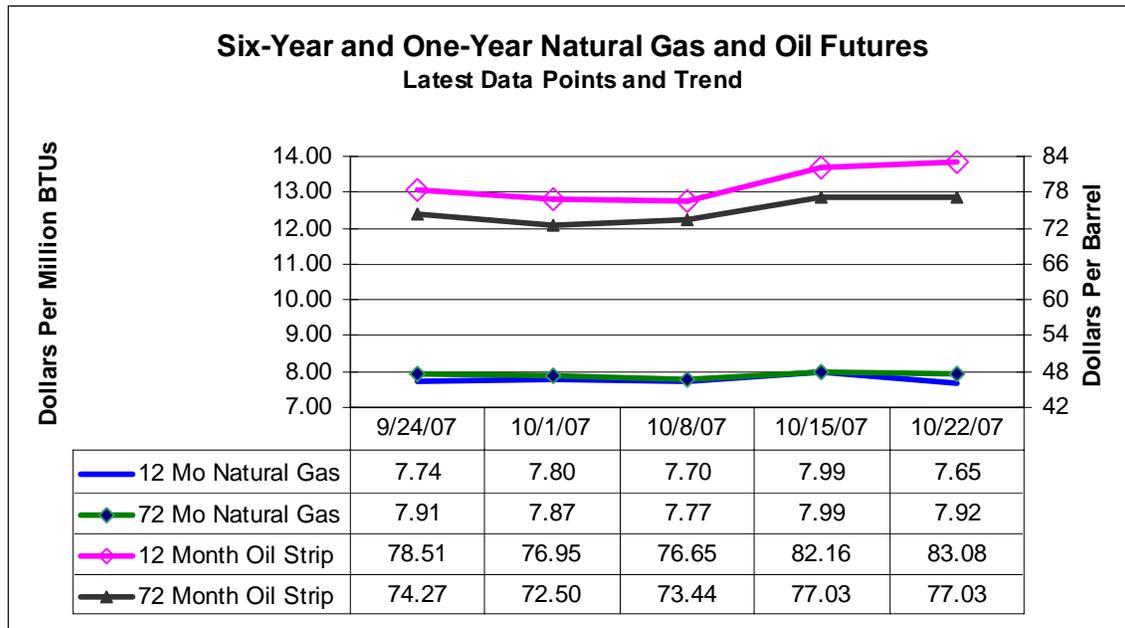


## China Omen

### Summary and Recommendation

Recent remarkable strength in Chinese energy stocks may be temporary, but also points to a bright future for other stocks in the industry. At their highs on October 17, hold-rated Chinese producer **CNOOC Limited (CEO)** and buy-rated producer/refiner **PetroChina (PTR)** reached McDep Ratios of 1.81 and 1.56, respectively. PTR may be too speculative at current price for new commitments by conservative investors and we encourage taking profits, if necessary, to reduce the weight of the stock to near 3% as in the illustrative McDep Energy Portfolio (see page 4). While the McDep Ratios may seem high, unlevered cash flow multiples (EV/Ebitda) around 10 times for CEO and PTR appear low compared to those in global equity markets generally. For another emerging market stock that has done well while having further potential, we reintroduce **Petrobras (PBR)** to our weekly ranking. The Latin leader may have additional volume upside offshore Brazil if advances in subsurface imaging uncover large new resources. Finally as the decline of the U.S. dollar accelerates, the loss seems only partially restored in U.S. Treasury Inflation Protected Securities. As a result, we see increasing appeal in **ExxonMobil (XOM)** stock as a bond substitute in addition to its half-weighting as an equity buy recommendation.

Kurt H. Wulff, CFA



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

	Symbol/ Rating		Price (US\$/sh) 22-Oct 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	90.91	5,620	511,000	92.00	0.05	0.99
Total S.A.	TOT	B	78.29	2,278	178,000	89.00	0.13	0.90
Royal Dutch Shell plc	RDS-A	B	82.81	3,152	261,000	94.00	0.10	0.89
BP plc	BP	B	73.88	3,198	236,000	87.00	0.16	0.87
Chevron Corporation	CVX	B	88.44	2,206	195,000	105.00	0.08	0.86
ConocoPhillips	COP	B	83.12	1,658	138,000	112.00	0.19	0.79
Gazprom (50%)	OGZPY	B	45.60	2,990	136,300	62.00	0.07	0.75
<i>Total or Median</i>					<i>1,655,000</i>		<i>0.10</i>	<i>0.87</i>
<b>Producer/Refiners - Large Cap</b>								
PetroChina Company Ltd (10%)	PTR	B	250.01	178	44,470	166.00	0.06	1.48
Imperial Oil Limited (30%)	IMO	B	48.86	282	13,780	42.00	0.08	1.15
Norsk Hydro ASA	NHY	H	14.50	1,241	17,990	13.00	0.12	1.10
Petrobras	PBR		79.78	2,194	175,000	80.00	0.13	1.00
Suncor Energy	SU	B	103.03	472	48,630	105.00	0.09	0.98
Marathon Oil Corporation	MRO	H	58.10	722	41,950	62.00	0.18	0.95
StatoilHydro ASA (29%)	STO	B	32.01	928	29,710	35.00	0.14	0.93
Petro-Canada	PCZ	B	53.12	498	26,450	65.00	0.16	0.85
Lukoil Oil Company	LUKOY	B	83.10	832	69,000	121.00	0.03	0.70
<i>Total or Median</i>					<i>467,000</i>		<i>0.12</i>	<i>0.98</i>
<b>Independent Natural Gas and Oil - Large Cap</b>								
CNOOC Limited (34%)	CEO	H	180.98	149	27,010	108.00	-	1.68
XTO Energy Inc.	XTO	B	63.77	390	24,870	70.00	0.15	0.92
Encana Corporation	ECA	B	63.99	765	49,000	72.00	0.18	0.91
Canadian Natural Resources	CNQ		75.63	539	40,800	87.00	0.22	0.90
Occidental Petroleum Corp.	OXY	B	65.20	842	54,900	77.00	0.07	0.86
Anadarko Petroleum Corp.	APC	B	56.11	467	26,200	74.00	0.35	0.84
EOG Resources	EOG	B	78.39	247	19,400	102.00	0.05	0.78
Devon Energy Corporation	DVN	B	85.54	450	38,500	129.00	0.14	0.71
<i>Total or Median</i>					<i>281,000</i>		<i>0.15</i>	<i>0.88</i>
<b>Independent Natural Gas and Oil - Small Cap</b>								
Berry Petroleum Company	BRY	B	42.74	45	1,920	44.00	0.23	0.98
Encore Acquisition Company	EAC	B	33.02	54	1,780	54.00	0.32	0.74
Energy Partners Ltd.	EPL	B	14.17	35	490	38.00	0.31	0.57
Cimarex Energy Company	XEC	B	38.12	85	3,230	76.00	0.09	0.55
<i>Total or Median</i>					<i>7,400</i>		<i>0.27</i>	<i>0.65</i>
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S	51.40	178	9,170	17.00	0.54	1.93
Kinder Morgan Management, LLC	KMR	S	49.60	63	3,120	17.00	0.54	1.88
Pengrowth Energy Trust	PGH		18.22	246	4,480	17.00	0.28	1.05
Canadian Oil Sands Trust	COSWF	B	34.56	479	16,560	39.00	0.08	0.90
Penn West Energy Trust	PWE	B	31.95	242	7,720	36.00	0.21	0.91
San Juan Basin Royalty Trust	SJT	B	35.19	47	1,640	40.00	-	0.88
Enerplus Resources Fund	ERF		45.61	128	5,840	52.00	0.13	0.89
Hugoton Royalty Trust	HGT	B	23.70	40	950	34.00	-	0.70
<i>Total or Median</i>					<i>49,500</i>		<i>0.17</i>	<i>0.90</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

**Please see disclosures on the final page.**

**Oil and Gas Producers - Rank by EV/Ebitda**

	Symbol/ Rating		Price (US\$/sh) 22-Oct 2007	Adjustd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
<b>Mega Cap</b>								
Gazprom (50%)	OGZPY	B	45.60	24.6	9.7	7.3	11	0.9
Exxon Mobil Corporation	XOM	B	90.91	11.7	6.2	6.1	11	1.5
BP plc	BP	B	73.88	9.6	6.4	5.6	9	3.5
Total S.A.	TOT	B	78.29	9.7	5.9	5.3	9	3.6
Chevron Corporation	CVX	B	88.44	10.1	5.6	4.8	8	2.6
Royal Dutch Shell plc	RDS-A	B	82.81	8.1	5.3	4.7	9	3.5
ConocoPhillips	COP	B	83.12	10.3	6.0	4.7	8	2.0
	<i>Median</i>			<i>10.1</i>	<i>6.0</i>	<i>5.3</i>	<i>9</i>	<i>2.6</i>
<b>Producer/Refiners - Large Cap</b>								
PetroChina Company Ltd (10%)	PTR	B	250.01	15.0	7.0	10.4	21	1.9
Suncor Energy	SU	B	103.03	23.8	9.3	9.2	16	0.4
Imperial Oil Limited (30%)	IMO	B	48.86	13.3	7.0	8.1	14	0.8
Norsk Hydro ASA	NHY	H	14.50	-	6.3	6.9	11	1.3
Petrobras	PBR		79.78	9.8	5.9	5.9	10	2.1
StatoilHydro ASA (29%)	STO	B	32.01	7.7	5.4	5.0	10	5.2
Marathon Oil Corporation	MRO	H	58.10	8.6	5.1	4.9	8	1.7
Lukoil Oil Company	LUKOY	B	83.10	17.8	6.6	4.6	8	1.8
Petro-Canada	PCZ	B	53.12	6.5	5.1	4.3	8	1.0
	<i>Median</i>			<i>9.8</i>	<i>6.3</i>	<i>5.9</i>	<i>10</i>	<i>1.7</i>
<b>Independent Natural Gas and Oil - Large Cap</b>								
CNOOC Limited (34%)	CEO	H	180.98	10.7	5.9	9.9	18	1.9
Canadian Natural Resources	CNQ		75.63	8.1	8.3	7.5	15	0.5
XTO Energy Inc.	XTO	B	63.77	11.3	8.0	7.4	14	0.8
Encana Corporation	ECA	B	63.99	9.2	7.3	6.6	13	1.3
Anadarko Petroleum Corp.	APC	B	56.11	11.2	7.5	6.4	11	1.3
EOG Resources	EOG	B	78.39	9.3	8.1	6.4	16	0.5
Devon Energy Corporation	DVN	B	85.54	9.0	7.7	5.5	11	0.7
Occidental Petroleum Corp.	OXY	B	65.20	11.5	6.2	5.3	10	1.5
	<i>Median</i>			<i>10.0</i>	<i>7.6</i>	<i>6.5</i>	<i>13</i>	<i>1.0</i>
<b>Independent Natural Gas and Oil - Small Cap</b>								
Berry Petroleum Company	BRY	B	42.74	10.2	7.7	7.5	14	0.7
Encore Acquisition Company	EAC	B	33.02	15.5	7.5	5.5	12	-
Cimarex Energy Company	XEC	B	38.12	8.0	6.9	3.8	9	0.4
Energy Partners Ltd.	EPL	B	14.17	5.9	5.6	3.2	-	-
	<i>Median</i>			<i>9.1</i>	<i>7.2</i>	<i>4.6</i>	<i>12</i>	<i>0.2</i>
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S	51.40		7.9	15.2	32	6.8
Kinder Morgan Management, LLC	KMR	S	49.60		7.9	14.8	31	7.1
San Juan Basin Royalty Trust	SJT	B	35.19	10.3	13.6	12.0	15	6.9
Hugoton Royalty Trust	HGT	B	23.70	13.8	11.8	8.3	12	8.3
Canadian Oil Sands Trust	COSWF	B	34.56	21.7	9.2	8.2	10	9.2
Pengrowth Energy Trust	PGH		18.22	7.1	7.1	7.5	39	16.0
Enerplus Resources Fund	ERF		45.61	9.4	8.3	7.4	15	11.3
Penn West Energy Trust	PWE	B	31.95	7.7	7.3	6.6	13	13.0
	<i>Median</i>			<i>9.8</i>	<i>8.1</i>	<i>8.3</i>	<i>15</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 September 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	
		22-Oct 2007	Equity (%)							EV (%)
<b>Mega Cap</b>										
Exxon Mobil Corporation	XOM	90.91	1.7	1.5		0.1	0.2	0.8	0.4	0.99
Total S.A.	TOT	78.29	3.0	3.0	3.0		0.8	1.5	0.6	0.90
Royal Dutch Shell plc	RDS-A	82.81	3.2	3.0	3.0	0.1	0.4	1.5	1.1	0.89
BP plc	BP	73.88	2.9	3.0	3.0	0.3	0.3	1.8	0.7	0.87
Chevron Corporation	CVX	88.44	3.2	3.0		0.1	0.2	1.9	0.8	0.86
ConocoPhillips	COP	83.12	5.4	6.1		1.0	0.4	3.3	1.4	0.79
Gazprom	OGZPY	45.60	9.7	9.1	9.1		6.8	2.3		0.75
<b>Producer/Refiners - Large Cap</b>										
PetroChina Company Ltd.	PTR	250.01	3.4	3.0	3.0		0.2	2.6	0.2	1.48
Imperial Oil Limited	IMO	48.86	1.7	1.5	1.5	0.1		1.2	0.2	1.15
Suncor Energy	SU	103.03	1.6	1.5	1.5	0.0		1.4	0.1	0.98
StatoilHydro ASA	STO	32.01	1.5	1.5	1.5		0.5	1.0	-	0.93
Petro-Canada	PCZ	53.12	1.5	1.5	1.5	0.2	0.0	1.1	0.2	0.85
Lukoil Oil Company	LUKOY	83.10	6.8	6.1	6.1			4.4	1.7	0.70
<b>Independent Natural Gas and Oil - Large Cap</b>										
XTO Energy Inc.	XTO	63.77	4.5	4.5		3.7		0.9		0.92
Encana Corporation	ECA	63.99	4.3	4.5	4.5	3.0		1.2	0.4	0.91
Occidental Petroleum Corp	OXY	65.20	3.3	3.0		0.4	0.0	2.3	0.3	0.86
Anadarko Petroleum Corp	APC	56.11	2.1	3.0		1.7		1.2	0.1	0.84
EOG Resources	EOG	78.39	6.6	6.1		4.8	0.2	1.1		0.78
Devon Energy Corporation	DVN	85.54	5.7	6.1		3.4		2.7		0.71
<b>Independent Natural Gas and Oil - Small Cap</b>										
Berry Petroleum Company	BRY	42.74	1.4	1.5		0.4		1.1		0.98
Encore Acquisition Comp	EAC	33.02	2.0	3.0		0.5		2.5		0.74
Energy Partners Ltd.	EPL	14.17	1.6	3.0		1.5		1.5		0.57
Cimarex Energy Company	XEC	38.12	3.0	3.0		2.1		1.0		0.55
<b>Income</b>										
Penn West Energy Trust	PWE	31.95	2.8	3.0	3.0	0.9		2.1		0.91
Canadian Oil Sands Trust	COSWF	34.56	6.5	6.1	6.1	(0.6)		6.7		0.90
San Juan Basin Royalty Tr	SJT	35.19	7.1	6.1		6.1				0.88
Hugoton Royalty Trust	HGT	23.70	3.6	3.0		3.0				0.70
<b>Portfolio Composite</b>			<b>100</b>	<b>100</b>	<b>47</b>	<b>33</b>	<b>10</b>	<b>49</b>	<b>8</b>	<b>0.81</b>
Canada					18					
Russia					15					
Europe					11					
China					3					

Note: Percentages in the Portfolio Weight - EV column correspond to unlevered positions ranging from triple at 9.1% to half at 1.5%.

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

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
17-Oct	KMP	Kinder Morgan	A Little Corruption, American Style
15-Oct	PTR	PetroChina Company Limited	Stock Price Advance Carries Higher Risk
8-Oct	OGZPY	Gazprom	The Saudi Arabia of Natural Gas
2-Oct	COSWF	Canadian Oil Sands Trust	Operating Interruption
24-Sep	* CEO	CNOOC Ltd	Revise to Hold from Buy on Price
12-Sep	* LUKOY	Lukoil Oil Company	Emerging Oil Blue Chip
6-Sep	* SJT	San Juan Basin Royalty Trust	Mountains and Valleys
5-Sep	* COSWF	Canadian Oil Sands Trust	Record 375,000 Barrels Daily for August
29-Aug	* CEO	CNOOC Ltd	Making Money Offshore China
23-Aug	* PTR	PetroChina Company Limited	Price Controls Ease in 2007 Half
8-Aug	* EPL	Energy Partners, Ltd.	Oversold
3-Aug	* EOG	EOG Resources Inc.	Natural Gas with North Dakota Oil
3-Aug	* PWE	Penn West Energy Trust	High Return from Distributions
3-Aug	* IMO	Imperial Oil Limited	High Return from Stock Repurchase
2-Aug	* TOT	Total S.A.	Constructive Russo-French Interdependence
2-Aug	* BRY	Berry Petroleum	Rocky Mountain Constraints
1-Aug	* XEC	Cimarex Energy Company	Stable Volume
1-Aug	* DVN	Devon Energy Corporation	Volume Advances
1-Aug	* EAC	Encore Acquisition	Nice to be Oily
31-Jul	* MRO	Marathon Oil Corporation	Oil Sands Acquirer
31-Jul	* APC	Anadarko Petroleum Corporation	Transition Maturing
30-Jul	* STO	Statoil ASA	Norwegian Oil and Gas Champion
27-Jul	* CVX	Chevron Corporation	Oil and Downstream Vigor
26-Jul	* SU	Suncor Energy	Oil Sands Growth Stock
26-Jul	* XOM	Exxon Mobil Corporation	Steady Strength
26-Jul	* PCZ	Petro-Canada	Raise NPV to US\$65 a Share
26-Jul	* RDSA	Royal Dutch Shell plc	Downstream Benefit
25-Jul	* ECA	EnCana Corporation	Downstream Blessing
25-Jul	* COP	ConocoPhillips	Downstream Blessing
25-Jul	* BP	BP p.l.c.	Controversy Diminishing
24-Jul	* XTO	XTO Energy Inc.	Volume Growth in Underpriced Natural Gas
24-Jul	* OXY	Occidental Petroleum Corporation	Ready for Peak Oil Test
24-Jul	* NHY	Norsk Hydro ASA	Confidence in Aluminium
23-Jul	* HGT	Hugoton Royalty Trust	Paying Unitholders to Wait

**Meter Reader - A Weekly Analysis**

22-Oct		China Omen
15-Oct		The Black Swan
9-Oct	*	Oil Stocks Lead Natural Stocks
2-Oct	*	Peak Oil is Here

**Oil and Gas Income Stocks (previously Natural Gas and Oil Royalty Trusts) - A Weekly Analysis**

19-Oct		Optimum Price for Natural Gas
12-Oct		Caution in Buoyant Times
5-Oct	*	Linn Energy, LLC
28-Sep	*	Takeover Bid for PrimeWest Energy Trust

**Industry Ideas**

19-Sep	*	Flash	Alberta Royalty Panel Bomb
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