



# Meter Reader

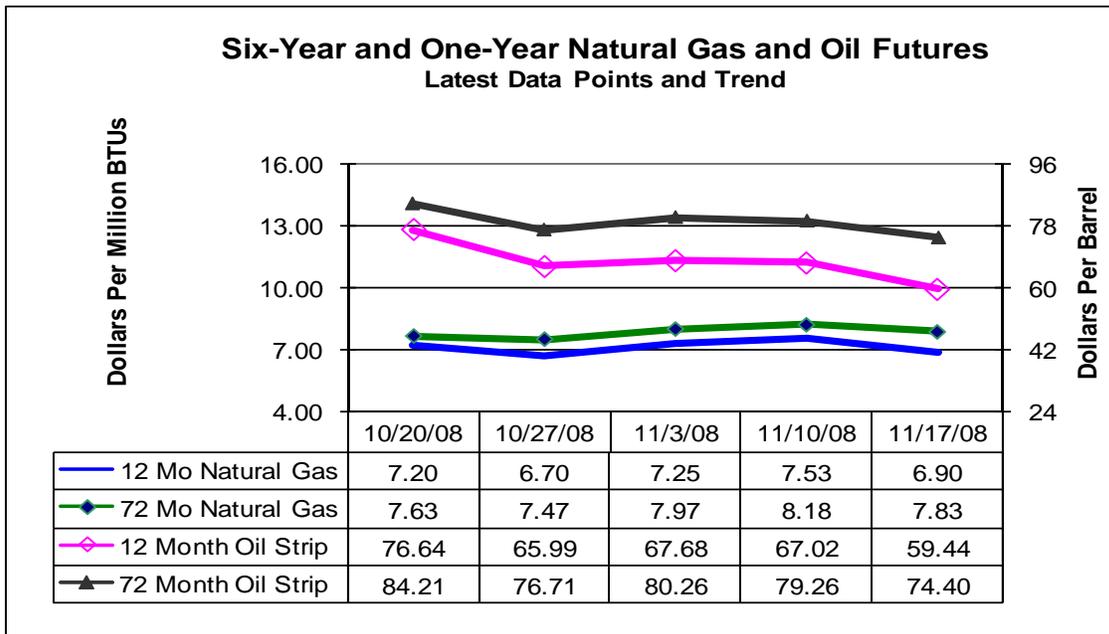
A Weekly Analysis of Energy Stocks Using the McDep Ratio  
November 18, 2008

## Natural Gas Buys – DVN, ECA, and XTO

### Summary and Recommendation

Seasonal and cyclical timing favors current purchase of Buy-recommended, large cap natural gas producers **Devon Energy (DVN)**, **Encana (ECA)** and **XTO Energy (XTO)**. The long-term natural gas prospects are also attractive for Hold-rated **Anadarko Petroleum (APC)** and **EOG Resources (EOG)** as well as for unrated **Chesapeake Energy (CHK)** rounding out a six stock peer group (see table page 2). Seasonally, stocks do better after October and energy investors can dream about a cold winter. Cyclically, stocks have not been lower compared to recent highs than at practically any time in the past 50 years. Yet, we restrain the number of buy recommendations while stock prices remain below 200-day averages. Through the latest quarter the natural gas peers have registered double digit annual volume growth (see chart Oil and Gas Production Volume, page 2). The trends are more similar on a per share basis while debt-adjustment introduces its own volatility (see chart Debt-Adjusted Volume per Share, page 2). At McDep Ratios of 0.64 to 0.79 the stocks are valued at natural gas prices well below \$10 a million btu that a McDep Ratio of 1.0 would signify. Six-year futures, after touching a low of \$7.47 a million btu in our weekly tabulation on the last Monday in October, are currently at \$7.83 (see chart Six-Year and One-Year Oil and Natural Gas Futures, below). A discount to the oil-equivalent price of nearly \$13 a million btu tells a good news tale of abundant supply of clean fuel on the North American continent. We like low McDep Ratio stocks concentrated on natural gas.

Kurt H. Wulff, CFA

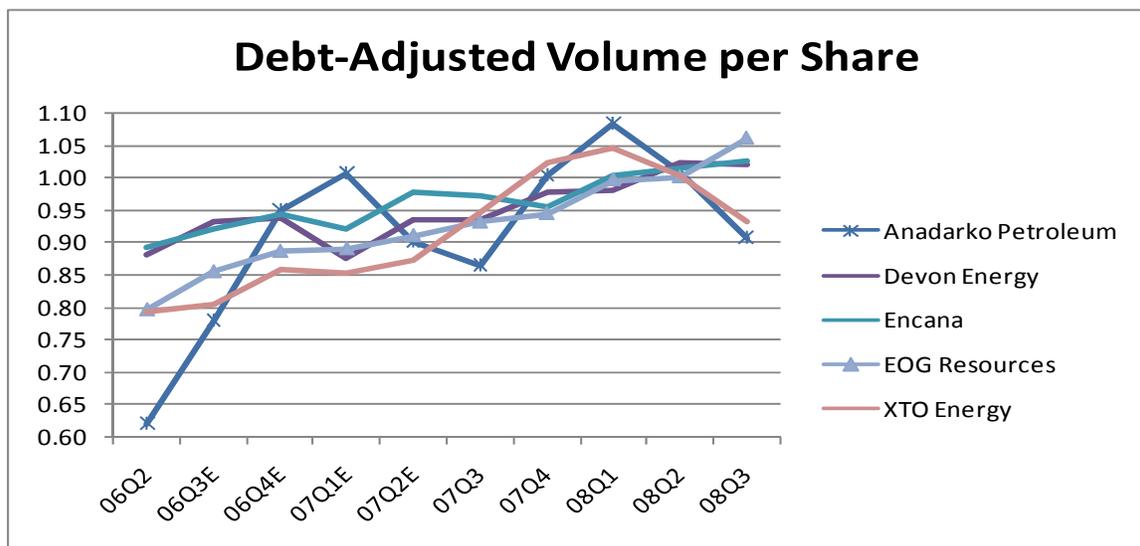
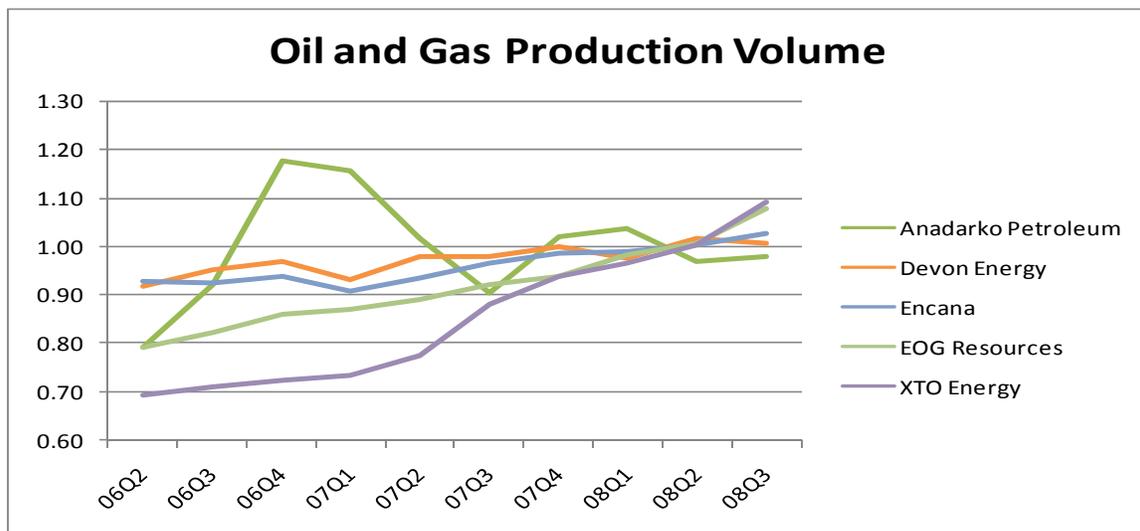




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	Symbol/Rating	Price (US\$/sh)	EV/ Market Cap	Enterprise Value (\$mm)	Present Value by Segment (%)					McDep Ratio				
					B = Buy H = Hold	17-Nov 2008	North Amer.	Rest of World	Oil Prod'n		Down- stream			
												71	7	22
EOG Resources	EOG	H	80.45	1.11	22,300	71	7	22		0.79				
Anadarko Petroleum Corp.	APC	H	37.68	1.93	34,000	54		42	4	0.73				
XTO Energy Inc.	XTO	B	33.27	1.64	30,200	77		23		0.67				
Chesapeake Energy Corp.	CHK		21.06	2.20	27,300	91		9		0.65				
Encana Corporation	ECA	B	42.10	1.44	45,400	68		29	4	0.65				
Devon Energy Corporation	DVN	B	69.67	1.19	37,100	64		36		0.64				





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McDep Energy Portfolio - Geographic Domicile and Business Segments											
						Present Value by Segment (%)					
	Symbol/Rating		Price (US\$/sh)	EV/ Market	Enterprise Value (\$mm)	North Amer. Natural Gas	Rest of World Natural Gas	Oil Prod'n	Down- stream	McDep Ratio	
	B = Buy H = Hold		17-Nov 2008	Cap							
<b>U.S. Integrated</b>											
Exxon Mobil Corporation	XOM	H	73.38	1.08	409,000	6	23	46	25	0.83	
Chevron Corporation	CVX	H	70.78	1.18	184,000	5	12	67	16	0.75	
Marathon Oil Corporation	MRO	H	24.83	1.66	29,400	7	7	60	26	0.64	
ConocoPhillips	COP	B	46.76	1.65	118,000	14	9	57	20	0.55	
<i>Total or Median *</i>	<i>38%</i>	<i>11%</i>	<i>9%</i>		<i>740,000</i>					<i>0.70</i>	
<b>Europe</b>											
BP plc	BP	H	43.79	1.50	206,000	8	14	62	15	0.69	
BG Group	BRGXF		12.10	1.10	44,800		29	46	25	0.66	
Royal Dutch Shell plc	RDS-A	H	48.85	1.29	193,000	3	23	44	31	0.59	
Total S.A.	TOT	B	49.21	1.15	127,000		25	52	23	0.58	
StatoilHydro ASA (29%)	STO	B	15.82	1.39	20,300		43	57		0.53	
<i>Total or Median *</i>	<i>30%</i>	<i>14%</i>	<i>18%</i>		<i>591,000</i>					<i>0.59</i>	
<b>Brazil/China/Russia</b>											
CNOOC Limited (34%)	CEO	H	75.70	1.00	11,500		12	88		0.56	
PetroChina Company Ltd (14%)	PTR	B	72.86	1.14	21,300		14	69	17	0.52	
Petrobras	PBR		21.32	1.39	130,000		13	77	10	0.51	
Gazprom (50%)	OGZPY	B	14.17	1.48	65,000		80	20		0.30	
Lukoil Oil Company	LUKOY	H	27.80	1.17	27,400			61	39	0.23	
<i>Total or Median *</i>	<i>13%</i>	<i>14%</i>	<i>18%</i>		<i>255,000</i>					<i>0.51</i>	
<b>U.S. Independent</b>											
San Juan Basin Royalty Trust	SJT	H	31.40	1.00	1,460	100				0.92	
EOG Resources	EOG	H	80.45	1.11	22,300	71	7	22		0.79	
Hugoton Royalty Trust	HGT	B	22.74	1.00	910	100				0.76	
Anadarko Petroleum Corp.	APC	H	37.68	1.93	34,000	54		42	4	0.73	
Encore Acquisition Company	EAC	H	25.99	2.03	2,820	18		83		0.71	
Energy Partners Ltd.	EPL		3.59	6.33	700	38		62		0.67	
XTO Energy Inc.	XTO	B	33.27	1.64	30,200	77		23		0.67	
Chesapeake Energy Corp.	CHK		21.06	2.20	27,300	91		9		0.65	
Devon Energy Corporation	DVN	B	69.67	1.19	37,100	64		36		0.64	
Berry Petroleum Company	BRY	H	12.82	3.38	1,960	42		58		0.61	
Occidental Petroleum Corp.	OXY	H	47.01	1.13	43,400	12	1	79	8	0.56	
Cimarex Energy Company	XEC	B	27.75	1.25	2,930	65		35		0.45	
<i>Total or Median *</i>	<i>11%</i>	<i>33%</i>	<i>36%</i>		<i>205,000</i>					<i>0.67</i>	
<b>Canada</b>											
Pengrowth Energy Trust	PGH		9.29	1.80	4,160	34		66		0.71	
Penn West Energy Trust	PWE	H	15.30	1.65	9,800	28		72		0.68	
Encana Corporation	ECA	B	42.10	1.44	45,400	68		29	4	0.65	
Imperial Oil Limited (30%)	IMO	H	29.60	1.08	8,500	5		80	16	0.64	
Enerplus Resources Fund	ERF		23.14	1.21	4,600	56		44		0.57	
Canadian Natural Resources	CNQ	H	38.02	1.53	31,600	26		74		0.55	
Canadian Oil Sands Trust	COSWF	B	20.85	1.09	11,000			100		0.52	
Birchcliff Energy Ltd. (US\$)	BIR.TO		4.36	1.30	670	74		26		0.50	
Suncor Energy	SU	H	19.02	1.33	24,200	3		92	5	0.41	
Petro-Canada	PCZ	H	19.62	1.46	13,800	11	3	70	16	0.38	
<i>Total or Median *</i>	<i>8%</i>	<i>28%</i>	<i>18%</i>		<i>154,000</i>					<i>0.56</i>	
<b>Composite</b>											
<i>Enterprise Value Weighting</i>	<i>100%</i>				<i>1,945,000</i>	<i>12</i>	<i>17</i>	<i>53</i>	<i>17</i>	<i>0.61</i>	
<i>Equal Weighting</i>		<i>100%</i>				<i>30</i>	<i>9</i>	<i>53</i>	<i>8</i>	<i>0.60</i>	
<i>Equal Weighted Buys</i>			<i>100%</i>			<i>35</i>	<i>16</i>	<i>43</i>	<i>6</i>	<i>0.56</i>	
* Percentages in Symbol column refer to current market Enterprise Value weightings; Rating column, equal weightings.											
* Percentages in Price column refer to equal weighted buys.											



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Oil and Gas Producers - Net Present Value and McDep Ratio								
			Price			Net		
	Symbol/Rating		(US\$/sh)	Shares	Market Cap	Present Value	Debt/ Present Value	McDep Ratio
	B = Buy	17-Nov	2008	(mm)	(US\$mm)	(US\$/sh)		
	H = Hold							
<b>U.S. Integrated</b>								
Exxon Mobil Corporation	XOM	H	73.38	5,160	379,000	90.00	0.06	0.83
Chevron Corporation	CVX	H	70.78	2,206	156,000	98.00	0.11	0.75
Marathon Oil Corporation	MRO	H	24.83	711	17,650	48.00	0.26	0.64
ConocoPhillips	COP	B	46.76	1,528	71,000	109.00	0.22	0.55
<i>Total or Median</i>					624,000		0.17	0.70
<b>Europe</b>								
BP plc	BP	H	43.79	3,124	137,000	74.00	0.23	0.69
BG Group plc	BRGXF		12.10	3,382	40,920	19.00	0.06	0.66
Royal Dutch Shell plc	RDS-A	H	48.85	3,080	151,000	92.00	0.13	0.59
Total S.A.	TOT	B	49.21	2,244	110,000	90.00	0.07	0.58
StatoilHydro ASA (29%)	STO	B	15.82	924	14,620	35.00	0.15	0.53
<i>Total or Median</i>					454,000		0.13	0.59
<b>Brazil/China/Russia</b>								
CNOOC Limited (34%)	CEO	H	75.70	152	11,530	135.00	-	0.56
PetroChina Company Ltd (14%)	PTR	B	72.86	256	18,670	150.00	0.06	0.52
Petrobras	PBR		21.32	4,387	93,530	50.00	0.14	0.51
Gazprom (50%)	OGZPY	B	14.17	3,080	43,600	64.00	0.10	0.30
Lukoil Oil Company	LUKOY	H	27.80	839	23,000	135.00	0.03	0.23
<i>Total or Median</i>					190,000		0.06	0.51
<b>U.S. Independent</b>								
San Juan Basin Royalty Trust	SJT	H	31.40	47	1,460	34.00	-	0.92
EOG Resources	EOG	H	80.45	251	20,200	104.00	0.08	0.79
Hugoton Royalty Trust	HGT	B	22.74	40	910	30.00	-	0.76
Anadarko Petroleum Corp.	APC	H	37.68	468	17,600	64.00	0.35	0.73
Encore Acquisition Company	EAC	H	25.99	54	1,390	48.00	0.36	0.71
Energy Partners Ltd.	EPL		3.59	32	110	14.00	0.57	0.67
XTO Energy Inc.	XTO	B	33.27	552	18,370	60.00	0.26	0.67
Chesapeake Energy Corp.	CHK		21.06	588	12,380	46.00	0.36	0.65
Devon Energy Corporation	DVN	B	69.67	446	31,100	116.00	0.10	0.64
Berry Petroleum Company	BRY	H	12.82	46	580	40.00	0.43	0.61
Occidental Petroleum Corp.	OXY	H	47.01	818	38,400	89.00	0.06	0.56
Cimarex Energy Company	XEC	B	27.75	85	2,340	70.00	0.09	0.45
<i>Total or Median</i>					144,800		0.18	0.67
<b>Canada</b>								
Pengrowth Energy Trust	PGH		9.29	249	2,310	16.00	0.32	0.71
Penn West Energy Trust	PWE	H	15.30	390	5,970	27.00	0.27	0.68
Encana Corporation	ECA	B	42.10	751	31,600	75.00	0.20	0.65
Imperial Oil Limited (30%)	IMO	H	29.60	265	7,850	48.00	0.05	0.64
Enerplus Resources Fund	ERF		23.14	165	3,820	44.00	0.10	0.57
Canadian Natural Resources	CNQ	H	38.02	541	20,600	85.00	0.19	0.55
Canadian Oil Sands Trust	COSWF	B	20.85	482	10,050	42.00	0.04	0.52
Birchcliff Energy Ltd. (US\$)	BIR.TO		4.36	117	510	10.00	0.12	0.50
Suncor Energy	SU	H	19.02	953	18,130	55.00	0.10	0.41
Petro-Canada	PCZ	H	19.62	484	9,500	67.00	0.12	0.38
<i>Total or Median</i>					110,000		0.12	0.56
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\$75 a barrel and natural gas, \$10 a million btu.								



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Oil and Gas Producers - Value Multiples and Distribution Yield								
			Price	Adjustd			Divd or	
	Symbol/Rating		(US\$/sh)	Resrvs/	PV/	EV/	Distrib	
	B = Buy	17-Nov	Prod	Ebitda	Ebitda	P/E	NTM	
	H = Hold	2008	NTM	NTM	NTM	NTM	(%)	
<b>U.S. Integrated</b>								
Exxon Mobil Corporation	XOM	H	73.38	12.9	7.9	6.5	12	2.2
Chevron Corporation	CVX	H	70.78	9.6	7.8	5.9	11	3.7
ConocoPhillips	COP	B	46.76	11.0	8.2	4.6	8	4.0
Marathon Oil Corporation	MRO	H	24.83	8.5	6.9	4.4	7	3.9
	<i>Total or Median</i>			<i>10.3</i>	<i>7.8</i>	<i>5.2</i>	<i>9</i>	<i>3.8</i>
<b>Europe</b>								
BG Group plc	BRGXF		12.10	7.6	8.9	5.9	11	1.3
BP plc	BP	H	43.79	9.9	7.7	5.2	8	7.7
Total S.A.	TOT	B	49.21	9.4	7.6	4.4	8	5.7
StatoilHydro ASA (29%)	STO	B	15.82	8.0	7.9	4.2	11	7.7
Royal Dutch Shell plc	RDS-A	H	48.85	7.9	6.8	4.1	7	6.6
	<i>Total or Median</i>			<i>8.0</i>	<i>7.7</i>	<i>4.4</i>	<i>8</i>	<i>6.6</i>
<b>Brazil/China/Russia</b>								
Petrobras	PBR		21.32	10.2	11.2	5.7	11	4.0
CNOOC Limited (34%)	CEO	H	75.70	8.8	8.6	4.8	10	6.3
PetroChina Company Ltd (14%)	PTR	B	72.86	14.3	8.7	4.5	12	5.8
Gazprom (50%)	OGZPY	B	14.17	24.6	8.4	2.5	3	2.7
Lukoil Oil Company	LUKOY	H	27.80	18.6	7.4	1.7	3	5.0
	<i>Total or Median</i>			<i>14.3</i>	<i>8.6</i>	<i>4.5</i>	<i>10</i>	<i>5.0</i>
<b>U.S. Independent</b>								
San Juan Basin Royalty Trust	SJT	H	31.40	10.7	12.5	11.5	14	7.1
Hugoton Royalty Trust	HGT	B	22.74	13.1	11.5	8.7	13	8.0
Encore Acquisition Company	EAC	H	25.99	13.4	10.6	7.5	28	-
Chesapeake Energy Corp.	CHK		21.06	11.1	10.4	6.8	11	1.4
EOG Resources	EOG	H	80.45	9.1	8.4	6.6	20	0.7
XTO Energy Inc.	XTO	B	33.27	11.4	9.8	6.6	14	1.4
Energy Partners Ltd.	EPL		3.59	9.8	9.4	6.3		-
Anadarko Petroleum Corp.	APC	H	37.68	10.1	8.5	6.2	47	1.9
Berry Petroleum Company	BRY	H	12.82	9.6	9.2	5.7	5	2.3
Devon Energy Corporation	DVN	B	69.67	9.4	8.8	5.7	17	0.9
Occidental Petroleum Corp.	OXY	H	47.01	11.9	9.2	5.2	12	2.7
Cimarex Energy Company	XEC	B	27.75	7.4	7.6	3.4	15	0.9
	<i>Total or Median</i>			<i>10.4</i>	<i>9.3</i>	<i>6.4</i>	<i>14</i>	<i>1.4</i>
<b>Canada</b>								
Canadian Oil Sands Trust	COSWF	B	20.85	21.6	16.7	8.7	13	11.8
Birchcliff Energy Ltd. (US\$)	BIR.TO		4.36	6.9	15.4	7.7		-
Imperial Oil Limited (30%)	IMO	H	29.60	14.4	10.6	6.7	11	1.1
Pengrowth Energy Trust	PGH		9.29	9.1	8.9	6.4		23.8
Canadian Natural Resources	CNQ	H	38.02	9.0	11.2	6.2	11	0.9
Suncor Energy	SU	H	19.02	24.0	14.3	5.9	10	0.9
Penn West Energy Trust	PWE	H	15.30	7.7	8.1	5.5	21	21.9
Enerplus Resources Fund	ERF		23.14	10.0	9.0	5.2	17	16.1
Encana Corporation	ECA	B	42.10	8.4	7.6	4.9	11	3.8
Petro-Canada	PCZ	H	19.62	6.9	7.5	2.8	5	3.3
	<i>Total or Median</i>			<i>9.0</i>	<i>9.8</i>	<i>6.1</i>	<i>11</i>	<i>3.6</i>
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>
12-Nov	PWE	Penn West Energy Trust	Distribution Yield 20%
6-Nov	CNQ	Canadian Natural Resources	Hidden Value in Heavy Oil
5-Nov	DVN	Devon Energy Corporation	Outperforming in Tough Times
5-Nov	XTO	XTO Energy Inc.	Personal Debt-Free Pledge
5-Nov	TOT	Total S.A.	Geographic Appeal
4-Nov	XEC	Cimarex Energy Company	Capital Discipline
4-Nov	APC	Anadarko Petroleum Corporation	Acquisition Value
4-Nov	EOG	EOG Resources Inc.	The Hat Trick
3-Nov	STO	StatoilHydro ASA	Financially Strong Dividend Payer
31-Oct	CVX	Chevron Corporation	Oil in the Stock Market at \$59 a Barrel
30-Oct	IMO	Imperial Oil Limited	Favorable Pricing for Heavy Oil
30-Oct	MRO	Marathon Oil Corporation	Gasoline and Diesel Demand Rebounding
30-Oct	XOM	Exxon Mobil Corporation	Building Value with Stock Repurchase
30-Oct	RDSA	Royal Dutch Shell plc	Secure Dividend 5.7%
29-Oct	COSWF	Canadian Oil Sands Trust	Quarterly Distribution C\$0.75 a Unit
29-Oct	BRY	Berry Petroleum	Adjusting Spending to Cash Flow
29-Oct	EAC	Encore Acquisition Company	Success with ExxonMobil in West Texas
29-Oct	SU	Suncor Energy	Coping with Volatile Oil Price
29-Oct	PTR	PetroChina Company Limited	Chinese Major Oil Company
28-Oct	OXY	Occidental Petroleum Corporation	Low Debt, High Margin
28-Oct	BP	BP p.l.c.	Dividend Yield 7.2%
28-Oct	CEO	CNOOC Ltd	Oil & Gas Growth Offshore China
24-Oct	ECA	EnCana Corporation	High-Performance Clean Energy Producer
24-Oct	PCZ	Petro-Canada	Pacing Fort Hills
23-Oct	* OGZPY	Gazprom	Cheap Stock, Political Risk
23-Oct	* COP	ConocoPhillips	Australian Natural Gas Deal
22-Oct	* XEC	Cimarex Energy Company	Woodford Shale Leader
17-Oct	* SJT	San Juan Basin Royalty Trust	Hold Rating (Income Weekly)
7-Oct	* HGT	Hugoton Royalty Trust	Buy amid Financial Panic (Meter Reader)
16-Sep	* BRGXF	BG Group	Deep Water Brazil (Meter Reader)
16-Sep	* PBR	Petrobras	Deep Water Brazil (Meter Reader)
5-Sep	* LUKOY	Lukoil Oil Company	Suspend Buy Recommendation (Flash)

### Meter Reader

18-Nov	Weekly	Natural Gas Buys - DVN, ECA, and XTO
11-Nov	Weekly	U.S. Integrated Oil Leaders - COP, CVX, XOM
4-Nov	Weekly	Election Day
28-Oct	* Weekly	Oil in the Stock Market for \$40 a Barrel

### Oil and Gas Income Stocks

14-Nov	Weekly	Ten Percent in Three Hours
7-Nov	Weekly	Tentative Recovery in Gasoline Demand
31-Oct	Weekly	Reset for Recovery
24-Oct	* Weekly	Median Distribution Yield 10.5%

### Industry Ideas

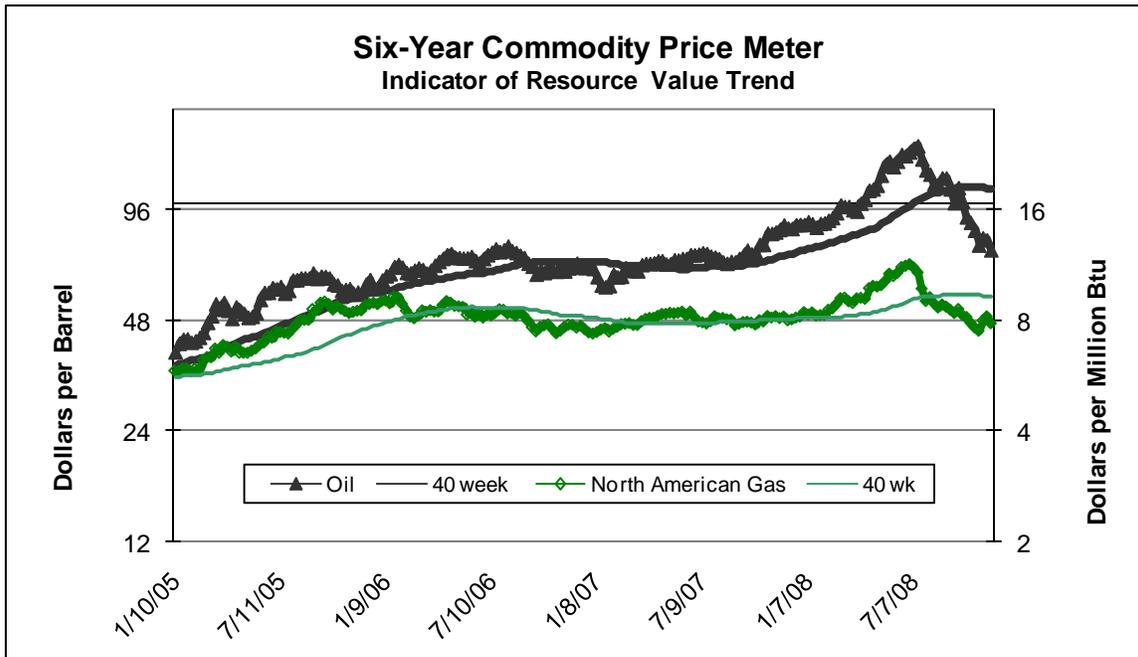
9-Oct	* Presentation	Oil and Gas Strategy in Treacherous Times
24-Sep	* Presentation	Energy Investment amid Financial Turmoil
16-Sep	* Flash	Reinstate Five Buy Recommendations
5-Sep	* Flash	Suspend Buy Recommendations

\* 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. 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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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.