



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

August 4, 2009

## High Quality Energy Investment

### Summary and Recommendation

Through the second quarter, six global energy companies with combined Enterprise Value of \$1.3 trillion are producing more oil and gas, participating in recovering oil price and positioned for improving margins downstream. Their stocks are attractively priced at McDep Ratios ranging from 0.57 to 0.81 (see Table 1, page 2). A McDep Ratio of 1.0 corresponds to an unlevered return of 7% a year after inflation. The estimated return presumes a long-term real price of \$75 a barrel for oil that trades currently at an average \$82 a barrel for the next six years in the futures market. Financial risk is low with debt ranging from 0.09 (“AAA” quality) to 0.25 (“A” quality) times present value (see Table 2, page 3). Investors appear increasingly attracted to the stocks as five of the six are priced above their 200-day average, implying an upward trend by that measure. All buy recommended, the six are, in order of increasing McDep Ratio, **ConocoPhillips (COP)**, **Total S.A (TOT)**, **Royal Dutch Shell (RDS)**, **Chevron (CVX)**, **BP plc (BP)** and **ExxonMobil (XOM)**.

A challenge of oil and gas investment is to balance the natural volume decline of oil and gas fields with the resulting tendency to a rising commodity price over time. The largest companies are succeeding from a financial point of view in growing overall volume (see charts Volume Per Share, Adjusted for Debt and Dividends, page 5). The share adjustment gives credit for share repurchase done primarily by U.S. companies. The debt adjustment neutralizes the appearance of growth from running up debt which none of the six companies do inordinately. The dividend adjustment, added since the quarterly disclosures, gives credit to the European companies that pay high dividends, currently about 6% a year (see Table 3, page 4). Although not all production generates the same cash flow, the trends track the same factors, primarily commodity price (see charts Upstream Cash Flow Per Barrel, page 6). Cash flow from refining/marketing, chemicals, power and other businesses, if any, appears close to a cyclical low along with global economic growth (see charts Downstream Cash Flow, page 7).

In oil and gas prices, what comes down goes up again. It looks like it is happening once more. Latest settlement prices for the average of futures for the next six years are \$82 a barrel and \$6.86 a million btu (see chart Six-Year and One-Year Natural Gas and Oil Futures, page 9). Oil is trading above the 40-week average of \$70 while natural gas is just under the 40-week average of \$6.93.

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>3-Aug</i>	<i>Market</i>	<i>Value</i>	<i>Amer.</i>	<i>of World</i>	<i>Oil</i>	<i>Down-</i>	<i>McDep</i>	
	<i>H = Hold</i>	<i>2009</i>	<i>Cap</i>	<i>(\$mm)</i>	<i>Natural</i>	<i>Natural</i>	<i>Prod'n</i>	<i>stream</i>	<i>Ratio</i>	
					<i>Gas</i>	<i>Gas</i>				
<b>U.S. Integrated</b>										
Exxon Mobil Corporation	XOM	B	70.65	1.12	386,000	5	25	47	23	0.81
Chevron Corporation	CVX	B	70.40	1.23	173,000	4	10	70	16	0.76
Marathon Oil Corporation	MRO	B	32.64	1.49	34,500	8	5	60	27	0.70
ConocoPhillips	COP	B	44.99	1.77	119,000	12	9	64	14	0.57
<i>Total or Median *</i>	<i>31%</i>	<i>9%</i>	<i>14%</i>		<i>713,000</i>					<i>0.73</i>
<b>Europe</b>										
BG Group	BRGXF	B	17.45	1.13	66,600		23	45	32	0.81
BP plc	BP	B	52.05	1.40	229,000	7	9	60	24	0.78
Royal Dutch Shell plc	RDS-A	B	53.26	1.34	219,000	2	22	43	32	0.74
StatoilHydro ASA (33%)	STO	B	22.07	1.38	32,000		53	47	-	0.70
Total S.A.	TOT	B	55.82	1.27	159,000		19	59	22	0.67
<i>Total or Median *</i>	<i>31%</i>	<i>12%</i>	<i>18%</i>		<i>706,000</i>					<i>0.74</i>
<b>Brazil/China/Russia</b>										
CNOOC Limited (34%)	CEO	B	142.30	1.00	21,700		12	88	-	1.05
PetroChina Company Ltd (14%)	PTR	B	122.34	1.13	35,500		13	74	13	0.83
Petrobras	PBR	B	43.25	1.19	227,000		7	77	16	0.78
Lukoil Oil Company	LUKOY	B	52.15	1.14	50,500			62	38	0.42
Gazprom (50%)	OGZPY	B	21.99	1.25	81,000		79	21	-	0.40
<i>Total or Median *</i>	<i>18%</i>	<i>12%</i>	<i>18%</i>		<i>416,000</i>					<i>0.78</i>
<b>U.S. Independent</b>										
XTO Energy Inc.	XTO	B	42.18	1.45	35,500	75		25	-	0.93
Anadarko Petroleum Corp.	APC	B	49.64	1.68	38,300	49		46	5	0.90
EOG Resources	EOG	B	76.65	1.12	21,500	73	4	23	-	0.85
Occidental Petroleum Corp.	OXY	B	72.39	1.09	64,400	9	1	80	9	0.84
Chesapeake Energy Corp.	CHK		22.36	2.05	27,400	87		13	-	0.80
Devon Energy Corporation	DVN	B	60.43	1.34	35,900	62		38	-	0.68
<i>Total or Median *</i>	<i>10%</i>	<i>14%</i>	<i>18%</i>		<i>223,000</i>					<i>0.85</i>
<b>Canada</b>										
Encana Corporation	ECA	B	55.19	1.31	54,100	65		30	5	0.91
Imperial Oil Limited (30%)	IMO	B	40.47	1.08	11,300	-		83	17	0.85
Canadian Natural Resources	CNQ	B	64.39	1.38	48,100	19		81	-	0.85
Suncor Energy	SU	B	34.65	1.32	72,100	6		86	7	0.73
Canadian Oil Sands Trust	COSWF	B	25.43	1.12	13,800			100	-	0.63
<i>Total or Median *</i>	<i>9%</i>	<i>12%</i>	<i>18%</i>		<i>199,000</i>					<i>0.85</i>
<b>Income and Small Cap (see separate weekly analysis)</b>										
	<i>2%</i>	<i>42%</i>	<i>14%</i>		<i>38,800</i>	<i>41</i>		<i>59</i>		<i>0.79</i>
<b>Composite</b>										
<i>Enterprise Value Weighting</i>	<i>100%</i>				<i>2,295,800</i>	<i>10</i>	<i>15</i>	<i>57</i>	<i>18</i>	<i>0.74</i>
<i>Equal Weighting</i>		<i>100%</i>				<i>32</i>	<i>7</i>	<i>53</i>	<i>7</i>	<i>0.77</i>
<i>Equal Weighted Buys</i>			<i>100%</i>			<i>23</i>	<i>10</i>	<i>56</i>	<i>11</i>	<i>0.76</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	3-Aug	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	70.65	4,871	344,000	89.00	0.09	0.81
Chevron Corporation	CVX	B	70.40	1,992	140,000	97.00	0.14	0.76
Marathon Oil Corporation	MRO	B	32.64	711	23,210	53.00	0.23	0.70
ConocoPhillips	COP	B	44.99	1,496	67,000	105.00	0.25	0.57
<i>Total or Median</i>					<i>574,000</i>		<i>0.19</i>	<i>0.73</i>
<b>Europe</b>								
BG Group plc	BRGXF	B	17.45	3,388	59,120	22.00	0.09	0.81
BP plc	BP	B	52.05	3,155	164,000	72.00	0.22	0.78
Royal Dutch Shell plc	RDS-A	B	53.26	3,065	163,000	79.00	0.19	0.74
StatoilHydro ASA (33%)	STO	B	22.07	1,051	23,200	35.00	0.19	0.70
Total S.A.	TOT	B	55.82	2,236	125,000	90.00	0.14	0.67
<i>Total or Median</i>					<i>534,000</i>		<i>0.19</i>	<i>0.74</i>
<b>Brazil/China/Russia</b>								
CNOOC Limited (34%)	CEO	B	142.30	152	21,670	135.00	-	1.05
PetroChina Company Ltd (14%)	PTR	B	122.34	256	31,340	150.00	0.10	0.83
Petrobras	PBR	B	43.25	4,387	189,740	58.00	0.13	0.78
Lukoil Oil Company	LUKOY	B	52.15	847	44,000	135.00	0.05	0.42
Gazprom (50%)	OGZPY	B	21.99	2,925	64,300	64.00	0.08	0.40
<i>Total or Median</i>					<i>351,000</i>		<i>0.08</i>	<i>0.78</i>
<b>U.S. Independent</b>								
XTO Energy Inc.	XTO	B	42.18	578	24,380	47.00	0.29	0.93
Anadarko Petroleum Corp.	APC	B	49.64	460	22,800	59.00	0.36	0.90
EOG Resources	EOG	B	76.65	250	19,200	92.00	0.09	0.85
Occidental Petroleum Corp.	OXY	B	72.39	814	58,900	87.00	0.07	0.84
Chesapeake Energy Corp.	CHK		22.36	597	13,350	34.00	0.41	0.80
Devon Energy Corporation	DVN	B	60.43	444	26,800	98.00	0.17	0.68
<i>Total or Median</i>					<i>165,400</i>		<i>0.23</i>	<i>0.85</i>
<b>Canada</b>								
Encana Corporation	ECA	B	55.19	751	41,400	62.00	0.21	0.91
Imperial Oil Limited (30%)	IMO	B	40.47	256	10,380	48.00	0.07	0.85
Canadian Natural Resources	CNQ	B	64.39	541	34,800	80.00	0.23	0.85
Suncor Energy	SU	B	34.65	1,572	54,460	52.00	0.18	0.73
Canadian Oil Sands Trust	COSWF	B	25.43	484	12,310	42.00	0.07	0.63
<i>Total or Median</i>					<i>153,000</i>		<i>0.18</i>	<i>0.85</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.

*Please see disclosures on the final page.*

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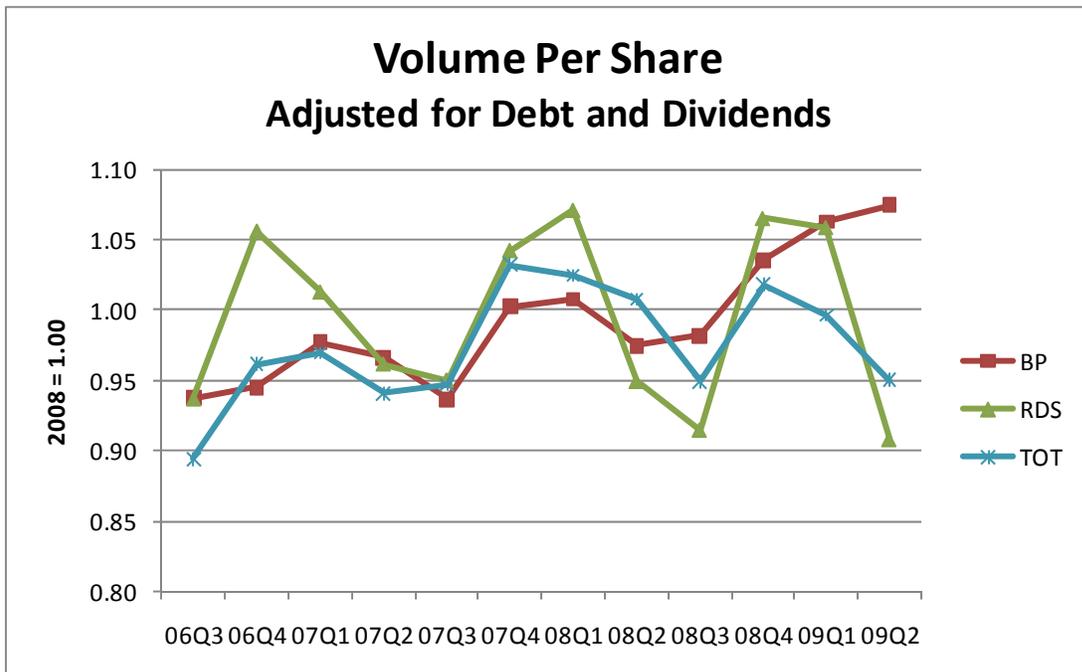
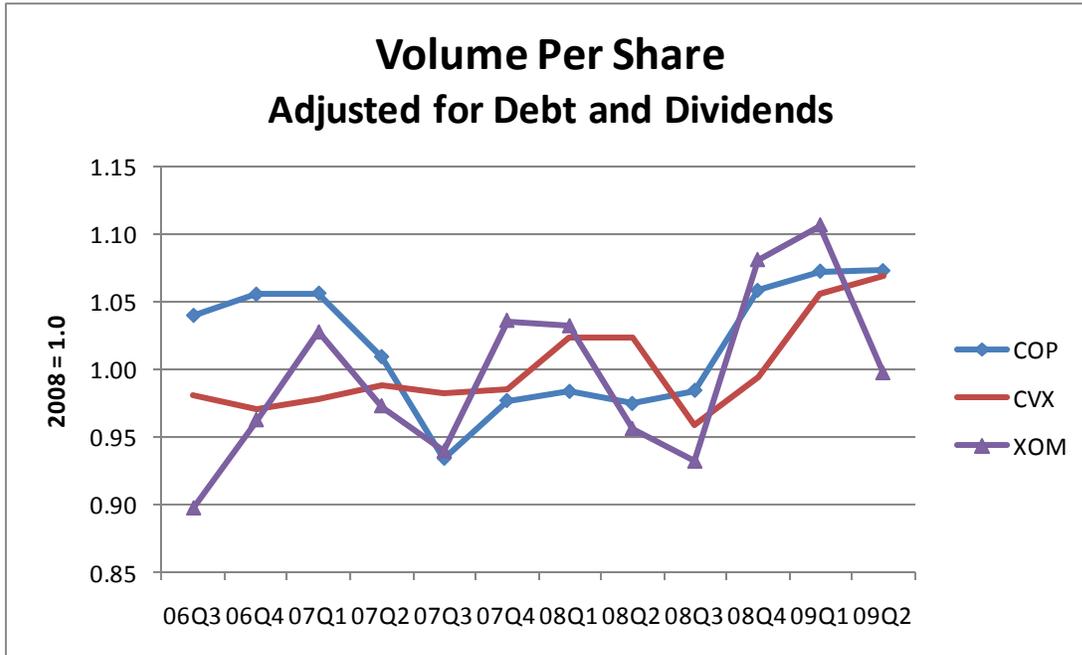
<b>McDep Energy Portfolio</b>								
<b>Value Multiples and Distribution Yield</b>								
			<i>Price</i>	<i>Adjustd</i>				<i>Divd or</i>
	<i>Symbol/Rating</i>		<i>(US\$/sh)</i>	<i>Resrvs/</i>	<i>PV/</i>	<i>EV/</i>		<i>Distrib</i>
	B = Buy		<i>3-Aug</i>	<i>Prod</i>	<i>Ebitda</i>	<i>Ebitda</i>	<i>P/E</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	70.65	12.4	8.2	6.7	12	2.4
Chevron Corporation	CVX	B	70.40	9.8	7.5	5.8	14	3.9
ConocoPhillips	COP	B	44.99	10.6	8.6	4.9	8	4.2
Marathon Oil Corporation	MRO	B	32.64	8.3	6.7	4.8	10	2.9
	<i>Total or Median</i>			<i>10.2</i>	<i>7.9</i>	<i>5.3</i>	<i>11</i>	<i>3.4</i>
<b>Europe</b>								
BG Group plc	BRGXF	B	17.45	8.8	8.6	7.0	14	1.2
BP plc	BP	B	52.05	9.6	7.6	6.0	11	6.5
Royal Dutch Shell plc	RDS-A	B	53.26	7.9	7.5	5.5	11	6.3
Total S.A.	TOT	B	55.82	9.7	8.1	5.5	11	5.9
StatoilHydro ASA (33%)	STO	B	22.07	7.4	5.7	4.0	8	5.4
	<i>Total or Median</i>			<i>8.8</i>	<i>7.6</i>	<i>5.5</i>	<i>11</i>	<i>5.9</i>
<b>Brazil/China/Russia</b>								
Petrobras	PBR	B	43.25	9.4	11.0	8.6	15	3.8
PetroChina Company Ltd (14%)	PTR	B	122.34	14.3	9.6	8.0	26	3.4
CNOOC Limited (34%)	CEO	B	142.30	7.5	6.5	6.9	13	3.6
Gazprom (50%)	OGZPY	B	21.99	24.6	11.4	4.5	6	1.6
Lukoil Oil Company	LUKOY	B	52.15	16.4	10.6	4.4	9	2.4
	<i>Total or Median</i>			<i>14.3</i>	<i>10.6</i>	<i>6.9</i>	<i>13</i>	<i>3.4</i>
<b>U.S. Independent</b>								
XTO Energy Inc.	XTO	B	42.18	11.5	10.6	9.8	18	1.2
Chesapeake Energy Corp.	CHK		22.36	11.7	11.4	9.1	22	1.3
EOG Resources	EOG	B	76.65	9.8	10.0	8.5	60	0.8
Anadarko Petroleum Corp.	APC	B	49.64	9.2	8.1	7.3		1.5
Occidental Petroleum Corp.	OXY	B	72.39	11.0	7.6	6.5	14	1.8
Devon Energy Corporation	DVN	B	60.43	8.8	8.5	5.8	13	1.1
	<i>Total or Median</i>			<i>10.4</i>	<i>9.3</i>	<i>7.9</i>	<i>18</i>	<i>1.3</i>
<b>Canada</b>								
Imperial Oil Limited (30%)	IMO	B	40.47	18.4	14.1	12.0	24	0.9
Encana Corporation	ECA	B	55.19	9.1	9.4	8.6	18	2.9
Canadian Natural Resources	CNQ	B	64.39	7.9	9.9	8.5	18	0.6
Canadian Oil Sands Trust	COSWF	B	25.43	22.1	13.3	8.4	13	7.2
Suncor Energy	SU	B	34.65	-	10.1	7.3	70	0.5
	<i>Total or Median</i>			<i>9.1</i>	<i>10.1</i>	<i>8.5</i>	<i>18</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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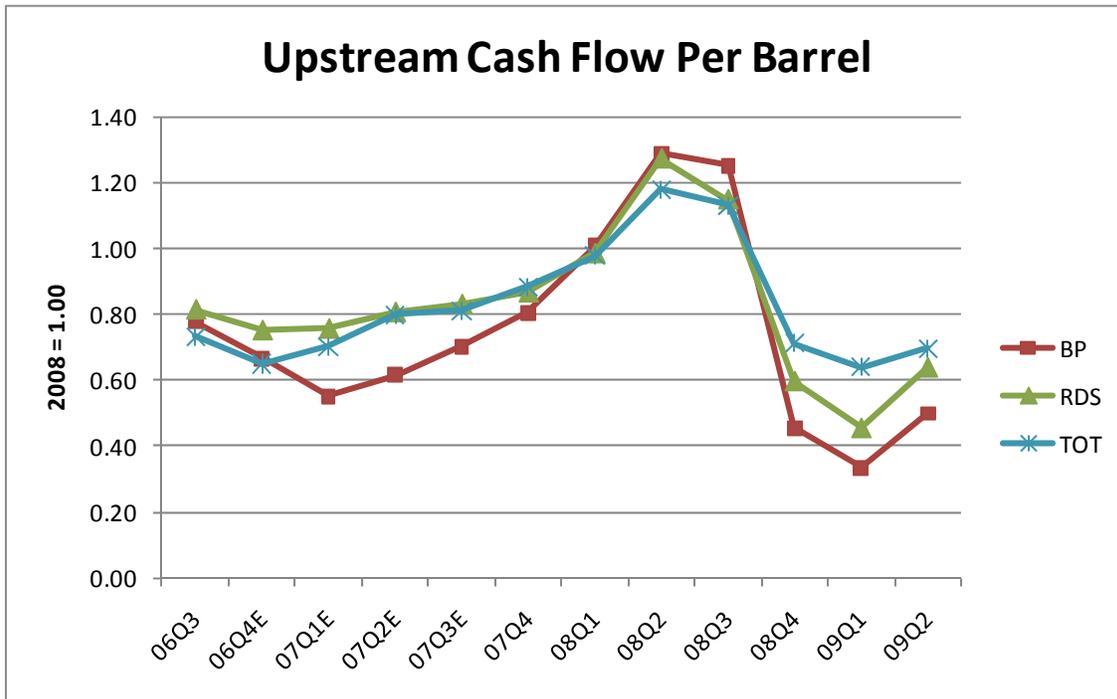
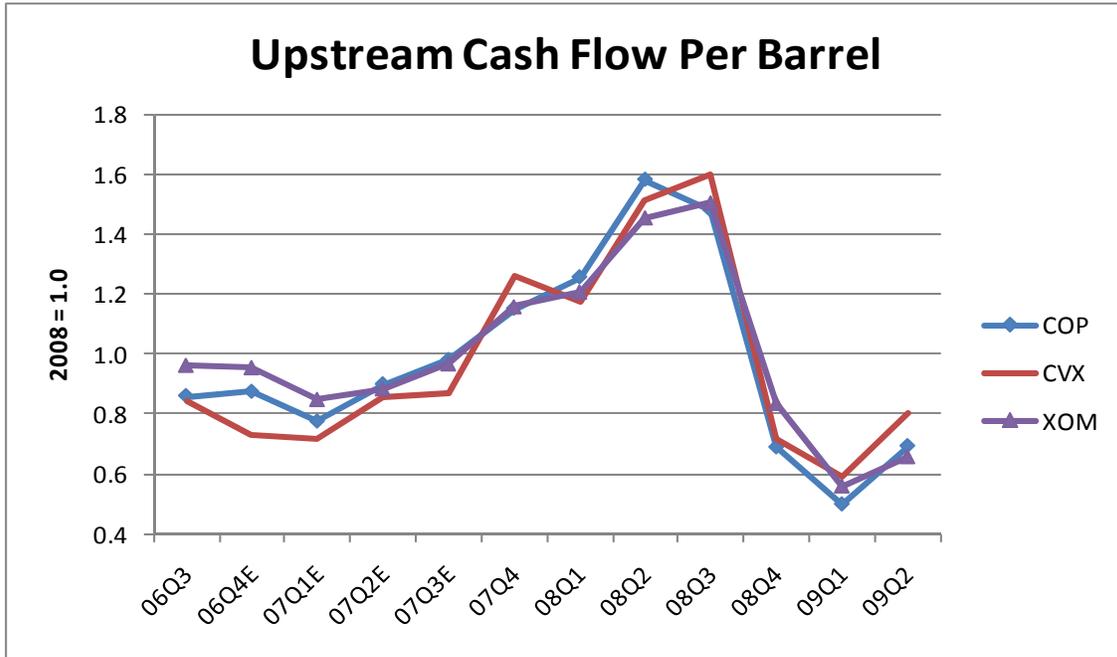




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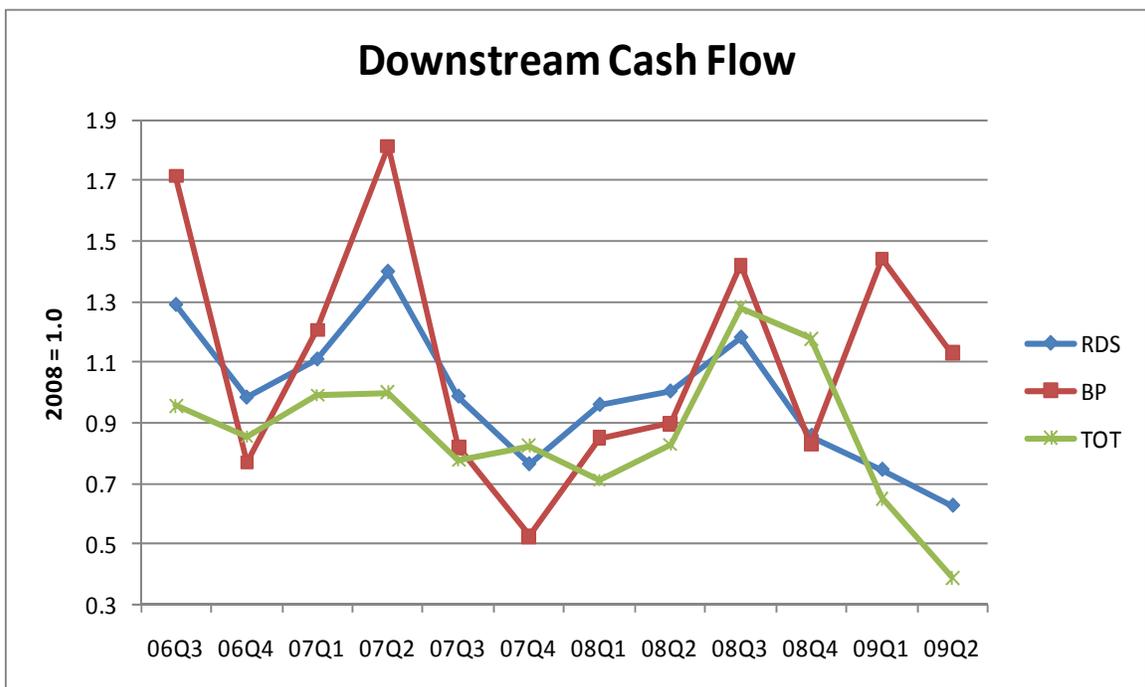
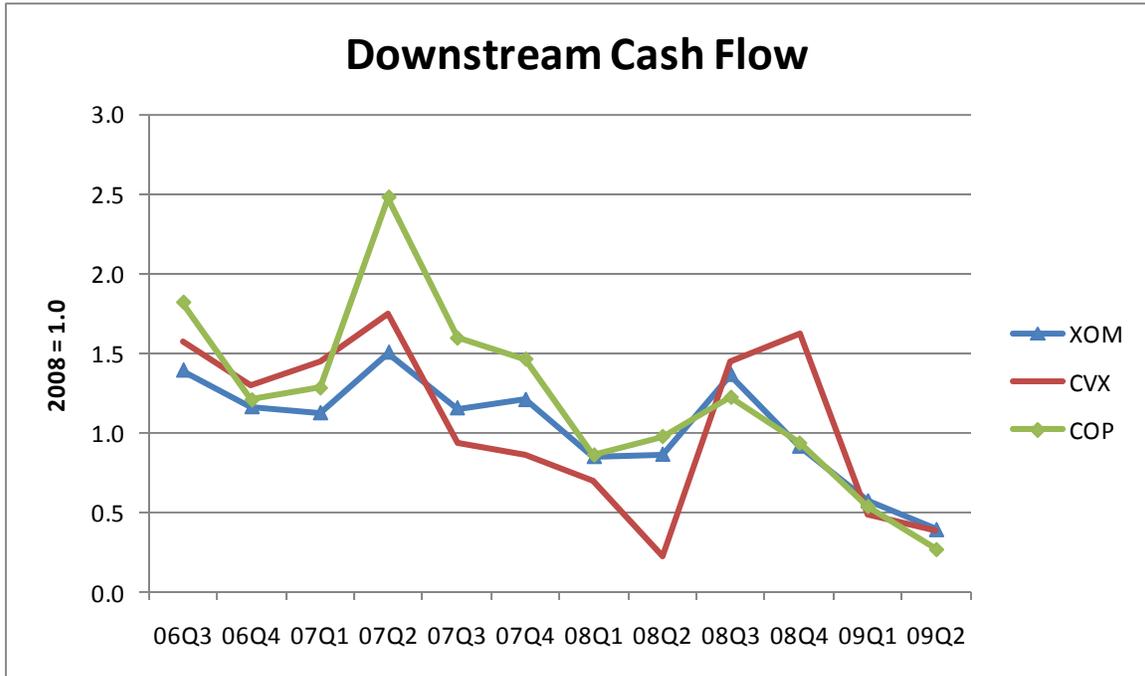




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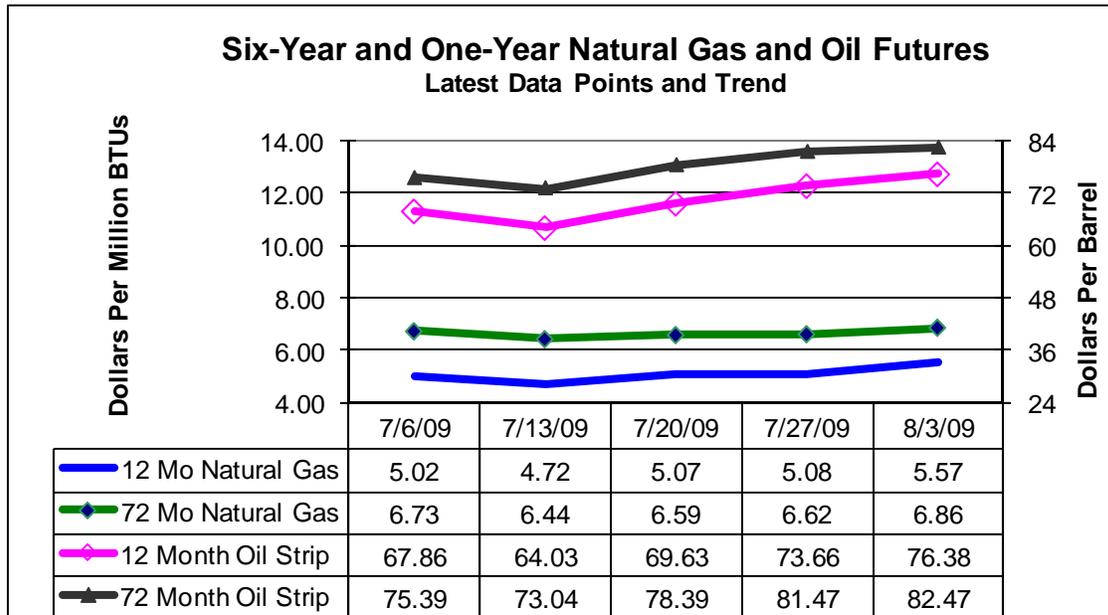






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**Research Methodology/Ratings Description:** McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the forty years of experience of its analyst to estimate a present value of the oil and gas resources 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.