



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

October 11, 2011

## Ideal for Deals

### Summary and Recommendation

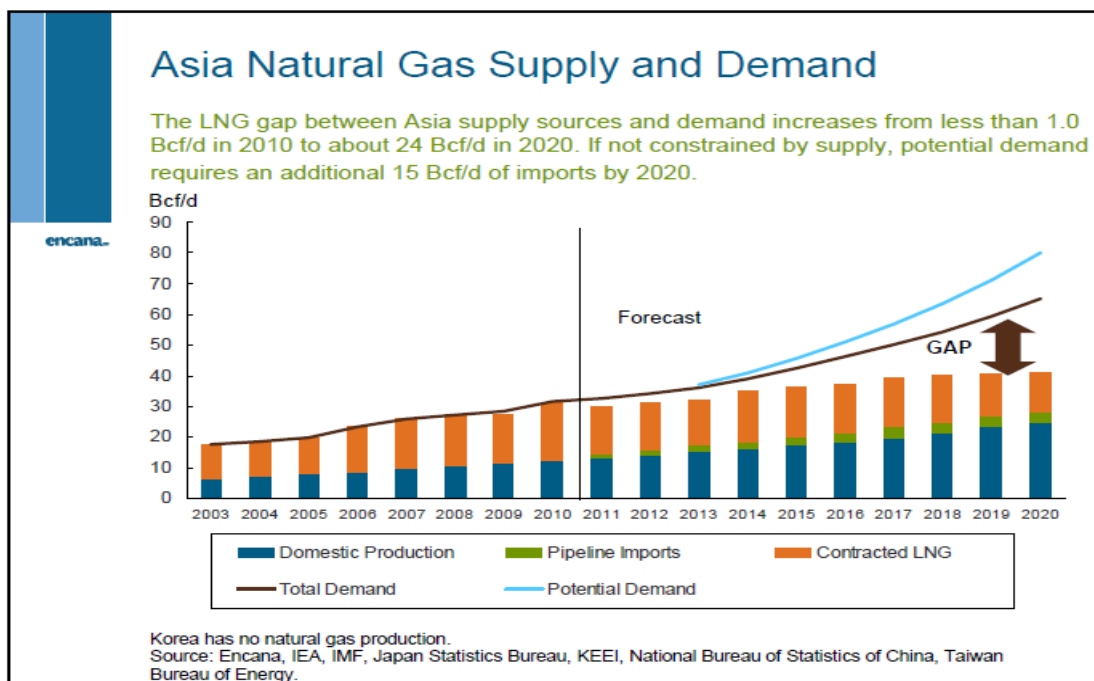
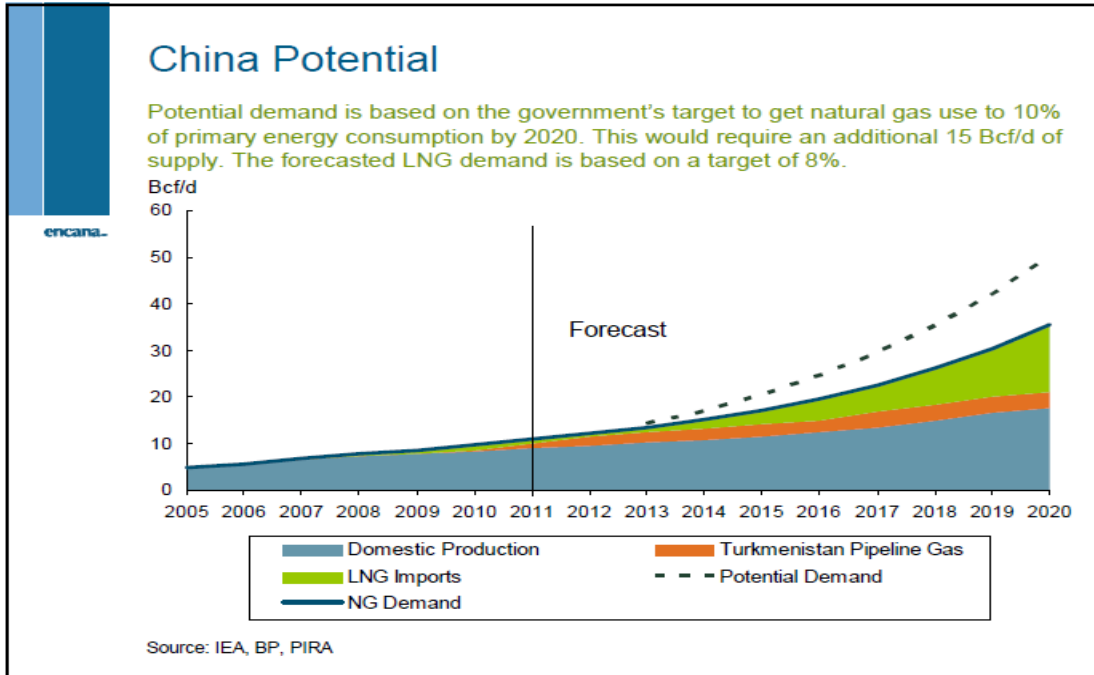
A low composite McDep Ratio of 0.61 for large cap stocks in our coverage flashes an action sign to buyers who might acquire whole companies at the same time it flashes opportunity to thoughtful investors. The denominator of the McDep Ratio approximates what strategic buyers may believe oil and gas in the ground to be worth. The numerator is mostly influenced by the stock market which often behaves erratically, it seems. Committed strategic buyers may be happy to pounce when the target price gets too tempting to resist. What buyer could be more committed than China with the world's largest and most primitive energy economy measured by its almost complete dependence on coal? Should China need any more motivation to buy oil and gas resources now, it also sits on the world's largest stash of fiat currencies, which almost by definition rapidly lose purchasing power for real goods. Indeed, Chinese companies have been increasingly active with the latest deal being the acquisition of small cap Canadian producer Daylight Energy Ltd (DAY – Toronto) (see *Industry Idea* 10/10/11). Buy recommendations in our large cap coverage ranked in order of increasing deal target size include **Canadian Oil Sands (COSWF)**, **Marathon Oil (MRO)**, **EOG Resources (EOG)**, **Encana (ECA)**, **Devon Energy (DVN)** and **Cenovus (CVE)**. McDep Ratios for the six stocks range from of 0.42 to 0.75 (see Tables 1-3 on pages 3-5). After perhaps bottoming last week on a seasonal basis, enterprise values compared to the 52-week high for the six range from 0.60 to 0.87 (see Table 4 on page 6).

### North American Natural Gas Headed for China

Encana, the largest natural gas producer in Canada and second largest in North America is challenged to find markets for all the gas it has found since it popularized the designation unconventional natural gas resource. Management updated investors on one of its initiatives, exporting to China, on a conference call on October 4. A final investment decision is expected in the first quarter next year on building a liquefaction plant and export terminal at Kitimat, British Columbia. China expects to more than triple natural gas use by 2020 to 35 billion cubic feet daily, which would still be just 10% of China's energy market (see slides on page 2). Natural gas volume is twice that today in the U.S. where it accounts for about a third of a smaller U.S. energy market.

Liquefied natural gas trades in Asia near the oil equivalent, which is about three times the current quote for natural gas in North America. U.S. crude oil for the next six years is quoted at \$88 a barrel, up \$5 from a week ago and below the 40-week average of \$98. Natural gas for six years settled at \$4.94 a million btu, down 0.13 from a week ago and also below the 40-week average at \$5.39 (see chart Six-Year and One-Year Natural Gas and Oil Futures on page 8).

Kurt H. Wulff, CFA







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<b>McDep Large Cap Energy Stocks</b>								
<b>Net Present Value and McDep Ratio</b>								
			<i>Price</i>			<i>Net</i>		
	<i>Symbol/Rating</i>		<i>(US\$/sh)</i>	<i>Shares</i>	<i>Market</i>	<i>Present</i>	<i>Debt/</i>	
	<i>B = Buy, CB (see below)</i>		<i>10-Oct</i>	<i>(mm)</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	<i>McDep</i>
			<i>2011</i>		<i>(US\$mm)</i>	<i>(US\$/sh)</i>	<i>Value</i>	<i>Ratio</i>
<b>U.S. Integrated</b>								
Exxon Mobil Corporation	XOM	CB	76.28	4,912	375,000	112.00	0.11	0.72
ConocoPhillips	COP	CB	66.95	1,380	92,000	119.00	0.20	0.65
Chevron Corporation	CVX	CB	98.20	2,009	197,000	170.00	0.07	0.61
<i>Total or Median</i>					<i>664,000</i>		<i>0.11</i>	<i>0.65</i>
<b>Europe</b>								
BG Group plc	BRGXF		20.60	3,410	70,300	25.00	0.15	0.85
Royal Dutch Shell plc	RDS-A	CB	66.22	3,114	206,000	96.00	0.18	0.74
Statoil ASA (33%)	STO	CB	23.68	1,050	24,900	44.00	0.20	0.63
Total S.A.	TOT	CB	48.98	2,256	111,000	100.00	0.16	0.57
BP plc	BP		38.31	3,186	122,000	93.00	0.23	0.55
<i>Total or Median</i>					<i>534,000</i>		<i>0.18</i>	<i>0.63</i>
<b>Brazil/Russia/Australia/China</b>								
Woodside Petroleum Ltd.	WOPEY		36.00	787	28,300	45.00	0.16	0.83
CNOOC Limited (36%)	CEO		175.76	162	28,400	250.00	0.01	0.70
PetroChina Company Ltd (14%)	PTR	CB	120.64	256	30,900	210.00	0.16	0.64
Petrobras	PBR	CB	23.56	6,513	153,500	62.00	0.13	0.46
Gazprom (50%)	OGZPY	CB	9.80	5,750	56,400	28.00	0.08	0.40
Lukoil Oil Company	LUKOY	CB	53.00	802	42,500	150.00	0.03	0.38
<i>Total or Median</i>					<i>340,000</i>		<i>0.11</i>	<i>0.55</i>
<b>U.S. Independent</b>								
Chesapeake Energy Corp.	CHK		26.75	751	20,100	33.00	0.38	0.88
Southwestern Energy Company	SWN		35.43	350	12,400	42.00	0.09	0.86
Anadarko Petroleum Corp.	APC		67.58	500	33,800	90.00	0.32	0.83
Occidental Petroleum Corp.	OXY	CB	81.66	813	66,400	123.00	0.07	0.69
EOG Resources, Inc.	EOG	CB	79.41	250	19,900	130.00	0.13	0.66
Devon Energy Corporation	DVN	CB	58.76	423	24,900	112.00	0.10	0.57
Marathon Oil Corporation	MRO	CB	23.90	717	17,140	54.00	0.12	0.51
<i>Total or Median</i>					<i>194,600</i>		<i>0.12</i>	<i>0.69</i>
<b>Canada</b>								
Cenovus Energy Inc.	CVE	CB	34.31	758	26,000	49.00	0.15	0.75
Imperial Oil Limited (30%)	IMO	CB	37.84	256	9,700	62.00	0.09	0.64
Penn West Exploration	PWE		15.10	467	7,000	31.00	0.21	0.59
EnCana Corporation	ECA	CB	19.64	739	14,500	51.00	0.23	0.52
Suncor Energy	SU	CB	28.15	1,587	44,700	64.00	0.11	0.50
Canadian Oil Sands Limited	COSWF	CB	20.25	485	9,800	52.00	0.05	0.42
<i>Total or Median</i>					<i>112,000</i>		<i>0.13</i>	<i>0.56</i>

CB=Contrarian Buy, Stock Price may in downtrend compared to 200-day average.  
 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\$100 a barrel and natural gas, \$8 a million btu.



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Table 3								
McDep Large Cap Energy Stocks								
Value Multiples and Distribution Yield								
			Price (US\$/sh)	Adjustd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	P/E	Divd or Distrib
	Symbol/Rating		10-Oct	NTM	NTM	NTM	NTM	NTM
	B = Buy, CB (see below)		2011					(%)
<b>U.S. Integrated</b>								
Exxon Mobil Corporation	XOM	CB	76.28	14.1	7.9	5.7	10	2.5
ConocoPhillips	COP	CB	66.95	12.0	8.1	5.3	10	3.9
Chevron Corporation	CVX	CB	98.20	8.5	7.2	4.4	8	3.2
	<i>Total or Median</i>			12.0	7.9	5.3	10	3.2
<b>Europe</b>								
BG Group plc	BRGXF		20.60	17.1	10.2	8.7	16	1.1
Royal Dutch Shell plc	RDS-A	CB	66.22	9.0	7.1	5.3	9	5.1
BP plc	BP		38.31	11.1	8.6	4.7	6	4.4
Statoil ASA (33%)	STO	CB	23.68	6.8	7.2	4.6	9	4.6
Total S.A.	TOT	CB	48.98	9.9	7.8	4.5	7	6.4
	<i>Total or Median</i>			9.9	7.8	4.7	9	4.6
<b>Brazil/Russia/Australia/China</b>								
Woodside Petroleum Ltd.	WOPEY		36.00	20.3	10.6	8.8	16	3.1
Petrobras	PBR	CB	23.56	13.5	11.8	5.4	8	5.4
PetroChina Company Ltd (14%)	PTR	CB	120.64	13.1	7.3	4.7	10	4.5
CNOOC Limited (36%)	CEO		175.76	6.9	5.9	4.2	7	3.7
Lukoil Oil Company	LUKOY	CB	53.00	16.4	6.7	2.5	4	3.5
Gazprom (50%)	OGZPY	CB	9.80	30.2	5.6	2.3	3	3.1
	<i>Total or Median</i>			14.9	7.0	4.4	8	3.6
<b>U.S. Independent</b>								
Southwestern Energy Company	SWN		35.43	7.5	12.0	10.3	21	-
Chesapeake Energy Corp.	CHK		26.75	10.5	11.4	10.0	9	1.3
Anadarko Petroleum Corp.	APC		67.58	7.2	8.5	7.1		0.5
Occidental Petroleum Corp.	OXY	CB	81.66	11.5	8.8	6.1	12	2.3
Devon Energy Corporation	DVN	CB	58.76	10.2	9.8	5.6	11	1.2
EOG Resources, Inc.	EOG	CB	79.41	9.2	8.1	5.4	20	0.8
Marathon Oil Corporation	MRO	CB	23.90	10.3	7.2	3.6	9	2.5
	<i>Total or Median</i>			10.2	8.8	6.1	11	1.2
<b>Canada</b>								
Cenovus Energy Inc.	CVE	CB	34.31	22.3	12.0	9.0	22	2.3
Imperial Oil Limited (30%)	IMO	CB	37.84	42.9	12.9	8.3	13	1.1
EnCana Corporation	ECA	CB	19.64	11.9	14.1	7.4	71	4.1
Penn West Exploration	PWE		15.10	8.5	11.0	6.5	11	7.0
Canadian Oil Sands Limited	COSWF	CB	20.25	25.8	12.1	5.1	8	5.8
Suncor Energy	SU	CB	28.15	25.2	10.1	5.1	13	1.5
	<i>Total or Median</i>			23.8	12.1	6.9	13	3.2
CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average.								
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2012; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



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Table 4									
McDep Large Cap Energy Stocks									
Rank by Enterprise Value to 200 Day Average									
			Price						
			(\$/sh)	Enterprise Value/					
	Symbol		10-Oct	52Wk	52Wk	50 Day	200 Day	McDep	
	Rating		2011	High	Low	Avg.	Avg.	Ratio	
<b>U.S. Integrated</b>									
	Chevron Corporation	CVX	CB	98.20	0.91	1.19	1.02	0.98	0.61
	Exxon Mobil Corporation	XOM	CB	76.28	0.88	1.16	1.04	0.96	0.72
	ConocoPhillips	COP	CB	66.95	0.87	1.10	1.01	0.95	0.65
	<i>Median</i>			<i>0.88</i>	<i>1.16</i>	<i>1.02</i>	<i>0.96</i>	<i>0.65</i>	
<b>Europe</b>									
	Statoil ASA (33%)	STO	CB	23.68	0.85	1.12	1.04	0.97	0.63
	Royal Dutch Shell plc	RDS-A	CB	66.22	0.88	1.11	1.02	0.97	0.74
	BG Group plc	BRGXF		103.01	0.82	1.14	1.01	0.93	0.85
	BP plc	BP		38.31	0.85	1.08	1.00	0.92	0.55
	Total S.A.	TOT	CB	48.98	0.81	1.15	1.04	0.92	0.57
	<i>Median</i>			<i>0.85</i>	<i>1.13</i>	<i>1.02</i>	<i>0.95</i>	<i>0.64</i>	
<b>Brazil/Russia/Australia/China</b>									
	PetroChina Company Ltd (14%)	PTR	CB	120.64	0.81	1.06	0.98	0.91	0.64
	Woodside Petroleum Ltd.	WOPEY		36.00	0.73	1.18	1.01	0.87	0.83
	Lukoil Oil Company	LUKOY	CB	53.00	0.72	1.19	0.95	0.85	0.38
	CNOOC Limited (36%)	CEO		175.76	0.65	1.24	0.97	0.79	0.70
	Petrobras	PBR	CB	23.56	0.63	1.09	0.91	0.76	0.46
	Gazprom (50%)	OGZPY	CB	9.80	0.62	1.11	0.89	0.76	0.40
	<i>Median</i>			<i>0.68</i>	<i>1.14</i>	<i>0.96</i>	<i>0.82</i>	<i>0.55</i>	
<b>U.S. Independent</b>									
	Anadarko Petroleum Corp.	APC		67.58	0.86	1.12	0.97	0.93	0.83
	Chesapeake Energy Corp.	CHK		26.75	0.84	1.14	0.94	0.92	0.88
	Southwestern Energy Company	SWN		40.70	0.74	1.13	0.96	0.90	0.86
	Occidental Petroleum Corp.	OXY	CB	81.66	0.71	1.20	0.99	0.86	0.69
	EOG Resources, Inc.	EOG	CB	79.41	0.70	1.14	0.93	0.82	0.66
	Devon Energy Corporation	DVN	CB	58.76	0.67	1.13	0.93	0.78	0.57
	Marathon Oil Corporation	MRO	CB	23.90					0.51
	<i>Median</i>			<i>0.73</i>	<i>1.13</i>	<i>0.95</i>	<i>0.88</i>	<i>0.69</i>	
<b>Canada</b>									
	Cenovus Energy Inc.	CVE	CB	34.31	0.87	1.20	1.01	0.97	0.75
	Imperial Oil Limited (30%)	IMO	CB	37.84	0.71	1.15	0.97	0.85	0.64
	Suncor Energy	SU	CB	28.15	0.64	1.18	0.95	0.77	0.50
	EnCana Corporation	ECA	CB	19.64	0.69	1.06	0.90	0.77	0.52
	Canadian Oil Sands Limited	COSWF	CB	19.58	0.60	1.16	0.92	0.75	0.42
	Penn West Exploration	PWE		15.10	0.63	1.12	0.89	0.73	0.59
	<i>Median</i>			<i>0.69</i>	<i>1.15</i>	<i>0.95</i>	<i>0.77</i>	<i>0.59</i>	
CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average.									



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Index of Recent Research			
<b>Stock Ideas</b>			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
3-Oct	STO	Statoil	Giant North Sea Oil Discovery (Meter Reader)
7-Oct	BIREF	Birchcliff Energy	Seeks Offers to Acquire the Company (ISCW)
30-Sep	RRC, WLL, XEC, LINE, LGCY		5 Ideas from IPAA San Francisco
23-Sep	SJT, HGT	San Juan Basin RT, Hugoton RT	Transfer Buy to SJT from HGT (Income and Small Cap Wkly)
16-Sep	FRHLF, PBT, SBR, DMLP, CRT		Volume Upside in Top Line Cash Payers (Income and Small Cap)
13-Sep	EOG	EOG Resources	Horizontal Leads Renewed U.S. Oil Growth (Meter Reader)
6-Sep	LUKOY	Lukoil	Capitalist Success with Upside (Meter Reader)
2-Sep	XEC	Cimarex Energy	Solid Company, Bouncy Stock (Income and Small Cap Weekly)
30-Aug	PTR	PetroChina	China Growth at Low Stock Market Value (Meter Reader)
23-Aug	PBR	Petrobras	Product Price Controls Delay Cash Growth (Meter Reader)
19-Aug	DMLP	Dorchester Minerals, L.P.	Preferred Risk 7% Income with Oil and Gas Upside (ISCW)
16-Aug	COSWF	Canadian Oil Sands Limited	Undervalued Laggard (Meter Reader)
9-Aug	HK	Petrohawk	Discontinue on Pending Acquisition at NPV Premium (ISCW)
9-Aug	RRC	Range Resources	Raise NPV to \$70 from \$60 a Share (Income and Small Cap)
2-Aug	CVX	Chevron	Raise NPV to \$170 from \$154 on Cash Flow Margin
2-Aug	TOT	Total	Lower NPV to \$100 from \$111 on Cash Flow Margin (MReader)
27-Jul	APC	Anadarko Petroleum	Raise NPV to \$90 from \$78 on Oil Growth
26-Jul	ECA	Encana	High Margin at Low Natural Gas Price (Meter Reader)
19-Jul	COP	ConocoPhillips	Downstream Spinoff Promises to Unlock Value (Meter Reader)
5-Jul	DVN	Devon Energy	Thermal Oil Growth in Canada (Meter Reader)
28-Jun	MRO	Marathon Oil	Buy New U.S. Independent Producer (Meter Reader)
21-Jun	WOPEY	Woodside Petroleum	Remove Buy on Costs and Delay (Meter Reader)
17-Jun	PEYUF	Peyto Exploration	Update Growth (Income and Small Cap)
14-Jun	CVE	Cenovus Energy	Accelerating Deep Oil Sands (Meter Reader)
7-Jun	IMO	Imperial Oil	Double Oil Production by 2020 (Meter Reader)
31-May	OXY	Occidental Petroleum	Triple California Oil Production by 2020 (Meter Reader)
22-Apr	ERF	Enerplus Corporation	New Buy - Bakken and Marcellus with 7% Income (ISCW)
29-Mar	XOM	Exxon Mobil	Natural Gas Enhanced by Nuclear (Meter Reader)
22-Feb	OGZPY	Gazprom	Nearer Accord on Natural Gas to China (Meter Reader)
For historical research by stock, go to <a href="http://mcdep.com">mcdep.com</a> , click on <a href="#">Stock Ideas</a> , click on stock by name.			
<b>Meter Reader</b>			
3-Oct	STO	Statoil	Giant North Sea Oil Discovery
27-Sep			Stocks Pricing Long-Term Oil at \$60 a Barrel?
20-Sep			20% More Oil for the Buck
13-Sep	EOG	EOG Resources	Horizontal Leads Renewed U.S. Oil Growth
For earlier editions, go to <a href="http://mcdep.com">mcdep.com</a> , click on <a href="#">Meter Reader</a> .			
<b>Income and Small Cap Weekly</b>			
7-Oct	BIREF	Birchcliff Energy	Seeks Offers to Acquire the Company
30-Sep	RRC, WLL, XEC, LINE, LGCY		5 Ideas from IPAA San Francisco
23-Sep	SJT, HGT	San Juan Basin RT, Hugoton RT	Transfer Buy to SJT from HGT
16-Sep	FRHLF, PBT, SBR, DMLP, CRT		Volume Upside in Top Line Cash Payers
For earlier editions, go to <a href="http://mcdep.com">mcdep.com</a> , click on <a href="#">Energy Income</a> .			
<b>Industry Ideas</b>			
10-Oct	China Buys More Oil and Gas in Canada		Sinopec Bids for Daylight Energy

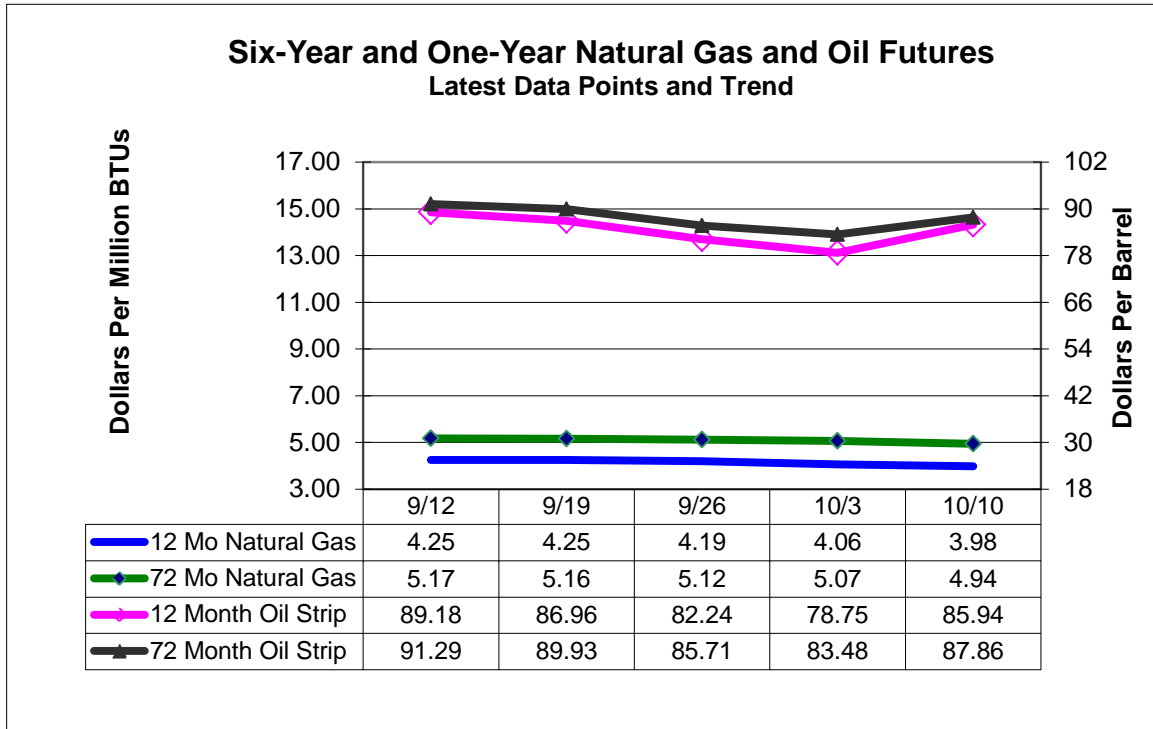




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**Disclaimer:** This analysis was prepared by Kurt Wulff, Manager of McDep LLC. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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.