



# Meter Reader

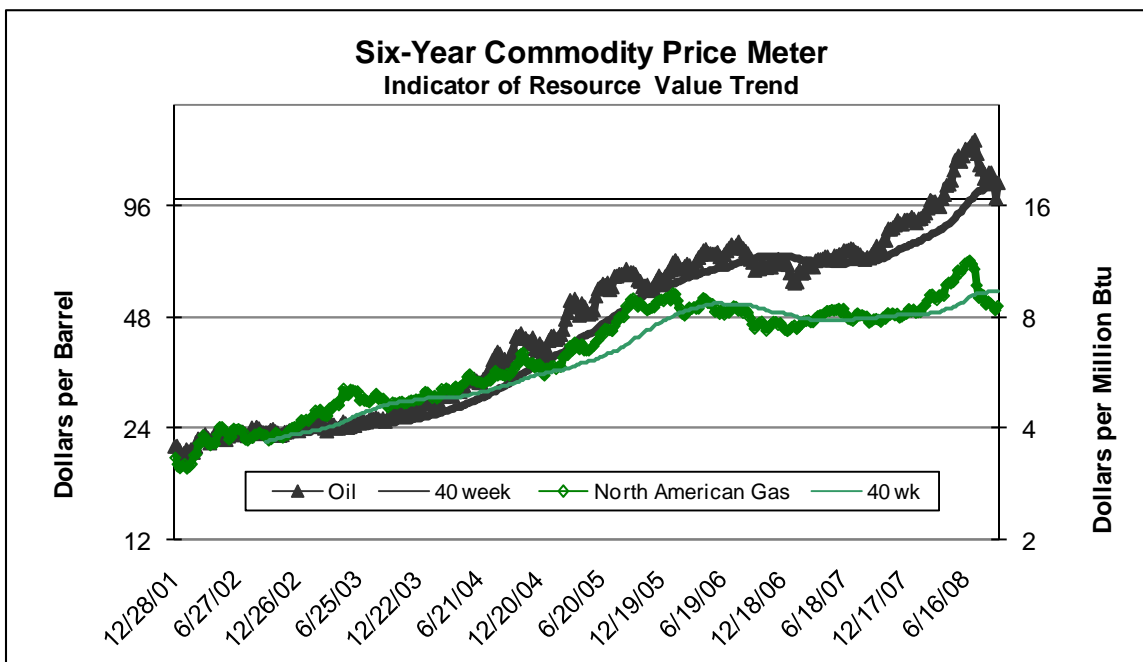
A Weekly Analysis of Energy Stocks Using the McDep Ratio  
September 23, 2008

## Storm Tested

### Summary and Recommendation

Five buy recommendations, **ConocoPhillips (COP)**, **StatoilHydro (STO)**, **PetroChina (PTR)**, **Devon Energy (DVN)** and **Canadian Oil Sands Trust (COSWF)** are financially strong, geographically diverse and well-represented in North American Natural Gas, Rest of World Natural Gas, Oil Production and Downstream (see table [McDep Energy Portfolio](#)). Related stocks in each group that have low McDep Ratios and low debt could substitute for, or supplement, the buys. Amidst the storm of change for financial companies, recommended oil and gas stocks meet the test of growth, inflation protection and deflation resistance. We define growth as a 7% real return on investment expected for stocks priced at a McDep Ratio of 1.0. By definition, real assets, such as oil and gas, offer inflation protection. Low debt offers deflation resistance. The schizophrenic market seems to worry about the dollar or inflation one day only to worry about economic decline or deflation the next day. More inflation is likely to be the cost as our political leaders seem determined to avoid deflation. Sound investments are likely to be rewarding for the patient. Meanwhile, six-year oil price has rebounded to match the 40-week average at \$110 a barrel though that is hard to see on the chart below designed to show more time perspective. The recent change is more obvious in the five-week history in the chart on page 6.

Kurt H. Wulff, CFA





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McDep Energy Portfolio										
Geographic Domicile and Business Segments										
	Symbol/Rating	Price (US\$/sh)	EV/ Market Cap	Enterprise Value (\$mm)	Present Value by Segment (%)					McDep Ratio
					North Amer.	Rest of World	Oil Prod'n	Down- stream		
<b>U.S. Integrated</b>										
Exxon Mobil Corporation	XOM	78.88	1.08	449,000	7	17	57	20		0.69
Chevron Corporation	CVX	87.33	1.14	220,000	5	8	75	12		0.68
Marathon Oil Corporation	MRO	41.31	1.44	42,500	8	6	66	20		0.67
ConocoPhillips	COP	B	77.72	1.39	169,000	15	7	59	19	0.60
<i>Total or Median *</i>		13%	33%	881,000						0.68
<b>Europe</b>										
BG Group	BRGXF	21.82	1.10	81,300		23	58	20		0.80
BP plc	BP	55.16	1.40	242,000	9	10	70	11		0.61
StatoilHydro ASA (29%)	STO	B	27.23	1.27	32,200		38	62		0.58
Royal Dutch Shell plc	RDS-A	63.60	1.24	244,000	3	16	55	26		0.58
Total S.A.	TOT	65.57	1.19	176,000		17	68	15		0.57
<i>Total or Median *</i>		11%	29%	776,000						0.58
<b>Brazil/China/Russia</b>										
CNOOC Limited (34%)	CEO	127.02	1.00	19,300		9	91			0.71
Petrobras	PBR	48.04	1.17	246,000			85	8		0.68
PetroChina Company Ltd (14%)	PTR	B	109.75	1.09	30,900		9	80	12	0.52
Gazprom (50%)	OGZPY	33.40	1.26	120,000			81	19		0.43
Lukoil Oil Company	LUKOY	68.60	1.07	61,600				66	34	0.42
<i>Total or Median *</i>		18%	18%	478,000						0.52
<b>U.S. Independent</b>										
San Juan Basin Royalty Trust	SJT	39.23	1.00	1,830	100					0.82
Berry Petroleum Company	BRY	40.58	1.95	3,610	38		62			0.76
Encore Acquisition Company	EAC	48.61	1.59	4,040	17		83			0.75
Hugoton Royalty Trust	HGT	29.75	1.00	1,190	100					0.71
EOG Resources	EOG	95.68	1.10	26,500	69	5	26			0.70
Occidental Petroleum Corp.	OXY	81.24	1.09	72,800	12	1	81	6		0.69
Anadarko Petroleum Corp.	APC	56.47	1.65	44,000	51		46	3		0.68
XTO Energy Inc.	XTO	52.44	1.39	42,400	74		26			0.67
Devon Energy Corporation	DVN	B	102.25	1.19	54,600	55		45		0.64
Chesapeake Energy Corporation	CHK	40.89	1.70	38,200	84		16			0.64
Energy Partners Ltd.	EPL	11.14	2.70	970	38		62			0.62
Cimarex Energy Company	XEC	51.35	1.13	4,990	63		37			0.55
<i>Total or Median *</i>		41%	11%	295,000						0.69
<b>Canada</b>										
Pengrowth Energy Trust	PGH	16.70	1.53	6,330	33		67			0.78
Encana Corporation	ECA	71.86	1.32	71,300	69		25	6		0.77
Canadian Oil Sands Trust	COSWF	B	41.93	1.06	21,400			100		0.75
Penn West Energy Trust	PWE	26.08	1.55	15,300	31		69			0.74
Birchcliff Energy Ltd. (US\$)	BIR.TO	9.87	1.16	1,330	69		31			0.73
Canadian Natural Resources	CNQ	81.73	1.35	59,500	27		73			0.72
Imperial Oil Limited (30%)	IMO	44.65	1.08	12,900	6		81	13		0.70
Enerplus Resources Fund	ERF	40.20	1.24	8,180	48		52			0.69
Suncor Energy	SU	48.09	1.15	52,500	3		93	4		0.67
Petro-Canada	PCZ	36.22	1.32	23,100	11	3	73	13		0.47
<i>Total or Median *</i>		17%	10%	272,000						0.73
<b>Composite</b>										
<i>Present Value Weighting</i>		100%	100%	2,702,000	11	14	61	13		0.63
<i>Equal Weighting</i>					29	7	57	7		0.66
<i>Former Recommended Wtg.</i>					31	11	51	7		
* Percentages in Symbol column refer to former recommended weightings. Percentages in Price column refer to current market Enterprise Value weightings.										



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Oil and Gas Producers - Rank by McDep Ratio								
			Price			Net		
			(US\$/sh)			Market	Debt/	
	Symbol/		22-Sep	Shares	Market	Present	Present	McDep
	Rating		2008	(mm)	Cap	Value	Value	Ratio
					(US\$m)	(US\$/sh)		
<b>Mega Cap</b>								
Exxon Mobil Corporation	XOM		78.88	5,261	415,000	118.00	0.05	0.69
Chevron Corporation	CVX		87.33	2,206	193,000	135.00	0.09	0.68
Petrobras	PBR		48.04	4,387	210,750	75.00	0.10	0.68
BP plc	BP		55.16	3,137	173,000	104.00	0.17	0.61
ConocoPhillips	COP	B	77.72	1,555	121,000	150.00	0.17	0.60
Royal Dutch Shell plc	RDS-A		63.60	3,095	197,000	120.00	0.11	0.58
Total S.A.	TOT		65.57	2,253	148,000	125.00	0.09	0.57
Gazprom (50%)	OGZPY		33.40	2,865	95,700	88.00	0.09	0.43
<i>Total or Median</i>					<i>1,553,000</i>		<i>0.09</i>	<i>0.61</i>
<b>Producer/Refiners - Large Cap</b>								
BG Group plc	BRGXF		21.82	3,384	73,840	28.00	0.07	0.80
Imperial Oil Limited (30%)	IMO		44.65	269	11,990	65.00	0.05	0.70
Marathon Oil Corporation	MRO		41.31	714	29,500	70.00	0.21	0.67
Suncor Energy	SU		48.09	953	45,830	75.00	0.09	0.67
StatoilHydro ASA (29%)	STO	B	27.23	928	25,270	52.00	0.13	0.58
PetroChina Company Ltd (14%)	PTR	B	109.75	257	28,240	220.00	0.04	0.52
Petro-Canada	PCZ		36.22	484	17,530	90.00	0.11	0.47
Lukoil Oil Company	LUKOY		68.60	839	58,000	170.00	0.03	0.42
<i>Total or Median</i>					<i>290,000</i>		<i>0.08</i>	<i>0.63</i>
<b>Independent Natural Gas and Oil - Large Cap</b>								
Encana Corporation	ECA		71.86	751	54,000	100.00	0.19	0.77
Canadian Natural Resources	CNQ		81.73	541	44,200	124.00	0.19	0.72
CNOOC Limited (34%)	CEO		127.02	152	19,340	180.00	-	0.71
EOG Resources	EOG		95.68	251	24,000	140.00	0.07	0.70
Occidental Petroleum Corp.	OXY		81.24	826	67,100	120.00	0.06	0.69
Anadarko Petroleum Corp.	APC		56.47	471	26,600	100.00	0.27	0.68
XTO Energy Inc.	XTO		52.44	580	30,420	88.00	0.19	0.67
Devon Energy Corporation	DVN	B	102.25	450	46,000	170.00	0.10	0.64
Chesapeake Energy Corporation	CHK		40.89	550	22,490	80.00	0.26	0.64
<i>Total or Median</i>					<i>334,000</i>		<i>0.19</i>	<i>0.69</i>
<b>Independent Natural Gas and Oil - Small Cap</b>								
Berry Petroleum Company	BRY		40.58	46	1,850	65.00	0.37	0.76
Encore Acquisition Company	EAC		48.61	52	2,540	75.00	0.28	0.75
Birchcliff Energy Ltd. (US\$)	BIR.TO		9.87	117	1,150	14.00	0.10	0.73
Energy Partners Ltd.	EPL		11.14	32	360	30.00	0.39	0.62
Cimarex Energy Company	XEC		51.35	86	4,400	100.00	0.06	0.55
<i>Total or Median</i>					<i>10,300</i>		<i>0.28</i>	<i>0.73</i>
<b>Income</b>								
San Juan Basin Royalty Trust	SJT		39.23	47	1,830	48.00	-	0.82
Pengrowth Energy Trust	PGH		16.70	248	4,140	24.00	0.27	0.78
Canadian Oil Sands Trust	COSWF	B	41.93	481	20,170	57.00	0.04	0.75
Penn West Energy Trust	PWE		26.08	380	9,910	40.00	0.26	0.74
Hugoton Royalty Trust	HGT		29.75	40	1,190	42.00	-	0.71
Enerplus Resources Fund	ERF		40.20	165	6,610	63.00	0.13	0.69
<i>Total or Median</i>					<i>43,900</i>		<i>0.09</i>	<i>0.75</i>
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.								



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Oil and Gas Producers - Rank by EV/Ebitda								
			Price (US\$/sh)	Adjustd Resrvs/ Prod	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
	Symbol/ Rating		22-Sep 2008	Prod NTM	Ebitda NTM	Ebitda NTM	P/E NTM	NTM (%)
<b>Mega Cap</b>								
Petrobras	PBR		48.04	10.4	9.6	6.5	12	1.8
Exxon Mobil Corporation	XOM		78.88	12.2	7.6	5.2	9	2.0
Gazprom (50%)	OGZPY		33.40	24.6	11.4	5.0	7	1.3
Chevron Corporation	CVX		87.33	9.5	7.3	4.9	8	3.0
ConocoPhillips	COP	B	77.72	10.9	7.4	4.4	7	2.4
BP plc	BP		55.16	10.0	7.2	4.4	6	6.1
Total S.A.	TOT		65.57	9.1	7.2	4.1	7	5.0
Royal Dutch Shell plc	RDS-A		63.60	7.6	6.6	3.9	6	5.0
	<i>Median</i>			10.2	7.3	4.7	7	2.7
<b>Producer/Refiners - Large Cap</b>								
BG Group plc	BRGXF		21.82	7.5	9.6	7.6	14	0.9
Suncor Energy	SU		48.09	21.7	10.0	6.7	11	0.4
Imperial Oil Limited (30%)	IMO		44.65	14.2	9.4	6.6	11	0.8
Marathon Oil Corporation	MRO		41.31	8.8	7.3	4.9	9	2.3
PetroChina Company Ltd (14%)	PTR	B	109.75	14.3	8.1	4.2	9	3.8
StatoilHydro ASA (29%)	STO	B	27.23	7.9	7.2	4.2	8	5.6
Petro-Canada	PCZ		36.22	7.2	6.4	3.0	5	2.1
Lukoil Oil Company	LUKOY		68.60	18.6	7.0	2.9	5	2.2
	<i>Median</i>			11.5	7.7	4.6	9	2.2
<b>Independent Natural Gas and Oil - Large Cap</b>								
Canadian Natural Resources	CNQ		81.73	9.0	10.3	7.5	17	0.5
Chesapeake Energy Corporation	CHK		40.89	11.1	11.6	7.4	13	0.7
XTO Energy Inc.	XTO		52.44	11.4	10.4	7.0	16	0.9
EOG Resources	EOG		95.68	9.8	9.0	6.3	15	0.6
Encana Corporation	ECA		71.86	8.6	8.1	6.2	21	2.2
Devon Energy Corporation	DVN	B	102.25	9.3	9.0	5.7	12	0.6
Anadarko Petroleum Corp.	APC		56.47	9.7	8.2	5.6	14	1.3
Occidental Petroleum Corp.	OXY		81.24	11.8	7.8	5.4	10	1.6
CNOOC Limited (34%)	CEO		127.02	9.3	6.7	4.7	8	3.7
	<i>Median</i>			9.7	9.0	6.2	14	0.9
<b>Independent Natural Gas and Oil - Small Cap</b>								
Birchcliff Energy Ltd. (US\$)	BIR.TO		9.87	7.1	12.9	9.4	338	-
Berry Petroleum Company	BRY		40.58	9.7	8.2	6.3	14	0.7
Encore Acquisition Company	EAC		48.61	13.9	8.4	6.3	12	-
Cimarex Energy Company	XEC		51.35	7.4	6.8	3.7	8	0.5
Energy Partners Ltd.	EPL		11.14	7.2	5.6	3.5	-	-
	<i>Median</i>			7.4	8.2	6.3	13	-
<b>Income</b>								
San Juan Basin Royalty Trust	SJT		39.23	10.6	13.7	11.2	14	7.3
Hugoton Royalty Trust	HGT		29.75	13.1	12.2	8.7	12	8.2
Canadian Oil Sands Trust	COSWF	B	41.93	21.6	10.5	7.9	9	11.9
Enerplus Resources Fund	ERF		40.20	9.6	8.4	5.8	19	13.6
Pengrowth Energy Trust	PGH		16.70	9.1	7.3	5.7	59	15.6
Penn West Energy Trust	PWE		26.08	7.5	7.3	5.4	12	15.1
	<i>Median</i>			10.1	9.5	6.8	13	12.7
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2009; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



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## Index of Recent Research

### Stock Ideas

<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
2-Sep	LUKOY	Lukoil Oil Company	Domestic Demand Up, Exports Down
27-Aug	* PTR	PetroChina Company Limited	Sacrifice Acknowledged
27-Aug	* CEO	CNOOC Ltd	Strong Operating and Financial Results
22-Aug	* HGT	Hugoton Royalty Trust	Long-Term Natural Gas Income (Income Weekly)
15-Aug	* SJT	San Juan Basin Royalty Trust	Long-Term Natural Gas Income (Income Weekly)
8-Aug	* PWE	Penn West Energy Trust	Distribution Yield 13% (Income Weekly)
7-Aug	* CNQ	Canadian Natural Resources	Horizon Slippage
6-Aug	* EAC	Encore Acquisition Company	Sale Called Off
6-Aug	* DVN	Devon Energy Corporation	John W. Nichols, 1914-2008
5-Aug	* XEC	Cimarex Energy Company	Ten Percent a Year Volume Growth
5-Aug	* APC	Anadarko Petroleum Corporation	Takeover Climate
4-Aug	* PTR	PetroChina Company Limited	Price Controls and Punitive Taxes
4-Aug	* CEO	CNOOC Ltd	Punitive Taxes and Price Controls
1-Aug	* CVX	Chevron Corporation	Income Model
1-Aug	* TOT	Total S.A.	Oil Sands Strategy
1-Aug	* STO	StatoilHydro ASA	High-Quality Offshore Producer
31-Jul	* IMO	Imperial Oil Limited	Resources Concentrated on Fewer Shares
31-Jul	* MRO	Marathon Oil Corporation	May Form Two Independent Companies
31-Jul	* XOM	Exxon Mobil Corporation	Income Model
31-Jul	* RDSA	Royal Dutch Shell plc	Rebuilding North American Natural Gas
30-Jul	* EOG	EOG Resources Inc.	Stellar Record Marred by Hedging
29-Jul	* COSWF	Canadian Oil Sands Trust	Distribution Increased 25%
29-Jul	* BP	BP p.l.c.	Control Dispute in Russia
25-Jul	* BRY	Berry Petroleum	A Bit of Haynesville Glamour
24-Jul	* ECA	EnCana Corporation	Two Growth Companies in One
24-Jul	* OXY	Occidental Petroleum Corporation	Largest Oil Producer in Texas
24-Jul	* SU	Suncor Energy	Operations Challenge
24-Jul	* PCZ	Petro-Canada	Construction Challenge
23-Jul	* COP	ConocoPhillips	Income Model
22-Jul	* XTO	XTO Energy Inc.	Stock Price Momentum Changes
1-Jul	* OGZPY	Gazprom	Cheap Natural Gas (Meter Reader)
22-May	* PBR	Petrobras	Raise Net Present Value to \$75 a Share

### Meter Reader

23-Sep		Weekly	
16-Sep		Weekly	Deep Water Brazil
9-Sep		Weekly	Now What?
2-Sep	*	Weekly	Obama for Natural Gas

### Oil and Gas Income Stocks

19-Sep		Weekly	Low Debt, No Hedging
12-Sep		Canadian Oil Sands Trust	Distribution Yield of 9.4% if \$80 Oil
5-Sep		Weekly	Long-Term Oil Price in Uptrend
29-Aug	*	Weekly	Opportunity in Long-Term Natural Gas Futures

### Industry Ideas

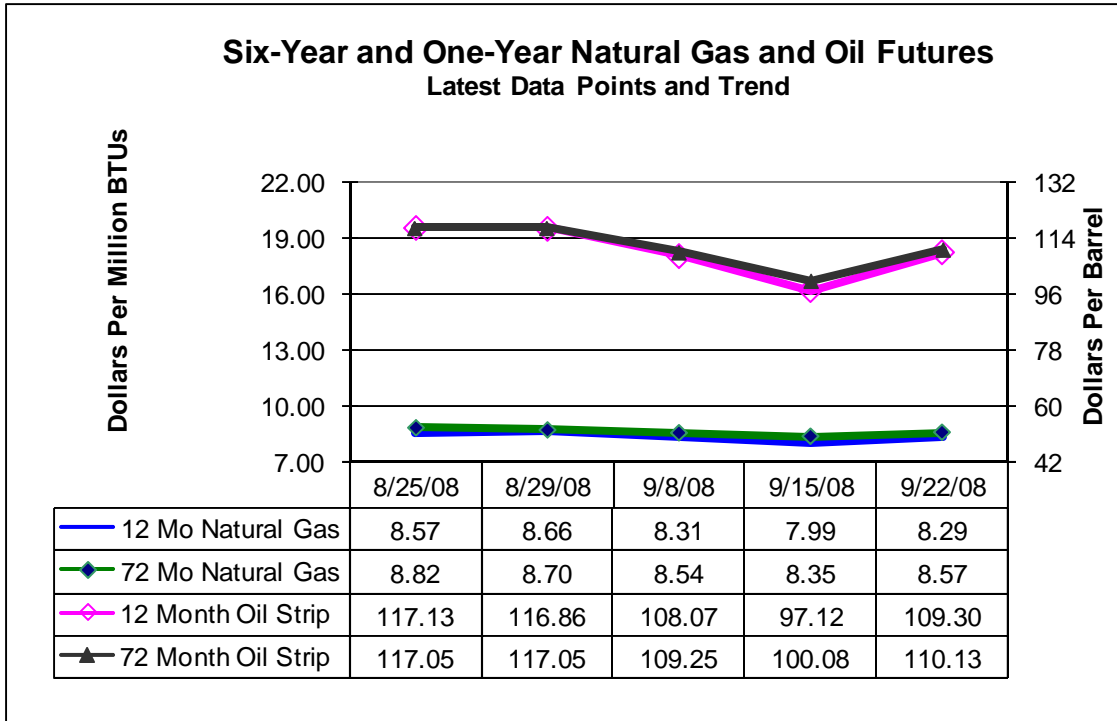
16-Sep		Flash	Reinstate Five Buy Recommendations
5-Sep		Flash	Suspend Buy Recommendations

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



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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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**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.