



# Independent Stock Idea

February 5, 2018

## Hess Corporation (HES) Repositioning for Reward

<i>Symbol</i>	HES	<i>Ebitda Next Twelve Months ending 12/31/18 (US\$m)</i>	2,360
<i>Rating</i>		<i>Natural Gas/Ebitda (%)</i>	16
<i>Price (US\$/sh)</i>	44.49	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/5/18	<i>Developed Reserves/Production NTM</i>	8.9
<i>Shares (mm)</i>	314	<i>EV/Ebitda</i>	9.3
<i>Market Capitalization (US\$m)</i>	14,000	<i>PV/Ebitda</i>	10.7
<i>Debt (US\$m)</i>	8,100	<i>Undeveloped Reserves (%)</i>	28
<i>Enterprise Value (EV) (US\$m)</i>	22,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	26.40
<i>Present Value (PV) (US\$m)</i>	25,300	<i>Downstream Uplift (US\$/boe)</i>	0
<i>Net Present Value (US\$/share)</i>	55	<i>Oil and Gas Ebitda Margin (%)</i>	60
<i>Ebitda/Market Cap</i>	1.58	<i>Top Line/Ebitda (%)</i>	0
<i>McDep Ratio - EV/PV</i>	0.87	<i>Price/Earnings Next Twelve Months</i>	-23
<i>Dividend Yield (%/year)</i>	2.2	<i>Indicated Annual Dividend (US\$/sh)</i>	1.00
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.00 a million btu.			

### Summary and Recommendation

The common stock of **Hess Corporation (HES)** offers participation in a giant oil discovery at the same time quarterly results released on February 5 are complicated by strategic repositioning. Hess has a 30% interest in a discovery owned 45% and operated by **ExxonMobil (XOM)** (see slide World Class Resource on page 2). The upside may add 50% or more to the value of HES stock, but HES also must finance its share of the multibillion dollar development cost. As a result, management has been selling mature properties in the U.S., Europe and Africa which have the further effect of reducing current production (see table Operating and Financial Estimates on page 2). We estimate Net Present Value (NPV) of \$55 a share not counting the big find and have initiated tracking the stock in a four-company peer group of similar size. From the new lower base, production growth begins immediately from shale oil drilling in North Dakota and recent discoveries in the Gulf of Mexico (see chart Volume on page 3). Management sees 10% a year volume growth in 2018-2019 until the Guyana discovery adds further growth in 2020 and thereafter. Concentrated more heavily on oil, HES enjoys a higher relative price (see chart Price on page 3). Expense is coming down, but still looks high (see chart Operating Expense on page 4). Nonetheless, unit cash flow is more in line, though fluctuating (see chart Ebitda – Production on page 4). After sharp financial market declines in the past few trading days, nearly all the stocks in our coverage are more attractive in value, we believe (see Tables 1-4 on pages 5-8).

Kurt H. Wulff, CFA

## World-class resource growth offshore Guyana

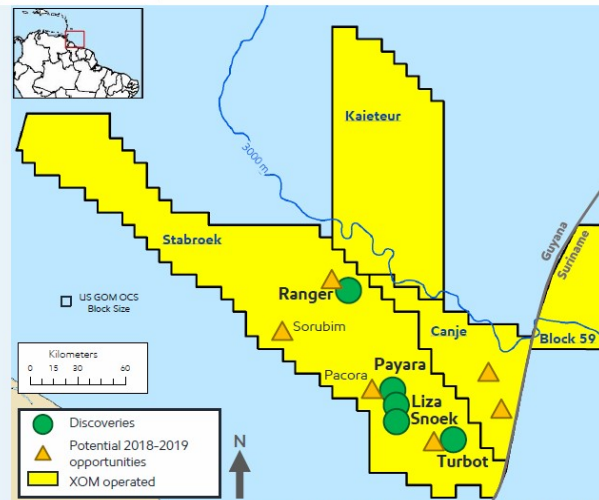
Sixth discovery on Stabroek block; progressing multiple phases of development

### Exploration:

- Ranger-1 discovery proves third new play concept
  - 230 feet of oil-bearing carbonate reservoirs
- 3.2 BOEB recoverable resources on Stabroek block
  - Excludes Ranger discovery
- Rig moved to Pacora prospect, near Payara

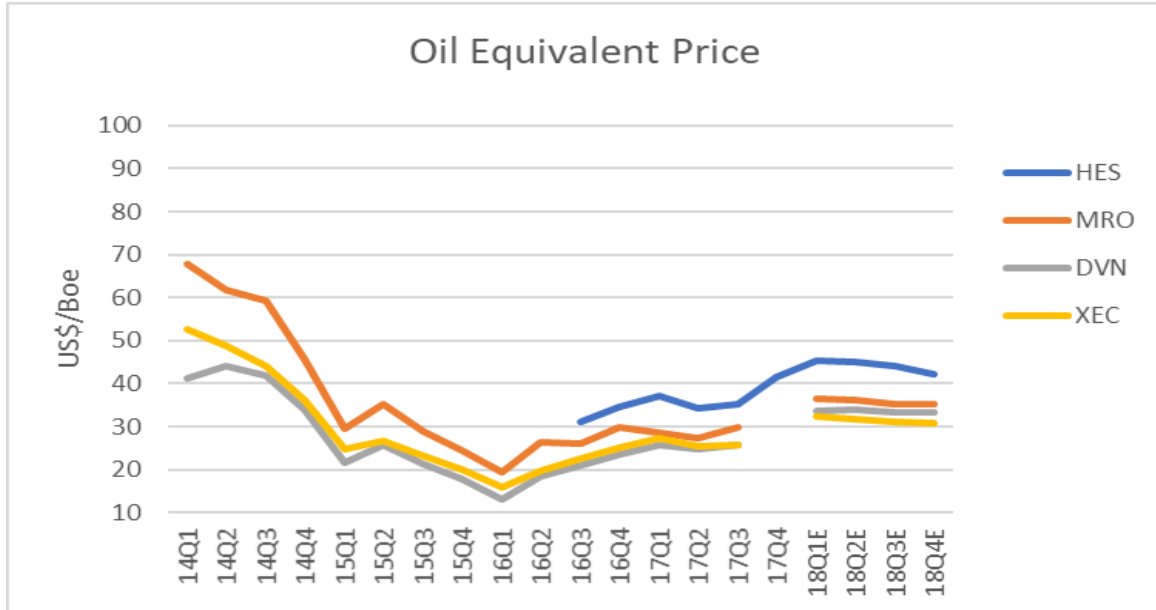
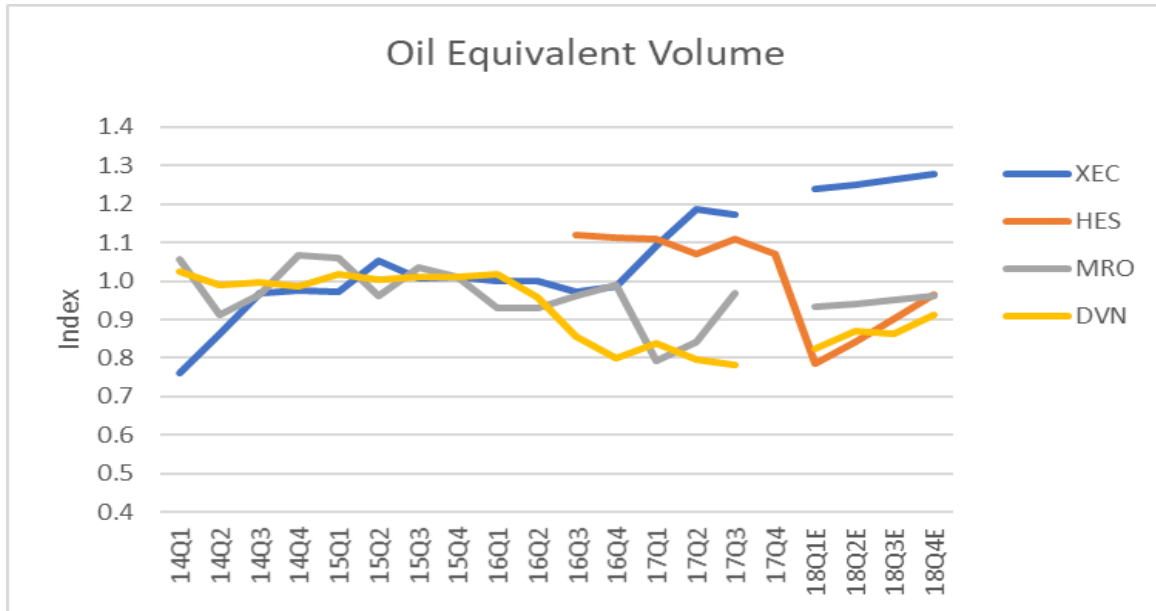
### Development:

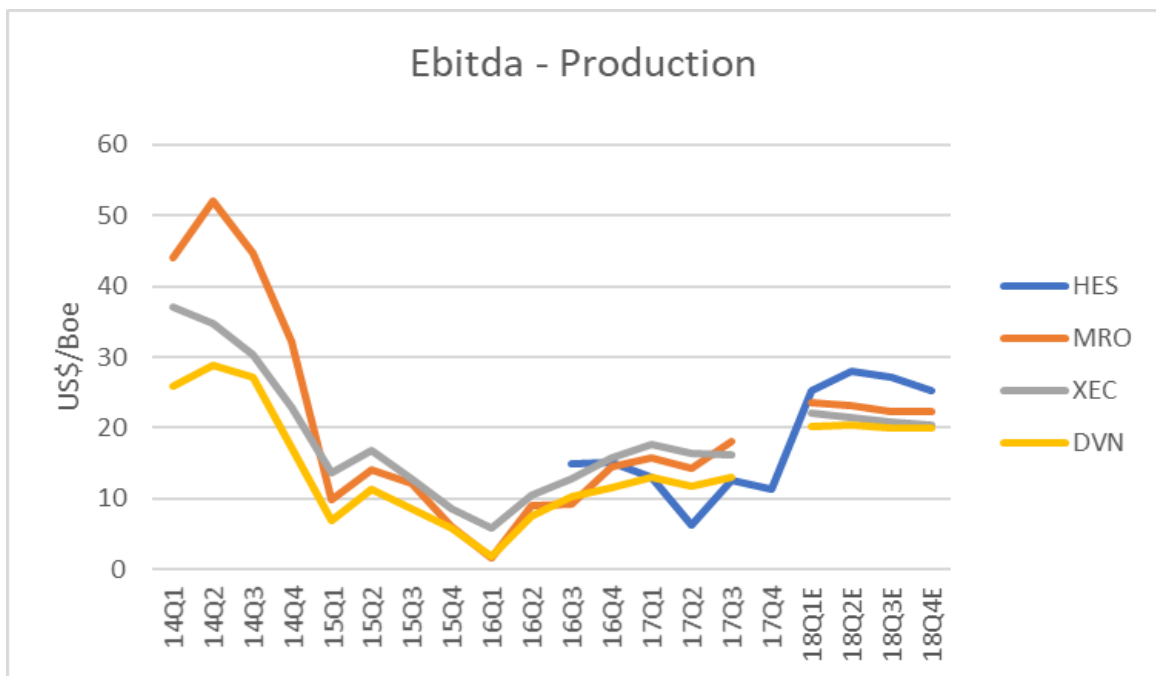
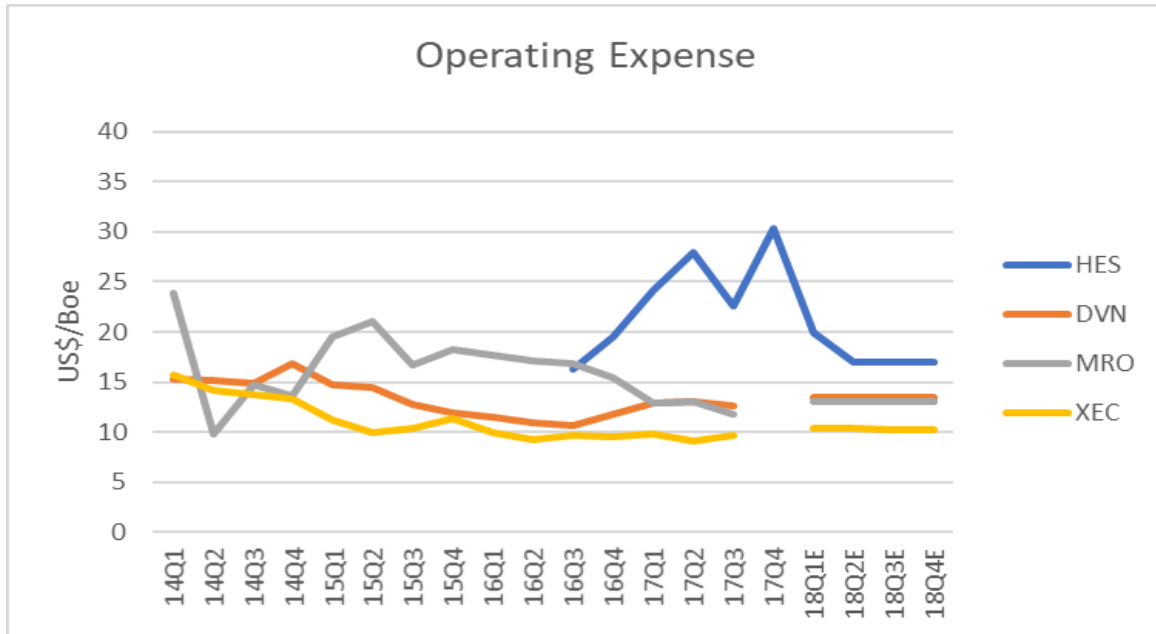
- Liza Phase I development drilling beginning 2018
  - First oil March 2020
- Liza Phase II lead concept 220 KBD FPSO
  - Start-up 2022
- Progressing concept selection for Payara
  - Start-up planned 2023/2024



20 ExxonMobil fourth quarter 2017 earnings call

Hess Corporation												
Next Twelve Months Operating and Financial Estimates												
	Q3	Q4	Q1	Q2	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Next Twelve Months
	9/30/16	12/31/16	3/31/17	6/30/17	9/30/17	12/31/17	2017	3/31/18	6/30/18	9/30/18	12/31/18	12/31/18
<b>Volume</b> (barrels oil equivalent)												
Daily (mboed)	314	311	311	300	311	300	305	220	236	252	270	245
Period (mboe)	28.9	28.6	28.0	27.3	28.6	27.6	111.5	19.8	21.5	23.2	24.8	89.3
Price (US\$/boe)	31.28	34.68	37.05	34.19	35.13	41.72	37.01	45.31	45.06	44.11	42.23	44.08
Expense (US\$/boe)	16.26	19.48	24.10	27.97	22.54	30.30	26.18	20.00	17.00	17.00	17.00	17.67
<b>Ebitda - Production</b> (US\$/boe)	15.02	15.19	12.96	6.22	12.59	11.42	10.83	25.31	28.06	27.11	25.23	26.41
<b>Downstream VA</b> (US\$/boe)												
<b>Ebitda - Total</b>												
Unit (US\$/boe)	15.02	15.19	12.96	6.22	12.59	11.42	10.83	25.31	28.06	27.11	25.23	26.41
Period (US\$m)	433	435	362	170	360	315	1,207	502	602	629	627	2,359
<b>Deprec, Deplet, Amort, Other</b>	889	838	795	794	799	722	3,110	696	696	696	696	2,784
<b>Ebit</b> (US\$m)	(456)	(403)	(433)	(624)	(439)	(407)	(1,903)	(194)	(94)	(67)	(69)	(425)
Interest	84	84	84	82	79	80	325	85	85	85	85	340
<b>Ebt</b> (US\$m)	(540)	(487)	(517)	(706)	(518)	(487)	(2,228)	(279)	(179)	(152)	(154)	(765)
Income Tax	(189)	(170)	(181)	(247)	(181)	(171)	(780)	(59)	(38)	(32)	(32)	(161)
<b>Net Income</b> (US\$m)												
Exploration and Production												
Other												
Unallocated												
Total	(351)	(316)	(336)	(459)	(337)	(317)	(1,448)	(221)	(141)	(120)	(122)	(604)
<b>Shares</b> (millions)	313	313	314	314	315	314	314	314	314	314	314	314
Earnings Per Share (US\$)	(1.12)	(1.01)	(1.07)	(1.46)	(1.07)	(1.01)	(4.61)	(0.70)	(0.45)	(0.38)	(0.39)	(1.93)
<b>Dividend</b> (US\$/share)	1.00	0.25	0.25	0.25	0.25	0.25	1.00	0.25	0.25	0.25	0.25	1.00
<b>Present Value</b> (US\$m)						25,326		25,326	25,326	25,326	25,326	25,326
<b>Debt</b> (US\$m)						8,078		8,078	8,078	8,078	8,078	8,078
<b>Net Present Value</b> (US\$m)						17,248		17,248	17,248	17,248	17,248	17,248
<b>NPV</b> (US\$/share)						55		55	55	55	55	55







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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	5-Feb 2018								
<b>Integrated</b>										
	XOM	79.72	340,000	432,000	1.27	7.6	9.1	51	3.9	0.83
	CVX	112.62	215,000	279,000	1.30	6.8	8.6	64	3.8	0.80
	SU	33.88	56,000	74,000	1.32	6.1	8.3	81	3.0	0.74
	RDS-B	65.92	275,000	393,000	1.43	6.7	9.2	52	5.7	0.73
	<i>Total or Median</i>		886,000	1,178,000	1.31	6.8	8.8	58	3.8	0.77
<b>Large Independent</b>										
	EOG	109.56	63,400	70,700	1.11	9.5	9.6	91	0.6	1.00
	OXY	70.91	54,300	67,800	1.25	8.7	9.1	80	4.3	0.96
	HES	44.49	14,000	22,000	1.58	9.3	10.7	89	2.2	0.87
	PXD	171.82	29,200	31,200	1.07	8.1	9.3	93	0.0	0.87
	COP	55.94	67,000	90,000	1.35	6.5	8.6	76	2.0	0.76
	MRO	16.78	14,260	21,300	1.49	6.4	8.5	87	1.2	0.75
	DVN	38.65	20,400	28,100	1.38	6.0	8.4	79	0.6	0.71
	<i>Total or Median</i>		262,600	331,000	1.35	8.1	9.1	87	1.2	0.87
<b>Small Independent</b>										
	CLR	51.78	6,200	8,300	1.35	7.9	8.9	83	-	0.89
	CRC	19.99	900	7,000	8.2	6.8	8.0	93	-	0.84
	XEC	107.91	10,100	11,600	1.15	7.4	9.3	78	0.3	0.79
	WLL	25.73	2,300	5,600	2.39	4.6	8.1	96	-	0.57
	RRC	13.10	3,200	7,800	2.43	5.8	10.6	44	0.6	0.54
	BIREF	2.72	700	1,300	1.84	4.4	10.9	44	3.0	0.41
	<i>Total or Median</i>		23,000	42,000	2.11	6.3	9.1	80	0.1	0.68
<b>Income</b>										
	SJT	8.72	410	410	1.00	12.7	11.6	-	7.9	1.09
	PBT	9.17	430	430	1.00	11.5	12.6	80	8.2	0.92
	SBR	43.75	640	640	1.00	14.7	16.8	67	6.8	0.88
	DMLP	15.30	490	490	1.00	9.0	14.1	81	10.8	0.64
	CRT	14.35	90	90	1.00	8.6	15.0	39	9.3	0.57
	<i>Total or Median</i>		2,100	2,100	1.00	11.5	14.1	67	8.2	0.88

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation, amort.  
 Estimated Ebitda (cash flow) tied to NTM futures prices for oil and natural gas. NTM = Next Twelve Months ending 12/31/18.  
 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](http://www.mcdep.com)



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Table 2										
McDep Energy Stocks										
Unlevered Cash Flow (Ebitda)										
Ranked by Total Ebitda										
Symbol/Rating	Price (US\$/sh)	Upstream NTM		Down- stream Uplift (\$/boe)	Total Ebitda NTM (\$mm)	Distrib./ Ebitda (%)	Distrib. NTM (\$/sh)			
		5-Feb 2018	Volume (mmboe)					Equiv. Price (\$/boe)	Ebitda Margin (%)	Ebitda (\$/boe)
<b>Integrated</b>										
Royal Dutch Shell	RDS-B	65.92	1338	44.60	73	32.70	11.01	43,739	27	3.76
Exxon Mobil Corporation	XOM	79.72	1467	46.79	58	27.00	11.99	39,617	23	3.08
Chevron Corporation	CVX	112.62	1025	49.23	65	32.10	7.80	32,907	20	4.32
Suncor Energy	SU	33.88	277	59.82	60	35.66	8.13	9,893	14	1.03
<i>Total or Median</i>			<i>4107</i>	<i>48.01</i>	<i>62</i>	<i>32.40</i>	<i>9.57</i>	<i>126,156</i>	<i>22</i>	
<b>Large Independent</b>										
ConocoPhillips	COP	55.94	443	47.26	67	31.50	0.00	13,940	10	1.14
EOG Resources, Inc.	EOG	109.56	237	43.74	71	31.24	0.00	7,417	5	0.67
Occidental Petroleum Corp.	OXY	70.91	233	44.54	64	28.50	5.16	6,629	30	3.08
Devon Energy Corporation	DVN	38.65	194	33.53	66	22.10	2.15	4,289	3	0.24
Pioneer Natural Resources	PXD	171.82	124	43.53	71	31.00	0.00	3,857	0	0.08
Marathon Oil Corporation	MRO	16.78	146	35.78	64	22.80	0.00	3,330	5	0.20
Hess Corporation	HES	44.49	89	44.08	60	26.40	0.00	2,359	13	1.00
<i>Total or Median</i>			<i>1467</i>	<i>43.74</i>	<i>66</i>	<i>28.50</i>	<i>0.00</i>	<i>41,822</i>	<i>5</i>	
<b>Small Independent</b>										
Cimarex Energy Company	XEC	107.91	74	31.50	67	21.20	0.00	1,569	2	0.32
Range Resources	RRC	13.10	132	19.24	53	10.20	0.00	1,351	1	0.08
Whiting Petroleum Corporation	WLL	25.73	45	42.29	64	27.00	0.00	1,208	-	-
Continental Resources (32%)	CLR	51.78	33	39.68	80	31.70	0.00	1,050	-	-
California Resources	CRC	19.99	47	48.69	45	21.90	0.00	1,024	-	-
Birchcliff Energy Ltd.	BIREF	2.72	23	18.59	70	13.10	0.00	303	7	0.08
<i>Total or Median</i>			<i>354</i>	<i>35.59</i>	<i>66</i>	<i>21.55</i>	<i>0.00</i>	<i>6,504</i>	<i>1</i>	
<b>Income</b>										
Dorchester Minerals, L.P.	DMLP	15.30	2.14	35.62	72	25.74	0.00	55	97	1.65
Sabine Royalty Trust	SBR	43.75	1.55	33.12	85	28.06	0.00	43	100	2.98
Permian Basin RT	PBT	9.17	1.31	41.95	68	28.35	0.00	37	95	0.75
San Juan Basin Royalty Trust	SJT	8.72	3.14	15.87	64	10.22	0.00	32	100	0.69
Cross Timbers Royalty Trust	CRT	14.35	0.42	39.70	61	24.04	0.00	10	80	1.33
<i>Total or Median</i>			<i>9</i>	<i>35.62</i>	<i>68</i>	<i>25.74</i>	<i>0.00</i>	<i>178</i>	<i>97</i>	

For historical research see [www.mcdep.com](http://www.mcdep.com)



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**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	5-Feb 2018	Shares (mm)	Debt (\$mm)	P/E NTM		NTM	(%)	(%)	(%)	(US\$/sh)
<b>Integrated</b>											
	Chevron Corporation	CVX	112.62	1,906	64,410	13	7.3	48	20		150.00
	Exxon Mobil Corporation	XOM	79.72	4,270	91,771	13	9.4	45	27		100.00
	Royal Dutch Shell	RDS-B	65.92	4,177	118,194	13	7.3	34	30		100.00
	Suncor Energy	SU	33.88	1,662	18,055	9	9.9	80			50.00
	<i>Median</i>						8.4				
<b>Large Independent</b>											
	Pioneer Natural Resources	PXD	171.82	170	2,000	21	5.4	8	7		200.00
	EOG Resources, Inc.	EOG	109.56	579	7,214	25	4.6	43	8		110.00
	Occidental Petroleum Corp.	OXY	70.91	766	13,500	20	8.0	30	5		75.00
	ConocoPhillips	COP	55.94	1,198	23,479	13	9.2	25	24		80.00
	Devon Energy Corporation	DVN	38.65	529	7,746	57	7.7	25	14		60.00
	Hess Corporation	HES	44.49	314	8,078		8.9	39	11		55.00
	Marathon Oil Corporation	MRO	16.78	850	7,044	22	5.8	65	13		25.00
	<i>Median</i>						7.7				
<b>Small Independent</b>											
	Cimarex Energy Company	XEC	107.91	94	1,483	12	5.2	26	22		140.00
	Whiting Petroleum Corporation	WLL	25.73	91	3,242	10	8.0	111	4		72.00
	Continental Resources (32%)	CLR	51.78	119	2,134	24	5.0	146	17		60.00
	California Resources	CRC	19.99	43	6,100		8.7	40	7		50.00
	Range Resources	RRC	13.10	245	4,575	8	8.5	78	56		40.00
	Birchcliff Energy Ltd.	BIREF	2.72	268	612	9	6.0	218	56		10.00
	<i>Median</i>						7.0				
<b>Income</b>											
	Sabine Royalty Trust	SBR	43.75	15	-	15	10.6	4	33	100	50.00
	Cross Timbers Royalty Trust	CRT	14.35	6	-	11	9.1	-	61	80	25.00
	Dorchester Minerals, L.P.	DMLP	15.30	32	-	12	6.5	-	19	87	24.00
	Permian Basin RT	PBT	9.17	47	-	12	8.8	14	18	40	10.00
	San Juan Basin Royalty Trust	SJT	8.72	47	-	13	9.9	-	100	-	8.00
	<i>Median</i>						9.1				
P/E = Stock Price to Earnings. For historical research see <a href="http://www.mcdep.com">www.mcdep.com</a> .											



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Table 4										
McDep Energy Stocks										
Total Return Year-to-Date 2018										
Ranked by Unlevered Total Return										
		Price	Price			Equity		Unlevered		
	Symbol/Rati	(\$/sh)	(\$/sh)	Price	Cash	Total	Debt	Total	McDep	
		2018	2017	Change	Distrib.	Return	(\$/sh)	Return	Ratio	
				(%)	(%)	(%)		(%)		
<b>Integrated</b>										
	Royal Dutch Shell	RDS-B	65.92	68.29	(3)	-	(3)	28	(2)	0.73
	Exxon Mobil Corporation	XOM	79.72	83.64	(5)	-	(5)	21	(4)	0.83
	Suncor Energy	SU	33.88	36.72	(8)	-	(8)	11	(6)	0.74
	Chevron Corporation	CVX	112.62	125.19	(10)	-	(10)	34	(8)	0.80
	<i>Median</i>				(6)		(6)		(5)	0.77
<b>Large Independent</b>										
	ConocoPhillips	COP	55.94	54.89	2	0	2	20	2	0.76
	EOG Resources, Inc.	EOG	109.56	107.91	2	0	2	12	2	1.00
	Pioneer Natural Resources	PXD	171.82	172.85	(1)	-	(1)	12	(1)	0.87
	Marathon Oil Corporation	MRO	16.78	16.93	(1)	-	(1)	8	(1)	0.75
	Occidental Petroleum Corp.	OXY	70.91	73.66	(4)	-	(4)	18	(3)	0.96
	Hess Corporation	HES	44.49	47.47	(6)	-	(6)	26	(4)	0.87
	Devon Energy Corporation	DVN	38.65	41.40	(7)	-	(7)	15	(5)	0.71
	<i>Median</i>				(1)		(1)		(1)	0.87
<b>Small Independent</b>										
	California Resources	CRC	19.99	19.44	3	-	3	143	0	0.84
	Whiting Petroleum Corporation	WLL	25.73	26.48	(3)	-	(3)	36	(1)	0.57
	Continental Resources (32%)	CLR	51.78	52.97	(2)	-	(2)	18	(2)	0.89
	Cimarex Energy Company	XEC	107.91	122.01	(12)	-	(12)	16	(10)	0.79
	Range Resources	RRC	13.10	17.06	(23)	-	(23)	19	(11)	0.54
	Birchcliff Energy Ltd.	BIREF	2.72	3.50	(22)	-	(22)	2	(14)	0.41
	<i>Median</i>				(7)		(7)		(6)	0.68
<b>Income</b>										
	San Juan Basin Royalty Trust	SJT	8.72	8.24	6	2	8	-	8	1.09
	Permian Basin RT	PBT	9.17	8.87	3	1	5	-	5	0.92
	Dorchester Minerals, L.P.	DMLP	15.30	15.20	1	-	1	-	1	0.64
	Sabine Royalty Trust	SBR	43.75	44.60	(2)	1	(1)	-	(1)	0.88
	Cross Timbers Royalty Trust	CRT	14.35	14.69	(2)	1	(1)	-	(1)	0.57
	<i>Median</i>				1		1		1	0.88
	<i>Grand Median</i>				(3)		(3)		(1)	0.80
	Natural Gas (\$/mmbtu)		2.72	2.95	(8)					
	Oil -West Texas Intermediate (\$/bbl)		63.83	60.09	6					
	Total Stock Market - U.S.	VTI	135.65	137.25	(1)					
	Developed Markets - ex US	VEA	44.19	44.86	(1)					
	Emerging Markets	VWO	46.70	45.91	2					

Source: McDep LLC, Yahoo, CME Group, Bloomberg

For historical research see [www.mcdep.com](http://www.mcdep.com)





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