

Low McDep Ratio for Energy Profit

Summary and Recommendation

McDep oil and gas stocks appear attractively priced for new investment at a median McDep Ratio of 0.79.

- Among Integrated companies, short-term momentum has shifted to **ExxonMobil (XOM)** from **Chevron (CVX)** and **Royal Dutch Shell (RDS)**. After underperforming its peers in stock price for the past two years, XOM may be entering a phase of outperformance. The company has maintained its level of capital spending in the face of investor pressure to cut back. Another oil discovery offshore Guyana by XOM boosts the confidence of a new management team. Nonetheless, price trend can be fickle. We like all three stocks for a diversified portfolio.
- Among Large Cap Independents, negative stock price momentum has taken **Pioneer Natural Resources (PXD)** to the lowest McDep Ratio in the group. Since PXD is most concentrated in the Permian Basin, investors may be concerned about near-term growth constraints as production capacity has expanded faster than transportation capacity to export terminals. We would put more weight on long-term value than on short-term motion.
- Small Cap Independents have the lowest McDep Ratio as a group. All four are trading in a golden cross pattern and above the 200-day average. **Range Resources (RRC)** is the last of the four to tick positive after forming a long, low base. New pipeline capacity is opening more markets for Appalachian natural gas and natural gas liquids pricing has benefited from oil price strength.
- Income stocks have lost positive momentum while driving estimated distribution yields up to 9%. Only **Dorchester Minerals (DMLP)** has a clear positive stock price trend. As usual, trends can change without notice. Income stocks as a group are more sensitive to natural gas price, which appears to be seriously lagging oil price (see chart [U.S. Crude Oil and Natural Gas Price](#) on page 2). Low natural gas inventories and the approach of winter may bring higher natural gas price. The real yield on Treasury Inflation Protected Securities may not be competition for oil and gas income as it is rising only slowly (see chart [U.S. Ten-Year Interest and Inflation](#) on page 2). Nor are slowly rising nominal yields much competition because oil and natural gas price may offset inflation. It may be the other way around. Higher interest rates signaling stronger economic activity are also signaling stronger energy demand.

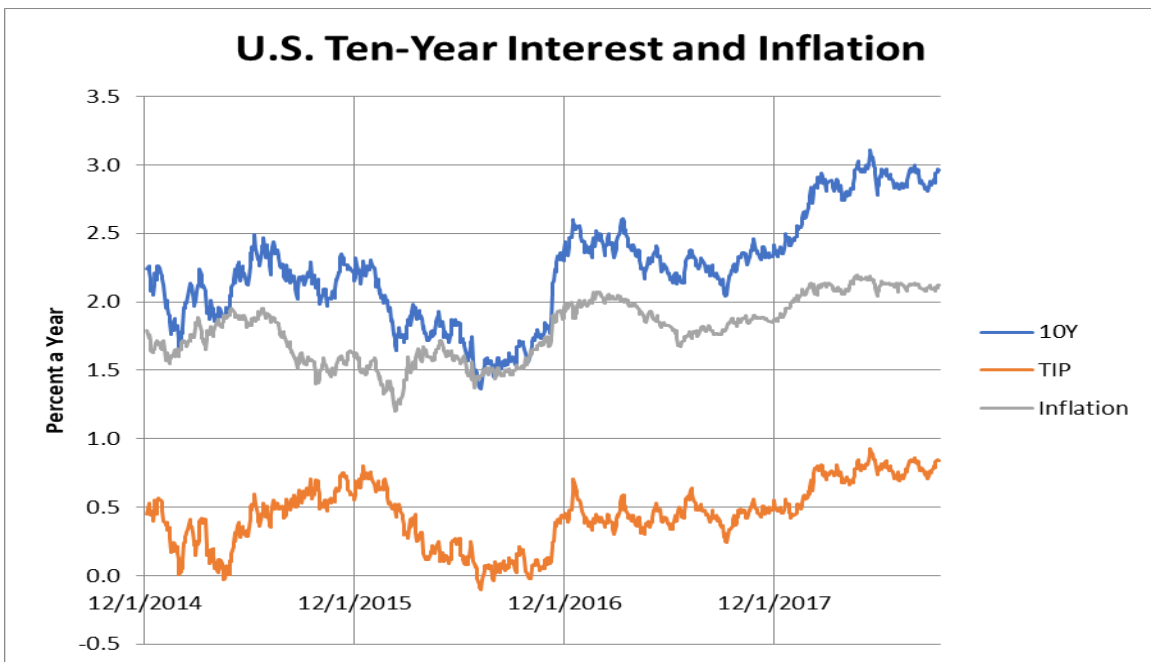
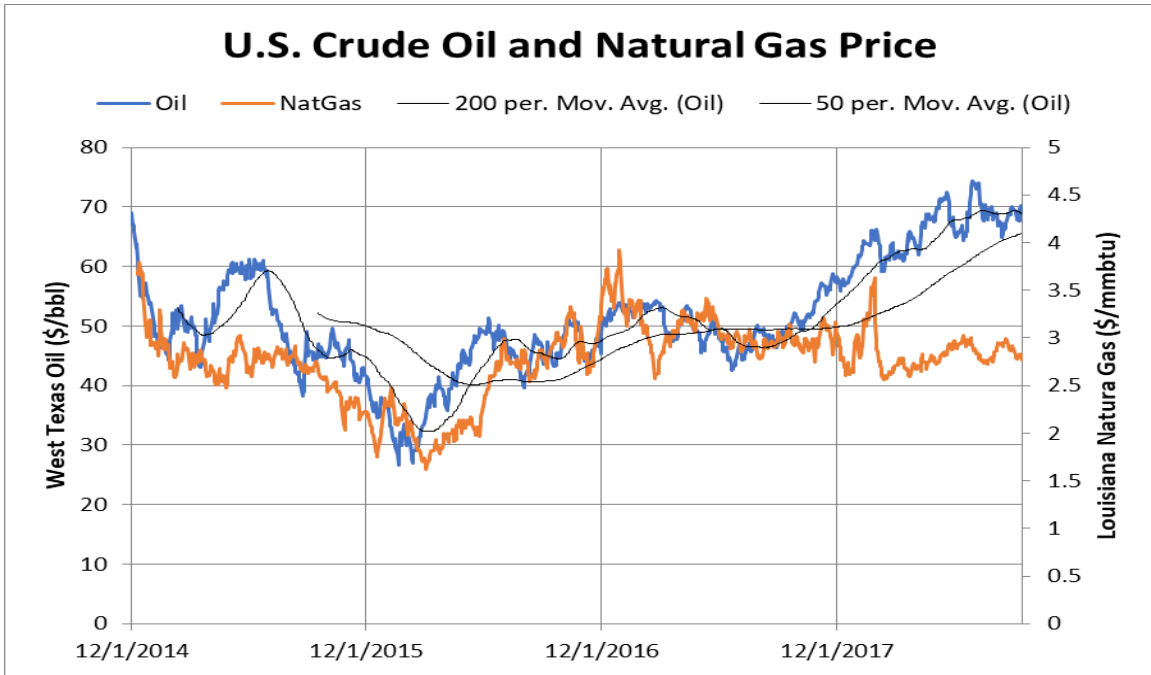
We have optimistic expectations for stocks in our coverage (see [Tables 1-4](#) on pages 3-6). Past analyses provide more detail (see [Index of Recent Research](#) on page 7).

Kurt H. Wulff, CFA



Meter Reader

Monthly Analysis of Oil and Gas Stocks
September 18, 2018





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Table 1
McDep Energy Stocks
Ranked by McDep Ratio

		Price (US\$/sh)	Market Cap (US\$mm)	Enterprise Value (\$mm)	EV/ Market Cap	EV/ Ebitda NTM	PV/ Ebitda NTM	Oil Prod'n/ Ebitda (%)	Dist. Yield NTM (%)	McDep Ratio (EV/PV)
	Symbol/Rating	17-Sep 2018								
Integrated										
	XOM	83.41	356,000	446,000	1.25	7.8	8.3	51	3.9	0.94
	CVX	117.51	226,000	286,000	1.27	6.6	8.0	64	3.8	0.82
	SU	38.18	63,000	82,000	1.31	6.5	8.0	78	2.9	0.81
	RDS-B	66.83	280,000	397,000	1.42	6.8	9.2	49	5.6	0.74
	<i>Total or Median</i>		<i>925,000</i>	<i>1,211,000</i>	<i>1.29</i>	<i>6.7</i>	<i>8.2</i>	<i>57</i>	<i>3.9</i>	<i>0.81</i>
Large Independent										
	OXY	77.60	59,500	73,200	1.23	7.7	7.5	71	4.0	1.03
	COP	74.24	88,000	110,000	1.25	7.0	7.4	78	1.5	0.94
	EOG	117.54	68,200	75,200	1.10	7.3	8.0	90	0.3	0.91
	PXD	171.11	29,300	31,900	1.09	7.1	8.2	94	0.2	0.87
	<i>Total or Median</i>		<i>245,000</i>	<i>290,300</i>	<i>1.17</i>	<i>7.2</i>	<i>7.8</i>	<i>84</i>	<i>0.9</i>	<i>0.93</i>
Mid-Size Independent										
	HES	66.77	19,900	27,300	1.37	10.3	9.0	89	1.5	1.15
	CLR	60.02	22,500	28,800	1.28	6.9	7.8	83	-	0.89
	DVN	38.81	20,400	25,100	1.23	6.5	9.4	88	0.8	0.69
	XEC	91.18	8,700	10,300	1.18	6.3	9.1	85	0.8	0.69
	MRO	20.87	17,740	24,500	1.38	5.8	9.6	89	1.0	0.60
	<i>Total or Median</i>		<i>89,200</i>	<i>116,000</i>	<i>1.28</i>	<i>6.5</i>	<i>9.1</i>	<i>88</i>	<i>0.8</i>	<i>0.69</i>
Small Independent										
	CRC	36.80	1,600	8,400	5.3	5.9	7.7	93	-	0.76
	WLL	47.17	4,300	7,500	1.73	4.8	7.9	97	-	0.61
	RRC	16.05	4,000	8,600	2.18	5.2	8.7	45	0.5	0.59
	BIREF	3.35	900	1,500	1.70	4.6	9.1	48	2.3	0.50
	<i>Total or Median</i>		<i>10,800</i>	<i>26,000</i>	<i>1.95</i>	<i>5.0</i>	<i>8.3</i>	<i>71</i>	<i>0.2</i>	<i>0.60</i>
Income										
	PBT	8.42	390	390	1.00	13.1	15.5	80	7.6	0.84
	SBR	40.95	600	600	1.00	11.3	13.8	72	8.8	0.82
	DMLP	18.60	600	600	1.00	8.4	10.8	86	10.5	0.78
	SJT	5.21	240	240	1.00	10.2	15.7	-	9.6	0.65
	CRT	14.43	90	90	1.00	7.9	13.6	38	10.4	0.58
	<i>Total or Median</i>		<i>1,900</i>	<i>1,900</i>	<i>1.00</i>	<i>10.2</i>	<i>13.8</i>	<i>72</i>	<i>9.6</i>	<i>0.78</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation, amort.
 Estimated Ebitda (cash flow) tied to one-year prices of US\$70 a barrel and \$3 a million btu. NTM = Next Twelve Months ending 9/30/19.
 Estimated Present Value (PV) presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.00 a million btu.
 McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses. For historical research see www.mcdep.com



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September 18, 2018

	Symbol/Rating	Price	Upstream NTM				Down-	Total	Distrib./ Ebitda (%)	Distrib. NTM (\$/sh)
		(US\$/sh)	Volume (mmboe)	Equiv.	Ebitda	Ebitda	stream Uplift (\$/boe)	Ebitda NTM (\$mm)		
		17-Sep 2018		Price (\$/boe)	Margin (%)					
Integrated										
Royal Dutch Shell	RDS-B	66.83	1355	48.22	65	31.20	11.81	42,264	27	3.76
Exxon Mobil Corporation	XOM	83.41	1426	53.66	52	27.70	12.34	39,497	25	3.28
Chevron Corporation	CVX	117.51	1081	52.83	62	32.80	7.40	35,468	20	4.48
Suncor Energy	SU	38.18	288	61.58	56	34.27	9.47	9,881	14	1.09
	<i>Total or Median</i>		<i>4150</i>	<i>53.24</i>	<i>59</i>	<i>32.00</i>	<i>10.64</i>	<i>127,109</i>	<i>22</i>	
Large Independent										
ConocoPhillips	COP	74.24	490	52.09	62	32.10	0.00	15,738	9	1.14
EOG Resources, Inc.	EOG	117.54	288	48.13	74	35.63	0.00	10,271	2	0.37
Occidental Petroleum Corp.	OXY	77.60	258	47.60	58	27.60	9.29	7,131	25	3.12
Pioneer Natural Resources	PXD	171.11	134	45.99	72	33.30	0.00	4,475	1	0.32
	<i>Total or Median</i>		<i>1171</i>	<i>47.87</i>	<i>67</i>	<i>32.70</i>	<i>0.00</i>	<i>37,616</i>	<i>5</i>	
Mid-Size Independent										
Marathon Oil Corporation	MRO	20.87	148	41.65	69	28.60	0.00	4,236	4	0.20
Continental Resources	CLR	60.02	117	43.98	81	35.70	0.00	4,160	-	-
Devon Energy Corporation	DVN	38.81	199	34.04	57	19.40	0.00	3,863	4	0.32
Hess Corporation	HES	66.77	101	46.17	57	26.20	0.00	2,639	11	1.00
Cimarex Energy Company	XEC	91.18	85	29.37	66	19.40	0.00	1,643	4	0.72
	<i>Total or Median</i>		<i>649</i>	<i>41.65</i>	<i>66</i>	<i>26.20</i>	<i>0.00</i>	<i>16,542</i>	<i>4</i>	
Small Independent										
Range Resources	RRC	16.05	144	20.67	56	11.60	0.00	1,666	1	0.08
Whiting Petroleum Corporation	WLL	47.17	49	47.86	67	32.10	0.00	1,566	-	-
California Resources	CRC	36.80	49	55.73	52	29.20	0.00	1,429	-	-
Birchcliff Energy Ltd.	BIREF	3.35	23	19.77	75	14.90	0.00	335	6	0.08
	<i>Total or Median</i>		<i>264</i>	<i>34.27</i>	<i>62</i>	<i>22.05</i>	<i>0.00</i>	<i>4,995</i>	<i>1</i>	
Income										
Dorchester Minerals, L.P.	DMLP	18.60	2.38	40.41	75	30.15	0.00	72	88	1.94
Sabine Royalty Trust	SBR	40.95	1.79	35.50	83	29.55	0.00	53	100	3.62
Permian Basin RT	PBT	8.42	1.16	43.23	60	25.90	0.00	30	99	0.64
San Juan Basin Royalty Trust	SJT	5.21	3.74	12.35	51	6.35	0.00	24	98	0.50
Cross Timbers Royalty Trust	CRT	14.43	0.39	43.64	64	27.84	0.00	11	82	1.50
	<i>Total or Median</i>		<i>9</i>	<i>40.41</i>	<i>64</i>	<i>27.84</i>	<i>0.00</i>	<i>189</i>	<i>98</i>	
For historical research see www.mcdep.com										



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September 18, 2018

Table 3
McDep Energy Stocks
Net Present Value Per Share

		Price (US\$/sh)					Devel. Resrvs/ Prod	Undev/ Devel. Resrvs	Nat Gas/ Ebitda	Top Line/ Ebitda	Net Present Value
	Symbol/Rating	17-Sep 2018	Shares (mm)	Debt (\$mm)	P/E NTM	NTM	(%)	(%)	(%)	(US\$/sh)	
Integrated											
	Chevron Corporation	CVX	117.51	1,919	60,359	14	7.0	57	22		150.00
	Royal Dutch Shell	RDS-B	66.83	4,188	116,710	12	7.3	22	32		100.00
	Exxon Mobil Corporation	XOM	83.41	4,271	90,130	13	9.8	52	27		90.00
	Suncor Energy	SU	38.18	1,641	19,254	10	8.8	87			50.00
	<i>Median</i>						8.1	55			
Large Independent											
	Pioneer Natural Resources	PXD	171.11	171	2,600	20	6.7	9	6		200.00
	EOG Resources, Inc.	EOG	117.54	580	7,071	16	4.7	43	10		130.00
	ConocoPhillips	COP	74.24	1,181	22,036	13	7.1	31	22		80.00
	Occidental Petroleum Corp.	OXY	77.60	767	13,700	14	7.5	35	4		75.00
	<i>Median</i>						6.9	33			
Mid-Size Independent											
	Cimarex Energy Company	XEC	91.18	95	1,579	12	4.9	35	15		140.00
	Continental Resources	CLR	60.02	375	6,333	17	5.2	121	17		70.00
	Devon Energy Corporation	DVN	38.81	525	4,720	14	8.8	24	12		60.00
	Hess Corporation	HES	66.77	298	7,397		7.2	59	11		55.00
	Marathon Oil Corporation	MRO	20.87	850	6,712	17	6.1	60	11		40.00
	<i>Median</i>						6.1	59			
Small Independent											
	Whiting Petroleum Corporation	WLL	47.17	92	3,170	26	6.9	84	3		100.00
	California Resources	CRC	36.80	43	6,800		9.0	41	7		100.00
	Range Resources	RRC	16.05	246	4,657	8	9.7	83	55		40.00
	Birchcliff Energy Ltd.	BIREF	3.35	268	630	11	7.2	228	52		9.00
	<i>Median</i>						8.1	83			
Income											
	Sabine Royalty Trust	SBR	40.95	15	-	11	9.9	3	33	100	50.00
	Cross Timbers Royalty Trust	CRT	14.43	6	-	10	12.6	-	69	82	25.00
	Dorchester Minerals, L.P.	DMLP	18.60	32	-	12	6.8	-	17	79	24.00
	Permian Basin RT	PBT	8.42	47	-	13	6.8	-	17	50	10.00
	San Juan Basin Royalty Trust	SJT	5.21	47	-	10	11.1	-	100	-	8.00
	<i>Median</i>						9.9				
P/E = Stock Price to Earnings. For historical research see www.mcdep.com .											



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Monthly Analysis of Oil and Gas Stocks
September 18, 2018

Table 4									
McDep Energy Stocks									
Total Return Year-to-Date 2018									
Ranked by Unlevered Total Return									
		Price (\$/sh)	Price (\$/sh)	Price Change (%)	Cash Distrib. (%)	Equity Total Return (%)	Debt Return (\$/sh)	Unlevered Total Return (%)	McDep Ratio
	Symbol/Rati	17-Sep 2018	29-Dec 2017						
Integrated									
Suncor Energy	SU	38.18	36.72	4	2	6	12	4	0.81
Exxon Mobil Corporation	XOM	83.41	83.64	(0)	3	3	21	2	0.94
Royal Dutch Shell	RDS-B	66.83	68.29	(2)	4	2	28	1	0.74
Chevron Corporation	CVX	117.51	125.19	(6)	3	(3)	31	(3)	0.82
	<i>Median</i>			(1)		2		2	0.81
Large Independent									
ConocoPhillips	COP	74.24	54.89	35	2	37	19	27	0.94
EOG Resources, Inc.	EOG	117.54	107.91	9	0	9	12	8	0.91
Occidental Petroleum Corp.	OXY	77.60	73.66	5	2	7	18	6	1.03
Pioneer Natural Resources	PXD	171.11	172.85	(1)	0	(1)	15	(1)	0.87
	<i>Median</i>			7		8		7	0.93
Mid-Size Independent									
Hess Corporation	HES	66.77	47.47	41	1	42	25	27	1.15
Marathon Oil Corporation	MRO	20.87	16.93	23	1	24	8	16	0.60
Continental Resources	CLR	60.02	52.97	13	-	13	17	10	0.89
Devon Energy Corporation	DVN	38.81	41.40	(6)	0	(6)	9	(5)	0.69
Cimarex Energy Company	XEC	91.18	122.01	(25)	0	(25)	17	(22)	0.69
	<i>Median</i>			13		13		10	0.69
Small Independent									
Whiting Petroleum Corporation	WLL	47.17	26.48	78	-	78	34	34	0.61
California Resources	CRC	36.80	19.44	89	-	89	160	10	0.76
Birchcliff Energy Ltd.	BIREF	3.35	3.50	(4)	1	(3)	2	(2)	0.50
Range Resources	RRC	16.05	17.06	(6)	0	(6)	19	(3)	0.59
	<i>Median</i>			37		38		4	0.60
Income									
Dorchester Minerals, L.P.	DMLP	18.60	15.20	22	9	31	-	31	0.78
Cross Timbers Royalty Trust	CRT	14.43	14.69	(2)	6	4	-	4	0.58
Permian Basin RT	PBT	8.42	8.87	(5)	4	(1)	-	(1)	0.84
Sabine Royalty Trust	SBR	40.95	44.60	(8)	4	(4)	-	(4)	0.82
San Juan Basin Royalty Trust	SJT	5.21	8.24	(37)	3	(34)	-	(34)	0.65
	<i>Median</i>			(5)		(1)		(1)	0.78
	<i>Grand Median</i>			(1)		2		3	0.79
Natural Gas (\$/mmbtu)									
		2.81	2.95	(5)					
Oil -West Texas Intermediate (\$/bbl)									
		68.73	60.09	14					
Total Stock Market - U.S.	VTI	149.33	137.25	9	1	10			
Developed Markets - ex US	VEA	42.75	44.86	(5)	2	(3)			
Emerging Markets	VWO	40.42	45.91	(12)	1	(11)			
Total Stock Market - World	VT	75.37	74.26	1	1	3			
Source: McDep LLC, Yahoo, CME Group, Bloomberg					For historical research see www.mcdep.com				



Meter Reader

Monthly Analysis of Oil and Gas Stocks
September 18, 2018

Index of Recent Research				
<i>Date</i>	<i>Series</i>	<i>Symbol</i>	<i>Subject</i>	<i>Theme</i>
4-Sep	ISI	SU	Suncor	Oil Value Upside
28-Aug	II	CRT, DMLP, PBT, SBR, SJT		Roll Forward and Simplify
20-Aug	II	BIREF, CRC, RRC, WLL		Strategic Value, Uncertain Price
13-Aug	Meter Reader	COP,EOG,OXY,PXD		Large Cap Producers Advancing
9-Aug	II	CLR, XEC, HES, DVN, MRO		
7-Aug	ISI	DMLP	Dorchester Minerals, L.P.	Q2 on Trend
30-Jul	II	CVX, RDS, SU, XOM		Durable Cash Generators
23-Jul	II	CRT, DMLP, PBT, SBR, SJT		Energy Price Participation
18-Jul	ISI	COP	ConocoPhillips	Large Cap Cash Producer
10-Jul	Meter Reader			Terms of Trade
6-Jul	ISI	CVX	Chevron	Oil Value Upside
2-Jul	Meter Reader	Special	Outperformance in First Half 2018	Attractive Value, Auspicious Momentum
21-Jun	II	CRT, DMLP, PBT, SBR, SJT		8% Cash in Uncertain Times
12-Jun	Meter Reader			Positive Charts
6-Jun	ISI	RDS	Royal Dutch Shell	Bright Future in Integrated Gas
30-May	ISI	BIREF	Birchcliff Energy	A Play on Narrowing the Gap
24-May	ISI	DMLP	Dorchester Minerals, L.P.	Riding the Shale Trend
15-May	Meter Reader			\$70 Oil Here
9-May	ISI	XEC	Cimarex Energy	Quality Company, Lagging Stock
4-May	ISI	MRO	Marathon Oil	Raise NPV to \$40 a Share from \$30
30-Apr	ISI	XOM	ExxonMobil	Reduce NPV to \$90 from \$100 a Share
24-Apr	II	CRT, DMLP, PBT, SBR, SJT		8% Median Distribution Yield
19-Apr	ISI	DMLP	Dorchester Minerals, L.P.	11% Distribution Reinforced
17-Apr	II	COP,EOG,OXY,PXD		Positive Trends for Large Cap Independent Producers
10-Apr	Meter Reader			Transition to Moderate Growth and Inflation
3-Apr	II	SJT, CRT	San Juan Basin	Regional Natural Gas Price Softness
21-Mar	II	BIREF, CRC, RRC, WLL		Small Cap High Reward, High Risk
15-Mar	Meter Reader		ExxonMobil	Out-of-Favor Industry Leader
12-Mar	ISI	DMLP	Dorchester Minerals, L.P.	Raise Distribution Yield to 11%
1-Mar	ISI	EOG	EOG Resources	Raise NPV to \$130 on Production
28-Feb	II	CLR, XEC, HES, DVN, MRO		Oil Price Upside for Mid-Size Independent Producers
20-Feb	II	CRT, DMLP, PBT, SBR, SJT		7% Distributions Inflation Protected
13-Feb	Meter Reader			Insulate Inflation
5-Feb	ISI	HES	Hess Corporation	Repositioning for Reward
2-Feb	ISI	COP	ConocoPhillips	Raise NPV to \$80 on Higher Cash Flow
25-Jan	II	CVX, RDS, SU, XOM		Integrated Oil Value Creators
19-Jan	ISI	DMLP	Dorchester Minerals, L.P.	Highest Distribution in Three Years
16-Jan	Meter Reader			Growth is Good
2-Jan	Meter Reader	Special		New Look at Beginning of Year 2018
29-Dec	Meter Reader	Special		Trending Up at End of Year 2017
20-Dec	II	CRT, DMLP, PBT, SBR, SJT		Top Line Premium and Bottom Line Upside
12-Dec	Meter Reader			Oil and Gas Gains in 2018
5-Dec	ISI	RDS	Royal Dutch Shell	Share Buyback Ahead
MR = Meter Reader (published monthly on or about second or third Tuesday)				
ISI = Independent Stock Idea				
II = Industry Idea				
For historical research by stock, go to mcdep.com , click on Stock Ideas , click on stock by name.				



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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.