



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

August 13, 2013

Devon Energy (DVN)

Raise NPV to \$100 from \$92 on Oil Gains

<i>Symbol</i>	DVN	<i>Ebitda Next Twelve Months ending 6/30/14 (US\$mm)</i>	5,800
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	28
<i>Price (\$/sh)</i>	57.89	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/12/13	<i>Adjusted Reserves/Production NTM</i>	10.1
<i>Shares (mm)</i>	407	<i>EV/Ebitda</i>	5.8
<i>Market Capitalization (\$mm)</i>	23,600	<i>PV/Ebitda</i>	8.8
<i>Debt (\$mm)</i>	10,200	<i>Undeveloped Reserves (%)</i>	28
<i>Enterprise Value (EV) (\$mm)</i>	33,800	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	22.90
<i>Present Value (PV) (\$mm)</i>	50,900	<i>Present Value Proven Reserves(\$/boe)</i>	17.20
<i>Net Present Value (\$/share)</i>	100	<i>Present Value Proven Reserves(\$/mcf)</i>	2.90
<i>Debt/Present Value</i>	0.20	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.09
<i>McDep Ratio - EV/PV</i>	0.66	<i>Price/Earnings Next Twelve Months</i>	14
<i>Dividend Yield (%/year)</i>	1.1	<i>Indicated Annual Dividend (US\$/sh)</i>	0.66
Note: Estimated cash flow and earnings tied to one-year futures prices for natural gas and oil.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$90 a barrel and natural gas, \$6 a million btu.			
For historical research on Devon since 2004 see http://www.mcdep.com/3dvn.htm			

Summary and Recommendation

We raise Net Present Value (NPV) to \$100 a share from \$92 for buy-recommended **Devon Energy (DVN)** on oil price, margin and volume. The company's overall oil and gas price jumped most noticeably among peers in the second quarter reported on August 7 (see chart [Oil and Gas Equivalent Price](#) on page 2). Shale oil success and recovery in Canadian heavy oil price disproportionately benefitted DVN. The favorable progress on revenue translated to higher margins as expenses were restrained (see chart [Cash Flow Margin](#) on page 2). Oil is growing most rapidly in the Permian Basin with emphasis on the traditional Bone Spring play and new enthusiasm for the Wolfcamp Shale. We are most intrigued with Chief Operating Officer Dave Hager's disclosure that Devon has a new oil play in the Woodford Shale, the source rock for the Mississippi Limestone in Central Oklahoma. As a result, the prospects for the moderately promising lime are multiplied with a resource play in the related shale. Meanwhile, oil value is about evenly balanced with natural gas value (see table [Present Value](#) on page 3). Oil volume growth drives further revenue gains at current oil and gas futures prices (see table [Operating and Financial Results](#) on page 3). Good news on the success of Devon's shale oil initiative is a potential catalyst for increasing investor interest in a stock that has a low McDep Ratio of 0.66 (see [Tables 1-3](#) on page 4-6). Finally, stock price is in an uptrend on a 200-day average basis (see [Table 4](#) on page 7).

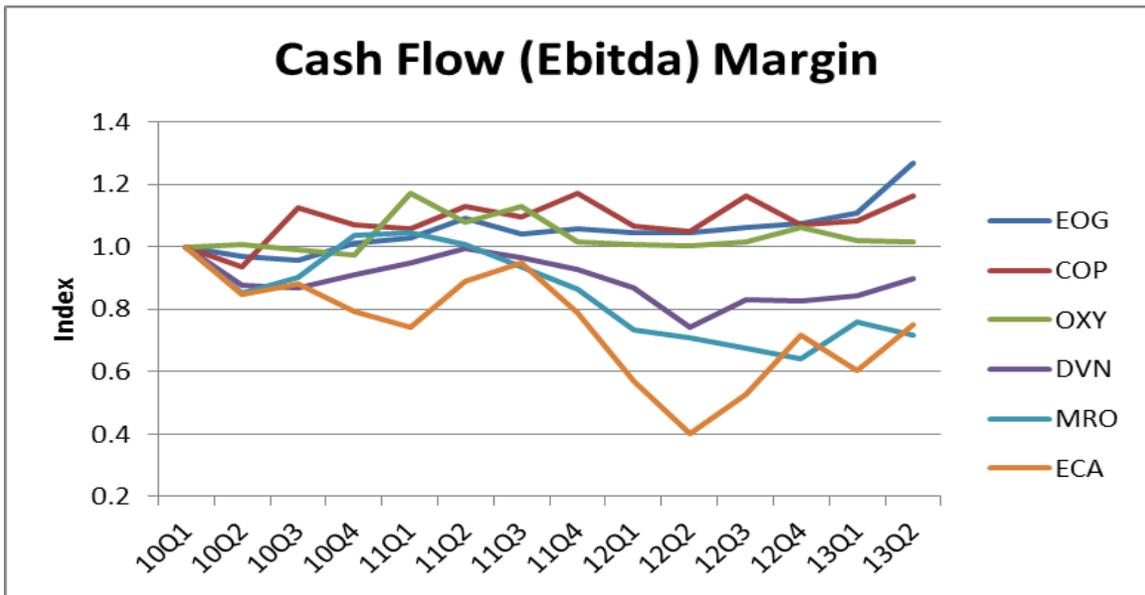
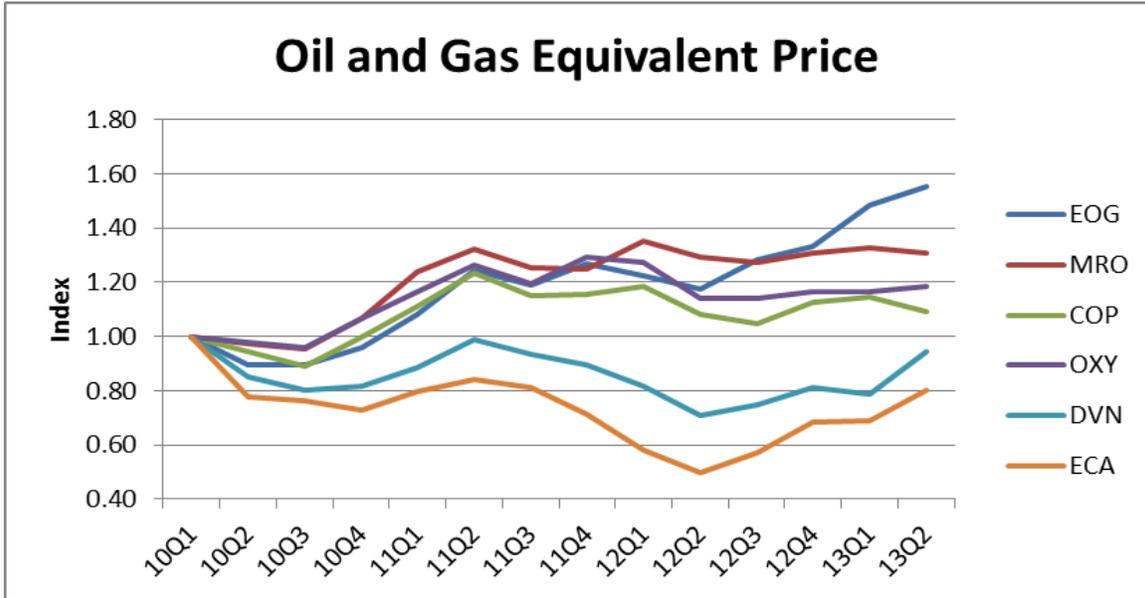
Kurt H. Wulff, CFA



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Devon Energy					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
North American Natural Gas	1,610	10.3	15.5	25,000	49%
Oil	4,170	9.8	6.2	25,900	51%
	5,780	10.1	8.8	50,900	100%
Debt (US\$mm)					10,200
Net Present Value (US\$mm)					40,700
Shares (mm)					407
Net Present Value - Standard Estimate (US\$/sh)					100
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					104

Devon Energy										
Next Twelve Months Operating and Financial Results										
	Q2	Year	Q1	Q2	Q3E	Q4E	Year	Q1E	Q2E	Next Twelve Months
	6/30/12	2012	3/31/13	6/30/13	9/30/13	12/31/13	2013E	3/31/14	6/30/14	6/30/14
Volume										
Natural Gas (mmcf)										
U.S.	2,050	2,054	1,969	1,970	1,931	1,892	1,940	1,854	1,817	1,874
Canada	519	508	455	470	461	451	459	442	434	447
Total	2,569	2,570	2,424	2,440	2,391	2,343	2,399	2,297	2,251	2,321
Oil (mbd)	251	255	282	291	291	300	291	309	318	304
Total gas & oil (bcf)	371	1,498	370	381	381	381	1,513	373	378	1,513
Total gas & oil (mmboe)	62	250	62	63	63	64	252	62	63	252
Total gas & oil (mboed)	679	682	686	698	690	690	691	691	693	691
Price										
Natural gas (\$/mcf)										
Henry Hub (\$/mmbtu)	2.21	2.79	3.34	4.10	3.49	3.48	3.60	3.73	3.68	3.59
U.S.	1.72	2.33	2.81	3.49	2.97	2.97	3.06	3.17	3.13	3.06
Canada	1.91	2.49	3.02	3.44	2.62	2.61	2.92	2.79	2.76	2.69
Company	1.76	2.36	2.85	3.48	2.90	2.90	3.04	3.10	3.06	2.99
Oil (\$/bbl)										
WTI Cushing	93.32	94.16	94.41	94.22	105.65	104.32	99.65	100.49	97.32	101.94
Company	52.94	52.91	46.47	54.71	61.35	60.57	55.94	58.35	56.51	59.15
Total gas & oil (\$/mcf)	4.37	4.77	4.86	5.83	5.99	6.02	5.68	6.06	5.98	6.01
Revenue (\$mm)										
Natural Gas	411	2,212	622	773	639	625	2,659	641	626	2,531
Oil	1,209	4,943	1,180	1,449	1,642	1,670	5,941	1,621	1,635	6,569
Total	1,620	7,155	1,801	2,222	2,281	2,295	8,600	2,262	2,261	9,100
Expense (\$mm)										
	721	2,770	663	730	831	836	3,061	824	824	3,316
Ebitda (\$mm)										
	899	4,385	1,138	1,492	1,450	1,459	5,539	1,438	1,437	5,784
Deprec., Deplet., & Amort.	684	2,811	704	674	674	674	2,726	674	674	2,696
Hedging and other	(226)	(863)	(88)	(48)	25	30	(81)	18	18	92
Ebit (\$mm)										
	442	2,437	522	866	751	755	2,893	745	745	2,996
Interest	99	406	110	108	108	108	434	108	108	432
Ebt (\$mm)										
	343	2,031	412	758	643	647	2,459	637	637	2,564
Income Tax	120	711	144	265	225	226	861	223	223	897
Net Income (\$mm)										
	223	1,320	268	492	418	420	1,599	414	414	1,667
Shares (millions)										
	405	405	406	407	407	407	407	407	407	407
Per Share (\$)	0.55	3.26	0.66	1.21	1.03	1.03	3.93	1.02	1.02	4.09
Ebitda Margin	56%	61%	63%	67%	64%	64%	64%	64%	64%	64%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%



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Table 2								
McDep Large Cap Energy Stocks								
Net Present Value and McDep Ratio								
			<i>Price</i>			<i>Net</i>		
			<i>(US\$/sh)</i>		<i>Market</i>	<i>Present</i>	<i>Debt/</i>	
	<i>Symbol/Rating</i>		<i>12-Aug</i>	<i>Shares</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	<i>McDep</i>
	B = Buy, CB (see below)		<i>2013</i>	<i>(mm)</i>	<i>(US\$mm)</i>	<i>(US\$/sh)</i>	<i>Value</i>	<i>Ratio</i>
Global Integrated								
Exxon Mobil Corporation	XOM	B	89.89	4,433	399,000	102.00	0.16	0.90
Chevron Corporation	CVX	H	121.80	1,937	236,000	150.00	0.11	0.83
PetroChina Company Ltd (14%)	PTR	H	117.78	256	30,200	155.00	0.29	0.83
Total S.A.	TOT	H	53.56	2,274	122,000	80.00	0.20	0.73
Petrobras	PBR	H	13.96	6,522	91,100	25.00	0.39	0.73
Royal Dutch Shell plc	RDS-A	H	64.41	3,159	203,000	100.00	0.18	0.71
Gazprom (50%)	OGZPY	H	7.82	5,735	44,800	20.00	0.14	0.48
Lukoil Oil Company	LUKOY	CB	58.25	776	45,200	135.00	0.03	0.45
<i>Total or Median</i>					<i>1,171,000</i>		<i>0.17</i>	<i>0.73</i>
U.S. Independent								
EOG Resources, Inc.	EOG	H	158.82	273	43,400	180.00	0.11	0.90
Occidental Petroleum Corp.	OXY	H	88.28	805	71,100	108.00	0.10	0.84
Marathon Oil Corporation	MRO	B	34.65	714	24,740	50.00	0.23	0.76
ConocoPhillips	COP	H	66.11	1,216	80,000	100.00	0.22	0.74
Devon Energy Corporation	DVN	B	57.89	407	23,600	100.00	0.20	0.66
<i>Total or Median</i>					<i>242,800</i>		<i>0.20</i>	<i>0.76</i>
Canada/Norway/Australia								
Woodside Petroleum Ltd.	WOPEY	H	35.09	820	28,800	36.00	0.15	0.98
Imperial Oil Limited (30%)	IMO	H	40.55	255	10,400	52.00	0.19	0.82
Cenovus Energy Inc.	CVE	H	28.36	758	21,500	42.00	0.19	0.74
EnCana Corporation	ECA	CB	17.45	736	12,800	30.00	0.28	0.70
Statoil ASA (33%)	STO	H	21.53	1,050	22,600	38.00	0.27	0.68
Canadian Oil Sands Limited	COSWF	CB	19.86	485	9,600	34.00	0.13	0.64
Suncor Energy	SU	H	32.15	1,507	48,500	56.00	0.15	0.64
<i>Total or Median</i>					<i>154,000</i>		<i>0.19</i>	<i>0.70</i>
CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average. H = Hold								
Estimated present value presumes a long-term price for oil of US\$90 a barrel and natural gas, \$6 a million btu.								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
Recent NPV Changes: EOG to \$180 from 160, DVN to \$100 from \$92.								



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Table 3								
McDep Large Cap Energy Stocks								
Value Multiples and Dividend Yield								
			Price	Adjustd	PV/	EV/		Dividend
			(US\$/sh)	Resrvs/	Ebitda	Ebitda	P/E	NTM
	Symbol/Rating		12-Aug	Prod				
	B = Buy, CB (see below)		2013	NTM	NTM	NTM	NTM	(%)
Global Integrated								
Exxon Mobil Corporation	XOM	B	89.89	13.4	7.3	6.6	12	2.8
PetroChina Company Ltd (14%)	PTR	H	117.78	12.5	6.7	5.6	11	3.9
Chevron Corporation	CVX	H	121.80	9.3	6.2	5.2	10	2.5
Petrobras	PBR	H	13.96	11.1	6.7	4.9	5	3.4
Royal Dutch Shell plc	RDS-A	H	64.41	10.0	6.7	4.7	9	5.6
Total S.A.	TOT	H	53.56	9.8	6.2	4.6	8	5.9
Lukoil Oil Company	LUKOY	CB	58.25	15.9	5.7	2.6	5	4.7
Gazprom (50%)	OGZPY	H	7.82	31.0	4.4	2.1	3	4.6
	<i>Median</i>			<i>11.8</i>	<i>6.4</i>	<i>4.8</i>	<i>8</i>	<i>4.3</i>
U.S. Independent								
ConocoPhillips	COP	H	66.11	11.7	8.2	6.0	11	4.2
Devon Energy Corporation	DVN	B	57.89	10.1	8.8	5.8	14	1.1
EOG Resources, Inc.	EOG	H	158.82	7.3	6.3	5.6	19	0.5
Occidental Petroleum Corp.	OXY	H	88.28	10.1	6.5	5.5	12	2.9
Marathon Oil Corporation	MRO	B	34.65	9.4	6.5	5.0	11	2.2
	<i>Median</i>			<i>10.1</i>	<i>6.5</i>	<i>5.6</i>	<i>12</i>	<i>2.2</i>
Canada/Norway/Australia								
Woodside Petroleum Ltd.	WOPEY	H	35.09	9.8	8.1	8.0	18	4.5
Imperial Oil Limited (30%)	IMO	H	40.55	21.5	9.4	7.7	9	1.1
EnCana Corporation	ECA	CB	17.45	6.7	11.0	7.7	11	4.6
Canadian Oil Sands Limited	COSWF	CB	19.86	20.2	9.4	6.0	9	6.8
Cenovus Energy Inc.	CVE	H	28.36	12.7	7.9	5.8	20	3.3
Suncor Energy	SU	H	32.15	15.6	8.1	5.2	9	1.8
Statoil ASA (33%)	STO	H	21.53	6.2	5.7	3.9	7	5.3
	<i>Median</i>			<i>12.7</i>	<i>8.1</i>	<i>6.0</i>	<i>9</i>	<i>4.5</i>
CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average. H = Hold								
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2014; 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									
Total Return and Enterprise Value Momentum									
				Equity					
			Price	Total					
			(\$/sh)	Return	Enterprise Value/				
	Symbol		12-Aug	YTD	52Wk	52Wk	50 Day	200 Day	McDep
	Rating		2013	(%)	High	Low	Avg.	Avg.	Ratio
Global Integrated									
Total S.A.	TOT	H	53.56	6	0.98	1.12	1.04	1.04	0.73
Chevron Corporation	CVX	H	121.80	14	0.96	1.18	0.99	1.04	0.83
Exxon Mobil Corporation	XOM	B	89.89	6	0.95	1.05	0.98	1.00	0.90
Royal Dutch Shell plc	RDS-A	H	64.41	(4)	0.90	1.02	0.99	0.97	0.71
Gazprom (50%)	OGZPY	H	7.82	(20)	0.77	1.14	1.05	0.95	0.48
PetroChina Company Ltd (14%)	PTR	H	117.78	(16)	0.86	1.11	1.02	0.94	0.83
Lukoil Oil Company	LUKOY	CB	58.25	(14)	0.87	1.07	0.99	0.93	0.45
Petrobras	PBR	H	13.96	(28)	0.73	1.07	0.99	0.90	0.73
	<i>Median</i>			(9)	0.88	1.09	0.99	0.96	0.73
U.S. Independent									
EOG Resources, Inc.	EOG	H	158.82	32	0.99	1.42	1.12	1.20	0.90
ConocoPhillips	COP	H	66.11	18	0.99	1.15	1.03	1.07	0.74
Occidental Petroleum Corp.	OXY	H	88.28	17	0.93	1.19	0.98	1.04	0.84
Devon Energy Corporation	DVN	B	57.89	12	0.93	1.09	1.03	1.03	0.66
Marathon Oil Corporation	MRO	B	34.65	14	0.94	1.19	0.98	1.03	0.76
	<i>Median</i>			17	0.94	1.19	1.03	1.04	0.76
Canada/Norway/Australia									
Suncor Energy	SU	H	32.15	(2)	0.92	1.14	1.03	1.01	0.64
Canadian Oil Sands Limited	COSWF	CB	19.89	1	0.89	1.08	1.02	0.99	0.64
Woodside Petroleum Ltd.	WOPEY	H	35.09	1	0.90	1.10	1.03	0.98	0.98
Imperial Oil Limited (30%)	IMO	H	40.55	(5)	0.85	1.07	1.01	0.98	0.82
EnCana Corporation	ECA	CB	17.45	(10)	0.81	1.03	0.99	0.94	0.70
Statoil ASA (33%)	STO	H	21.53	(10)	0.86	1.04	1.00	0.94	0.68
Cenovus Energy Inc.	CVE	H	28.36	(14)	0.81	1.03	0.97	0.93	0.74
	<i>Median</i>			(5)	0.86	1.07	1.01	0.98	0.70

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



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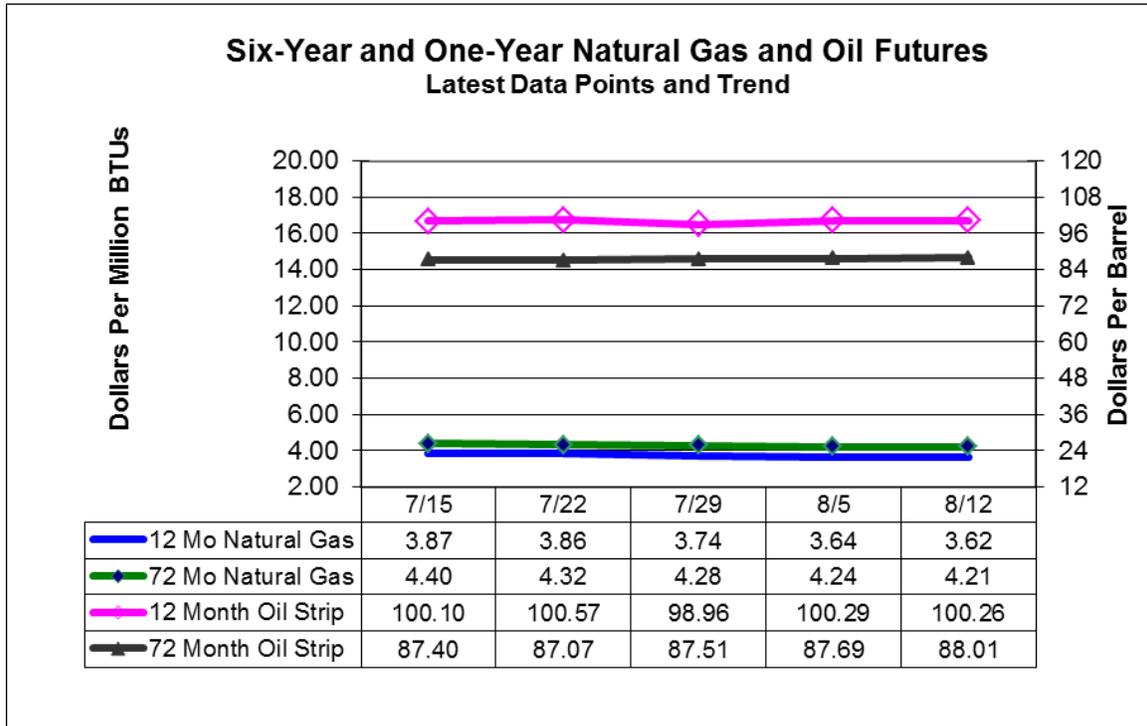
Index of Recent Research			
Stock Ideas			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
9-Aug	DMLP	Dorchester Minerals, L.P.	More Bakken and Permian Oil Cash (Income and Small Cap Weekly)
6-Aug	RDSA	Royal Dutch Shell plc	Value Choice after Latest Results (Meter Reader)
31-Jul	COSWF	Canadian Oil Sands Ltd.	CEO Change May Catalyze Operating Reliability
30-Jul	ECA, IMO	Encana, Imperial Oil	Buy Encana, Hold Imperial Oil (Meter Reader)
26-Jul	WLL	Whiting Petroleum	Western Williston and Red Tail (Income and Small Cap Weekly)
23-Jul	WOPEY	Woodside Petroleum, Ltd.	Distributing LNG Cash (Meter Reader)
19-Jul	SJT	San Juan Basin Royalty Trust	Acreage 75% in Liquids-Rich Shale Zone (Income and Small Cap Weekly)
16-Jul	COSWF, SU	Canadian Oil Sands Ltd, Suncor	Buy Canadian Oil Sands, Hold Suncor (Meter Reader)
12-Jul	PBT	Permian Basin Royalty Trust	Stock Price Recovering from Short-Term Overreaction
9-Jul	MRO	Marathon Oil	Bakken Strengthens (Meter Reader)
5-Jul	LINE	Linn Energy	Stock Undervalued while SEC Probes (Income and Small Stock Weekly)
21-Jun	RRC	Range Resources	Superlatives (Income and Small Cap Weekly)
11-Jun	XOM	Exxon Mobil	5% a Year Growth per Share (Meter Reader)
7-Jun	XEC	Cimarex Energy	Uncovering Culberson Value (Income and Small Cap Weekly)
4-Jun	DVN	Devon Energy	Natural Gas Strength, Oil Growth (Meter Reader)
31-May	HGT	Hugoton Royalty Trust	Beating the Bear (Income and Small Cap Weekly)
28-May	LUKOY	Lukoil	20% Dividend Increase (Meter Reader)
24-May	BIREF	Birchcliff Energy	Small Cap North American Natural Gas (Income and Small Cap Weekly)
14-May	EOG	EOG Resources	Raise NPV to \$180 on More Big Wells (Meter Reader)
10-May	CLR	Continental Resources	Raise NPV to \$110 from \$100 on Oil Growth (ISCW)
3-May	NDRO	Enduro Royalty Trust	RTF Stock for Permian Oil (Income and Small Cap Weekly)
30-Apr	TOT	Total	Recovery Potential (Meter Reader)
19-Apr	HK	Halcón Resources	Fourth Core Area - El Halcón ("The Hawk") (Inc. and Small Cap Wkly)
16-Apr	CVX	Chevron	Deflation Resistance (Meter Reader)
12-Apr	MTR	Mesa Royalty Trust	RTF Stealth Play on Long-Life Natural Gas (Income and Small Cap Wkly)
5-Apr	SBR	Sabine Royalty Trust	Accelerating Volume Growth (Income and Small Cap Weekly)
2-Apr	OXY	Occidental Petroleum	Six-Year Oil Price Returns to Uptrend (Meter Reader)
28-Mar	PEYUF	Peyto Exploration and Development	Raise NPV to \$32 for Fracking Winner (Income and Small Cap Weekly)
15-Mar	CRT	Cross Timbers Royalty Trust	San Juan Basin Gem (Income and Small Cap Weekly)
1-Mar	ERF	Enerplus Corporation	Back on Track, Discontinue Buy (Income and Small Cap Weekly)
21-Feb	BRY	Berry Petroleum	Linn Energy to Acquire Berry for McDep Ratio of 0.77
5-Feb	COP	ConocoPhillips	Raise NPV to \$105 from \$96 on Performance (Meter Reader)
11-Jan	PDCE	PDC Energy	Mancos (Niobrara) Winner (Income and Small Cap Weekly)
For historical research by stock, go to mcdep.com , click on Stock Ideas , click on stock by name.			
Meter Reader			
6-Aug	RDSA	Royal Dutch Shell plc	Value Choice after Latest Results
30-Jul	ECA, IMO	Encana, Imperial Oil	Buy Encana, Hold Imperial Oil
23-Jul	WOPEY	Woodside Petroleum, Ltd.	Distributing LNG Cash
16-Jul	COSWF, SU	Canadian Oil Sands Ltd, Suncor	Buy Canadian Oil Sands, Hold Suncor
9-Jul	MRO	Marathon Oil	Bakken Strengthens
For earlier editions, go to mcdep.com , click on Meter Reader .			
Income and Small Cap Weekly			
9-Aug	DMLP	Dorchester Minerals, L.P.	More Bakken and Permian Oil Cash
2-Aug		Top Line Cash	Advantaged Shale Investment
26-Jul	WLL	Whiting Petroleum	Western Williston and Red Tail
19-Jul	SJT	San Juan Basin Royalty Trust	Acreage 75% in Liquids-Rich Shale Zone
12-Jul	PBT	Permian Basin Royalty Trust	Stock Price Recovering from Short-Term Overreaction
For earlier editions, go to mcdep.com , click on Energy Income .			



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