



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

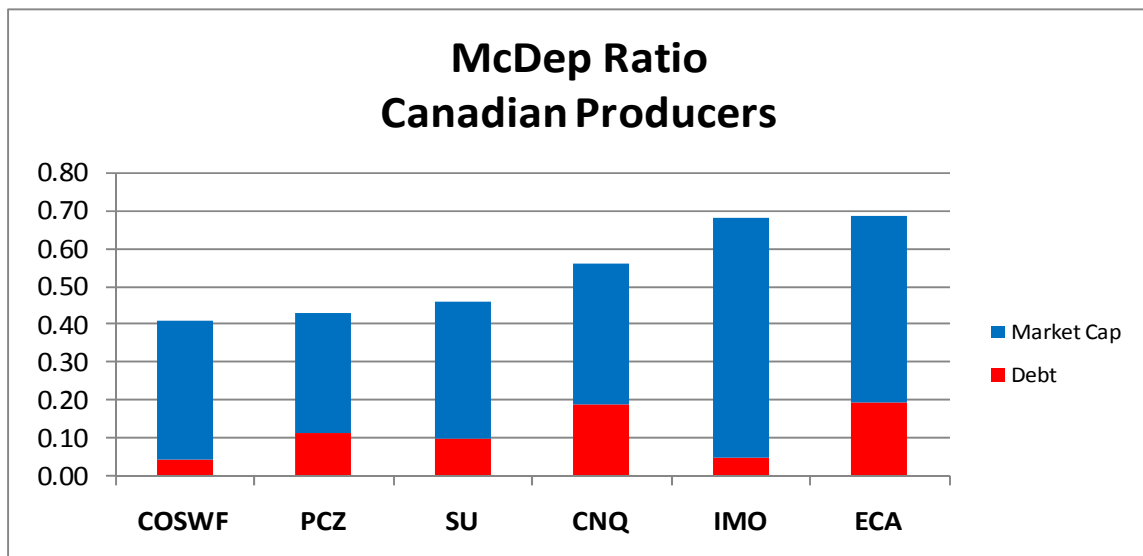
January 20, 2009

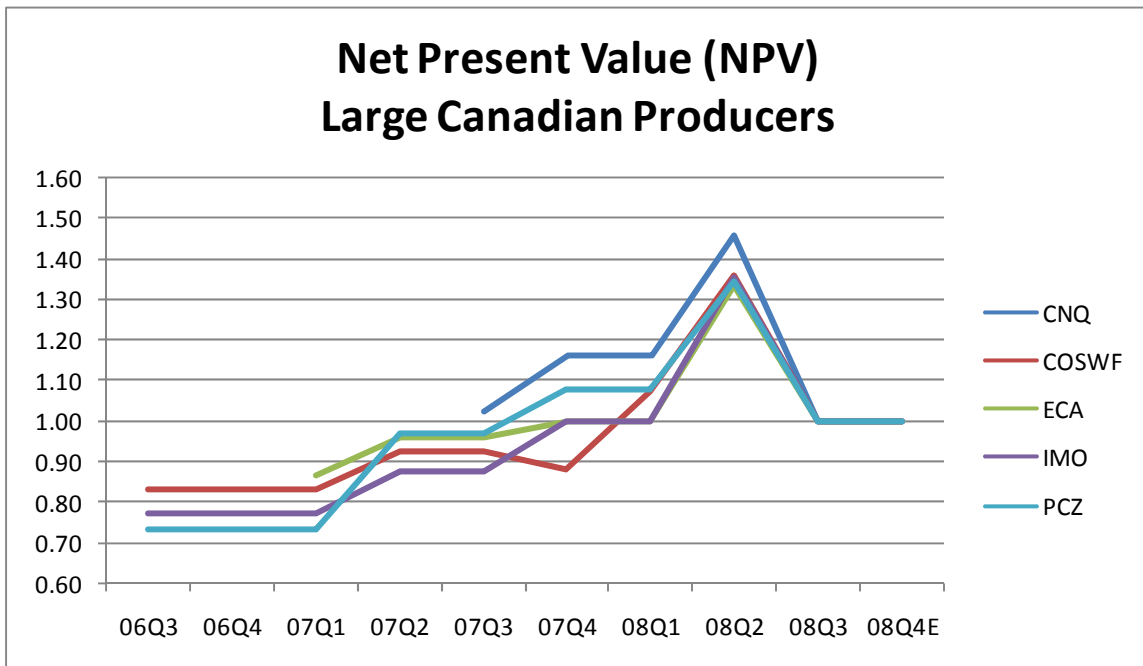
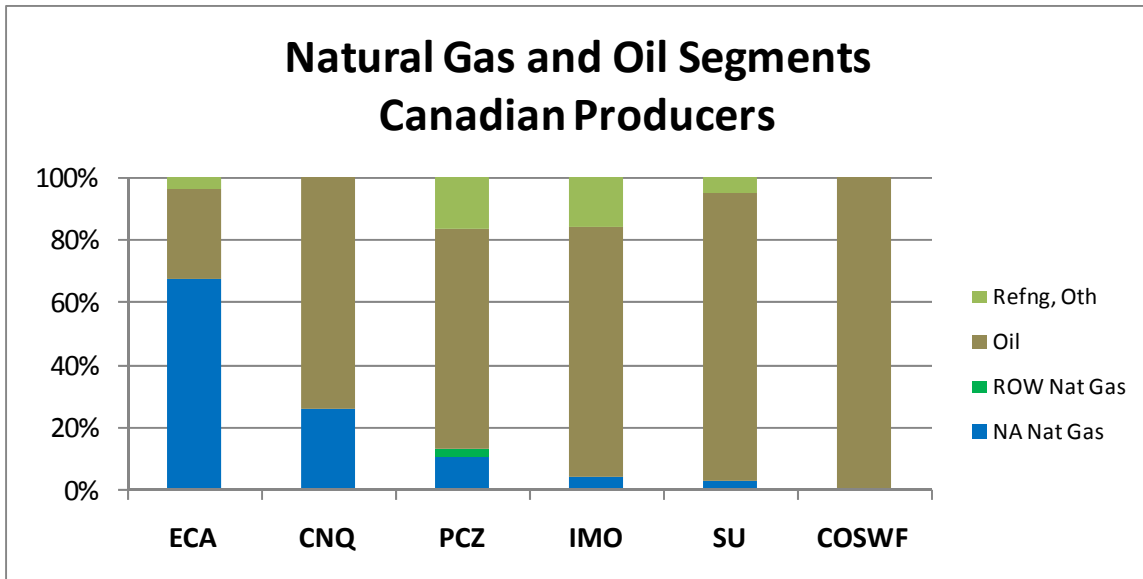
Buy ECA and COSWF among Canadian Producers

Summary and Recommendation

Canadian Producers offer attractive investment value, in our opinion, as stock prices are up from the lows after declining in anticipation of the depressed economic conditions now unfolding. We limit our number of buy recommendations until stock price breaks through the 200-day average to the upside or something surprising happens. Our two buy recommendations are the bookends to the ranking by McDep Ratio with **Canadian Oil Sands Trust (COSWF)** at the depressed left end and **Encana (ECA)** at the less depressed right end (see chart [McDep Ratio](#)). Resource-wise, COSWF ranks most concentrated on oil while ECA ranks most concentrated on natural gas (see chart [Natural Gas and Oil Segments](#)). Reflecting commodity price expectations as well as operating trends, the six Canadian producers traced a similar quarterly trend in estimated Net Present Value (see chart [NPV](#)). Accounting for all the value in COSWF, the Syncrude oil sands mine/upgrader accounts for an estimated 32% of the value in hold-rated **Imperial Oil (IMO)** and 19% in hold-rated **Petro-Canada (PCZ)**. Hold-rated **Suncor (SU)** and hold-rated **Canadian Natural Resources (CNQ)** have wholly-owned oil sands mines/upgraders. PCZ has the lowest unlevered market cash flow multiple (EV/Ebitda) at just 4 times and COSWF has the highest distribution yield at 5% estimated for the next twelve months (see Table 3). Valuation comparisons incorporate stock prices and futures prices as of January 16, the last normal global trading day before the Martin Luther King holiday (see chart on last page [Six-Year and One-Year Natural Gas and Oil Futures](#)). Canadian Producers make up one of six industry subsectors that might each be equally weighted in the McDep Energy Portfolio, we suggest.

Kurt H. Wulff, CFA







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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	16-Jan 2009	Cap								
U.S. Integrated											
Exxon Mobil Corporation	XOM	B	78.10	1.08	433,000	6	23	46	25	0.88	
Chevron Corporation	CVX	H	71.74	1.17	186,000	5	12	67	16	0.76	
Marathon Oil Corporation	MRO	H	28.46	1.58	32,000	7	7	60	26	0.70	
ConocoPhillips	COP	B	49.38	1.62	122,000	14	9	57	20	0.57	
<i>Total or Median *</i>		<i>39%</i>	<i>15%</i>	<i>20%</i>	<i>773,000</i>					<i>0.73</i>	
Europe											
BG Group	BRGXF		13.39	1.09	49,100		29	46	25	0.72	
BP plc	BP	H	44.21	1.50	207,000	8	14	62	15	0.69	
Total S.A.	TOT	B	49.68	1.26	140,000		24	55	22	0.61	
Royal Dutch Shell plc	RDS-A	H	50.67	1.28	199,000	3	23	44	31	0.61	
StatoilHydro ASA (29%)	STO	B	17.68	1.35	22,100		43	57	-	0.58	
<i>Total or Median *</i>		<i>31%</i>	<i>19%</i>	<i>20%</i>	<i>617,000</i>					<i>0.61</i>	
Brazil/China/Russia											
CNOOC Limited (34%)	CEO	H	87.48	1.00	13,300		12	88	-	0.65	
PetroChina Company Ltd (14%)	PTR	B	80.16	1.13	23,200		14	69	17	0.56	
Petrobras	PBR		24.99	1.33	146,000		13	77	10	0.57	
Gazprom (50%)	OGZPY	B	13.07	1.29	49,000		88	12	-	0.25	
Lukoil Oil Company	LUKOY	H	31.80	1.07	28,900			61	39	0.25	
<i>Total or Median *</i>		<i>13%</i>	<i>19%</i>	<i>20%</i>	<i>260,000</i>					<i>0.56</i>	
U.S. Independent											
XTO Energy Inc.	XTO	B	35.03	1.61	31,100	77		23	-	0.69	
Anadarko Petroleum Corp.	APC	H	37.48	1.94	33,900	51		45	4	0.69	
EOG Resources	EOG	H	63.73	1.13	18,100	71	7	22	-	0.64	
Occidental Petroleum Corp.	OXY	H	53.53	1.11	48,700	12	1	79	8	0.63	
Devon Energy Corporation	DVN	B	58.68	1.23	32,200	64		36	-	0.56	
Chesapeake Energy Corp.	CHK		15.26	2.66	23,900	91		9	-	0.57	
<i>Total or Median *</i>		<i>10%</i>	<i>23%</i>	<i>20%</i>	<i>188,000</i>					<i>0.63</i>	
Canada											
Imperial Oil Limited (30%)	IMO	H	31.93	1.08	9,100	5		80	16	0.68	
Encana Corporation	ECA	B	45.54	1.40	48,000	68		29	4	0.68	
Canadian Natural Resources	CNQ	H	38.86	1.52	31,800	26		74	-	0.56	
Suncor Energy	SU	H	22.02	1.28	26,900	3		92	5	0.46	
Petro-Canada	PCZ	H	23.74	1.37	15,800	11	3	70	16	0.43	
Canadian Oil Sands Trust	COSWF	B	16.13	1.12	8,700			100	-	0.41	
<i>Total or Median *</i>		<i>7%</i>	<i>23%</i>	<i>20%</i>	<i>140,000</i>					<i>0.51</i>	
Composite											
<i>Enterprise Value Weighting</i>		<i>100%</i>			<i>1,978,000</i>	<i>11</i>	<i>17</i>	<i>54</i>	<i>18</i>	<i>0.63</i>	
<i>Equal Weighting</i>			<i>100%</i>			<i>20</i>	<i>12</i>	<i>56</i>	<i>11</i>	<i>0.59</i>	
<i>Equal Weighted Buys</i>			<i>100%</i>			<i>23</i>	<i>20</i>	<i>48</i>	<i>9</i>	<i>0.58</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	16-Jan	Shares	Cap	Value	Present	McDep	
	H = Hold	2009	(mm)	(US\$mm)	(US\$/sh)	Value	Ratio	
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	78.10	5,160	403,000	90.00	0.06	0.88
Chevron Corporation	CVX	H	71.74	2,206	158,000	98.00	0.11	0.76
Marathon Oil Corporation	MRO	H	28.46	711	20,240	48.00	0.26	0.70
ConocoPhillips	COP	B	49.38	1,528	76,000	109.00	0.22	0.57
<i>Total or Median</i>					657,000		0.17	0.73
Europe								
BG Group plc	BRGXF		13.39	3,382	45,270	19.00	0.06	0.72
BP plc	BP	H	44.21	3,124	138,000	74.00	0.23	0.69
Total S.A.	TOT	B	49.68	2,244	112,000	90.00	0.12	0.61
Royal Dutch Shell plc	RDS-A	H	50.67	3,080	156,000	92.00	0.13	0.61
StatoilHydro ASA (29%)	STO	B	17.68	924	16,340	35.00	0.15	0.58
<i>Total or Median</i>					468,000		0.13	0.61
Brazil/China/Russia								
CNOOC Limited (34%)	CEO	H	87.48	152	13,320	135.00	-	0.65
PetroChina Company Ltd (14%)	PTR	B	80.16	256	20,540	150.00	0.06	0.56
Petrobras	PBR		24.99	4,387	109,630	50.00	0.14	0.57
Gazprom (50%)	OGZPY	B	13.07	2,940	38,400	64.00	0.06	0.25
Lukoil Oil Company	LUKOY	H	31.80	848	27,000	135.00	0.02	0.25
<i>Total or Median</i>					209,000		0.06	0.56
U.S. Independent								
XTO Energy Inc.	XTO	B	35.03	552	19,340	60.00	0.26	0.69
Anadarko Petroleum Corp.	APC	H	37.48	468	17,500	70.00	0.33	0.69
EOG Resources	EOG	H	63.73	251	16,000	104.00	0.08	0.64
Occidental Petroleum Corp.	OXY	H	53.53	818	43,800	89.00	0.06	0.63
Devon Energy Corporation	DVN	B	58.68	446	26,200	116.00	0.10	0.56
Chesapeake Energy Corp.	CHK		15.26	588	8,970	46.00	0.36	0.57
<i>Total or Median</i>					131,800		0.18	0.63
Canada								
Imperial Oil Limited (30%)	IMO	H	31.93	265	8,470	48.00	0.05	0.68
Encana Corporation	ECA	B	45.54	751	34,200	75.00	0.20	0.68
Canadian Natural Resources	CNQ	H	38.86	541	21,000	85.00	0.19	0.56
Suncor Energy	SU	H	22.02	953	20,990	55.00	0.10	0.46
Petro-Canada	PCZ	H	23.74	484	11,490	67.00	0.12	0.43
Canadian Oil Sands Trust	COSWF	B	16.13	482	7,770	42.00	0.04	0.41
<i>Total or Median</i>					104,000		0.11	0.51
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		16-Jan	Prod	Ebitda	Ebitda	P/E	
	H = Hold		2009	NTM	NTM	NTM	NTM	
							(%)	
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	78.10	12.9	10.1	8.8	18	2.0
Chevron Corporation	CVX	H	71.74	9.6	9.8	7.5	16	3.6
Marathon Oil Corporation	MRO	H	28.46	8.5	9.1	6.3	14	3.4
ConocoPhillips	COP	B	49.38	11.0	10.3	5.9	13	3.8
	<i>Total or Median</i>			<i>10.3</i>	<i>10.0</i>	<i>6.9</i>	<i>15</i>	<i>3.5</i>
Europe								
BG Group plc	BRGXF		13.39	7.6	10.3	7.4	15	1.1
BP plc	BP	H	44.21	9.9	9.6	6.6	12	7.6
Total S.A.	TOT	B	49.68	9.4	9.8	6.0	12	6.1
Royal Dutch Shell plc	RDS-A	H	50.67	7.9	8.9	5.4	12	6.3
StatoilHydro ASA (29%)	STO	B	17.68	8.0	8.9	5.1	16	6.1
	<i>Total or Median</i>			<i>8.0</i>	<i>9.6</i>	<i>6.0</i>	<i>12</i>	<i>6.1</i>
Brazil/China/Russia								
Petrobras	PBR		24.99	10.2	12.8	7.3	16	3.4
CNOOC Limited (34%)	CEO	H	87.48	8.8	10.2	6.6	14	5.5
PetroChina Company Ltd (14%)	PTR	B	80.16	14.3	9.9	5.6	17	5.3
Lukoil Oil Company	LUKOY	H	31.80	18.2	7.1	1.8	3	3.7
Gazprom (50%)	OGZPY	B	13.07	24.6	6.2	1.5	2	2.5
	<i>Total or Median</i>			<i>14.3</i>	<i>9.9</i>	<i>5.6</i>	<i>14</i>	<i>3.7</i>
U.S. Independent								
XTO Energy Inc.	XTO	B	35.03	11.4	12.3	8.5	20	1.4
Occidental Petroleum Corp.	OXY	H	53.53	11.8	11.3	7.1	19	2.4
Anadarko Petroleum Corp.	APC	H	37.48	10.1	10.4	7.2		1.9
Chesapeake Energy Corp.	CHK		15.26	11.1	13.2	7.5	16	2.0
EOG Resources	EOG	H	63.73	9.1	10.3	6.6	26	0.8
Devon Energy Corporation	DVN	B	58.68	9.4	10.9	6.1	27	1.1
	<i>Total or Median</i>			<i>10.6</i>	<i>11.1</i>	<i>7.1</i>	<i>20</i>	<i>1.6</i>
Canada								
Canadian Oil Sands Trust	COSWF	B	16.13	23.3	25.3	10.4	25	5.0
Imperial Oil Limited (30%)	IMO	H	31.93	14.5	14.7	10.0	18	1.0
Suncor Energy	SU	H	22.02	22.5	16.7	7.7	14	0.7
Canadian Natural Resources	CNQ	H	38.86	8.8	13.6	7.6	16	0.8
Encana Corporation	ECA	B	45.54	8.4	9.2	6.3	20	3.5
Petro-Canada	PCZ	H	23.74	6.9	9.5	4.1	10	2.7
	<i>Total or Median</i>			<i>11.6</i>	<i>14.2</i>	<i>7.7</i>	<i>17</i>	<i>1.9</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>
9-Jan	SJT	San Juan Basin Royalty Trust	Clean Fuel Pure Play (Income and Small Cap Weekly)
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
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	* COP	ConocoPhillips	Australian Natural Gas Deal
16-Sep	* BRGXF	BG Group	Deep Water Brazil (Meter Reader)
16-Sep	* PBR	Petrobras	Deep Water Brazil (Meter Reader)

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20-Jan		Weekly	
13-Jan		Weekly	Buy STO and TOT among European Producers
6-Jan		Weekly	Buy COP and XOM among U.S. Integrated Producers
30-Dec	*	Weekly	Own Independent Producers for Natural Gas

Income and Small Cap Weekly

16-Jan		Weekly	Natural Gas Price Low after Stock Price Low
9-Jan		Weekly	SJT - A Clean Fuel Pure Play
2-Jan		Weekly	Exceptional Deflation Resistance in Dorchester Minerals
26-Dec	*	Weekly	Hugoton Royalty Trust under Year-End Price Pressure

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

Please see disclosures on the final page.

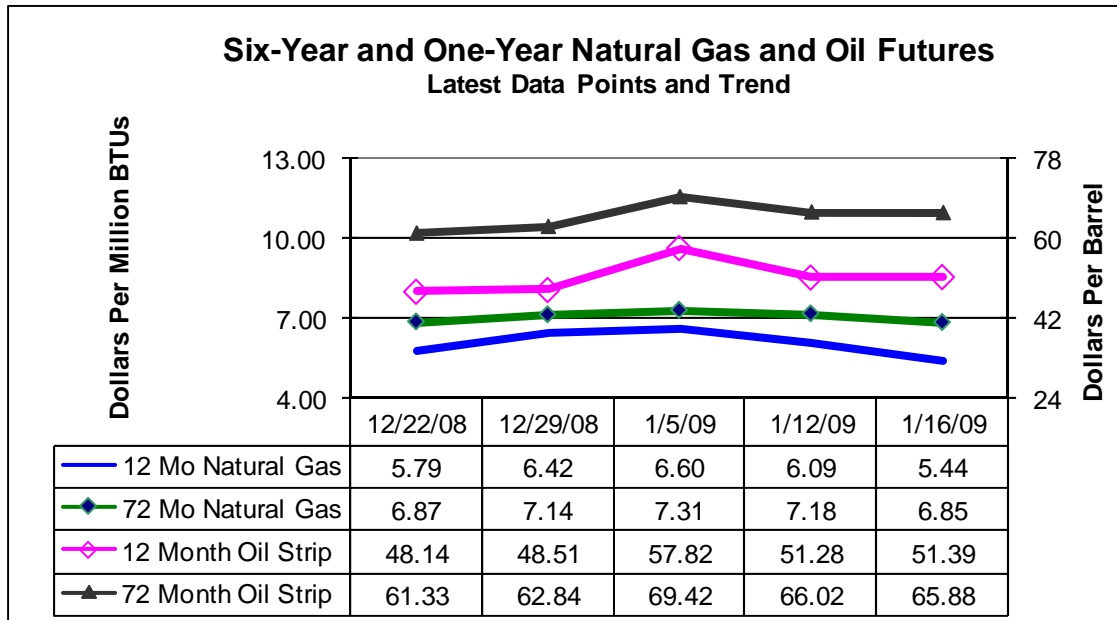
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Research Methodology/Ratings Description: McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the forty years of experience of its analyst to estimate a present value of the oil and gas resources 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.