



Meter Reader

A Weekly Analysis of Oil and Gas Stocks

October 8, 2013

U.S. Energy Independence Anticipation Advancing

Summary and Recommendation

Favorable progress in 2013 increases the probability of U.S. energy independence by 2020 to 20%, in our assessment. Until now we had thought the chances of the country producing so much oil so soon were nil. For the second year in a row, the U.S. is adding more than a million barrels daily (mmbd) to oil and natural gas liquids (NGL) production. Equating energy independence to oil independence, the country needs another 7 mmbd to displace net imported oil (see chart [Trend to Energy Independence](#) on page 2). Our outlook for price to balance supply and demand is unchanged at \$90 a barrel adjusted for inflation. The improving U.S. oil supply outlook reinforces our investment strategy to commit most of the portfolio to equities. While our professional emphasis is entirely on oil and gas, we like the prospects for the whole global stock market as a result of drilling and fracking innovations. Practically all of the stocks in the U.S., Small Cap and RTF groups have beneficial exposure to U.S. Energy Independence.

Gratifying Progress, Formidable Challenge

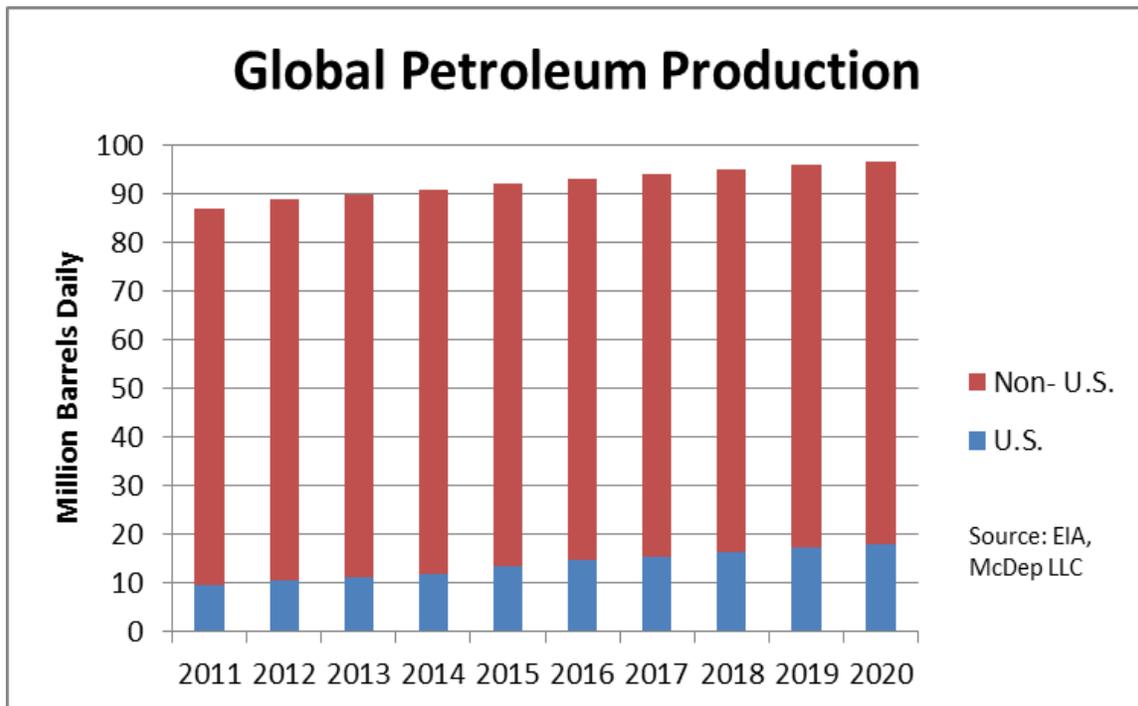
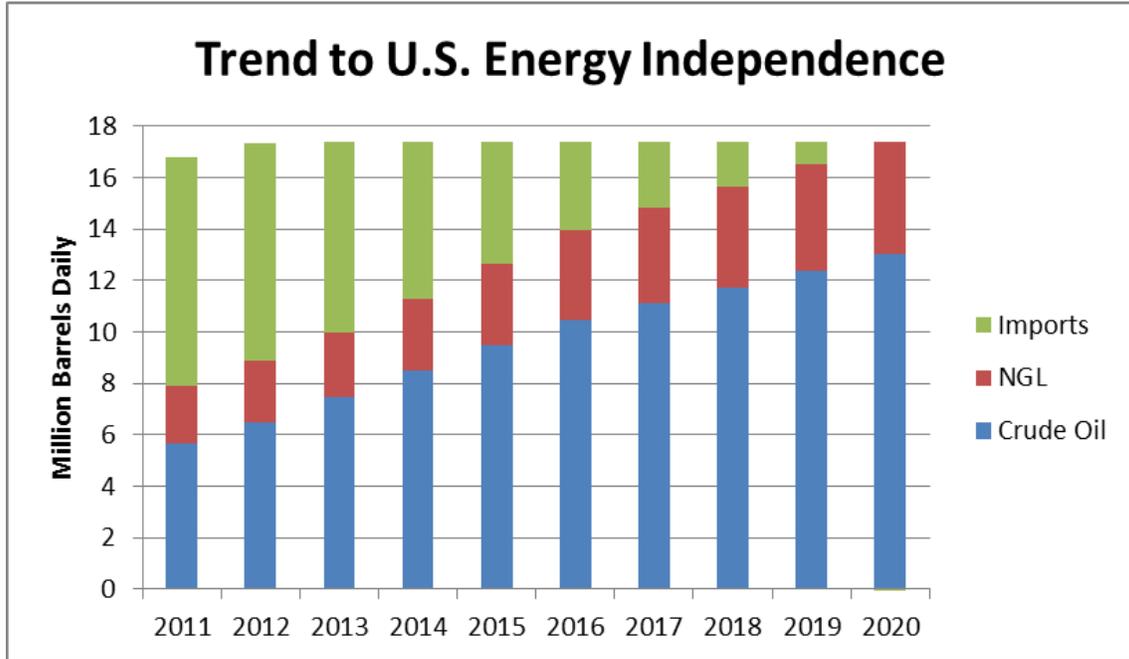
On the current track, the U.S. may match in 2014 its historical peak oil and NGL production of 11 mmbd achieved in the 1970s. The Energy Information Administration (EIA) estimates that the U.S. surpassed Russia this year and Saudi Arabia last year to become the world's largest producer of petroleum, broadly defined to include not only oil and NGL, but also biofuels and refinery gain. Such achievements seemed out of reach only a few years ago.

Continued high growth to 2020 would require enormous commitments of hundreds of billions of dollars. The challenge of growth intensifies because new wells decline perhaps 50% in the first year requiring that each year's new production replace previous years' decline before raising the total volume. A reasonable person might readily conclude that energy independence may remain elusive. Yet we have been favorably surprised so far and are optimistic about further gains while paying close attention to current progress.

Big Global Market Moderates Price

At energy independence in 2020, the U.S. would have perhaps a 19% share of global petroleum up from about 12% today (see chart [Global Petroleum Production](#) on page 2). We think that is enough to dampen any tendency for large increases in today's price of crude oil, but not enough to depress the price below current quotes for long. As a result, our global price outlook remains at \$90 a barrel before adjustment for future inflation. The current futures price is \$88 a barrel for delivery over the next six years. Whether or not the futures quote is a forecast of price is debatable. Nonetheless, it is a widely observed frame of reference. When we translate growing volume and moderate price to stocks we see attractive values (see [Tables 1-4](#) on pages 3-6).

Kurt H. Wulff, CFA





Meter Reader

A Weekly Analysis of Oil and Gas Stocks

October 8, 2013

			<i>Price (US\$/sh) 7-Oct 2013</i>	<i>Shares (mm)</i>	<i>Market Cap (US\$mm)</i>	<i>Net Present Value (US\$/sh)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>
		<i>Symbol/Rating</i>						
		<i>B = Buy, CB (see below)</i>						
Global Integrated								
Exxon Mobil Corporation		XOM CB	85.90	4,433	381,000	102.00	0.16	0.87
Chevron Corporation		CVX H	117.87	1,937	228,000	150.00	0.11	0.81
Total S.A.		TOT H	58.09	2,274	132,000	80.00	0.20	0.78
Royal Dutch Shell plc		RDS-A H	64.76	3,159	205,000	100.00	0.18	0.71
Lukoil Oil Company		LUKOY B	64.01	776	49,700	135.00	0.06	0.51
		<i>Total or Median</i>			<i>996,000</i>		<i>0.16</i>	<i>0.78</i>
U.S. Independent								
EOG Resources, Inc.		EOG H	172.83	273	47,200	180.00	0.11	0.96
Occidental Petroleum Corp.		OXY H	95.28	805	76,700	108.00	0.10	0.89
ConocoPhillips		COP H	70.88	1,209	86,000	100.00	0.22	0.77
Marathon Oil Corporation		MRO B	34.72	714	24,790	50.00	0.23	0.76
Devon Energy Corporation		DVN B	58.36	407	23,800	100.00	0.20	0.67
		<i>Total or Median</i>			<i>258,500</i>		<i>0.20</i>	<i>0.77</i>
Canada/Australia								
Woodside Petroleum Ltd.		WOPEY H	35.30	823	29,100	36.00	0.14	0.98
Imperial Oil Limited (30%)		IMO H	43.01	255	11,000	52.00	0.19	0.86
Cenovus Energy Inc.		CVE H	29.27	758	22,200	42.00	0.19	0.75
EnCana Corporation		ECA CB	17.10	736	12,600	30.00	0.28	0.69
Canadian Oil Sands Limited		COSWF CB	19.29	485	9,400	34.00	0.13	0.62
		<i>Total or Median</i>			<i>84,000</i>		<i>0.19</i>	<i>0.75</i>
Small Cap Independent Producers								
PDC Energy		PDCE	65.24	31	2,000	45.00	0.36	1.29
Continental Resources (32%)		CLR B	110.61	59	6,600	120.00	0.17	0.94
Cimarex Energy Company		XEC B	99.63	87	8,600	110.00	0.13	0.92
Peyto Exploration and Development Corp.		PEYUF	29.86	149	4,500	34.00	0.13	0.89
Range Resources		RRC B	75.56	161	12,200	90.00	0.19	0.87
Whiting Petroleum Corporation		WLL B	62.56	119	7,400	75.00	0.20	0.87
Halcón Resources		HK	4.77	441	2,100	7.00	0.50	0.84
WPX Energy Inc.		WPX	19.63	204	4,000	26.00	0.30	0.83
Birchcliff Energy Ltd.		BIREF CB	6.76	166	1,100	12.00	0.20	0.65
		<i>Total or Median</i>			<i>49,000</i>		<i>0.20</i>	<i>0.87</i>
RTF Cash Payers								
Freehold Royalties Ltd.		FRHLF	22.97	67	1,530	21.00	0.05	1.09
Dorchester Minerals, L.P.		DMLP B	23.98	31	740	26.00	-	0.92
Sabine Royalty Trust		SBR	52.70	15	770	64.00	-	0.82
Permian Basin RT		PBT	14.41	47	670	18.00	-	0.80
San Juan Basin Royalty Trust		SJT B	16.29	47	760	21.00	-	0.78
Mesa RoyaltyTrust		MTR	22.41	2	40	30.00	-	0.75
Enduro Royalty Trust		NDRO	12.41	33	410	17.00	-	0.73
Cross Timbers Royalty Trust		CRT	29.05	6	170	42.00	-	0.69
Hugoton RoyaltyTrust		HGT	7.43	40	300	12.00	-	0.62
		<i>Total or Median</i>			<i>5,400</i>		<i>-</i>	<i>0.78</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



Meter Reader

A Weekly Analysis of Oil and Gas Stocks

October 8, 2013

Table 3								
McDep Energy Stocks								
Value Multiples and Dividend								
Ranked by EV/Ebitda								
			Price (US\$/sh)	Adjustd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	P/E	Dividend
	Symbol/Rating		7-Oct 2013	NTM	NTM	NTM	NTM	NTM
	B = Buy, CB (see below)							(\$/sh)
Global Integrated								
Exxon Mobil Corporation	XOM	CB	85.90	13.2	7.3	6.3	11	2.52
Chevron Corporation	CVX	H	117.87	9.3	6.3	5.1	9	4.00
Total S.A.	TOT	H	58.09	9.9	6.3	4.9	9	3.20
Royal Dutch Shell plc	RDS-A	H	64.76	9.7	6.5	4.6	9	3.60
Lukoil Oil Company	LUKOY	B	64.01	15.8	6.0	3.0	6	2.79
	<i>Median</i>			9.9	6.3	4.9	9	
U.S. Independent								
EOG Resources, Inc.	EOG	H	172.83	7.3	6.3	6.1	21	2.56
ConocoPhillips	COP	H	70.88	11.4	7.8	6.0	12	0.75
Occidental Petroleum Corp.	OXY	H	95.28	10.1	6.6	5.9	13	2.76
Devon Energy Corporation	DVN	B	58.36	10.1	8.7	5.8	14	0.76
Marathon Oil Corporation	MRO	B	34.72	9.4	6.6	5.0	12	0.88
	<i>Median</i>			10.1	6.6	5.9	13	
Canada/Australia								
Woodside Petroleum Ltd.	WOPEY	H	35.30	9.8	8.2	8.0	17	1.66
Imperial Oil Limited (30%)	IMO	H	43.01	20.2	9.2	7.9	9	0.47
EnCana Corporation	ECA	CB	17.10	6.6	10.1	7.0	10	0.94
Canadian Oil Sands Limited	COSWF	CB	19.29	19.9	9.4	5.9	9	1.36
Cenovus Energy Inc.	CVE	H	29.27	12.2	7.7	5.8	19	0.80
	<i>Median</i>			12.2	9.2	7.0	10	
Small Cap Independent Producers								
Range Resources	RRC	B	75.56	13.1	15.2	13.2	57	0.16
PDC Energy	PDCE		65.24	15.3	10.2	13.1	68	-
Peyto Exploration and Development Corp.	PEYUF		29.86	8.9	11.2	10.0	21	0.76
Birchcliff Energy Ltd.	BIREF	CB	6.76	18.6	13.1	8.5	29	-
WPX Energy Inc.	WPX		19.63	8.0	9.5	7.8		-
Continental Resources (32%)	CLR	B	110.61	11.4	8.2	7.7	18	-
Cimarex Energy Company	XEC	B	99.63	7.4	7.1	6.5	14	0.56
Halcón Resources	HK		4.77	4.2	6.5	5.5	6	-
Whiting Petroleum Corporation	WLL	B	62.56	8.5	4.9	4.2	10	-
	<i>Median</i>			8.9	9.5	7.8	19	
RTF Cash Payers								
San Juan Basin Royalty Trust	SJT	B	16.29	9.8	17.0	13.2	18	0.89
Sabine Royalty Trust	SBR		52.70	10.1	15.7	13.0	13	4.07
Freehold Royalties Ltd.	FRHLF		22.97	4.8	10.9	11.8	27	1.63
Dorchester Minerals, L.P.	DMLP	B	23.98	7.3	11.5	10.6	17	1.85
Cross Timbers Royalty Trust	CRT		29.05	12.3	14.1	9.8	11	2.72
Mesa RoyaltyTrust	MTR		22.41	5.0	12.4	9.3	11	1.97
Hugoton RoyaltyTrust	HGT		7.43	12.8	12.8	7.9	9	0.80
Permian Basin RT	PBT		14.41	12.7	9.8	7.8	12	1.20
Enduro Royalty Trust	NDRO		12.41	6.2	10.2	7.5	8	1.54
	<i>Median</i>			9.8	12.4	9.8	12	
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 September 30, 2014; P/E = Stock Price to								
Earnings; PV = Present Value of oil and gas and other businesses								



Meter Reader

A Weekly Analysis of Oil and Gas Stocks

October 8, 2013

Table 4									
McDep Energy Stocks									
Total Return and Enterprise Value Momentum									
Ranked by EV/200-Day Average									
			Price	Equity					
			(\$/sh)	Total					
	Symbol		7-Oct	Return	Enterprise Value/				McDep
	Rating		2013	YTD	52Wk	52Wk	50 Day	200 Day	Ratio
				(%)	High	Low	Avg.	Avg.	
Global Integrated									
Total S.A.	TOT	H	58.09	17	0.99	1.18	1.03	1.09	0.78
Lukoil Oil Company	LUKOY	B	64.01	(3)	0.95	1.16	1.05	1.02	0.51
Chevron Corporation	CVX	H	117.87	12	0.93	1.14	0.97	0.99	0.81
Royal Dutch Shell plc	RDS-A	H	64.76	(2)	0.91	1.02	1.00	0.98	0.71
Exxon Mobil Corporation	XOM	CB	85.90	2	0.92	1.01	0.97	0.97	0.87
	<i>Median</i>			2	0.93	1.14	1.00	0.99	0.78
U.S. Independent									
EOG Resources, Inc.	EOG	H	172.83	44	0.99	1.50	1.07	1.22	0.96
ConocoPhillips	COP	H	70.88	26	1.00	1.20	1.03	1.10	0.77
Occidental Petroleum Corp.	OXY	H	95.28	28	0.99	1.27	1.05	1.08	0.89
Devon Energy Corporation	DVN	B	58.36	14	0.95	1.10	1.01	1.03	0.67
Marathon Oil Corporation	MRO	B	34.72	16	0.94	1.14	0.99	1.01	0.76
	<i>Median</i>			26	0.99	1.20	1.03	1.08	0.77
Canada/Australia									
Imperial Oil Limited (30%)	IMO	H	43.01	1	0.93	1.12	1.01	1.03	0.86
Woodside Petroleum Ltd.	WOPEY	H	35.30	5	0.90	1.11	1.00	0.99	0.98
Canadian Oil Sands Limited	COSWF	CB	19.30	(1)	0.90	1.06	0.99	0.98	0.62
Cenovus Energy Inc.	CVE	H	29.27	(10)	0.86	1.05	1.00	0.97	0.75
EnCana Corporation	ECA	CB	17.10	(10)	0.80	1.02	0.99	0.96	0.69
	<i>Median</i>			(1)	0.90	1.06	1.00	0.98	0.75
Small Cap Independent Producers									
Cimarex Energy Company	XEC	B	99.63	75	0.98	1.61	1.14	1.30	0.92
PDC Energy	PDCE		65.24	96	0.98	1.77	1.09	1.21	1.29
Continental Resources (32%)	CLR	B	110.61	52	0.97	1.49	1.10	1.21	0.94
Whiting Petroleum Corporation	WLL	B	62.56	46	0.97	1.38	1.13	1.20	0.87
Peyto Exploration and Development	PEYUF		29.86	32	0.95	1.29	1.05	1.09	0.89
WPX Energy Inc.	WPX		19.63	34	0.95	1.22	1.02	1.08	0.83
Range Resources	RRC	B	75.56	22	0.91	1.18	0.98	1.00	0.87
Birchcliff Energy Ltd.	BIREF	CB	6.76	(10)	0.82	1.01	0.98	0.92	0.65
Halcón Resources	HK		4.77	(31)	0.77	1.03	0.98	0.89	0.84
	<i>Median</i>			34	0.95	1.29	1.05	1.09	0.87
RTF Cash Payers									
Permian Basin RT	PBT		14.41	23	0.95	1.21	1.06	1.09	0.80
Sabine Royalty Trust	SBR		52.70	41	0.96	1.36	1.01	1.07	0.82
San Juan Basin Royalty Trust	SJT	B	16.29	26	0.91	1.32	0.99	1.04	0.78
Cross Timbers Royalty Trust	CRT		29.05	14	0.91	1.23	1.01	1.02	0.69
Dorchester Minerals, L.P.	DMLP	B	23.98	25	0.94	1.21	1.00	1.02	0.92
Freehold Royalties Ltd.	FRHLF		22.97	9	0.94	1.14	1.01	1.00	1.09
Mesa Royalty Trust	MTR		22.41	23	0.82	1.20	1.00	0.98	0.75
Hugoton Royalty Trust	HGT		7.43	11	0.74	1.20	0.93	0.88	0.62
Enduro Royalty Trust	NDRO		12.41	(21)	0.64	1.03	0.83	0.78	0.73
	<i>Median</i>			23	0.91	1.21	1.00	1.02	0.78

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

Source: Bloomberg, Yahoo, McDep LLC



Meter Reader

A Weekly Analysis of Oil and Gas Stocks

October 8, 2013

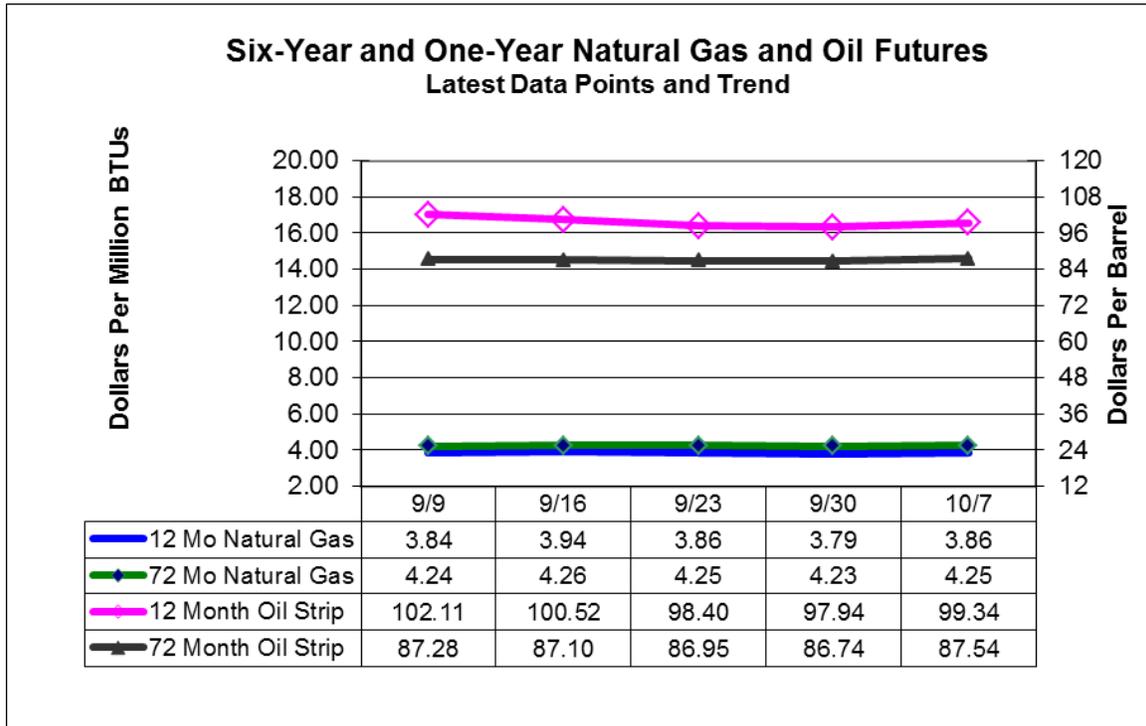
Index of Recent Research			
Stock Ideas			
<i>Date</i>	<i>Symbol</i>	<i>Subject</i>	<i>Theme</i>
4-Oct	NDRO	Enduro Royalty Trust	Worth Another Look after Stock Price Decline
27-Sep	WPX	WPX Energy	San Juan Basin Innovator (Income and Small Cap Weekly)
24-Sep	XOM	Exxon Mobil	Fracking Firms Long-Term Value (Meter Reader)
20-Sep	WLL	Whiting Petroleum	Activity Attracts Attention (Income and Small Cap Weekly)
17-Sep	COP	ConocoPhillips	Fracking Upside in Eagle Ford, Bakken and Permian (Meter Reader)
13-Sep	CRT	Cross Timbers Royalty Trust	Fracking Upside in Permian and Scoop (Income and Small Cap Weekly)
10-Sep	OXY	Occidental Petroleum	Permian Late Bloomer (Meter Reader)
3-Sep	LUKOY	Lukoil	Competitive Trends at Half Price (Meter Reader)
16-Aug	BIREF	Birchcliff Energy	Buy Natural Gas in Summer
16-Aug	CLR	Continental Resources	Raise NPV to \$120 from \$110 on More Oil Growth (ISCW)
13-Aug	DVN	Devon Energy	Raise NPV to \$100 from \$92 on Oil Gains (Meter Reader)
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)
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	RRC Resources	Superlatives (Income and Small Cap Weekly)
7-Jun	XEC	Cimarex Energy	Uncovering Culberson Value (Income and Small Cap Weekly)
31-May	HGT	Hugoton Royalty Trust	Beating the Bear (Income and Small Cap Weekly)
14-May	EOG	EOG Resources	Raise NPV to \$180 on More Big Wells (Meter Reader)
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)
28-Mar	PEYUF	Peyto Exploration and Development	Raise NPV to \$32 for Fracking Winner (Income and Small Cap Weekly)
1-Mar	ERF	Enerplus Corporation	Back on Track, Discontinue Buy (Income and Small Cap Weekly)
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			
1-Oct			Sharpen Focus to Wider Public Ownership and Lower Debt
24-Sep	XOM	Exxon Mobil	Fracking Firms Long-Term Value
17-Sep	COP	ConocoPhillips	Fracking Upside in Eagle Ford, Bakken and Permian
10-Sep	OXY	Occidental Petroleum	Permian Late Bloomer
3-Sep	LUKOY	Lukoil	Competitive Trends at Half Price
For earlier editions, go to mcdep.com , click on Meter Reader .			
Income and Small Cap Weekly (merged into Meter Reader 10/1/13)			
27-Sep	WPX	WPX Energy	San Juan Basin Innovator
20-Sep	WLL	Whiting Petroleum	Activity Attracts Attention
13-Sep	CRT	Cross Timbers Royalty Trust	Fracking Upside in Permian and Scoop
6-Sep			Shale, McDep and the Portfolio
16-Aug	CLR	Continental Resources	Raise NPV to \$120 from \$110 on More Oil Growth
For earlier editions, go to mcdep.com , click on Energy Income .			



Meter Reader

A Weekly Analysis of Oil and Gas Stocks

October 8, 2013



Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

Certification: I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

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.