

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

January 24, 2006

Long-Term Oil Investment Strategy

Summary and Recommendation

We recommend investments in natural gas producers, oil producers and oil refiners for attractive returns for the rest of the 2000s and beyond. Crude oil price is in a multi-year upswing that may carry the widely quoted Light, Sweet grade to \$150 a barrel in 2010. Global demand is strong and there is practically no more spare producing capacity to restrain price. Because no one can be sure of the future oil price, we have added confidence in natural gas that is trading at nearly a third discount to oil in the futures market. Price controls in some large markets, Russia and China, for example that restrict natural gas price to perhaps a sixth of the oil equivalent can only be temporary. Widespread and growing burning of coal is a built-in source of potential demand for displacement by cleaner natural gas and refined oil products as the world demands a healthier environment. Buy-recommendations to implement the strategy include **Gazprom (OGZPF)**, **Canadian Oil Sands Trust (COSWF)**, **Devon Energy (DVN)** and **ConocoPhillips (COP)**.

Investments to Implement the Strategy

The world's largest natural gas producer, buy-recommended **Gazprom (OGZPF)**, offers the triple strategic benefit from rising oil price, the expected catch up in free-market natural gas price compared to oil and the disappearing archaically low regulated price. Investor interests are aligned as limitations on trading in Gazprom shares are being lifted. The stock is widely held in Russia including the government ownership of 51% and Vladimir Putin may become Chairman of Gazprom when he can no longer be President of Russia after 2008.

Aside from pure representation in oil, buy-recommended **Canadian Oil Sands Trust (COSWF)** offers the added double benefit of a rapidly rising cash payout from production that lasts practically forever. Moreover the Canadian stock along with the Russian stock diversifies political risk for investors.

We recommend that a multi-stock energy portfolio have more natural gas as can readily be obtained through buy recommendations **Encana (ECA)**, **XTO Energy (XTO)**, **Devon Energy (DVN)** and **Anadarko Petroleum (APC)**. The four stocks are all close peers of **Burlington Resources (BR)** that is in the process of being acquired.

A natural diversifier from an operating point of view, oil refining has a more attractive outlook today than when oil prices rose rapidly in the 1970s. Buy-recommended mega cap energy stocks like **ConocoPhillips (COP)**, coincidentally the acquirer of BR, face strong prospects in each of their main businesses – crude oil, natural gas and refined products.

Stocks with low McDep Ratios can also provide an additional margin of safety. During the 1980s some investors made more money on takeovers of low McDep Ratio stocks after the peak in oil price than they made in the oil price uptrend of the 1970s. Created in the oil mega deal era, the

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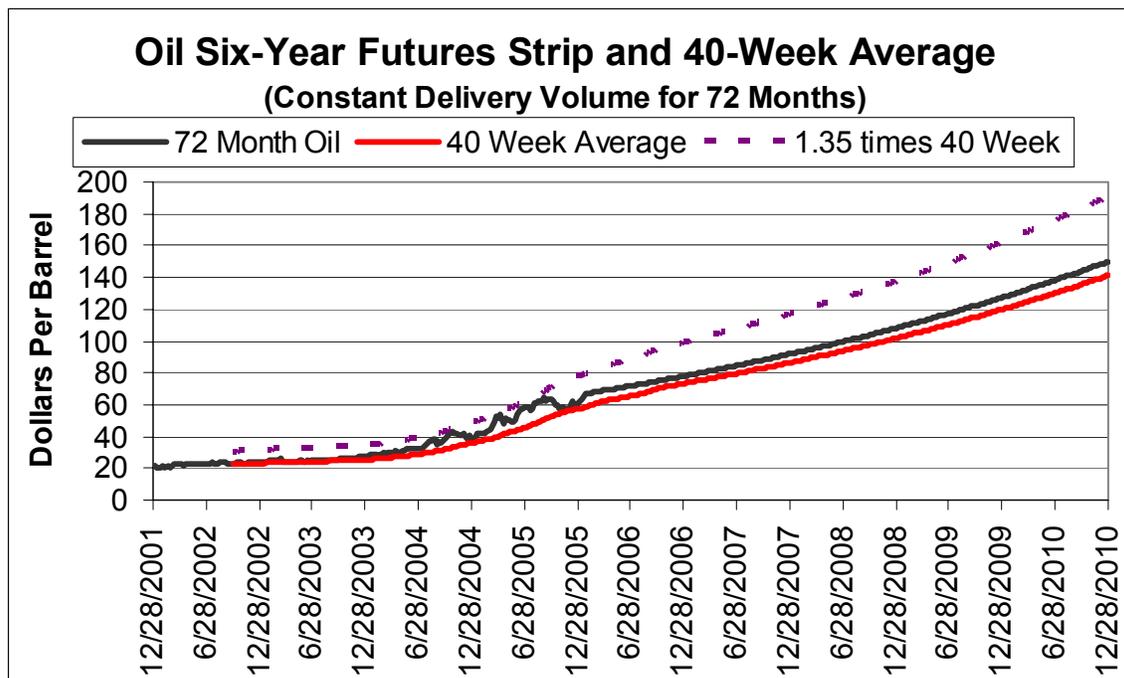
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McDep Ratio compares market cap and debt, now known as enterprise value, to present value of energy resources and other businesses.

Finally, in our vision for oil price there are multiple opportunities beyond those we mention briefly. Anything that makes money providing or saving energy as well as associated goods and services with minimal adverse consequences may be an attractive investment in the global free market.

Momentum Be With You

Drawing on the favorable momentum for the past several years we project a possible pattern of oil price for the next five years (see chart Oil Six-Year Futures Strip). The empirical boundary of 1.35 times the 40-week moving average is an approximate measure of the regularity of the trend. A steady trend gives time to adjust and is likely to be more sustainable. If the current quote dropped below the 40-week average, it could indicate a stable pattern for awhile or even a temporary decline.



Source: New York Mercantile Exchange, McDep Associates

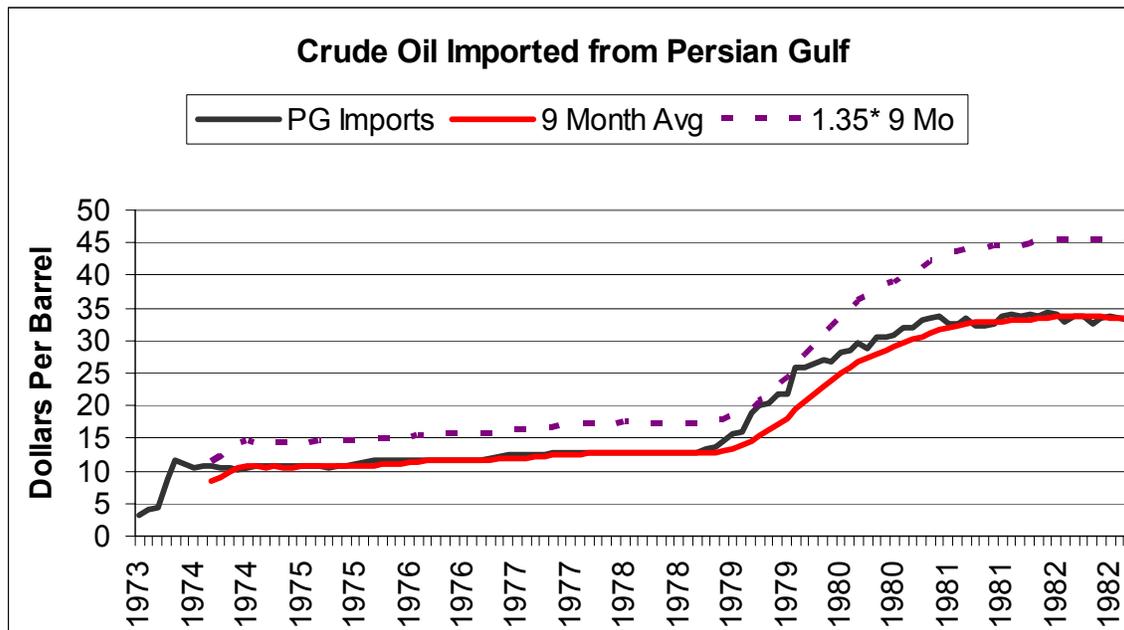
The computer may project whatever we program it to do. What about parallel historical experience? The pattern some three decades ago was less steady than today with two lurches, one in 1973-74 and the other in 1979-80 (see chart Crude Oil Imported from Persian Gulf). Price controls contributed to the first lurch and windfall profits taxes to the second amid political turmoil all around. Military intervention by consumers was just an unexercised option then.

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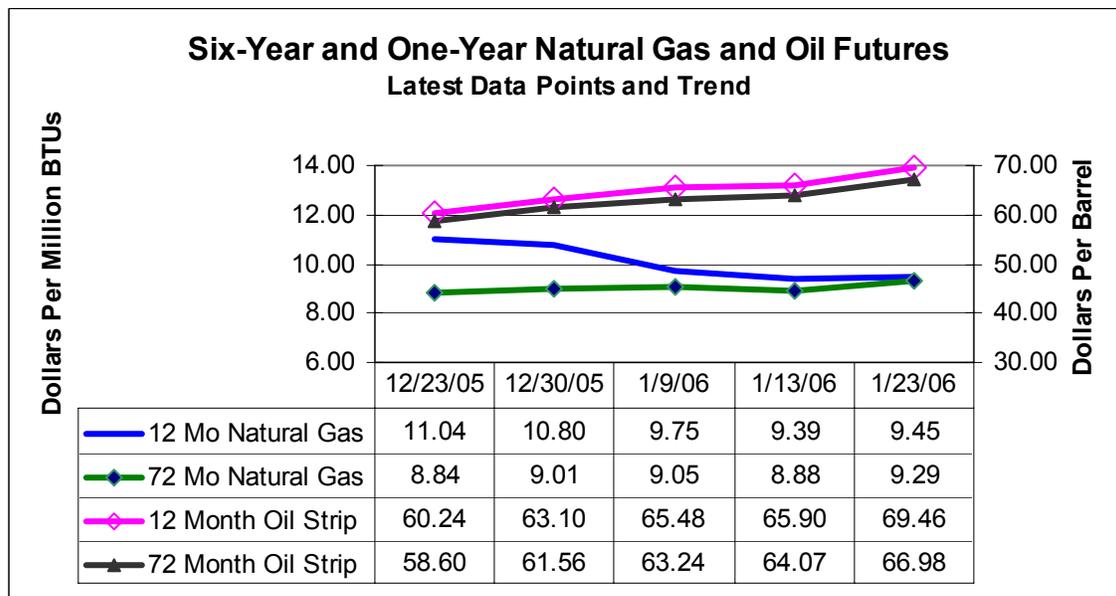
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Source: U.S. Department of Energy, McDep Associates

The current six-year oil quote is at a new high along with six-year natural gas (see table Six-Year and One-Year Natural Gas and Oil Futures). The oil quote near \$67 is below the midpoint of a range from the 40-week average of \$59 and 1.35 times at \$79 a barrel. McDep Ratios provide a reference to value at \$50. The median buy recommendation at a McDep Ratio of 0.83 implies that those stocks are priced for perhaps \$42 a barrel (see table Rank by McDep Ratio).

Kurt H. Wulff, CFA



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Oil and Gas Producers Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/ Rating		Price (\$/sh) 23-Jan 2006	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
BP plc	BP	B	70.75	3,501	248,000	77.00	0.11	0.93
Total S.A.	TOT	B	134.78	1,176	159,000	160.00	0.12	0.86
Exxon Mobil Corporation	XOM	B	61.20	6,303	386,000	74.00	0.04	0.83
Royal Dutch Shell plc	RDS-A	B	65.77	3,352	221,000	84.00	0.10	0.80
Chevron Corporation	CVX	B	62.21	2,256	140,000	85.00	0.13	0.77
ConocoPhillips	COP	B	64.91	1,693	110,000	95.00	0.22	0.75
<i>Total or Median</i>					<i>1,264,000</i>		<i>0.12</i>	<i>0.82</i>
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	101.03	139	14,080	33.00	0.74	1.54
Imperial Oil Limited (30%)	IMO	B	104.99	102	10,720	84.00	0.10	1.22
Suncor Energy	SU	B	75.00	461	34,580	68.00	0.11	1.09
Petro-Canada	PCZ	B	46.53	525	24,450	42.00	0.19	1.09
Marathon Oil Corporation	MRO	B	72.55	368	26,680	65.00	0.27	1.08
Norsk Hydro ASA	NHY	B	115.06	251	28,870	130.00	0.17	0.91
PetroChina Company Ltd (10%)	PTR	B	96.55	176	16,970	120.00	0.01	0.81
Lukoil Oil Company	LUKOY	B	76.60	830	64,000	100.00	0.01	0.77
Gazprom (50%)	OGZPF	B	87.00	1,013	88,100	120.00	0.03	0.73
<i>Total or Median</i>					<i>308,000</i>		<i>0.11</i>	<i>1.08</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	48.35	370	17,890	48.00	0.20	1.01
CNOOC Limited (29%)	CEO	B	81.32	119	9,700	84.00	0.00	0.97
Encana Corporation	ECA	B	48.09	876	42,100	51.00	0.20	0.95
Devon Energy Corporation	DVN	B	67.95	454	30,800	86.00	0.15	0.82
Anadarko Petroleum Corp.	APC	B	108.12	238	25,700	140.00	0.12	0.80
Burlington Resources	BR	B	91.30	381	34,800	115.00	-	0.79
Occidental Petroleum Corp.	OXY	B	91.30	432	39,400	120.00	0.12	0.79
<i>Total or Median</i>					<i>200,000</i>		<i>0.12</i>	<i>0.82</i>
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	75.90	23	1,710	65.00	0.11	1.15
Energy Partners Ltd.	EPL	B	28.51	41	1,170	38.00	0.19	0.80
Cimarex Energy Company	XEC	B	47.31	85	4,020	64.00	0.11	0.77
Encore Acquisition Company	EAC	B	34.20	50	1,700	50.00	0.21	0.75
<i>Total or Median</i>					<i>8,600</i>		<i>0.15</i>	<i>0.78</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	50.88	164	8,330	15.00	0.55	2.08
Kinder Morgan Management, LLC	KMR	S3	46.85	58	2,690	15.00	0.55	1.96
Penn West Energy Trust	PWTFF	B	36.72	179	6,590	28.00	0.15	1.27
Pengrowth Energy Trust	PGH		24.63	159	3,920	20.00	0.16	1.20
Enerplus Resources Fund	ERF		51.32	110	5,650	42.00	0.14	1.19
San Juan Basin Royalty Trust	SJT		45.53	47	2,120	40.00	-	1.14
Canadian Oil Sands Trust (USS)	COSWF	B	129.82	93	12,080	136.00	0.12	0.96
<i>Total or Median</i>					<i>41,400</i>		<i>0.15</i>	<i>1.20</i>

B = Buy, S2 = Short half unlevered position, S3 = Short quarter unlevered position

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

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Oil and Gas Producers

Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	Symbol/ Rating		Price (\$/sh) 23-Jan 2006	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Mega Cap								
BP plc	BP	B	70.75	9.5	6.0	5.6	9	3.0
Exxon Mobil Corporation	XOM	B	61.20	11.7	6.6	5.5	10	1.9
Total S.A.	TOT	B	134.78	9.2	5.9	5.1	8	2.7
Royal Dutch Shell plc	RDS-A	B	65.77	7.5	5.4	4.3	8	3.4
Chevron Corporation	CVX	B	62.21	9.6	5.5	4.2	7	2.9
ConocoPhillips	COP	B	64.91	11.0	5.3	4.0	6	1.9
	<i>Median</i>			9.6	5.7	4.7	8	2.8
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	101.03		8.2	12.6	20	3.5
Suncor Energy	SU	B	75.00	17.6	8.4	9.2	20	0.3
Imperial Oil Limited (30%)	IMO	B	104.99	11.5	6.7	8.3	14	0.8
Gazprom (50%)	OGZPF	B	87.00	20.0	10.7	7.9	14	0.5
Marathon Oil Corporation	MRO	B	72.55	7.4	5.0	5.4	8	1.8
Petro-Canada	PCZ	B	46.53	5.7	4.9	5.3	9	0.6
PetroChina Company Ltd (10%)	PTR	B	96.55	13.8	5.8	4.7	9	3.9
Norsk Hydro ASA	NHY	B	115.06	7.9	5.1	4.6	9	2.7
Lukoil Oil Company	LUKOY	B	76.60	19.7	5.5	4.3	6	1.3
	<i>Median</i>			12.7	5.8	5.4	9	1.3
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	48.35	10.8	6.6	6.7	12	0.4
Encana Corporation	ECA	B	48.09	7.1	5.8	5.5	11	0.6
Anadarko Petroleum Corp.	APC	B	108.12	12.5	6.4	5.1	10	0.7
CNOOC Limited (29%)	CEO	B	81.32	9.2	5.0	4.8	9	2.9
Occidental Petroleum Corp.	OXY	B	91.30	11.3	5.7	4.5	8	1.6
Devon Energy Corporation	DVN	B	67.95	7.8	5.0	4.1	7	0.4
Burlington Resources	BR	B	91.30	-	-	-	-	-
	<i>Median</i>			9.2	5.7	4.8	9	0.6
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	75.90	10.1	5.1	5.9	11	0.8
Encore Acquisition Company	EAC	B	34.20	14.3	6.3	4.7	10	-
Cimarex Energy Company	XEC	B	47.31	7.4	4.9	3.8	8	-
Energy Partners Ltd.	EPL	B	28.51	5.7	4.4	3.5	11	-
	<i>Median</i>			8.8	5.0	4.3	10	-
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	50.88		7.9	16.5	25	6.3
Kinder Morgan Management, LLC	KMR	S3	46.85		7.9	15.5	23	6.8
San Juan Basin Royalty Trust	SJT		45.53	12.2	9.4	10.7	12	8.5
Canadian Oil Sands Trust (US\$)	COSWF	B	129.82	20.0	10.0	9.6	11	2.7
Enerplus Resources Fund	ERF		51.32	8.6	5.5	6.5	10	8.5
Pengrowth Energy Trust	PGH		24.63	7.6	5.4	6.4	9	10.6
Penn West Energy Trust	PWTFF	B	36.72	8.0	4.7	6.0	9	8.8
	<i>Median</i>			8.6	7.9	9.6	11	8.5

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2006; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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Oil and Gas Producers Home Country and Business Segments

	Symbol/ Rating	Non- U.S. Domicile	North Amer. Natural Gas (%)	Rest of World Natural Gas (%)	Oil Prod'n (%)	Down- stream (%)	Total Present Value (US\$mm)
Mega Cap							
Exxon Mobil Corporation	XOM	B	10	19	38	33	487,000
Royal Dutch Shell plc	RDS-A	B UK	4	19	33	45	313,000
BP plc	BP	B UK	10	12	42	36	302,000
Chevron Corporation	CVX	B	9	9	52	29	221,000
Total S.A.	TOT	B France	-	27	38	35	215,000
ConocoPhillips	COP	B	23	7	43	28	207,000
		<i>Total or Median</i>	9	15	40	34	1,745,000
Producer/Refiners - Large Cap and Mid Cap							
Gazprom	OGZPF	B Russia		100			251,000
PetroChina Company Ltd.	PTR	B China	-	9	71	20	213,000
Lukoil Oil Company	LUKOY	B Russia	-	-	75	25	83,600
Norsk Hydro ASA	NHY	B Norway	-	29	38	33	39,400
Suncor Energy	SU	B Canada	5	-	89	7	35,300
Marathon Oil Corporation	MRO	B	14	8	33	46	32,900
Imperial Oil Limited	IMO	B Canada	13	-	62	25	31,900
Petro-Canada	PCZ	B Canada	23	4	53	20	27,200
		<i>Median</i>	5	6	62	25	714,000
Independent Natural Gas and Oil - Large Cap and Mid Cap							
Occidental Petroleum Corp.	OXY	B	14	1	75	11	59,000
Encana Corporation	ECA	B Canada	83	-	17	-	55,600
Devon Energy Corporation	DVN	B	64	-	36	-	46,000
Anadarko Petroleum Corp.	APC	B	60	-	40	-	37,700
CNOOC Limited	CEO	B China	-	12	88	-	34,600
XTO Energy Inc.	XTO	B	83	-	17	-	22,100
Burlington Resources	BR	B					
		<i>Median</i>	62	-	38	-	255,000
Independent Natural Gas and Oil - Small Cap							
Cimarex Energy Company	XEC	B	71	-	29	-	6,080
Encore Acquisition Company	EAC	B	25	-	75	-	3,150
Berry Petroleum Company	BRY	B	15	-	85	-	1,950
Energy Partners Ltd.	EPL	B	54	-	46	-	1,930
		<i>Median</i>	40	-	60	-	13,110
Income							
Canadian Oil Sands Trust (US\$)	COSWF	B Canada	-	-	100	-	14,300
Penn West Energy Trust	PWTFF	B Canada	42	-	58	-	5,900
Enerplus Resources Fund	ERF	Canada	58	-	42	-	5,360
Pengrowth Energy Trust	PGH	Canada	42	-	58	-	3,800
San Juan Basin Royalty Trust	SJT		100	-	-	-	1,860
		<i>Median</i>	42	-	58	-	31,200

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Index of Recent Research

Stock Ideas

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
19-Jan	ECA	EnCana Corporation	Natural Gas and Oil Sands
19-Jan	KMx	Kinder Morgan	Fading Returns, Rising Risk
17-Jan	LUKOY	Lukoil Oil Company	Raise Net Present Value to \$100 a Share
12-Jan	BP	BP p.l.c.	What Windfall Profits?
11-Jan	RDSA	Royal Dutch Shell plc	Likely Acquirer
11-Jan	COSWF	Canadian Oil Sands Trust	Volume Expansion Imminent
9-Jan	NHY	Norsk Hydro ASA	Long Life Natural Gas
9-Jan	IMO	Imperial Oil Limited	High Return, Deliberate Pace
5-Jan	XTO	XTO Energy Inc.	Independent Natural Gas Producer
5-Jan	* OXY	Occidental Petroleum Corporation	Independent Oil Producer
29-Dec	* BR	Burlington Resources, Inc.	ConocoPhillips with Cash Back
29-Dec	* COP	ConocoPhillips	Fresh Mega Cap
14-Dec	* OGZPF	Gazprom	Natural Gas Price Accelerates
14-Nov	* PTR	PetroChina Company Limited	Diversify Political Risk
11-Nov	* EPL	Energy Partners, Ltd.	Denali Partners
11-Nov	* SJT	San Juan Basin Royalty Trust	Record Distributions Ahead
10-Nov	* PWTF	Penn West Energy Trust	Quality Income Stock
7-Nov	* TOT	Total S.A.	Global Clean Fuel Supplier
4-Nov	* BRY	Berry Petroleum	Expanding on Multiple Fronts
4-Nov	* XEC	Cimarex Energy Company	Doubling Done
3-Nov	* DVN	Devon Energy Corporation	No Hedges in 2006
1-Nov	* CEO	CNOOC Ltd	Low Price for Natural Gas
31-Oct	* APC	Anadarko Petroleum Corporation	Long Life for Free
31-Oct	* CVX	Chevron Corporation	Lower Net Present Value to \$85 a Share
28-Oct	* MRO	Marathon Oil Corporation	Downstream Gains
28-Oct	* PCZ	Petro-Canada	Oil Sands Producer
28-Oct	* SU	Suncor Energy Inc.	Up and Running Again
28-Oct	* XOM	Exxon Mobil Corporation	Momentum Challenge
27-Oct	* EAC	Encore Acquisition Company	Long Life Oil Value

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24-Jan		Long-Term Oil Investment Strategy
17-Jan	*	Buy More?
10-Jan	*	China and India Race for Resources
3-Jan	*	Kiev Crisis
27-Dec	*	The New Mega Cap

Natural Gas and Oil Royalty Trusts - A Weekly Analysis

20-Jan		Myth of Management
13-Jan	*	The Long and Short of It
6-Jan	*	Stop Thief!
30-Dec	*	2006 Return Guaranteed (Almost)

Industry Ideas

26-Dec	*	Interview by Sandra Ward in Barron's	Bullish and Fully Fueled
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