



# Meter Reader Flash

Analysis of Energy Stocks Using the McDep Ratio

September 5, 2008

## Suspend Buy Recommendations

### Summary and Recommendation

We like the fundamental outlook for oil and gas stocks, but we do not like the recent change in stock price momentum and the financial market backdrop. As a result, we are suspending all buy recommendations. Our continuing McDep Ratio analysis tells the same positive overall message as well as providing differentiation by stock that investors may use in the context of particular situations (see table, page 2, [Rank by McDep Ratio](#)). We are comfortable that \$100 a barrel is a reasonable price for estimating Present Value, the denominator of the McDep Ratio, at the same time we may not be raising it for awhile. Appreciation potential to a McDep Ratio of 1.0 may take longer than a year and the pattern may be up and down. We expect to reintroduce buy recommendations gradually on an individual basis. Meanwhile, most of the price trends for stocks and the commodity are down as defined by comparison to the 200-day or 40-week average. The trends could turn positive overnight, but usually take longer. Conservatively, it would be nice to see a stabilization of the downtrend for awhile to have confidence in the prospects for a new uptrend from a price chart point of view.

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**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.

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**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.



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Oil and Gas Producers - Rank by McDep Ratio								
			Price			Net		
			(US\$/sh)		Market	Present	Debt/	
	Symbol/		5-Sep	Shares	Cap	Value	Present	
	Rating		2008	(mm)	(US\$m)	(US\$/sh)	Value	
							McDep	
							Ratio	
<b>Mega Cap</b>								
Exxon Mobil Corporation	XOM		75.32	5,261	396,000	118.00	0.05	0.66
Chevron Corporation	CVX		79.51	2,206	175,000	135.00	0.09	0.62
Petrobras	PBR		43.52	4,387	190,920	75.00	0.10	0.62
BP plc	BP		53.25	3,137	167,000	104.00	0.17	0.60
ConocoPhillips	COP		74.67	1,555	116,000	150.00	0.17	0.58
Royal Dutch Shell plc	RDS-A		61.83	3,095	191,000	120.00	0.11	0.57
Total S.A.	TOT		63.64	2,253	143,000	125.00	0.09	0.55
Gazprom (50%)	OGZPY		34.89	2,865	100,000	88.00	0.09	0.45
	<i>Total or Median</i>				1,479,000		0.09	0.59
<b>Producer/Refiners - Large Cap</b>								
BG Group plc	BRGXF		18.83	3,384	63,720	28.00	0.07	0.70
Marathon Oil Corporation	MRO		42.92	714	30,640	70.00	0.21	0.69
Imperial Oil Limited (30%)	IMO		43.42	269	11,660	65.00	0.05	0.68
Suncor Energy	SU		48.24	953	45,970	75.00	0.08	0.67
PetroChina Company Ltd (14%)	PTR		117.21	257	30,160	220.00	0.04	0.55
StatoilHydro ASA (29%)	STO		25.30	928	23,480	52.00	0.13	0.55
Petro-Canada	PCZ		39.28	484	19,010	90.00	0.11	0.50
Lukoil Oil Company	LUKOY		65.05	839	55,000	170.00	0.03	0.40
	<i>Total or Median</i>				280,000		0.08	0.61
<b>Independent Natural Gas and Oil - Large Cap</b>								
CNOOC Limited (34%)	CEO		131.76	152	20,060	180.00	-	0.73
Encana Corporation	ECA		66.29	751	49,800	100.00	0.19	0.73
EOG Resources	EOG		93.88	251	23,600	140.00	0.07	0.69
Anadarko Petroleum Corp.	APC		57.17	471	26,900	100.00	0.27	0.69
Canadian Natural Resources	CNQ		75.67	541	40,900	124.00	0.18	0.68
Chesapeake Energy Corporation	CHK		43.54	550	23,950	80.00	0.26	0.66
XTO Energy Inc.	XTO		47.10	580	27,320	88.00	0.19	0.62
Occidental Petroleum Corp.	OXY		72.09	826	59,500	120.00	0.06	0.62
Devon Energy Corporation	DVN		93.78	450	42,200	170.00	0.10	0.60
	<i>Total or Median</i>				314,000		0.18	0.68
<b>Independent Natural Gas and Oil - Small Cap</b>								
Birchcliff Energy Ltd. (US\$)	BIR.TO		10.12	117	1,180	14.00	0.10	0.75
Encore Acquisition Company	EAC		48.18	52	2,520	75.00	0.28	0.74
Berry Petroleum Company	BRY		36.61	46	1,670	65.00	0.37	0.73
Energy Partners Ltd.	EPL		9.83	32	320	30.00	0.39	0.59
Cimarex Energy Company	XEC		49.14	86	4,210	100.00	0.06	0.52
	<i>Total or Median</i>				9,900		0.28	0.73
<b>Income</b>								
San Juan Basin Royalty Trust	SJT		38.15	47	1,780	48.00	-	0.80
Pengrowth Energy Trust	PGH		16.56	248	4,110	24.00	0.26	0.77
Canadian Oil Sands Trust	COSWF		42.86	479	20,550	57.00	0.04	0.76
Penn West Energy Trust	PWE		26.64	380	10,120	40.00	0.26	0.75
Enerplus Resources Fund	ERF		40.62	165	6,680	63.00	0.13	0.69
Hugoton Royalty Trust	HGT		28.05	40	1,120	42.00	-	0.67
	<i>Total or Median</i>				44,400		0.08	0.76
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								
Estimated present value presumes a long-term price for oil of US\$100 a barrel and natural gas, \$14 a million btu.								