



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

December 15, 2009

## **ExxonMobil Offers \$52 a Share for XTO Energy**

### **Summary and Recommendation**

Buy-recommended **ExxonMobil (XOM)** offers 0.7098 share of XOM for each share of buy-recommended **XTO Energy (XTO)**, implying a McDep Ratio of 1.07. The calculation takes XOM at \$72.83 a share, its closing price prior to announcement, and multiplies by 0.7098 to get the equivalent price of XTO at \$51.69. Alternatively, XTO's actual closing price of \$47.86 on the first day of trading after the announcement compares to Net Present Value (NPV) of \$47 and implies a McDep Ratio of 1.01. We keep our buy rating on XTO because those shares are likely to become shares of another buy-rated company, XOM, after the expected closing in the second quarter of 2010. In that case, purchase of XTO at the latest price would be like buying XOM at \$67.43, a 3% discount to latest price of \$69.69.

### **Acting on Its Energy Outlook that Stresses Natural Gas**

On the call discussing the transaction, Chief Executive Rex Tillerson cited Exxon's Outlook for Energy released December 8 which stresses natural gas as the fastest growing large energy source. In particular, he cited advantages of natural gas in power generation including capital efficiency, flexibility in adding capacity and ability to handle varying load demand. Exxon expects half of the supply growth for the fuel in the U.S. to be met by unconventional sources such as tight gas, coal seam gas and shale gas. XTO is a leader in each of those areas. Mr. Tillerson wants to combine the technical expertise XTO has developed in the U.S. with XOM's capability outside the U.S. XOM's new global unconventional capability would complement the company's liquefied natural gas and conventional natural gas strengths. Adding XTO would double XOM's North American Natural Gas concentration to 10% of NPV from 5% (see Table 1).

### **Exaggerated Reaction in XOM Stock Price**

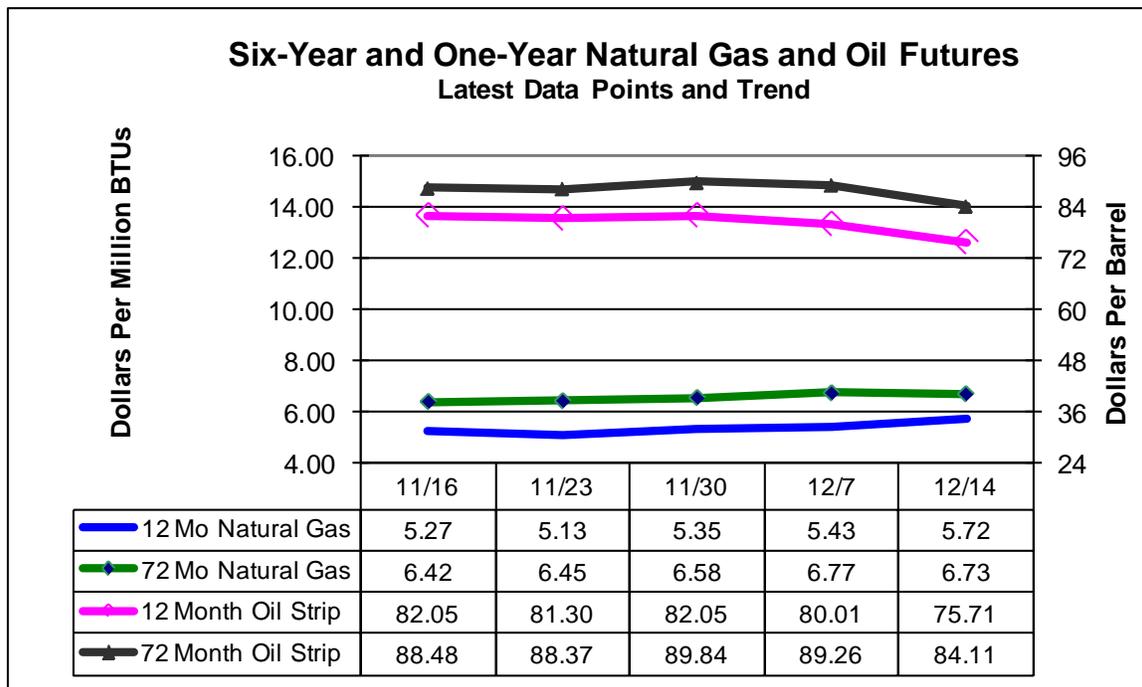
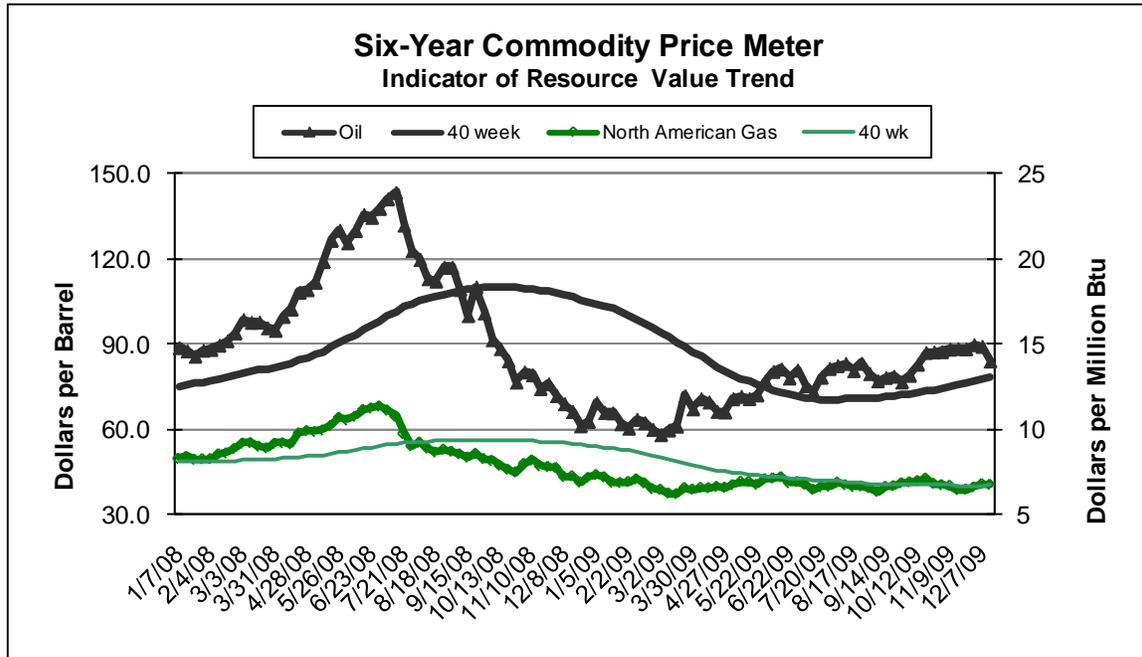
In a strongly adverse market reaction, XOM stock declined by four times the market cap that XTO stock increased. We can understand that some investors may be concerned about the outlook for natural gas price and translate that to a concern about XOM stock. The price of natural gas for delivery over the next six years is off the high before last year's financial panic and has yet to recover much (see charts on page 2 Six-Year Commodity Price Meter and Six-Year and One-Year Natural Gas and Oil Futures). The latest quote of \$6.73 exceeds the 40-week average, currently \$6.70 for the eighth time in the past twelve weeks. Though we can't promise immediate gratification, we believe the value in natural gas and in ExxonMobil stock is attractive.

Kurt H. Wulff, CFA



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks  
December 15, 2009







# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

December 15, 2009

			<i>Price</i>			<i>Net</i>		
			<i>(US\$/sh)</i>		<i>Market</i>	<i>Present</i>	<i>Debt/</i>	
	<i>Symbol/Rating</i>		<i>14-Dec</i>	<i>Shares</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	<i>McDep</i>
	B = Buy		<i>2009</i>	<i>(mm)</i>	<i>(US\$mm)</i>	<i>(US\$/sh)</i>	<i>Value</i>	<i>Ratio</i>
<b>U.S. Integrated</b>								
Exxon Mobil Corporation	XOM	B	69.69	4,803	335,000	89.00	0.11	0.81
Chevron Corporation	CVX	B	77.26	2,001	155,000	102.00	0.13	0.79
Marathon Oil Corporation	MRO	B	31.45	711	22,360	53.00	0.23	0.69
ConocoPhillips	COP	B	51.09	1,498	77,000	105.00	0.25	0.61
<i>Total or Median</i>					<i>589,000</i>		<i>0.18</i>	<i>0.74</i>
<b>Europe</b>								
BG Group plc	BRGXF	B	17.56	3,390	59,530	22.00	0.11	0.82
Royal Dutch Shell plc	RDS-A	B	59.77	3,066	183,000	79.00	0.20	0.80
Statoil ASA (33%)	STO	B	24.66	1,051	25,910	35.00	0.22	0.77
BP plc	BP	B	56.77	3,156	179,000	80.00	0.20	0.77
Total S.A.	TOT	B	63.08	2,237	141,000	90.00	0.15	0.75
<i>Total or Median</i>					<i>588,000</i>		<i>0.20</i>	<i>0.77</i>
<b>Brazil/China/Russia</b>								
CNOOC Limited (34%)	CEO	B	156.93	152	23,880	135.00	0.01	1.16
Petrobras	PBR	B	48.30	4,387	211,890	58.00	0.17	0.86
PetroChina Company Ltd (14%)	PTR	B	124.45	256	31,880	150.00	0.06	0.84
Lukoil Oil Company	LUKOY	B	53.95	847	46,000	135.00	0.05	0.43
Gazprom (50%)	OGZPY	B	22.30	2,965	66,100	64.00	0.09	0.41
<i>Total or Median</i>					<i>380,000</i>		<i>0.06</i>	<i>0.84</i>
<b>U.S. Independent</b>								
Anadarko Petroleum Corp.	APC	B	60.56	494	29,900	59.00	0.32	1.02
XTO Energy Inc.	XTO	B	47.86	580	27,760	47.00	0.29	1.01
EOG Resources	EOG	B	90.39	251	22,700	92.00	0.13	0.98
Occidental Petroleum Corp.	OXY	B	77.41	814	63,000	95.00	0.06	0.83
Chesapeake Energy Corp.	CHK		24.37	626	15,260	34.00	0.38	0.82
Devon Energy Corporation	DVN	B	66.80	450	30,100	98.00	0.17	0.74
<i>Total or Median</i>					<i>188,700</i>		<i>0.23</i>	<i>0.91</i>
<b>Canada</b>								
EnCana Corporation	ECA	B	29.67	751	22,300	35.00	0.28	0.89
Canadian Natural Resources	CNQ	B	66.30	542	35,900	80.00	0.21	0.86
Imperial Oil Limited (30%)	IMO	B	37.40	256	9,590	48.00	0.07	0.79
Suncor Energy	SU	B	34.89	1,572	54,850	52.00	0.18	0.73
Canadian Oil Sands Trust	COSWF	B	27.19	484	13,160	42.00	0.06	0.67
<i>Total or Median</i>					<i>155,000</i>		<i>0.20</i>	<i>0.83</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.



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

December 15, 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>14-Dec</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>
<b>U.S. Integrated</b>								
Exxon Mobil Corporation	XOM	B	69.69	12.4	8.8	7.1	13	2.4
Chevron Corporation	CVX	B	77.26	9.7	7.3	5.8	13	3.5
ConocoPhillips	COP	B	51.09	11.2	8.7	5.3	10	3.9
Marathon Oil Corporation	MRO	B	31.45	9.3	7.3	5.1	10	3.1
	<i>Total or Median</i>			<i>10.4</i>	<i>8.0</i>	<i>5.5</i>	<i>11</i>	<i>3.3</i>
<b>Europe</b>								
BG Group plc	BRGXF	B	17.56	8.1	9.4	7.7	15	1.3
Total S.A.	TOT	B	63.08	9.4	7.7	5.8	11	5.3
Royal Dutch Shell plc	RDS-A	B	59.77	7.9	7.0	5.6	12	5.6
BP plc	BP	B	56.77	9.6	7.2	5.5	10	5.9
Statoil ASA (33%)	STO	B	24.66	7.5	6.6	5.1	25	5.1
	<i>Total or Median</i>			<i>8.1</i>	<i>7.2</i>	<i>5.6</i>	<i>12</i>	<i>5.3</i>
<b>Brazil/China/Russia</b>								
Petrobras	PBR	B	48.30	9.1	9.5	8.2	14	2.8
CNOOC Limited (34%)	CEO	B	156.93	6.9	6.0	6.9	12	3.3
PetroChina Company Ltd (14%)	PTR	B	124.45	13.9	7.8	6.5	16	3.2
Lukoil Oil Company	LUKOY	B	53.95	16.4	9.0	3.8	8	2.3
Gazprom (50%)	OGZPY	B	22.30	24.6	8.4	3.4	4	0.2
	<i>Total or Median</i>			<i>13.9</i>	<i>8.4</i>	<i>6.5</i>	<i>12</i>	<i>2.8</i>
<b>U.S. Independent</b>								
EOG Resources	EOG	B	90.39	9.8	9.0	8.9	28	0.6
XTO Energy Inc.	XTO	B	47.86	10.7	8.6	8.8	16	1.0
Chesapeake Energy Corp.	CHK		24.37	11.1	9.8	8.0	12	1.2
Anadarko Petroleum Corp.	APC	B	60.56	8.9	7.3	7.5		0.6
Occidental Petroleum Corp.	OXY	B	77.41	11.2	8.3	6.9	15	1.7
Devon Energy Corporation	DVN	B	66.80	8.9	8.0	5.9	11	1.0
	<i>Total or Median</i>			<i>10.3</i>	<i>8.5</i>	<i>7.8</i>	<i>15</i>	<i>1.0</i>
<b>Canada</b>								
Imperial Oil Limited (30%)	IMO	B	37.40	20.9	13.5	10.7	22	1.0
Canadian Oil Sands Trust	COSWF	B	27.19	23.1	15.0	10.0	17	6.4
Cenovus Energy Inc.	CVE	B	24.95	9.8	9.2	8.7	21	3.2
EnCana Corporation	ECA	B	29.67	8.7	9.2	8.2	25	2.7
Suncor Energy	SU	B	34.89	13.9	10.8	7.9	29	1.1
Canadian Natural Resources	CNQ	B	66.30	7.5	8.5	7.4	13	0.6
	<i>Total or Median</i>			<i>11.8</i>	<i>10.0</i>	<i>8.4</i>	<i>22</i>	<i>1.9</i>
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2010; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

December 15, 2009

## Index of Recent Research

Index of Recent Research			
<b>Stock Ideas</b>			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
11-Dec	SJT	San Juan Basin Royalty Trust	Natural Gas Income with Upside (ISC Weekly)
8-Dec	LUKOY	Lukoil Oil Company	Reemphasizing Oil
8-Dec	PBR	Petrobras	Buy for Long-Term Growth (Meter Reader)
4-Dec	COSWF	Canadian Oil Sands Trust	November Production Below Capacity
1-Dec	ECA, CVE	EnCana, Cenovus Energy Inc.	Buy EnCana, Buy Cenovus (Meter Reader)
20-Nov	FRHLF	Freehold Royalty Trust	Highest Distribution Rate Unhedged (ISC Weekly)
17-Nov	* BRGXF	BG Group	Oil Price Trend Validates Offshore Brazil (Meter Reader)
13-Nov	ECA	EnCana Corporation	Approaching November 30 Split into Two Companies
13-Nov	* PEYUF	Peyto Energy Trust	Deep Basin Drilling "Going to Explode" (ISC Weekly)
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	* 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
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
14-Aug	* BIR.TO	Birchcliff Energy Ltd.	Spirited Small Cap Canadian Nat Gas Producer (ISCW)
<b>Meter Reader</b>			
15-Dec		Weekly	
8-Dec	PBR	Petrobras	Buy for Long-Term Growth
1-Dec	ECA, CVE	EnCana, Cenovus Energy Inc.	Buy EnCana, Buy Cenovus
24-Nov		Weekly	Natural Gas Price Trend Signals More Patience
<b>Income and Small Cap Weekly</b>			
11-Dec	SJT	San Juan Basin Royalty Trust	Natural Gas Income with Upside
4-Dec	COSWF	Canadian Oil Sands Trust	November Production Below Capacity
27-Nov		Weekly	Practically Unlimited Global Demand for Natural Gas
20-Nov	FRHLF	Freehold Royalty Trust	Highest Distribution Rate Unhedged
<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

December 15, 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.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

**Certification:** I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

**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.