



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

August 11, 2009

North American Natural Gas Buys

Summary and Recommendation

Five large cap buy recommendations concentrated on North American natural gas, **Anadarko Petroleum (APC)**, **Devon Energy (DVN)**, **Encana (ECA)**, **EOG Resources (EOG)** and **XTO Energy (XTO)**, have demonstrated volume growth on a basis that takes account of financing (see chart [Volume per Share, Adjusted for Debt and Dividends](#)). All have low McDep Ratios ranging from 0.72 to 0.91 with the top growers of the latest quarter coincidentally having the higher McDep Ratios (see Table 1). Stock prices are in an uptrend by the 200-day average measure despite intense short-term pressure on the price of the companies' main product, clean natural gas. Potentially rebounding economic activity in 2010 may demand the new volumes not needed today for industrial production or power generation. The large cap North American natural gas independents account for 5 of our 28 buy recommendations. We suggest that one or more might account for 18% of enterprise value in a McDep Energy Portfolio, or perhaps 24% if you like the prospects for natural gas as much as we do.

Since the most recent quarterly disclosures, we have modified our volume measurement technique to smooth the debt factor and to include an adjustment for income. As in the past, the share adjustment gives credit for share repurchase or assesses a cost for issuing new shares. The debt adjustment neutralizes the appearance of growth that may be financed with borrowed funds. Our current method takes incremental debt in a quarter and assumes that it is replaced by a corresponding amount of shares issued at Net Present Value (NPV). As a result, the latest change in NPV affects only the latest increment of debt, not the embedded base. The dividend adjustment, also added since the quarterly disclosures, will become meaningful when comparing low dividend paying independent producers with income stocks.

Meanwhile, the 40-week average for six-year oil has turned up this month to \$71 (see chart [Six-Year Commodity Price Meter](#), page 2). An uptrend can appear stronger when the average itself is moving up in addition to latest price being above the average. Latest settlement prices for the average of futures for the next six years are \$83 a barrel and \$6.71 a million btu (see chart [Six-Year and One-Year Natural Gas and Oil Futures](#), page 7). Natural gas is just under the 40-week average of \$6.89. Our five large cap independent natural gas buys are positioned to weather the next few months of potential short-term commodity pressure and to participate in the possible upside thereafter.

Kurt H. Wulff, CFA

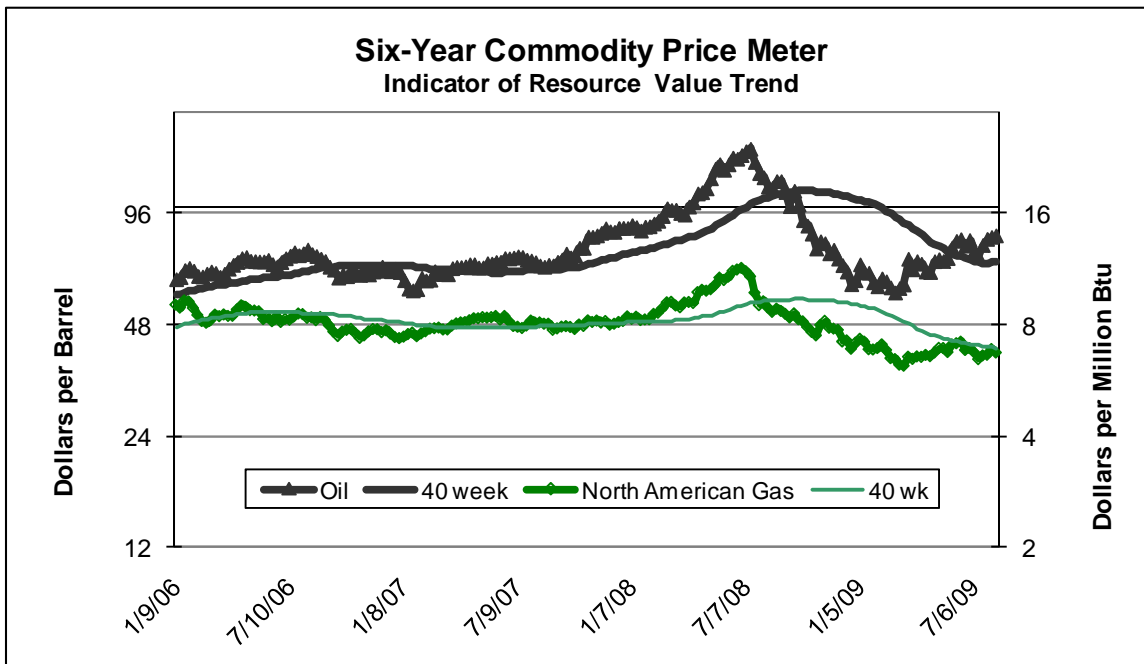
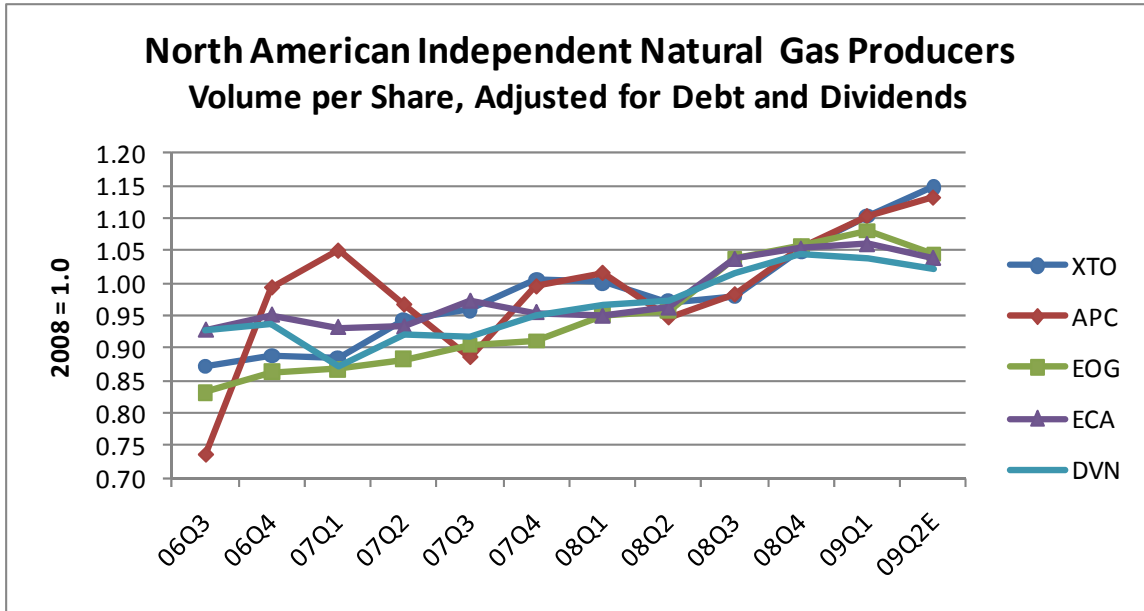
Note: Meter Reader may not be created for the next two regular dates, August 18 and 25, as we are looking forward to some vacation time. KHW



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Table 1										
McDep Energy Portfolio										
Geographic Domicile and Business Segments										
						<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>10-Aug</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>	
U.S. Integrated										
Exxon Mobil Corporation	XOM	B	69.18	1.14	384,000	5	25	48	22	0.80
Chevron Corporation	CVX	B	69.23	1.24	171,000	4	10	70	16	0.76
Marathon Oil Corporation	MRO	B	30.64	1.53	33,300	8	5	61	26	0.68
ConocoPhillips	COP	B	44.22	1.79	118,000	12	9	64	14	0.57
<i>Total or Median *</i>	<i>31%</i>	<i>9%</i>	<i>14%</i>		<i>706,000</i>					<i>0.72</i>
Europe										
BP plc	BP	B	51.20	1.40	226,000	7	9	60	24	0.78
BG Group	BRGXF	B	16.55	1.13	63,400		23	45	32	0.77
Royal Dutch Shell plc	RDS-A	B	51.54	1.36	214,000	2	22	43	32	0.72
StatoilHydro ASA (33%)	STO	B	21.22	1.44	32,000		52	48	-	0.69
Total S.A.	TOT	B	53.72	1.28	154,000		19	59	22	0.65
<i>Total or Median *</i>	<i>31%</i>	<i>12%</i>	<i>18%</i>		<i>689,000</i>					<i>0.72</i>
Brazil/China/Russia										
CNOOC Limited (34%)	CEO	B	139.30	1.00	21,200		12	88	-	1.03
PetroChina Company Ltd (14%)	PTR	B	117.77	1.14	34,300		13	74	13	0.81
Petrobras	PBR	B	42.19	1.20	222,000		7	77	16	0.76
Lukoil Oil Company	LUKOY	B	49.35	1.15	48,100			62	38	0.40
Gazprom (50%)	OGZPY	B	21.22	1.26	78,000		79	21	-	0.38
<i>Total or Median *</i>	<i>18%</i>	<i>12%</i>	<i>18%</i>		<i>404,000</i>					<i>0.76</i>
U.S. Independent										
XTO Energy Inc.	XTO	B	41.12	1.47	35,000	75		25	-	0.91
Anadarko Petroleum Corp.	APC	B	50.74	1.59	39,800	47		48	5	0.91
EOG Resources	EOG	B	76.20	1.14	21,700	72	4	24	-	0.85
Chesapeake Energy Corp.	CHK		24.49	1.96	28,700	87		13	-	0.83
Occidental Petroleum Corp.	OXY	B	70.05	1.10	62,700	9	1	80	9	0.82
Devon Energy Corporation	DVN	B	64.46	1.32	38,300	61		39	-	0.72
<i>Total or Median *</i>	<i>10%</i>	<i>14%</i>	<i>18%</i>		<i>226,000</i>					<i>0.84</i>
Canada										
Encana Corporation	ECA	B	51.73	1.33	51,500	65		30	5	0.87
Canadian Natural Resources	CNQ	B	58.69	1.39	44,100	20		80	-	0.79
Imperial Oil Limited (30%)	IMO	B	37.28	1.09	10,400	-		83	17	0.79
Suncor Energy	SU	B	33.09	1.33	69,400	6		86	7	0.70
Canadian Oil Sands Trust	COSWF	B	24.89	1.12	13,500			100	-	0.62
<i>Total or Median *</i>	<i>8%</i>	<i>12%</i>	<i>18%</i>		<i>189,000</i>					<i>0.79</i>
Income and Small Cap (see separate weekly analysis)										
			<i>2%</i>	<i>42%</i>	<i>14%</i>			<i>59</i>		<i>0.78</i>
Composite										
<i>Enterprise Value Weighting</i>	<i>100%</i>				<i>2,252,600</i>	<i>11</i>	<i>15</i>	<i>57</i>	<i>17</i>	<i>0.72</i>
<i>Equal Weighting</i>		<i>100%</i>				<i>32</i>	<i>7</i>	<i>53</i>	<i>7</i>	<i>0.76</i>
<i>Equal Weighted Buys</i>			<i>100%</i>			<i>23</i>	<i>10</i>	<i>56</i>	<i>11</i>	<i>0.74</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	10-Aug	Shares		Cap	Value	Present	McDep
	H = Hold	2009	(mm)		(US\$mm)	(US\$/sh)	Value	Ratio
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	69.18	4,871	337,000	89.00	0.10	0.80
Chevron Corporation	CVX	B	69.23	1,992	138,000	97.00	0.14	0.76
Marathon Oil Corporation	MRO	B	30.64	711	21,790	53.00	0.23	0.68
ConocoPhillips	COP	B	44.22	1,496	66,000	105.00	0.25	0.57
<i>Total or Median</i>					<i>563,000</i>		<i>0.19</i>	<i>0.72</i>
Europe								
BP plc	BP	B	51.20	3,155	162,000	72.00	0.22	0.78
BG Group plc	BRGXF	B	16.55	3,388	56,060	22.00	0.09	0.77
Royal Dutch Shell plc	RDS-A	B	51.54	3,065	158,000	79.00	0.19	0.72
StatoilHydro ASA (33%)	STO	B	21.22	1,051	22,300	35.00	0.21	0.69
Total S.A.	TOT	B	53.72	2,236	120,000	90.00	0.14	0.65
<i>Total or Median</i>					<i>518,000</i>		<i>0.19</i>	<i>0.72</i>
Brazil/China/Russia								
CNOOC Limited (34%)	CEO	B	139.30	152	21,210	135.00	-	1.03
PetroChina Company Ltd (14%)	PTR	B	117.77	256	30,170	150.00	0.10	0.81
Petrobras	PBR	B	42.19	4,387	185,090	58.00	0.13	0.76
Lukoil Oil Company	LUKOY	B	49.35	847	42,000	135.00	0.05	0.40
Gazprom (50%)	OGZPY	B	21.22	2,925	62,100	64.00	0.08	0.38
<i>Total or Median</i>					<i>341,000</i>		<i>0.08</i>	<i>0.76</i>
U.S. Independent								
XTO Energy Inc.	XTO	B	41.12	579	23,810	47.00	0.29	0.91
Anadarko Petroleum Corp.	APC	B	50.74	495	25,100	59.00	0.33	0.91
EOG Resources	EOG	B	76.20	250	19,100	92.00	0.10	0.85
Chesapeake Energy Corp.	CHK		24.49	597	14,620	34.00	0.41	0.83
Occidental Petroleum Corp.	OXY	B	70.05	814	57,000	87.00	0.07	0.82
Devon Energy Corporation	DVN	B	64.46	450	29,000	98.00	0.17	0.72
<i>Total or Median</i>					<i>168,600</i>		<i>0.23</i>	<i>0.84</i>
Canada								
Encana Corporation	ECA	B	51.73	751	38,800	62.00	0.21	0.87
Canadian Natural Resources	CNQ	B	58.69	542	31,800	80.00	0.22	0.79
Imperial Oil Limited (30%)	IMO	B	37.28	256	9,560	48.00	0.07	0.79
Suncor Energy	SU	B	33.09	1,572	52,010	52.00	0.18	0.70
Canadian Oil Sands Trust	COSWF	B	24.89	484	12,050	42.00	0.07	0.62
<i>Total or Median</i>					<i>144,000</i>		<i>0.18</i>	<i>0.79</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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McDep Energy Portfolio								
Value Multiples and Distribution Yield								
			<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>10-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>
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	69.18	12.4	8.3	6.7	12	2.4
Chevron Corporation	CVX	B	69.23	9.8	7.6	5.7	14	3.9
ConocoPhillips	COP	B	44.22	10.6	8.7	4.9	8	4.3
Marathon Oil Corporation	MRO	B	30.64	8.3	6.8	4.6	9	3.1
	<i>Total or Median</i>			<i>10.2</i>	<i>8.0</i>	<i>5.3</i>	<i>11</i>	<i>3.5</i>
Europe								
BG Group plc	BRGXF	B	16.55	8.8	8.7	6.8	14	1.2
BP plc	BP	B	51.20	9.6	7.6	5.9	11	6.6
Royal Dutch Shell plc	RDS-A	B	51.54	7.9	7.5	5.4	10	6.5
Total S.A.	TOT	B	53.72	9.7	8.1	5.3	10	6.0
StatoilHydro ASA (33%)	STO	B	21.22	7.5	7.0	4.9	14	5.6
	<i>Total or Median</i>			<i>8.8</i>	<i>7.6</i>	<i>5.4</i>	<i>11</i>	<i>6.0</i>
Brazil/China/Russia								
Petrobras	PBR	B	42.19	9.4	11.0	8.4	15	3.9
PetroChina Company Ltd (14%)	PTR	B	117.77	14.3	9.5	7.7	25	3.5
CNOOC Limited (34%)	CEO	B	139.30	7.5	6.5	6.7	13	3.7
Gazprom (50%)	OGZPY	B	21.22	24.6	11.5	4.4	6	1.6
Lukoil Oil Company	LUKOY	B	49.35	16.4	10.6	4.2	9	2.4
	<i>Total or Median</i>			<i>14.3</i>	<i>10.6</i>	<i>6.7</i>	<i>13</i>	<i>3.5</i>
U.S. Independent								
Chesapeake Energy Corp.	CHK		24.49	11.7	11.8	9.9	27	1.2
XTO Energy Inc.	XTO	B	41.12	11.0	10.6	9.6	25	1.4
EOG Resources	EOG	B	76.20	10.1	9.9	8.4	21	0.8
Anadarko Petroleum Corp.	APC	B	50.74	9.2	8.6	7.8		0.7
Occidental Petroleum Corp.	OXY	B	70.05	11.0	7.7	6.3	13	1.9
Devon Energy Corporation	DVN	B	64.46	8.4	8.2	5.9	12	1.0
	<i>Total or Median</i>			<i>10.5</i>	<i>9.3</i>	<i>8.1</i>	<i>21</i>	<i>1.1</i>
Canada								
Imperial Oil Limited (30%)	IMO	B	37.28	18.4	14.2	11.2	22	1.0
Encana Corporation	ECA	B	51.73	9.1	9.6	8.4	17	0.8
Canadian Oil Sands Trust	COSWF	B	24.89	22.1	13.2	8.2	12	7.2
Canadian Natural Resources	CNQ	B	58.69	7.7	9.5	7.5	14	0.6
Suncor Energy	SU	B	33.09	-	10.1	7.1	66	0.6
	<i>Total or Median</i>			<i>9.1</i>	<i>10.1</i>	<i>8.2</i>	<i>17</i>	<i>0.8</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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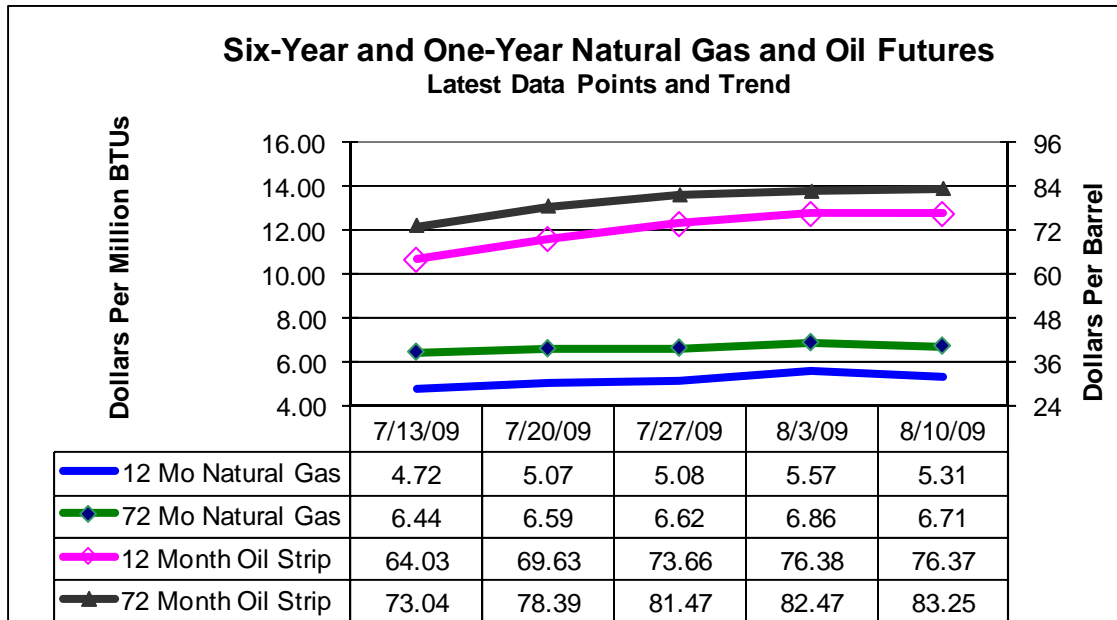
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Index of Recent Research			
Stock Ideas			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
7-Aug	XEC	Cimarex Energy Company	Cana Shale Working Well
7-Aug	EOG	EOG Resources Inc.	Low-Debt Natural Gas Growth
6-Aug	CNQ	Canadian Natural Resources	First Cash from Horizon
5-Aug	BRY	Berry Petroleum	Back on Track
5-Aug	XTO	XTO Energy Inc.	Cutting Edge Natural Gas Producer
5-Aug	DVN	Devon Energy Corporation	Stock Price Moves to Uptrend
4-Aug	APC	Anadarko Petroleum Corporation	Frontier Exploration Off West Africa
4-Aug	STO	StatoilHydro ASA	Natural Gas Growth with Dividends
3-Aug	MRO	Marathon Oil Corporation	Favorable Trends for Future Profit
31-Jul	CVX	Chevron Corporation	Strength in Tough Times
31-Jul	TOT	Total S.A.	Real Return and Secure Income
31-Jul	IMO	Imperial Oil Limited	Downstream Hiccup
30-Jul	PCZ	Petro-Canada	Good Bye Petro-Canada, Hello Suncor
30-Jul	XOM	Exxon Mobil Corporation	Upstream Volume Growing
30-Jul	RDSA	Royal Dutch Shell plc	Gaining Efficiency in Exploration and Production
29-Jul	BRGXF	BG Group	Progressing in Pre-Salt Brazil
29-Jul	EAC	Encore Acquisition Company	Tertiary Recovery Project Announced
29-Jul	COP	ConocoPhillips	Positioned for Recovery
28-Jul	BP	BP p.l.c.	Trending Up
27-Jul	COSWF	Canadian Oil Sands Trust	Quarterly Distribution Raised to C\$0.25 a Unit
23-Jul	OXY	Occidental Petroleum Corporation	California Discovery May Be Worth \$2 a Share
23-Jul	ECA	EnCana Corporation	Hedges Helping in 2009
22-Jul	SU	Suncor Energy	Merger with Petro-Canada to be Effective August 1
21-Jul	* CEO	CNOOC Ltd	China Buying Oil and Gas (Meter Reader)
21-Jul	* PTR	PetroChina Company Limited	China Buying Oil and Gas (Meter Reader)
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)
19-Jun	* PWE	Penn West Energy Trust	Play It by Income in Canadian Light Oil (ISC Weekly)
5-Jun	* DMLP	Dorchester Minerals, L.P.	New Buy on Shale Formation Backlog (ISC Weekly)
12-May	* LUKOY	Lukoil Oil Company	Restore Buy (Meter Reader)
5-May	* PBR	Petrobras	New Buy on Oil Growth
29-Apr	* OGZPY	Gazprom	Expect Modest Results for 2009
4-Mar	* BIR.TO	Birchcliff Energy Ltd.	Alberta Reduces Royalties (Taxes) on New Wells
Meter Reader			
11-Aug		Weekly	
4-Aug		Weekly	High Quality Energy Investment
28-Jul		Chevron Corporation (CVX)	Restore Buy
21-Jul	*	CEO and PTR	China Buying Oil and Gas
Income and Small Cap Weekly			
7-Aug		Weekly	Volatile Geographic Differences Narrow for Natural Gas
31-Jul		MTR	Deducing the Trend at Mesa Royalty Trust
24-Jul		Weekly	Trend Setters
17-Jul	*	Weekly	Stocks Undervalued on \$6.60 Six-Year Natural Gas
Industry Ideas			
2-Apr	*	Presentation	Making Money in Oil and Gas Stocks
		* Archived on www.mcdep.com	



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McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

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.