



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

November 8, 2011

## U.S. Independent Shale Buys Devon, EOG, Oxy and Marathon

### Summary and Recommendation

As shale fracking unlocks abundant energy supply, large cap U.S. independent producers leading the way include our four buy recommendations **Devon Energy (DVN)**, **EOG Resources (EOG)**, **Marathon Oil (MRO)** and **Occidental Petroleum (OXY)**. Trading at McDep Ratios ranging from 0.57 to 0.81 the stocks offer strong appreciation potential on currently proven reserves without much explicit recognition of unfolding new promise (see [Tables ISC-1 to ISC -2](#) on pages 2 to 3). Low cash flow multiples (EV/Ebitda) ranging from 3.4 to 6.3 times corroborate the attractive valuation for new investment (see [Table 3](#) on page 4). Stock price highs in the past year that may be exceeded in an improving stock market provide another measure of possible gain with the ratio of enterprise value to 52-week high ranging from 0.74 to 0.86 ([Table 4](#) on page 5). Latest quarterly results support estimates of Net Present Value (NPV) of 112, 130, 54 and 123 a share for DVN, EOG, MRO and OXY respectively (see tables [Functional Cash Flow and Present Value](#) and [Next Twelve Months Operating and Financial Results](#) on pages 6-9). Each of the four buys has a leading position in one or more active shale plays and seeks to find new ones that continue to appear. Since shale formations are associated with most conventional oil and gas formations, the shale plays are showing up in almost any area with historical production.

Applied first to natural gas prospects, shale fracking has contributed new supply faster than demand can follow resulting in a steep discount for natural gas price compared to oil. U.S. natural gas for delivery over the next six years settled at \$4.92 a million btu, equivalent to an oil price of \$30 a barrel (see chart [Six-Year and One-Year Natural Gas and Oil Futures](#) on page 11). Yet the futures price for oil over the same six-year period settled at \$93 a barrel, more than three times the heating value of natural gas. Such an unprecedented bargain is a boon to the economy and is discrediting the political emphasis on alternative energy from solar and wind. Though not as cheap as today, we see natural gas continuing as a relative bargain at a long-term price of \$8 compared to oil at \$100, which are the assumptions in our estimates of NPV. To the extent that even \$8 may seem high we see volume making up the difference from new shale gas resources and/or existing resources exceeding conservatively estimated proven reserves.

Nor are we especially concerned about political opposition to oil and gas, much of it ill-informed. The main effect is a tendency to drive up oil price as government policy restricts oil supply and subsidizes demand with free money. In that context, it was a surprise to learn that the governor of California, a Democrat, on November 3 replaced the official in charge of drilling permits who had been obstructing development according to *Bloomberg*. Oxy may now get on with its plans to triple its California oil production as it drills the Monterey shale.

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>(US\$/sh)</i>		<i>Market</i>	<i>Present</i>	<i>Debt/</i>	
	<i>Symbol/Rating</i>		<i>7-Nov</i>	<i>Shares</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	<i>McDep</i>
	B = Buy, CB (see below)		<i>2011</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	CB	79.35	4,843	384,000	112.00	0.12	0.74
ConocoPhillips	COP	CB	71.58	1,352	97,000	119.00	0.21	0.68
Chevron Corporation	CVX	B	107.72	1,999	215,000	170.00	0.07	0.66
<i>Total or Median</i>					<i>696,000</i>		<i>0.12</i>	<i>0.68</i>
<b>Europe</b>								
BG Group plc	BRGXF		22.26	3,412	76,000	25.00	0.16	0.91
Royal Dutch Shell plc	RDS-A	B	70.51	3,124	220,000	102.00	0.16	0.74
Statoil ASA (33%)	STO	B	26.10	1,050	27,400	44.00	0.22	0.68
BP plc	BP		44.00	3,170	140,000	85.00	0.25	0.64
Total S.A.	TOT	CB	51.32	2,261	116,000	100.00	0.15	0.59
<i>Total or Median</i>					<i>579,000</i>		<i>0.16</i>	<i>0.68</i>
<b>Brazil/Russia/Australia/China</b>								
Woodside Petroleum Ltd.	WOPEY		37.40	787	29,400	45.00	0.16	0.86
CNOOC Limited (36%)	CEO		196.08	162	31,700	250.00	0.01	0.79
PetroChina Company Ltd (14%)	PTR	CB	131.80	256	33,800	210.00	0.17	0.69
Petrobras	PBR	CB	28.29	6,513	184,300	62.00	0.13	0.53
Gazprom (50%)	OGZPY	CB	12.09	5,750	69,500	28.00	0.08	0.48
Lukoil Oil Company	LUKOY	CB	59.20	802	47,500	150.00	0.03	0.42
<i>Total or Median</i>					<i>396,000</i>		<i>0.11</i>	<i>0.61</i>
<b>U.S. Independent</b>								
Southwestern Energy Company	SWN		41.97	350	14,700	42.00	0.09	1.00
Anadarko Petroleum Corp.	APC		82.55	498	41,100	90.00	0.30	0.94
Chesapeake Energy Corp.	CHK		26.84	753	20,200	33.00	0.40	0.89
Occidental Petroleum Corp.	OXY	B	98.52	813	80,100	123.00	0.06	0.81
EOG Resources, Inc.	EOG	B	101.17	263	26,600	130.00	0.13	0.81
Devon Energy Corporation	DVN	CB	65.88	415	27,300	112.00	0.12	0.63
Marathon Oil Corporation	MRO	CB	27.52	714	19,650	54.00	0.12	0.57
<i>Total or Median</i>					<i>229,700</i>		<i>0.12</i>	<i>0.81</i>
<b>Canada</b>								
Cenovus Energy Inc.	CVE	CB	34.34	758	26,000	49.00	0.15	0.75
Imperial Oil Limited (30%)	IMO	CB	41.92	256	10,700	62.00	0.09	0.70
Penn West Exploration	PWE		18.35	469	8,600	31.00	0.22	0.68
EnCana Corporation	ECA	CB	21.33	738	15,700	46.00	0.24	0.59
Suncor Energy	SU	CB	32.91	1,582	52,100	64.00	0.12	0.57
Canadian Oil Sands Limited	COSWF	CB	22.29	485	10,800	52.00	0.06	0.46
<i>Total or Median</i>					<i>124,000</i>		<i>0.13</i>	<i>0.64</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	Adjustd				Divd or	
			(US\$/sh)	Resrvs/	PV/	EV/		Distrib	
	Symbol/Rating		7-Nov	Prod	Ebitda	Ebitda	P/E	NTM	
	B = Buy, CB (see below)		2011	NTM	NTM	NTM	NTM	(%)	
<b>U.S. Integrated</b>									
	Exxon Mobil Corporation	XOM	CB	79.35	14.3	7.3	5.4	9	2.4
	ConocoPhillips	COP	CB	71.58	12.6	7.6	5.2	9	3.7
	Chevron Corporation	CVX	B	107.72	8.8	6.5	4.3	8	3.0
	<i>Total or Median</i>				12.6	7.3	5.2	9	3.0
<b>Europe</b>									
	BG Group plc	BRGXF		22.26	17.0	10.0	9.0	16	1.0
	BP plc	BP		44.00	11.4	7.3	4.6	6	3.8
	Royal Dutch Shell plc	RDS-A	B	70.51	9.0	6.2	4.6	8	4.8
	Statoil ASA (33%)	STO	B	26.10	6.6	6.2	4.2	9	4.3
	Total S.A.	TOT	CB	51.32	9.9	7.1	4.1	7	6.1
	<i>Total or Median</i>				9.9	7.1	4.6	8	4.3
<b>Brazil/Russia/Australia/China</b>									
	Woodside Petroleum Ltd.	WOPEY		37.40	20.6	8.9	7.7	13	2.9
	Petrobras	PBR	CB	28.29	13.5	10.9	5.7	8	4.5
	PetroChina Company Ltd (14%)	PTR	CB	131.80	13.4	6.6	4.6	8	4.1
	CNOOC Limited (36%)	CEO		196.08	6.9	5.4	4.2	7	3.3
	Gazprom (50%)	OGZPY	CB	12.09	30.2	5.5	2.6	3	2.6
	Lukoil Oil Company	LUKOY	CB	59.20	16.4	6.3	2.6	4	3.3
	<i>Total or Median</i>				14.9	6.4	4.4	8	3.3
<b>U.S. Independent</b>									
	Southwestern Energy Company	SWN		41.97	7.3	12.2	12.2	24	-
	Chesapeake Energy Corp.	CHK		26.84	10.0	10.1	9.0	9	1.3
	Anadarko Petroleum Corp.	APC		82.55	7.2	7.7	7.2		0.4
	EOG Resources, Inc.	EOG	B	101.17	9.1	7.8	6.3	23	0.6
	Occidental Petroleum Corp.	OXY	B	98.52	11.1	7.3	5.9	12	1.9
	Devon Energy Corporation	DVN	CB	65.88	10.2	8.8	5.6	10	1.0
	Marathon Oil Corporation	MRO	CB	27.52	9.8	6.1	3.4	7	2.2
	<i>Total or Median</i>				9.8	7.8	6.3	11	1.0
<b>Canada</b>									
	Cenovus Energy Inc.	CVE	CB	34.34	21.3	11.7	8.8	24	2.3
	Imperial Oil Limited (30%)	IMO	CB	41.92	43.3	12.2	8.6	13	1.0
	EnCana Corporation	ECA	CB	21.33	12.3	13.2	7.8	47	3.8
	Penn West Exploration	PWE		18.35	8.6	10.3	7.1	15	5.8
	Suncor Energy	SU	CB	32.91	24.5	9.7	5.5	9	1.3
	Canadian Oil Sands Limited	COSWF	CB	22.29	26.5	11.1	5.1	8	5.3
	<i>Total or Median</i>				22.9	11.4	7.4	14	3.0
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						
	Symbol		(\$/sh)	Enterprise Value/					
			7-Nov	52Wk	52Wk	50 Day	200 Day	McDep	
		Ratin,	2011	High	Low	Avg.	Avg.	Ratio	
<b>U.S. Integrated</b>									
	Chevron Corporation	CVX	B	107.72	0.98	1.30	1.08	1.06	0.66
	ConocoPhillips	COP	CB	71.58	0.91	1.14	1.05	0.99	0.68
	Exxon Mobil Corporation	XOM	CB	79.35	0.91	1.15	1.05	0.99	0.74
	<i>Median</i>			<i>0.91</i>	<i>1.15</i>	<i>1.05</i>	<i>0.99</i>	<i>0.68</i>	
<b>Europe</b>									
	Statoil ASA (33%)	STO	B	26.10	0.92	1.19	1.08	1.03	0.68
	Royal Dutch Shell plc	RDS-A	B	70.51	0.92	1.16	1.05	1.01	0.74
	BP plc	BP		44.00	0.93	1.17	1.07	1.01	0.64
	BG Group plc	BRGXF		111.30	0.88	1.22	1.07	0.99	0.91
	Total S.A.	TOT	CB	51.32	0.84	1.20	1.05	0.95	0.59
	<i>Median</i>			<i>0.91</i>	<i>1.18</i>	<i>1.06</i>	<i>1.00</i>	<i>0.68</i>	
<b>Brazil/Russia/Australia/China</b>									
	PetroChina Company Ltd (14%)	PTR	CB	131.80	0.87	1.13	1.05	0.98	0.69
	Lukoil Oil Company	LUKOY	CB	59.20	0.79	1.31	1.07	0.95	0.42
	Gazprom (50%)	OGZPY	CB	12.09	0.73	1.31	1.10	0.91	0.48
	CNOOC Limited (36%)	CEO		196.08	0.72	1.38	1.11	0.91	0.79
	Woodside Petroleum Ltd.	WOPEY		37.40	0.76	1.22	1.05	0.90	0.86
	Petrobras	PBR	CB	28.29	0.72	1.25	1.08	0.89	0.53
	<i>Median</i>			<i>0.74</i>	<i>1.28</i>	<i>1.08</i>	<i>0.91</i>	<i>0.61</i>	
<b>U.S. Independent</b>									
	Anadarko Petroleum Corp.	APC		82.55	0.98	1.27	1.09	1.06	0.94
	Southwestern Energy Company	SWN		43.96	0.86	1.32	1.10	1.04	1.00
	Occidental Petroleum Corp.	OXY	B	98.52	0.85	1.43	1.17	1.03	0.81
	EOG Resources, Inc.	EOG	B	101.17	0.86	1.40	1.15	1.01	0.81
	Chesapeake Energy Corp.	CHK		26.84	0.84	1.13	0.96	0.93	0.89
	Devon Energy Corporation	DVN	CB	65.88	0.74	1.23	1.05	0.87	0.63
	Marathon Oil Corporation	MRO	CB	27.52					0.57
	<i>Median</i>			<i>0.85</i>	<i>1.29</i>	<i>1.09</i>	<i>1.02</i>	<i>0.81</i>	
<b>Canada</b>									
	Cenovus Energy Inc.	CVE	CB	34.34	0.87	1.20	1.02	0.97	0.75
	Imperial Oil Limited (30%)	IMO	CB	41.92	0.78	1.26	1.07	0.93	0.70
	Suncor Energy	SU	CB	32.91	0.73	1.33	1.09	0.89	0.57
	Penn West Exploration	PWE		18.35	0.72	1.28	1.06	0.86	0.68
	Canadian Oil Sands Limited	COSWF	CB	22.27	0.66	1.26	1.02	0.83	0.46
	EnCana Corporation	ECA	CB	21.33	0.72	1.11	0.99	0.82	0.59
	<i>Median</i>			<i>0.73</i>	<i>1.26</i>	<i>1.06</i>	<i>0.89</i>	<i>0.68</i>	
CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average.									



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Devon Energy					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
North American Natural Gas	2,340	9.8	12.4	29,000	55%
Oil	3,630	10.9	6.5	23,600	45%
	5,970	10.2	8.8	52,600	100%
Debt (US\$mm)					6,100
Net Present Value (US\$mm)					46,500
Shares (mm)					415
Net Present Value - Standard Estimate (US\$/sh)					112
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					118

Devon Energy									
Next Twelve Months Operating and Financial Results									
	Q3	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	Next
	9/30/10	6/30/11	9/30/11	12/31/11	2011E	3/31/12	6/30/12	9/30/12	Twelve
									Months
									9/30/12
<b>Volume</b>									
Natural Gas (mmcf)									
U.S.	1,942	2,029	2,028	2,028	<b>2,012</b>	2,028	2,028	2,028	<b>2,028</b>
Canada	582	612	580	580	<b>585</b>	580	580	580	<b>580</b>
Total	2,524	2,641	2,608	2,608	<b>2,598</b>	2,608	2,608	2,608	<b>2,608</b>
Oil (mbd)	193	220	226	226	<b>220</b>	226	226	226	<b>226</b>
Total gas & oil (bcf)	339	360	365	365	<b>1,430</b>	361	361	365	<b>1,451</b>
Total gas & oil (mmb)	56	60	61	61	<b>238</b>	60	60	61	<b>242</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	4.38	4.32	4.19	3.66	<b>4.07</b>	3.80	3.83	3.94	<b>3.81</b>
U.S.	3.65	3.72	3.76	3.28	<b>3.57</b>	3.41	3.36	3.45	<b>3.37</b>
Canada	3.72	4.08	3.93	3.43	<b>3.87</b>	3.56	3.59	3.69	<b>3.57</b>
Total	3.67	3.80	3.80	3.31	<b>3.63</b>	3.44	3.41	3.50	<b>3.42</b>
Oil (\$/bbl)									
WTI Cushing	76.08	102.55	89.76	92.50	<b>94.73</b>	95.42	95.27	95.07	<b>94.56</b>
Worldwide	46.90	64.32	58.12	59.90	<b>59.57</b>	61.78	61.68	61.56	<b>61.23</b>
Total gas & oil (\$/mcf)	4.97	6.11	5.81	5.60	<b>5.75</b>	5.79	5.76	5.81	<b>5.74</b>
<b>Revenue (\$mm)</b>									
Natural Gas									
U.S.	652	687	702	612	<b>2,619</b>	629	619	643	<b>2,504</b>
Canada	199	227	210	183	<b>826</b>	188	189	197	<b>757</b>
Total	851	914	911	795	<b>3,445</b>	817	809	840	<b>3,262</b>
Oil	831	1,288	1,210	1,246	<b>4,782</b>	1,272	1,270	1,281	<b>5,069</b>
Total	1,683	2,202	2,121	2,042	<b>8,227</b>	2,089	2,079	2,121	<b>8,331</b>
<b>Expense</b>									
591	560	583	580	<b>2,263</b>	593	590	602		<b>2,365</b>
<b>Ebitda (\$mm)</b>	1,092	1,642	1,538	1,462	<b>5,964</b>	1,496	1,488	1,519	<b>5,965</b>
Deprec., Deplet., & Amort.	484	573	566	566	<b>2,234</b>	566	566	566	<b>2,264</b>
Hedging and other	(354)	(129)	(115)	(155)	<b>(573)</b>	(200)	(205)	(184)	<b>(744)</b>
<b>Ebit</b>	962	1,198	1,087	1,051	<b>4,303</b>	1,130	1,128	1,137	<b>4,446</b>
Interest	83	85	104	104	<b>374</b>	104	104	104	<b>416</b>
<b>Ebt</b>	879	1,113	983	947	<b>3,929</b>	1,026	1,024	1,033	<b>4,030</b>
Income Tax	308	389	344	331	<b>1,375</b>	359	358	362	<b>1,410</b>
<b>Net Income (\$mm)</b>	571	723	639	616	<b>2,554</b>	667	665	671	<b>2,619</b>
Shares (millions)	436	423	415	415	<b>421</b>	415	415	415	<b>415</b>
Per Share (\$)	1.31	1.71	1.54	1.48	<b>6.07</b>	1.61	1.60	1.62	<b>6.31</b>
Ebitda Margin	65%	75%	73%	72%	<b>72%</b>	72%	72%	72%	<b>72%</b>
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	<b>35%</b>



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Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
North American Natural Gas	1,170	12.7	13.7	16,000	41%
Rest of World Natural Gas	310	5.4	5.2	1,600	4%
Oil	3,620	6.2	6.0	21,800	55%
	5,100	9.1	7.7	39,400	100%
Debt (US\$mm)					5,200
Net Present Value (US\$mm)					34,200
Shares (mm)					263
Net Present Value - Standard Estimate (US\$/sh)					130
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					137

EOG Resources Inc.									
Next Twelve Months Operating and Financial Estimates									
	Q3	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	Next
	9/30/10	6/30/11	9/30/11	12/31/11	2011E	3/31/12	6/30/12	9/30/12	Twelve
									Months
									9/30/12
<b>Volume</b>									
Natural Gas (mmcf)									
U.S.	1,175	1,114	1,122	1,122	<b>1,123</b>	1,122	1,122	1,122	<b>1,122</b>
Canada	200	139	123	123	<b>132</b>	123	123	123	<b>123</b>
Overseas	347	362	342	342	<b>361</b>	342	342	342	<b>342</b>
Total	1,722	1,615	1,587	1,587	<b>1,616</b>	1,587	1,587	1,587	<b>1,587</b>
Oil (mbd)	109	144	158	174	<b>151</b>	174	174	191	<b>178</b>
Total gas & oil (bcf)	219	225	233	242	<b>921</b>	239	239	252	<b>972</b>
Total gas & oil (mmcf)	2,378	2,477	2,535	2,630	<b>2,524</b>	2,630	2,630	2,734	<b>2,656</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	4.38	4.32	4.19	3.66	<b>4.07</b>	3.80	3.83	3.94	<b>3.81</b>
U.S.	4.21	4.24	4.06	3.54	<b>3.98</b>	3.68	3.71	3.81	<b>3.69</b>
Canada	3.42	4.16	3.81	3.54	<b>3.80</b>	3.68	3.71	3.81	<b>3.69</b>
Overseas	2.63	3.56	3.64	3.64	<b>3.52</b>	3.64	3.64	3.64	<b>3.64</b>
Total	3.80	4.08	3.95	3.56	<b>3.87</b>	3.67	3.69	3.77	<b>3.68</b>
Oil (\$/bbl)									
WTI Cushing	76.08	102.55	89.76	92.50	<b>94.73</b>	95.42	95.27	95.07	<b>94.56</b>
Worldwide	60.95	86.67	75.86	78.18	<b>79.21</b>	80.64	80.51	80.35	<b>79.93</b>
Total gas & oil (\$/mcf)	5.55	7.69	7.20	7.32	<b>7.23</b>	7.55	7.55	7.81	<b>7.56</b>
<b>Revenue (\$mm)</b>									
Natural Gas									
U.S.	455	430	419	366	<b>1,633</b>	376	379	393	<b>1,514</b>
Canada	63	53	43	40	<b>183</b>	41	42	43	<b>166</b>
Overseas	84	117	115	115	<b>464</b>	113	113	115	<b>456</b>
Total	602	600	577	520	<b>2,280</b>	530	533	551	<b>2,135</b>
Oil	613	1,133	1,102	1,250	<b>4,378</b>	1,275	1,273	1,413	<b>5,211</b>
Total	1,215	1,732	1,679	1,770	<b>6,658</b>	1,806	1,807	1,964	<b>7,346</b>
<b>Expense</b>	454	498	495	553	<b>2,030</b>	564	564	613	<b>2,295</b>
<b>Ebitda (\$mm)</b>	761	1,234	1,184	1,217	<b>4,628</b>	1,242	1,242	1,350	<b>5,051</b>
Exploration	50	43	70	70	<b>346</b>	50	50	50	<b>220</b>
Deprec., Deplet., & Amort.	501	603	652	652	<b>2,475</b>	652	652	652	<b>2,608</b>
Hedging and other	107	78	67	67	<b>156</b>	67	67	67	<b>266</b>
<b>Ebit</b>	103	510	395	429	<b>1,651</b>	473	474	582	<b>1,957</b>
Interest	33	51	52	52	<b>205</b>	52	52	52	<b>208</b>
<b>Ebt</b>	70	459	343	377	<b>1,446</b>	421	422	530	<b>1,749</b>
Income Tax	24	161	120	132	<b>506</b>	147	148	185	<b>612</b>
<b>Net Income (\$mm)</b>	45	299	223	245	<b>940</b>	274	274	344	<b>1,137</b>
<b>Shares (millions)</b>	251	269	269	269	<b>266</b>	269	269	250	<b>263</b>
Per Share (\$)	0.18	1.11	0.83	0.91	<b>3.53</b>	1.02	1.02	1.38	<b>4.32</b>
Ebitda Margin	63%	71%	71%	69%	<b>70%</b>	69%	69%	69%	<b>69%</b>





# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

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Marathon Oil Corporation					
Functional Cash Flow and Present Value					
	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>Ebitda</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
North American Natural Gas	330	6.2	9.7	3,200	7%
Rest of World Natural Gas	220	8.2	7.3	1,600	4%
Oil	6,680	11.1	5.8	39,000	89%
	7,230	9.8	6.1	43,800	100%
Debt					5,200
Net Present Value (\$mm)					38,600
Shares					714
Net Present Value - Standard Estimate (US\$/sh)					54
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					63

Marathon Oil Corporation									
Next Twelve Months Operating and Financial Estimates									
(excludes downstream spinoff, Marathon Petroleum Corporation, after 3/31/11)									
	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next</i>
	<i>3/31/11</i>	<i>6/30/11</i>	<i>9/30/11</i>	<i>12/31/11</i>	<i>2011E</i>	<i>3/31/12</i>	<i>6/30/12</i>	<i>9/30/11</i>	<i>Twelve</i>
									<i>Months</i>
									<i>6/30/12</i>
<b>Volume</b>									
Natural Gas (mmcf)									
U.S. (or North America)	368	315	296	296	<b>318</b>	296	296	296	<b>297</b>
Overseas (or Int'l)	548	516	532	532	<b>532</b>	532	532	532	<b>533</b>
Total	916	831	828	828	<b>850</b>	828	828	828	<b>830</b>
Oil (mbd)	284	239	261	261	<b>261</b>	261	261	261	<b>261</b>
Total gas & oil (mbd)	437	378	399	399	<b>403</b>	399	399	399	<b>399</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	4.11	4.32	4.19	3.66	<b>4.07</b>	3.80	3.83	3.94	<b>3.81</b>
U.S. (or North America)	5.15	5.08	4.85	4.23	<b>4.85</b>	4.40	4.43	4.55	<b>4.40</b>
Overseas (or Int'l)	2.12	2.06	1.67	1.67	<b>1.88</b>	1.67	1.67	1.67	<b>1.67</b>
Total	3.34	3.20	2.81	2.59	<b>2.99</b>	2.65	2.66	2.70	<b>2.65</b>
Oil (\$/bbl)									
WTI Cushing	94.10	102.55	89.76	92.50	<b>94.73</b>	95.42	95.27	95.07	<b>94.56</b>
Worldwide	94.38	104.20	96.95	99.91	<b>98.66</b>	103.06	102.89	102.68	<b>102.13</b>
Total gas & oil (\$/mcf)	11.40	12.17	11.54	11.79	<b>11.71</b>	12.15	12.14	12.13	<b>12.05</b>
<b>Revenue (\$mm)</b>									
Natural Gas									
U.S. (or North America)	171	146	132	115	<b>564</b>	118	119	124	<b>477</b>
Overseas (or Int'l)	105	97	82	82	<b>365</b>	81	81	82	<b>325</b>
Total	275	242	214	197	<b>928</b>	199	200	206	<b>802</b>
Oil	2,412	2,266	2,328	2,399	<b>9,406</b>	2,448	2,444	2,466	<b>9,756</b>
Other	18,383	1,356	1,257		<b>20,997</b>				
Total	21,071	3,865	3,799	2,596	<b>31,331</b>	2,647	2,644	2,671	<b>10,558</b>
<b>Expense</b>	18,074	2,084	2,123	819	<b>23,100</b>	835	834	843	<b>3,330</b>
<b>Ebitda (\$mm)</b>									
Exploration and Production	1,974	1,781	1,676	1,777	<b>7,208</b>	1,812	1,810	1,829	<b>7,228</b>
Other	1,023	-	-		<b>1,023</b>				<b>-</b>
Total Ebitda	2,997	1,781	1,676	1,777	<b>8,231</b>	1,812	1,810	1,829	<b>7,228</b>
Exploration	230	145	129	129	<b>633</b>	125	125	125	<b>504</b>
Deprec., Deplet., & Amort.	852	564	517	517	<b>2,450</b>	517	517	635	<b>2,186</b>
<b>Ebit</b>	1,915	1,072	1,030	1,131	<b>5,148</b>	1,170	1,168	1,069	<b>4,538</b>
Interest	100	13	30	30	<b>173</b>	30	30	30	<b>120</b>
<b>Ebt</b>	1,815	1,059	1,000	1,101	<b>4,975</b>	1,140	1,138	1,039	<b>4,418</b>
Income Tax	635	371	350	385	<b>1,741</b>	399	398	364	<b>1,546</b>
<b>Net Income (\$mm)</b>	1,180	688	650	716	<b>3,234</b>	741	740	675	<b>2,872</b>
<b>Shares (millions)</b>	715	717	714	714	<b>715</b>	714	714	714	<b>714</b>
Per share (\$)	1.65	0.96	0.91	1.00	<b>4.52</b>	1.04	1.04	0.95	<b>4.02</b>
Ebitda Margin (E&P)	73%	71%	66%	68%	<b>70%</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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Occidental Petroleum Corporation						
Functional Cash Flow and Present Value						
	NTM Ebitda (US\$mm)	Adjusted R/P	PV/ Ebitda	Present Value (US\$mm)		
U.S. Natural Gas	745	10.0	14.8	11,000		10%
Rest of World Natural Gas	132	12.3	7.6	1,000		1%
Oil	12,313	11.2	7.0	85,900		80%
Downstream	1,544		5.8	9,000		8%
	14,735	11.1	7.3	106,900		100%
Debt (US\$mm)						6,900
Net Present Value (US\$mm)						100,000
Shares (mm)						813
Net Present Value - Standard Estimate (US\$/sh)						123
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)						118

Occidental Petroleum										
Next Twelve Months Operating and Financial Estimates										
	Q3 9/30/10	Q2 6/30/11	Q3 9/30/11	Q4E 12/31/11	Year 2011E	Q1E 3/31/12	Q2E 6/30/12	Q3E 9/30/12	Next Twelve Months 9/30/12	
<b>Volume</b>										
Natural Gas (mmcf)										
U.S. (or North America)	656	761	799	799	773	799	799	799		801
Overseas (or Int'l)	532	440	458	458	448	458	458	458		459
Total	1,188	1,201	1,257	1,257	1,221	1,257	1,257	1,257		1,260
Oil (mbd)	553	515	530	530	527	530	530	530		530
Total gas & oil (mmb)	69	65	68	68	267	67	67	68		270
Total gas & oil (mbd)	751	715	739	739	731	739	739	739		739
<b>Price</b>										
Natural gas (\$/mcf)										
Henry Hub (\$/mmbtu)	4.38	4.32	4.19	3.66	4.07	3.80	3.83	3.94		3.81
U.S. (or North America)	4.20	4.27	4.23	3.69	4.09	3.84	3.86	3.97		3.84
Overseas (or Int'l)	1.12	1.13	1.18	1.18	1.15	1.18	1.18	1.18		1.18
Total	2.82	3.12	3.12	2.78	3.01	2.87	2.89	2.95		2.87
Oil (\$/bbl)										
WTI Cushing	76.08	102.55	89.76	92.50	94.73	95.42	95.27	95.07		94.56
Worldwide	70.71	95.88	90.70	93.47	91.74	96.42	96.26	96.06		95.55
Total gas & oil (\$/bbl)	56.53	74.29	70.30	71.70	71.23	73.97	73.88	73.85		73.35
<b>Revenue (\$mm)</b>										
Natural Gas										
U.S. (or North America)	253	296	311	271	1,156	279	281	292		1,123
Overseas (or Int'l)	55	45	50	50	188	49	49	50		198
Total	308	341	361	321	1,344	328	330	342		1,321
Oil	3,597	4,494	4,418	4,553	17,656	4,646	4,638	4,679		18,517
<b>Ebitda (\$mm)</b>										
Exploration and Production	2,363	3,186	3,298	3,241	12,955	3,307	3,304	3,339		13,190
Other	438	524	414	393	1,544	213	524	414		1,544
Total Ebitda	2,801	3,710	3,713	3,634	14,500	3,520	3,827	3,753		14,735
Exploration	83	62	39	39	189	100	85	85		309
Deprec., Deplet., & Amort.	858	839	924	924	3,577	924	924	924		3,696
<b>Ebit</b>	1,860	2,809	2,750	2,671	10,734	2,496	2,818	2,744		10,730
Interest	19	20	23	23	117	23	23	23		92
<b>Ebt</b>	1,841	2,789	2,727	2,648	10,617	2,473	2,795	2,721		10,638
Income Tax	644	976	954	927	3,716	866	978	952		3,723
<b>Net Income (\$mm)</b>										
Exploration and Production	1,745	2,624	2,612							
Other	352	440	322							
Unallocated	(901)	(1,251)	(1,162)							
Total	1,196	1,813	1,772	1,721	6,901	1,608	1,817	1,769		6,914
<b>Shares (millions)</b>										
Per share (\$)	1.47	2.23	2.18	2.12	8.49	1.98	2.24	2.18		8.50
Ebitda Margin (E&P)	60%	66%	69%	66%	68%	66%	66%	66%		66%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%		35%



# Meter Reader

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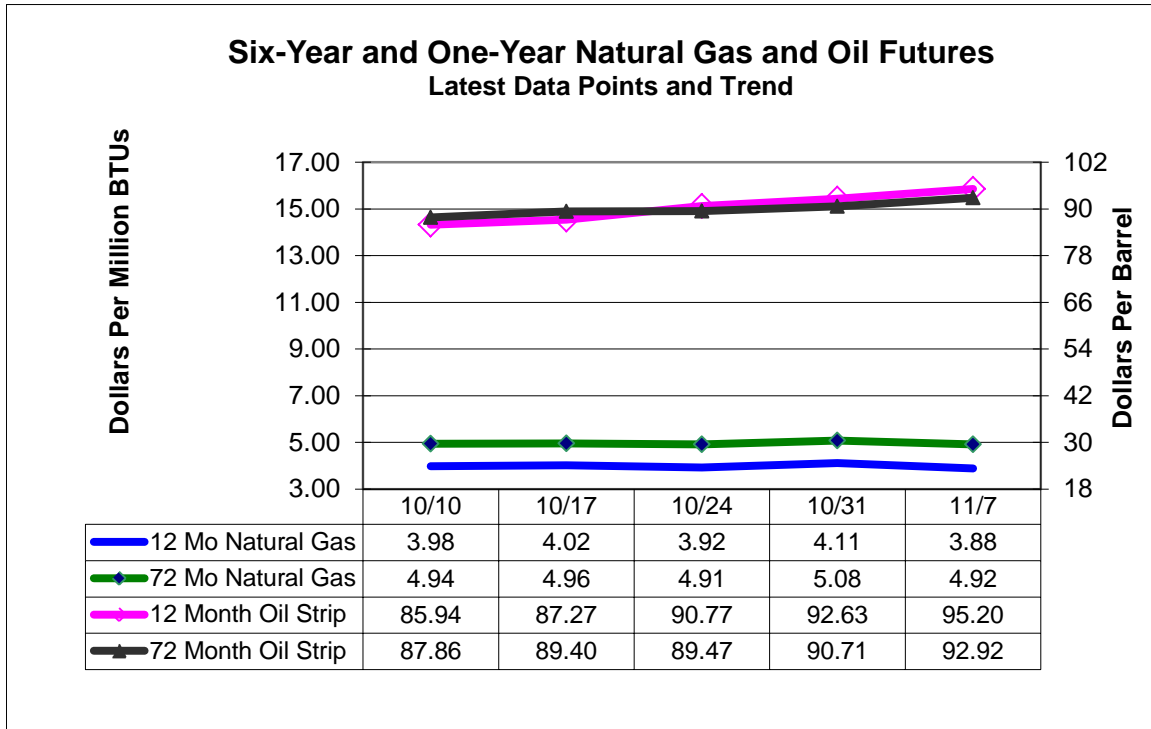
<b>Index of Recent Research</b>			
<b>Stock Ideas</b>			
<i>Date</i>	<i>Symbol</i>	<i>Subject</i>	<i>Theme</i>
4-Nov	NDRO	Enduro Royalty Trust	New Bottom Line Cash Payer (Income and Small Cap Weekly)
1-Nov	RDS	Royal Dutch Shell plc	Raise NPV to \$102 from \$96 on Reappearing Luster (MR)
25-Oct	ECA, PBR	Encana, Petrobras	Most Out-of-Favor Buys (Meter Reader)
19-Oct	PETD	PDC Energy	Returning to Appalachian Roots (ISCW)
18-Oct	APC, BP	Anadarko Petroleum, BP plc	Settle Oil Spill Dispute (Meter Reader)
14-Oct	ERF	Enerplus Corporation	Marcellus, Bakken and Canada with 8% Income (ISCW)
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)
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)
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)
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>			
1-Nov	RDS	Royal Dutch Shell plc	Raise NPV to \$102 from \$96 on Reappearing Luster
25-Oct	ECA, PBR	Encana, Petrobras	Most Out-of-Favor Buys
18-Oct	APC, BP	Anadarko Petroleum, BP plc	Settle Oil Spill Dispute
11-Oct	CVE, DVN, ECA, EOG, MRO, COSWF		Ideal for Deals
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>			
4-Nov	NDRO	Enduro Royalty Trust	New Bottom Line Cash Payer
28-Oct	BRY	Berry Petroleum	Volatility Break
19-Oct	PETD	PDC Energy	Returning to Appalachian Roots
14-Oct	ERF	Enerplus Corporation	Marcellus, Bakken and Canada with 8% Income
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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