



# Meter Reader

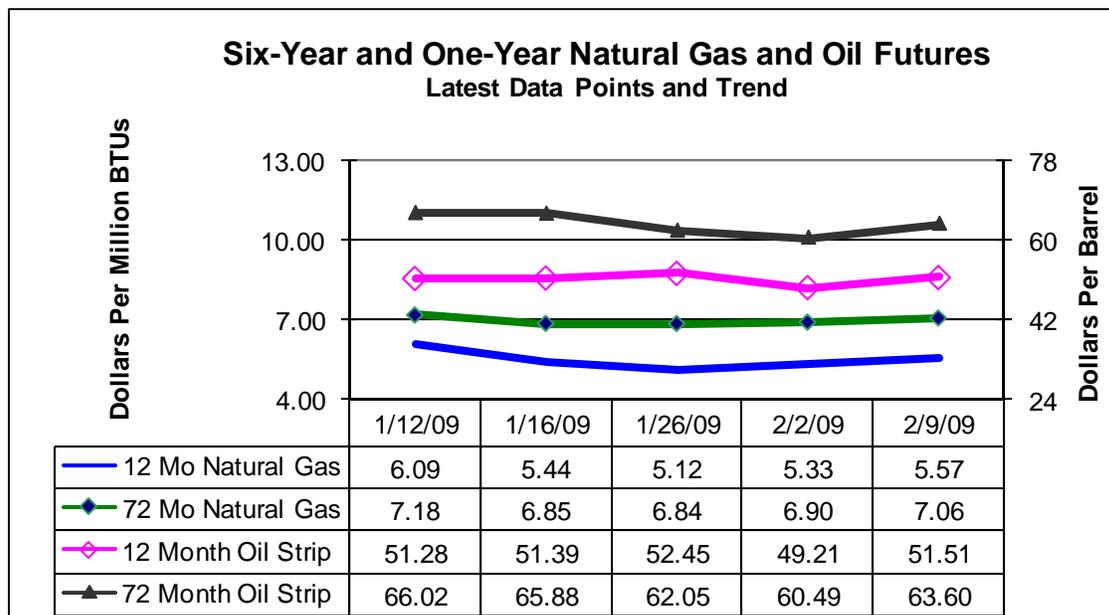
A Weekly Analysis of Large Cap Oil and Gas Stocks  
February 10, 2009

## Optimism Creeping Back

### Summary and Recommendation

With oil and gas stock prices gradually tracing a more positive price trend since the stock market low in October 2008, the three buy recommendations that have not yet traded above the 50-day average stock price are **ConocoPhillips (COP)**, **Gazprom (OGZPY)** and **Devon Energy (DVN)**. We are also encouraged that average prices for oil and gas over the next six years remain higher than for the next twelve months (see chart below Six-Year and One-Year Natural Gas and Oil Futures). Our analysis suggests that the short-term orientation of most investors may be putting too much weight on short-term oil and gas price thereby creating opportunity for investors who may wish to put more weight on long-term oil and gas price. Moreover, the steep decline that started last summer has leveled out for the past few months (see chart, page 2, Six-Year Commodity Price Meter). Recent strength in the oil refining margin measured by the 321 Crack points to possible positive cash flow and earnings comparisons to the first quarter a year ago for the downstream business of integrated companies (see chart, page 2, Oil and Gas Quarterly Price Marker Change and chart on last page Oil and Gas Quarterly Price Markers). Our ten current large cap buy recommendations offer average 8% concentration on Downstream, 44% on Natural Gas and 48% on oil (see Table 1).

Kurt H. Wulff, CFA

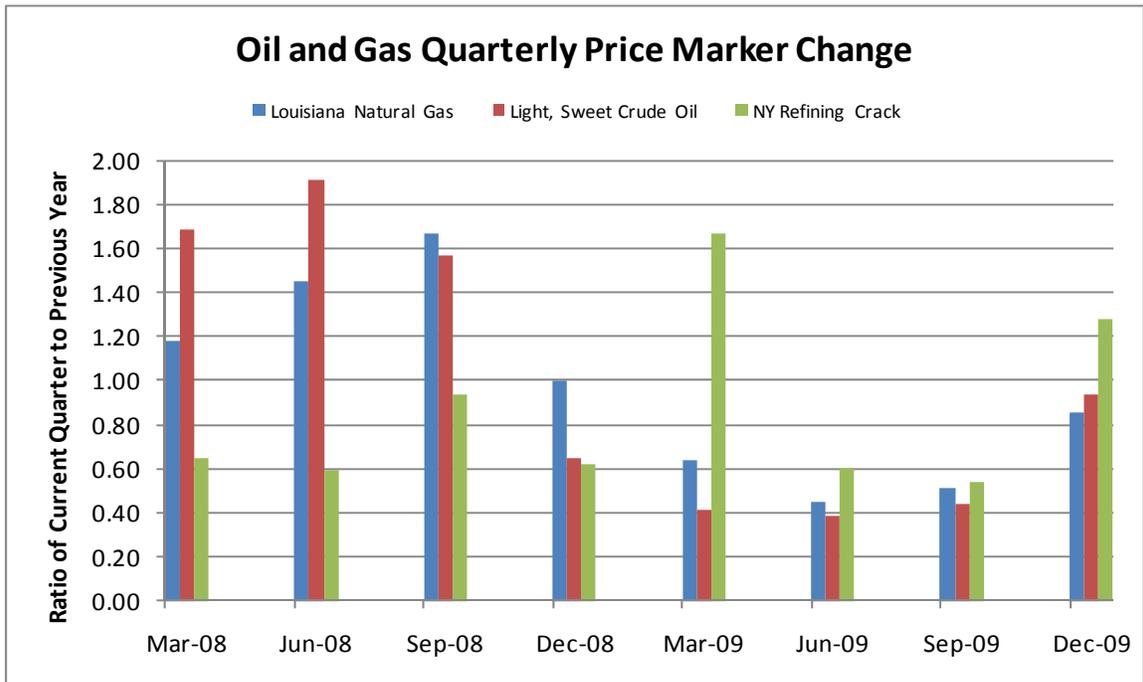
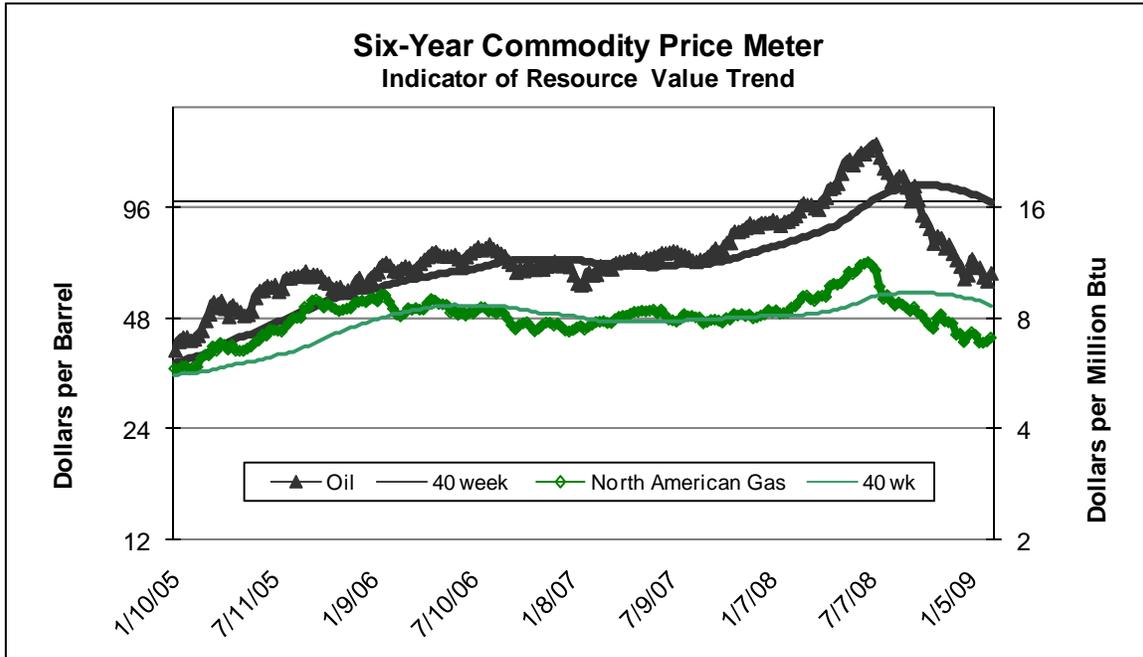




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Table 1											
McDep Large Cap Energy Portfolio											
Geographic Domicile and Business Segments											
						Present Value by Segment (%)					
	Symbol/Rating	Price (US\$/sh)	EV/ Market	Enterprise Value (\$mm)	North Amer. Natural Gas	Rest of World Natural Gas	Oil Prod'n	Down- stream	McDep Ratio		
	B = Buy H = Hold	9-Feb 2009	Cap								
<b>U.S. Integrated</b>											
Exxon Mobil Corporation	XOM	B	79.48	1.08	431,000	5	27	46	21	0.89	
Chevron Corporation	CVX	H	74.42	1.17	192,000	4	12	64	20	0.79	
Marathon Oil Corporation	MRO	H	27.96	1.59	31,500	7	6	61	26	0.63	
ConocoPhillips	COP	B	48.53	1.65	119,000	13	10	60	17	0.57	
<i>Total or Median *</i>	<i>38%</i>	<i>15%</i>	<i>20%</i>		<i>774,000</i>					<i>0.71</i>	
<b>Europe</b>											
BG Group	BRGXF		15.88	1.07	57,600		29	46	25	0.85	
BP plc	BP	H	45.46	1.46	207,000	8	15	62	16	0.70	
Total S.A.	TOT	B	54.13	1.23	149,000		24	54	22	0.65	
Royal Dutch Shell plc	RDS-A	H	51.46	1.30	204,000	3	23	45	29	0.62	
StatoilHydro ASA (33%)	STO	B	18.31	1.35	26,100		43	57	-	0.60	
<i>Total or Median *</i>	<i>31%</i>	<i>19%</i>	<i>20%</i>		<i>644,000</i>					<i>0.65</i>	
<b>Brazil/China/Russia</b>											
CNOOC Limited (34%)	CEO	H	96.16	1.00	14,600		12	88	-	0.71	
Petrobras	PBR		30.23	1.28	169,000		13	77	10	0.66	
PetroChina Company Ltd (14%)	PTR	B	84.65	1.12	24,300		17	66	17	0.59	
Lukoil Oil Company	LUKOY	H	34.25	1.07	31,000			61	39	0.27	
Gazprom (50%)	OGZPY	B	14.10	1.24	52,000		88	12	-	0.26	
<i>Total or Median *</i>	<i>14%</i>	<i>19%</i>	<i>20%</i>		<i>291,000</i>					<i>0.59</i>	
<b>U.S. Independent</b>											
XTO Energy Inc.	XTO	B	39.59	1.54	33,600	77		23	-	0.75	
Anadarko Petroleum Corp.	APC	H	41.42	1.86	35,500	57		38	5	0.73	
Occidental Petroleum Corp.	OXY	H	58.61	1.10	52,500	9	1	81	9	0.68	
EOG Resources	EOG	H	70.74	1.13	20,000	75	5	20	-	0.67	
Chesapeake Energy Corp.	CHK		18.87	2.34	26,000	91		9	-	0.62	
Devon Energy Corporation	DVN	B	59.35	1.33	35,000	67		33	-	0.58	
<i>Total or Median *</i>	<i>10%</i>	<i>23%</i>	<i>20%</i>		<i>203,000</i>					<i>0.68</i>	
<b>Canada</b>											
Encana Corporation	ECA	B	47.40	1.39	49,400	68		29	4	0.70	
Imperial Oil Limited (30%)	IMO	H	32.98	1.08	9,300	5		79	16	0.70	
Canadian Natural Resources	CNQ	H	38.95	1.53	32,200	26		74	-	0.56	
Petro-Canada	PCZ	H	24.46	1.48	17,500	11	3	71	14	0.50	
Suncor Energy	SU	H	21.35	1.42	28,600	3		92	5	0.47	
Canadian Oil Sands Trust	COSWF	B	18.10	1.13	9,900			100	-	0.46	
<i>Total or Median *</i>	<i>7%</i>	<i>23%</i>	<i>20%</i>		<i>147,000</i>					<i>0.53</i>	
<b>Composite</b>											
<i>Enterprise Value Weighting</i>	<i>100%</i>				<i>2,059,000</i>	<i>11</i>	<i>18</i>	<i>54</i>	<i>17</i>	<i>0.65</i>	
<i>Equal Weighting</i>		<i>100%</i>				<i>20</i>	<i>13</i>	<i>56</i>	<i>11</i>	<i>0.62</i>	
<i>Equal Weighted Buys</i>			<i>100%</i>			<i>23</i>	<i>21</i>	<i>48</i>	<i>8</i>	<i>0.61</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	9-Feb	Shares	Cap	Value	Present	McDep	
	H = Hold	2009	(mm)	(US\$mm)	(US\$/sh)	Value	Ratio	
<b>U.S. Integrated</b>								
Exxon Mobil Corporation	XOM	B	79.48	5,045	401,000	90.00	0.06	0.89
Chevron Corporation	CVX	H	74.42	2,206	164,000	98.00	0.11	0.79
Marathon Oil Corporation	MRO	H	27.96	707	19,770	54.00	0.23	0.63
ConocoPhillips	COP	B	48.53	1,486	72,000	109.00	0.22	0.57
<i>Total or Median</i>					657,000		0.17	0.71
<b>Europe</b>								
BG Group plc	BRGXF		15.88	3,382	53,710	19.00	0.06	0.85
BP plc	BP	H	45.46	3,119	142,000	74.00	0.22	0.70
Total S.A.	TOT	B	54.13	2,244	122,000	90.00	0.12	0.65
Royal Dutch Shell plc	RDS-A	H	51.46	3,064	158,000	92.00	0.14	0.62
StatoilHydro ASA (33%)	STO	B	18.31	1,051	19,250	35.00	0.16	0.60
<i>Total or Median</i>					495,000		0.14	0.65
<b>Brazil/China/Russia</b>								
CNOOC Limited (34%)	CEO	H	96.16	152	14,640	135.00	-	0.71
Petrobras	PBR		30.23	4,387	132,620	50.00	0.14	0.66
PetroChina Company Ltd (14%)	PTR	B	84.65	256	21,690	150.00	0.06	0.59
Lukoil Oil Company	LUKOY	H	34.25	848	29,000	135.00	0.02	0.27
Gazprom (50%)	OGZPY	B	14.10	2,940	41,500	64.00	0.05	0.26
<i>Total or Median</i>					239,000		0.05	0.59
<b>U.S. Independent</b>								
XTO Energy Inc.	XTO	B	39.59	552	21,850	60.00	0.26	0.75
Anadarko Petroleum Corp.	APC	H	41.42	460	19,100	70.00	0.34	0.73
Occidental Petroleum Corp.	OXY	H	58.61	812	47,600	89.00	0.06	0.68
EOG Resources	EOG	H	70.74	250	17,700	110.00	0.08	0.67
Chesapeake Energy Corp.	CHK		18.87	588	11,100	46.00	0.36	0.62
Devon Energy Corporation	DVN	B	59.35	444	26,400	116.00	0.14	0.58
<i>Total or Median</i>					143,800		0.20	0.68
<b>Canada</b>								
Encana Corporation	ECA	B	47.40	751	35,600	75.00	0.20	0.70
Imperial Oil Limited (30%)	IMO	H	32.98	262	8,630	48.00	0.05	0.70
Canadian Natural Resources	CNQ	H	38.95	541	21,100	85.00	0.19	0.56
Petro-Canada	PCZ	H	24.46	484	11,840	60.00	0.16	0.50
Suncor Energy	SU	H	21.35	943	20,130	55.00	0.14	0.47
Canadian Oil Sands Trust	COSWF	B	18.10	482	8,720	42.00	0.05	0.46
<i>Total or Median</i>					106,000		0.15	0.53
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		9-Feb	Prod	Ebitda	Ebitda	P/E	
	H = Hold		2009	NTM	NTM	NTM	NTM	
							(%)	
<b>U.S. Integrated</b>								
Exxon Mobil Corporation	XOM	B	79.48	12.3	10.1	9.0	18	2.0
Chevron Corporation	CVX	H	74.42	9.6	10.2	8.0	19	3.5
ConocoPhillips	COP	B	48.53	10.4	10.4	5.9	13	3.9
Marathon Oil Corporation	MRO	H	27.96	7.8	8.6	5.4	13	3.4
	<i>Total or Median</i>			<i>10.0</i>	<i>10.1</i>	<i>7.0</i>	<i>16</i>	<i>3.5</i>
<b>Europe</b>								
BG Group plc	BRGXF		15.88	7.6	10.2	8.6	17	1.0
BP plc	BP	H	45.46	9.8	9.6	6.7	12	7.4
Total S.A.	TOT	B	54.13	9.4	9.9	6.4	13	5.3
Royal Dutch Shell plc	RDS-A	H	51.46	7.6	8.5	5.3	12	6.5
StatoilHydro ASA (33%)	STO	B	18.31	8.0	8.8	5.3	17	6.1
	<i>Total or Median</i>			<i>8.0</i>	<i>9.6</i>	<i>6.4</i>	<i>13</i>	<i>6.1</i>
<b>Brazil/China/Russia</b>								
Petrobras	PBR		30.23	10.2	12.9	8.6	20	2.8
CNOOC Limited (34%)	CEO	H	96.16	8.3	9.7	6.9	14	5.0
PetroChina Company Ltd (14%)	PTR	B	84.65	14.3	9.9	5.9	19	5.0
Lukoil Oil Company	LUKOY	H	34.25	18.2	7.1	1.9	3	3.1
Gazprom (50%)	OGZPY	B	14.10	24.6	6.5	1.7	2	2.1
	<i>Total or Median</i>			<i>14.3</i>	<i>9.7</i>	<i>5.9</i>	<i>14</i>	<i>3.1</i>
<b>U.S. Independent</b>								
XTO Energy Inc.	XTO	B	39.59	11.4	12.4	9.3	23	1.2
Chesapeake Energy Corp.	CHK		18.87	11.1	13.3	8.2	20	1.6
Anadarko Petroleum Corp.	APC	H	41.42	9.3	11.0	8.1		1.7
EOG Resources	EOG	H	70.74	10.1	11.5	7.7	39	0.8
Occidental Petroleum Corp.	OXY	H	58.61	11.3	11.1	7.6	21	2.2
Devon Energy Corporation	DVN	B	59.35	8.8	11.2	6.5	27	1.1
	<i>Total or Median</i>			<i>10.6</i>	<i>11.3</i>	<i>7.9</i>	<i>23</i>	<i>1.4</i>
<b>Canada</b>								
Canadian Oil Sands Trust	COSWF	B	18.10	23.3	26.5	12.2	32	2.7
Imperial Oil Limited (30%)	IMO	H	32.98	14.7	14.6	10.2	19	1.0
Suncor Energy	SU	H	21.35	22.5	19.4	9.2	17	0.8
Canadian Natural Resources	CNQ	H	38.95	8.8	13.9	7.8	17	0.8
Encana Corporation	ECA	B	47.40	8.4	9.3	6.6	21	3.4
Petro-Canada	PCZ	H	24.46	6.9	9.8	4.9	22	2.7
	<i>Total or Median</i>			<i>11.7</i>	<i>14.2</i>	<i>8.5</i>	<i>20</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>
5-Feb	EOG	EOG Resources Inc.	Raise NPV on Higher Reserves
4-Feb	DVN	Devon Energy Corporation	Harvesting Accounting Losses
3-Feb	MRO	Marathon Oil Corporation	Raise NPV to \$54 a Share
3-Feb	BP	BP p.l.c.	Cash Flow Balance at \$50 to \$60 Oil in 2009
3-Feb	APC	Anadarko Petroleum Corporation	Deep Water Explorer
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	* XTO	XTO Energy Inc.	Personal Debt-Free Pledge
5-Nov	* TOT	Total S.A.	Geographic Appeal
4-Nov	* XEC	Cimarex Energy Company	Capital Discipline
3-Nov	* STO	StatoilHydro ASA	Financially Strong Dividend Payer
29-Oct	* EAC	Encore Acquisition Company	Success with ExxonMobil in West Texas
24-Oct	* ECA	EnCana Corporation	High-Performance Clean Energy Producer

### Meter Reader

10-Feb		Weekly	
3-Feb		Weekly	Low Price for Natural Gas
27-Jan		Weekly	ExxonMobil Leading the Bull Charge
20-Jan	*	Weekly	Buy ECA and COSWF among Canadian Producers

### Income and Small Cap Weekly

6-Feb		Penn West Energy Trust	Strengthens Balance Sheet
30-Jan		Weekly	Quirky Lows for SJT and HGT
23-Jan		Canadian Oil Sands Trust	D - Day
16-Jan	*	Weekly	Natural Gas Price Low after Stock Price Low

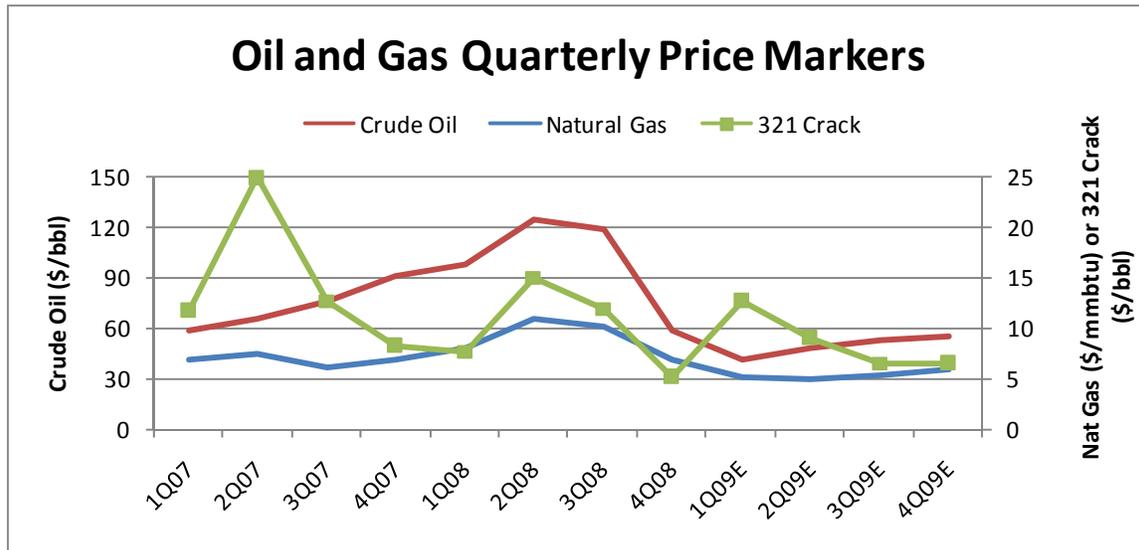
\* Archived on [www.mcdep.com](http://www.mcdep.com)



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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.