



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

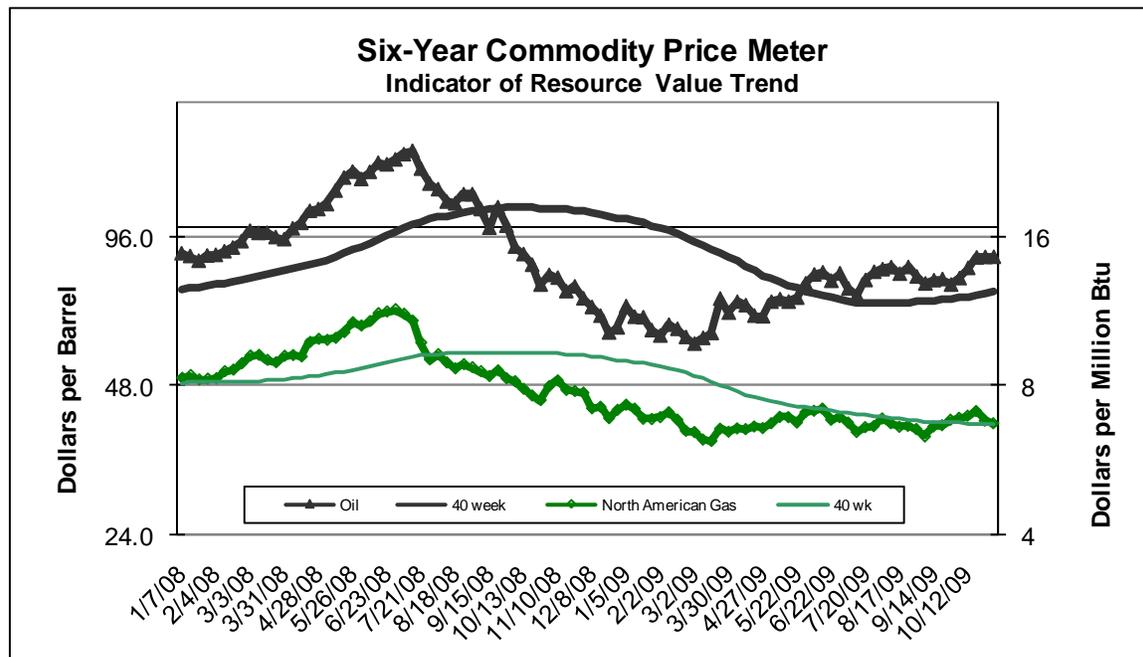
November 3, 2009

Buy China Oil and Gas

Summary and Recommendation

Analyzing partial third quarter results released last week, we keep our buy recommendations on Chinese producers **PetroChina (PTR)** and **CNOOC Limited (CEO)**. PTR is the conservative major integrated company with a mix of value in oil, downstream and natural gas most closely similar to **BP plc (BP)** and **Chevron (CVX)** (see tables on pages 2 and 4). CEO is a large independent most closely comparable to **Occidental Petroleum (OXY)**, but with special exploration rights offshore China contributing faster growth offset by shorter reserve life (see tables on pages 3 to 7). With its McDep Ratio of 0.82, PTR could be an average or overweight position among energy holdings. CEO's McDep Ratio of 1.13 may be a basis for rebalancing to an underweight among buy-recommended energy holdings. The company could grow more to justify its higher McDep Ratio. We watch for a reversal in stock price uptrend as a potential trigger to a change in our recommendation. Meanwhile the latest settlement of futures prices for oil delivered over the next six years is above its 40-week average (see chart Six-Year Commodity Price Meter below and chart Six-Year and One-Year Natural Gas and Oil Futures on page 8).

Kurt H. Wulff, CFA





Meter Reader

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November 3, 2009

PetroChina					
Functional Cash Flow and Present Value					
				Present	
	NTM Ebitda	Adjusted	PV/	Value	
	(US\$mm)	R/P	Ebitda	(US\$mm)	
Natural Gas	4,600	19.4	9.8	45,000	15%
Oil	25,600	11.5	8.0	204,000	69%
Downstream	5,900		7.6	45,000	15%
	36,100	14.0	8.1	294,000	100%
Debt (US\$mm)					19,000
Net Present Value (US\$mm)					275,000
Shares (mm)					1,830
Net Present Value - Standard Estimate (US\$/sh)					150
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					156

PetroChina Company Limited									
Quarterly Operations									
	Q3	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	Twelve
	9/30/08	6/30/09	9/30/09	12/31/09	2009E	3/31/10	6/30/10	9/30/09	Months E
									12/31/10
Volume									
Natural gas (bcf)	445	498	504	546	2,071	575	548	554	2,278
Natural Gas (mmcf)	4,837	5,473	5,478	5,930	5,673	6,392	6,020	6,026	6,240
Days	92	91	92	92	365	90	91	92	365
Oil (mmb)	219	211	214	214	845	209	212	214	849
Oil (mbd)	2,375	2,319	2,326	2,326	2,315	2,326	2,326	2,326	2,326
Total gas & oil (mmb)	293	294	298	305	1,190	305	303	306	1,229
Total gas & oil (mbd)	3,181	3,231	3,239	3,314	3,261	3,391	3,329	3,330	3,366
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	10.25	3.50	3.39	4.28	4.02	5.20	5.28	5.54	5.55
Company	3.52	3.53	3.39	3.56	3.44	3.74	3.93	4.12	4.03
Oil (\$/bbl)									
WTI Cushing	117.99	59.52	68.22	77.22	61.98	79.30	81.15	82.28	81.50
Company	104.78	47.69	61.92	70.09	54.39	71.98	73.66	74.68	73.99
Total gas & oil (\$/bbl)	83.57	40.21	50.20	55.56	44.60	56.42	58.56	59.62	58.61
NY Harbor 3-2-1 (\$/bbl)	11.84	9.49	9.45	7.96	9.02	7.03	10.05	8.53	7.96
Revenue (\$mm)									
Natural Gas	1,565	1,760	1,710	1,943	7,128	2,152	2,151	2,286	9,187
Oil	22,894	10,063	13,251	14,999	45,955	15,069	15,591	15,981	62,817
Total	24,459	11,823	14,961	16,942	53,084	17,221	17,742	18,267	72,005
RMB/\$US	6.84	6.83	6.83	6.83	6.83	6.83	6.83	6.83	6.83
Total Upstream (RMB)	167,300	80,751	102,145	115,671	362,576	117,574	121,137	124,721	491,611



Meter Reader

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November 3, 2009

CNOOC Limited					
Functional Cash Flow and Present Value					
				<i>Present</i>	
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Value</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>(US\$mm)</i>	
Natural Gas	640	14.2	10.9	7,000	11%
Oil	10,160	5.5	5.3	54,100	89%
	10,800	6.9	5.7	61,100	100%
Debt (US\$mm)					700
Net Present Value (US\$mm)					60,400
Shares (mm)					448
Net Present Value - Standard Estimate (US\$/sh)					135
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					131

CNOOC Limited									
Quarterly Operations									
									<i>Twelve</i>
	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Months E</i>
	<i>9/30/08</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>2009E</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>9/30/09</i>	<i>12/31/10</i>
Volume									
Natural gas (bcf)	62	56	64	64	235	63	64	64	255
Natural Gas (mmcf)	679	611	699	699	644	699	699	699	699
Days	92	91	92	92	365	90	91	92	365
Oil (mmb)	40	45	48	49	184	48	52	56	212
Oil (mbd)	431	496	526	529	505	539	570	605	580
Total gas & oil (mmboe)	50	54	59	59	224	59	63	66	254
Total gas & oil (mbd))	544	598	643	646	612	655	687	721	696
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	10.25	3.50	3.39	4.28	4.02	5.20	5.28	5.54	5.55
Company	3.83	3.91	3.93	4.01	3.94	4.09	4.17	4.25	4.21
Oil (\$/bbl)									
WTI Cushing	117.99	59.52	68.22	77.22	61.98	79.30	81.15	82.28	81.50
Company	106.94	56.63	67.83	76.78	61.44	78.85	80.69	81.81	81.12
Total gas & oil (\$/mcf)	14.91	8.50	9.97	11.21	9.14	11.53	11.87	12.12	11.96
Revenue (\$mm)									
Natural Gas	239	217	253	258	925	257	265	274	1,075
Oil	4,240	2,556	3,282	3,736	11,327	3,824	4,188	4,553	17,172
Total	4,480	2,773	3,535	3,994	12,252	4,081	4,453	4,826	18,247
RMB/\$	6.84	6.83	6.83	6.83	6.83	6.83	6.83	6.83	6.83
Revenue (RMB)									
Natural Gas	1,636	1,485	1,726	1,760	6,320	1,756	1,811	1,868	7,340
Oil	29,004	17,456	22,419	25,511	77,373	26,106	28,592	31,083	117,241
Total	30,641	18,941	24,145	27,271	83,692	27,863	30,403	32,951	124,582



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

November 3, 2009

Table 2

McDep Energy Portfolio Net Present Value and McDep Ratio

			<i>Price</i> <i>(US\$/sh)</i>	<i>Shares</i>	<i>Market</i> <i>Cap</i> <i>(US\$mm)</i>	<i>Net</i> <i>Present</i> <i>Value</i> <i>(US\$/sh)</i>	<i>Debt/</i> <i>Present</i> <i>Value</i>	<i>McDep</i> <i>Ratio</i>
	<i>Symbol/Rating</i>		<i>2-Nov</i> <i>2009</i>	<i>(mm)</i>				
	<i>B = Buy</i>							
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	72.15	4,803	347,000	89.00	0.10	0.83
Chevron Corporation	CVX	B	76.65	2,001	153,000	102.00	0.14	0.79
Marathon Oil Corporation	MRO	B	31.97	711	22,730	53.00	0.23	0.70
ConocoPhillips	COP	B	49.98	1,498	75,000	105.00	0.25	0.61
<i>Total or Median</i>					<i>598,000</i>		<i>0.19</i>	<i>0.74</i>
Europe								
BG Group plc	BRGXF	B	17.38	3,390	58,920	22.00	0.11	0.81
Royal Dutch Shell plc	RDS-A	B	59.35	3,066	182,000	79.00	0.20	0.80
BP plc	BP	B	57.27	3,156	181,000	80.00	0.20	0.77
Statoil ASA (33%)	STO	B	23.69	1,051	24,890	35.00	0.22	0.75
Total S.A.	TOT	B	60.40	2,236	135,000	90.00	0.15	0.72
<i>Total or Median</i>					<i>582,000</i>		<i>0.20</i>	<i>0.77</i>
Brazil/China/Russia								
CNOOC Limited (34%)	CEO	B	152.18	152	23,160	135.00	0.01	1.13
Petrobras	PBR	B	46.71	4,387	204,920	58.00	0.13	0.83
PetroChina Company Ltd (14%)	PTR	B	121.55	256	31,140	150.00	0.06	0.82
Lukoil Oil Company	LUKOY	B	58.00	847	49,000	135.00	0.06	0.46
Gazprom (50%)	OGZPY	B	24.55	3,130	76,800	64.00	0.09	0.44
<i>Total or Median</i>					<i>385,000</i>		<i>0.06</i>	<i>0.82</i>
U.S. Independent								
Anadarko Petroleum Corp.	APC	B	61.84	495	30,600	59.00	0.33	1.03
XTO Energy Inc.	XTO	B	41.44	579	23,990	47.00	0.29	0.92
EOG Resources	EOG	B	81.97	250	20,500	92.00	0.10	0.90
Chesapeake Energy Corp.	CHK		24.14	610	14,730	34.00	0.41	0.83
Occidental Petroleum Corp.	OXY	B	76.82	814	62,500	95.00	0.07	0.82
Devon Energy Corporation	DVN	B	64.96	450	29,300	98.00	0.17	0.72
<i>Total or Median</i>					<i>181,600</i>		<i>0.23</i>	<i>0.87</i>
Canada								
EnCana Corporation	ECA	B	55.68	751	41,800	62.00	0.21	0.92
Canadian Natural Resources	CNQ	B	63.47	542	34,400	80.00	0.22	0.84
Imperial Oil Limited (30%)	IMO	B	36.77	256	9,430	48.00	0.07	0.78
Suncor Energy	SU	B	32.97	1,572	51,830	52.00	0.17	0.70
Canadian Oil Sands Trust	COSWF	B	26.60	484	12,870	42.00	0.06	0.66
<i>Total or Median</i>					<i>150,000</i>		<i>0.17</i>	<i>0.78</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 5



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

November 3, 2009

			<i>Price</i>	<i>Adjustd</i>				<i>Divd or</i>
			<i>(US\$/sh)</i>	<i>Resrvs/</i>	<i>PV/</i>	<i>EV/</i>		<i>Distrib</i>
	<i>Symbol/Rating</i>		<i>2-Nov</i>	<i>Prod</i>	<i>Ebitda</i>	<i>Ebitda</i>	<i>P/E</i>	<i>NTM</i>
	<i>B = Buy</i>		<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	72.15	12.4	8.7	7.2	14	2.3
Chevron Corporation	CVX	B	76.65	9.7	7.0	5.5	12	3.5
ConocoPhillips	COP	B	49.98	11.1	8.4	5.1	9	4.0
Marathon Oil Corporation	MRO	B	31.97	8.3	6.5	4.5	9	3.0
	<i>Total or Median</i>			<i>10.4</i>	<i>7.7</i>	<i>5.3</i>	<i>10</i>	<i>3.3</i>
Europe								
BG Group plc	BRGXF	B	17.38	8.5	9.1	7.4	14	1.3
Royal Dutch Shell plc	RDS-A	B	59.35	7.9	6.9	5.6	12	5.7
Total S.A.	TOT	B	60.40	9.7	7.7	5.5	11	5.6
BP plc	BP	B	57.27	9.6	6.9	5.3	9	5.9
Statoil ASA (33%)	STO	B	23.69	7.5	6.6	4.9	14	5.3
	<i>Total or Median</i>			<i>8.5</i>	<i>6.9</i>	<i>5.5</i>	<i>12</i>	<i>5.6</i>
Brazil/China/Russia								
Petrobras	PBR	B	46.71	9.2	9.7	8.1	14	2.9
PetroChina Company Ltd (14%)	PTR	B	121.55	14.0	8.1	6.7	17	3.3
CNOOC Limited (34%)	CEO	B	152.18	6.9	5.7	6.4	11	3.4
Lukoil Oil Company	LUKOY	B	58.00	16.3	8.7	4.0	8	2.2
Gazprom (50%)	OGZPY	B	24.55	24.6	8.3	3.6	5	0.2
	<i>Total or Median</i>			<i>14.0</i>	<i>8.3</i>	<i>6.4</i>	<i>11</i>	<i>2.9</i>
U.S. Independent								
XTO Energy Inc.	XTO	B	41.44	11.0	10.1	9.2	25	1.4
Chesapeake Energy Corp.	CHK		24.14	11.3	11.1	9.2	13	1.2
EOG Resources	EOG	B	81.97	10.1	9.5	8.5	24	0.7
Anadarko Petroleum Corp.	APC	B	61.84	9.2	8.2	8.5		0.6
Occidental Petroleum Corp.	OXY	B	76.82	11.2	7.9	6.5	14	1.7
Devon Energy Corporation	DVN	B	64.96	8.4	7.7	5.6	11	1.0
	<i>Total or Median</i>			<i>10.6</i>	<i>8.9</i>	<i>8.5</i>	<i>14</i>	<i>1.1</i>
Canada								
Imperial Oil Limited (30%)	IMO	B	36.77	18.1	11.7	9.1	17	1.0
EnCana Corporation	ECA	B	55.68	9.1	9.3	8.6	20	0.7
Canadian Oil Sands Trust	COSWF	B	26.60	21.8	11.3	7.4	10	5.9
Canadian Natural Resources	CNQ	B	63.47	7.6	8.6	7.3	15	0.6
Suncor Energy	SU	B	32.97	13.6	9.7	6.8	20	0.6
	<i>Total or Median</i>			<i>13.6</i>	<i>9.7</i>	<i>7.4</i>	<i>17</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								



Meter Reader

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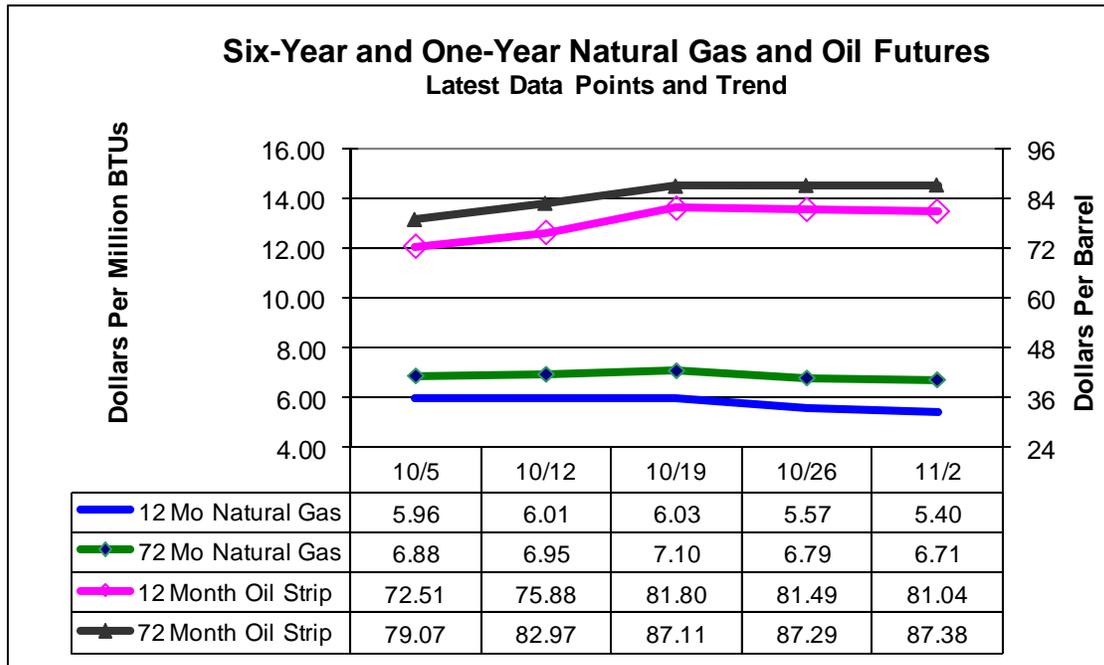
November 3, 2009

Index of Recent Research			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
Stock Ideas			
2-Nov	IMO	Imperial Oil Limited	<i>In Situ</i> Oil Production Cumulates Past a Billion Barrels
2-Nov	EAC	Encore Acquisition Company	Denbury Resources Offers \$50 a Share to Acquire Encore
2-Nov	CVX	Chevron Corporation	Raise Net Present Value to \$102 a Share from \$97
30-Oct	COSWF	Canadian Oil Sands Trust	COSWF Priced for Deal (ISC Weekly)
29-Oct	COSWF	Canadian Oil Sands Trust	Operating at Capacity
29-Oct	XOM	Exxon Mobil Corporation	Cash Flow Rising after Decline
29-Oct	RDSA	Royal Dutch Shell plc	Shedding Downstream Image
28-Oct	COP	ConocoPhillips	Downsizing to Revitalize
28-Oct	EAC	Encore Acquisition Company	Raise Net Present Value to \$50 a Share from \$44
27-Oct	BP	BP p.l.c.	Raise Net Present Value to \$80 a Share from \$72
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)
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
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	* TOT	Total S.A.	Real Return and Secure Income
30-Jul	* PCZ	Petro-Canada	Good Bye Petro-Canada, Hello Suncor
29-Jul	* BRGXF	BG Group	Progressing in Pre-Salt Brazil
10-Jul	* HGT	Hugoton Royalty Trust	Rounding the Bend (Income and Small Cap Weekly)
Meter Reader			
3-Nov		Weekly	
27-Oct		Weekly	Return of Defensive Rebalancing
20-Oct		Weekly	European Oil Stock Bargains
13-Oct	*	Weekly	Bargains in U.S. Integrated Oil Stocks
Income and Small Cap Weekly			
30-Oct		Canadian Oil Sands Trust	COSWF Priced for Deal
23-Oct		Weekly	Going Horizontal
16-Oct		Weekly	Canada Trusts on Real Growth Trend
9-Oct	*	Weekly	Friendly Trends
Industry Ideas			
2-Apr	*	Presentation	Making Money in Oil and Gas Stocks
	*	Archived on www.mcdep.com	



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks
November 3, 2009



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.