



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

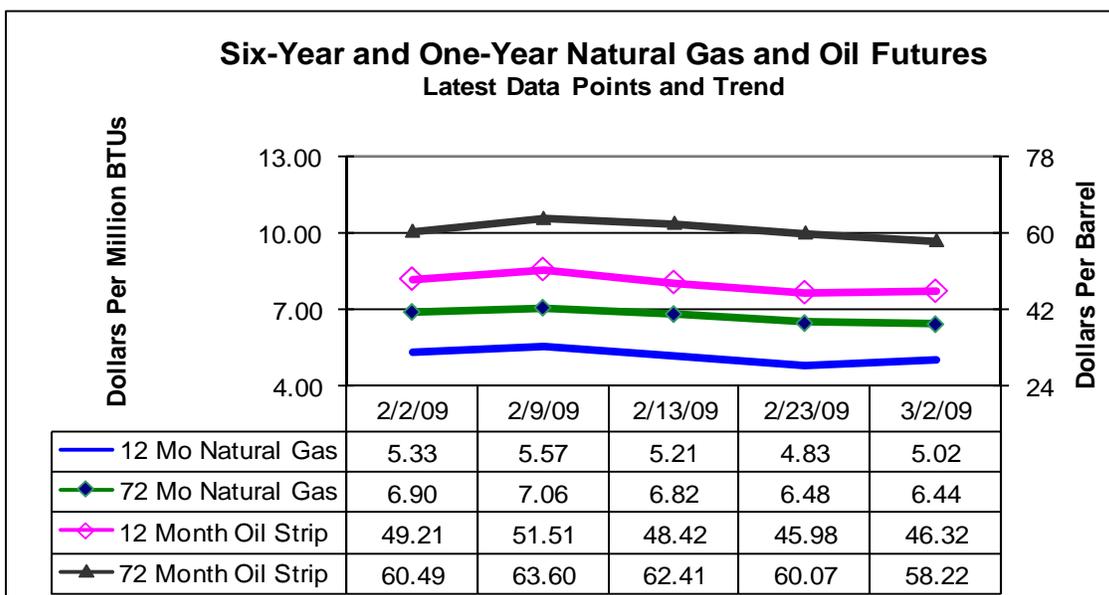
March 3, 2009

## Home of the Brave

### Summary and Recommendation

Considering that there must be a buyer for every seller of a stock, there must be many brave persons in the market. Along with the market averages, three of our ten large cap buy recommendations made new 52-week stock price lows. Those three, **ConocoPhillips (COP)**, **Devon Energy (DVN)** and **EOG Resources (EOG)** have exposure to low regional natural gas price, yet the stock price action undoubtedly relates to broader issues. Each of the three companies is financially strong, well managed and practically sure to continue as an industry leader when business conditions improve. As for natural gas, there have been wide price swings about every two years during the past two decades. U.S. production may now be rolling over from advancing to declining following the price decline since a year ago thereby setting up price recovery for winter a year from now. In contrast, gasoline is already on the upswing after steep decline thereby helping COP's downstream business compared to a year ago. Seeing the ups and downs over the years makes us stubborn enough to keep our confidence in strong companies while at the same time not being blind to the declining stock price trend. We don't know when that trend will turn, but we want to be partially invested before it happens. Then we can be more positive when investor psychology as measured by stock price is in a confirmed uptrend. Meanwhile, in our weekly valuation rankings, Table 1 and Table 2 feature present value estimated for unchanged, constant real long-term prices. Table 3 features estimates for the next twelve months using latest futures prices.

Kurt H. Wulff, CFA





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Table 1											
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	2-Mar 2009	Cap								
<b>U.S. Integrated</b>											
Exxon Mobil Corporation	XOM	B	64.91	1.09	358,000	5	27	46	21	0.74	
Chevron Corporation	CVX	H	57.62	1.26	160,000	4	12	65	19	0.64	
Marathon Oil Corporation	MRO	H	20.92	1.73	25,500	7	6	60	27	0.52	
ConocoPhillips	COP	B	35.13	1.89	99,000	13	10	60	17	0.47	
<i>Total or Median *</i>	<i>37%</i>	<i>10%</i>	<i>17%</i>		<i>643,000</i>					<i>0.58</i>	
<b>Europe</b>											
BG Group	BRGXF		13.12	1.14	50,500		33	40	27	0.72	
BP plc	BP	H	35.15	1.59	175,000	8	15	62	16	0.59	
Total S.A.	TOT	B	43.72	1.30	127,000		25	52	23	0.55	
StatoilHydro ASA (33%)	STO	B	15.41	1.49	24,100		51	49	-	0.54	
Royal Dutch Shell plc	RDS-A	H	40.19	1.38	170,000	3	23	45	29	0.52	
<i>Total or Median *</i>	<i>31%</i>	<i>12%</i>	<i>17%</i>		<i>547,000</i>					<i>0.55</i>	
<b>Brazil/China/Russia</b>											
Petrobras	PBR		25.31	1.33	148,000		13	77	10	0.58	
CNOOC Limited (34%)	CEO	H	76.63	1.00	11,700		12	88	-	0.57	
PetroChina Company Ltd (14%)	PTR	B	64.09	1.16	19,000		17	66	17	0.46	
Lukoil Oil Company	LUKOY	H	29.75	1.08	27,200			61	39	0.23	
Gazprom (50%)	OGZPY	B	11.95	1.28	45,000		88	12	-	0.23	
<i>Total or Median *</i>	<i>14%</i>	<i>12%</i>	<i>17%</i>		<i>251,000</i>					<i>0.46</i>	
<b>U.S. Independent</b>											
Anadarko Petroleum Corp.	APC	H	31.15	2.05	29,400	58		37	5	0.62	
XTO Energy Inc.	XTO	H	29.19	1.70	28,600	79		21	-	0.62	
Occidental Petroleum Corp.	OXY	H	48.87	1.14	45,300	9	1	81	9	0.58	
Chesapeake Energy Corp.	CHK		13.50	2.84	22,000	91		9	-	0.54	
EOG Resources	EOG	B	45.59	1.20	13,700	75	5	20	-	0.46	
Devon Energy Corporation	DVN	B	39.34	1.49	26,100	67		33	-	0.43	
<i>Total or Median *</i>	<i>9%</i>	<i>14%</i>	<i>17%</i>		<i>165,000</i>					<i>0.56</i>	
<b>Canada</b>											
Imperial Oil Limited (30%)	IMO	H	29.37	1.08	8,300	5		80	16	0.63	
Encana Corporation	ECA	B	36.33	1.45	39,600	69		26	4	0.58	
Canadian Natural Resources	CNQ	H	28.19	1.68	25,700	27		73	-	0.46	
Petro-Canada	PCZ	H	19.72	1.56	14,900	11	3	71	15	0.43	
Suncor Energy	SU	H	18.40	1.46	25,300	3		92	5	0.42	
Canadian Oil Sands Trust	COSWF	B	14.34	1.15	8,000			100	-	0.37	
<i>Total or Median *</i>	<i>7%</i>	<i>14%</i>	<i>17%</i>		<i>122,000</i>					<i>0.44</i>	
<b>Income and Small Cap (see separate weekly analysis)</b>											
		2%	38%	17%	30,000	37		63		0.61	
<b>Composite</b>											
<i>Enterprise Value Weighting</i>	<i>100%</i>				<i>1,758,000</i>	<i>11</i>	<i>18</i>	<i>54</i>	<i>17</i>	<i>0.56</i>	
<i>Equal Weighting</i>		<i>100%</i>				<i>34</i>	<i>8</i>	<i>50</i>	<i>7</i>	<i>0.52</i>	
<i>Equal Weighted Buys</i>			<i>100%</i>			<i>33</i>	<i>18</i>	<i>42</i>	<i>7</i>	<i>0.50</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 Energy Portfolio								
Net Present Value and McDep Ratio								
			Price			Net		
	Symbol/Rating		(US\$/sh)		Market	Present	Debt/	
	B = Buy	2-Mar	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	64.91	5,045	328,000	90.00	0.06	0.74
Chevron Corporation	CVX	H	57.62	2,206	127,000	98.00	0.13	0.64
Marathon Oil Corporation	MRO	H	20.92	707	14,790	54.00	0.22	0.52
ConocoPhillips	COP	B	35.13	1,486	52,000	109.00	0.22	0.47
<i>Total or Median</i>					522,000		0.18	0.58
<b>Europe</b>								
BG Group plc	BRGXF		13.12	3,379	44,330	19.00	0.09	0.72
BP plc	BP	H	35.15	3,119	110,000	74.00	0.22	0.59
Total S.A.	TOT	B	43.72	2,235	98,000	90.00	0.13	0.55
StatoilHydro ASA (33%)	STO	B	15.41	1,051	16,200	35.00	0.18	0.54
Royal Dutch Shell plc	RDS-A	H	40.19	3,064	123,000	92.00	0.14	0.52
<i>Total or Median</i>					392,000		0.14	0.55
<b>Brazil/China/Russia</b>								
Petrobras	PBR		25.31	4,387	111,030	50.00	0.14	0.58
CNOOC Limited (34%)	CEO	H	76.63	152	11,670	135.00	-	0.57
PetroChina Company Ltd (14%)	PTR	B	64.09	256	16,420	150.00	0.06	0.46
Lukoil Oil Company	LUKOY	H	29.75	848	25,000	135.00	0.02	0.23
Gazprom (50%)	OGZPY	B	11.95	2,940	35,100	64.00	0.05	0.23
<i>Total or Median</i>					199,000		0.05	0.46
<b>U.S. Independent</b>								
Anadarko Petroleum Corp.	APC	H	31.15	460	14,300	70.00	0.32	0.62
XTO Energy Inc.	XTO	H	29.19	577	16,840	60.00	0.25	0.62
Occidental Petroleum Corp.	OXY	H	48.87	812	39,700	89.00	0.07	0.58
Chesapeake Energy Corp.	CHK		13.50	575	7,760	46.00	0.35	0.54
EOG Resources	EOG	B	45.59	250	11,400	110.00	0.08	0.46
Devon Energy Corporation	DVN	B	39.34	444	17,500	116.00	0.14	0.43
<i>Total or Median</i>					107,500		0.20	0.56
<b>Canada</b>								
Imperial Oil Limited (30%)	IMO	H	29.37	262	7,680	48.00	0.05	0.63
Encana Corporation	ECA	B	36.33	751	27,300	75.00	0.18	0.58
Canadian Natural Resources	CNQ	H	28.19	541	15,300	85.00	0.19	0.46
Petro-Canada	PCZ	H	19.72	484	9,540	60.00	0.16	0.43
Suncor Energy	SU	H	18.40	943	17,350	55.00	0.13	0.42
Canadian Oil Sands Trust	COSWF	B	14.34	482	6,910	42.00	0.05	0.37
<i>Total or Median</i>					84,000		0.14	0.44
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 Energy Portfolio								
Value Multiples and Distribution Yield								
			Price	Adjustd			Divd or	
	Symbol/Rating		(US\$/sh)	Resrvs/	PV/	EV/	Distrib	
	B = Buy		2-Mar	Prod	Ebitda	Ebitda	P/E	
	H = Hold		2009	NTM	NTM	NTM	NTM	
							(%)	
<b>U.S. Integrated</b>								
Exxon Mobil Corporation	XOM	B	64.91	12.3	10.4	7.7	15	2.5
Chevron Corporation	CVX	H	57.62	10.1	10.7	6.9	16	4.5
ConocoPhillips	COP	B	35.13	10.4	10.8	5.1	11	5.4
Marathon Oil Corporation	MRO	H	20.92	8.5	8.7	4.5	11	4.6
	<i>Total or Median</i>			<i>10.2</i>	<i>10.5</i>	<i>6.0</i>	<i>13</i>	<i>4.6</i>
<b>Europe</b>								
BG Group plc	BRGXF		13.12	7.4	10.4	7.5	15	1.2
BP plc	BP	H	35.15	9.8	10.0	5.9	10	9.6
Total S.A.	TOT	B	43.72	9.3	10.2	5.6	13	6.6
StatoilHydro ASA (33%)	STO	B	15.41	7.5	8.8	4.8	16	6.6
Royal Dutch Shell plc	RDS-A	H	40.19	7.6	8.7	4.5	10	8.4
	<i>Total or Median</i>			<i>7.6</i>	<i>10.0</i>	<i>5.6</i>	<i>13</i>	<i>6.6</i>
<b>Brazil/China/Russia</b>								
Petrobras	PBR		25.31	10.2	13.5	7.8	18	3.4
CNOOC Limited (34%)	CEO	H	76.63	7.8	9.1	5.2	11	6.2
PetroChina Company Ltd (14%)	PTR	B	64.09	14.1	9.9	4.6	14	6.6
Lukoil Oil Company	LUKOY	H	29.75	18.2	7.2	1.7	3	3.5
Gazprom (50%)	OGZPY	B	11.95	24.6	6.5	1.5	2	2.5
	<i>Total or Median</i>			<i>14.1</i>	<i>9.1</i>	<i>4.6</i>	<i>11</i>	<i>3.5</i>
<b>U.S. Independent</b>								
XTO Energy Inc.	XTO	H	29.19	11.9	15.5	9.6	15	1.7
Chesapeake Energy Corp.	CHK		13.50	11.5	14.9	8.1	34	2.2
Anadarko Petroleum Corp.	APC	H	31.15	9.3	11.9	7.4		2.3
Occidental Petroleum Corp.	OXY	H	48.87	11.4	11.5	6.7	19	2.6
EOG Resources	EOG	B	45.59	10.0	13.4	6.2	56	1.3
Devon Energy Corporation	DVN	B	39.34	8.8	12.5	5.4	29	1.6
	<i>Total or Median</i>			<i>10.7</i>	<i>13.0</i>	<i>7.0</i>	<i>29</i>	<i>2.0</i>
<b>Canada</b>								
Canadian Oil Sands Trust	COSWF	B	14.34	23.3	27.8	10.4	27	3.2
Imperial Oil Limited (30%)	IMO	H	29.37	19.1	15.4	9.7	18	1.1
Suncor Energy	SU	H	18.40	22.5	20.5	8.7	16	0.8
Canadian Natural Resources	CNQ	H	28.19	8.6	14.9	6.8	14	1.1
Encana Corporation	ECA	B	36.33	9.1	11.4	6.6	25	4.4
Petro-Canada	PCZ	H	19.72	6.9	10.3	4.5	19	3.1
	<i>Total or Median</i>			<i>14.1</i>	<i>15.2</i>	<i>7.7</i>	<i>18</i>	<i>2.1</i>
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2010; 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>
25-Feb	BRY	Berry Petroleum	Resource Rich, Credit Sensitive
19-Feb	PWE	Penn West Energy Trust	Distribution Keyed to US\$45 Oil
19-Feb	XTO	XTO Energy Inc.	Hedging Helping
18-Feb	XEC	Cimarex Energy Company	Lower NPV to \$55 a Share
17-Feb	STO	StatoilHydro ASA	Low Cost Offshore Operator
12-Feb	ECA	EnCana Corporation	Steady Production and Reserves
12-Feb	TOT	Total S.A.	Dividend and Investment Strength
11-Feb	EAC	Encore Acquisition Company	Lower NPV to \$44 a Share
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	Volumes Climbing
9-Jan	* SJT	San Juan Basin Royalty Trust	Clean Fuel Pure Play (Income and Small Cap Weekly)
31-Dec	* OGZPY	Gazprom	Underrated Investment
26-Dec	* HGT	Hugoton Royalty Trust	Under Year-End Price Pressure (Income Weekly)
16-Dec	* LUKOY	Lukoil Oil Company	Credible Russian Champion
6-Nov	* CNQ	Canadian Natural Resources	Hidden Value in Heavy Oil

### Meter Reader

3-Mar		Weekly	
24-Feb		Weekly	Buy EOG, Hold XTO (Meter Reader)
17-Feb		Weekly	Long-Term Oil Supply Declining
10-Feb	*	Weekly	Optimism Creeping Back

### Income and Small Cap Weekly

27-Feb		Weekly	Turning Points
20-Feb		Weekly	Geographic Distortion in Natural Gas Price
13-Feb		Weekly	Revisions, Differentials and Anomalies
6-Feb	*	Penn West Energy Trust	Strengthens Balance Sheet

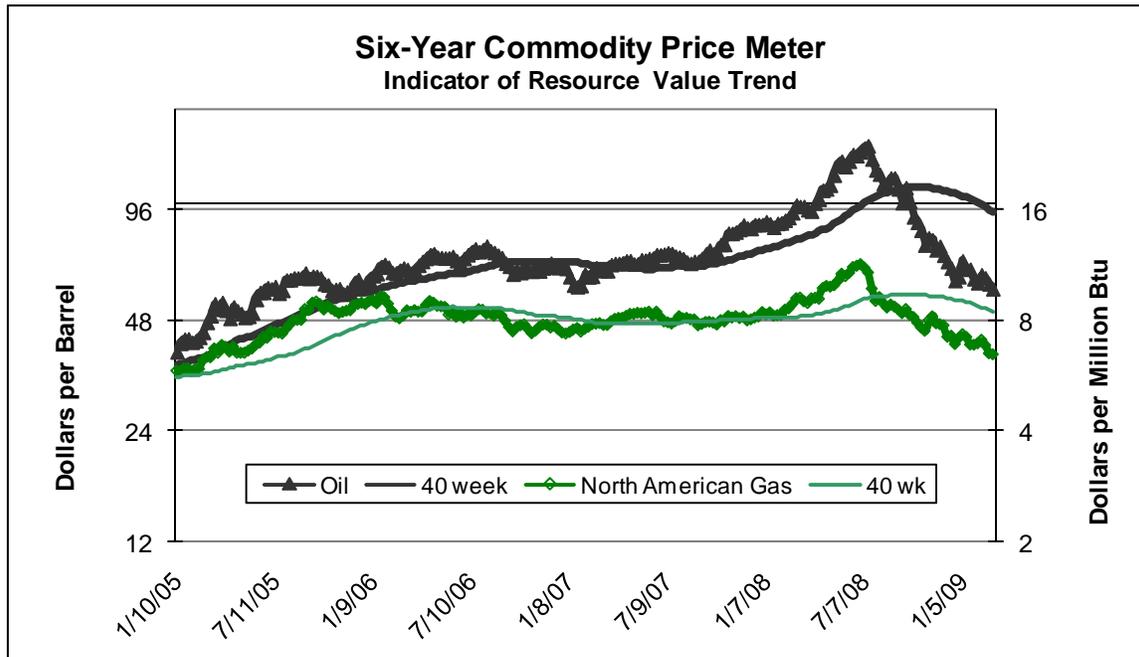
\* Archived on [www.mcdep.com](http://www.mcdep.com)



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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.