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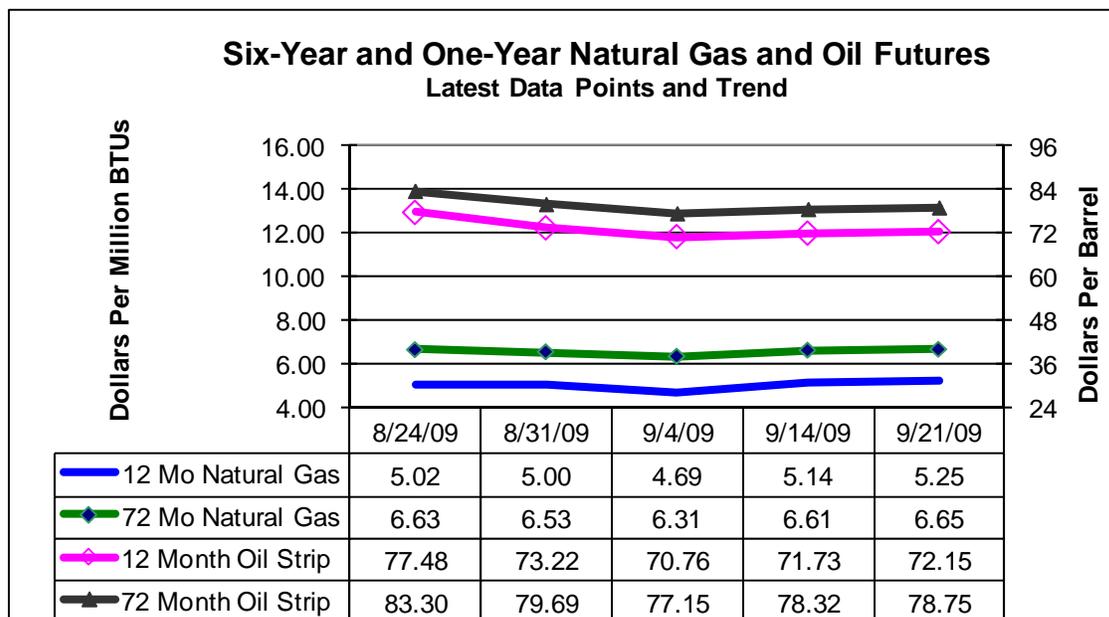
A Weekly Analysis of Large Cap Oil and Gas Stocks
September 22, 2009

Replaying Energy Regulation in Russia

Summary and Recommendation

Buy-recommendations **Gazprom (OGZPY)** and **Lukoil (LUKOY)** have long-run appreciation potential from a gradual relaxation of natural gas price controls in the case of Gazprom and the oil export tax in the case of Lukoil. Many of the same issues of energy economics and politics being debated in Russia today parallel the arguments we recall vividly that came to a boil in the U.S. during the 1970s. Having visited the two leading Russian companies in their Moscow headquarters on September 21, we will have more to say on each. McDep Ratios below a half for the two companies point to the opportunity subject to the usual risks (see Tables 1 and 2, pages 2 and 3). Market multiples, Enterprise Value to Ebitda, convey a similar message (see Table 3, page 4). Lastly, the industry backdrop looks positive with an upward oil price trend. Latest settlement prices for the average of futures for the next six years at \$79 a barrel are above the 40-week average of \$72 (see chart below, Six-Year and One-Year Natural Gas and Oil Futures and chart on page 6, Six-Year Commodity Price Meter). The current quote of \$6.65 for six-year natural gas practically tracks the 40-week average of \$6.73, perhaps poised for an imminent break to the upside.

Kurt H. Wulff, CFA





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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>(US\$/sh)</i>	<i>Market</i>	<i>Value</i>	<i>Amer.</i>	<i>of World</i>			
	<i>H = Hold</i>		<i>21-Sep</i>	<i>Cap</i>	<i>(\$mm)</i>	<i>Natural</i>	<i>Natural</i>	<i>Oil</i>	<i>Down-</i>	<i>McDep</i>
			<i>2009</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	69.57	1.14	386,000	5	25	48	22	0.80
Chevron Corporation	CVX	B	72.05	1.23	176,000	4	10	70	16	0.78
Marathon Oil Corporation	MRO	B	33.15	1.49	35,100	8	5	61	26	0.71
ConocoPhillips	COP	B	46.15	1.75	121,000	12	9	64	14	0.58
<i>Total or Median *</i>	<i>30%</i>	<i>9%</i>	<i>14%</i>		<i>718,000</i>					<i>0.75</i>
Europe										
BG Group	BRGXF	B	18.02	1.12	68,200		23	45	32	0.84
BP plc	BP	B	54.41	1.38	237,000	7	9	60	24	0.81
Royal Dutch Shell plc	RDS-A	B	58.71	1.31	236,000	2	22	43	32	0.79
Total S.A.	TOT	B	61.23	1.25	171,000		19	59	22	0.73
StatoilHydro ASA (33%)	STO	B	22.47	1.43	33,700		51	49	-	0.72
<i>Total or Median *</i>	<i>31%</i>	<i>12%</i>	<i>17%</i>		<i>746,000</i>					<i>0.79</i>
Brazil/China/Russia										
CNOOC Limited (34%)	CEO	B	138.44	1.01	21,300		11	89	-	1.02
Petrobras	PBR	B	45.19	1.19	235,000		7	77	16	0.81
PetroChina Company Ltd (14%)	PTR	B	119.03	1.09	33,100		15	69	15	0.81
Lukoil Oil Company	LUKOY	B	53.65	1.15	52,200			67	33	0.43
Gazprom (50%)	OGZPY	B	23.35	1.26	92,000		80	20	-	0.42
<i>Total or Median *</i>	<i>18%</i>	<i>12%</i>	<i>17%</i>		<i>434,000</i>					<i>0.81</i>
U.S. Independent										
Anadarko Petroleum Corp.	APC	B	62.59	1.47	45,700	47		48	5	1.04
XTO Energy Inc.	XTO	B	42.13	1.46	35,600	75		25	-	0.93
Chesapeake Energy Corp.	CHK		28.11	1.84	31,600	85		15	-	0.90
EOG Resources	EOG	B	81.28	1.13	22,900	72	4	24	-	0.90
Occidental Petroleum Corp.	OXY	B	77.09	1.09	68,400	9	1	80	9	0.89
Devon Energy Corporation	DVN	B	69.87	1.29	40,800	61		39	-	0.76
<i>Total or Median *</i>	<i>10%</i>	<i>14%</i>	<i>17%</i>		<i>245,000</i>					<i>0.90</i>
Canada										
Encana Corporation	ECA	B	57.24	1.30	55,700	65		30	5	0.94
Canadian Natural Resources	CNQ	B	68.60	1.33	49,500	20		80	-	0.89
Imperial Oil Limited (30%)	IMO	B	38.30	1.09	10,700	-		83	17	0.81
Suncor Energy	SU	B	35.88	1.31	73,800	6		86	7	0.74
Canadian Oil Sands Trust	COSWF	B	26.78	1.11	14,400			100	-	0.66
<i>Total or Median *</i>	<i>9%</i>	<i>12%</i>	<i>17%</i>		<i>204,000</i>					<i>0.81</i>
Income and Small Cap (see separate weekly analysis)										
	<i>2%</i>	<i>42%</i>	<i>17%</i>		<i>41,500</i>	<i>40</i>		<i>60</i>		<i>0.86</i>
Composite										
<i>Enterprise Value Weighting</i>	<i>100%</i>				<i>2,388,500</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>0.83</i>
<i>Equal Weighted Buys</i>			<i>100%</i>			<i>25</i>	<i>10</i>	<i>54</i>	<i>10</i>	<i>0.78</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	21-Sep			Cap	Value	Present	McDep
	H = Hold	2009		(mm)	(US\$mm)	(US\$/sh)	Value	Ratio
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	69.57	4,871	339,000	89.00	0.10	0.80
Chevron Corporation	CVX	B	72.05	1,992	144,000	97.00	0.14	0.78
Marathon Oil Corporation	MRO	B	33.15	711	23,570	53.00	0.23	0.71
ConocoPhillips	COP	B	46.15	1,496	69,000	105.00	0.25	0.58
<i>Total or Median</i>					<i>576,000</i>		<i>0.19</i>	<i>0.75</i>
Europe								
BG Group plc	BRGXF	B	18.02	3,388	61,070	22.00	0.09	0.84
BP plc	BP	B	54.41	3,155	172,000	72.00	0.22	0.81
Royal Dutch Shell plc	RDS-A	B	58.71	3,065	180,000	79.00	0.19	0.79
Total S.A.	TOT	B	61.23	2,236	137,000	90.00	0.15	0.73
StatoilHydro ASA (33%)	STO	B	22.47	1,051	23,610	35.00	0.21	0.72
<i>Total or Median</i>					<i>574,000</i>		<i>0.19</i>	<i>0.79</i>
Brazil/China/Russia								
CNOOC Limited (34%)	CEO	B	138.44	152	21,060	135.00	0.01	1.02
Petrobras	PBR	B	45.19	4,387	198,250	58.00	0.13	0.81
PetroChina Company Ltd (14%)	PTR	B	119.03	256	30,500	150.00	0.06	0.81
Lukoil Oil Company	LUKOY	B	53.65	847	45,000	135.00	0.06	0.43
Gazprom (50%)	OGZPY	B	23.35	3,130	73,100	64.00	0.09	0.42
<i>Total or Median</i>					<i>368,000</i>		<i>0.06</i>	<i>0.81</i>
U.S. Independent								
Anadarko Petroleum Corp.	APC	B	62.59	495	31,000	59.00	0.33	1.04
XTO Energy Inc.	XTO	B	42.13	579	24,390	47.00	0.29	0.93
Chesapeake Energy Corp.	CHK		28.11	610	17,150	34.00	0.41	0.90
EOG Resources	EOG	B	81.28	250	20,300	92.00	0.10	0.90
Occidental Petroleum Corp.	OXY	B	77.09	814	62,800	87.00	0.07	0.89
Devon Energy Corporation	DVN	B	69.87	450	31,500	98.00	0.17	0.76
<i>Total or Median</i>					<i>187,100</i>		<i>0.23</i>	<i>0.90</i>
Canada								
Encana Corporation	ECA	B	57.24	751	43,000	62.00	0.21	0.94
Canadian Natural Resources	CNQ	B	68.60	542	37,200	80.00	0.22	0.89
Imperial Oil Limited (30%)	IMO	B	38.30	256	9,820	48.00	0.07	0.81
Suncor Energy	SU	B	35.88	1,572	56,390	52.00	0.18	0.74
Canadian Oil Sands Trust	COSWF	B	26.78	484	12,960	42.00	0.07	0.66
<i>Total or Median</i>					<i>159,000</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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Table 3

McDep Energy Portfolio Value Multiples and Distribution Yield

			<i>Price</i>	<i>Adjustd</i>				
	<i>Symbol/Rating</i>		<i>(US\$/sh)</i>	<i>Resrvs/</i>	<i>PV/</i>	<i>EV/</i>		<i>Divd or</i>
	B = Buy		<i>21-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	69.57	12.4	8.5	6.8	13	2.4
Chevron Corporation	CVX	B	72.05	9.8	7.7	6.0	15	3.8
ConocoPhillips	COP	B	46.15	10.6	8.7	5.1	9	4.1
Marathon Oil Corporation	MRO	B	33.15	8.3	6.9	4.9	10	2.9
	<i>Total or Median</i>			<i>10.2</i>	<i>8.1</i>	<i>5.5</i>	<i>12</i>	<i>3.3</i>
Europe								
BG Group plc	BRGXF	B	18.02	8.8	9.2	7.7	16	1.1
BP plc	BP	B	54.41	9.6	7.8	6.3	12	6.2
Total S.A.	TOT	B	61.23	9.7	8.3	6.0	12	5.5
Royal Dutch Shell plc	RDS-A	B	58.71	7.9	7.6	6.0	12	5.7
StatoilHydro ASA (33%)	STO	B	22.47	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	45.19	9.2	10.6	8.5	16	3.0
PetroChina Company Ltd (14%)	PTR	B	119.03	14.0	8.6	6.9	19	3.4
CNOOC Limited (34%)	CEO	B	138.44	7.2	6.5	6.7	12	3.7
Lukoil Oil Company	LUKOY	B	53.65	16.3	9.3	4.0	8	2.3
Gazprom (50%)	OGZPY	B	23.35	24.6	8.6	3.6	5	0.2
	<i>Total or Median</i>			<i>14.0</i>	<i>8.6</i>	<i>6.7</i>	<i>12</i>	<i>3.0</i>
U.S. Independent								
Chesapeake Energy Corp.	CHK		28.11	11.3	11.0	9.9	15	1.1
XTO Energy Inc.	XTO	B	42.13	11.0	10.2	9.5	26	1.4
Anadarko Petroleum Corp.	APC	B	62.59	9.2	8.6	9.0		0.6
EOG Resources	EOG	B	81.28	10.1	9.7	8.7	26	0.7
Occidental Petroleum Corp.	OXY	B	77.09	11.0	7.9	7.0	15	1.7
Devon Energy Corporation	DVN	B	69.87	8.4	8.0	6.1	12	0.9
	<i>Total or Median</i>			<i>10.5</i>	<i>9.1</i>	<i>8.8</i>	<i>15</i>	<i>1.0</i>
Canada								
Imperial Oil Limited (30%)	IMO	B	38.30	18.4	14.3	11.6	24	1.0
Canadian Oil Sands Trust	COSWF	B	26.78	21.8	13.9	9.2	14	8.0
Encana Corporation	ECA	B	57.24	9.1	9.4	8.9	22	0.7
Canadian Natural Resources	CNQ	B	68.60	7.6	9.3	8.3	15	0.5
Suncor Energy	SU	B	35.88	12.5	10.4	7.7	87	0.5
	<i>Total or Median</i>			<i>12.5</i>	<i>10.4</i>	<i>8.9</i>	<i>22</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

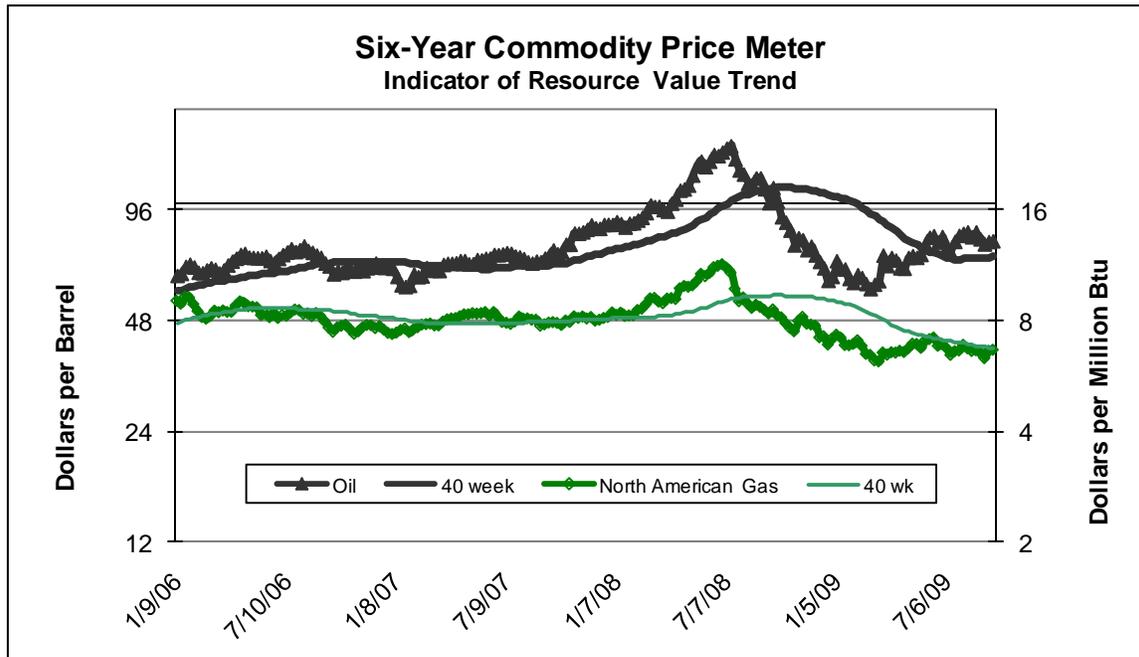
Index of Recent Research			
Stock Ideas			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
17-Sep	COSWF	Canadian Oil Sands Trust	McDep Value (Income and Small Cap Weekly)
16-Sep	APC	Anadarko Petroleum Corporation	Rebalance on New Basin Discovery
15-Sep	ECA	EnCana Corporation	Creating Oil Sands Prize (Meter Reader)
4-Sep	SJT	San Juan Basin Royalty Trust	Upgrade to Buy (Income and Small Cap Weekly)
3-Sep	PBR	Petrobras	New Regulatory Model Points to Stock Issue
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	* 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	* 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
23-Jul	* OXY	Occidental Petroleum Corporation	California Discovery May Be Worth \$2 a Share
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)
Meter Reader			
22-Sep		Weekly	
15-Sep		EnCana Corporation (ECA)	Creating Oil Sands Prize
8-Sep		Weekly	Getting Oil Sands Right
1-Sep	*	Exxon Mobil Corporation (XOM)	Stock May Be Timely
Income and Small Cap Weekly			
18-Sep		Canadian Oil Sands Trust (COSWF)	McDep Value
11-Sep		Weekly	Natural Gas Low Set
4-Sep		San Juan Basin Royalty Trust (SJT)	Upgrade to Buy from Hold
14-Aug	*	Birchcliff Energy Ltd. (BIREF)	Spirited Small Cap Canadian Natural Gas Producer
Industry Ideas			
2-Apr	*	Presentation	Making Money in Oil and Gas Stocks
	*	Archived on www.mcdep.com	



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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.