

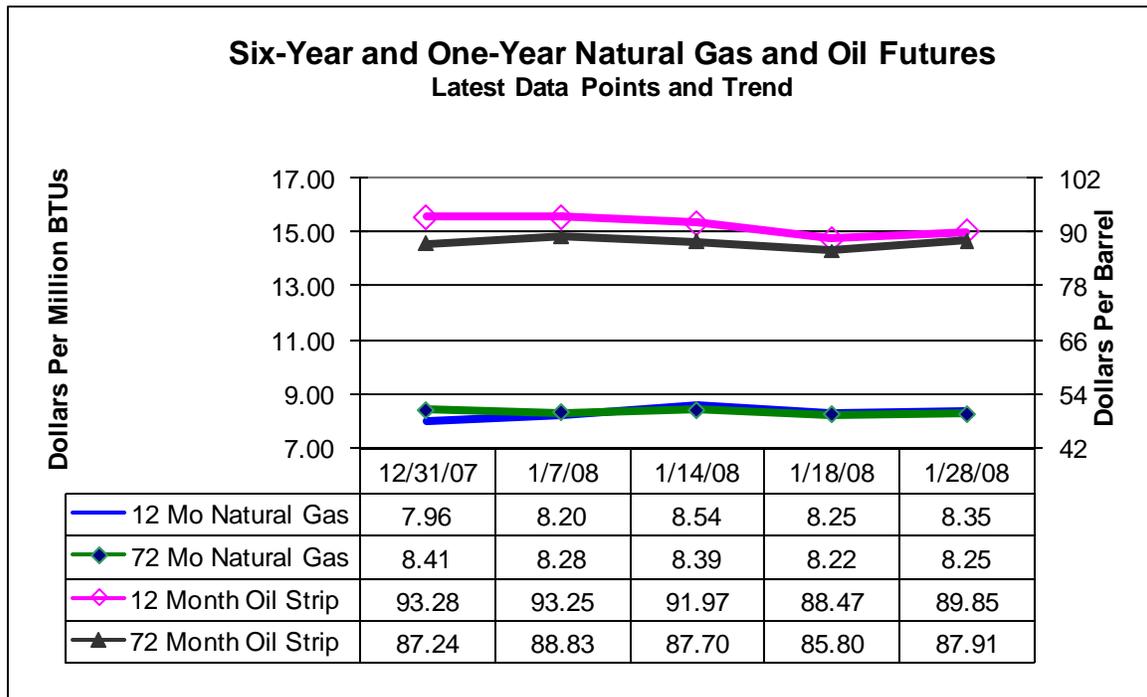


## Buy Large Cap Natural Gas

### Summary and Recommendation

Five buy-recommended, large cap, independent natural gas producers, **Anadarko Petroleum (APC)**, **Devon Energy (DVN)**, **Encana (ECA)**, **EOG Resources (EOG)** and **XTO Energy (XTO)** account for half of the North American portion of the 43% concentration of natural gas in the illustrative McDep Energy Portfolio (see page 4). Valuation is attractive at a low median McDep Ratio of 0.82 (see page 2). Present Value, the denominator of the McDep Ratio is supported by the relationship of reserve life, *Adjusted Reserves/Prod*, and cash flow multiple, *PV/Ebitda* (see page 3). We believe the long-term timing is good for buying in today's volatile market. Natural gas is the ultimate alternative energy. When the sun doesn't shine and the wind doesn't blow, we need natural gas. Until new plants are approved and built for clean coal and nuclear, we need natural gas. If we want to subsidize agriculture, we need natural gas to convert food crops to energy. To supplement oil that faces increasingly short supply, we need natural gas. Finally, if hydrogen is going to be the last clean fuel, it will likely be created from natural gas.

Kurt H. Wulff, CFA



## Meter Reader

### A Weekly Analysis of Energy Stocks Using the McDep Ratio

January 29, 2008



Oil and Gas Producers - Rank by McDep Ratio								
			Price			Net		
			(US\$/sh)		Market	Present	Debt/	
	Symbol/		28-Jan	Shares	Cap	Value	Present	McDep
		Rating	2008	(mm)	(US\$mm)	(US\$/sh)	Value	Ratio
<b>Mega Cap</b>								
Petrobras	PBR		110.02	2,200	242,040	122.00	0.09	0.91
Exxon Mobil Corporation	XOM	B	85.13	5,536	471,000	102.00	0.05	0.84
BP plc	BP	B	63.49	3,177	202,000	84.00	0.17	0.80
Total S.A.	TOT	B	73.23	2,273	167,000	100.00	0.13	0.77
Chevron Corporation	CVX	B	82.86	2,206	183,000	117.00	0.08	0.73
Royal Dutch Shell plc	RDS-A	B	72.75	3,143	229,000	104.00	0.10	0.73
Gazprom (50%)	OGZPY	B	50.10	2,945	147,500	72.00	0.06	0.72
ConocoPhillips	COP	B	76.41	1,612	123,000	124.00	0.18	0.69
<i>Total or Median</i>					1,765,000		0.09	0.75
<b>Producer/Refiners - Large Cap</b>								
Imperial Oil Limited (30%)	IMO	B	48.51	278	13,510	48.00	0.07	1.01
PetroChina Company Ltd (10%)	PTR	H	147.70	178	26,270	190.00	0.05	0.79
Marathon Oil Corporation	MRO	H	50.08	719	36,010	68.00	0.18	0.78
Suncor Energy	SU	B	90.03	473	42,580	122.00	0.08	0.76
Petro-Canada	PCZ	B	46.54	493	22,940	72.00	0.14	0.69
StatoilHydro ASA (29%)	STO	B	26.40	928	24,500	41.00	0.12	0.69
Lukoil Oil Company	LUKOY	B	70.50	826	58,000	134.00	0.02	0.54
<i>Total or Median</i>					224,000		0.08	0.76
<b>Independent Natural Gas and Oil - Large Cap</b>								
CNOOC Limited (34%)	CEO	H	144.57	149	21,580	125.00	-	1.16
Encana Corporation	ECA	B	63.82	756	48,200	75.00	0.18	0.88
XTO Energy Inc.	XTO	B	51.47	489	25,160	63.00	0.17	0.85
EOG Resources	EOG	B	85.41	247	21,100	106.00	0.06	0.82
Anadarko Petroleum Corp.	APC	B	56.58	468	26,500	82.00	0.31	0.79
Occidental Petroleum Corp.	OXY	B	64.57	837	54,100	86.00	0.05	0.76
Canadian Natural Resources	CNQ	B	62.56	539	33,700	99.00	0.19	0.70
Devon Energy Corporation	DVN	B	83.45	450	37,600	139.00	0.14	0.66
<i>Total or Median</i>					268,000		0.16	0.80
<b>Independent Natural Gas and Oil - Small Cap</b>								
Berry Petroleum Company	BRY	B	37.40	45	1,680	50.00	0.21	0.80
Encore Acquisition Company	EAC	B	31.21	54	1,690	60.00	0.29	0.66
Cimarex Energy Company	XEC	B	40.20	84	3,380	76.00	0.09	0.57
Energy Partners Ltd.	EPL	B	11.80	32	370	38.00	0.34	0.54
<i>Total or Median</i>					7,100		0.25	0.62
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S	56.05	179	10,060	17.00	0.56	2.01
Kinder Morgan Management, LLC	KMR	S	53.69	64	3,440	17.00	0.56	1.95
Pengrowth Energy Trust	PGH		17.50	247	4,320	19.00	0.24	0.94
San Juan Basin Royalty Trust	SJT	B	35.66	47	1,660	40.00	-	0.89
Penn West Energy Trust	PWE	B	26.55	280	7,430	37.00	0.28	0.80
Canadian Oil Sands Trust	COSWF	B	35.00	479	16,760	45.00	0.06	0.79
Enerplus Resources Fund	ERF		38.34	129	4,960	52.00	0.13	0.77
Hugoton Royalty Trust	HGT	B	25.05	40	1,000	34.00	-	0.74
<i>Total or Median</i>					49,600		0.19	0.84
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								

## Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

January 29, 2008



Oil and Gas Producers - Rank by EV/Ebitda								
			Price (US\$/sh)	Adjustd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	P/E	Divd or Distrib NTM
	Symbol/ Rating		28-Jan 2008	NTM	NTM	NTM	NTM	(%)
<b>Mega Cap</b>								
Petrobras	PBR		110.02	9.8	9.6	8.7	17	1.5
Gazprom (50%)	OGZPY	B	50.10	24.6	10.3	7.3	13	0.8
Exxon Mobil Corporation	XOM	B	85.13	12.1	6.9	5.8	10	1.6
BP plc	BP	B	63.49	10.0	6.8	5.4	9	4.1
Total S.A.	TOT	B	73.23	9.6	6.5	5.0	8	3.7
Chevron Corporation	CVX	B	82.86	10.2	6.4	4.7	8	2.8
Royal Dutch Shell plc	RDS-A	B	72.75	8.1	6.0	4.3	7	4.0
ConocoPhillips	COP	B	76.41	10.6	6.3	4.3	7	2.1
	<i>Median</i>			10.1	6.7	5.2	9	2.5
<b>Producer/Refiners - Large Cap</b>								
Suncor Energy	SU	B	90.03	23.8	11.1	8.4	15	0.4
Imperial Oil Limited (30%)	IMO	B	48.51	14.0	7.8	7.9	13	0.7
PetroChina Company Ltd (10%)	PTR	H	147.70	15.0	7.5	5.9	11	3.3
Marathon Oil Corporation	MRO	H	50.08	8.7	6.0	4.7	8	1.9
StatoilHydro ASA (29%)	STO	B	26.40	7.7	6.2	4.3	9	6.3
Petro-Canada	PCZ	B	46.54	6.4	5.5	3.8	7	1.1
Lukoil Oil Company	LUKOY	B	70.50	18.4	6.9	3.7	6	2.2
	<i>Median</i>			14.0	6.9	4.7	9	1.9
<b>Independent Natural Gas and Oil - Large Cap</b>								
XTO Energy Inc.	XTO	B	51.47	11.1	8.7	7.4	14	0.9
CNOOC Limited (34%)	CEO	H	144.57	10.6	6.3	7.2	13	2.4
Encana Corporation	ECA	B	63.82	8.9	7.2	6.3	12	1.3
EOG Resources	EOG	B	85.41	9.0	7.6	6.2	15	0.4
Canadian Natural Resources	CNQ	B	62.56	8.2	8.7	6.1	11	0.5
Anadarko Petroleum Corp.	APC	B	56.58	11.4	7.4	5.8	13	1.3
Occidental Petroleum Corp.	OXY	B	64.57	11.7	6.8	5.2	10	1.5
Devon Energy Corporation	DVN	B	83.45	8.9	7.6	5.0	10	0.7
	<i>Median</i>			9.8	7.5	6.2	12	1.1
<b>Independent Natural Gas and Oil - Small Cap</b>								
Berry Petroleum Company	BRY	B	37.40	9.9	7.4	5.9	10	0.8
Encore Acquisition Company	EAC	B	31.21	14.4	7.6	5.0	12	-
Cimarex Energy Company	XEC	B	40.20	7.9	6.4	3.6	8	0.4
Energy Partners Ltd.	EPL	B	11.80	6.0	5.5	3.0	-	-
	<i>Median</i>			8.9	6.9	4.3	10	0.2
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S	56.05		7.8	15.8	29	6.6
Kinder Morgan Management, LLC	KMR	S	53.69		7.8	15.3	28	6.9
San Juan Basin Royalty Trust	SJT	B	35.66	10.3	11.6	10.3	13	8.0
Canadian Oil Sands Trust	COSWF	B	35.00	23.2	10.5	8.3	10	9.3
Hugoton Royalty Trust	HGT	B	25.05	13.6	10.9	8.0	11	8.8
Pengrowth Energy Trust	PGH		17.50	7.4	6.8	6.4	17	15.0
Enerplus Resources Fund	ERF		38.34	9.7	7.9	6.1	10	12.8
Penn West Energy Trust	PWE	B	26.55	7.4	6.0	4.8	12	15.0
	<i>Median</i>			10.0	7.9	8.1	12	9.1
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								

# Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

January 29, 2008



McDep Energy Portfolio										
Composite of Buy Recommendations										
						North	Rest			
		Price			Non-	Amer.	of World			
		(US\$/sh)	Portfolio Weight		U.S.	Natural	Natural	Oil	Down-	McDep
		28-Jan	Equity	EV	HQ	Gas	Gas	Prod'n	stream	Ratio
	Symbol	2008	(%)	(%)	(%)	(%)	(%)	(%)	(%)	
<b>Mega Cap</b>										
Exxon Mobil Corporation	XOM	85.13	3.6	3.2		0.2	0.4	1.9	0.6	0.84
BP plc	BP	63.49	3.0	3.2	3.2	0.3	0.3	2.1	0.5	0.80
Total S.A.	TOT	73.23	3.2	3.2	3.2		1.0	1.7	0.6	0.77
Chevron Corporation	CVX	82.86	3.4	3.2		0.1	0.2	2.2	0.7	0.73
Royal Dutch Shell plc	RDS-A	72.75	3.3	3.2	3.2	0.1	0.4	1.7	1.0	0.73
Gazprom	OGZPY	50.10	10.4	9.6	9.6		6.3	3.2		0.72
ConocoPhillips	COP	76.41	5.6	6.4		1.0	0.5	3.5	1.4	0.69
<i>Total or Median</i>			32	32						0.73
<b>Producer/Refiners - Large Cap</b>										
Imperial Oil Limited	IMO	48.51	1.4	1.3	1.3	0.1		1.0	0.2	1.01
Suncor Energy	SU	90.03	1.4	1.3	1.3	0.0		1.2	0.1	0.76
Petro-Canada	PCZ	46.54	1.2	1.3	1.3	0.1	0.0	0.9	0.2	0.69
StatoilHydro ASA	STO	26.40	1.6	1.6	1.6		0.6	1.0	-	0.69
Lukoil Oil Company	LUKOY	70.50	7.3	6.4	6.4			4.7	1.7	0.54
<i>Total or Median</i>			13	12						0.69
<b>Independent Natural Gas and Oil - Large Cap</b>										
Encana Corporation	ECA	63.82	3.6	3.8	3.8	2.5		1.0	0.3	0.88
XTO Energy Inc.	XTO	51.47	4.5	4.8		3.6		1.2		0.85
EOG Resources	EOG	85.41	7.0	6.4		4.8	0.2	1.4		0.82
Anadarko Petroleum Corp.	APC	56.58	2.3	3.2		1.7		1.4	0.1	0.79
Occidental Petroleum Corp.	OXY	64.57	3.5	3.2		0.4	0.0	2.5	0.3	0.76
Canadian Natural Resources	CNQ	62.56	1.4	1.6	1.6	0.4		1.2		0.70
Devon Energy Corporation	DVN	83.45	6.0	6.4		3.3		3.0		0.66
<i>Total or Median</i>			28	29						0.79
<b>Independent Natural Gas and Oil - Small Cap</b>										
Berry Petroleum Company	BRY	37.40	1.4	1.6		0.4		1.2		0.80
Encore Acquisition Company	EAC	31.21	2.1	3.2		0.6		2.6		0.66
Cimarex Energy Company	XEC	40.20	3.2	3.2		2.2		1.0		0.57
Energy Partners Ltd.	EPL	11.80	0.7	1.6		0.8		0.8		0.54
<i>Total or Median</i>			7	10						0.62
<b>Income</b>										
San Juan Basin Royalty Trust	SJT	35.66	7.6	6.4		6.4				0.89
Penn West Energy Trust	PWE	26.55	2.0	2.6	2.6	0.8		1.7		0.80
Canadian Oil Sands Trust	COSWF	35.00	5.6	5.1	5.1	(0.5)		5.6		0.79
Hugoton Royalty Trust	HGT	25.05	3.8	3.2		3.2				0.74
<i>Total or Median</i>			19	17						0.79
<b>Portfolio Composite</b>										
			100	100	44	33	10	50	8	0.73
Canada					17					
Russia					16					
Europe					11					
Note: Percentages in the Portfolio Weight - EV column correspond to unlevered positions ranging from triple at 9.6% to four-tenths at 1.3%.										

## Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

January 29, 2008



### Index of Recent Research

#### Stock Ideas

<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
23-Jan	COP	ConocoPhillips	Cool under Fire
22-Jan	SU	Suncor Energy	Oil Sands for Taxable Investors
17-Jan	KMP	Kinder Morgan	Energy Infrastructure Fee Machine
11-Jan	* HGT	Hugoton Royalty Trust	Insider Buying (Income Weekly)
6-Jan	SJT	San Juan Basin Royalty Trust	\$18 a Million Btu for LNG
4-Jan	* COSWF	Canadian Oil Sands Trust	\$100 Oil Gem (Income Weekly)
14-Dec	* LUKOY	Lukoil Oil Company	Our Favorite Russian Oil Stock
6-Dec	* OGZPY	Gazprom	Natural Gas Price Marching Up
28-Nov	* CNQ	Canadian Natural Resources	New Buy Recommendation
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	* 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	* 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
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

#### Meter Reader

29-Jan		Weekly	Buy Large Cap Natural Gas
22-Jan		Weekly	Small Caps on Sale
15-Jan	*	Weekly	Price Momentum in Six-Year Natural Gas
8-Jan	*	Weekly	\$18 LNG, \$8 Nymex

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

25-Jan		Weekly	False Alarm
20-Jan		Weekly	Thriving in Debt-Stressed Market
11-Jan	*	Hugoton Royalty Trust	Insider Buying
4-Jan	*	Canadian Oil Sands Trust	\$100 Oil Gem

\* Archived on [www.mcdep.com](http://www.mcdep.com)

## ***Meter Reader***

*A Weekly Analysis of Energy Stocks Using the McDep Ratio*  
January 29, 2008



**Disclaimer:** This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

McDep does no investment banking business. McDep is not paid by covered companies including revenue from advertising, trading, consulting, subscriptions or research service. McDep shall not own more than 1% of outstanding stock in a covered company. No one at McDep is on the Board of Directors at a covered company nor is anyone at a covered company on the Board of Directors of McDep.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

**Certification:** I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

**Research Methodology/Ratings Description:** McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the forty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.