



# Meter Reader

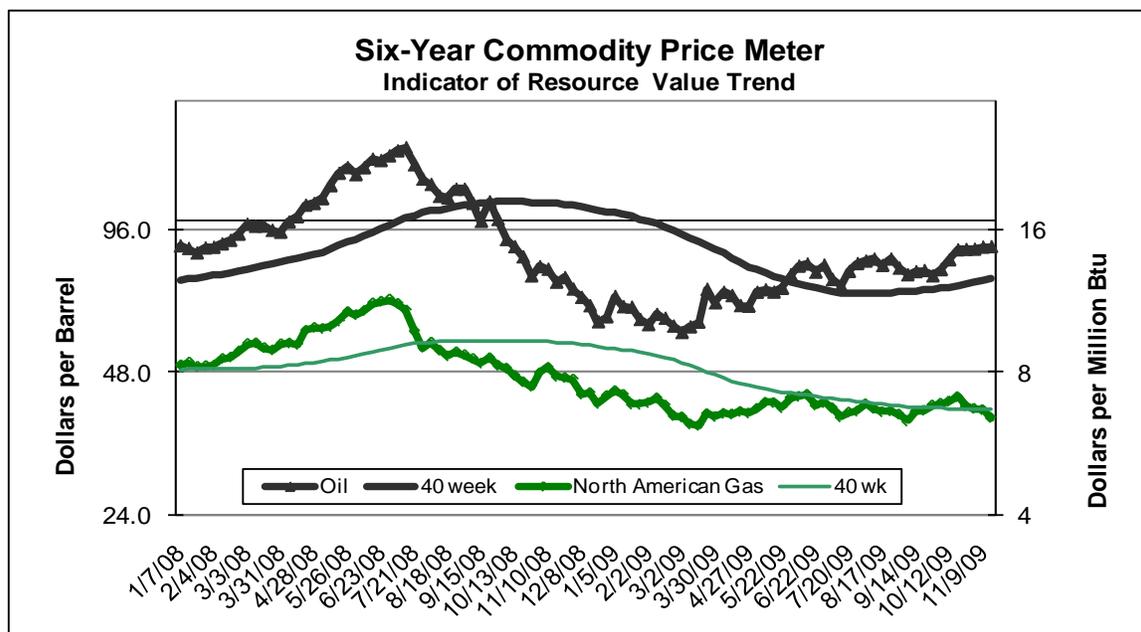
A Weekly Analysis of Large Cap Oil and Gas Stocks  
November 17, 2009

## BG Group plc Oil Price Trend Validates Offshore Brazil

### Summary and Recommendation

Oil for the next six years quoted at \$88 a barrel lends credibility to estimated Net Present Value (NPV) of US\$22 a share for buy-recommended **BG Group plc (BRGXF)**, including its share of discoveries offshore Brazil. Development of the frontier finds, 21% of NPV, requires confidence in a high future oil price. Pointing in that direction, the trend for oil price is up as evidenced by current quote above the 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 2). Meanwhile, six-year natural gas is struggling to follow oil with the current quote falling 4% below the 40-week average of \$6.68 a million Btu. Natural gas is half of NPV for BG, which is uniquely concentrated downstream -- liquefaction, transportation, distribution and trading, as well as upstream -- production (see table [Functional Cash Flow and Present Value](#) on page 2). Though natural gas price is under pressure, Chief Executive Frank Chapman explains that BG has contractual protection that limits the downside. In remaining operations (26% of NPV), oil volumes apparently are likely to be higher in the fourth quarter after an unexpected dip in the third quarter (see table [Next Twelve Months Operating and Financial Estimates](#) on page 3). Finally, since BG's McDep Ratio is not as low as European peers, we would weight BG stock less than average in its group (see Tables 1-3 on pages 4-6).

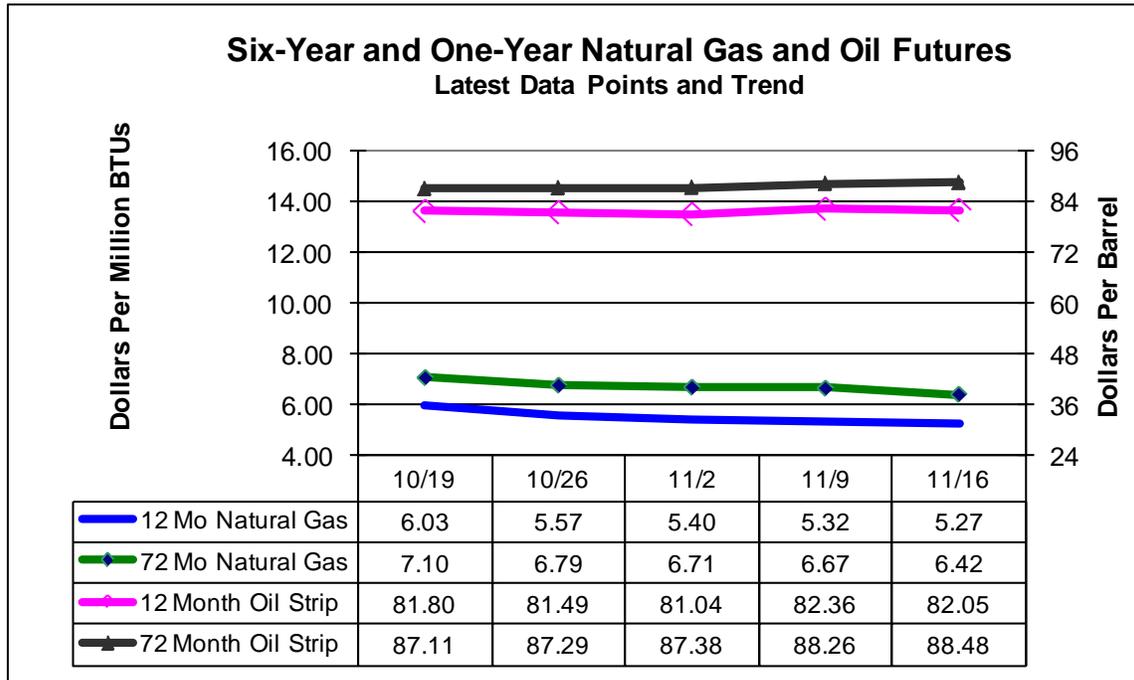
Kurt H. Wulff, CFA





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<b>BG Group plc</b>					
<b>Functional Cash Flow and Present Value</b>					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
Rest of World Natural Gas	2,430	8.0	7.4	18,000	21%
Oil	3,750	8.2	5.9	22,000	26%
Downstream	3,420		7.6	26,000	31%
Offshore Brazil				18,000	21%
	9,600	8.1	8.8	84,000	100%
Debt (US\$mm)					9,000
Net Present Value (US\$mm)					75,000
Shares (mm)					3,390
Net Present Value - Standard Estimate (US\$/sh)					22
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					24



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<b>BG Group plc</b>									
<b>Next Twelve Months Operating and Financial Estimates</b>									
<b>(British Pounds)</b>									
									<i>Next Twelve Months</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>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>9/30/10</i>	<i>9/30/10</i>
<b>Volume</b>									
Natural Gas (bcf)	230	247	252	273	<b>1,019</b>	267	270	273	<b>1,084</b>
Natural Gas (mmcf)	2,502	2,712	2,742	2,970	<b>2,792</b>	2,970	2,970	2,970	<b>2,970</b>
Days	92	91	92	92	<b>365</b>	90	91	92	<b>365</b>
Oil (mmb)	16	17	15	19	<b>68</b>	18	19	19	<b>75</b>
Oil (mbd)	170	191	158	205	<b>185</b>	205	205	205	<b>205</b>
Total gas & oil (mmb)	54	59	57	64	<b>237</b>	63	64	64	<b>256</b>
Total gas & oil (mbd)	587	643	615	700	<b>650</b>	700	700	700	<b>700</b>
<b>Price</b>									
U.S. Dollar/U.K. Pound	1.93	1.55	1.64	1.68	<b>1.58</b>	1.68	1.68	1.68	<b>1.68</b>
Natural gas (pence/therm)	25.62	20.03	17.90	19.16	<b>22.02</b>	19.44	19.68	19.85	<b>19.53</b>
Natural gas (\$/mmbtu)	4.94	3.11	2.94	3.22	<b>3.48</b>	3.27	3.31	3.34	<b>3.29</b>
Oil (\$/bbl)									
WTI Cushing	117.99	59.52	68.22	77.80	<b>62.12</b>	80.11	82.07	83.47	<b>80.86</b>
Company	102.91	53.10	61.99	70.69	<b>55.62</b>	72.79	74.57	75.85	<b>73.47</b>
Total gas & oil (\$/bbl)	50.85	28.89	29.01	34.38	<b>30.74</b>	35.20	35.89	36.38	<b>35.46</b>
NY Harbor 3-2-1 (\$/bbl)	11.84	9.49	9.45	5.24	<b>8.34</b>	6.48	9.62	7.48	<b>7.21</b>
<b>Revenue (million pounds)</b>									
Natural gas	590	494	452	523	<b>2,244</b>	520	532	542	<b>2,117</b>
Oil	835	595	549	792	<b>2,380</b>	798	827	850	<b>3,267</b>
Total production	1,425	1,089	1,001	1,316	<b>4,624</b>	1,318	1,358	1,392	<b>5,384</b>
Other	1,874	1,228	1,246	1,246	<b>5,597</b>	1,246	1,246	1,246	<b>4,984</b>
Total	3,299	2,317	2,247	2,562	<b>10,221</b>	2,564	2,604	2,638	<b>10,368</b>
<b>Expense</b>									
Production	419	382	332	489	<b>1,595</b>	490	510	527	<b>2,016</b>
Other	1,367	687	771	836	<b>3,422</b>	547	755	821	<b>2,960</b>
<b>Ebitda (million pounds)</b>									
Production	1,006	707	669	895	<b>3,097</b>	896	924	947	<b>3,661</b>
Other	507	541	475	410	<b>2,175</b>	699	491	425	<b>2,025</b>
Total Ebitda	1,514	1,248	1,144	1,304	<b>5,272</b>	1,595	1,415	1,372	<b>5,686</b>
Exploration	115	130	121	121	<b>549</b>	150	150	125	<b>546</b>
Deprec., Deplet., & Amort.	207	296	269	269	<b>1,118</b>	269	269	269	<b>1,076</b>
Excess tax and other	191	150	102						
<b>Operating Income</b>									
Upstream	917	490	435						
Downstream	466	482	421						
Excess tax and other	(191)	(150)	(102)						
<b>Ebit</b>	1,192	822	754	914	<b>3,605</b>	1,176	996	978	<b>4,064</b>
Interest		40	24	24	<b>135</b>	24	24	24	<b>96</b>
<b>Ebt</b>	1,192	782	730	890	<b>3,470</b>	1,152	972	954	<b>3,968</b>
Income Tax	417	274	256	312	<b>1,214</b>	403	340	334	<b>1,389</b>
<b>Net Income (million pounds)</b>	774	508	475	579	<b>2,255</b>	749	632	620	<b>2,579</b>
<b>Shares (millions)</b>	3,382	3,388	3,390	3,390	<b>3,388</b>	3,390	3,390	3,390	<b>3,390</b>
Per share (pence)	22.9	15.0	14.0	17.1	<b>66.6</b>	22.1	18.6	18.3	<b>76.1</b>
Ebitda Margin (E&P)	71%	65%	67%	68%	<b>67%</b>	68%	68%	68%	<b>68%</b>
Tax Rate	35%	35%	35%	35%	<b>35%</b>	35%	35%	35%	<b>35%</b>



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Table 1										
McDep Energy Portfolio										
Geographic Domicile and Business Segments										
						Present Value by Segment (%)				
			Price (US\$/sh)	EV/ Market	Enterprise Value	North Amer.	Rest of World			
	Symbol/Rating	16-Nov 2009	Cap		(\$mm)	Natural Gas	Natural Gas	Oil Prod'n	Down- stream	McDep Ratio
	B = Buy									
<b>U.S. Integrated</b>										
Exxon Mobil Corporation	XOM	B	74.43	1.14	408,000	5	22	54	19	0.85
Chevron Corporation	CVX	B	78.61	1.19	188,000	4	10	71	14	0.80
Marathon Oil Corporation	MRO	B	35.17	1.46	36,400	8	5	61	26	0.74
ConocoPhillips	COP	B	53.84	1.65	133,000	12	11	64	13	0.63
<i>Total or Median *</i>	<i>30%</i>	<i>9%</i>	<i>14%</i>		<i>765,000</i>					<i>0.77</i>
<b>Europe</b>										
BG Group	BRGXF	B	18.95	1.15	73,600		21	48	31	0.88
Royal Dutch Shell plc	RDS-A	B	62.88	1.31	252,000	3	27	49	22	0.84
Statoil ASA (33%)	STO	B	26.21	1.38	38,000		49	51	-	0.80
BP plc	BP	B	59.26	1.33	248,000	6	9	63	22	0.79
Total S.A.	TOT	B	63.75	1.26	179,000		19	59	22	0.75
<i>Total or Median *</i>	<i>31%</i>	<i>12%</i>	<i>17%</i>		<i>791,000</i>					<i>0.80</i>
<b>Brazil/China/Russia</b>										
CNOOC Limited (34%)	CEO	B	166.46	1.01	25,600		11	89	-	1.23
Petrobras	PBR	B	50.95	1.20	269,000		7	77	16	0.90
PetroChina Company Ltd (14%)	PTR	B	131.49	1.08	36,300		15	69	15	0.88
Lukoil Oil Company	LUKOY	B	62.13	1.13	59,400			67	33	0.49
Gazprom (50%)	OGZPY	B	25.98	1.27	97,000		76	24	-	0.46
<i>Total or Median *</i>	<i>19%</i>	<i>12%</i>	<i>17%</i>		<i>487,000</i>					<i>0.88</i>
<b>U.S. Independent</b>										
Anadarko Petroleum Corp.	APC	B	64.26	1.44	45,700	48		47	5	1.06
EOG Resources	EOG	B	90.53	1.15	26,200	68	5	28	-	0.99
XTO Energy Inc.	XTO	B	43.68	1.43	36,300	73		27	-	0.95
Occidental Petroleum Corp.	OXY	B	84.48	1.07	73,900	10	1	82	7	0.90
Chesapeake Energy Corp.	CHK		25.14	1.94	29,800	85		15	-	0.85
Devon Energy Corporation	DVN	B	70.99	1.29	41,200	61		39	-	0.77
<i>Total or Median *</i>	<i>10%</i>	<i>14%</i>	<i>17%</i>		<i>253,000</i>					<i>0.92</i>
<b>Canada</b>										
EnCana Corporation	ECA	B	55.13	1.40	57,900	63		32	5	0.92
Canadian Natural Resources	CNQ	B	69.15	1.34	50,100	20		80	-	0.90
Imperial Oil Limited (30%)	IMO	B	38.93	1.09	10,900	5		80	16	0.82
Suncor Energy	SU	B	36.30	1.32	75,300	5		85	10	0.75
Canadian Oil Sands Trust	COSWF	B	29.39	1.10	15,600			100	-	0.72
<i>Total or Median *</i>	<i>8%</i>	<i>12%</i>	<i>17%</i>		<i>210,000</i>					<i>0.82</i>
<b>Income and Small Cap (see separate weekly analysis)</b>										
	2%	42%	17%		44,600	40		60		0.92
<b>Composite</b>										
Enterprise Value Weighting	100%				2,550,600	10	15	59	15	0.80
Equal Weighting		100%				32	7	55	6	0.86
Equal Weighted Buys			100%			25	10	55	10	0.83



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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/	McDep
	B = Buy	16-Nov	2009	(mm)	Cap	Value	Present	Ratio
					(US\$mm)	(US\$/sh)	Value	
<b>U.S. Integrated</b>								
Exxon Mobil Corporation	XOM	B	74.43	4,803	358,000	89.00	0.11	0.85
Chevron Corporation	CVX	B	78.61	2,001	157,000	102.00	0.13	0.80
Marathon Oil Corporation	MRO	B	35.17	711	25,010	53.00	0.23	0.74
ConocoPhillips	COP	B	53.84	1,498	81,000	105.00	0.25	0.63
<i>Total or Median</i>					621,000		0.18	0.77
<b>Europe</b>								
BG Group plc	BRGXF	B	18.95	3,390	64,250	22.00	0.11	0.88
Royal Dutch Shell plc	RDS-A	B	62.88	3,066	193,000	79.00	0.20	0.84
Statoil ASA (33%)	STO	B	26.21	1,051	27,540	35.00	0.22	0.80
BP plc	BP	B	59.26	3,156	187,000	80.00	0.20	0.79
Total S.A.	TOT	B	63.75	2,237	143,000	90.00	0.15	0.75
<i>Total or Median</i>					615,000		0.20	0.80
<b>Brazil/China/Russia</b>								
CNOOC Limited (34%)	CEO	B	166.46	152	25,330	135.00	0.01	1.23
Petrobras	PBR	B	50.95	4,387	223,520	58.00	0.15	0.90
PetroChina Company Ltd (14%)	PTR	B	131.49	256	33,690	150.00	0.06	0.88
Lukoil Oil Company	LUKOY	B	62.13	847	53,000	135.00	0.06	0.49
Gazprom (50%)	OGZPY	B	25.98	2,965	77,000	64.00	0.10	0.46
<i>Total or Median</i>					413,000		0.06	0.88
<b>U.S. Independent</b>								
Anadarko Petroleum Corp.	APC	B	64.26	494	31,700	59.00	0.32	1.06
EOG Resources	EOG	B	90.53	251	22,800	92.00	0.13	0.99
XTO Energy Inc.	XTO	B	43.68	580	25,330	47.00	0.29	0.95
Occidental Petroleum Corp.	OXY	B	84.48	814	68,800	95.00	0.06	0.90
Chesapeake Energy Corp.	CHK		25.14	610	15,340	34.00	0.41	0.85
Devon Energy Corporation	DVN	B	70.99	450	32,000	98.00	0.17	0.77
<i>Total or Median</i>					196,000		0.23	0.92
<b>Canada</b>								
EnCana Corporation	ECA	B	55.13	751	41,400	62.00	0.26	0.92
Canadian Natural Resources	CNQ	B	69.15	542	37,500	80.00	0.23	0.90
Imperial Oil Limited (30%)	IMO	B	38.93	256	9,980	48.00	0.07	0.82
Suncor Energy	SU	B	36.30	1,572	57,060	52.00	0.18	0.75
Canadian Oil Sands Trust	COSWF	B	29.39	484	14,230	42.00	0.07	0.72
<i>Total or Median</i>					160,000		0.18	0.82

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								
			Price	Adjustd				Divd or
			(US\$/sh)	Resrvs/	PV/	EV/		Distrib
	Symbol/Rating		16-Nov	Prod	Ebitda	Ebitda	P/E	NTM
	B = Buy		2009	NTM	NTM	NTM	NTM	(%)
<b>U.S. Integrated</b>								
Exxon Mobil Corporation	XOM	B	74.43	12.4	8.7	7.5	13	2.3
Chevron Corporation	CVX	B	78.61	9.7	6.8	5.5	12	3.5
ConocoPhillips	COP	B	53.84	11.1	8.4	5.3	10	3.7
Marathon Oil Corporation	MRO	B	35.17	9.3	7.1	5.3	11	2.7
<i>Total or Median</i>				<i>10.4</i>	<i>7.7</i>	<i>5.4</i>	<i>11</i>	<i>3.1</i>
<b>Europe</b>								
BG Group plc	BRGXF	B	18.95	8.1	8.8	7.7	15	1.2
Royal Dutch Shell plc	RDS-A	B	62.88	7.9	6.9	5.8	13	5.3
Total S.A.	TOT	B	63.75	9.4	7.4	5.5	10	5.3
BP plc	BP	B	59.26	9.6	6.8	5.4	9	5.7
Statoil ASA (33%)	STO	B	26.21	7.6	6.4	5.1	22	4.9
<i>Total or Median</i>				<i>8.1</i>	<i>6.9</i>	<i>5.5</i>	<i>13</i>	<i>5.3</i>
<b>Brazil/China/Russia</b>								
Petrobras	PBR	B	50.95	9.2	9.9	8.9	16	2.6
CNOOC Limited (34%)	CEO	B	166.46	6.9	5.6	6.9	12	3.1
PetroChina Company Ltd (14%)	PTR	B	131.49	13.9	7.4	6.6	16	3.0
Lukoil Oil Company	LUKOY	B	62.13	16.3	8.6	4.2	8	2.1
Gazprom (50%)	OGZPY	B	25.98	24.6	8.1	3.8	5	0.2
<i>Total or Median</i>				<i>13.9</i>	<i>8.1</i>	<i>6.6</i>	<i>12</i>	<i>2.6</i>
<b>U.S. Independent</b>								
Chesapeake Energy Corp.	CHK		25.14	11.3	11.2	9.5	14	1.2
XTO Energy Inc.	XTO	B	43.68	10.7	9.6	9.1	15	1.1
EOG Resources	EOG	B	90.53	9.8	9.2	9.1	25	0.6
Anadarko Petroleum Corp.	APC	B	64.26	8.9	7.4	7.9		0.6
Occidental Petroleum Corp.	OXY	B	84.48	11.2	7.8	7.0	15	1.6
Devon Energy Corporation	DVN	B	70.99	8.9	8.2	6.3	13	0.9
<i>Total or Median</i>				<i>10.3</i>	<i>8.7</i>	<i>8.5</i>	<i>15</i>	<i>1.0</i>
<b>Canada</b>								
Imperial Oil Limited (30%)	IMO	B	38.93	18.3	11.7	9.6	18	1.0
Canadian Oil Sands Trust	COSWF	B	29.39	22.7	12.7	9.1	14	5.5
EnCana Corporation	ECA	B	55.13	9.2	9.7	8.9	21	0.7
Suncor Energy	SU	B	36.30	13.9	10.4	7.9	28	1.0
Canadian Natural Resources	CNQ	B	69.15	7.7	8.7	7.8	14	0.6
<i>Total or Median</i>				<i>13.9</i>	<i>10.4</i>	<i>8.9</i>	<i>18</i>	<i>1.0</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>
13-Nov	ECA	EnCana Corporation	Approaching November 30 Split into Two Companies
9-Nov	OGZPY	Gazprom	Sharp Recovery from Sharp Dip
6-Nov	SU	Suncor Energy	Expects to Keep 12% Syncrude
6-Nov	EOG	EOG Resources Inc.	Accenting Oil
6-Nov	DMLP	Dorchester Minerals, L.P.	More Drilling on DMLP Land
6-Nov	HGT	Hugoton Royalty Trust	Distribution Trend Up (Income and Small Cap Weekly)
6-Nov	MRO	Marathon Oil Corporation	Refinery Expansion Nearly Complete
6-Nov	APC	Anadarko Petroleum Corporation	McDep Ratio above 1.0
5-Nov	CNQ	Canadian Natural Resources	Oil Sands Mining Challenge
5-Nov	TOT	Total S.A.	New Projects for Growth
5-Nov	STO	Statoil ASA	Oil Price Leading Natural Gas Price
4-Nov	XTO	XTO Energy Inc.	Remarkable Business Model
4-Nov	DVN	Devon Energy Corporation	Progress in Shale Gas
4-Nov	XEC	Cimarex Energy Company	Raise Net Present Value to \$50 a Share from \$46
3-Nov	CEO	CNOOC Ltd	Buy China Oil and Gas (Meter Reader)
3-Nov	PTR	PetroChina Company Limited	Buy China Oil and Gas (Meter Reader)
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
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
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
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
5-Aug	* BRY	Berry Petroleum	Back on Track
29-Jul	* BRGXF	BG Group	Progressing in Pre-Salt Brazil
<b>Meter Reader</b>			
17-Nov		Weekly	
10-Nov		Weekly	Political Pressure on Natural Gas Price
3-Nov		Weekly	Buy China Oil and Gas
27-Oct	*	Weekly	Return of Defensive Rebalancing
<b>Income and Small Cap Weekly</b>			
13-Nov		Peyto Energy Trust	Deep Basin Drilling "Going to Explode"
6-Nov		Hugoton Royalty Trust	Distribution Trend Up
30-Oct		Canadian Oil Sands Trust	COSWF Priced for Deal
23-Oct	*	Weekly	Going Horizontal
<b>Industry Ideas</b>			
2-Apr	*	Presentation	Making Money in Oil and Gas Stocks
	*	Archived on <a href="http://www.mcdep.com">www.mcdep.com</a>	



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

November 17, 2009

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