



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

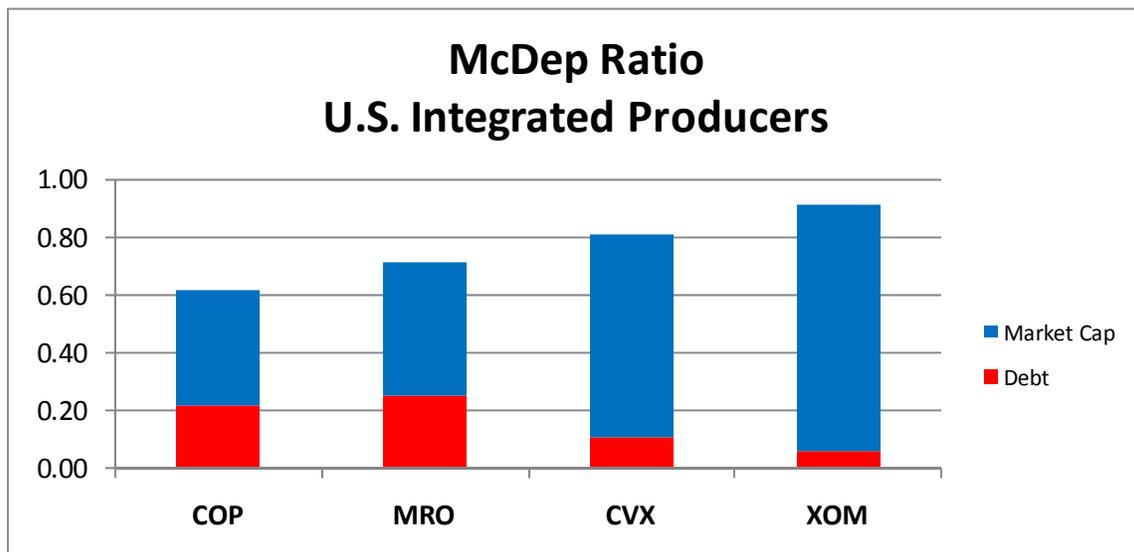
January 6, 2009

Buy COP and XOM among U.S. Integrated Producers

Summary and Recommendation

U.S. Integrated Producers offer attractive investment value, in our opinion, as stock prices may have turned upward again after declining in anticipation of the depressed economic conditions now unfolding. Buy-recommended **ConocoPhillips (COP)** has the lowest McDep Ratio, implying the most appreciation potential (see chart [McDep Ratio](#)). Buy-recommended **ExxonMobil (XOM)**, having demonstrated its “safest” characteristics on the downside, is leading the uptrend as the first to trade above its 200-day average stock price. While hold-rated **Chevron (CVX)** and **Marathon (MRO)** are also attractive values, we delay recommending buy until stock prices break through the 200-day average to the upside or something surprising happens. The four integrated companies are each represented in the four main business segments where we have a qualitative preference for XOM’s greater concentration on Rest of World (ROW) Natural Gas and COP’s concentration on North American Natural Gas (see chart [Natural Gas and Oil Segments](#)). Reflecting commodity price expectations as well as operating trends, COP, CVX and XOM scored a similar quarterly trend in estimated Net Present Value (NPV) (see chart [NPV](#)). Oil and gas price also may have seen a bottom for now (see chart [Six-Year Commodity Price Meter](#) and chart [Six-Year and One-Year Natural Gas and Oil Futures](#)). Like the prospects for near-term economic activity, the profit outlook for refining, as reflected in the margin or “crack”, has tumbled in recent months (see chart [One-Year Refining Crack](#)). Judging by the trend for the past few years, we can expect that actual cash flow from refining in 2009 will be more volatile than we project (see chart [Downstream Cash Flow](#)).

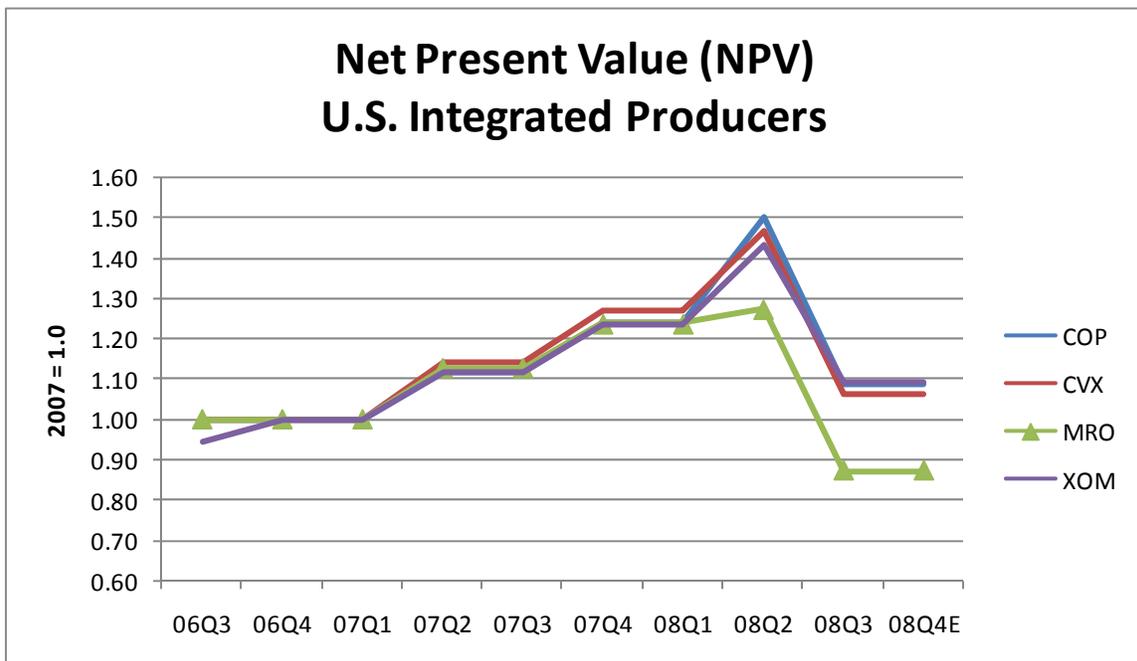
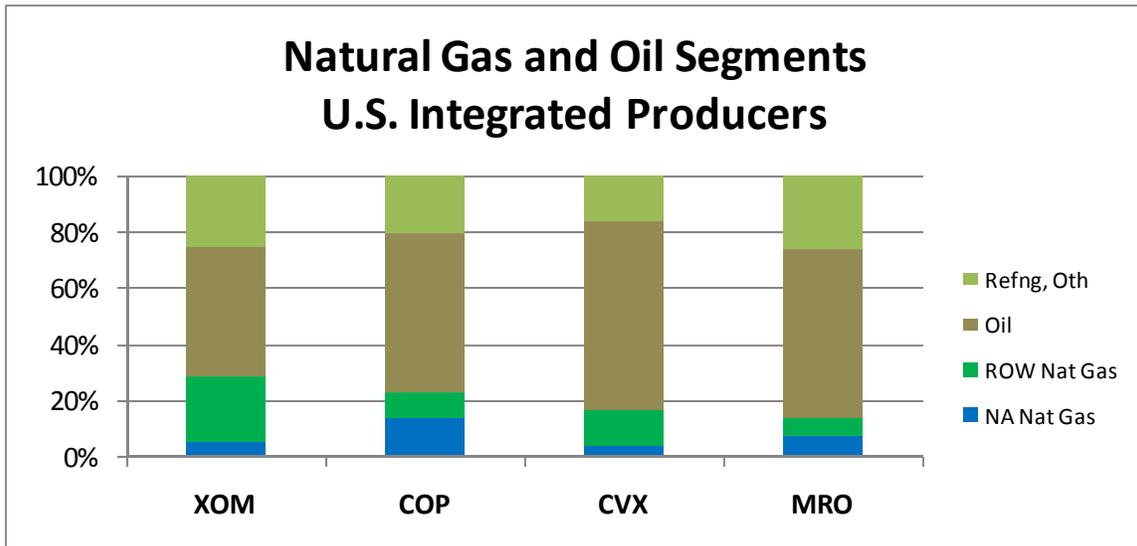
Kurt H. Wulff, CFA





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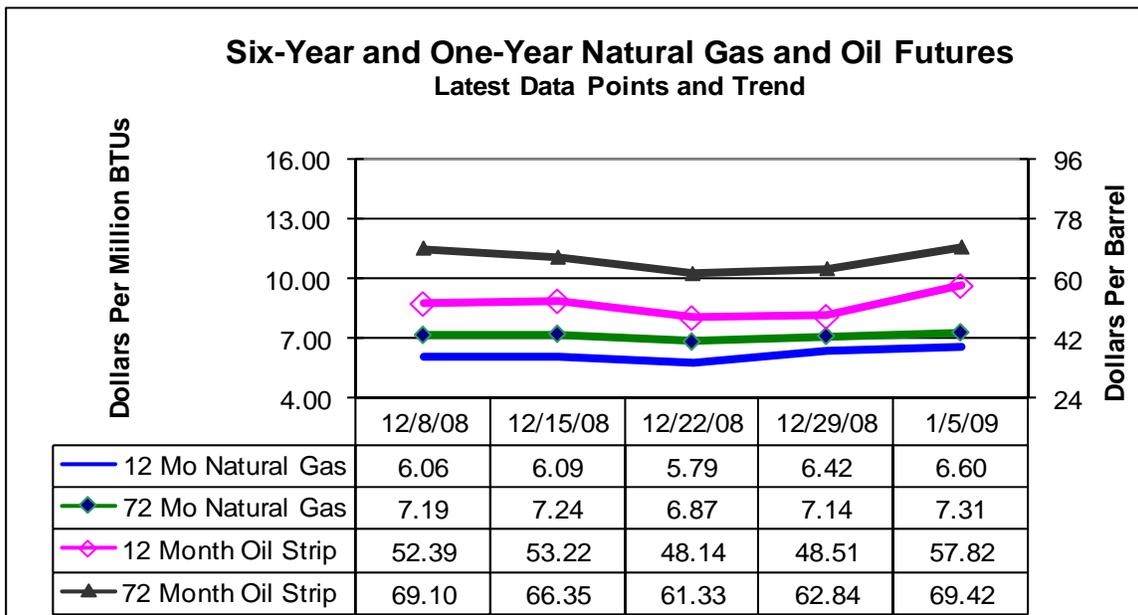
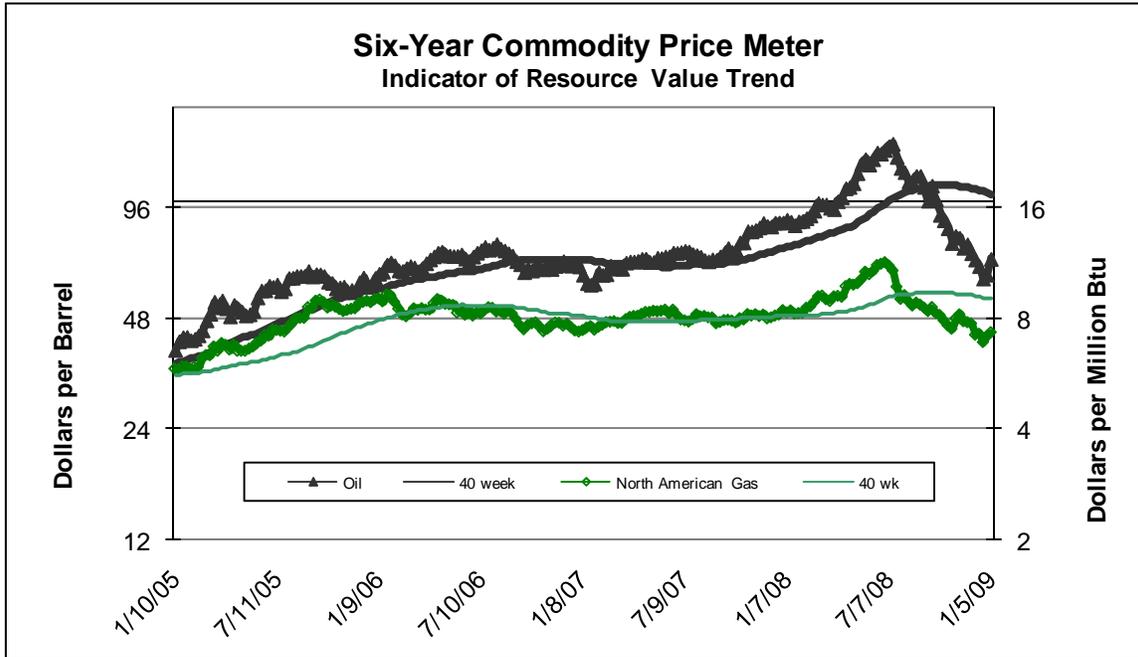




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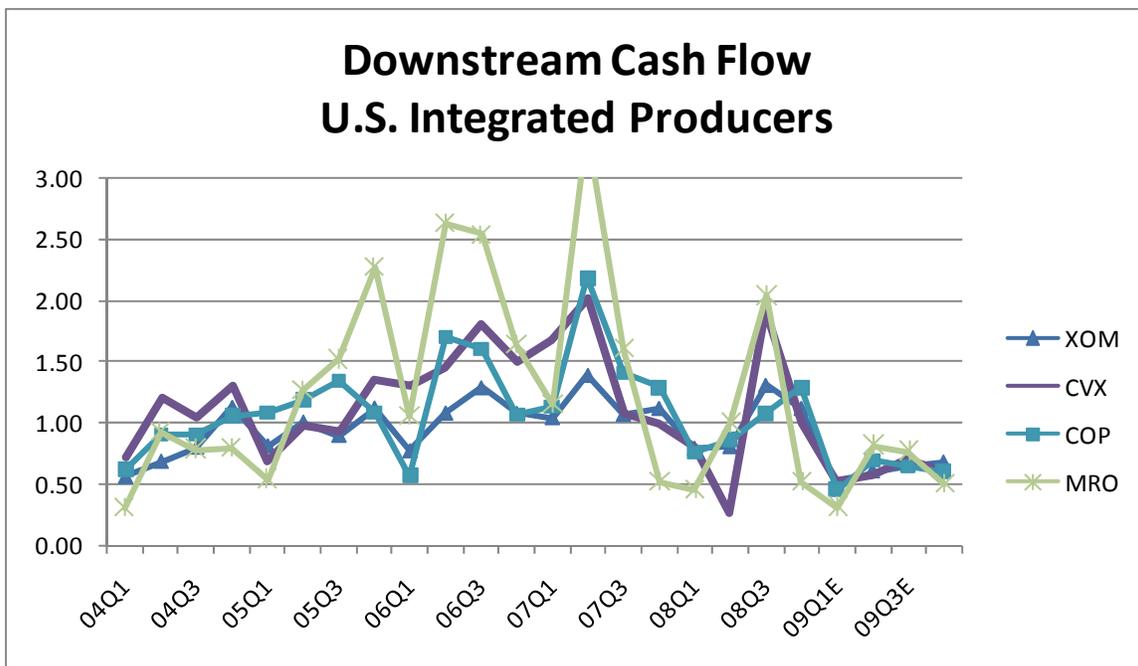
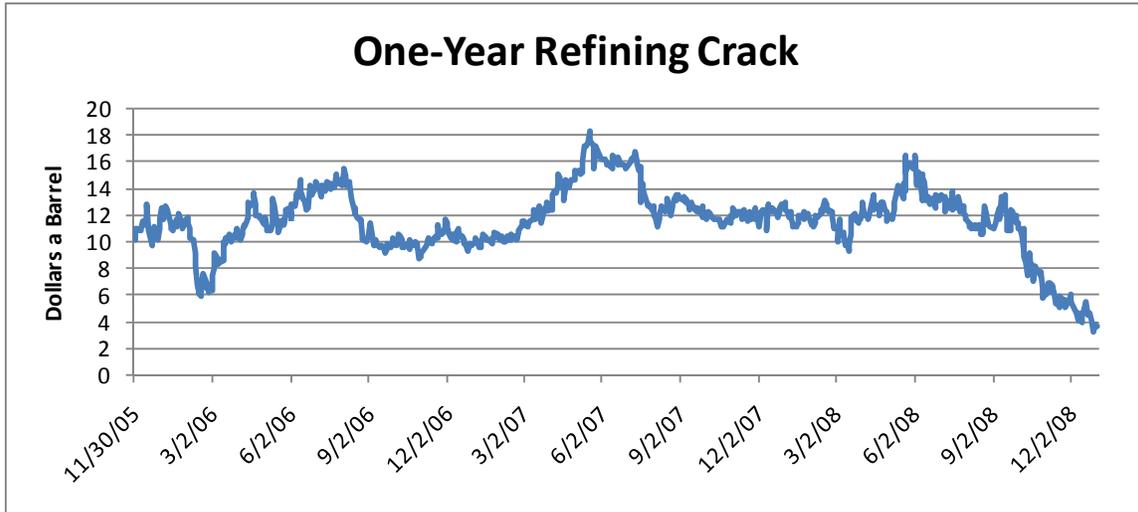




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Table 1											
McDep Large Cap Energy Portfolio											
Geographic Domicile and Business Segments											
						Present Value by Segment (%)					
	Symbol/Rating	Price (US\$/sh)	EV/ Market	Enterprise Value (\$mm)	North Amer. Natural Gas	Rest of World Natural Gas	Oil Prod'n	Down- stream	McDep Ratio		
	B = Buy H = Hold	5-Jan 2009	Cap								
U.S. Integrated											
Exxon Mobil Corporation	XOM	B	81.63	1.07	451,000	6	23	46	25	0.91	
Chevron Corporation	CVX	H	76.66	1.16	197,000	5	12	67	16	0.81	
Marathon Oil Corporation	MRO	H	29.34	1.56	32,600	7	7	60	26	0.71	
ConocoPhillips	COP	B	55.47	1.55	131,000	14	9	57	20	0.62	
<i>Total or Median *</i>	<i>38%</i>	<i>15%</i>	<i>20%</i>		<i>812,000</i>					<i>0.76</i>	
Europe											
BG Group	BRGXF		15.31	1.07	55,600		29	46	25	0.82	
BP plc	BP	H	49.03	1.45	222,000	8	14	62	15	0.74	
Total S.A.	TOT	B	56.57	1.14	145,000		25	52	23	0.66	
Royal Dutch Shell plc	RDS-A	H	54.75	1.25	212,000	3	23	44	31	0.65	
StatoilHydro ASA (29%)	STO	B	18.00	1.35	22,400		43	57	-	0.59	
<i>Total or Median *</i>	<i>31%</i>	<i>19%</i>	<i>20%</i>		<i>657,000</i>					<i>0.66</i>	
Brazil/China/Russia											
CNOOC Limited (34%)	CEO	H	105.81	1.00	16,100		12	88	-	0.78	
PetroChina Company Ltd (14%)	PTR	B	98.64	1.10	27,900		14	69	17	0.68	
Petrobras	PBR		26.94	1.31	155,000		13	77	10	0.60	
Lukoil Oil Company	LUKOY	H	39.50	1.06	35,500			61	39	0.30	
Gazprom (50%)	OGZPY	B	16.55	1.25	61,000		87	13	-	0.30	
<i>Total or Median *</i>	<i>14%</i>	<i>19%</i>	<i>20%</i>		<i>296,000</i>					<i>0.60</i>	
U.S. Independent											
XTO Energy Inc.	XTO	B	39.70	1.54	33,700	77		23	-	0.75	
Anadarko Petroleum Corp.	APC	H	41.44	1.85	35,800	51		45	4	0.73	
Occidental Petroleum Corp.	OXY	H	61.74	1.10	55,400	12	1	79	8	0.71	
EOG Resources	EOG	H	70.67	1.12	19,900	71	7	22	-	0.70	
Devon Energy Corporation	DVN	B	70.98	1.19	37,700	64		36	-	0.65	
Chesapeake Energy Corp.	CHK		18.13	2.40	25,600	91		9	-	0.61	
<i>Total or Median *</i>	<i>10%</i>	<i>23%</i>	<i>20%</i>		<i>208,000</i>	<i>68</i>				<i>0.71</i>	
Canada											
Encana Corporation	ECA	B	52.32	1.35	53,100	68		29	4	0.76	
Imperial Oil Limited (30%)	IMO	H	35.71	1.07	10,100	5		80	16	0.76	
Canadian Natural Resources	CNQ	H	46.11	1.45	36,100	26		74	-	0.63	
Canadian Oil Sands Trust	COSWF	B	19.94	1.10	10,600			100	-	0.50	
Suncor Energy	SU	H	22.99	1.28	28,000	3		92	5	0.48	
Petro-Canada	PCZ	H	25.37	1.36	16,700	11	3	70	16	0.45	
<i>Total or Median *</i>	<i>7%</i>	<i>23%</i>	<i>20%</i>		<i>155,000</i>					<i>0.56</i>	
Composite											
<i>Enterprise Value Weighting</i>	<i>100%</i>				<i>2,128,000</i>	<i>11</i>	<i>17</i>	<i>54</i>	<i>18</i>	<i>0.68</i>	
<i>Equal Weighting</i>		<i>100%</i>				<i>23</i>	<i>12</i>	<i>56</i>	<i>12</i>	<i>0.65</i>	
<i>Equal Weighted Buys</i>			<i>100%</i>			<i>23</i>	<i>20</i>	<i>48</i>	<i>9</i>	<i>0.64</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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Table 2								
McDep Large Cap Energy Portfolio								
Net Present Value and McDep Ratio								
			Price			Net		
	Symbol/Rating		(US\$/sh)		Market	Present	Debt/	
	B = Buy	5-Jan	Shares	Cap	Value	Present	McDep	
	H = Hold	2009	(mm)	(US\$mm)	(US\$/sh)	Value	Ratio	
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	81.63	5,160	421,000	90.00	0.06	0.91
Chevron Corporation	CVX	H	76.66	2,206	169,000	98.00	0.11	0.81
Marathon Oil Corporation	MRO	H	29.34	711	20,860	48.00	0.26	0.71
ConocoPhillips	COP	B	55.47	1,528	85,000	109.00	0.22	0.62
<i>Total or Median</i>					696,000		0.17	0.76
Europe								
BG Group plc	BRGXF		15.31	3,382	51,780	19.00	0.06	0.82
BP plc	BP	H	49.03	3,124	153,000	74.00	0.23	0.74
Total S.A.	TOT	B	56.57	2,244	127,000	90.00	0.08	0.66
Royal Dutch Shell plc	RDS-A	H	54.75	3,080	169,000	92.00	0.13	0.65
StatoilHydro ASA (29%)	STO	B	18.00	924	16,630	35.00	0.15	0.59
<i>Total or Median</i>					517,000		0.13	0.66
Brazil/China/Russia								
CNOOC Limited (34%)	CEO	H	105.81	152	16,110	135.00	-	0.78
PetroChina Company Ltd (14%)	PTR	B	98.64	256	25,270	150.00	0.06	0.68
Petrobras	PBR		26.94	4,387	118,190	50.00	0.14	0.60
Lukoil Oil Company	LUKOY	H	39.50	848	34,000	135.00	0.02	0.30
Gazprom (50%)	OGZPY	B	16.55	2,940	48,700	64.00	0.06	0.30
<i>Total or Median</i>					242,000		0.06	0.60
U.S. Independent								
XTO Energy Inc.	XTO	B	39.70	552	21,910	60.00	0.26	0.75
Anadarko Petroleum Corp.	APC	H	41.44	468	19,400	70.00	0.33	0.73
Occidental Petroleum Corp.	OXY	H	61.74	818	50,500	89.00	0.06	0.71
EOG Resources	EOG	H	70.67	251	17,700	104.00	0.08	0.70
Devon Energy Corporation	DVN	B	70.98	446	31,700	116.00	0.10	0.65
Chesapeake Energy Corp.	CHK		18.13	588	10,660	46.00	0.36	0.61
<i>Total or Median</i>					151,900		0.18	0.71
Canada								
Encana Corporation	ECA	B	52.32	751	39,300	75.00	0.20	0.76
Imperial Oil Limited (30%)	IMO	H	35.71	265	9,470	48.00	0.05	0.76
Canadian Natural Resources	CNQ	H	46.11	541	24,900	85.00	0.20	0.63
Canadian Oil Sands Trust	COSWF	B	19.94	482	9,610	42.00	0.04	0.50
Suncor Energy	SU	H	22.99	953	21,910	55.00	0.10	0.48
Petro-Canada	PCZ	H	25.37	484	12,280	67.00	0.12	0.45
<i>Total or Median</i>					117,000		0.11	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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Table 3								
McDep Large Cap Energy Portfolio								
Value Multiples and Distribution Yield								
			Price	Adjustd			Divd or	
	Symbol/Rating		(US\$/sh)	Resrvs/	PV/	EV/	Distrib	
	B = Buy		5-Jan	Prod	Ebitda	Ebitda	P/E	
	H = Hold		2009	NTM	NTM	NTM	NTM	
							(%)	
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	81.63	12.9	9.5	8.6	17	2.0
Chevron Corporation	CVX	H	76.66	9.6	9.0	7.2	15	3.4
Marathon Oil Corporation	MRO	H	29.34	8.5	8.3	5.9	12	3.3
ConocoPhillips	COP	B	55.47	11.0	9.3	5.7	11	3.4
	<i>Total or Median</i>			<i>10.3</i>	<i>9.1</i>	<i>6.6</i>	<i>13</i>	<i>3.3</i>
Europe								
BG Group plc	BRGXF		15.31	7.6	10.0	8.1	16	1.0
BP plc	BP	H	49.03	9.9	8.8	6.5	11	6.9
Total S.A.	TOT	B	56.57	9.4	8.7	5.7	12	5.4
Royal Dutch Shell plc	RDS-A	H	54.75	7.9	8.3	5.4	12	5.8
StatoilHydro ASA (29%)	STO	B	18.00	8.0	8.2	4.8	13	6.9
	<i>Total or Median</i>			<i>8.0</i>	<i>8.7</i>	<i>5.7</i>	<i>12</i>	<i>5.8</i>
Brazil/China/Russia								
CNOOC Limited (34%)	CEO	H	105.81	8.8	9.1	7.1	15	4.5
Petrobras	PBR		26.94	10.2	11.7	7.1	15	3.2
PetroChina Company Ltd (14%)	PTR	B	98.64	14.3	9.1	6.1	18	4.3
Lukoil Oil Company	LUKOY	H	39.50	18.2	6.8	2.1	4	3.3
Gazprom (50%)	OGZPY	B	16.55	24.6	5.9	1.8	2	2.2
	<i>Total or Median</i>			<i>14.3</i>	<i>9.1</i>	<i>6.1</i>	<i>15</i>	<i>3.3</i>
U.S. Independent								
XTO Energy Inc.	XTO	B	39.70	11.4	10.4	7.8	18	1.2
Occidental Petroleum Corp.	OXY	H	61.74	11.8	10.0	7.1	18	2.1
Chesapeake Energy Corp.	CHK		18.13	11.1	11.0	6.7	11	1.7
Anadarko Petroleum Corp.	APC	H	41.44	10.1	9.0	6.5		1.7
EOG Resources	EOG	H	70.67	9.1	8.7	6.1	19	0.8
Devon Energy Corporation	DVN	B	70.98	9.4	9.4	6.1	20	0.9
	<i>Total or Median</i>			<i>10.6</i>	<i>9.7</i>	<i>6.6</i>	<i>18</i>	<i>1.4</i>
Canada								
Canadian Oil Sands Trust	COSWF	B	19.94	23.3	20.4	10.2	20	4.2
Imperial Oil Limited (30%)	IMO	H	35.71	14.5	13.1	9.9	18	0.9
Canadian Natural Resources	CNQ	H	46.11	8.8	11.9	7.5	15	0.7
Suncor Energy	SU	H	22.99	22.5	14.8	7.1	12	0.7
Encana Corporation	ECA	B	52.32	8.4	8.0	6.0	16	3.1
Petro-Canada	PCZ	H	25.37	6.9	8.4	3.8	9	2.6
	<i>Total or Median</i>			<i>11.6</i>	<i>12.5</i>	<i>7.3</i>	<i>15</i>	<i>1.8</i>
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 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>
31-Dec	OGZPY	Gazprom	Underrated Investment
30-Dec	BRY	Berry Petroleum	Customer Bankruptcy Manageable
26-Dec	HGT	Hugoton Royalty Trust	Under Year-End Price Pressure (Income Weekly)
17-Dec	XOM	Exxon Mobil Corporation	Upgrade to Buy on Stock Price Change Trend
16-Dec	LUKOY	Lukoil Oil Company	Credible Russian Champion
10-Dec	COSWF	Canadian Oil Sands Trust	Budget Quarterly Distribution of C\$0.25 a Unit
20-Nov	* COSWF	Canadian Oil Sands Trust	Alberta Reduces Royalties
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	* RDSA	Royal Dutch Shell plc	Secure Dividend 5.7%
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)
16-Sep	* BRGXF	BG Group	Deep Water Brazil (Meter Reader)
16-Sep	* PBR	Petrobras	Deep Water Brazil (Meter Reader)

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30-Dec		Weekly	
30-Dec		Weekly	Own Independent Producers for Natural Gas
23-Dec		Weekly	Small Cap, Large Price Change
16-Dec	*	Weekly	Transition Phase

Oil and Gas Income Stocks

2-Jan		Weekly	Exceptional Deflation Resistance in Dorchester Minerals
26-Dec		Weekly	Hugoton Royalty Trust under Year-End Price Pressure
19-Dec		Weekly	Near-Term Income below Long-Term Potential
12-Dec	*	Weekly	Favorites at Favorable Prices

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



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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.