



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

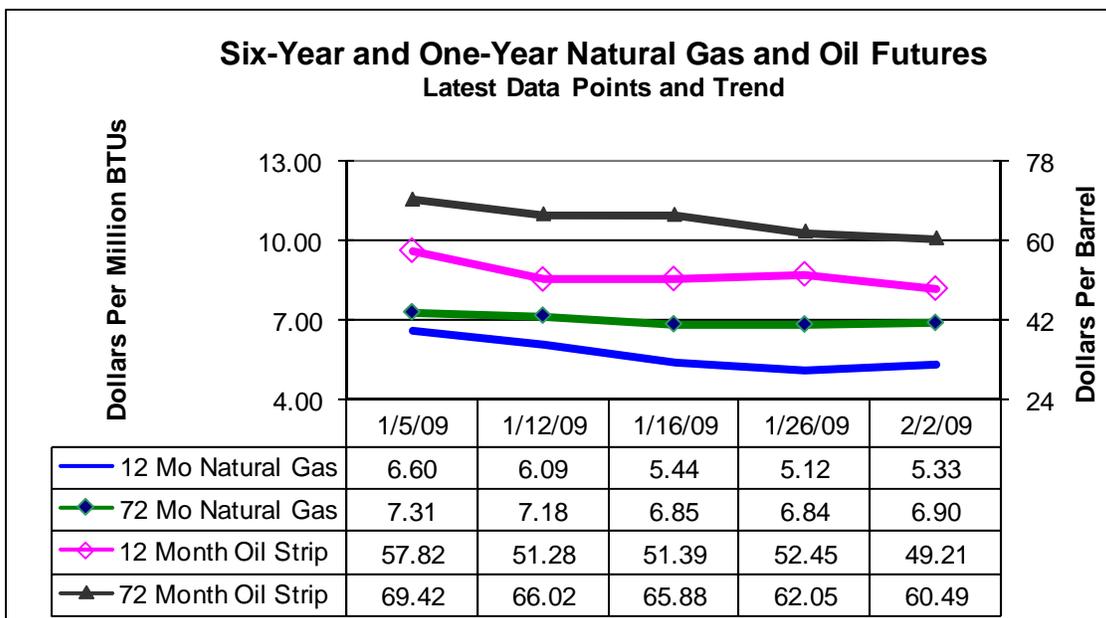
February 3, 2009

Low Price for Natural Gas

Summary and Recommendation

At a low of \$4.42 a million btu on the last business day of January, the near month futures price for natural gas was a long way from \$10 that we use for calculating present value of resources behind natural gas stocks. The average futures price for the 12 months from March 2009 through February 2010 settled higher at \$5.33 on February 2 (see chart [Six-Year and One-Year Natural Gas and Oil Futures](#)). The average futures price for the 72 months through February 2015 settled higher still at \$6.90. When we consider the heating equivalent of the average futures price for oil for the next six years at \$10 (\$60 a barrel divided by 6), our long-term expectation of \$10 for natural gas looks more realistic. Six-year natural gas price did average near six-year oil price divided by 6 for three years from 2002 through 2004 (see chart [Oil/Natural Gas Futures Ratio](#)). Meanwhile, weather could not have been much more supportive of natural gas price than in the current colder-than-normal winter in the Northeast and Midwest U.S. heating markets. Since demand has failed to support price above long-term replacement cost, a logical supply adjustment is taking place. The number of rigs drilling for natural gas in the U.S. is dropping fast with more than 25% idled since last summer according to the Baker Hughes survey. We are optimistic that the bottom in prices for oil and gas stocks has been registered and recovery has begun at the same time we are cautious that another bottom may form in the fall and a recovery may not be sustained until 2010.

Kurt H. Wulff, CFA

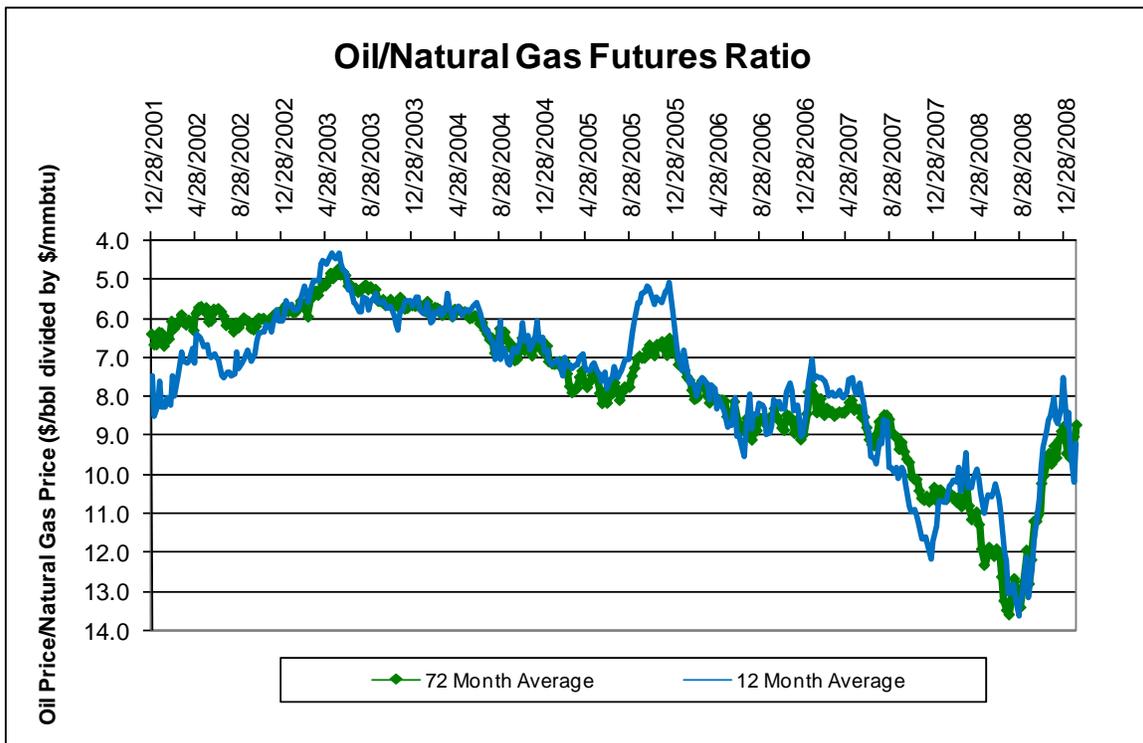
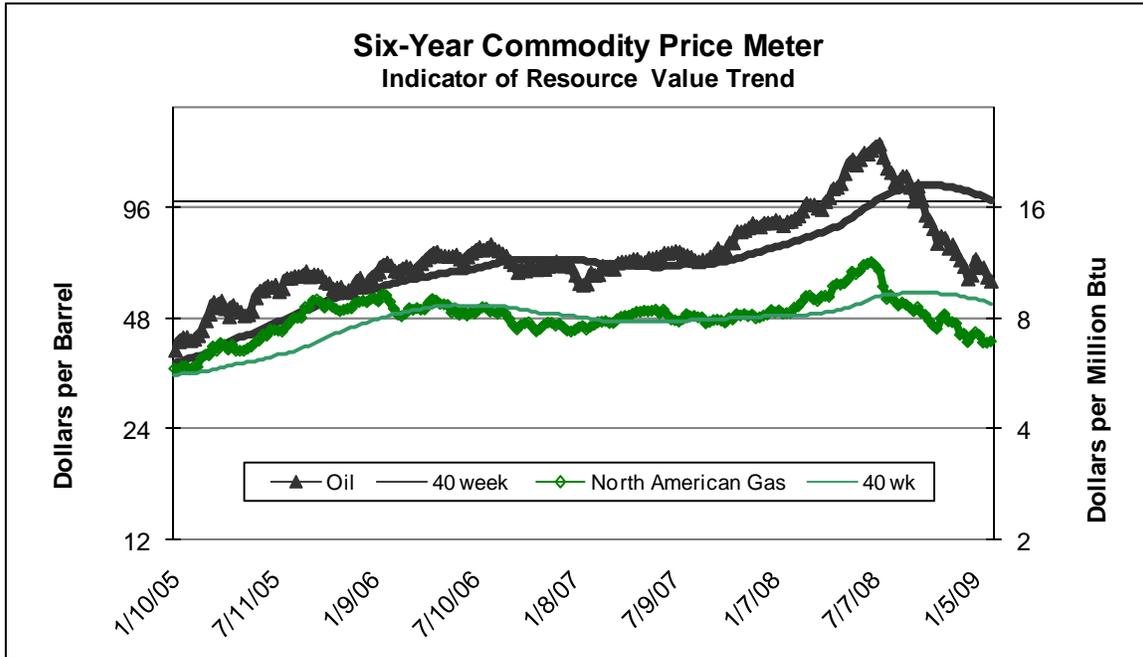




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Table 1										
McDep Large Cap Energy Portfolio										
Geographic Domicile and Business Segments										
						Present Value by Segment (%)				
	Symbol/Rating	Price (US\$/sh)	EV/ Market	Enterprise Value (\$mm)	North Amer. Natural Gas	Rest of World Natural Gas	Oil Prod'n	Down- stream	McDep Ratio	
	B = Buy H = Hold	2-Feb 2009	Cap							
U.S. Integrated										
Exxon Mobil Corporation	XOM	B	76.69	1.08	417,000	5	27	46	21	0.86
Chevron Corporation	CVX	H	70.29	1.18	183,000	4	12	64	20	0.75
Marathon Oil Corporation	MRO	H	26.88	1.61	30,800	7	7	60	26	0.67
ConocoPhillips	COP	B	45.73	1.68	115,000	13	10	60	17	0.55
<i>Total or Median *</i>	<i>38%</i>	<i>15%</i>	<i>20%</i>		<i>746,000</i>					<i>0.71</i>
Europe										
BG Group	BRGXF		13.02	1.09	47,800		29	46	25	0.70
BP plc	BP	H	41.57	1.53	199,000	8	14	62	15	0.66
Total S.A.	TOT	B	50.28	1.24	140,000		24	54	22	0.61
Royal Dutch Shell plc	RDS-A	H	49.67	1.31	199,000	3	23	45	29	0.61
StatoilHydro ASA (33%)	STO	B	16.59	1.37	23,900		43	57	-	0.55
<i>Total or Median *</i>	<i>31%</i>	<i>19%</i>	<i>20%</i>		<i>610,000</i>					<i>0.61</i>
Brazil/China/Russia										
CNOOC Limited (34%)	CEO	H	86.07	1.00	13,100		12	88	-	0.64
Petrobras	PBR		25.92	1.32	150,000		13	77	10	0.59
PetroChina Company Ltd (14%)	PTR	B	73.80	1.14	21,500		17	66	17	0.52
Lukoil Oil Company	LUKOY	H	31.77	1.07	28,900			61	39	0.25
Gazprom (50%)	OGZPY	B	12.83	1.27	48,000		88	12	-	0.24
<i>Total or Median *</i>	<i>13%</i>	<i>19%</i>	<i>20%</i>		<i>262,000</i>					<i>0.52</i>
U.S. Independent										
XTO Energy Inc.	XTO	B	36.03	1.59	31,700	77		23	-	0.71
Anadarko Petroleum Corp.	APC	H	36.09	1.97	33,300	51		45	4	0.68
EOG Resources	EOG	H	66.74	1.13	18,900	71	7	22	-	0.67
Occidental Petroleum Corp.	OXY	H	54.15	1.11	48,900	9	1	81	9	0.63
Chesapeake Energy Corp.	CHK		15.76	2.61	24,200	91		9	-	0.58
Devon Energy Corporation	DVN	B	60.07	1.22	32,800	64		36	-	0.57
<i>Total or Median *</i>	<i>10%</i>	<i>23%</i>	<i>20%</i>		<i>190,000</i>					<i>0.65</i>
Canada										
Imperial Oil Limited (30%)	IMO	H	31.36	1.08	8,800	5		79	16	0.67
Encana Corporation	ECA	B	44.01	1.42	46,900	68		29	4	0.67
Canadian Natural Resources	CNQ	H	34.39	1.58	29,400	26		74	-	0.52
Petro-Canada	PCZ	H	21.48	1.54	16,000	11	3	71	14	0.46
Suncor Energy	SU	H	18.82	1.47	26,000	3		92	5	0.43
Canadian Oil Sands Trust	COSWF	B	15.38	1.15	8,500			100	-	0.40
<i>Total or Median *</i>	<i>7%</i>	<i>23%</i>	<i>20%</i>		<i>136,000</i>					<i>0.49</i>
Composite										
<i>Enterprise Value Weighting</i>	<i>100%</i>				<i>1,944,000</i>	<i>11</i>	<i>18</i>	<i>54</i>	<i>17</i>	<i>0.62</i>
<i>Equal Weighting</i>		<i>100%</i>				<i>20</i>	<i>13</i>	<i>56</i>	<i>11</i>	<i>0.58</i>
<i>Equal Weighted Buys</i>			<i>100%</i>			<i>23</i>	<i>21</i>	<i>48</i>	<i>8</i>	<i>0.57</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	2-Feb	Shares	Cap	Value	Present	McDep	
	H = Hold	2009	(mm)	(US\$mm)	(US\$/sh)	Value	Ratio	
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	76.69	5,045	387,000	90.00	0.06	0.86
Chevron Corporation	CVX	H	70.29	2,206	155,000	98.00	0.11	0.75
Marathon Oil Corporation	MRO	H	26.88	711	19,110	48.00	0.26	0.67
ConocoPhillips	COP	B	45.73	1,486	68,000	109.00	0.22	0.55
<i>Total or Median</i>					629,000		0.17	0.71
Europe								
BG Group plc	BRGXF		13.02	3,382	44,030	19.00	0.06	0.70
BP plc	BP	H	41.57	3,124	130,000	74.00	0.23	0.66
Total S.A.	TOT	B	50.28	2,244	113,000	90.00	0.12	0.61
Royal Dutch Shell plc	RDS-A	H	49.67	3,064	152,000	92.00	0.14	0.61
StatoilHydro ASA (33%)	STO	B	16.59	1,051	17,440	35.00	0.15	0.55
<i>Total or Median</i>					456,000		0.14	0.61
Brazil/China/Russia								
CNOOC Limited (34%)	CEO	H	86.07	152	13,110	135.00	-	0.64
Petrobras	PBR		25.92	4,387	113,710	50.00	0.14	0.59
PetroChina Company Ltd (14%)	PTR	B	73.80	256	18,910	150.00	0.06	0.52
Lukoil Oil Company	LUKOY	H	31.77	848	27,000	135.00	0.02	0.25
Gazprom (50%)	OGZPY	B	12.83	2,940	37,700	64.00	0.05	0.24
<i>Total or Median</i>					210,000		0.05	0.52
U.S. Independent								
XTO Energy Inc.	XTO	B	36.03	552	19,890	60.00	0.26	0.71
Anadarko Petroleum Corp.	APC	H	36.09	468	16,900	70.00	0.33	0.68
EOG Resources	EOG	H	66.74	251	16,800	104.00	0.08	0.67
Occidental Petroleum Corp.	OXY	H	54.15	812	44,000	89.00	0.06	0.63
Chesapeake Energy Corp.	CHK		15.76	588	9,270	46.00	0.36	0.58
Devon Energy Corporation	DVN	B	60.07	446	26,800	116.00	0.10	0.57
<i>Total or Median</i>					133,700		0.18	0.65
Canada								
Imperial Oil Limited (30%)	IMO	H	31.36	262	8,200	48.00	0.05	0.67
Encana Corporation	ECA	B	44.01	751	33,100	75.00	0.20	0.67
Canadian Natural Resources	CNQ	H	34.39	541	18,600	85.00	0.19	0.52
Petro-Canada	PCZ	H	21.48	484	10,400	60.00	0.16	0.46
Suncor Energy	SU	H	18.82	943	17,750	55.00	0.14	0.43
Canadian Oil Sands Trust	COSWF	B	15.38	482	7,410	42.00	0.05	0.40
<i>Total or Median</i>					95,000		0.15	0.49
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		2-Feb	Prod	Ebitda	Ebitda	P/E	
	H = Hold		2009	NTM	NTM	NTM	NTM	
							(%)	
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	76.69	12.3	10.3	8.8	18	2.1
Chevron Corporation	CVX	H	70.29	9.6	10.4	7.8	19	3.7
Marathon Oil Corporation	MRO	H	26.88	8.5	9.4	6.3	14	3.6
ConocoPhillips	COP	B	45.73	10.4	10.7	5.9	13	4.1
<i>Total or Median</i>				<i>10.0</i>	<i>10.3</i>	<i>7.1</i>	<i>16</i>	<i>3.6</i>
Europe								
BG Group plc	BRGXF		13.02	7.6	10.6	7.5	15	1.1
BP plc	BP	H	41.57	9.9	9.9	6.6	11	8.1
Total S.A.	TOT	B	50.28	9.4	10.1	6.2	12	5.6
Royal Dutch Shell plc	RDS-A	H	49.67	7.6	8.6	5.2	12	6.8
StatoilHydro ASA (33%)	STO	B	16.59	8.0	9.2	5.1	16	6.4
<i>Total or Median</i>				<i>8.0</i>	<i>9.9</i>	<i>6.2</i>	<i>12</i>	<i>6.4</i>
Brazil/China/Russia								
Petrobras	PBR		25.92	10.2	13.3	7.8	18	3.3
CNOOC Limited (34%)	CEO	H	86.07	8.3	10.0	6.4	14	5.5
PetroChina Company Ltd (14%)	PTR	B	73.80	14.3	10.1	5.3	17	5.7
Lukoil Oil Company	LUKOY	H	31.77	18.2	7.2	1.8	3	3.3
Gazprom (50%)	OGZPY	B	12.83	24.6	6.5	1.6	2	2.3
<i>Total or Median</i>				<i>14.3</i>	<i>10.0</i>	<i>5.3</i>	<i>14</i>	<i>3.3</i>
U.S. Independent								
XTO Energy Inc.	XTO	B	36.03	11.4	12.9	9.1	22	1.3
Chesapeake Energy Corp.	CHK		15.76	11.1	13.8	8.0	20	1.9
Anadarko Petroleum Corp.	APC	H	36.09	10.1	10.9	7.4		2.0
Occidental Petroleum Corp.	OXY	H	54.15	11.3	11.5	7.3	21	2.4
EOG Resources	EOG	H	66.74	9.1	10.7	7.2	31	0.8
Devon Energy Corporation	DVN	B	60.07	9.4	11.7	6.6	34	1.1
<i>Total or Median</i>				<i>10.6</i>	<i>11.6</i>	<i>7.3</i>	<i>22</i>	<i>1.6</i>
Canada								
Canadian Oil Sands Trust	COSWF	B	15.38	23.3	28.0	11.2	31	3.1
Imperial Oil Limited (30%)	IMO	H	31.36	14.7	15.1	10.1	19	1.0
Suncor Energy	SU	H	18.82	22.5	20.1	8.7	16	0.9
Canadian Natural Resources	CNQ	H	34.39	8.8	14.4	7.4	16	0.9
Encana Corporation	ECA	B	44.01	8.4	9.6	6.4	22	3.6
Petro-Canada	PCZ	H	21.48	6.9	10.1	4.7	21	3.0
<i>Total or Median</i>				<i>11.7</i>	<i>14.7</i>	<i>8.1</i>	<i>20</i>	<i>2.0</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>
30-Jan	CVX	Chevron Corporation	Downstream Surprise
30-Jan	XOM	Exxon Mobil Corporation	Natural Gas Leader
29-Jan	IMO	Imperial Oil Limited	Extra Price Sensitivity in Heavy Oil
29-Jan	OXY	Occidental Petroleum Corporation	Resilience and Financial Strength
29-Jan	PCZ	Petro-Canada	Managing for \$50 to \$60 Oil in 2009
29-Jan	RDSA	Royal Dutch Shell plc	Dividend Trend Beats Inflation
28-Jan	COSWF	Canadian Oil Sands Trust	Quarterly Distribution of C\$0.15 a Unit
28-Jan	COP	ConocoPhillips	Harvesting Accounting Losses
22-Jan	PTR	PetroChina Company Limited	Government Managed Pricing
21-Jan	CEO	CNOOC Ltd	More Volume Growth in 2009
20-Jan	SU	Suncor Energy	Coping with Volatile Oil Price
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)
16-Dec	* LUKOY	Lukoil Oil Company	Credible Russian Champion
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
30-Oct	* MRO	Marathon Oil Corporation	Gasoline and Diesel Demand Rebounding
29-Oct	* EAC	Encore Acquisition Company	Success with ExxonMobil in West Texas
28-Oct	* BP	BP p.l.c.	Dividend Yield 7.2%
24-Oct	* ECA	EnCana Corporation	High-Performance Clean Energy Producer

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3-Feb		Weekly	
27-Jan		Weekly	ExxonMobil Leading the Bull Charge
20-Jan		Weekly	Buy ECA and COSWF among Canadian Producers
13-Jan	*	Weekly	Buy STO and TOT among European Producers

Income and Small Cap Weekly

30-Jan		Weekly	Quirky Lows for SJT and HGT
23-Jan		Weekly	D - Day for Canadian Oil Sands Trust
16-Jan		Weekly	Natural Gas Price Low after Stock Price Low
9-Jan	*	Weekly	SJT - A Clean Fuel Pure Play

* 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.