

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

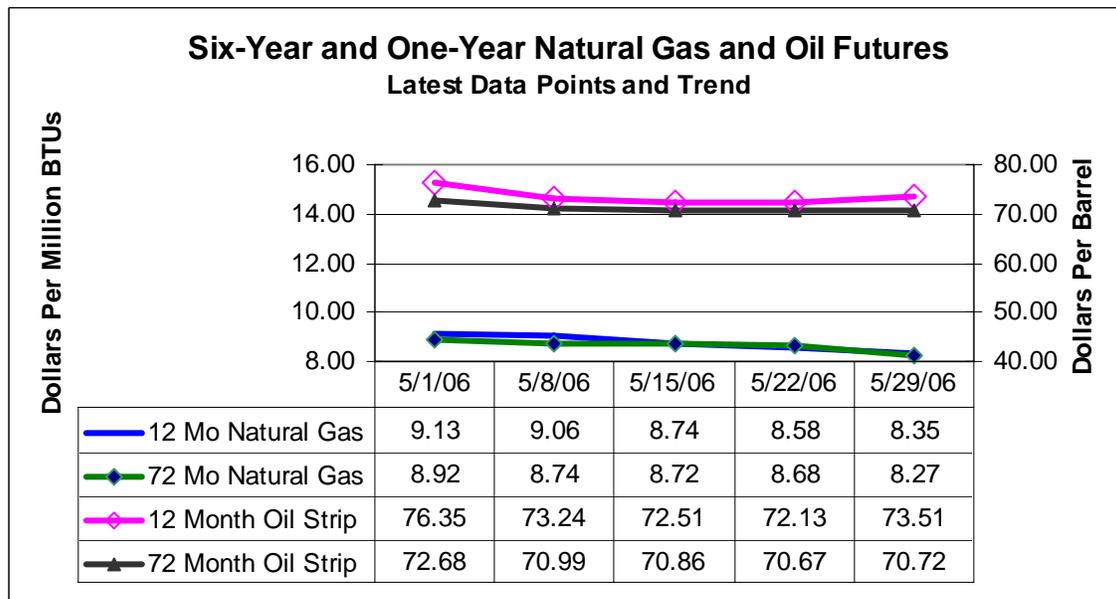
May 30, 2006

Downstream Design

Summary and Recommendation

Downstream profit trends look favorable for buy-recommended stocks as the summer driving season begins. While futures price of oil for the next six years has been trending up, so has the crack spread, or refining margin, the futures prices of gasoline and heating oil minus crude oil for the next twelve months. Downstream counts for 11% of value in the composite portfolio with buy recommendations **ConocoPhillips (COP)**, **Chevron (CVX)**, **Lukoil (LUKOY)** and **Royal Dutch Shell (RDS)** accounting for half the strategic exposure among 14 companies (see table [Portfolio Composite of Buy Recommendations](#)). Estimated present value of downstream is a median 6.2 times Next Twelve Months (NTM) Ebitda. The trend in quarterly Ebitda is up with refining crack (see chart [Downstream Cash Flow and Refining Crack](#)). Contrasting with the oil and refining trend, natural gas price has declined to the lowest level relative to crude oil in four and a half years of weekly one-year and six-year futures.

Kurt H. Wulff, CFA

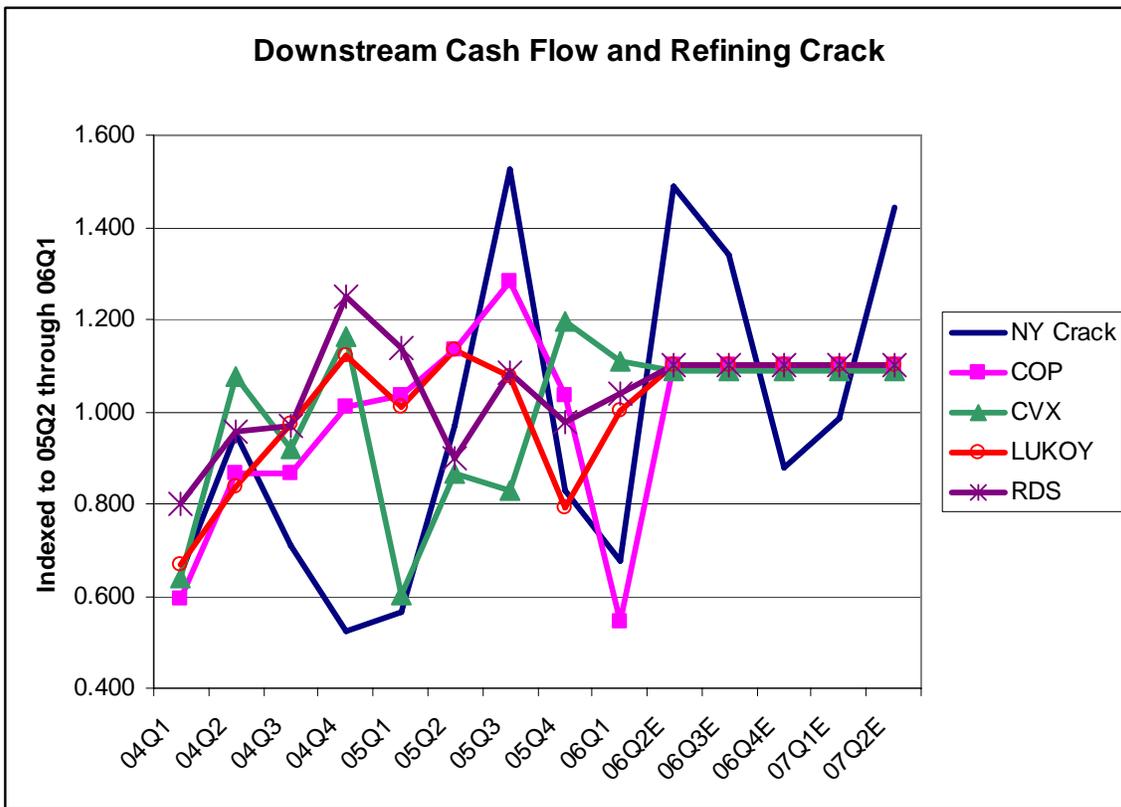
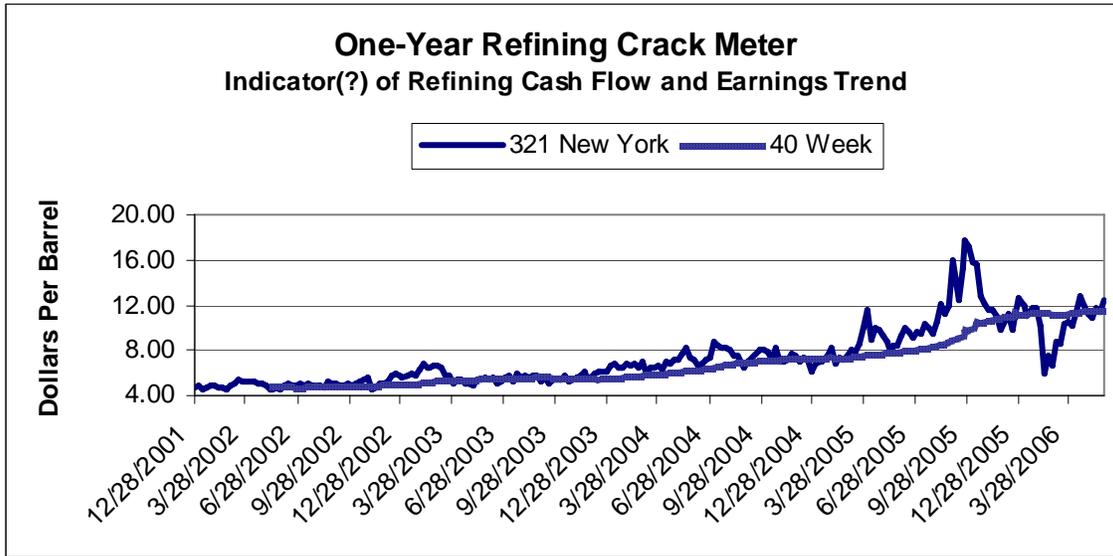


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Oil and Gas Producers Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/ Rating		Price (\$/sh) 26-May 2006	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
BP plc	BP	B	71.62	3,420	245,000	77.00	0.16	0.94
Royal Dutch Shell plc	RDS-A	B	66.53	3,268	217,000	80.00	0.10	0.85
Total S.A.	TOT	B	65.84	2,336	154,000	80.00	0.13	0.85
Exxon Mobil Corporation	XOM	B	61.58	6,126	377,000	74.00	0.04	0.84
Gazprom (50%)	OGZPY	B	43.50	2,833	123,200	56.00	0.02	0.78
ConocoPhillips	COP	B	63.46	1,693	107,000	95.00	0.22	0.74
Chevron Corporation	CVX	B	59.83	2,224	133,000	85.00	0.11	0.74
<i>Total or Median</i>					<i>1,356,000</i>		<i>0.11</i>	<i>0.84</i>
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	84.41	135	11,400	33.00	0.75	1.38
Imperial Oil Limited (30%)	IMO	B	112.89	100	11,260	90.00	0.09	1.23
Norsk Hydro ASA	NHY	B	28.26	1,251	35,340	26.00	0.16	1.07
Suncor Energy	SU	B	80.62	461	37,170	75.00	0.09	1.07
Petro-Canada	PCZ	B	44.71	520	23,250	42.00	0.20	1.05
Marathon Oil Corporation	MRO	B	76.00	367	27,890	75.00	0.20	1.01
PetroChina Company Ltd (10%)	PTR	B	109.65	178	19,500	120.00	0.05	0.92
Lukoil Oil Company	LUKOY	B	84.30	830	70,000	110.00	0.02	0.77
<i>Total or Median</i>					<i>236,000</i>		<i>0.13</i>	<i>1.06</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap								
Encana Corporation	ECA	B	48.77	865	42,200	51.00	0.14	0.96
CNOOC Limited (29%)	CEO	B	78.24	119	9,330	84.00	-	0.93
Occidental Petroleum Corp.	OXY	B	97.74	431	42,200	120.00	0.12	0.84
XTO Energy Inc.	XTO	B	40.68	370	15,050	52.00	0.16	0.82
EOG Resources	EOG	B	63.62	246	15,700	90.00	0.04	0.72
Anadarko Petroleum Corp.	APC	B	99.22	232	23,000	160.00	0.11	0.66
Devon Energy Corporation	DVN	B	57.02	449	25,600	94.00	0.12	0.65
<i>Total or Median</i>					<i>173,000</i>		<i>0.12</i>	<i>0.82</i>
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	63.61	23	1,430	65.00	0.20	0.98
Energy Partners Ltd.	EPL	B	21.40	40	860	29.00	0.21	0.79
Encore Acquisition Company	EAC	B	26.30	54	1,410	45.00	0.28	0.70
Cimarex Energy Company	XEC	B	39.85	85	3,390	64.00	0.09	0.66
<i>Total or Median</i>					<i>7,100</i>		<i>0.20</i>	<i>0.75</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	45.04	166	7,480	15.00	0.56	1.89
Kinder Morgan Management, LLC	KMR	S3	41.38	58	2,400	15.00	0.56	1.78
Pengrowth Energy Trust	PGH		23.76	161	3,830	18.00	0.17	1.27
Enerplus Resources Fund	ERF		52.38	123	6,450	42.00	0.12	1.22
Penn West Energy Trust (US\$)	PWTFF	B	37.84	244	9,240	33.00	0.14	1.13
Canadian Oil Sands Trust (US\$)	COSWF	B	30.59	464	14,200	27.20	0.12	1.11
San Juan Basin Royalty Trust	SJT	B	36.98	47	1,720	40.00	-	0.92
<i>Total or Median</i>					<i>45,300</i>		<i>0.14</i>	<i>1.22</i>

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

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) 26-May 2006	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Mega Cap							
Gazprom (50%)	OGZPY B	43.50	20.0	9.2	7.2	12	0.5
BP plc	BP B	71.62	9.3	6.1	5.7	9	3.1
Exxon Mobil Corporation	XOM B	61.58	11.4	6.0	5.1	9	2.1
Total S.A.	TOT B	65.84	9.4	5.9	5.0	8	3.2
Royal Dutch Shell plc	RDS-A B	66.53	7.3	5.2	4.4	8	3.9
ConocoPhillips	COP B	63.46	12.1	5.7	4.3	6	2.3
Chevron Corporation	CVX B	59.83	11.0	5.2	3.9	6	3.5
	<i>Median</i>		<i>11.0</i>	<i>5.9</i>	<i>5.0</i>	<i>8</i>	<i>3.1</i>
Producer/Refiners - Large Cap and Mid Cap							
Kinder Morgan, Inc.	KMI S2	84.41		8.6	12.0	17	4.1
Imperial Oil Limited (30%)	IMO B	112.89	9.4	6.5	8.0	14	0.8
Suncor Energy	SU B	80.62	18.2	6.8	7.3	13	0.3
Petro-Canada	PCZ B	44.71	6.9	5.1	5.3	10	0.8
PetroChina Company Ltd (10%)	PTR B	109.65	12.6	5.4	5.0	9	3.8
Norsk Hydro ASA	NHY B	28.26	7.8	4.6	4.9	11	12.7
Lukoil Oil Company	LUKOY B	84.30	19.0	5.8	4.5	7	1.5
Marathon Oil Corporation	MRO B	76.00	8.3	4.1	4.2	7	1.7
	<i>Median</i>		<i>9.4</i>	<i>5.6</i>	<i>5.1</i>	<i>11</i>	<i>1.6</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap							
XTO Energy Inc.	XTO B	40.68	12.1	8.0	6.6	12	0.5
Encana Corporation	ECA B	48.77	8.6	5.8	5.6	12	0.8
EOG Resources	EOG B	63.62	9.6	6.7	4.8	11	0.4
Occidental Petroleum Corp.	OXY B	97.74	10.4	5.3	4.4	7	1.5
Anadarko Petroleum Corp.	APC B	99.22	12.4	6.6	4.4	8	0.7
Devon Energy Corporation	DVN B	57.02	8.6	5.8	3.8	7	0.8
CNOOC Limited (29%)	CEO B	78.24	10.0	3.9	3.6	6	3.3
	<i>Median</i>		<i>10.0</i>	<i>5.8</i>	<i>4.4</i>	<i>8</i>	<i>0.8</i>
Independent Natural Gas and Oil - Small Cap							
Berry Petroleum Company	BRY B	63.61	10.5	5.9	5.8	18	1.0
Encore Acquisition Company	EAC B	26.30	14.4	7.3	5.1	10	-
Cimarex Energy Company	XEC B	39.85	7.2	5.6	3.7	8	0.4
Energy Partners Ltd.	EPL B	21.40	5.0	3.7	2.9	13	-
	<i>Median</i>		<i>8.9</i>	<i>5.7</i>	<i>4.4</i>	<i>11</i>	<i>0.2</i>
Income							
Kinder Morgan Energy Partners, L.P.	KMP S3	45.04		8.3	15.7	27	7.2
Kinder Morgan Management, LLC	KMR S3	41.38		8.3	14.8	25	7.8
San Juan Basin Royalty Trust	SJT B	36.98	13.6	11.8	10.9	13	7.9
Canadian Oil Sands Trust (US\$)	COSWF B	30.59	25.1	8.9	9.9	13	6.2
Enerplus Resources Fund	ERF	52.38	9.4	6.5	8.0	15	8.7
Pengrowth Energy Trust	PGH	23.76	7.5	6.1	7.8	13	11.4
Penn West Energy Trust (US\$)	PWTFF B	37.84	7.9	6.1	6.9	10	9.7
	<i>Median</i>		<i>9.4</i>	<i>8.3</i>	<i>9.9</i>	<i>13</i>	<i>7.9</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2007; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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Oil and Gas Producers Portfolio Composite of Buy Recommendations

	Portfolio Equity	Weight (%)	Parts of EV	Non- U.S. Home (%)	North Amer. Natural Gas (%)	Rest of World Natural Gas (%)	Oil Prod'n (%)	Down- stream (%)	McDep Ratio
Symbol									
Mega Cap									
BP plc	BP	2.7	1.0	2.8	0.2	0.3	1.3	1.0	0.94
Royal Dutch Shell plc	RDS-A	2.8	1.0	2.8	0.1	0.6	0.9	1.3	0.85
Total S.A.	TOT	2.7	1.0	2.8		0.8	1.1	1.0	0.85
Exxon Mobil Corporation	XOM	3.1	1.0		0.2	0.8	0.9	0.9	0.84
Gazprom	OGZPY	9.4	3.0	8.5		8.5			0.78
ConocoPhillips	COP	4.5	2.0		0.9	0.5	2.6	1.5	0.74
Chevron Corporation	CVX	5.5	2.0		0.4	0.6	3.3	1.5	0.74
Producer/Refiners - Large Cap and Mid Cap									
Imperial Oil Limited	IMO	1.5	0.5	1.4	0.1		0.9	0.3	1.23
Norsk Hydro ASA	NHY	1.4	0.5	1.4		0.4	0.5	0.5	1.07
Suncor Energy	SU	1.5	0.5	1.4	0.1		1.3	0.1	1.07
Petro-Canada	PCZ	1.3	0.5	1.4	0.3	0.1	0.8	0.3	1.05
Marathon Oil Corporation	MRO	1.3	0.5		0.2	0.1	0.5	0.6	1.01
PetroChina Company Ltd.	PTR	3.0	1.0	2.8		0.3	2.3	0.3	0.92
Lukoil Oil Company	LUKOY	6.3	2.0	5.6			4.2	1.4	0.77
Independent Natural Gas and Oil - Large Cap and Mid Cap									
Encana Corporation	ECA	2.8	1.0	2.8	2.4		0.4		0.96
CNOOC Limited	CEO	3.2	1.0	2.8		0.4	2.5		0.93
Occidental Petroleum Corp.	OXY	2.8	1.0		0.4	0.0	2.1	0.3	0.84
XTO Energy Inc.	XTO	2.6	1.0		2.3		0.5		0.82
EOG Resources	EOG	6.1	2.0		4.5	0.4	0.7		0.72
Anadarko Petroleum Corp.	APC	5.4	2.0		3.4		2.2		0.66
Devon Energy Corporation	DVN	5.2	2.0		3.6		2.0		0.65
Independent Natural Gas and Oil - Small Cap									
Berry Petroleum Company	BRY	1.3	0.5		0.2		1.2		0.98
Energy Partners Ltd.	EPL	1.2	0.5		0.8		0.6		0.79
Encore Acquisition Company	EAC	1.9	1.0		0.8		2.1		0.70
Cimarex Energy Company	XEC	2.8	1.0		2.0		0.8		0.66
Income									
Penn West Energy Trust (US\$)	PWTFF	5.6	2.0	5.6	2.1		3.5		1.13
Canadian Oil Sands Trust (US\$)	COSWF	5.7	2.0	5.6			5.6		1.11
San Juan Basin Royalty Trust	SJT	6.4	2.0		5.6				0.92
Portfolio Composite		100	35.5	48	31	14	45	11	0.82

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Index of Recent Research

Stock Ideas

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
30-May	KMx	Kinder Morgan	Buyout Bailout
29-May	COSWF	Canadian Oil Sands Trust	Minimal Startup Delay Assessed
26-May	EPL	Energy Partners, Ltd.	Offers to Buy Stone Energy
24-May	LUKOY	Lukoil Oil Company	Oil for Russia, Natural Gas for Export
19-May	COSWF	Canadian Oil Sands Trust	Expansion Startup Caution
18-May	OGZPF	Gazprom	Shtokman Delayed
16-May	OXY	Occidental Petroleum Corporation	Ecuador Expropriates
10-May	PWTFF	Penn West Energy Trust	Sleeping Seal
10-May	EPL	Energy Partners, Ltd.	Back on Track
10-May	BRY	Berry Petroleum	Debt for the Future
8-May	XEC	Cimarex Energy Company	Seasonality Exaggerated
8-May	EOG	EOG Resources Inc.	Seasonality Exaggerated
5-May	SU	Suncor Energy Inc.	Retaking the Oil Sands Lead
5-May	RDSA	Royal Dutch Shell plc	Tighter Markets and Cost Pressures
5-May	TOT	Total S.A.	Spinoff and Split Ahead
3-May	EAC	Encore Acquisition Company	Lower NPV to \$45 a Share
3-May	* DVN	Devon Energy Corporation	Barnett Bargain
3-May	* IMO	Imperial Oil Limited	Oil Sands and Arctic Natural Gas
1-May	* CVX	Chevron Corporation	India Opportunity, Venezuela Risk
28-Apr	* APC	Anadarko Petroleum Corporation	Large Cap Resource Target
28-Apr	* MRO	Marathon Oil Corporation	Oil Sands Link
28-Apr	* XOM	Exxon Mobil Corporation	Low Risk, High Return
28-Apr	* NHY	Norsk Hydro ASA	Earnings Blowout
27-Apr	* COP	ConocoPhillips	Strong Cash Flow and Value
27-Apr	* ECA	EnCana Corporation	Natural Gas at Present Value
26-Apr	* PCZ	Petro-Canada	Understated Oil Sands
26-Apr	* BP	BP p.l.c.	Understated Russian Resource
26-Apr	* CEO	CNOOC Ltd	Burst of Cash Flow
21-Apr	* XTO	XTO Energy Inc.	Distributing Royalty Trust Units
21-Mar	* PTR	PetroChina Company Limited	Growing Pains
20-Mar	* SJT	San Juan Basin Royalty Trust	Upgrade to Buy

Meter Reader - A Weekly Analysis

30-May		Downstream Design
23-May	*	Caracas USA
16-May	*	Natural Gas for Transportation
9-May	*	Oil Price Divided by Five

Natural Gas and Oil Royalty Trusts - A Weekly Analysis

26-May		Roll Forward
19-May	*	Buy Low
12-May	*	Hugoton Handover
5-May	*	Trading Action

Industry Ideas

15-Feb	*	Presentation Slides	Russian Natural Gas, Canadian Tar Sands
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* Archived on www.mcdep.com

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