



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

September 27, 2011

Stocks Pricing Long-Term Oil at \$60 a Barrel?

Summary and Recommendation

A long-term buying opportunity is here for recommended oil and gas stocks considering that McDep Ratios imply a \$60 long-term oil price when the futures quote for delivery over the next six years is \$86. On a short-term basis, investors may be giving more weight to the trend in the price of oil for delivery over the next twelve months currently at \$82 a barrel.

Our forecast for the next twelve months oil and natural gas price is whatever is in the futures market. On a long-term basis we use \$100 a barrel as a reasonable basis for calculating present value that becomes the denominator of the McDep Ratio. The futures market proxy for long-term oil price which we have calculated for ten years is the monthly average for the next six years. The trend in that average may be down near-term as the latest settlement is below the 40-week average (see charts [Six-Year Commodity Price Meter](#) on page 2 and [Six-Year and One-Year Natural Gas and Oil Futures](#) on page 9). (For ten years of history see charts [Crude Oil Futures](#) on page 2, [Natural Gas Futures](#) on page 3 and [Oil/Natural Gas Futures Ratio](#) on page 3.)

Meanwhile, the stock market is much more cautious about the future, not overly cautious short-term considering all the possibilities, but too cautious long-term for our belief in the prospects for global growth. The McDep Ratio says that the market is discounting our long-term outlook by a composite of 0.59 within a range of 0.35 to 0.90 (see [Tables 1-3](#) on pages 4-6). Moreover the short-term trend in stock price may be down by the momentum measure of the 200-day average (see [Table 4](#) on page 7). We have found that some of the best long-term buys occur when the momentum measure is low.

The conclusion that a McDep Ratio of 0.60 implies a long-term oil price of \$60 is a simplification that would be accurate if cash flow declined in our calculation in direct proportion to price. That may be true for high quality existing production where tax is proportional to price and operating costs are not too high and we allow a year or so for costs to realign. Where costs are fixed at a relatively high level, cash flow would decline noticeably more rapidly as price approaches fixed cost.

Investment in new supply would largely dry up at an oil price of \$60. At a conference of small caps we are attending in San Francisco on September 26-27, we hear that \$80 is still nicely profitable. \$70 would cause drillers to turn away from some of the current plays. \$60 would cause rigs to be laid down. \$50 would justify drilling only the very best oil prospects, maybe 20% of what we are doing now, we guess. As a result, energy supply to support global growth would be difficult to develop at a long-term price of \$60 a barrel. Astute energy users have a cheaper and cleaner alternative to oil in natural gas currently priced at a third the energy equivalent of oil.

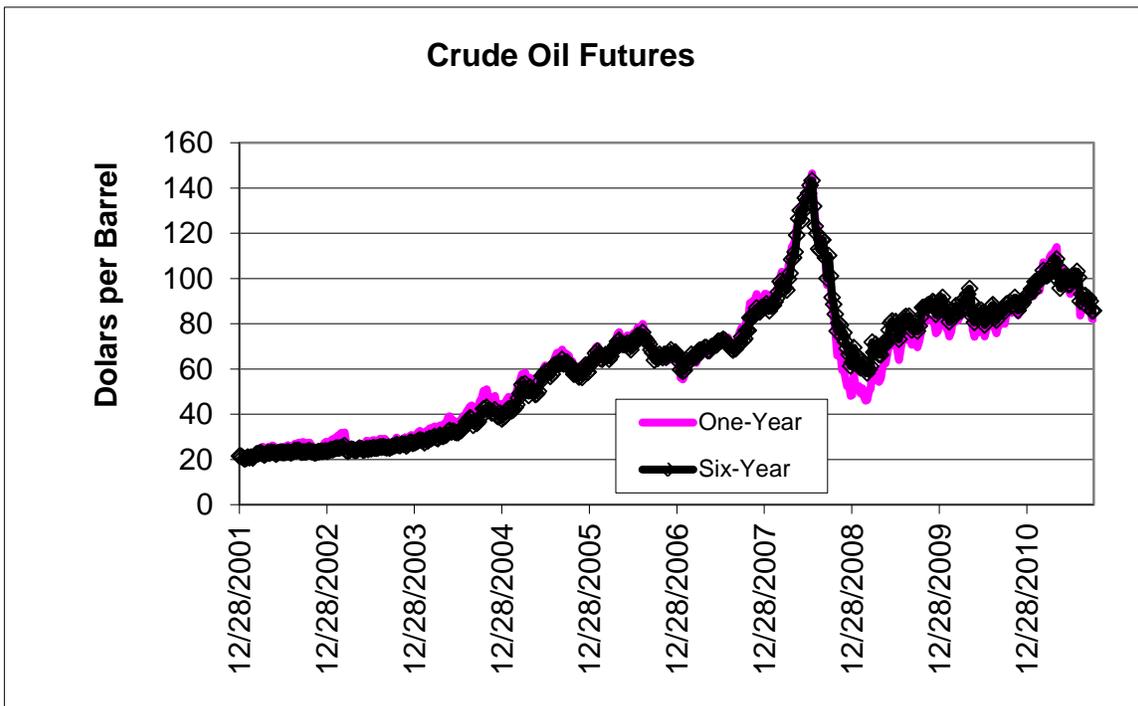
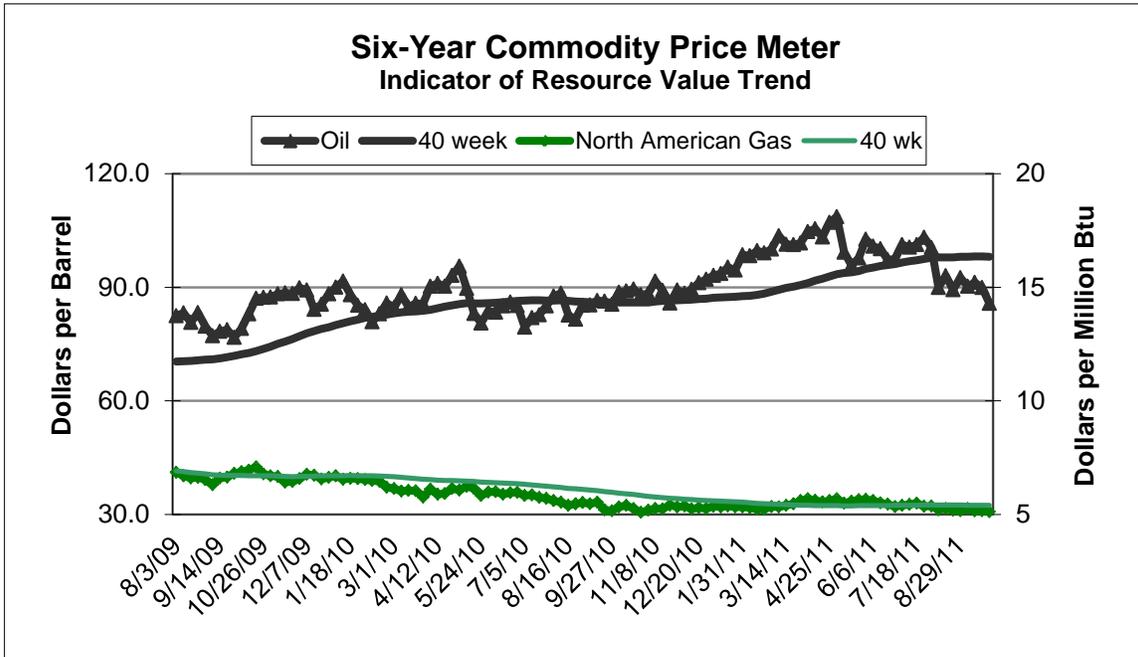
Kurt H. Wulff, CFA



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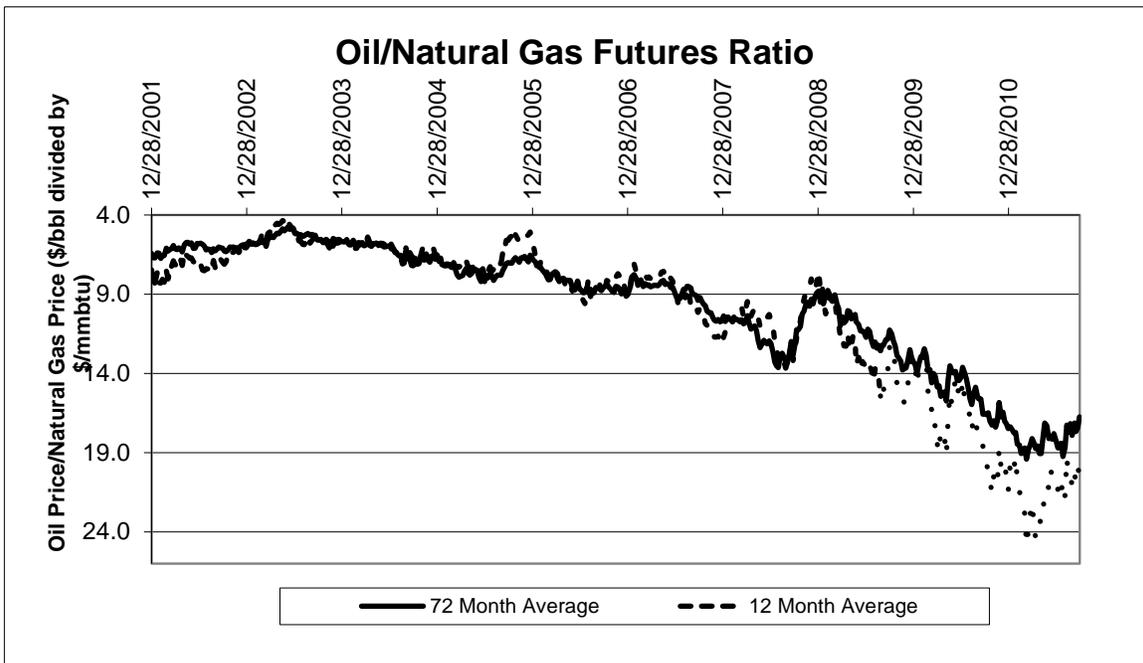
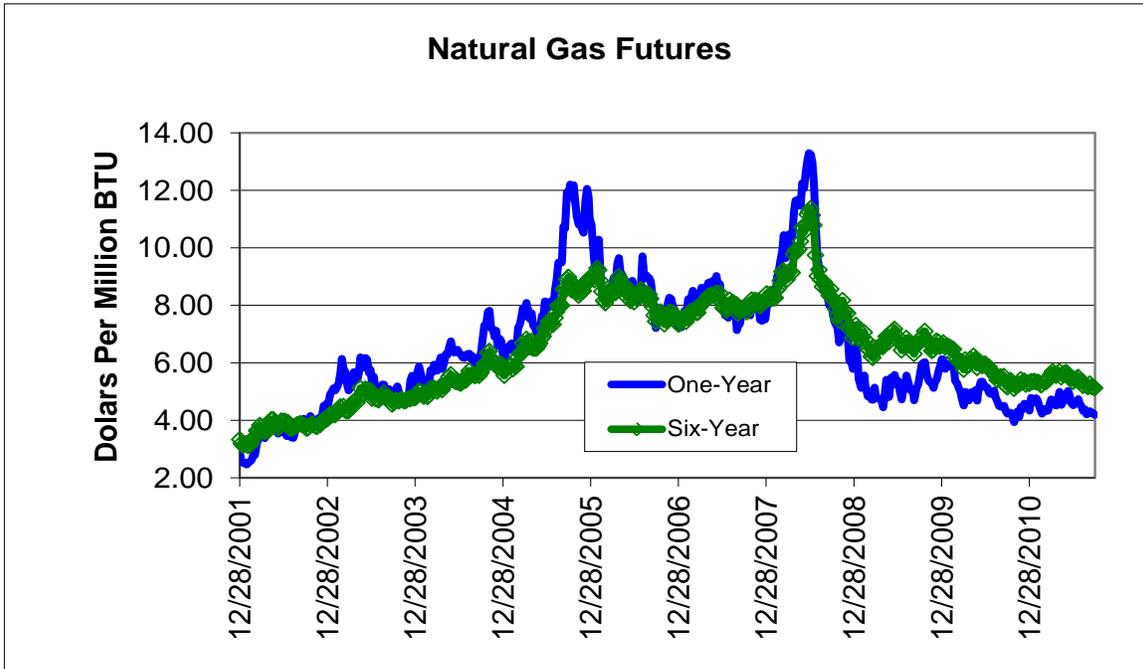




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	Symbol/Rating B = Buy, CB (see below)	Price (US\$/sh)	EV/ Market Cap	Enterprise Value (\$mm)	Present Value by Segment (%)					McDep Ratio
					North Amer.	Rest of World	Oil Prod'n	Down- stream		
U.S. Integrated										
Exxon Mobil Corporation	XOM CB	71.72	1.20	424,000	9	19	56	16		0.68
ConocoPhillips	COP CB	64.13	1.47	130,000	14	11	59	17		0.63
Chevron Corporation	CVX CB	91.49	1.15	211,000	3	10	78	9		0.57
<i>Total or Median</i>				<i>765,000</i>			<i>59</i>			<i>0.63</i>
Europe										
BG Group	BRGXF	18.14	1.24	76,500		34	45	21		0.77
Royal Dutch Shell plc	RDS-A CB	61.96	1.33	256,000	3	22	54	21		0.71
Statoil ASA (33%)	STO CB	21.23	1.53	34,000		34	66	-		0.59
BP plc	BP	36.93	1.74	205,000	4	8	65	23		0.53
Total S.A.	TOT CB	43.09	1.43	139,000		21	66	13		0.52
<i>Total or Median</i>				<i>711,000</i>			<i>65</i>			<i>0.59</i>
Brazil/Russia/Australia/China										
Woodside Petroleum Ltd.	WOPEY	30.00	1.28	30,000		72	28	-		0.72
PetroChina Company Ltd (14%)	PTR CB	119.81	1.32	40,600		14	69	16		0.64
CNOOC Limited (36%)	CEO	157.67	1.01	25,800		9	91	-		0.63
Petrobras	PBR CB	23.97	1.39	217,000		2	83	15		0.47
Gazprom (50%)	OGZPY CB	9.75	1.25	70,000		84	16	-		0.40
Lukoil Oil Company	LUKOY CB	49.65	1.11	44,200			72	28		0.35
<i>Total or Median</i>				<i>428,000</i>			<i>72</i>			<i>0.55</i>
U.S. Independent										
Chesapeake Energy Corp.	CHK	27.53	1.75	36,100	73		27	-		0.90
Southwestern Energy Company	SWN	35.83	1.12	14,000	100			-		0.87
Anadarko Petroleum Corp.	APC	69.81	1.60	55,900	36		61	3		0.85
Occidental Petroleum Corp.	OXY CB	76.99	1.12	69,800	10	1	79	9		0.65
EOG Resources, Inc.	EOG CB	76.68	1.26	24,200	43	4	53	-		0.65
Devon Energy Corporation	DVN CB	57.43	1.22	29,700	55		45	-		0.56
Marathon Oil Corporation	MRO CB	23.23	1.31	21,700	7	4	89	-		0.50
<i>Total or Median</i>				<i>251,000</i>			<i>61</i>			<i>0.65</i>
Canada										
Cenovus Energy Inc.	CVE CB	31.14	1.28	30,200	16		74	9		0.69
Penn West Exploration	PWE	16.15	1.51	11,400	16		84	-		0.62
Imperial Oil Limited (30%)	IMO CB	36.29	1.16	10,800	3		86	11		0.62
EnCana Corporation	ECA CB	20.31	1.73	26,000	90		10	-		0.53
Suncor Energy	SU CB	26.77	1.31	55,500	3		81	17		0.48
Canadian Oil Sands Limited	COSWF CB	20.17	1.14	11,200			100	-		0.42
<i>Total or Median</i>				<i>145,000</i>			<i>83</i>			<i>0.58</i>
Composite				2,300,000	9	15	62	14		0.59

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



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Table 2								
McDep Large Cap Energy Stocks								
Net Present Value and McDep Ratio								
			Price			Net		
			(US\$/sh)		Market	Present	Debt/	
	Symbol/Rating		26-Sep	Shares	Cap	Value	Present	McDep
	B = Buy, CB (see below)		2011	(mm)	(US\$mm)	(US\$/sh)	Value	Ratio
U.S. Integrated								
Exxon Mobil Corporation	XOM	CB	71.72	4,912	352,000	112.00	0.11	0.68
ConocoPhillips	COP	CB	64.13	1,380	89,000	119.00	0.20	0.63
Chevron Corporation	CVX	CB	91.49	2,009	184,000	170.00	0.07	0.57
<i>Total or Median</i>					625,000		0.11	0.63
Europe								
BG Group plc	BRGXF		18.14	3,410	61,900	25.00	0.15	0.77
Royal Dutch Shell plc	RDS-A	CB	61.96	3,114	193,000	96.00	0.18	0.71
Statoil ASA (33%)	STO	CB	21.23	1,050	22,300	44.00	0.20	0.59
BP plc	BP		36.93	3,186	118,000	93.00	0.23	0.53
Total S.A.	TOT	CB	43.09	2,256	97,000	100.00	0.16	0.52
<i>Total or Median</i>					492,000		0.18	0.59
Brazil/Russia/Australia/China								
Woodside Petroleum Ltd.	WOPEY		30.00	787	23,600	45.00	0.16	0.72
PetroChina Company Ltd (14%)	PTR	CB	119.81	256	30,700	210.00	0.16	0.64
CNOOC Limited (36%)	CEO		157.67	162	25,500	250.00	0.01	0.63
Petrobras	PBR	CB	23.97	6,513	156,100	62.00	0.13	0.47
Gazprom (50%)	OGZPY	CB	9.75	5,750	56,100	28.00	0.08	0.40
Lukoil Oil Company	LUKOY	CB	49.65	802	39,800	150.00	0.03	0.35
<i>Total or Median</i>					332,000		0.11	0.55
U.S. Independent								
Chesapeake Energy Corp.	CHK		27.53	751	20,700	33.00	0.38	0.90
Southwestern Energy Company	SWN		35.83	350	12,500	42.00	0.09	0.87
Anadarko Petroleum Corp.	APC		69.81	500	34,900	90.00	0.32	0.85
Occidental Petroleum Corp.	OXY	CB	76.99	813	62,600	123.00	0.07	0.65
EOG Resources, Inc.	EOG	CB	76.68	250	19,200	130.00	0.13	0.65
Devon Energy Corporation	DVN	CB	57.43	423	24,300	112.00	0.10	0.56
Marathon Oil Corporation	MRO	CB	23.23	717	16,660	54.00	0.12	0.50
<i>Total or Median</i>					190,900		0.12	0.65
Canada								
Cenovus Energy Inc.	CVE	CB	31.14	758	23,600	49.00	0.15	0.69
Penn West Exploration	PWE		16.15	467	7,500	31.00	0.21	0.62
Imperial Oil Limited (30%)	IMO	CB	36.29	256	9,300	62.00	0.09	0.62
EnCana Corporation	ECA	CB	20.31	739	15,000	51.00	0.23	0.53
Suncor Energy	SU	CB	26.77	1,587	42,500	64.00	0.11	0.48
Canadian Oil Sands Limited	COSWF	CB	20.17	485	9,800	52.00	0.05	0.42
<i>Total or Median</i>					108,000		0.13	0.58
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	Adjustd				Divd or	
			(US\$/sh)	Resrvs/	PV/	EV/		Distrib	
	Symbol/Rating		26-Sep	Prod	Ebitda	Ebitda	P/E	NTM	
	B = Buy, CB (see below)		2011	NTM	NTM	NTM	NTM	(%)	
U.S. Integrated									
	Exxon Mobil Corporation	XOM	CB	71.72	14.1	8.1	5.5	9	2.6
	ConocoPhillips	COP	CB	64.13	12.0	8.3	5.2	10	4.1
	Chevron Corporation	CVX	CB	91.49	8.5	7.4	4.3	8	3.4
	<i>Total or Median</i>				12.0	8.1	5.2	9	3.4
Europe									
	BG Group plc	BRGXF		18.14	17.1	10.4	7.9	15	1.2
	Royal Dutch Shell plc	RDS-A	CB	61.96	9.0	7.2	5.1	8	5.4
	BP plc	BP		36.93	11.1	8.9	4.7	6	4.5
	Statoil ASA (33%)	STO	CB	21.23	6.8	7.5	4.4	9	5.1
	Total S.A.	TOT	CB	43.09	9.9	8.0	4.2	6	7.1
	<i>Total or Median</i>				9.9	8.0	4.7	8	5.1
Brazil/Russia/Australia/China									
	Woodside Petroleum Ltd.	WOPEY		30.00	20.3	10.6	7.6	13	3.7
	Petrobras	PBR	CB	23.97	13.5	12.2	5.7	8	5.3
	PetroChina Company Ltd (14%)	PTR	CB	119.81	13.1	7.5	4.8	10	4.5
	CNOOC Limited (36%)	CEO		157.67	6.9	6.1	3.8	7	4.1
	Lukoil Oil Company	LUKOY	CB	49.65	16.4	6.9	2.4	4	3.7
	Gazprom (50%)	OGZPY	CB	9.75	30.2	5.5	2.2	3	3.0
	<i>Total or Median</i>				14.9	7.2	4.3	8	3.9
U.S. Independent									
	Chesapeake Energy Corp.	CHK		27.53	10.5	11.1	10.0	9	1.3
	Southwestern Energy Company	SWN		35.83	7.5	11.2	9.7	21	-
	Anadarko Petroleum Corp.	APC		69.81	7.2	8.6	7.3		0.5
	Occidental Petroleum Corp.	OXY	CB	76.99	11.5	9.1	5.9	12	2.4
	Devon Energy Corporation	DVN	CB	57.43	10.2	9.8	5.5	10	1.2
	EOG Resources, Inc.	EOG	CB	76.68	9.2	8.2	5.3	20	0.8
	Marathon Oil Corporation	MRO	CB	23.23	10.3	7.4	3.7	10	2.6
	<i>Total or Median</i>				10.2	9.1	5.9	11	1.2
Canada									
	Cenovus Energy Inc.	CVE	CB	31.14	22.3	12.2	8.4	19	2.5
	Imperial Oil Limited (30%)	IMO	CB	36.29	43.1	13.3	8.3	13	1.2
	EnCana Corporation	ECA	CB	20.31	11.9	13.3	7.1	73	3.9
	Penn West Exploration	PWE		16.15	8.5	11.3	7.0	12	6.5
	Canadian Oil Sands Limited	COSWF	CB	20.17	26.1	13.2	5.5	9	5.8
	Suncor Energy	SU	CB	26.77	25.2	10.4	5.0	13	1.6
	<i>Total or Median</i>				23.8	12.7	7.1	13	3.2
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 September 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/				McDep	
			26-Sep	52Wk	52Wk	50 Day	200 Day	Ratio	
	Rating		2011	High	Low	Avg.	Avg.		
U.S. Integrated									
	Chevron Corporation	CVX	CB	91.49	0.85	1.15	0.93	0.93	0.57
	ConocoPhillips	COP	CB	64.13	0.84	1.11	0.96	0.92	0.63
	Exxon Mobil Corporation	XOM	CB	71.72	0.84	1.14	0.96	0.92	0.68
	<i>Median</i>			<i>0.84</i>	<i>1.14</i>	<i>0.96</i>	<i>0.92</i>	<i>0.63</i>	
Europe									
	Royal Dutch Shell plc	RDS-A	CB	61.96	0.84	1.04	0.94	0.92	0.71
	BP plc	BP		36.93	0.84	1.03	0.95	0.90	0.53
	Statoil ASA (33%)	STO	CB	21.23	0.79	1.04	0.94	0.90	0.59
	BG Group plc	BRGXF		90.71	0.74	1.03	0.88	0.84	0.77
	Total S.A.	TOT	CB	43.09	0.74	1.05	0.91	0.83	0.52
	<i>Median</i>			<i>0.82</i>	<i>1.04</i>	<i>0.94</i>	<i>0.90</i>	<i>0.61</i>	
Brazil/Russia/Australia/China									
	PetroChina Company Ltd (14%)	PTR	CB	119.81	0.80	1.06	0.94	0.90	0.64
	Lukoil Oil Company	LUKOY	CB	49.65	0.68	1.04	0.84	0.80	0.35
	Petrobras	PBR	CB	23.97	0.64	1.04	0.86	0.76	0.47
	Gazprom (50%)	OGZPY	CB	9.75	0.61	1.07	0.82	0.74	0.40
	Woodside Petroleum Ltd.	WOPEY		30.00	0.63	0.99	0.83	0.74	0.72
	CNOOC Limited (36%)	CEO		157.67	0.58	1.09	0.81	0.70	0.63
	<i>Median</i>			<i>0.64</i>	<i>1.05</i>	<i>0.83</i>	<i>0.75</i>	<i>0.55</i>	
U.S. Independent									
	Anadarko Petroleum Corp.	APC		69.81	0.88	1.17	0.96	0.95	0.85
	Chesapeake Energy Corp.	CHK		27.53	0.85	1.16	0.92	0.94	0.90
	Southwestern Energy Company	SWN		34.81	0.75	1.12	0.90	0.90	0.87
	Occidental Petroleum Corp.	OXY	CB	76.99	0.68	1.09	0.88	0.80	0.65
	EOG Resources, Inc.	EOG	CB	76.68	0.68	1.04	0.85	0.79	0.65
	Devon Energy Corporation	DVN	CB	57.43	0.66	1.03	0.85	0.75	0.56
	Marathon Oil Corporation	MRO	CB	23.23					0.50
	<i>Median</i>			<i>0.72</i>	<i>1.10</i>	<i>0.89</i>	<i>0.85</i>	<i>0.65</i>	
Canada									
	Cenovus Energy Inc.	CVE	CB	31.14	0.81	1.13	0.90	0.90	0.69
	Imperial Oil Limited (30%)	IMO	CB	36.29	0.69	1.04	0.89	0.82	0.62
	EnCana Corporation	ECA	CB	20.31	0.70	1.01	0.86	0.78	0.53
	Penn West Exploration	PWE		16.15	0.66	1.02	0.88	0.76	0.62
	Canadian Oil Sands Limited	COSWF	CB	20.20	0.60	1.05	0.84	0.74	0.42
	Suncor Energy	SU	CB	26.77	0.62	1.06	0.84	0.74	0.48
	<i>Median</i>			<i>0.69</i>	<i>1.05</i>	<i>0.88</i>	<i>0.78</i>	<i>0.62</i>	

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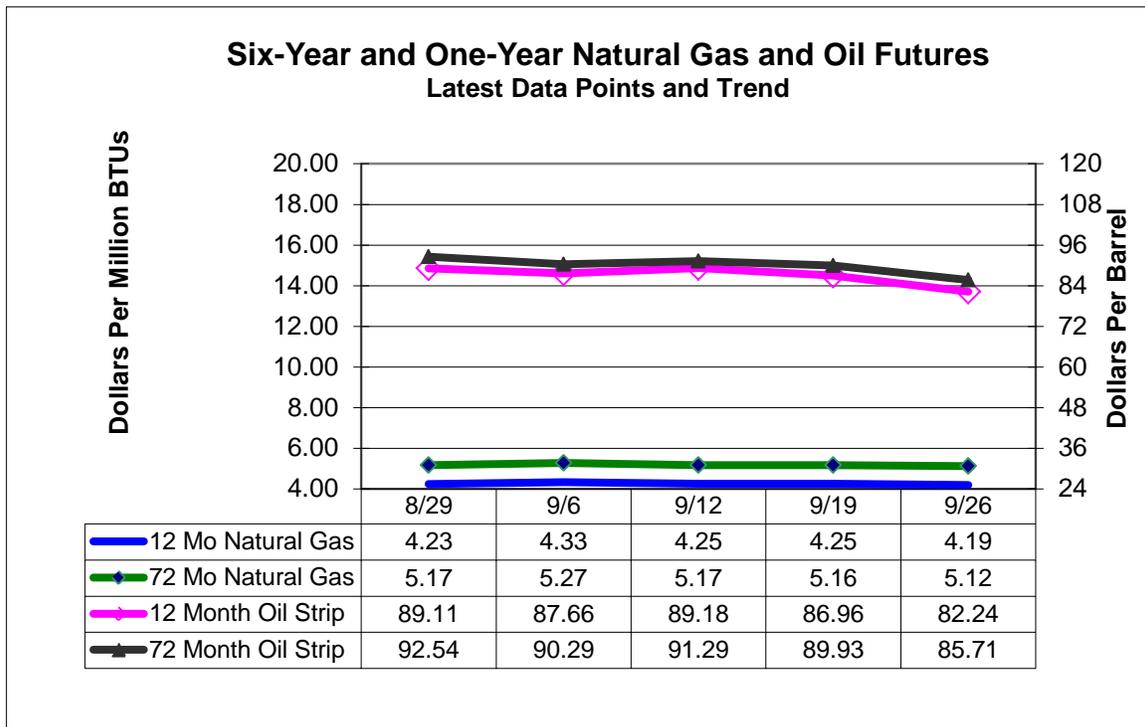
Index of Recent Research			
Stock Ideas			
<i>Date</i>	<i>Symbol</i>	<i>Subject</i>	<i>Theme</i>
23-Sep	SJT, HGT	San Juan Basin RT, Hugoton RT	Transfer Buy to SJT from HGT (Income and Small Cap Wkly)
16-Sep	FRHLF, PBT, SBR, DMLP, CRT		Volume Upside in Top Line Cash Payers (Income and Small Cap)
13-Sep	EOG	EOG Resources	Horizontal Leads Renewed U.S. Oil Growth (Meter Reader)
6-Sep	LUKOY	Lukoil	Capitalist Success with Upside (Meter Reader)
2-Sep	XEC	Cimarex Energy	Solid Company, Bouncy Stock (Income and Small Cap Weekly)
30-Aug	PTR	PetroChina	China Growth at Low Stock Market Value (Meter Reader)
23-Aug	PBR	Petrobras	Product Price Controls Delay Cash Growth (Meter Reader)
19-Aug	DMLP	Dorchester Minerals, L.P.	Preferred Risk 7% Income with Oil and Gas Upside (ISCW)
16-Aug	COSWF	Canadian Oil Sands Limited	Undervalued Laggard (Meter Reader)
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)
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
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)
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)
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-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			
20-Sep			20% More Oil for the Buck
13-Sep	EOG	EOG Resources	Horizontal Leads Renewed U.S. Oil Growth
6-Sep	LUKOY	Lukoil	Capitalist Success with Upside
30-Aug	PTR	PetroChina	China Growth at Low Stock Market Value
For earlier editions, go to mcdep.com , click on Meter Reader .			
Income and Small Cap Weekly			
23-Sep	SJT, HGT	San Juan Basin RT, Hugoton RT	Transfer Buy to SJT from HGT
16-Sep	FRHLF, PBT, SBR, DMLP, CRT		Volume Upside in Top Line Cash Payers
9-Sep			A Dime a Gallon
2-Sep	XEC	Cimarex Energy	Solid Company, Bouncy Stock
For earlier editions, go to mcdep.com , click on Energy Income .			



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