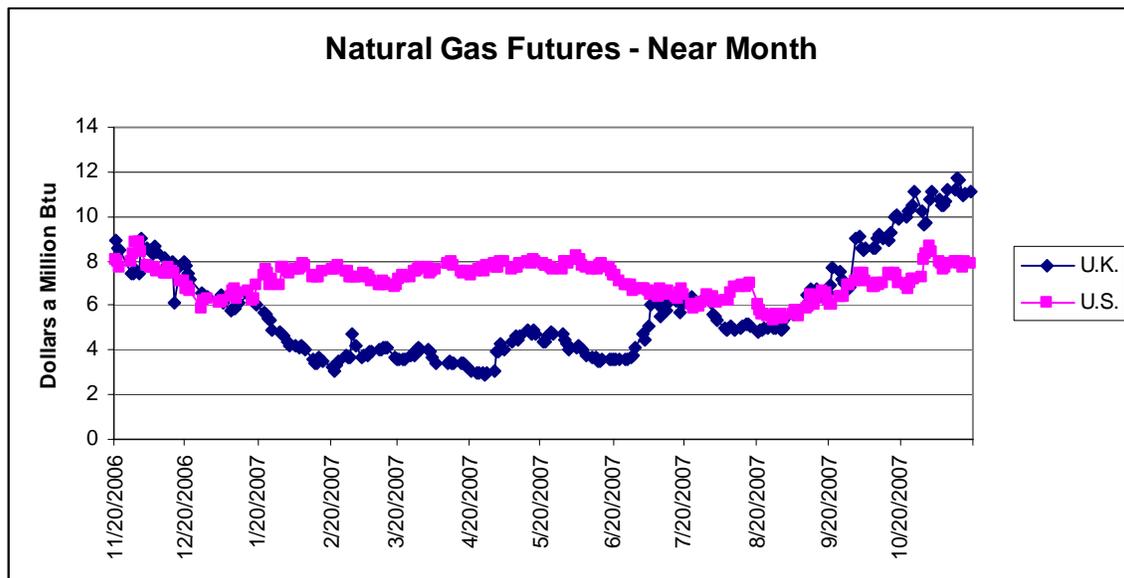


UK Natural Gas Futures Price Triples

Summary and Recommendation

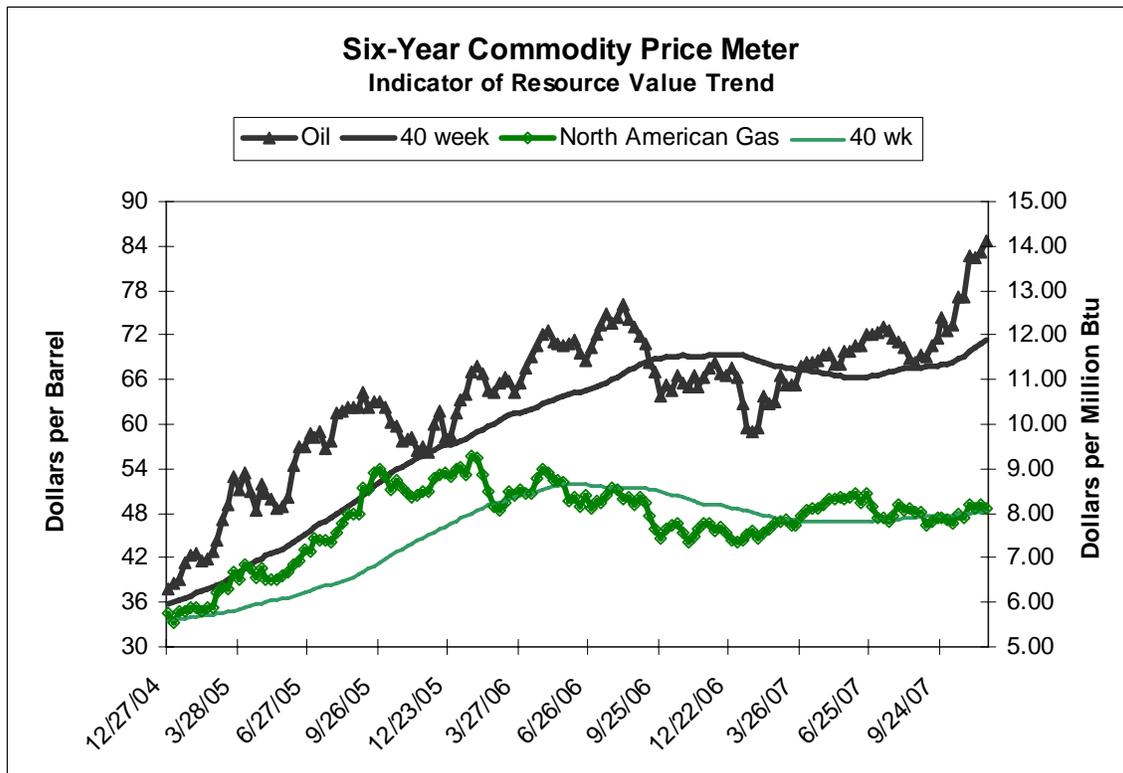
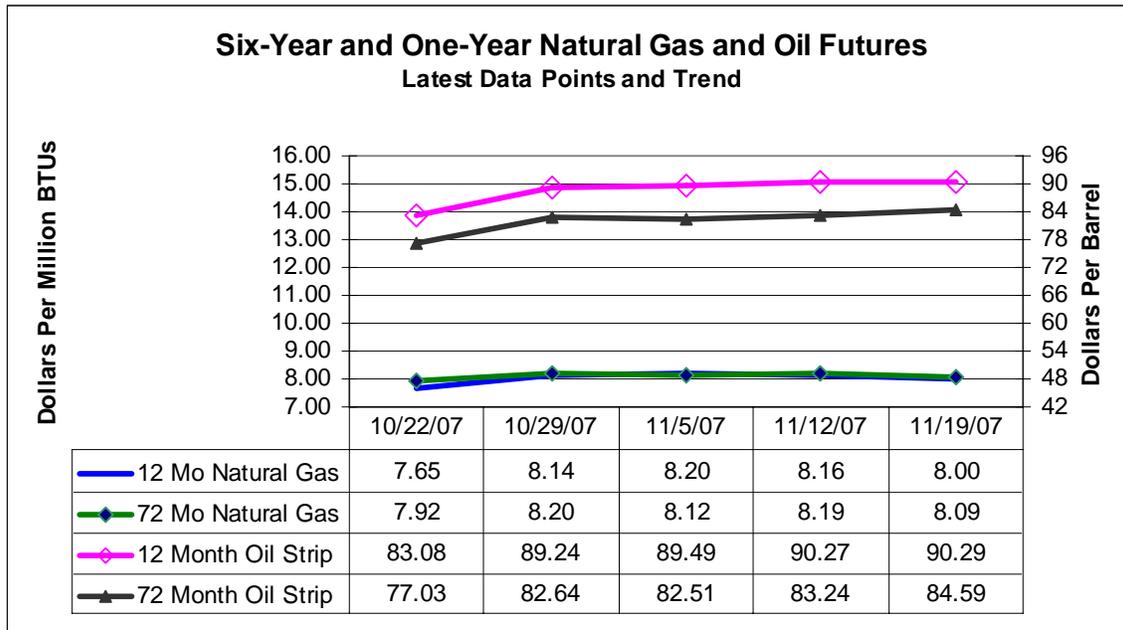
A reversal from a steep discount to a sharp premium for near month natural gas futures price in the U.K. relative to the U.S. may point the way upward for U.S. price (see chart [Natural Gas Futures – Near Month](#)). As the higher European price attracts incremental tankers of liquefied natural gas (LNG), U.S. price may rise as a result of less supply. Some investors apparently scan radio transmissions for the destination of LNG tankers such as BP’s *British Innovator* that *Bloomberg* reports is on its way from Trinidad to Europe rather than North America. In Asia, Japan is taking more LNG short-term to make up for nuclear power capacity lost to an earthquake while Taiwan signs up for more LNG long-term from Australia. Whether natural gas is delivered by pipeline or by tanker our buy-recommended producers are well represented in the opportunity. Additional natural gas stocks on our wish list to cover if we could find the time include Woodside (WOPEY), the Australian LNG producer, BG Group (BRGYY), the U.K. integrated natural gas pioneer, ENI (E), the Italian natural gas producer and major oil company, and Birchcliff Energy (BIR.TO) in Canada, among others. Just as quickly as the U.K. price tripled, U.S. natural gas could close the gap with oil, but the long-postponed timing remains uncertain (see chart [Six-Year and One-Year Natural Gas and Oil Futures](#)).

Kurt H. Wulff, CFA



Source: Bloomberg

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Oil and Gas Producers - Rank by McDep Ratio

	Symbol/ Rating		Price (US\$/sh) 19-Nov 2007	Shares (mm)	Market Cap (US\$m)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
Petrobras	PBR		100.96	2,200	222,110	105.00	0.10	0.97
BP plc	BP	B	70.31	3,177	223,000	75.00	0.18	0.95
Exxon Mobil Corporation	XOM	B	84.11	5,536	466,000	92.00	0.05	0.92
Total S.A.	TOT	B	79.12	2,273	180,000	89.00	0.14	0.90
Royal Dutch Shell plc	RDS-A	B	79.95	3,143	251,000	94.00	0.11	0.87
Gazprom (50%)	OGZPY	B	51.00	2,990	152,500	62.00	0.07	0.84
Chevron Corporation	CVX	B	85.03	2,206	188,000	105.00	0.09	0.83
ConocoPhillips	COP	B	77.13	1,644	127,000	112.00	0.19	0.75
<i>Total or Median</i>					<i>1,810,000</i>		<i>0.11</i>	<i>0.89</i>
Producer/Refiners - Large Cap								
Imperial Oil Limited (30%)	IMO	B	51.60	278	14,370	42.00	0.08	1.21
PetroChina Company Ltd (10%)	PTR	H	180.52	178	32,110	166.00	0.06	1.08
Norsk Hydro ASA	NHY	H	13.16	1,223	16,090	13.00	0.04	1.01
Suncor Energy	SU	B	101.56	472	47,940	105.00	0.09	0.97
Marathon Oil Corporation	MRO	H	56.33	719	40,500	62.00	0.20	0.93
StatoilHydro ASA (29%)	STO	B	29.80	928	27,650	35.00	0.14	0.87
Petro-Canada	PCZ	B	52.02	493	25,650	65.00	0.16	0.83
Lukoil Oil Company	LUKOY	B	84.80	832	71,000	121.00	0.03	0.71
<i>Total or Median</i>					<i>275,000</i>		<i>0.09</i>	<i>0.95</i>
Independent Natural Gas and Oil - Large Cap								
CNOOC Limited (34%)	CEO	H	155.25	149	23,170	108.00	-	1.44
Encana Corporation	ECA	B	66.78	756	50,500	72.00	0.19	0.94
Occidental Petroleum Corp.	OXY	B	68.01	837	56,900	77.00	0.06	0.89
XTO Energy Inc.	XTO	B	62.56	391	24,460	75.00	0.18	0.86
Canadian Natural Resources	CNQ		71.67	539	38,600	87.00	0.22	0.86
Anadarko Petroleum Corp.	APC	B	56.23	468	26,300	74.00	0.33	0.84
EOG Resources	EOG	B	83.98	247	20,800	102.00	0.06	0.83
Devon Energy Corporation	DVN	B	85.64	450	38,500	129.00	0.15	0.71
<i>Total or Median</i>					<i>279,000</i>		<i>0.16</i>	<i>0.86</i>
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	40.67	45	1,830	44.00	0.23	0.94
Encore Acquisition Company	EAC	B	34.27	54	1,860	54.00	0.31	0.75
Energy Partners Ltd.	EPL	B	13.18	32	420	38.00	0.34	0.57
Cimarex Energy Company	XEC	B	39.77	84	3,340	76.00	0.09	0.57
<i>Total or Median</i>					<i>7,500</i>		<i>0.27</i>	<i>0.66</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S	50.12	179	8,990	17.00	0.54	1.90
Kinder Morgan Management, LLC	KMR	S	48.67	63	3,070	17.00	0.54	1.86
Pengrowth Energy Trust	PGH		18.09	247	4,470	17.00	0.27	1.05
Canadian Oil Sands Trust	COSWF	B	34.70	479	16,620	39.00	0.07	0.90
San Juan Basin Royalty Trust	SJT	B	34.53	47	1,610	40.00	-	0.86
Penn West Energy Trust	PWE	B	27.94	243	6,780	34.00	0.22	0.86
Enerplus Resources Fund	ERF		40.96	129	5,300	52.00	0.14	0.82
Hugoton Royalty Trust	HGT	B	23.62	40	940	34.00	-	0.69
<i>Total or Median</i>					<i>47,800</i>		<i>0.18</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

	Symbol/ Rating	Price (US\$/sh) 19-Nov 2007	Adjustd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Mega Cap							
Petrobras	PBR	100.96	9.8	8.3	8.0	15	1.7
Gazprom (50%)	OGZPY B	51.00	24.6	9.5	8.0	12	0.8
BP plc	BP B	70.31	10.0	6.2	5.9	10	3.7
Exxon Mobil Corporation	XOM B	84.11	12.1	6.2	5.7	10	1.7
Total S.A.	TOT B	79.12	9.6	5.9	5.3	9	3.4
Chevron Corporation	CVX B	85.03	10.2	5.8	4.8	8	2.7
Royal Dutch Shell plc	RDS-A B	79.95	8.1	5.4	4.7	8	3.6
ConocoPhillips	COP B	77.13	10.7	6.0	4.5	7	2.1
	<i>Median</i>		<i>10.1</i>	<i>6.1</i>	<i>5.5</i>	<i>9</i>	<i>2.4</i>
Producer/Refiners - Large Cap							
Suncor Energy	SU B	101.56	26.6	9.4	9.1	16	0.4
Imperial Oil Limited (30%)	IMO B	51.60	13.6	6.6	8.0	13	0.7
PetroChina Company Ltd (10%)	PTR H	180.52	15.0	6.5	7.0	13	2.7
Norsk Hydro ASA	NHY H	13.16	-	6.5	6.5	11	1.4
Marathon Oil Corporation	MRO H	56.33	8.7	5.6	5.2	9	1.7
StatoilHydro ASA (29%)	STO B	29.80	7.7	5.4	4.7	10	5.6
Lukoil Oil Company	LUKOY B	84.80	17.8	6.3	4.5	7	1.8
Petro-Canada	PCZ B	52.02	6.4	5.0	4.1	8	1.0
	<i>Median</i>		<i>11.1</i>	<i>6.4</i>	<i>5.8</i>	<i>10</i>	<i>1.6</i>
Independent Natural Gas and Oil - Large Cap							
CNOOC Limited (34%)	CEO H	155.25	10.6	5.4	7.7	14	2.2
XTO Energy Inc.	XTO B	62.56	11.1	8.3	7.1	14	0.8
Canadian Natural Resources	CNQ B	71.67	8.2	7.8	6.7	13	0.5
Encana Corporation	ECA B	66.78	8.9	6.9	6.5	12	1.2
EOG Resources	EOG B	83.98	9.0	7.2	6.0	14	0.4
Anadarko Petroleum Corp.	APC B	56.23	11.4	6.8	5.7	13	1.3
Occidental Petroleum Corp.	OXY B	68.01	11.7	6.0	5.4	10	1.5
Devon Energy Corporation	DVN B	85.64	8.9	7.1	5.0	10	0.7
	<i>Median</i>		<i>9.8</i>	<i>7.0</i>	<i>6.2</i>	<i>13</i>	<i>1.0</i>
Independent Natural Gas and Oil - Small Cap							
Berry Petroleum Company	BRY B	40.67	9.9	6.6	6.2	11	0.7
Encore Acquisition Company	EAC B	34.27	14.5	6.9	5.2	13	-
Cimarex Energy Company	XEC B	39.77	7.9	6.3	3.5	8	0.4
Energy Partners Ltd.	EPL B	13.18	6.0	5.4	3.1	-	-
	<i>Median</i>		<i>8.9</i>	<i>6.4</i>	<i>4.4</i>	<i>11</i>	<i>0.2</i>
Income							
Kinder Morgan Energy Partners, L.P.	KMP S	50.12		7.9	15.0	32	7.0
Kinder Morgan Management, LLC	KMR S	48.67		7.9	14.7	31	7.2
San Juan Basin Royalty Trust	SJT B	34.53	10.2	12.0	10.3	13	7.9
Hugoton Royalty Trust	HGT B	23.62	13.8	10.4	7.2	10	9.8
Canadian Oil Sands Trust	COSWF B	34.70	20.9	8.0	7.2	8	10.3
Pengrowth Energy Trust	PGH	18.09	7.4	6.3	6.6	19	15.4
Enerplus Resources Fund	ERF	40.96	9.7	7.9	6.5	11	12.7
Penn West Energy Trust	PWE B	27.94	7.8	6.5	5.6	10	15.1
	<i>Median</i>		<i>9.9</i>	<i>7.9</i>	<i>7.2</i>	<i>12</i>	<i>10.1</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 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) 19-Nov 2007	Portfolio Weight		Non- U.S. HQ (%)	North Amer. Natural Gas (%)	Rest of World Natural Gas (%)	Oil Prod'n (%)	Down- stream (%)	McDep Ratio	
		Equity (%)	EV (%)							
Mega Cap										
BP plc	BP	70.31	3.1	3.3	3.3	0.3	0.3	2.1	0.6	0.95
Exxon Mobil Corporation	XOM	84.11	1.8	1.7		0.1	0.2	0.9	0.4	0.92
Total S.A.	TOT	79.12	3.3	3.3	3.3		1.0	1.7	0.6	0.90
Royal Dutch Shell plc	RDS-A	79.95	3.4	3.3	3.3	0.1	0.4	1.7	1.1	0.87
Gazprom	OGZPY	51.00	10.7	9.9	9.9		7.4	2.5		0.84
Chevron Corporation	CVX	85.03	3.5	3.3		0.2	0.2	2.2	0.8	0.83
ConocoPhillips	COP	77.13	5.8	6.6		1.1	0.4	3.5	1.6	0.75
Producer/Refiners - Large Cap										
Imperial Oil Limited	IMO	51.60	1.5	1.3	1.3	0.1		1.0	0.2	1.21
Suncor Energy	SU	101.56	1.4	1.3	1.3	0.0		1.2	0.1	0.97
StatoilHydro ASA	STO	29.80	1.6	1.7	1.7		0.6	1.1	-	0.87
Petro-Canada	PCZ	52.02	1.3	1.3	1.3	0.2	0.0	0.9	0.2	0.83
Lukoil Oil Company	LUKOY	84.80	7.5	6.6	6.6			4.7	1.9	0.71
Independent Natural Gas and Oil - Large Cap										
Encana Corporation	ECA	66.78	3.7	4.0	4.0	2.7		1.0	0.3	0.94
Occidental Petroleum Corj	OXY	68.01	3.6	3.3		0.4	0.0	2.5	0.3	0.89
XTO Energy Inc.	XTO	62.56	4.6	5.0		3.9		1.1		0.86
Anadarko Petroleum Corp	APC	56.23	2.4	3.3		1.9		1.3	0.1	0.84
EOG Resources	EOG	83.98	7.2	6.6		5.1	0.2	1.2		0.83
Devon Energy Corporatioi	DVN	85.64	6.2	6.6		3.7		2.9		0.71
Independent Natural Gas and Oil - Small Cap										
Berry Petroleum Company	BRY	40.67	1.5	1.7		0.4		1.2		0.94
Encore Acquisition Comp:	EAC	34.27	2.3	3.3		0.7		2.6		0.75
Energy Partners Ltd.	EPL	13.18	0.8	1.7		0.9		0.8		0.57
Cimarex Energy Company	XEC	39.77	3.3	3.3		2.3		1.0		0.57
Income										
Canadian Oil Sands Trust	COSWF	34.70	5.8	5.3	5.3	(0.5)		5.8		0.90
San Juan Basin Royalty Tr	SJT	34.53	7.8	6.6		6.6				0.86
Penn West Energy Trust	PWE	27.94	2.3	2.6	2.6	0.8		1.8		0.86
Hugoton Royalty Trust	HGT	23.62	3.9	3.3		3.3				0.69
Portfolio Composite										
			100	100	44	34	11	47	8	0.81
	Canada				16					
	Russia				17					
	Europe				12					

Note: Percentages in the Portfolio Weight - EV column correspond to unlevered positions ranging from triple at 9.9% to four-tenths at 1.3%.

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Index of Recent Research**Stock Ideas**

<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
11-Nov	PBR	Petrobras	Energy Mega Cap
9-Nov	PWE	Penn West Energy Trust	Light Oil Consolidator
8-Nov	PBR	Petrobras	Bonanza Offshore Brazil
7-Nov	XEC	Cimarex Energy Company	Timely Turn to Oil
7-Nov	DVN	Devon Energy Corporation	Oil Strength, Natural Gas Potential
7-Nov	EPL	Energy Partners, Ltd.	Management Scales Back
7-Nov	TOT	Total S.A.	Global Natural Gas Competitor
6-Nov	APC	Anadarko Petroleum Corporation	Natural Gas Resource Value
2-Nov	CVX	Chevron Corporation	A Bias to be Oilier
1-Nov	MRO	Marathon Oil Corporation	Oil Sands Deal Closed
1-Nov	CNQ	Canadian Natural Resources	Heavy Oil, Natural Gas and Oil Sands
1-Nov	XOM	Exxon Mobil Corporation	Energy Money Fund
31-Oct	COSWF	Canadian Oil Sands Trust	Oil Price Trumps Alberta Tax Hike
31-Oct	EAC	Encore Acquisition	Oil with Income Alternative in Encore Energy Partners
31-Oct	BRY	Berry Petroleum	Plans Master Limited Partnership (MLP)
30-Oct	IMO	Imperial Oil Limited	Oil Price Yes, Alberta Royalties No
30-Oct	NHY	Norsk Hydro ASA	Real Growth in Materials
30-Oct	CEO	CNOOC Ltd	Flourishing China Stock Market
29-Oct	EOG	EOG Resources Inc.	Natural Gas Sleeper
29-Oct	STO	StatoilHydro ASA	Shtokman Partner
26-Oct	PTR	PetroChina Company Limited	Revise to Hold from Buy on Price
25-Oct	ECA	EnCana Corporation	Political Cloud over Canada
25-Oct	SU	Suncor Energy	Political Pall over Canada
25-Oct	RDSA	Royal Dutch Shell plc	Healthy Business
25-Oct	PCZ	Petro-Canada	Political Pall over Canada
24-Oct	OXY	Occidental Petroleum Corporation	Preferred Operator in the Middle East
24-Oct	COP	ConocoPhillips	Low Stock Price for Strong Cash Flow
23-Oct	* XTO	XTO Energy Inc.	Raise Net Present Value to \$75 A Share
23-Oct	* BP	BP p.l.c.	Lower Net Present Value to \$75 A Share
17-Oct	* KMP	Kinder Morgan	A Little Corruption, American Style
8-Oct	* OGZPY	Gazprom	The Saudi Arabia of Natural Gas
12-Sep	* LUKOY	Lukoil Oil Company	Emerging Oil Blue Chip
6-Sep	* SJT	San Juan Basin Royalty Trust	Mountains and Valleys
23-Jul	* HGT	Hugoton Royalty Trust	Paying Unitholders to Wait

Meter Reader

20-Nov		Weekly	U.K. Natural Gas Futures Price Triples
13-Nov		Weekly	Fuel and Geography
6-Nov	*	Weekly	Desert Deep Throat
30-Oct	*	Weekly	\$90 Oil and Alberta Tax

Oil and Gas Income Stocks (previously Natural Gas and Oil Royalty Trusts)

16-Nov		Weekly	Natural Gas Fuels Electricity Growth
9-Nov		Weekly	Devon Reconsiders Partnership
2-Nov	*	Weekly	Penn West to Acquire Canetic
26-Oct	*	Weekly	McDep Ratio Opportunity in Hugoton

Industry Ideas

26-Oct	*	Alberta's New Royalty Framework	Gradually Reduce Canadian Weighting
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* Archived on www.mcdep.com

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