.88	7.6	11.1	10.6	23	-
Anadarko Petroleum Corp.	APC		74.32	7.2	8.2	7.2		0.5
Occidental Petroleum Corp.	OXY	CB	89.31	11.5	8.7	6.5	13	2.1
EOG Resources, Inc.	EOG	CB	96.29	9.3	7.9	6.1	24	0.7
Devon Energy Corporation	DVN	CB	69.78	10.2	9.2	6.1	12	1.0
Marathon Oil Corporation	MRO	CB	27.54	10.3	7.8	4.8	10	2.2
	<i>Total or Median</i>			<i>10.2</i>	<i>8.7</i>	<i>6.5</i>	<i>16</i>	<i>1.0</i>
Canada								
Cenovus Energy Inc.	CVE	B	36.69	22.3	11.6	9.1	26	2.2
Imperial Oil Limited (30%)	IMO	CB	42.45	43.3	12.4	8.9	14	1.1
EnCana Corporation	ECA	CB	26.28	12.3	13.5	8.4	36	3.0
Penn West Exploration	PWE		20.51	8.6	10.2	7.5	22	5.4
Canadian Oil Sands Limited	COSWF	CB	24.06	26.4	12.1	6.0	10	5.1
Suncor Energy	SU	CB	33.13	25.2	10.0	5.8	15	1.4
	<i>Total or Median</i>			<i>23.8</i>	<i>11.9</i>	<i>8.0</i>	<i>18</i>	<i>2.6</i>
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 (\$/sh)	Enterprise Value/					
	Symbol		15-Aug 2011	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	McDep Ratio	
		Rating							
U.S. Integrated									
	Chevron Corporation	CVX	B	99.10	0.91	1.31	0.98	1.01	0.61
	ConocoPhillips	COP	CB	67.48	0.87	1.19	0.95	0.96	0.65
	Exxon Mobil Corporation	XOM	CB	74.29	0.86	1.22	0.94	0.95	0.70
	<i>Median</i>			<i>0.87</i>	<i>1.22</i>	<i>0.95</i>	<i>0.96</i>	<i>0.65</i>	
Europe									
	BG Group plc	BRGXF		107.75	0.85	1.28	0.98	0.97	0.88
	Royal Dutch Shell plc	RDS-A	CB	66.66	0.88	1.20	0.96	0.97	0.75
	BP plc	BP		41.65	0.90	1.12	0.98	0.96	0.57
	Statoil ASA (33%)	STO	CB	22.65	0.83	1.14	0.96	0.94	0.62
	Total S.A.	TOT	CB	48.63	0.81	1.08	0.93	0.90	0.57
	<i>Median</i>			<i>0.86</i>	<i>1.17</i>	<i>0.96</i>	<i>0.96</i>	<i>0.64</i>	
Brazil/Russia/Australia/China									
	PetroChina Company Ltd (14%)	PTR	CB	127.34	0.84	1.14	0.92	0.94	0.66
	Woodside Petroleum Ltd.	WOPEY		40.55	0.81	1.18	0.96	0.93	0.92
	Lukoil Oil Company	LUKOY	CB	57.50	0.78	1.08	0.92	0.91	0.41
	Gazprom (50%)	OGZPY	CB	12.17	0.75	1.16	0.89	0.90	0.50
	CNOOC Limited (36%)	CEO		198.36	0.74	1.19	0.89	0.86	0.80
	Petrobras	PBR	CB	29.23	0.74	1.14	0.92	0.86	0.54
	<i>Median</i>			<i>0.76</i>	<i>1.15</i>	<i>0.92</i>	<i>0.91</i>	<i>0.60</i>	
U.S. Independent									
	Chesapeake Energy Corp.	CHK		32.29	0.94	1.31	1.03	1.06	0.99
	Southwestern Energy Company	SWN		38.26	0.83	1.27	0.93	1.00	0.95
	Anadarko Petroleum Corp.	APC		74.32	0.91	1.34	0.99	0.99	0.88
	EOG Resources, Inc.	EOG	CB	96.29	0.82	1.10	0.96	0.95	0.78
	Occidental Petroleum Corp.	OXY	CB	89.31	0.78	1.21	0.90	0.92	0.75
	Devon Energy Corporation	DVN	CB	69.78	0.78	1.15	0.91	0.88	0.66
	Marathon Oil Corporation	MRO	CB	27.54					0.62
	<i>Median</i>			<i>0.82</i>	<i>1.24</i>	<i>0.95</i>	<i>0.97</i>	<i>0.78</i>	
Canada									
	Cenovus Energy Inc.	CVE	B	36.69	0.92	1.36	1.01	1.04	0.79
	Imperial Oil Limited (30%)	IMO	CB	42.45	0.79	1.16	0.95	0.95	0.71
	EnCana Corporation	ECA	CB	26.28	0.82	1.08	0.92	0.90	0.62
	Penn West Exploration	PWE		20.51	0.78	1.10	0.94	0.88	0.74
	Suncor Energy	SU	CB	33.13	0.73	1.11	0.89	0.86	0.57
	Canadian Oil Sands Limited	COSWF	CB	24.03	0.70	1.10	0.87	0.85	0.49
	<i>Median</i>			<i>0.79</i>	<i>1.11</i>	<i>0.94</i>	<i>0.90</i>	<i>0.71</i>	
CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average.									



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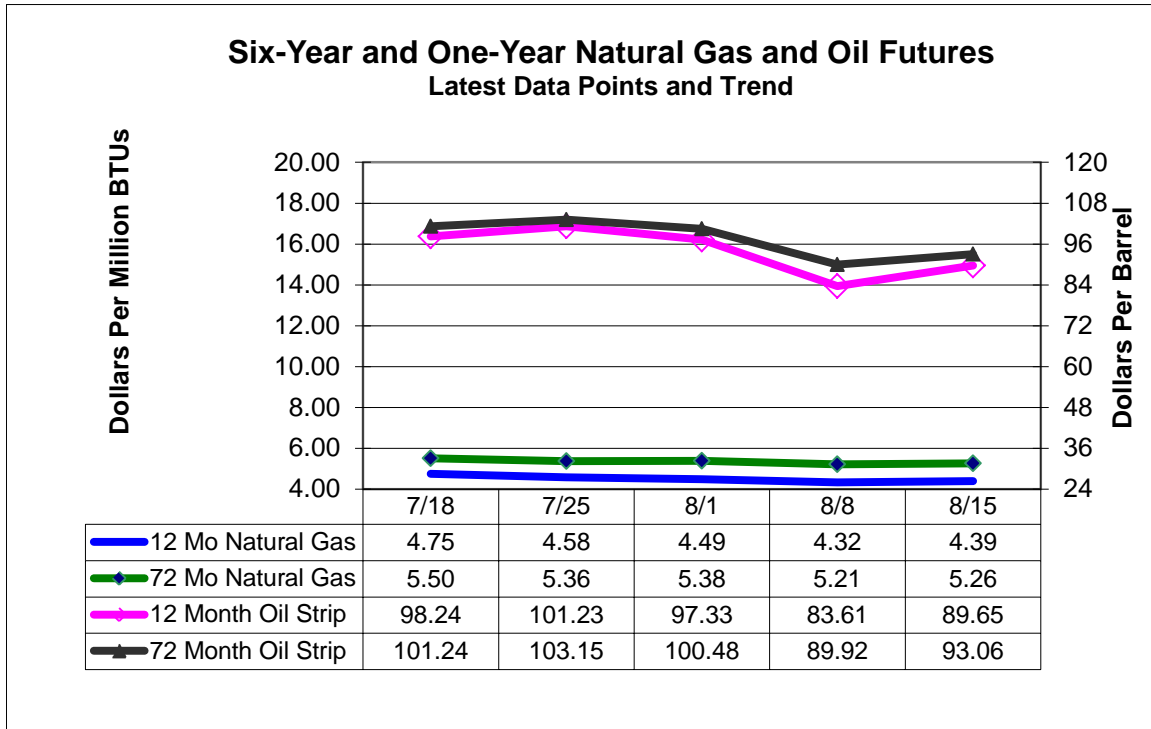
Index of Recent Research			
Stock Ideas			
<i>Date</i>	<i>Symbol</i>	<i>Subject</i>	<i>Theme</i>
9-Aug	HK	Petrohawk	Discontinue on Pending Acquisition at NPV Premium (ISCW)
9-Aug	RRC	Range Resources	Raise NPV to \$70 from \$60 a Share (Income and Small Cap)
9-Aug	XEC	Cimarex Energy	Confirm NPV at \$120 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			
9-Aug			Buy Oil and Gas on the Decline
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
For earlier editions, go to mcdep.com , click on Meter Reader .			
Income and Small Cap Weekly			
12-Aug	BRY, DNR, LGCY	Berry, Denbury, Legacy	Raise NPV
5-Aug	RRC, XEC, HK	Range, Cimarex, Petrohawk	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
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.