

## Our Friend, the Trend

### Summary and Recommendation

Buy-recommended natural gas producer, **EOG Resources (EOG)**, may offer a timely combination of 200-day uptrend and low McDep Ratio at the same time the stock price is below the 60-day average (see table [Valuation Summary](#)). Meanwhile, four out of five buy recommendations are in a stock price uptrend defined by current quote above the 200-day average. Coincidentally, the average of oil futures for delivery over the next six years is also in an uptrend defined by latest weekly quote above the 40-week average (see chart [Six-Year Commodity Price Meter](#)). Natural gas has appreciation potential relative to oil with the timing depending on factors including demand for blue sky in China, the world's largest coal polluter (see chart [Oil/Natural Gas Futures Ratio](#)). Recent peak refining margins are receding only slowly attesting to strong global demand for more highly refined oil products (see chart [One-Year Refining Crack](#)). Positive price trends reinforce our fundamental analysis reflected in low McDep Ratios (see table [Rank by McDep Ratio](#)). Meanwhile where stock price action takes portfolio weighting beyond a comfort level it may make sense to rebalance by shifting toward a stock that is below its targeted weighting (see table [McDep Energy Portfolio](#)).

Kurt H. Wulff, CFA

### EOG Resources Valuation Summary

<i>Symbol</i>	EOG	<i>Ebitda Next Twelve Months ending 6/30/08 (US\$m)</i>	3,400
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	71
<i>Price (\$/sh)</i>	74.43	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	6/25/07	<i>Adjusted Reserves/Production NTM</i>	9.6
<i>Shares (mm)</i>	247	<i>EV/Ebitda</i>	5.9
<i>Market Capitalization (\$mm)</i>	18,400	<i>PV/Ebitda</i>	7.9
<i>Debt (\$mm)</i>	1,300	<i>Undeveloped Reserves (%)</i>	30
<i>Enterprise Value (EV) (\$mm)</i>	19,600	<i>Natural Gas and Oil Ebitda (\$/mcfe)</i>	5.60
<i>Present Value (PV) (\$mm)</i>	26,400	<i>Present Value Proven Reserves(\$/boe)</i>	23.30
<i>Net Present Value (\$/share)</i>	102	<i>Present Value Proven Reserves(\$/mcfe)</i>	3.90
<i>Debt/Present Value</i>	0.05	<i>Earnings Next Twelve Months (US\$/sh)</i>	5.36
<i>McDep Ratio - EV/PV</i>	0.74	<i>Price/Earnings Next Twelve Months</i>	14
<i>Dividend Yield (%/year)</i>	0.5	<i>Indicated Annual Dividend (US\$/sh)</i>	0.36

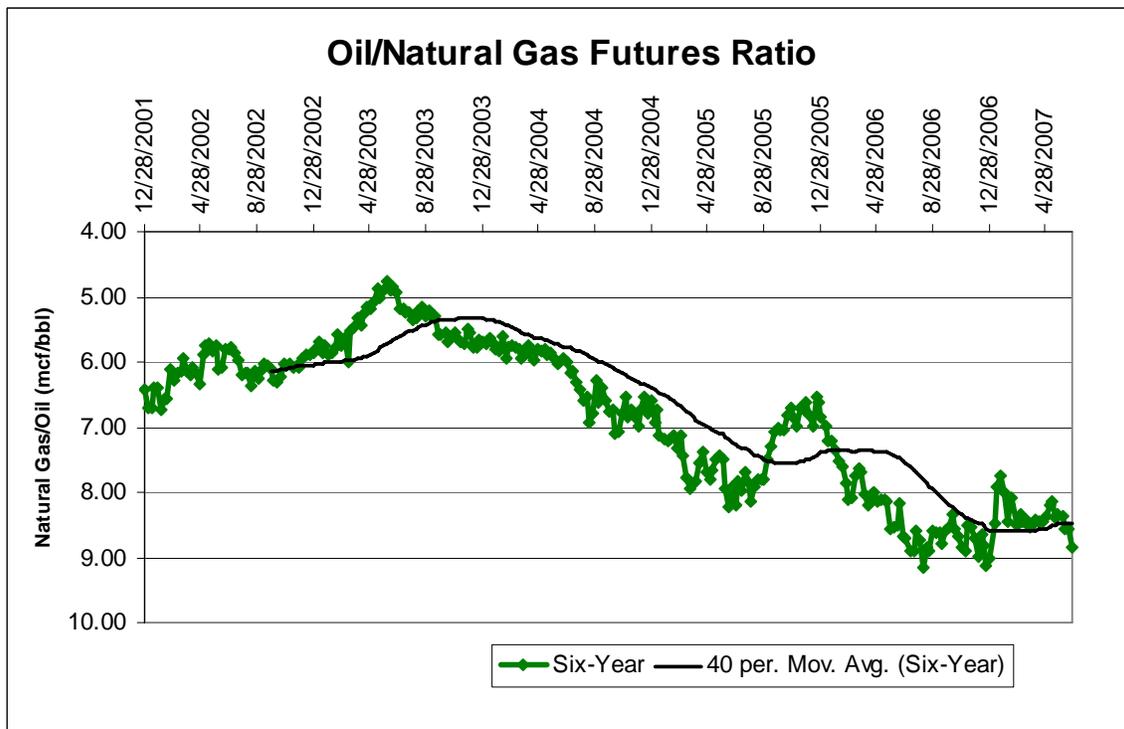
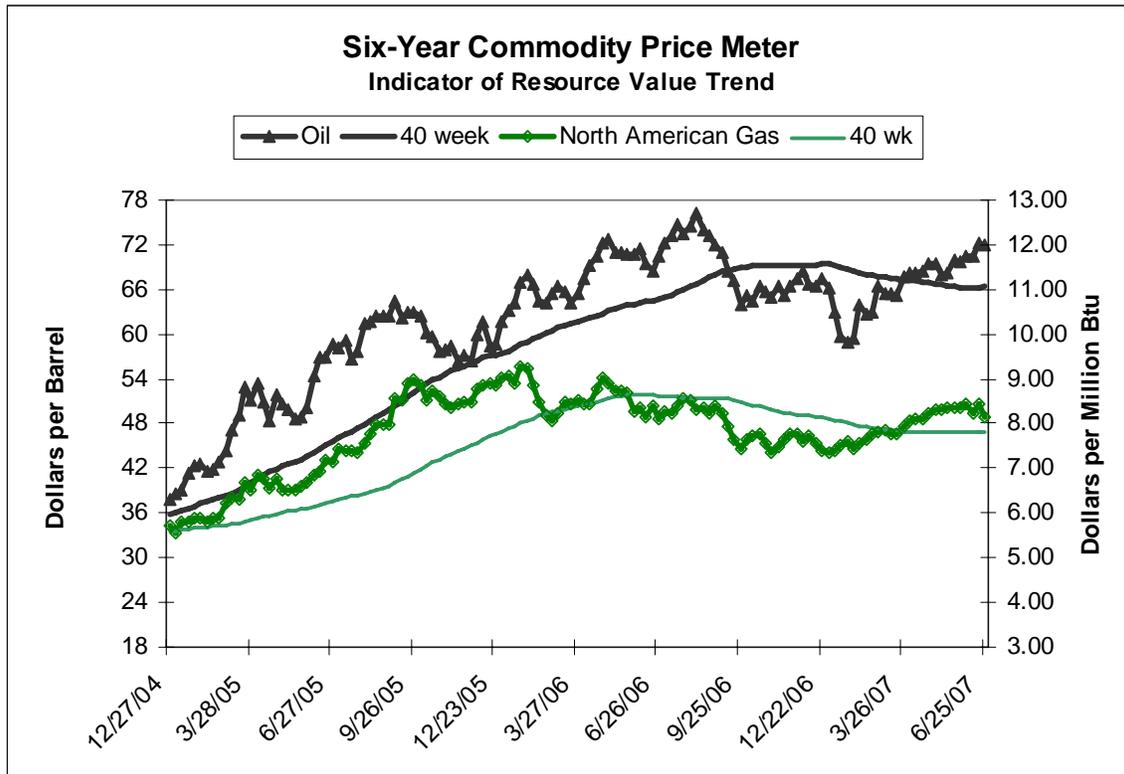
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.

Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

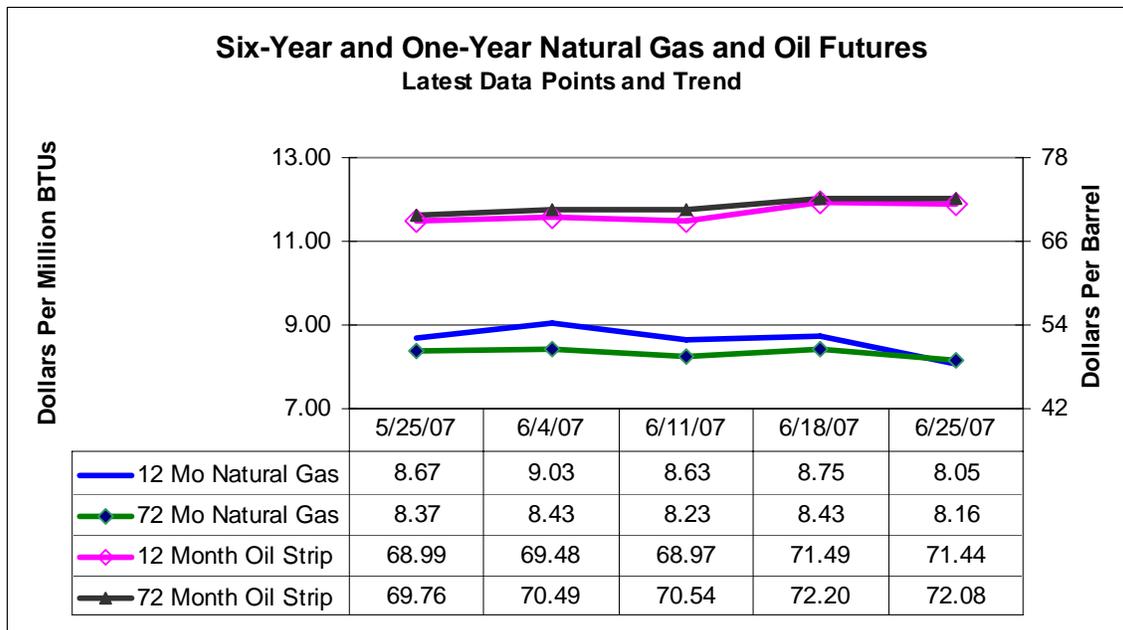
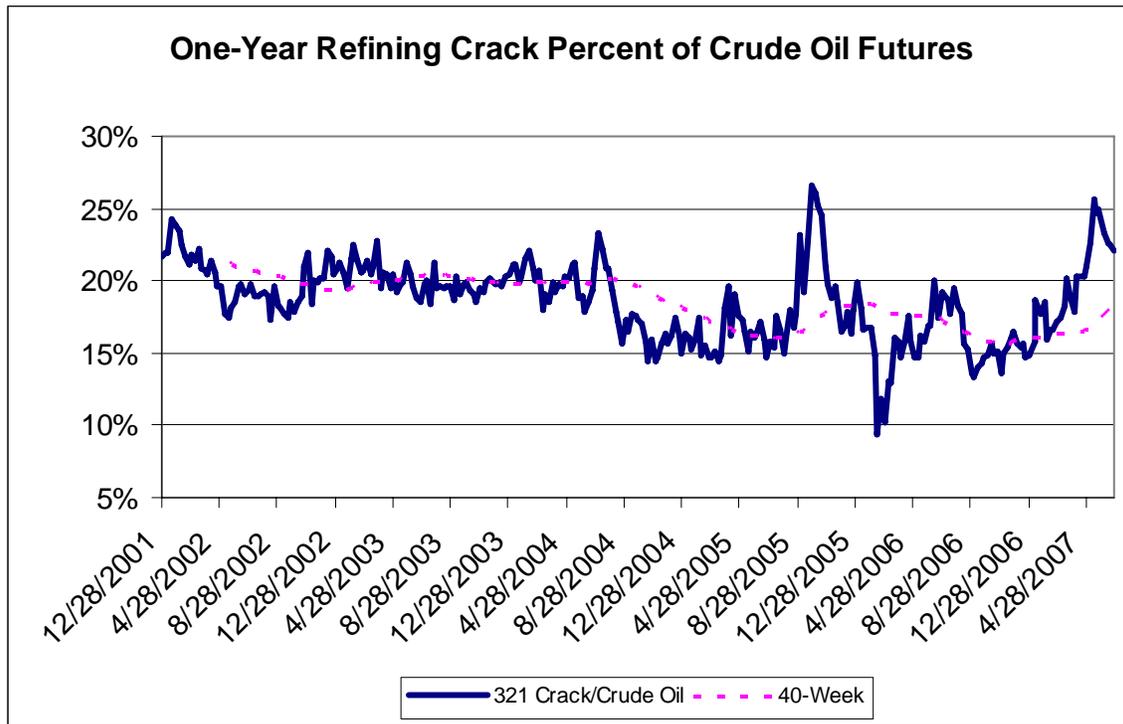
Estimated present value presumes a long-term price for oil of US\$60 a barrel and natural gas, \$10 a million btu.

For historical research on EOG since 2006 see <http://www.mcdep.com/3eog.htm>

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**Oil and Gas Producers - Rank by McDep Ratio**

	Symbol/ Rating		Price (US\$/sh) 25-Jun 2007	Shares (mm)	Market Cap (US\$m)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
<b>Mega Cap</b>								
Exxon Mobil Corporation	XOM	B	82.37	5,714	471,000	92.00	0.05	0.90
Total S.A.	TOT	B	78.20	2,281	178,000	89.00	0.13	0.89
Royal Dutch Shell plc	RDS-A	B	78.92	3,153	249,000	94.00	0.13	0.86
BP plc	BP	B	70.11	3,231	227,000	87.00	0.16	0.84
Chevron Corporation	CVX	B	82.95	2,206	183,000	105.00	0.09	0.81
ConocoPhillips	COP	B	78.04	1,669	130,000	112.00	0.18	0.75
Gazprom (50%)	OGZPY	B	39.90	2,849	113,700	62.00	0.06	0.67
<i>Total or Median</i>					<i>1,552,000</i>		<i>0.13</i>	<i>0.84</i>
<b>Producer/Refiners - Large Cap</b>								
Imperial Oil Limited (30%)	IMO	B	45.70	287	13,130	42.00	0.07	1.08
Norsk Hydro ASA (post Oct 1)	NHY	H	11.92	1,241	14,800	11.00	0.13	1.07
Marathon Oil Corporation	MRO	H	62.10	694	43,100	62.00	0.13	1.00
Petro-Canada	PCZ	B	52.20	502	26,200	55.00	0.17	0.96
PetroChina Company Ltd (10%)	PTR	B	145.85	181	26,400	166.00	0.05	0.89
Statoil ASA (29%)	STO	B	29.42	928	27,300	35.00	0.11	0.86
Suncor Energy	SU	B	88.36	461	40,740	105.00	0.07	0.85
Lukoil Oil Company	LUKOY	B	76.80	830	64,000	121.00	0.02	0.64
<i>Total or Median</i>					<i>256,000</i>		<i>0.09</i>	<i>0.92</i>
<b>Independent Natural Gas and Oil - Large Cap</b>								
CNOOC Limited (34%)	CEO	B	113.67	140	15,890	108.00	-	1.05
Encana Corporation	ECA	B	63.03	780	49,200	72.00	0.14	0.89
XTO Energy Inc.	XTO	B	60.49	372	22,500	70.00	0.13	0.88
Anadarko Petroleum Corp.	APC	B	52.80	465	24,600	74.00	0.38	0.82
Occidental Petroleum Corp.	OXY	B	57.73	847	48,900	77.00	0.07	0.77
EOG Resources	EOG	B	74.43	247	18,400	102.00	0.05	0.74
Devon Energy Corporation	DVN	B	78.34	450	35,300	129.00	0.15	0.67
<i>Total or Median</i>					<i>215,000</i>		<i>0.13</i>	<i>0.82</i>
<b>Independent Natural Gas and Oil - Small Cap</b>								
Berry Petroleum Company	BRY	B	38.50	45	1,720	44.00	0.24	0.91
Encore Acquisition Company	EAC	B	28.08	53	1,490	54.00	0.34	0.68
Energy Partners Ltd.	EPL	B	16.80	31	530	38.00	0.35	0.64
Cimarex Energy Company	XEC	B	40.59	84	3,430	76.00	0.09	0.58
<i>Total or Median</i>					<i>7,200</i>		<i>0.29</i>	<i>0.66</i>
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S	55.00	172	9,440	15.00	0.54	2.22
Kinder Morgan Management, LLC	KMR	S	51.65	62	3,190	15.00	0.54	2.12
Pengrowth Energy Trust	PGH		19.51	244	4,760	17.00	0.29	1.10
Penn West Energy Trust	PWE	B	33.24	240	7,970	36.00	0.17	0.94
Enerplus Resources Fund	ERF		46.54	123	5,740	52.00	0.13	0.91
San Juan Basin Royalty Trust	SJT	B	32.71	47	1,520	40.00	-	0.82
Canadian Oil Sands Trust	COSWF	B	29.35	479	14,060	39.00	0.08	0.77
Hugoton Royalty Trust	HGT	B	25.72	40	1,030	34.00	-	0.76
<i>Total or Median</i>					<i>47,700</i>		<i>0.15</i>	<i>0.92</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**

	Symbol/ Rating		Price (US\$/sh) 25-Jun 2007	Adjustd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
<b>Mega Cap</b>								
Exxon Mobil Corporation	XOM	B	82.37	11.5	7.0	6.3	11	1.7
Gazprom (50%)	OGZPY	B	39.90	24.0	9.4	6.2	10	0.2
Total S.A.	TOT	B	78.20	9.4	6.6	5.9	10	1.5
BP plc	BP	B	70.11	9.6	6.9	5.8	10	3.5
Royal Dutch Shell plc	RDS-A	B	78.92	7.9	6.1	5.2	9	3.6
Chevron Corporation	CVX	B	82.95	10.0	6.5	5.2	9	2.8
ConocoPhillips	COP	B	78.04	11.2	6.6	4.9	8	2.1
		<i>Median</i>		<i>10.0</i>	<i>6.6</i>	<i>5.8</i>	<i>10</i>	<i>2.1</i>
<b>Producer/Refiners - Large Cap</b>								
Imperial Oil Limited (30%)	IMO	B	45.70	13.3	8.3	8.9	15	0.7
Suncor Energy	SU	B	88.36	23.6	9.9	8.4	15	0.3
Norsk Hydro ASA (post Oct 1)	NHY	H	11.92	-	6.7	7.2	12	1.4
PetroChina Company Ltd (10%)	PTR	B	145.85	15.1	8.1	7.1	15	3.2
Marathon Oil Corporation	MRO	H	62.10	7.8	5.9	5.9	10	1.5
Statoil ASA (29%)	STO	B	29.42	7.7	6.2	5.3	12	5.1
Petro-Canada	PCZ	B	52.20	6.9	5.5	5.2	10	0.9
Lukoil Oil Company	LUKOY	B	76.80	18.3	7.7	5.0	9	1.7
		<i>Median</i>		<i>10.6</i>	<i>7.2</i>	<i>6.5</i>	<i>12</i>	<i>1.5</i>
<b>Independent Natural Gas and Oil - Large Cap</b>								
XTO Energy Inc.	XTO	B	60.49	12.2	8.3	7.3	13	0.8
Anadarko Petroleum Corp.	APC	B	52.80	11.2	8.2	6.8	12	1.4
CNOOC Limited (34%)	CEO	B	113.67	10.6	6.2	6.5	12	2.9
Encana Corporation	ECA	B	63.03	9.5	7.2	6.4	13	1.3
EOG Resources	EOG	B	74.43	9.6	7.9	5.9	14	0.5
Occidental Petroleum Corp.	OXY	B	57.73	11.9	7.1	5.5	11	1.5
Devon Energy Corporation	DVN	B	78.34	9.4	7.8	5.2	9	0.7
		<i>Median</i>		<i>10.6</i>	<i>7.8</i>	<i>6.4</i>	<i>12</i>	<i>1.3</i>
<b>Independent Natural Gas and Oil - Small Cap</b>								
Berry Petroleum Company	BRY	B	38.50	10.3	8.7	7.8	13	0.8
Encore Acquisition Company	EAC	B	28.08	14.8	8.8	6.0	14	-
Cimarex Energy Company	XEC	B	40.59	8.1	6.6	3.8	9	0.4
Energy Partners Ltd.	EPL	B	16.80	5.4	5.0	3.2	-	-
		<i>Median</i>		<i>9.2</i>	<i>7.6</i>	<i>4.9</i>	<i>13</i>	<i>0.2</i>
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S	55.00		7.9	17.5	53	6.0
Kinder Morgan Management, LLC	KMR	S	51.65		7.9	16.7	50	6.4
San Juan Basin Royalty Trust	SJT	B	32.71	10.2	11.0	9.0	11	9.1
Canadian Oil Sands Trust	COSWF	B	29.35	21.1	11.2	8.6	11	6.7
Pengrowth Energy Trust	PGH		19.51	7.5	7.2	7.9	24	14.4
Hugoton Royalty Trust	HGT	B	25.72	14.0	10.1	7.6	11	9.3
Enerplus Resources Fund	ERF		46.54	9.0	7.5	6.8	12	10.1
Penn West Energy Trust	PWE	B	33.24	7.6	7.2	6.7	13	11.5
		<i>Median</i>		<i>9.6</i>	<i>7.9</i>	<i>8.3</i>	<i>13</i>	<i>9.2</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2008; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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**McDep Energy 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	
		25-Jun 2007	Equity (%)							EV (%)
<b>Mega Cap</b>										
Exxon Mobil Corporation	XOM	82.37	1.6	1.4		0.1	0.2	0.8	0.4	0.90
Total S.A.	TOT	78.20	2.9	2.9	2.9		0.7	1.5	0.6	0.89
Royal Dutch Shell plc	RDS-A	78.92	2.8	2.9	2.9	0.1	0.4	1.4	1.0	0.86
BP plc	BP	70.11	2.7	2.9	2.9	0.2	0.3	1.7	0.7	0.84
Chevron Corporation	CVX	82.95	6.0	5.7		0.3	0.4	3.6	1.5	0.81
ConocoPhillips	COP	78.04	5.1	5.7		0.9	0.4	3.0	1.4	0.75
Gazprom	OGZPY	39.90	9.1	8.6	8.6		6.6	2.0		0.67
<b>Producer/Refiners - Large Cap</b>										
Imperial Oil Limited	IMO	45.70	1.6	1.4	1.4	0.1		1.1	0.2	1.08
Petro-Canada	PCZ	52.20	1.4	1.4	1.4	0.2	0.0	1.0	0.2	0.96
PetroChina Company Ltd.	PTR	145.85	3.1	2.9	2.9		0.2	2.5	0.2	0.89
Statoil ASA	STO	29.42	1.5	1.4	1.4		0.5	0.9	-	0.86
Suncor Energy	SU	88.36	1.5	1.4	1.4	0.1		1.3	0.1	0.85
Lukoil Oil Company	LUKOY	76.80	6.5	5.7	5.7			4.1	1.6	0.64
<b>Independent Natural Gas and Oil - Large Cap</b>										
CNOOC Limited	CEO	113.67	3.3	2.9	2.9		0.3	2.6		1.05
Encana Corporation	ECA	63.03	4.2	4.3	4.3	3.2		0.9	0.1	0.89
XTO Energy Inc.	XTO	60.49	4.3	4.3		3.3		1.0		0.88
Anadarko Petroleum Corp.	APC	52.80	1.8	2.9		1.5		1.3	0.1	0.82
Occidental Petroleum Corp	OXY	57.73	3.0	2.9		0.4	0.0	2.2	0.3	0.77
EOG Resources	EOG	74.43	6.3	5.7		4.3	0.4	1.0		0.74
Devon Energy Corporation	DVN	78.34	5.2	5.7		3.2		2.5		0.67
<b>Independent Natural Gas and Oil - Small Cap</b>										
Berry Petroleum Company	BRY	38.50	1.2	1.4		0.4		1.0		0.91
Encore Acquisition Comp	EAC	28.08	1.7	2.9		0.5		2.4		0.68
Energy Partners Ltd.	EPL	16.80	1.5	2.9		1.4		1.5		0.64
Cimarex Energy Company	XEC	40.59	2.8	2.9		2.0		0.9		0.58
<b>Income</b>										
Penn West Energy Trust	PWE	33.24	2.8	2.9	2.9	0.9		1.9		0.94
San Juan Basin Royalty Tr	SJT	32.71	6.7	5.7		5.7				0.82
Canadian Oil Sands Trust	COSWF	29.35	6.0	5.7	5.7	(0.6)		6.3		0.77
Hugoton Royalty Trust	HGT	25.72	3.3	2.9		2.9				0.76
<b>Portfolio Composite</b>			<b>100</b>	<b>100</b>	<b>47</b>	<b>31</b>	<b>10</b>	<b>50</b>	<b>8</b>	<b>0.77</b>
Canada					17					
Russia					14					
Europe					10					
China					6					

Note: Percentages in the Portfolio Weight - EV column correspond to unlevered positions ranging from triple at 8.6% to half at 1.4%.

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**Index of Recent Research****Stock Ideas**

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
12-Jun	* BP	BP p.l.c.	Kovykta Kontroversy (Meter Reader)
12-Jun	* OGZPY	Gazprom	Kovykta Kontroversy (Meter Reader)
12-Jun	* LUKOY	Lukoil Oil Company	Kovykta Kontroversy (Meter Reader)
1-Jun	* SJT	San Juan Basin Royalty Trust	Stable Present Value (RT Weekly)
1-Jun	* HGT	Hugoton Royalty Trust	Stable Present Value (RT Weekly)
31-May	NHY	Norsk Hydro ASA	Hold New NHY, Buy Statoil
18-May	* MRO	Marathon Oil Corporation	Downgrade to Hold from Buy on Price
9-May	* XEC	Cimarex Energy Company	Lowest McDep Ratio
8-May	* PWE	Penn West Energy Trust	Committed to Income Distributions
7-May	* EAC	Encore Acquisition	Encore for Bell Creek
7-May	* PTR	PetroChina Company Limited	Raise NPV on Discovery
4-May	* TOT	Total S.A.	Integrated Model
4-May	* EPL	Energy Partners, Ltd.	Strategic Alternatives Disappointment
3-May	* RDSA	Royal Dutch Shell plc	Record Results
2-May	* BRV	Berry Petroleum	Piceance and Diatomite
2-May	* DVN	Devon Energy Corporation	Low McDep Ratio Natural Gas
2-May	* IMO	Imperial Oil Limited	Oil Sands Deal Unmasks Value
1-May	* EOG	EOG Resources Inc.	Productive Drilling Boosts Cash Flow
1-May	* MRO	Marathon Oil Corporation	Stock Split Declared
1-May	* APC	Anadarko Petroleum Corporation	Adjust NPV to \$70 a Share on Lower Debt
27-Apr	* CVX	Chevron Corporation	Solid Results
26-Apr	* CEO	CNOOC Ltd	Volume up 5%
26-Apr	* XOM	Exxon Mobil Corporation	Another Record Quarter
26-Apr	* COSWF	Canadian Oil Sands Trust	Distribution Raised 33%
25-Apr	* XTO	XTO Energy Inc.	Buy for Natural Gas
25-Apr	* ECA	EnCana Corporation	Buy for Natural Gas
25-Apr	* COP	ConocoPhillips	Strong Demand, Constrained Supply
25-Apr	* BP	BP p.l.c.	CEO Cycle
24-Apr	* OXY	Occidental Petroleum Corporation	Well-Positioned in Oil
24-Apr	* PCZ	Petro-Canada	Volume Up 15%
18-Apr	* KMx	Kinder Morgan	Deal Delayed

**Meter Reader - A Weekly Analysis**

26-Jun		Our Friend, the Trend
19-Jun		Oil Rich Country
12-Jun	*	Kovykta Kontroversy
5-Jun	*	Enhance Performance with McDep Ratio

**Natural Gas and Oil Royalty Trusts - A Weekly Analysis**

22-Jun		CAPPitalizing Canadian Oil Sands Trust
15-Jun		Dorchester Minerals Defies Decline
8-Jun	*	Real Value for Patient Investors
1-Jun	*	Stable Present Value

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