



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

September 15, 2009

EnCana Creating Oil Sands Prize

Summary and Recommendation

Buy-recommended **EnCana (ECA)**'s revived plan to split into an integrated oil sands producer, **Cenovus Energy**, and a more concentrated natural gas producer, which keeps the EnCana name, may ultimately generate more value. Investor interest in the split, originally proposed a year ago, was reignited on September 10, when the company announced it would go forward. The original plan was suspended when equity and debt markets became too tumultuous. It has been reinstated now that markets are moving up again. Applying McDep analysis to the financial and operating disclosures, we see Net Present Value (NPV) of \$62 a share divided into \$26 for Cenovus and \$36 for the 94% pure play North American natural gas producer (see tables [Functional Cash Flow and Present Value](#)). With Cenovus our Canadian coverage will expand again after losing Petro-Canada to takeover. Therein lies a tale as any number of global oil buyers, from China especially, may be interested in acquiring Cenovus, or other bite-size producers, judging from recent actions. Both stocks have upside potential in NPV from unbooked resources, a fact buyers, or investors, could readily use to justify higher price. EnCana has shown the way to creating value with an enviable record in converting resources to reserves in a growth style likely to go on. Finally, the oil price trend continues upward with the latest settlement prices for the average of futures for the next six years at \$78 a barrel compared to the 40-week average of \$71 (see chart [Six-Year and One-Year Natural Gas and Oil Futures](#), page 7). Extraordinarily depressed natural gas price may have seen its low.

Kurt H. Wulff, CFA

Encana Corporation					
Functional Cash Flow and Present Value					
	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>Ebitda</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
North American Natural Gas	3,940	8.1	9.7	38,300	65%
Oil	1,820	13.8	9.9	18,000	30%
Downstream	430		7.0	3,000	5%
	6,190	9.1	9.6	59,300	100%
Debt					12,700
Net Present Value (\$mm)					46,600
Shares					751
Net Present Value - Standard Estimate (US\$/sh)					62
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					63



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Synovus Energy Inc.					
Functional Cash Flow and Present Value					
	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<u><i>Ebitda</i></u>	<u><i>R/P</i></u>	<u><i>Ebitda</i></u>	<u><i>Value</i></u>	
North American Natural Gas	830	5.3	8.0	6,600	26%
Oil	1,560	14.8	10.3	16,000	63%
Downstream	430		7.0	3,000	12%
	2,820	9.8	9.1	25,600	100%
Debt					6,100
Net Present Value (\$mm)					19,500
Shares					751
Net Present Value - Standard Estimate (US\$/sh)					26
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					29

Encana Pro-Forma					
Functional Cash Flow and Present Value					
	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<u><i>Ebitda</i></u>	<u><i>R/P</i></u>	<u><i>Ebitda</i></u>	<u><i>Value</i></u>	
North American Natural Gas	3,110	8.8	10.2	31,700	94%
Oil	260	8.7	7.7	2,000	6%
Downstream					0%
	3,370	8.8	10.0	33,700	100%
Debt					6,600
Net Present Value (\$mm)					27,000
Shares					751
Net Present Value - Standard Estimate (US\$/sh)					36
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					35



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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>14-Sep</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	70.00	1.14	388,000	5	25	48	22	0.81
Chevron Corporation	CVX	B	71.04	1.23	174,000	4	10	70	16	0.77
Marathon Oil Corporation	MRO	B	32.69	1.50	34,800	8	5	61	26	0.71
ConocoPhillips	COP	B	46.59	1.75	122,000	12	9	64	14	0.58
<i>Total or Median *</i>	<i>30%</i>	<i>9%</i>	<i>14%</i>		<i>719,000</i>					<i>0.74</i>
Europe										
BG Group	BRGXF	B	18.48	1.12	70,000		23	45	32	0.85
BP plc	BP	B	54.29	1.38	236,000	7	9	60	24	0.81
Royal Dutch Shell plc	RDS-A	B	58.10	1.32	234,000	2	22	43	32	0.79
Total S.A.	TOT	B	60.93	1.25	171,000		19	59	22	0.72
StatoilHydro ASA (33%)	STO	B	22.29	1.43	33,400		52	48	-	0.71
<i>Total or Median *</i>	<i>31%</i>	<i>12%</i>	<i>17%</i>		<i>744,000</i>					<i>0.79</i>
Brazil/China/Russia										
CNOOC Limited (34%)	CEO	B	141.16	1.01	21,700		11	89	-	1.05
PetroChina Company Ltd (14%)	PTR	B	117.17	1.09	32,700		15	69	15	0.80
Petrobras	PBR	B	44.08	1.19	230,000		7	77	16	0.79
Lukoil Oil Company	LUKOY	B	54.15	1.15	52,600			67	33	0.43
Gazprom (50%)	OGZPY	B	22.50	1.27	89,000		80	20	-	0.41
<i>Total or Median *</i>	<i>18%</i>	<i>12%</i>	<i>17%</i>		<i>426,000</i>					<i>0.79</i>
U.S. Independent										
Anadarko Petroleum Corp.	APC	B	57.76	1.51	43,300	47		48	5	0.99
XTO Energy Inc.	XTO	B	40.60	1.48	34,700	75		25	-	0.90
Occidental Petroleum Corp.	OXY	B	76.99	1.09	68,300	9	1	80	9	0.89
Chesapeake Energy Corp.	CHK		27.09	1.88	31,000	85		15	-	0.88
EOG Resources	EOG	B	77.09	1.14	21,900	72	4	24	-	0.85
Devon Energy Corporation	DVN	B	66.18	1.31	39,100	61		39	-	0.73
<i>Total or Median *</i>	<i>10%</i>	<i>14%</i>	<i>17%</i>		<i>238,000</i>					<i>0.89</i>
Canada										
Encana Corporation	ECA	B	58.54	1.29	56,700	65		30	5	0.96
Canadian Natural Resources	CNQ	B	65.56	1.35	47,800	20		80	-	0.86
Imperial Oil Limited (30%)	IMO	B	38.43	1.09	10,700	-		83	17	0.81
Suncor Energy	SU	B	34.40	1.32	71,500	6		86	7	0.72
Canadian Oil Sands Trust	COSWF	B	25.62	1.12	13,800			100	-	0.64
<i>Total or Median *</i>	<i>8%</i>	<i>12%</i>	<i>17%</i>		<i>201,000</i>					<i>0.81</i>
Income and Small Cap (see separate weekly analysis)										
	<i>2%</i>	<i>42%</i>	<i>17%</i>		<i>40,000</i>	<i>40</i>		<i>60</i>		<i>0.83</i>
Composite										
<i>Enterprise Value Weighting</i>	<i>100%</i>				<i>2,368,000</i>	<i>11</i>	<i>15</i>	<i>57</i>	<i>17</i>	<i>0.76</i>
<i>Equal Weighting</i>		<i>100%</i>				<i>32</i>	<i>7</i>	<i>54</i>	<i>7</i>	<i>0.81</i>
<i>Equal Weighted Buys</i>			<i>100%</i>			<i>25</i>	<i>10</i>	<i>54</i>	<i>10</i>	<i>0.77</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)	Shares	Market	Present	Debt/	
	B = Buy	14-Sep			Cap	Value	Present	McDep
	H = Hold	2009		(mm)	(US\$mm)	(US\$/sh)	Value	Ratio
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	70.00	4,871	341,000	89.00	0.10	0.81
Chevron Corporation	CVX	B	71.04	1,992	142,000	97.00	0.14	0.77
Marathon Oil Corporation	MRO	B	32.69	711	23,240	53.00	0.23	0.71
ConocoPhillips	COP	B	46.59	1,496	70,000	105.00	0.25	0.58
<i>Total or Median</i>					<i>576,000</i>		<i>0.19</i>	<i>0.74</i>
Europe								
BG Group plc	BRGXF	B	18.48	3,388	62,620	22.00	0.09	0.85
BP plc	BP	B	54.29	3,155	171,000	72.00	0.22	0.81
Royal Dutch Shell plc	RDS-A	B	58.10	3,065	178,000	79.00	0.19	0.79
Total S.A.	TOT	B	60.93	2,236	136,000	90.00	0.15	0.72
StatoilHydro ASA (33%)	STO	B	22.29	1,051	23,420	35.00	0.21	0.71
<i>Total or Median</i>					<i>571,000</i>		<i>0.19</i>	<i>0.79</i>
Brazil/China/Russia								
CNOOC Limited (34%)	CEO	B	141.16	152	21,480	135.00	0.01	1.05
PetroChina Company Ltd (14%)	PTR	B	117.17	256	30,020	150.00	0.06	0.80
Petrobras	PBR	B	44.08	4,387	193,380	58.00	0.13	0.79
Lukoil Oil Company	LUKOY	B	54.15	847	46,000	135.00	0.06	0.43
Gazprom (50%)	OGZPY	B	22.50	3,130	70,400	64.00	0.09	0.41
<i>Total or Median</i>					<i>361,000</i>		<i>0.06</i>	<i>0.79</i>
U.S. Independent								
Anadarko Petroleum Corp.	APC	B	57.76	495	28,600	59.00	0.33	0.99
XTO Energy Inc.	XTO	B	40.60	579	23,510	47.00	0.29	0.90
Occidental Petroleum Corp.	OXY	B	76.99	814	62,700	87.00	0.07	0.89
Chesapeake Energy Corp.	CHK		27.09	610	16,520	34.00	0.41	0.88
EOG Resources	EOG	B	77.09	250	19,300	92.00	0.10	0.85
Devon Energy Corporation	DVN	B	66.18	450	29,800	98.00	0.17	0.73
<i>Total or Median</i>					<i>180,400</i>		<i>0.23</i>	<i>0.89</i>
Canada								
Encana Corporation	ECA	B	58.54	751	44,000	62.00	0.21	0.96
Canadian Natural Resources	CNQ	B	65.56	542	35,500	80.00	0.22	0.86
Imperial Oil Limited (30%)	IMO	B	38.43	256	9,860	48.00	0.07	0.81
Suncor Energy	SU	B	34.40	1,572	54,060	52.00	0.18	0.72
Canadian Oil Sands Trust	COSWF	B	25.62	484	12,400	42.00	0.07	0.64
<i>Total or Median</i>					<i>156,000</i>		<i>0.18</i>	<i>0.81</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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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>14-Sep</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	70.00	12.4	8.6	6.9	13	2.4
Chevron Corporation	CVX	B	71.04	9.8	7.8	6.0	15	3.8
ConocoPhillips	COP	B	46.59	10.6	8.8	5.1	9	4.0
Marathon Oil Corporation	MRO	B	32.69	8.3	7.0	4.9	10	2.9
	<i>Total or Median</i>			<i>10.2</i>	<i>8.2</i>	<i>5.6</i>	<i>12</i>	<i>3.4</i>
Europe								
BG Group plc	BRGXF	B	18.48	8.8	9.0	7.7	16	1.1
BP plc	BP	B	54.29	9.6	7.8	6.3	12	6.2
Royal Dutch Shell plc	RDS-A	B	58.10	7.9	7.6	6.0	12	5.8
Total S.A.	TOT	B	60.93	9.7	8.3	6.0	12	5.5
StatoilHydro ASA (33%)	STO	B	22.29	7.5	7.1	5.1	16	5.5
	<i>Total or Median</i>			<i>8.8</i>	<i>7.8</i>	<i>6.0</i>	<i>12</i>	<i>5.5</i>
Brazil/China/Russia								
Petrobras	PBR	B	44.08	9.2	10.6	8.4	15	3.0
PetroChina Company Ltd (14%)	PTR	B	117.17	14.0	8.6	6.9	19	3.4
CNOOC Limited (34%)	CEO	B	141.16	7.2	6.5	6.8	13	3.7
Lukoil Oil Company	LUKOY	B	54.15	16.3	9.3	4.0	8	2.3
Gazprom (50%)	OGZPY	B	22.50	24.6	8.6	3.5	4	1.5
	<i>Total or Median</i>			<i>14.0</i>	<i>8.6</i>	<i>6.8</i>	<i>13</i>	<i>3.0</i>
U.S. Independent								
Chesapeake Energy Corp.	CHK		27.09	11.3	11.2	9.8	15	1.1
XTO Energy Inc.	XTO	B	40.60	11.0	10.5	9.5	26	1.4
Anadarko Petroleum Corp.	APC	B	57.76	9.2	8.7	8.6		0.6
EOG Resources	EOG	B	77.09	10.1	9.9	8.5	25	0.8
Occidental Petroleum Corp.	OXY	B	76.99	11.0	7.9	7.1	15	1.7
Devon Energy Corporation	DVN	B	66.18	8.4	8.1	6.0	12	1.0
	<i>Total or Median</i>			<i>10.5</i>	<i>9.3</i>	<i>8.5</i>	<i>15</i>	<i>1.0</i>
Canada								
Imperial Oil Limited (30%)	IMO	B	38.43	18.4	14.4	11.7	24	1.0
Encana Corporation	ECA	B	58.54	9.1	9.6	9.2	23	0.7
Canadian Oil Sands Trust	COSWF	B	25.62	21.8	13.7	8.7	13	8.3
Canadian Natural Resources	CNQ	B	65.56	7.6	9.4	8.1	15	0.6
Suncor Energy	SU	B	34.40	12.5	10.5	7.6	86	0.5
	<i>Total or Median</i>			<i>12.5</i>	<i>10.5</i>	<i>8.7</i>	<i>23</i>	<i>0.7</i>
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2010; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



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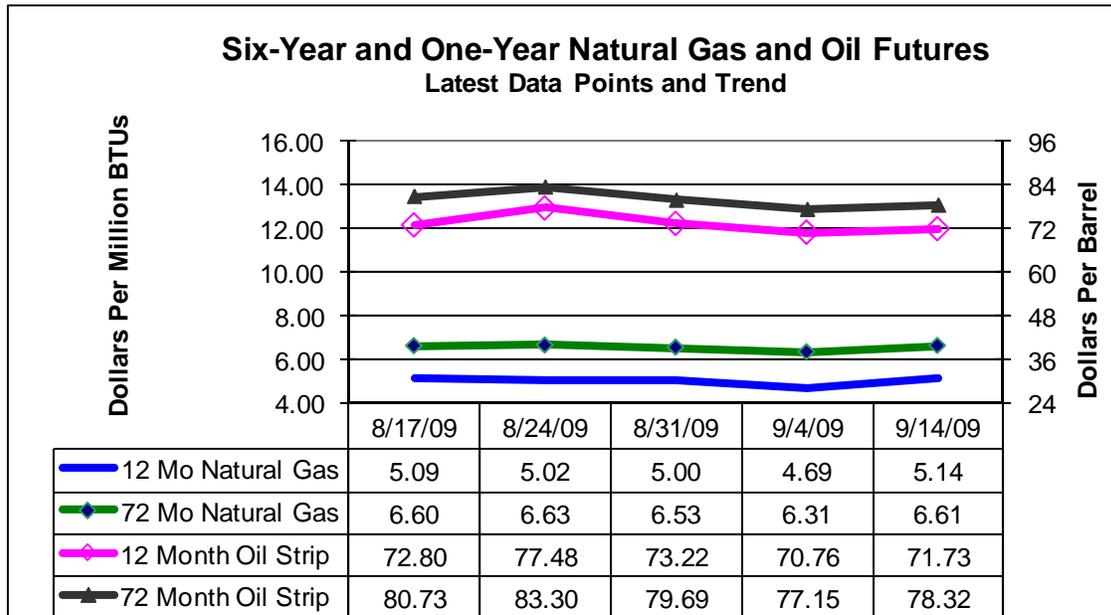
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Index of Recent Research			
Stock Ideas			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
4-Sep	SJT	San Juan Basin Royalty Trust	Upgrade to Buy (Income and Small Cap Weekly)
1-Sep	XOM	Exxon Mobil Corporation	Stock May Be Timely (Meter Reader)
30-Aug	LUKOY	Lukoil Oil Company	Contributing to Russia's Oil Future
30-Aug	PTR	PetroChina Company Limited	Growing Giant in Clean Energy
26-Aug	CEO	CNOOC Ltd	Full Current Valuation, Promising Prospects
26-Aug	OGZPY	Gazprom	Natural Gas Giant Reemerging
14-Aug	* BIR.TO	Birchcliff Energy Ltd.	Spirited Small Cap Canadian Nat Gas Producer (ISCW)
12-Aug	PWE	Penn West Energy Trust	Reduce NPV on Volume Trend
11-Aug	DMLP	Dorchester Minerals, L.P.	Income Competitive with Growth
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	* BRV	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
30-Jul	* IMO	Imperial Oil Limited	Downstream Hiccup
30-Jul	* PCZ	Petro-Canada	Good Bye Petro-Canada, Hello Suncor
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
10-Jul	* HGT	Hugoton Royalty Trust	Rounding the Bend (Income and Small Cap Weekly)
5-May	* PBR	Petrobras	New Buy on Oil Growth
Meter Reader			
15-Sep		Weekly	
8-Sep		Weekly	Getting Oil Sands Right
1-Sep		Exxon Mobil Corporation (XOM)	Stock May Be Timely
11-Aug	*	Weekly	North American Natural Gas Buys
Income and Small Cap Weekly			
11-Sep		Weekly	Natural Gas Low Set
4-Sep		San Juan Basin Royalty Trust	Upgrade to Buy from Hold
14-Aug	*	Birchcliff Energy Ltd.	Spirited Small Cap Canadian Natural Gas Producer
7-Aug	*	Weekly	Volatile Geographic Differences Narrow for Natural Gas
Industry Ideas			
2-Apr	*	Presentation	Making Money in Oil and Gas Stocks
		* Archived on www.mcdep.com	



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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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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.