



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

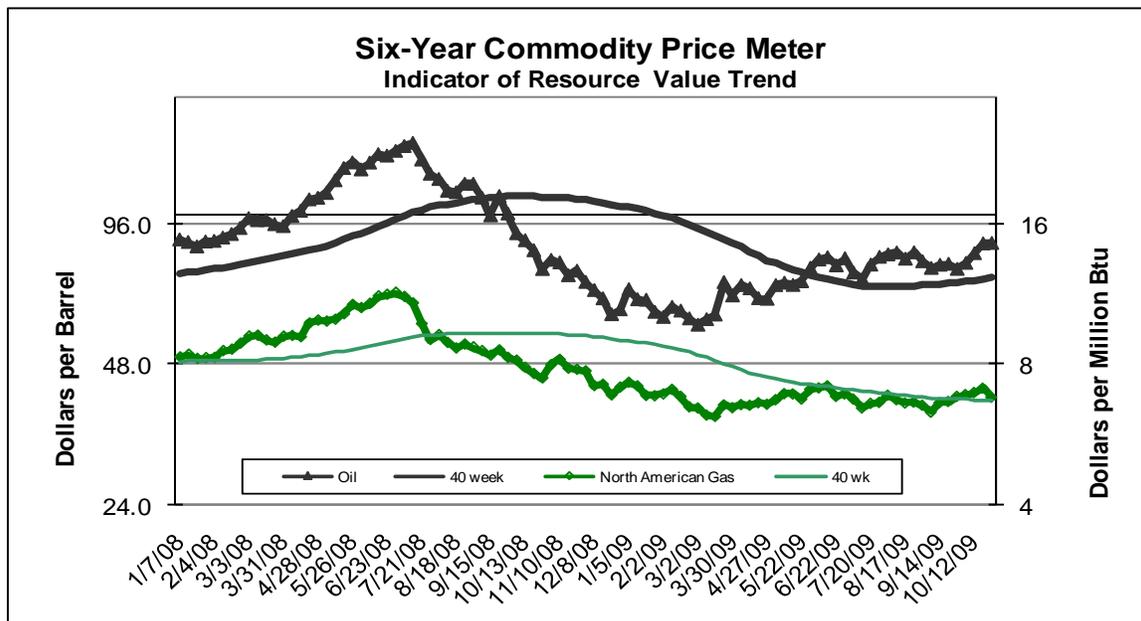
October 27, 2009

## Return of Defensive Rebalancing

### Summary and Recommendation

Now that six-year oil is a third of the way back to its high and a few buy-recommended stocks are trading above a McDep Ratio of 1.0, investors might look again at preserving profits along with taking advantage of low stock prices (see chart Six-Year Commodity Price Meter below, valuation tables pages 2-4 and chart Six-Year and One-Year Natural Gas and Oil Futures on page 6). Currently, all of the trends are positive with stock prices and commodity prices above the 200-day or 40-week averages. We hope those positive trends last for at least a few years, but we cannot know that. Defensive rebalancing can be an automatic process to preserve gains and maintain broad energy exposure. The technique requires picking a target portfolio weight and sticking with it for awhile. If so, we would automatically trade higher McDep Ratio stocks for cash should the percentage move up and trade cash for lower McDep Ratio stocks should the percentage move down. We might apply the same idea to groups of oil and gas stocks, for example, striving for an equal market cap and debt in each of six groups; five large cap and one small cap, in our coverage (see tables). Actual weights may be a matter of individual preference. In our case, energy stocks approach 60% of our investable assets with most of the remainder in inflation linked government debt, fixed income, gold and cash. Focusing on analysis, we do not trade much. As a result we may rebalance, but at a deliberate pace.

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 Cap	Enterprise Value (\$mm)	North Amer. Natural Gas	Rest of World Natural Gas	Oil Prod'n	Down-stream	McDep Ratio	
	B = Buy H = Hold	26-Oct 2009								
<b>U.S. Integrated</b>										
Exxon Mobil Corporation	XOM	B	73.23	1.13	403,000	5	25	48	22	0.84
Chevron Corporation	CVX	B	75.45	1.22	183,000	4	10	70	16	0.81
Marathon Oil Corporation	MRO	B	33.48	1.48	35,300	8	5	61	26	0.72
ConocoPhillips	COP	B	50.74	1.69	128,000	12	9	64	14	0.61
<i>Total or Median *</i>	<i>30%</i>	<i>9%</i>	<i>14%</i>		<i>749,000</i>					<i>0.76</i>
<b>Europe</b>										
BG Group	BRGXF	B	18.22	1.12	68,900		23	45	32	0.84
Royal Dutch Shell plc	RDS-A	B	61.78	1.30	246,000	2	22	43	32	0.82
BP plc	BP	B	55.48	1.37	240,000	7	9	60	24	0.82
StatoilHydro ASA (33%)	STO	B	24.36	1.42	36,300		51	49	-	0.76
Total S.A.	TOT	B	62.09	1.25	174,000		19	59	22	0.74
<i>Total or Median *</i>	<i>31%</i>	<i>12%</i>	<i>17%</i>		<i>765,000</i>					<i>0.82</i>
<b>Brazil/China/Russia</b>										
CNOOC Limited (34%)	CEO	B	160.71	1.01	24,700		11	89	-	1.19
PetroChina Company Ltd (14%)	PTR	B	131.05	1.08	36,200		15	69	15	0.88
Petrobras	PBR	B	49.06	1.17	252,000		7	77	16	0.87
Lukoil Oil Company	LUKOY	B	63.80	1.12	60,800			67	33	0.50
Gazprom (50%)	OGZPY	B	26.40	1.24	103,000		79	21	-	0.47
<i>Total or Median *</i>	<i>19%</i>	<i>12%</i>	<i>17%</i>		<i>477,000</i>					<i>0.87</i>
<b>U.S. Independent</b>										
Anadarko Petroleum Corp.	APC	B	64.31	1.46	46,500	47		48	5	1.06
EOG Resources	EOG	B	86.86	1.12	24,300	72	4	24	-	0.95
XTO Energy Inc.	XTO	B	42.78	1.45	36,000	75		25	-	0.94
Occidental Petroleum Corp.	OXY	B	80.71	1.09	71,400	10	1	82	7	0.86
Chesapeake Energy Corp.	CHK		25.73	1.92	30,200	85		15	-	0.86
Devon Energy Corporation	DVN	B	66.84	1.31	39,400	61		39	-	0.74
<i>Total or Median *</i>	<i>10%</i>	<i>14%</i>	<i>17%</i>		<i>248,000</i>					<i>0.90</i>
<b>Canada</b>										
EnCana Corporation	ECA	B	58.78	1.29	56,800	65		30	5	0.96
Canadian Natural Resources	CNQ	B	69.02	1.34	50,000	20		80	-	0.89
Imperial Oil Limited (30%)	IMO	B	39.56	1.09	11,000	5		80	16	0.84
Suncor Energy	SU	B	35.37	1.32	73,200	5		85	10	0.74
Canadian Oil Sands Trust	COSWF	B	28.63	1.11	15,300			100	-	0.70
<i>Total or Median *</i>	<i>8%</i>	<i>12%</i>	<i>17%</i>		<i>206,000</i>					<i>0.84</i>
<b>Income and Small Cap (see separate weekly analysis)</b>										
	<i>2%</i>	<i>42%</i>	<i>17%</i>		<i>43,400</i>	<i>41</i>		<i>59</i>		<i>0.91</i>
<b>Composite</b>										
<i>Enterprise Value Weighting</i>	<i>100%</i>				<i>2,488,400</i>	<i>10</i>	<i>16</i>	<i>57</i>	<i>17</i>	<i>0.79</i>
<i>Equal Weighting</i>		<i>100%</i>				<i>32</i>	<i>7</i>	<i>54</i>	<i>7</i>	<i>0.85</i>
<i>Equal Weighted Buys</i>			<i>100%</i>			<i>25</i>	<i>10</i>	<i>54</i>	<i>10</i>	<i>0.81</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

	<i>Symbol/Rating</i>	<i>Price (US\$/sh)</i>	<i>Shares</i>	<i>Market Cap (US\$mm)</i>	<i>Net Present Value (US\$/sh)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>
	B = Buy H = Hold	26-Oct 2009	(mm)				
<b>U.S. Integrated</b>							
Exxon Mobil Corporation	XOM	B	73.23	4,871	357,000	89.00	0.10
Chevron Corporation	CVX	B	75.45	1,992	150,000	97.00	0.14
Marathon Oil Corporation	MRO	B	33.48	711	23,800	53.00	0.23
ConocoPhillips	COP	B	50.74	1,496	76,000	105.00	0.25
<i>Total or Median</i>					<i>607,000</i>		<i>0.19</i>
<b>Europe</b>							
BG Group plc	BRGXF	B	18.22	3,388	61,720	22.00	0.09
Royal Dutch Shell plc	RDS-A	B	61.78	3,065	189,000	79.00	0.19
BP plc	BP	B	55.48	3,155	175,000	72.00	0.22
StatoilHydro ASA (33%)	STO	B	24.36	1,051	25,600	35.00	0.23
Total S.A.	TOT	B	62.09	2,236	139,000	90.00	0.15
<i>Total or Median</i>					<i>590,000</i>		<i>0.19</i>
<b>Brazil/China/Russia</b>							
CNOOC Limited (34%)	CEO	B	160.71	152	24,450	135.00	0.01
PetroChina Company Ltd (14%)	PTR	B	131.05	256	33,580	150.00	0.06
Petrobras	PBR	B	49.06	4,387	215,230	58.00	0.13
Lukoil Oil Company	LUKOY	B	63.80	847	54,000	135.00	0.06
Gazprom (50%)	OGZPY	B	26.40	3,130	82,600	64.00	0.09
<i>Total or Median</i>					<i>410,000</i>		<i>0.06</i>
<b>U.S. Independent</b>							
Anadarko Petroleum Corp.	APC	B	64.31	495	31,800	59.00	0.33
EOG Resources	EOG	B	86.86	250	21,700	92.00	0.10
XTO Energy Inc.	XTO	B	42.78	579	24,770	47.00	0.29
Occidental Petroleum Corp.	OXY	B	80.71	814	65,700	95.00	0.07
Chesapeake Energy Corp.	CHK		25.73	610	15,700	34.00	0.41
Devon Energy Corporation	DVN	B	66.84	450	30,100	98.00	0.17
<i>Total or Median</i>					<i>189,800</i>		<i>0.23</i>
<b>Canada</b>							
EnCana Corporation	ECA	B	58.78	751	44,100	62.00	0.21
Canadian Natural Resources	CNQ	B	69.02	542	37,400	80.00	0.23
Imperial Oil Limited (30%)	IMO	B	39.56	256	10,150	48.00	0.07
Suncor Energy	SU	B	35.37	1,572	55,600	52.00	0.18
Canadian Oil Sands Trust	COSWF	B	28.63	484	13,860	42.00	0.07
<i>Total or Median</i>					<i>161,000</i>		<i>0.18</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.*

Page 3



# Meter Reader

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October 27, 2009

**Table 3**

## 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>26-Oct</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	73.23	12.4	7.8	6.6	12	2.3
Chevron Corporation	CVX	B	75.45	9.8	7.1	5.7	13	3.6
ConocoPhillips	COP	B	50.74	10.6	8.1	4.9	8	3.9
Marathon Oil Corporation	MRO	B	33.48	8.3	6.4	4.6	9	2.9
	<i>Total or Median</i>			<i>10.2</i>	<i>7.5</i>	<i>5.3</i>	<i>11</i>	<i>3.2</i>
<b>Europe</b>								
BG Group plc	BRGXF	B	18.22	8.8	8.7	7.3	15	1.1
Royal Dutch Shell plc	RDS-A	B	61.78	7.9	7.2	5.9	12	5.4
BP plc	BP	B	55.48	9.6	7.2	5.9	11	6.1
Total S.A.	TOT	B	62.09	9.7	7.7	5.6	11	5.5
StatoilHydro ASA (33%)	STO	B	24.36	7.5	6.5	5.0	15	5.4
	<i>Total or Median</i>			<i>8.8</i>	<i>7.2</i>	<i>5.9</i>	<i>12</i>	<i>5.4</i>
<b>Brazil/China/Russia</b>								
Petrobras	PBR	B	49.06	9.2	9.7	8.4	15	2.7
PetroChina Company Ltd (14%)	PTR	B	131.05	14.0	8.1	7.1	19	3.1
CNOOC Limited (34%)	CEO	B	160.71	7.2	6.0	7.1	13	3.2
Lukoil Oil Company	LUKOY	B	63.80	16.3	8.7	4.4	8	2.1
Gazprom (50%)	OGZPY	B	26.40	24.6	8.2	3.8	5	0.2
	<i>Total or Median</i>			<i>14.0</i>	<i>8.2</i>	<i>7.1</i>	<i>13</i>	<i>2.7</i>
<b>U.S. Independent</b>								
Chesapeake Energy Corp.	CHK		25.73	11.3	10.5	9.0	13	1.2
XTO Energy Inc.	XTO	B	42.78	11.0	9.5	8.9	23	1.4
EOG Resources	EOG	B	86.86	10.1	9.0	8.6	24	0.7
Anadarko Petroleum Corp.	APC	B	64.31	9.2	8.0	8.5		0.6
Occidental Petroleum Corp.	OXY	B	80.71	11.2	7.9	6.8	14	1.6
Devon Energy Corporation	DVN	B	66.84	8.4	7.5	5.5	11	1.0
	<i>Total or Median</i>			<i>10.6</i>	<i>8.5</i>	<i>8.5</i>	<i>14</i>	<i>1.1</i>
<b>Canada</b>								
Imperial Oil Limited (30%)	IMO	B	39.56	18.4	13.2	11.1	22	1.0
EnCana Corporation	ECA	B	58.78	9.1	9.0	8.6	21	0.7
Canadian Oil Sands Trust	COSWF	B	28.63	21.8	11.8	8.3	12	7.6
Canadian Natural Resources	CNQ	B	69.02	7.6	8.6	7.7	16	0.6
Suncor Energy	SU	B	35.37	13.6	9.7	7.1	22	0.5
	<i>Total or Median</i>			<i>13.6</i>	<i>9.7</i>	<i>8.3</i>	<i>21</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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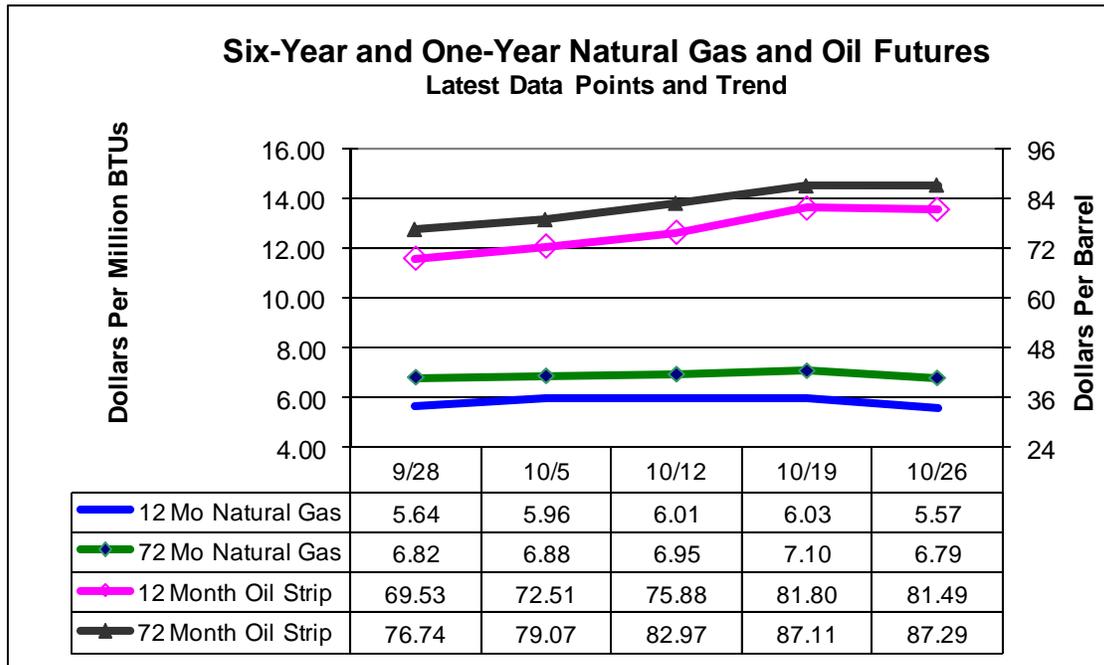
<b>Index of Recent Research</b>			
<b>Stock Ideas</b>			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
23-Oct	OXY	Occidental Petroleum Corporation	Raise Net Present Value to \$95 a Share from \$87
6-Oct	* SU	Suncor Energy	Evaluating Strategy for Acquired Assets (Meter Reader)
5-Oct	COSWF	Canadian Oil Sands Trust	Distribution Increase Ahead?
2-Oct	* XEC	Cimarex Energy Company	Drilling Picking Up (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	* 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
10-Jul	* HGT	Hugoton Royalty Trust	Rounding the Bend (Income and Small Cap Weekly)
<b>Meter Reader</b>			
27-Oct		Weekly	
20-Oct		Weekly	European Oil Stock Bargains
13-Oct		Weekly	Bargains in U.S. Integrated Oil Stocks
6-Oct	*	Suncor Energy	Evaluating Strategy for Acquired Assets
<b>Income and Small Cap Weekly</b>			
23-Oct		Weekly	Going Horizontal
16-Oct		Weekly	Canada Trusts on Real Growth Trend
9-Oct		Weekly	Friendly Trends
2-Oct	*	Cimarex Energy Company	Drilling Picking Up
<b>Industry Ideas</b>			
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.