



# Meter Reader

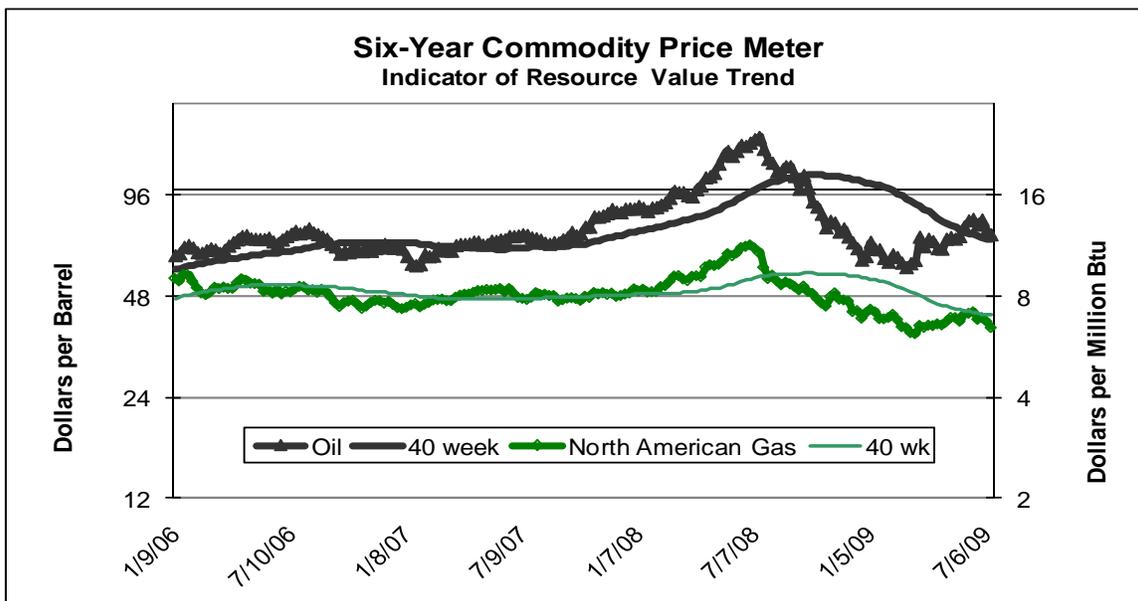
A Weekly Analysis of Large Cap Oil and Gas Stocks  
July 14, 2009

## Reduce Present Value of North American Natural Gas 20%

### Summary and Recommendation

McDep Ratios near 0.7 remain low for buy recommendations despite a reduction in our estimate of Present Value of North American Natural Gas (NANG) to reflect an assumed long-term price of \$8 a million btu instead of \$10 previously. Since October 28, 2008, when we adopted the \$10 long-term price, average futures price for delivery over the next six years declined about 14% to \$6.44 from \$7.47. Our new estimate matches the average six-year futures price for the past three years (see charts below, Six-Year Commodity Price Meter and on last page, Six-Year and One-Year Natural Gas and Oil Futures). Multiple of Present Value to Next Twelve Months (NTM) unlevered cash flow (PV/Ebitda) relates to the ratio of Adjusted Reserves/Production, also known as Adjusted Reserve Life (see charts page 2, Reserve Life and Cash Flow Multiple). Natural gas price, the major determinant of volatility of cash flow, is sensitive to NANG regional economics that are not yet fully connected to Rest of World (ROW) industry conditions. We have made no changes to ROW present value because pricing is more influenced by oil through long-term contracting. Meanwhile, as measured by McDep Ratio and other long-term value measures, low stock prices more than reflect the changes we are making. Large Cap Buys most concentrated on North American Natural Gas (NANG) include **XTO Energy (XTO)**, **EOG Resources (EOG)**, **Encana (ECA)** and **Devon Energy (DVN)** (see investment metrics in Tables 1-3, pages 3-5). We believe natural gas is the most under-appreciated “green” energy to fuel the economy and to provide the oft-mentioned “green” energy jobs.

Kurt H. Wulff, CFA

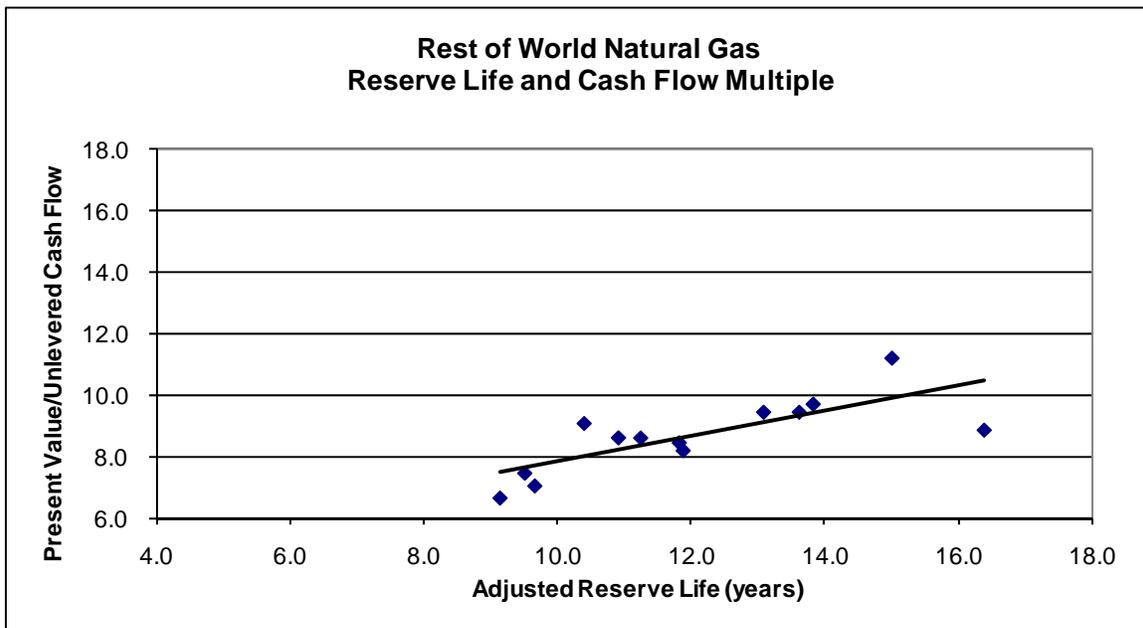
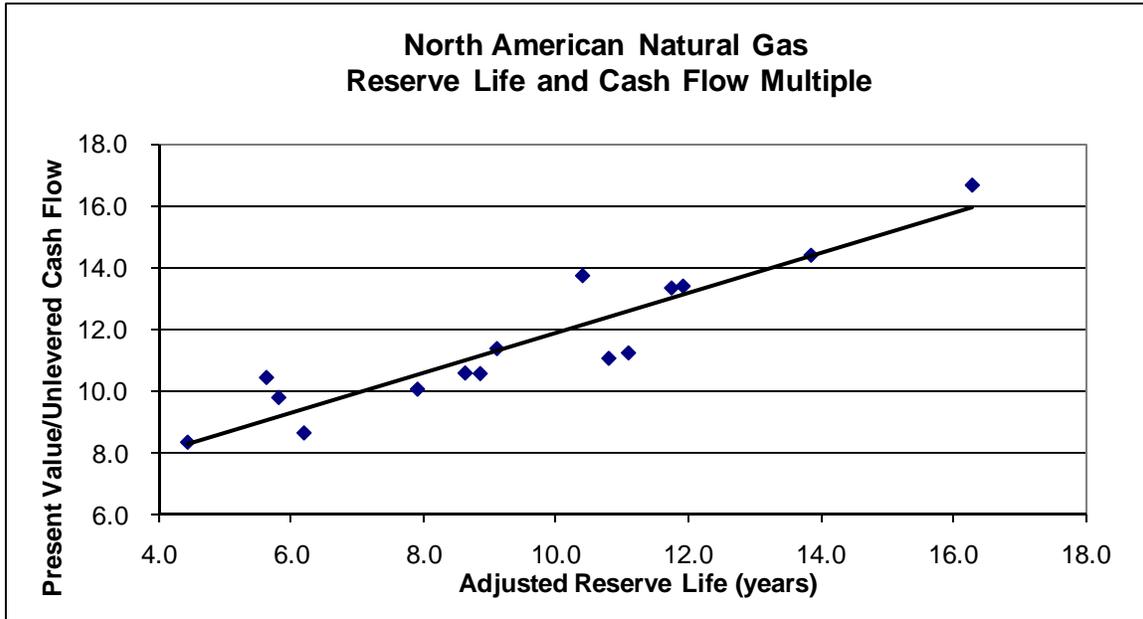




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Table 1										
McDep Energy Portfolio										
Geographic Domicile and Business Segments										
						Present Value by Segment (%)				
	Symbol/Rating		Price (US\$/sh)	EV/Market	Enterprise Value (\$mm)	North Amer.	Rest of World			
	B = Buy H = Hold		13-Jul 2009	Cap		Natural Gas	Natural Gas	Oil Prod'n	Down-stream	McDep Ratio
<b>U.S. Integrated</b>										
Exxon Mobil Corporation	XOM	B	65.70	1.13	368,000	5	22	50	24	0.76
Chevron Corporation	CVX	H	62.44	1.26	157,000	4	12	66	19	0.69
Marathon Oil Corporation	MRO	B	28.98	1.55	31,900	8	7	59	27	0.65
ConocoPhillips	COP	B	40.62	1.85	112,000	10	10	63	17	0.54
<i>Total or Median *</i>	<i>32%</i>	<i>9%</i>	<i>11%</i>		<i>669,000</i>					<i>0.67</i>
<b>Europe</b>										
BG Group	BRGXF	B	16.23	1.14	62,400		27	46	27	0.76
BP plc	BP	B	46.20	1.45	211,000	7	12	65	16	0.72
Royal Dutch Shell plc	RDS-A	B	47.51	1.34	195,000	2	24	41	33	0.67
Total S.A.	TOT	B	51.94	1.28	148,000		25	53	22	0.64
StatoilHydro ASA (33%)	STO	B	18.77	1.42	27,900		54	46	-	0.62
<i>Total or Median *</i>	<i>31%</i>	<i>12%</i>	<i>19%</i>		<i>644,000</i>					<i>0.67</i>
<b>Brazil/China/Russia</b>										
CNOOC Limited (34%)	CEO	B	116.40	1.00	17,700		12	88	-	0.86
PetroChina Company Ltd (14%)	PTR	B	101.31	1.16	30,100		13	74	13	0.71
Petrobras	PBR	B	36.99	1.23	199,000		7	77	16	0.68
Lukoil Oil Company	LUKOY	B	41.50	1.18	41,500			62	38	0.34
Gazprom (50%)	OGZPY	B	16.70	1.31	64,000		79	21	-	0.32
<i>Total or Median *</i>	<i>17%</i>	<i>12%</i>	<i>19%</i>		<i>352,000</i>					<i>0.68</i>
<b>U.S. Independent</b>										
Anadarko Petroleum Corp.	APC	B	42.76	1.79	35,200	49		46	5	0.83
XTO Energy Inc.	XTO	B	35.39	1.54	31,500	75		25	-	0.82
Occidental Petroleum Corp.	OXY	B	62.78	1.11	56,600	9	1	80	9	0.74
Chesapeake Energy Corp.	CHK		18.23	2.29	24,900	87		13	-	0.73
EOG Resources	EOG	B	63.83	1.15	18,300	73	4	23	-	0.72
Devon Energy Corporation	DVN	B	51.85	1.39	32,100	62		38	-	0.61
<i>Total or Median *</i>	<i>10%</i>	<i>14%</i>	<i>19%</i>		<i>199,000</i>					<i>0.73</i>
<b>Canada</b>										
Encana Corporation	ECA	B	46.62	1.35	47,100	64		31	5	0.80
Imperial Oil Limited (30%)	IMO	B	35.85	1.08	10,000	-		83	17	0.76
Canadian Natural Resources	CNQ	B	49.54	1.46	39,100	20		80	-	0.70
Suncor Energy pro forma	SU	B	27.09	1.38	58,400	6		85	7	0.60
Canadian Oil Sands Trust	COSWF	B	22.01	1.12	11,900			100	-	0.55
Petro-Canada (to be SU@1.28)	PCZ	B	34.40							
<i>Total or Median *</i>	<i>8%</i>	<i>12%</i>	<i>19%</i>		<i>167,000</i>					<i>0.70</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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<b>McDep Energy Portfolio</b>								
<b>Net Present Value and McDep Ratio</b>								
			<i>Price</i>			<i>Net</i>		
	<i>Symbol/Rating</i>		<i>(US\$/sh)</i>	<i>Shares</i>	<i>Market</i>	<i>Present</i>	<i>Debt/</i>	
	B = Buy		<i>13-Jul</i>		<i>Cap</i>	<i>Value</i>	<i>Present</i>	<i>McDep</i>
	H = Hold		<i>2009</i>	<i>(mm)</i>	<i>(US\$mm)</i>	<i>(US\$/sh)</i>	<i>Value</i>	<i>Ratio</i>
<b>U.S. Integrated</b>								
Exxon Mobil Corporation	XOM	B	65.70	4,959	326,000	89.00	0.09	0.76
Chevron Corporation	CVX	H	62.44	2,000	125,000	97.00	0.14	0.69
Marathon Oil Corporation	MRO	B	28.98	712	20,630	53.00	0.23	0.65
ConocoPhillips	COP	B	40.62	1,495	61,000	105.00	0.25	0.54
<i>Total or Median</i>					<i>533,000</i>		<i>0.19</i>	<i>0.67</i>
<b>Europe</b>								
BG Group plc	BRGXF	B	16.23	3,384	54,930	22.00	0.09	0.76
BP plc	BP	B	46.20	3,153	146,000	72.00	0.22	0.72
Royal Dutch Shell plc	RDS-A	B	47.51	3,063	146,000	79.00	0.17	0.67
Total S.A.	TOT	B	51.94	2,235	116,000	90.00	0.14	0.64
StatoilHydro ASA (33%)	STO	B	18.77	1,051	19,730	35.00	0.18	0.62
<i>Total or Median</i>					<i>483,000</i>		<i>0.17</i>	<i>0.67</i>
<b>Brazil/China/Russia</b>								
CNOOC Limited (34%)	CEO	B	116.40	152	17,720	135.00	-	0.86
PetroChina Company Ltd (14%)	PTR	B	101.31	256	25,960	150.00	0.10	0.71
Petrobras	PBR	B	36.99	4,387	162,280	58.00	0.13	0.68
Lukoil Oil Company	LUKOY	B	41.50	847	35,000	135.00	0.05	0.34
Gazprom (50%)	OGZPY	B	16.70	2,925	48,800	64.00	0.08	0.32
<i>Total or Median</i>					<i>290,000</i>		<i>0.08</i>	<i>0.68</i>
<b>U.S. Independent</b>								
Anadarko Petroleum Corp.	APC	B	42.76	460	19,700	59.00	0.36	0.83
XTO Energy Inc.	XTO	B	35.39	578	20,460	47.00	0.29	0.82
Occidental Petroleum Corp.	OXY	B	62.78	814	51,100	87.00	0.07	0.74
Chesapeake Energy Corp.	CHK		18.23	597	10,880	34.00	0.41	0.73
EOG Resources	EOG	B	63.83	250	16,000	92.00	0.09	0.72
Devon Energy Corporation	DVN	B	51.85	444	23,000	98.00	0.17	0.61
<i>Total or Median</i>					<i>141,100</i>		<i>0.23</i>	<i>0.73</i>
<b>Canada</b>								
Encana Corporation	ECA	B	46.62	751	35,000	62.00	0.21	0.80
Imperial Oil Limited (30%)	IMO	B	35.85	257	9,210	48.00	0.06	0.76
Canadian Natural Resources	CNQ	B	49.54	541	26,800	80.00	0.22	0.70
Suncor Energy pro forma	SU	B	27.09	1,565	42,390	52.00	0.16	0.60
Canadian Oil Sands Trust	COSWF	B	22.01	482	10,610	42.00	0.06	0.55
Petro-Canada (to be SU@1.28)	PCZ	B	34.40					
<i>Total or Median</i>					<i>124,000</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, \$8 a million btu.



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			<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		<i>13-Jul</i>	<i>Prod</i>	<i>Ebitda</i>	<i>Ebitda</i>	<i>P/E</i>	<i>NTM</i>
	H = Hold		<i>2009</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>(%)</i>
<b>U.S. Integrated</b>								
Exxon Mobil Corporation	XOM	B	65.70	11.9	9.1	7.0	13	2.4
Chevron Corporation	CVX	H	62.44	9.9	8.1	5.6	13	4.2
Marathon Oil Corporation	MRO	B	28.98	9.2	8.0	5.2	12	3.3
ConocoPhillips	COP	B	40.62	10.5	9.4	5.0	9	4.6
	<i>Total or Median</i>			<i>10.2</i>	<i>8.6</i>	<i>5.4</i>	<i>12</i>	<i>3.7</i>
<b>Europe</b>								
BG Group plc	BRGXF	B	16.23	9.1	9.0	6.9	14	1.1
BP plc	BP	B	46.20	9.8	8.0	5.7	9	7.3
Total S.A.	TOT	B	51.94	9.3	8.1	5.1	10	6.1
Royal Dutch Shell plc	RDS-A	B	47.51	7.6	7.5	5.0	10	7.1
StatoilHydro ASA (33%)	STO	B	18.77	7.4	6.4	4.0	8	6.0
	<i>Total or Median</i>			<i>9.1</i>	<i>8.0</i>	<i>5.1</i>	<i>10</i>	<i>6.1</i>
<b>Brazil/China/Russia</b>								
Petrobras	PBR	B	36.99	9.4	12.4	8.5	15	4.5
PetroChina Company Ltd (14%)	PTR	B	101.31	14.3	9.8	6.9	23	4.1
CNOOC Limited (34%)	CEO	B	116.40	7.5	7.5	6.5	13	4.4
Lukoil Oil Company	LUKOY	B	41.50	16.4	11.5	4.0	9	2.8
Gazprom (50%)	OGZPY	B	16.70	24.6	11.8	3.7	5	1.9
	<i>Total or Median</i>			<i>14.3</i>	<i>11.5</i>	<i>6.5</i>	<i>13</i>	<i>4.1</i>
<b>U.S. Independent</b>								
XTO Energy Inc.	XTO	B	35.39	11.5	12.1	9.9	15	1.4
Chesapeake Energy Corp.	CHK		18.23	11.7	12.9	9.3	28	1.6
EOG Resources	EOG	B	63.83	9.8	11.4	8.2	130	0.9
Anadarko Petroleum Corp.	APC	B	42.76	9.2	9.3	7.7		1.7
Occidental Petroleum Corp.	OXY	B	62.78	10.9	8.6	6.4	15	2.0
Devon Energy Corporation	DVN	B	51.85	8.8	9.7	5.9	15	1.2
	<i>Total or Median</i>			<i>10.3</i>	<i>10.6</i>	<i>7.9</i>	<i>15</i>	<i>1.5</i>
<b>Canada</b>								
Imperial Oil Limited (30%)	IMO	B	35.85	18.2	14.6	11.1	22	1.0
Canadian Oil Sands Trust	COSWF	B	22.01	21.5	15.9	8.8	13	9.1
Encana Corporation	ECA	B	46.62	9.0	10.3	8.3	14	3.4
Canadian Natural Resources	CNQ	B	49.54	7.9	11.4	8.0	17	0.7
Suncor Energy pro forma	SU	B	27.09	-	10.6	6.4	43	0.6
Petro-Canada (to be SU@1.28)	PCZ	B	34.40					
	<i>Total or Median</i>			<i>9.0</i>	<i>11.4</i>	<i>8.3</i>	<i>17</i>	<i>1.0</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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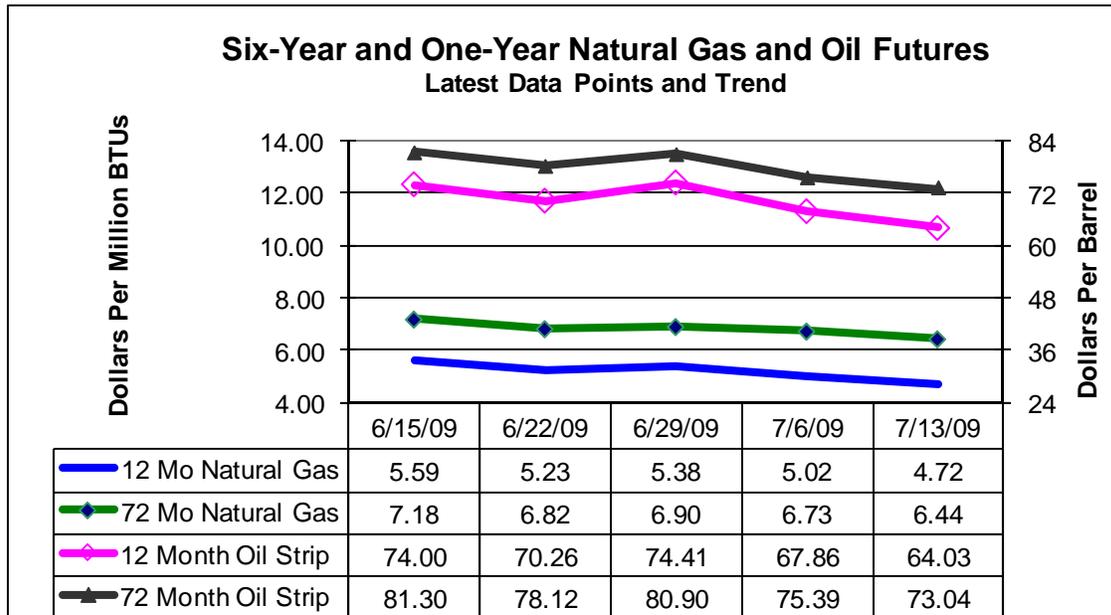
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<b>Index of Recent Research</b>			
<b>Stock Ideas</b>			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
10-Jul	SJT	San Juan Basin Royalty Trust	Rounding the Bend (Income and Small Cap Weekly)
10-Jul	HGT	Hugoton Royalty Trust	Rounding the Bend (Income and Small Cap Weekly)
3-Jul	EAC	Encore Acquisition Company	Raise NPV for EAC and ENP on Timely Deals (ISCW)
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	* 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	* 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
4-Mar	* BIR.TO	Birchcliff Energy Ltd.	Alberta Reduces Royalties (Taxes) on New Wells
<b>Meter Reader</b>			
14-Jul		Weekly	
7-Jul		Weekly	Mr. Obama Goes to Moscow
30-Jun		Weekly	Natural Gas Innovators' Dilemma
23-Jun	*	Weekly	Constructive on Marathon Oil
<b>Income and Small Cap Weekly</b>			
10-Jul		HGT and SJT	Rounding the Bend
3-Jul		Encore (EAC, ENP)	Raise NPV on Timely Deals
26-Jun		Weekly	Volume Decline Boosts Product Price, Trims Cash
19-Jun	*	Penn West, Pengrowth, Enerplus	Play It by Income in Canadian Light Oil
<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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**Disclaimer:** This analysis was prepared by Kurt Wulff, Manager of McDep LLC. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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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.