



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

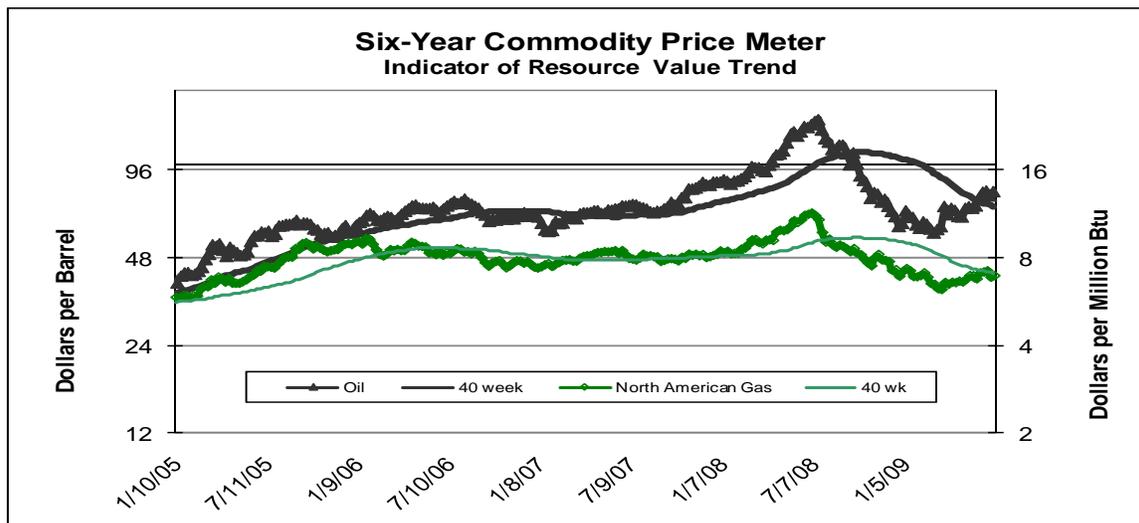
June 30, 2009

## Natural Gas Innovators' Dilemma

### Summary and Recommendation

U.S. Independent Producers, including buy recommendations **Anadarko Petroleum (APC)**, **Devon Energy (DVN)**, **EOG Resources (EOG)**, **Occidental Petroleum (OXY)** and **XTO Energy (XTO)** are bright spots that can lead the U.S. economy back to growth. The resource innovators have been so successful developing new natural gas supply that we have a surplus after a steep economic contraction. The low price for natural gas may be just what is needed to expand markets in the transportation and electric generation sector. Instead of pouring printed money into uneconomic alternative energy, our political leaders could have Government Motors apply its efforts to building vehicles to run on the proven technology of clean natural gas. Utility executives can make the easy choice of simply running natural gas through generating capacity already in place rather than agonizing over the expense and political uncertainty of new coal and nuclear capacity. While natural gas cannot meet all the transportation and electric generation needs entirely at once, there appears to be the capacity to supply all of the expected growth and more. Considering that \$3 a gallon gasoline is equivalent to \$24 a million btu natural gas there is ample room for the price of natural gas to rise and still be a bargain for consumers (see chart below, Six-Year Commodity Price Meter and on last page, Six-Year and One-Year Natural Gas and Oil Futures). Meanwhile the dilemma for the innovators is how to manage the surplus for the next few quarters. After growing a median 8% a year on a debt-adjusted per share basis for the past two years, volumes may level or decline until demand kicks in again (see charts on page 2, Debt-Adjusted Volume Per Share and Quarterly Volume).

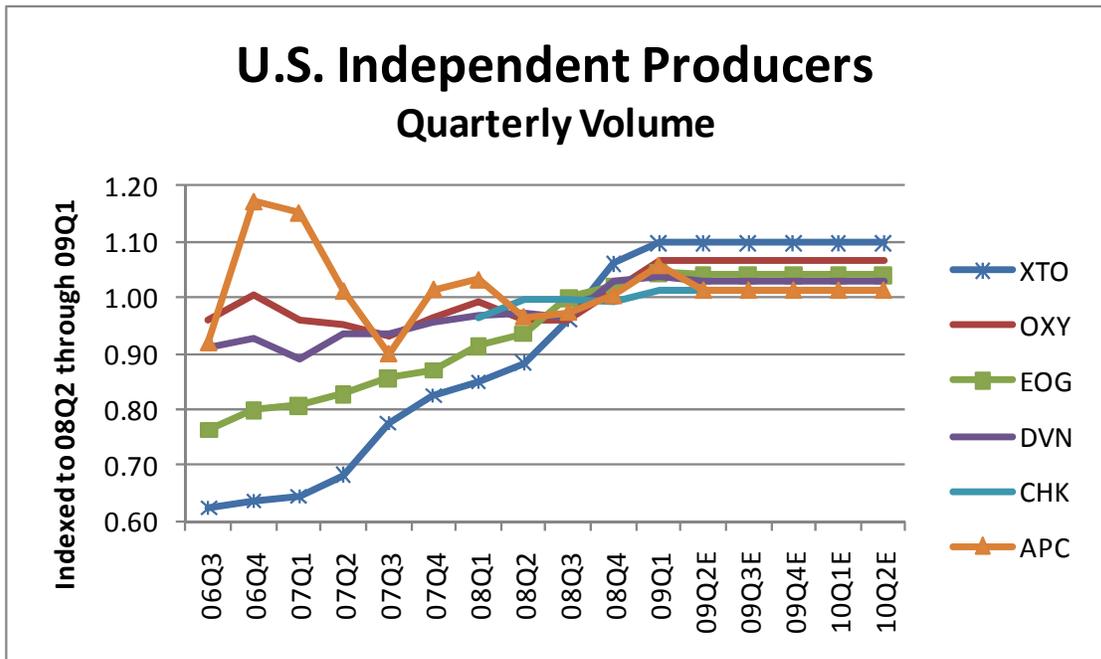
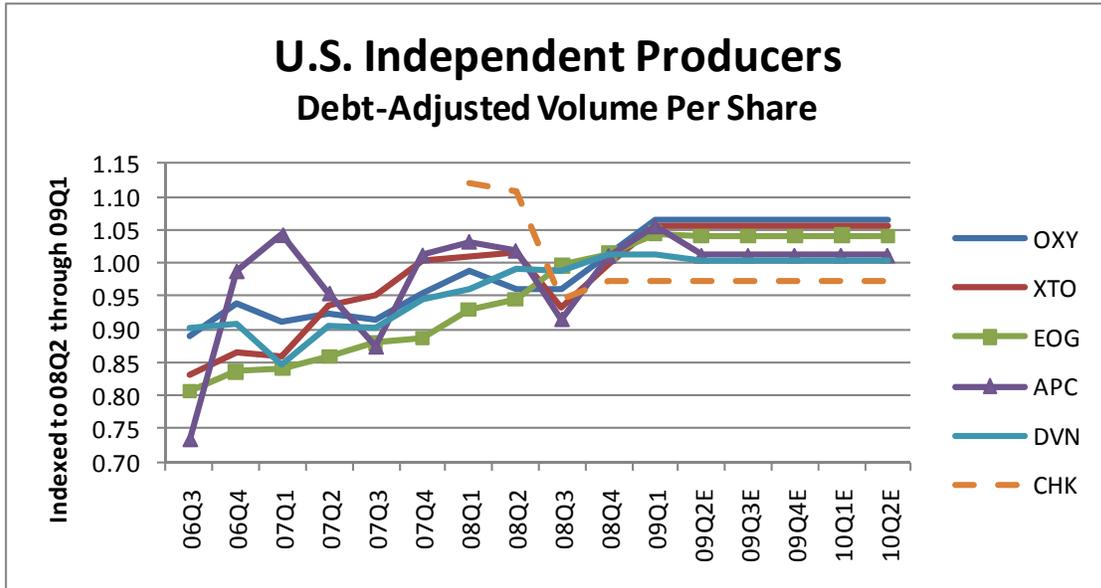
Kurt H. Wulff, CFA





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<b>Table 1</b>										
<b>McDep Energy Portfolio</b>										
<b>Geographic Domicile and Business Segments</b>										
						<i>Present Value by Segment (%)</i>				
	<i>Symbol/Rating</i>		<i>Price</i>	<i>EV/</i>	<i>Enterprise</i>	<i>North</i>	<i>Rest</i>			
	<i>B = Buy</i>	<i>29-Jun</i>	<i>Market</i>	<i>Value</i>	<i>Natural</i>	<i>Natural</i>	<i>Oil</i>	<i>Down-</i>	<i>McDep</i>	
	<i>H = Hold</i>	<i>2009</i>	<i>Cap</i>	<i>(\$mm)</i>	<i>Gas</i>	<i>Gas</i>	<i>Prod'n</i>	<i>stream</i>	<i>Ratio</i>	
<b>U.S. Integrated</b>										
Exxon Mobil Corporation	XOM	B	70.58	1.12	392,000	6	21	49	23	0.80
Chevron Corporation	CVX	H	66.88	1.24	166,000	4	11	66	18	0.73
Marathon Oil Corporation	MRO	B	29.81	1.53	32,500	10	7	57	26	0.65
ConocoPhillips	COP	B	42.21	1.82	115,000	13	10	61	16	0.53
<i>Total or Median *</i>	<i>32%</i>	<i>9%</i>	<i>11%</i>		<i>706,000</i>					<i>0.69</i>
<b>Europe</b>										
BG Group	BRGXF	B	17.08	1.13	65,400		27	46	27	0.80
BP plc	BP	B	47.96	1.43	216,000	8	12	64	15	0.72
Royal Dutch Shell plc	RDS-A	B	50.79	1.32	205,000	3	24	40	33	0.70
Total S.A.	TOT	B	54.86	1.26	155,000		25	53	22	0.66
StatoilHydro ASA (33%)	STO	B	19.84	1.39	29,100		53	47	-	0.65
<i>Total or Median *</i>	<i>31%</i>	<i>12%</i>	<i>19%</i>		<i>671,000</i>					<i>0.70</i>
<b>Brazil/China/Russia</b>										
CNOOC Limited (34%)	CEO	B	126.16	1.00	19,200		12	88	-	0.93
PetroChina Company Ltd (14%)	PTR	B	114.00	1.14	33,400		13	74	13	0.78
Petrobras	PBR	B	41.37	1.20	218,000		7	77	16	0.75
Gazprom (50%)	OGZPY	B	20.25	1.27	75,000		79	21	-	0.37
Lukoil Oil Company	LUKOY	B	44.60	1.17	44,100			62	38	0.37
<i>Total or Median *</i>	<i>18%</i>	<i>12%</i>	<i>19%</i>		<i>390,000</i>					<i>0.75</i>
<b>U.S. Independent</b>										
Anadarko Petroleum Corp.	APC	B	46.03	1.73	36,700	55		41	4	0.77
Occidental Petroleum Corp.	OXY	B	66.13	1.10	59,400	12	1	78	9	0.76
XTO Energy Inc.	XTO	B	37.98	1.50	33,000	79		21	-	0.72
EOG Resources	EOG	B	66.96	1.14	19,100	77	3	19	-	0.64
Chesapeake Energy Corp.	CHK	B	19.46	2.21	25,700	89		11	-	0.62
Devon Energy Corporation	DVN	B	55.49	1.37	33,700	67		33	-	0.56
<i>Total or Median *</i>	<i>9%</i>	<i>14%</i>	<i>19%</i>		<i>208,000</i>					<i>0.68</i>
<b>Canada</b>										
Imperial Oil Limited (30%)	IMO	B	38.95	1.08	10,800	5		79	16	0.82
Encana Corporation	ECA	B	49.69	1.32	49,400	69		26	4	0.72
Canadian Natural Resources	CNQ	B	52.80	1.43	40,900	24		76	-	0.70
Suncor Energy pro forma	SU	B	30.60	1.33	63,800	6		85	7	0.66
Canadian Oil Sands Trust	COSWF	B	24.15	1.11	12,900			100	-	0.60
Petro-Canada (to be SU@1.28)	PCZ	B	38.83							
<i>Total or Median *</i>	<i>8%</i>	<i>12%</i>	<i>19%</i>		<i>178,000</i>					<i>0.70</i>
<b>Income and Small Cap (see separate weekly analysis)</b>										
	<i>2%</i>	<i>42%</i>	<i>15%</i>		<i>40,700</i>	<i>46</i>		<i>54</i>		<i>0.74</i>
<b>Composite</b>										
<i>Enterprise Value Weighting</i>	<i>100%</i>				<i>2,193,700</i>	<i>12</i>	<i>16</i>	<i>56</i>	<i>17</i>	<i>0.69</i>
<i>Equal Weighting</i>		<i>100%</i>				<i>35</i>	<i>7</i>	<i>50</i>	<i>7</i>	<i>0.70</i>
<i>Equal Weighted Buys</i>			<i>100%</i>			<i>25</i>	<i>11</i>	<i>54</i>	<i>10</i>	<i>0.68</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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			Price			Net		
	Symbol/Rating		(US\$/sh)	Shares	Market	Present	Debt/	
	B = Buy	29-Jun			Cap	Value	Present	McDep
	H = Hold	2009		(mm)	(US\$mm)	(US\$/sh)	Value	Ratio
<b>U.S. Integrated</b>								
Exxon Mobil Corporation	XOM	B	70.58	4,959	350,000	90.00	0.09	0.80
Chevron Corporation	CVX	H	66.88	2,000	134,000	98.00	0.14	0.73
Marathon Oil Corporation	MRO	B	29.81	712	21,220	54.00	0.23	0.65
ConocoPhillips	COP	B	42.21	1,495	63,000	109.00	0.24	0.53
<i>Total or Median</i>					<i>568,000</i>		<i>0.18</i>	<i>0.69</i>
<b>Europe</b>								
BG Group plc	BRGXF	B	17.08	3,384	57,800	22.00	0.09	0.80
BP plc	BP	B	47.96	3,153	151,000	74.00	0.22	0.72
Royal Dutch Shell plc	RDS-A	B	50.79	3,063	156,000	80.00	0.17	0.70
Total S.A.	TOT	B	54.86	2,235	123,000	90.00	0.14	0.66
StatoilHydro ASA (33%)	STO	B	19.84	1,051	20,850	35.00	0.18	0.65
<i>Total or Median</i>					<i>509,000</i>		<i>0.17</i>	<i>0.70</i>
<b>Brazil/China/Russia</b>								
CNOOC Limited (34%)	CEO	B	126.16	152	19,210	135.00	-	0.93
PetroChina Company Ltd (14%)	PTR	B	114.00	256	29,210	150.00	0.10	0.78
Petrobras	PBR	B	41.37	4,387	181,490	58.00	0.13	0.75
Gazprom (50%)	OGZPY	B	20.25	2,925	59,200	64.00	0.08	0.37
Lukoil Oil Company	LUKOY	B	44.60	847	38,000	135.00	0.05	0.37
<i>Total or Median</i>					<i>327,000</i>		<i>0.08</i>	<i>0.75</i>
<b>U.S. Independent</b>								
Anadarko Petroleum Corp.	APC	B	46.03	460	21,200	70.00	0.33	0.77
Occidental Petroleum Corp.	OXY	B	66.13	814	53,900	89.00	0.07	0.76
XTO Energy Inc.	XTO	B	37.98	578	21,950	60.00	0.24	0.72
EOG Resources	EOG	B	66.96	250	16,800	110.00	0.08	0.64
Chesapeake Energy Corp.	CHK		19.46	597	11,620	46.00	0.34	0.62
Devon Energy Corporation	DVN	B	55.49	444	24,600	116.00	0.15	0.56
<i>Total or Median</i>					<i>150,100</i>		<i>0.20</i>	<i>0.68</i>
<b>Canada</b>								
Imperial Oil Limited (30%)	IMO	B	38.95	257	10,000	48.00	0.06	0.82
Encana Corporation	ECA	B	49.69	751	37,300	75.00	0.18	0.72
Canadian Natural Resources	CNQ	B	52.80	541	28,600	85.00	0.21	0.70
Suncor Energy pro forma	SU	B	30.60	1,565	47,880	52.00	0.16	0.66
Canadian Oil Sands Trust	COSWF	B	24.15	482	11,640	42.00	0.06	0.60
Petro-Canada (to be SU@1.28)	PCZ	B	38.83					
<i>Total or Median</i>					<i>135,000</i>		<i>0.16</i>	<i>0.70</i>

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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<b>McDep Energy Portfolio</b>								
<b>Value Multiples and Distribution Yield</b>								
			<i>Price</i>	<i>Adjustd</i>			<i>Divd or</i>	
	<i>Symbol/Rating</i>		<i>(US\$/sh)</i>	<i>Resrvs/</i>	<i>PV/</i>	<i>EV/</i>	<i>Distrib</i>	
	B = Buy	29-Jun	<i>Prod</i>	<i>Ebitda</i>	<i>Ebitda</i>	<i>P/E</i>	<i>NTM</i>	
	H = Hold	2009	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>(%)</i>	
<b>U.S. Integrated</b>								
Exxon Mobil Corporation	XOM	B	70.58	11.9	8.2	6.6	12	2.3
Chevron Corporation	CVX	H	66.88	9.9	7.3	5.3	11	3.9
Marathon Oil Corporation	MRO	B	29.81	9.2	7.3	4.8	10	3.2
ConocoPhillips	COP	B	42.21	10.5	8.6	4.6	7	4.5
<i>Total or Median</i>				<i>10.2</i>	<i>7.8</i>	<i>5.0</i>	<i>11</i>	<i>3.6</i>
<b>Europe</b>								
BG Group plc	BRGXF	B	17.08	9.1	8.5	6.8	14	1.1
BP plc	BP	B	47.96	9.8	7.2	5.2	8	7.0
Royal Dutch Shell plc	RDS-A	B	50.79	7.6	7.0	4.9	9	6.6
Total S.A.	TOT	B	54.86	9.3	7.4	4.9	9	5.8
StatoilHydro ASA (33%)	STO	B	19.84	7.4	5.8	3.7	7	5.7
<i>Total or Median</i>				<i>9.1</i>	<i>7.2</i>	<i>4.9</i>	<i>9</i>	<i>5.8</i>
<b>Brazil/China/Russia</b>								
Petrobras	PBR	B	41.37	9.4	11.1	8.3	14	4.0
PetroChina Company Ltd (14%)	PTR	B	114.00	14.3	9.9	7.8	27	3.6
CNOOC Limited (34%)	CEO	B	126.16	7.5	6.6	6.1	12	4.1
Gazprom (50%)	OGZPY	B	20.25	24.6	11.4	4.2	6	1.7
Lukoil Oil Company	LUKOY	B	44.60	16.4	10.7	3.9	8	2.7
<i>Total or Median</i>				<i>14.3</i>	<i>10.7</i>	<i>6.1</i>	<i>12</i>	<i>3.6</i>
<b>U.S. Independent</b>								
XTO Energy Inc.	XTO	B	37.98	11.5	12.6	9.1	16	1.3
Chesapeake Energy Corp.	CHK		19.46	11.7	13.7	8.4	18	1.5
EOG Resources	EOG	B	66.96	9.8	11.7	7.5	52	0.9
Anadarko Petroleum Corp.	APC	B	46.03	9.2	9.1	7.0		1.6
Occidental Petroleum Corp.	OXY	B	66.13	10.9	7.7	5.8	12	1.9
Devon Energy Corporation	DVN	B	55.49	8.8	9.8	5.4	12	1.2
<i>Total or Median</i>				<i>10.3</i>	<i>10.8</i>	<i>7.3</i>	<i>16</i>	<i>1.4</i>
<b>Canada</b>								
Imperial Oil Limited (30%)	IMO	B	38.95	18.2	13.2	10.8	21	0.9
Encana Corporation	ECA	B	49.69	9.0	10.6	7.7	13	3.2
Canadian Oil Sands Trust	COSWF	B	24.15	21.5	12.4	7.4	10	8.3
Canadian Natural Resources	CNQ	B	52.80	7.9	10.3	7.2	14	0.7
Suncor Energy pro forma	SU	B	30.60	-	8.8	5.8	38	0.6
Petro-Canada (to be SU@1.28)	PCZ	B	38.83					
<i>Total or Median</i>				<i>9.0</i>	<i>10.6</i>	<i>7.4</i>	<i>14</i>	<i>0.9</i>
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2010; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



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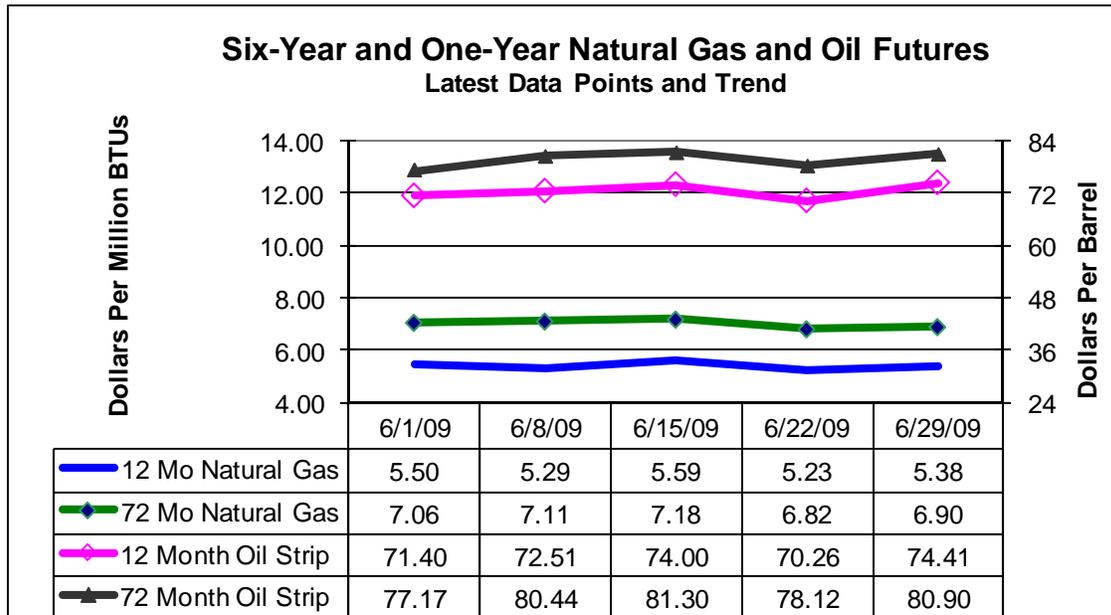
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<b>Index of Recent Research</b>			
<b>Stock Ideas</b>			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
19-Jun	PWE	Penn West Energy Trust	Play It by Income in Canadian Light Oil (ISC Weekly)
12-Jun	COSWF	Canadian Oil Sands Trust	Raise Estimated Distribution to US\$2.06 from 0.55 (ISCW)
5-Jun	* DMLP	Dorchester Minerals, L.P.	New Buy on Shale Formation Backlog (ISC Weekly)
2-Jun	* RDSA	Royal Dutch Shell plc	Restore Buy (Meter Reader)
2-Jun	* BP	BP p.l.c.	Restore Buy (Meter Reader)
2-Jun	* MRO	Marathon Oil Corporation	Restore Buy (Meter Reader)
12-May	* OXY	Occidental Petroleum Corporation	Restore Buy (Meter Reader)
12-May	* LUKOY	Lukoil Oil Company	Restore Buy (Meter Reader)
11-May	* STO	StatoilHydro ASA	Alternative Energy Practical Idealist
8-May	* EAC	Encore Acquisition Company	Restore Buy (Income and Small Cap Weekly)
8-May	* SU	Suncor Energy	Restore Buy on New Price Trend
8-May	* PCZ	Petro-Canada	Restore Buy on New Price Trend
8-May	* IMO	Imperial Oil Limited	Restore Buy on New Price Trend
8-May	* CNQ	Canadian Natural Resources	Restore Buy on New Price Trend
7-May	* APC	Anadarko Petroleum Corporation	Restore Buy on New Price Trend
6-May	* XTO	XTO Energy Inc.	Restore Buy on New Price Trend
6-May	* DVN	Devon Energy Corporation	Efficient Producer
6-May	* TOT	Total S.A.	Resilience to Recession
5-May	* XEC	Cimarex Energy Company	Ready to Drill Shale
5-May	* EOG	EOG Resources Inc.	Ready to Develop More Oil and Gas
5-May	* BRGXF	BG Group	New Buy on Global LNG and Brazil Oil
5-May	* PBR	Petrobras	New Buy on Oil Growth
1-May	* CVX	Chevron Corporation	Creating Energy Wealth Globally
1-May	* BRY	Berry Petroleum	Getting through Tough Times
30-Apr	* IMO	Imperial Oil Limited	Investing through the Cycle
30-Apr	* XOM	Exxon Mobil Corporation	Strong Performer in Tough Times
29-Apr	* OGZPY	Gazprom	Expect Modest Results for 2009
29-Apr	* CEO	CNOOC Ltd	Reinstate Buy on Rising Outlook
28-Apr	* PTR	PetroChina Company Limited	Tax and Price Control Relief
23-Apr	* COP	ConocoPhillips	Overlooked Rich Resources
22-Apr	* ECA	EnCana Corporation	Billion Dollar Hedge Gain
17-Apr	* SJT	San Juan Basin Royalty Trust	Lower Net Present Value to \$26 from \$34 a Unit (Weekly)
17-Apr	* HGT	Hugoton Royalty Trust	Natural Gas Price Limits Distributions (ISC Weekly)
4-Mar	* BIR.TO	Birchcliff Energy Ltd.	Alberta Reduces Royalties (Taxes) on New Wells
<b>Meter Reader</b>			
30-Jun		Weekly	
23-Jun		Weekly	Constructive on Marathon Oil
16-Jun		Weekly	Long-Term Natural Gas Price in Uptrend
9-Jun	*	Weekly	Energy Policy Warning
<b>Income and Small Cap Weekly</b>			
26-Jun		Weekly	Volume Decline Boosts Product Price, Trims Cash
19-Jun		Penn West, Pengrowth, Enerplus	Play It by Income in Canadian Light Oil
12-Jun		Canadian Oil Sands Trust	Raise Estimated Distribution to US\$2.06 from 0.55
5-Jun	*	Dorchester Minerals, L.P.	New Buy on Shale Formation Backlog
<b>Industry Ideas</b>			
2-Apr	*	Presentation	Making Money in Oil and Gas Stocks
	*	Archived on <a href="http://www.mcdep.com">www.mcdep.com</a>	



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**Certification:** I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

**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.