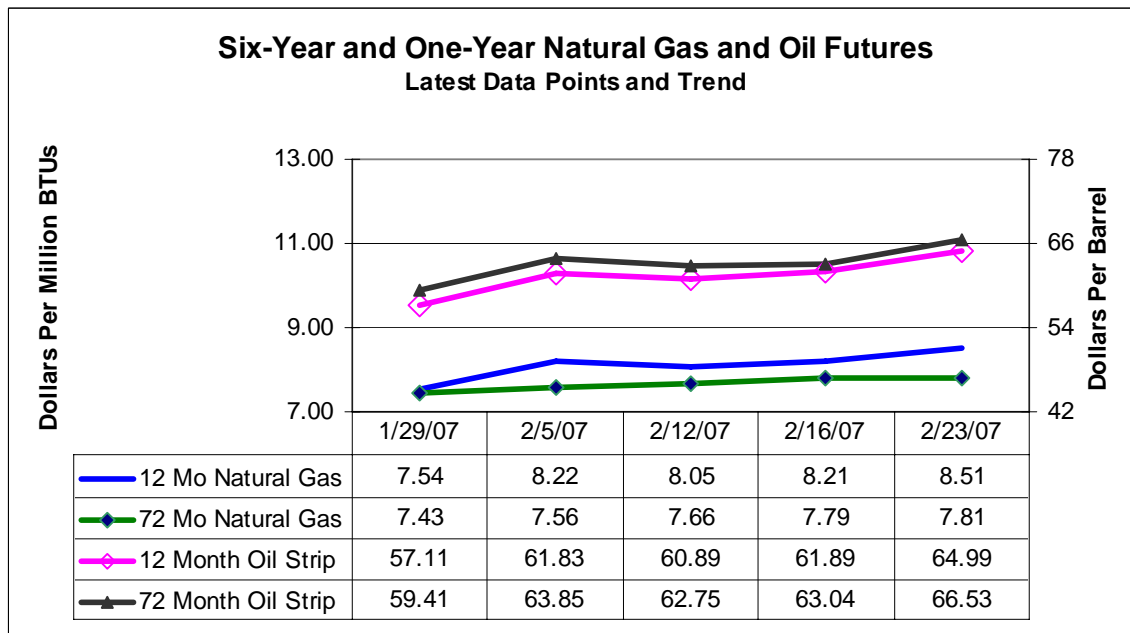


The Government’s Bullish Oil Price Forecast

Summary and Recommendation

The U.S. Energy Information Administration (EIA) forecasts a long-term oil price before adjustment for inflation of about \$60 a barrel, in line with our estimates of present value that lead us to recommend oil and gas producers like **Lukoil (LUKOY)** and **Gazprom (OGZPF)**. The EIA backed up its analysis with a 226-page study released last week, *Annual Energy Outlook 2007*. The agency points out that its \$60 forecast relies on rapid growth in high-polluting coal on the unrealistic assumption there would be no new environmental restrictions. We think the \$60 forecast may also be low because its optimism on new oil and gas supply seems to conflict with the intensifying reality of mega projects doubling in costs, taking longer to complete or being cancelled outright. As a result, the EIA also presents an upside case that reaches \$100 a barrel before adjustment for inflation, thus moving in the direction, but not reaching, our “vision” of \$150 after adjustment for inflation in the next few years. Besides our Russian ideas, some good old, exclusively American producers include buy-recommendations **XTO Energy (XTO)** and **Berry Petroleum (BRY)**. Meanwhile a trend reversal to the upside may be in the making as six-year futures approach the 40-week averages of \$67.70 a barrel and \$7.88 a million btu (see weekly graphic below).

Kurt H. Wulff, CFA



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

	<i>Symbol/</i>	<i>Rating</i>	<i>Price</i> <i>(US\$/sh)</i>	<i>Shares</i>	<i>Market</i>	<i>Net</i>	<i>Debt/</i>	<i>McDep</i>
			<i>26-Feb</i>	<i>(mm)</i>	<i>Cap</i>	<i>Present</i>	<i>Present</i>	<i>Ratio</i>
			<i>2007</i>		<i>(US\$m)</i>	<i>Value</i>	<i>Value</i>	
Mega Cap								
Exxon Mobil Corporation	XOM	B	75.40	5,816	439,000	82.40	0.04	0.92
Total S.A.	TOT	B	70.45	2,288	161,000	80.00	0.14	0.90
BP plc	BP	B	63.89	3,268	209,000	80.00	0.17	0.83
Royal Dutch Shell plc	RDS-A	B	67.10	3,171	213,000	84.00	0.14	0.83
Chevron Corporation	CVX	B	71.41	2,206	158,000	92.00	0.09	0.80
Gazprom (50%)	OGZPY	B	43.25	2,849	123,200	56.00	0.07	0.79
ConocoPhillips	COP	B	67.96	1,672	114,000	100.00	0.20	0.74
			<i>Total or Median</i>		<i>1,417,000</i>		<i>0.14</i>	<i>0.83</i>
Producer/Refiners - Large Cap								
Kinder Morgan, Inc.	KMI	S	105.99	133	14,130	33.00	0.76	1.53
Imperial Oil Limited (30%)	IMO	H	36.60	289	10,570	37.00	0.07	0.99
Norsk Hydro (pro forma)	NHY	B	32.55	1,229	40,000	38.00	0.20	0.88
PetroChina Company Ltd (10%)	PTR	B	121.73	179	21,790	140.00	0.04	0.87
Marathon Oil Corporation	MRO	B	92.75	352	32,650	110.00	0.12	0.86
Petro-Canada	PCZ	B	38.73	498	19,290	49.00	0.19	0.83
Suncor Energy	SU	B	73.52	461	33,900	95.00	0.07	0.79
Lukoil Oil Company	LUKOY	B	82.50	835	69,000	110.00	0.02	0.75
			<i>Total or Median</i>		<i>241,000</i>		<i>0.10</i>	<i>0.87</i>
Independent Natural Gas and Oil - Large Cap								
XTO Energy Inc.	XTO	B	52.88	371	19,620	60.00	0.14	0.90
CNOOC Limited (34%)	CEO	B	82.81	140	11,580	98.00	-	0.85
Encana Corporation	ECA	B	49.35	806	39,800	65.00	0.13	0.79
EOG Resources	EOG	B	69.58	247	17,200	92.00	0.05	0.77
Anadarko Petroleum Corp.	APC	B	40.79	464	18,900	75.00	0.44	0.75
Occidental Petroleum Corp.	OXY	B	47.94	853	40,900	69.00	0.09	0.72
Devon Energy Corporation	DVN	B	67.16	448	30,100	115.00	0.14	0.64
			<i>Total or Median</i>		<i>178,000</i>		<i>0.13</i>	<i>0.77</i>
Independent Natural Gas and Oil - Small Cap								
Energy Partners Ltd.	EPL	B	22.84	41	930	31.00	0.25	0.80
Berry Petroleum Company	BRY	B	31.31	45	1,400	44.00	0.22	0.77
Encore Acquisition Company	EAC	B	25.40	54	1,370	48.00	0.23	0.64
Cimarex Energy Company	XEC	B	35.50	84	2,990	68.00	0.09	0.57
			<i>Total or Median</i>		<i>6,700</i>		<i>0.22</i>	<i>0.71</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S	50.56	171	8,620	15.00	0.54	2.10
Kinder Morgan Management, LLC	KMR	S	49.88	62	3,080	15.00	0.54	2.08
Enerplus Resources Fund	ERF		44.13	123	5,430	47.00	0.11	0.95
Pengrowth Energy Trust	PGH		17.95	241	4,330	20.00	0.27	0.93
Penn West Energy Trust	PWE	B	31.65	239	7,560	39.00	0.13	0.84
San Juan Basin Royalty Trust	SJT	B	31.98	47	1,490	40.00	-	0.80
Hugoton Royalty Trust	HGT	B	24.83	40	990	34.00	-	0.73
Canadian Oil Sands Trust	COSWF	B	23.49	479	11,250	35.00	0.08	0.70
			<i>Total or Median</i>		<i>42,800</i>		<i>0.12</i>	<i>0.88</i>

B = Buy, S = Sell, H = Hold

Present Value = Shares times Net Present Value divided by (1-Debt/Present Value).

Debt = Present Value times Debt/Present Value

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 (US\$/sh) 26-Feb 2007	Adjustd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Mega Cap							
Gazprom (50%)	OGZPY B	43.25	24.0	8.8	6.9	11	0.2
Exxon Mobil Corporation	XOM B	75.40	11.5	6.7	6.1	11	1.7
BP plc	BP B	63.89	9.8	7.1	5.9	10	3.7
Total S.A.	TOT B	70.45	9.6	6.5	5.9	10	3.5
Chevron Corporation	CVX B	71.41	10.9	6.3	5.0	9	2.9
Royal Dutch Shell plc	RDS-A B	67.10	7.4	5.6	4.7	9	4.3
ConocoPhillips	COP B	67.96	10.9	6.0	4.5	7	2.4
	<i>Median</i>		<i>10.9</i>	<i>6.5</i>	<i>5.9</i>	<i>10</i>	<i>2.9</i>
Producer/Refiners - Large Cap							
Kinder Morgan, Inc.	KMI S	105.99		8.9	13.6	21	3.3
Suncor Energy	SU B	73.52	18.3	12.7	10.0	19	0.4
Imperial Oil Limited (30%)	IMO H	36.60	11.5	9.0	8.9	15	0.7
PetroChina Company Ltd (10%)	PTR B	121.73	15.2	6.6	5.7	11	4.0
Lukoil Oil Company	LUKOY B	82.50	18.1	7.1	5.4	9	1.5
Marathon Oil Corporation	MRO B	92.75	8.3	6.1	5.2	9	1.4
Norsk Hydro (pro forma)	NHY B	32.55	8.5	5.6	4.9	9	2.5
Petro-Canada	PCZ B	38.73	6.5	5.8	4.8	9	1.2
	<i>Median</i>		<i>11.5</i>	<i>6.8</i>	<i>5.5</i>	<i>10</i>	<i>1.5</i>
Independent Natural Gas and Oil - Large Cap							
XTO Energy Inc.	XTO B	52.88	12.3	8.4	7.6	13	0.9
Anadarko Petroleum Corp.	APC B	40.79	10.3	8.3	6.2	9	1.8
EOG Resources	EOG B	69.58	9.7	7.8	6.0	15	0.5
Encana Corporation	ECA B	49.35	9.2	7.4	5.9	12	1.6
Occidental Petroleum Corp.	OXY B	47.94	11.9	7.7	5.5	11	1.8
CNOOC Limited (34%)	CEO B	82.81	10.6	6.5	5.5	10	3.4
Devon Energy Corporation	DVN B	67.16	9.1	7.6	4.9	9	0.7
	<i>Median</i>		<i>10.3</i>	<i>7.7</i>	<i>5.9</i>	<i>11</i>	<i>1.6</i>
Independent Natural Gas and Oil - Small Cap							
Berry Petroleum Company	BRY B	31.31	10.1	8.6	6.6	11	1.0
Encore Acquisition Company	EAC B	25.40	15.0	9.5	6.1	25	-
Cimarex Energy Company	XEC B	35.50	8.1	6.9	3.9	10	0.5
Energy Partners Ltd.	EPL B	22.84	5.0	4.8	3.9	-	-
	<i>Median</i>		<i>9.1</i>	<i>7.7</i>	<i>5.0</i>	<i>11</i>	<i>0.2</i>
Income							
Kinder Morgan Energy Partners, L.P.	KMP S	50.56		7.7	16.2	37	6.6
Kinder Morgan Management, LLC	KMR S	49.88		7.7	16.0	36	6.7
Canadian Oil Sands Trust	COSWF B	23.49	23.3	13.5	9.4	13	6.6
San Juan Basin Royalty Trust	SJT B	31.98	11.7	11.4	9.1	11	9.1
Hugoton Royalty Trust	HGT B	24.83	14.0	11.2	8.1	12	8.3
Enerplus Resources Fund	ERF	44.13	9.0	7.6	7.2	14	9.8
Penn West Energy Trust	PWE B	31.65	8.1	8.5	7.1	12	11.1
Pengrowth Energy Trust	PGH	17.95	7.1	7.0	6.5	11	14.4
	<i>Median</i>		<i>10.3</i>	<i>8.1</i>	<i>8.6</i>	<i>13</i>	<i>8.7</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 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**

Symbol	Price (US\$/sh)	Portfolio Weight		Non- U.S. HQ	North Amer. Natural Gas (%)	Rest of World Natural Gas (%)	Oil Prod'n (%)	Down- stream (%)	McDep Ratio	
		26-Feb 2007	Equity (%)							EV (%)
Mega Cap										
Exxon Mobil Corporation	XOM	75.40	3.2	2.9		0.2	0.5	1.3	0.9	0.92
Total S.A.	TOT	70.45	2.8	2.9	2.9		0.8	1.2	0.8	0.90
BP plc	BP	63.89	1.3	1.4	1.4	0.1	0.2	0.7	0.4	0.83
Royal Dutch Shell plc	RDS-A	67.10	2.8	2.9	2.9	0.1	0.5	1.1	1.1	0.83
Chevron Corporation	CVX	71.41	5.9	5.7		0.4	0.4	3.4	1.5	0.80
Gazprom	OGZPY	43.25	9.2	8.6	8.6		6.8	1.8		0.79
ConocoPhillips	COP	67.96	4.9	5.7		1.0	0.4	2.9	1.4	0.74
Producer/Refiners - Large Cap										
Norsk Hydro (pro forma)	NHY	32.55	2.6	2.9	2.9		0.7	1.1	1.1	0.88
PetroChina Company Ltd.	PTR	121.73	3.2	2.9	2.9		0.2	2.4	0.2	0.87
Marathon Oil Corporation	MRO	92.75	1.4	1.4		0.1	0.1	0.5	0.6	0.86
Petro-Canada	PCZ	38.73	1.3	1.4	1.4	0.2	0.0	0.9	0.2	0.83
Suncor Energy	SU	73.52	1.5	1.4	1.4	0.1		1.3	0.1	0.79
Lukoil Oil Company	LUKOY	82.50	6.5	5.7	5.7			4.3	1.4	0.75
Independent Natural Gas and Oil - Large Cap										
XTO Energy Inc.	XTO	52.88	2.8	2.9		2.0		0.8		0.90
CNOOC Limited	CEO	82.81	3.3	2.9	2.9		0.3	2.6		0.85
Encana Corporation	ECA	49.35	5.6	5.7	5.7	4.2		1.1	0.4	0.79
EOG Resources	EOG	69.58	6.3	5.7		4.3	0.4	1.0		0.77
Anadarko Petroleum Corp.	APC	40.79	1.4	2.9		1.5		1.3	0.1	0.75
Occidental Petroleum Corp	OXY	47.94	2.9	2.9		0.4	0.0	2.1	0.3	0.72
Devon Energy Corporation	DVN	67.16	5.2	5.7		3.2		2.6		0.64
Independent Natural Gas and Oil - Small Cap										
Energy Partners Ltd.	EPL	22.84	1.2	1.4		0.8		0.7		0.80
Berry Petroleum Company	BRY	31.31	1.2	1.4		0.2		1.2		0.77
Encore Acquisition Comp	EAC	25.40	2.1	2.9		0.8		2.1		0.64
Cimarex Energy Company	XEC	35.50	2.8	2.9		2.0		0.9		0.57
Income										
Penn West Energy Trust	PWE	31.65	4.2	4.3	4.3	1.3		3.0		0.84
San Juan Basin Royalty Tr	SJT	31.98	6.7	5.7		5.7				0.80
Hugoton Royalty Trust	HGT	24.83	1.7	1.4		1.4				0.73
Canadian Oil Sands Trust	COSWF	23.49	5.9	5.7	5.7			5.7		0.70
Portfolio Composite			100	100	49	30	11	48	11	0.77

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Index of Recent Research**Stock Ideas**

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
23-Feb	CEO	CNOOC Ltd	Oil, China and Natural Gas Growth
20-Feb	NHY	Norsk Hydro ASA	Raise NPV to \$36 a Share
16-Feb	XEC	Cimarex Energy Company	Dry Spell
16-Feb	ECA	EnCana Corporation	Home-Grown, Clean Energy in the Stock Market
15-Feb	EAC	Encore Acquisition	Reduce NPV to \$48 a Share
15-Feb	TOT	Total S.A.	Thank You, Thierry Desmarest
14-Feb	XTO	XTO Energy Inc.	The Trend Goes On
13-Feb	OGZPY	Gazprom	Enlightened Self Interest
7-Feb	DVN	Devon Energy Corporation	Current Favorite Large Cap Independent
7-Feb	APC	Anadarko Petroleum Corporation	Avarice in Algiers
6-Feb	BP	BP p.l.c.	Difficult Execution
5-Feb	CVX	Chevron Corporation	Momentum despite Chavez
2-Feb	MRO	Marathon Oil Corporation	Emphasis on Refining
2-Feb	IMO	Imperial Oil Limited	Near Present Value
1-Feb	* EOG	EOG Resources Inc.	Reserves Up Ten Percent in 2006
1-Feb	* XOM	Exxon Mobil Corporation	Raise Present Value to a Half Trillion Dollars
1-Feb	* RDSA	Royal Dutch Shell plc	Reserves and Earnings Ahead
30-Jan	* COSWF	Canadian Oil Sands Trust	Record Quarterly Volume
26-Jan	* SU	Suncor Energy Inc.	Committed to 500,000 Barrels Daily
26-Jan	* OXY	Occidental Petroleum Corporation	Largest Oil Independent
26-Jan	* PCZ	Petro-Canada	Volume Corner Turned
24-Jan	* COP	ConocoPhillips	Buying Itself
18-Jan	* KMX	Kinder Morgan	Good Bye KMI
16-Jan	* PTR	PetroChina Company Limited	Fourth Largest Oil and Gas Company
16-Jan	* BP	BP p.l.c.	New Leader Designated
16-Jan	* COP	ConocoPhillips	Weather Deal
12-Jan	* LUKOY	Lukoil Oil Company	Downside Oil Price Protection
5-Jan	* HGT	Hugoton Royalty Trust	New Buy for Natural Gas Income
20-Nov	* EPL	Energy Partners, Ltd.	Hostile Bidder Withdraws
17-Nov	* SJT	San Juan Basin Royalty Trust	Dip/Rebound and New Shale Potential
14-Nov	* PWE	Penn West Energy Trust	Canada's Dastardly Deed
9-Nov	* BRY	Berry Petroleum	Election Winner

Meter Reader - A Weekly Analysis

27-Feb		The Government's Bullish Oil Price Forecast
20-Feb	*	Oil Sands Tax Review
13-Feb	*	Trend Change or Winter Peak?
6-Feb	*	Organization of Natural Gas Exporting Countries

Natural Gas and Oil Royalty Trusts - A Weekly Analysis

23-Feb		Energy Politics
16-Feb		Distributions Rise, Canada Tax Threat Weakens
9-Feb	*	Future Energy Income Stocks
2-Feb	*	Adios El Nino

Industry Ideas

14-Feb	*	Flash	Canada Tax Bomb Defused
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