



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks
May 22, 2012

Buy Natural Gas and Oil on Gloomy Sentiment

Summary and Recommendation

An unusually sharp decline in stock prices in May presents a new chance to buy oil and gas producers at low McDep Ratios including Buy-recommended **ExxonMobil (XOM)** and **EOG Resources (EOG)** as well as Contrarian Buys **Lukoil (LUKOY)** and **Encana (ECA)**. A 12 % decline in stock prices measured by the MSCI World Energy Index exceeded the 7% decline in U.S. oil futures for the next 6 years and contrasted with a 3% rise in U.S. natural gas futures for the next six years. Fracking and horizontal drilling technology have turned North American oil and gas into volume growth businesses once again. XOM, EOG and ECA are leaders in applying the new techniques. Lukoil may benefit from new Russian government appointments on May 21, which could lead to improving economic performance in the energy sector according to *Stratfor*, the global intelligence firm.

Those four examples are among 19 large cap buy recommendations in four groups of stocks with a composite McDep Ratio of 0.62 (see [Table 1](#) on page 2). At the same time we like undervalued stocks, we try to be cautious about financial risk. Chesapeake Energy (CHK) breaches the traditional limits of bank borrowing capacity at a ratio of Debt/Present Value above 0.50 (see [Table 2](#) on page 3). The fact that CHK stock shows signs of stress can be symptomatic of a turning point. Finally, attractive income is readily available in 15 recommendations paying dividends of at least 2% and up to 6.6% a year (see [Table 3](#) on page 4).

Kurt H. Wulff, CFA

Meter Reader will not be published on May 29 as we will be traveling.



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Table 1										
McDep Large Cap Energy Stocks										
Geographic Domicile and Business Segments										
					Present Value by Segment (%)					
		Price	EV/	Enterprise	North	Rest				
Symbol/Rating		(US\$/sh)	Market	Value	Amer.	of World	Oil	Down-	McDep	
B = Buy, CB (see below)		21-May	Cap	(\$mm)	Natural	Natural	Prod'n	stream	Ratio	
		2012			Gas	Gas				
U.S. and Europe Integrated										
BG Group	BRGXF		20.14	1.27	87,100		23	44	33	0.84
Exxon Mobil Corporation	XOM B		82.04	1.20	463,000	8	19	57	16	0.78
Royal Dutch Shell plc	RDS-A CB		63.27	1.31	259,000	3	22	56	18	0.68
Statoil ASA (33%)	STO CB		23.53	1.52	37,700		35	65	-	0.64
Chevron Corporation	CVX CB		99.69	1.15	226,000	3	11	76	10	0.62
BP plc	BP		37.71	1.70	205,000	4	9	62	25	0.58
Total S.A.	TOT CB		44.53	1.40	142,000		23	63	14	0.53
<i>Total or Median</i>					1,420,000			62		0.64
Brazil/Russia/Australia/China										
CNOOC Limited (36%)	CEO		186.40	1.02	30,600		9	91	-	0.75
Woodside Petroleum Ltd.	WOPEY		30.90	1.31	32,000		66	34	-	0.74
PetroChina Company Ltd (14%)	PTR CB		132.33	1.36	46,100		15	70	14	0.70
Petrobras	PBR CB		20.67	1.56	209,000		6	80	14	0.44
Gazprom (50%)	OGZPY CB		9.14	1.37	72,000		11	13	76	0.40
Lukoil Oil Company	LUKOY CB		52.50	1.05	44,800			72	28	0.36
<i>Total or Median</i>					435,000			71		0.57
U.S. Independent										
Anadarko Petroleum Corp.	APC		64.74	1.54	50,000	33		64	3	0.82
EOG Resources, Inc.	EOG B		100.20	1.22	32,900	29	4	67	-	0.80
Chesapeake Energy Corp.	CHK		14.91	2.86	32,100	64		36	-	0.78
Southwestern Energy Company	SWN		29.65	1.16	12,100	100			-	0.77
Occidental Petroleum Corp.	OXY CB		80.87	1.12	73,400	9	1	80	10	0.70
Devon Energy Corporation	DVN CB		62.89	1.32	33,600	49		51	-	0.68
ConocoPhillips	COP B		51.77	1.51	100,000	13	13	74	-	0.64
Marathon Oil Corporation	MRO CB		24.52	1.50	26,000	7	3	90	-	0.55
<i>Total or Median</i>					360,000			67		0.73
Canada										
Cenovus Energy Inc.	CVE CB		31.61	1.29	31,100	11		75	13	0.71
Imperial Oil Limited (30%)	IMO CB		40.84	1.18	12,300	2		84	14	0.69
EnCana Corporation	ECA CB		20.34	1.60	24,000	90		10	-	0.66
Penn West Exploration	PWE		14.14	1.69	11,000	14		86	-	0.59
Suncor Energy	SU CB		27.88	1.31	57,100	2		83	15	0.50
Canadian Oil Sands Limited	COSWF CB		20.73	1.19	12,000			100	-	0.44
<i>Total or Median</i>					148,000			83		0.63
Composite					2,363,000	8	14	63	16	0.62

CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average.



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Table 2								
McDep Large Cap Energy Stocks								
Net Present Value and McDep Ratio								
			Price (US\$/sh)	Shares	Market Cap (US\$mm)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
	Symbol/Rating		21-May 2012	(mm)				
B = Buy, CB (see below)								
U.S. and Europe Integrated								
BG Group plc	BRGXF		20.14	3,416	68,800	25.00	0.18	0.84
Exxon Mobil Corporation	XOM	B	82.04	4,716	387,000	110.00	0.13	0.78
Royal Dutch Shell plc	RDS-A	CB	63.27	3,120	197,000	102.00	0.16	0.68
Statoil ASA (33%)	STO	CB	23.53	1,050	24,700	44.00	0.22	0.64
Chevron Corporation	CVX	CB	99.69	1,979	197,000	170.00	0.08	0.62
BP plc	BP		37.71	3,207	121,000	84.00	0.24	0.58
Total S.A.	TOT	CB	44.53	2,265	101,000	100.00	0.15	0.53
<i>Total or Median</i>					<i>1,097,000</i>		<i>0.16</i>	<i>0.64</i>
Brazil/Russia/Australia/China								
CNOOC Limited (36%)	CEO		186.40	161	30,000	250.00	0.02	0.75
Woodside Petroleum Ltd.	WOPEY		30.90	797	24,600	45.00	0.17	0.74
PetroChina Company Ltd (14%)	PTR	CB	132.33	256	33,900	210.00	0.18	0.70
Petrobras	PBR	CB	20.67	6,489	134,100	62.00	0.16	0.44
Gazprom (50%)	OGZPY	CB	9.14	5,750	52,600	28.00	0.11	0.40
Lukoil Oil Company	LUKOY	CB	52.50	809	42,500	150.00	0.02	0.36
<i>Total or Median</i>					<i>318,000</i>		<i>0.13</i>	<i>0.57</i>
U.S. Independent								
Anadarko Petroleum Corp.	APC		64.74	501	32,400	86.00	0.29	0.82
EOG Resources, Inc.	EOG	B	100.20	270	27,100	130.00	0.14	0.80
Chesapeake Energy Corp.	CHK		14.91	753	11,200	27.00	0.51	0.78
Southwestern Energy Company	SWN		29.65	350	10,400	40.00	0.11	0.77
Occidental Petroleum Corp.	OXY	CB	80.87	811	65,600	120.00	0.07	0.70
Devon Energy Corporation	DVN	CB	62.89	405	25,500	102.00	0.16	0.68
ConocoPhillips	COP	B	51.77	1,277	66,000	96.00	0.22	0.64
Marathon Oil Corporation	MRO	CB	24.52	710	17,410	54.00	0.18	0.55
<i>Total or Median</i>					<i>255,600</i>		<i>0.17</i>	<i>0.73</i>
Canada								
Cenovus Energy Inc.	CVE	CB	31.61	760	24,000	48.00	0.16	0.71
Imperial Oil Limited (30%)	IMO	CB	40.84	256	10,400	62.00	0.11	0.69
EnCana Corporation	ECA	CB	20.34	736	15,000	37.00	0.25	0.66
Penn West Exploration	PWE		14.14	473	6,500	30.00	0.24	0.59
Suncor Energy	SU	CB	27.88	1,567	43,700	64.00	0.12	0.50
Canadian Oil Sands Limited	COSWF	CB	20.73	485	10,100	52.00	0.07	0.44
<i>Total or Median</i>					<i>110,000</i>		<i>0.14</i>	<i>0.63</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, \$6 a million btu.								



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			<i>Price</i> <i>(US\$/sh)</i>	<i>Adjustd</i> <i>Resrvs/</i>	<i>PV/</i>	<i>EV/</i>		<i>Dividend</i>
	<i>Symbol/Rating</i>		<i>21-May</i>	<i>Prod</i>	<i>Ebitda</i>	<i>Ebitda</i>	<i>P/E</i>	<i>NTM</i>
	B = Buy, CB (see below)		<i>2012</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>(%)</i>
U.S. and Europe Integrated								
BG Group plc	BRGXF		20.14	8.8	9.0	7.5	13	1.2
Exxon Mobil Corporation	XOM	B	82.04	13.0	7.9	6.2	10	2.8
Royal Dutch Shell plc	RDS-A	CB	63.27	10.0	6.9	4.7	8	5.4
BP plc	BP		37.71	11.0	7.8	4.6	6	4.5
Chevron Corporation	CVX	CB	99.69	9.2	7.3	4.5	9	3.6
Statoil ASA (33%)	STO	CB	23.53	6.2	6.2	4.0	7	4.4
Total S.A.	TOT	CB	44.53	10.1	7.4	3.9	6	6.5
	<i>Median</i>			<i>10.0</i>	<i>7.4</i>	<i>4.6</i>	<i>8</i>	<i>4.4</i>
Brazil/Russia/Australia/China								
Woodside Petroleum Ltd.	WOPEY		30.90	13.2	8.1	6.0	9	3.6
PetroChina Company Ltd (14%)	PTR	CB	132.33	13.0	7.0	4.9	9	3.9
Petrobras	PBR	CB	20.67	12.6	10.3	4.5	5	5.0
CNOOC Limited (36%)	CEO		186.40	6.9	5.7	4.3	8	3.7
Gazprom (50%)	OGZPY	CB	9.14	31.2	5.6	2.2	3	5.9
Lukoil Oil Company	LUKOY	CB	52.50	16.6	5.9	2.1	4	3.6
	<i>Median</i>			<i>13.1</i>	<i>6.5</i>	<i>4.4</i>	<i>7</i>	<i>3.8</i>
U.S. Independent								
Southwestern Energy Company	SWN		29.65	8.1	16.6	12.8	21	-
Chesapeake Energy Corp.	CHK		14.91	10.1	11.5	9.0	14	2.3
Anadarko Petroleum Corp.	APC		64.74	8.5	7.7	6.3	20	0.6
EOG Resources, Inc.	EOG	B	100.20	9.2	7.4	5.9	22	0.7
Devon Energy Corporation	DVN	CB	62.89	10.0	8.7	5.9	12	1.3
Occidental Petroleum Corp.	OXY	CB	80.87	10.1	7.2	5.1	10	2.7
ConocoPhillips	COP	B	51.77	12.1	7.7	4.9	9	5.1
Marathon Oil Corporation	MRO	CB	24.52	10.3	7.0	3.9	8	2.8
	<i>Median</i>			<i>10.0</i>	<i>7.7</i>	<i>5.9</i>	<i>13</i>	<i>1.8</i>
Canada								
EnCana Corporation	ECA	CB	20.34	8.3	15.3	10.2		3.9
Imperial Oil Limited (30%)	IMO	CB	40.84	40.5	11.9	8.2	11	1.1
Penn West Exploration	PWE		14.14	7.3	12.1	7.1	21	7.5
Cenovus Energy Inc.	CVE	CB	31.61	12.7	9.4	6.7	14	2.7
Canadian Oil Sands Limited	COSWF	CB	20.73	21.1	13.0	5.7	9	6.6
Suncor Energy	SU	CB	27.88	16.6	9.6	4.8	8	1.5
	<i>Median</i>			<i>14.7</i>	<i>12.0</i>	<i>6.9</i>	<i>11</i>	<i>3.3</i>
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 March 31, 2013; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



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	Symbol	Rating	Price (\$/sh)		Enterprise Value/			McDep Ratio
			21-May 2012	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	
U.S. and Europe Integrated								
Exxon Mobil Corporation	XOM	B	82.04	0.94	1.18	0.97	1.01	0.78
Chevron Corporation	CVX	CB	99.69	0.90	1.13	0.96	0.97	0.62
Statoil ASA (33%)	STO	CB	23.53	0.87	1.11	0.92	0.96	0.64
BG Group plc	BRGXF		20.14	0.85	1.12	0.91	0.94	0.84
Royal Dutch Shell plc	RDS-A	CB	63.27	0.87	1.07	0.93	0.94	0.68
BP plc	BP		37.71	0.86	1.07	0.92	0.93	0.58
Total S.A.	TOT	CB	44.53	0.82	1.08	0.93	0.92	0.53
	<i>Median</i>			<i>0.87</i>	<i>1.11</i>	<i>0.93</i>	<i>0.94</i>	<i>0.64</i>
Brazil/Russia/Australia/China								
PetroChina Company Ltd (14%)	PTR	CB	132.33	0.90	1.13	0.95	0.99	0.70
CNOOC Limited (36%)	CEO		186.40	0.74	1.31	0.91	0.96	0.75
Lukoil Oil Company	LUKOY	CB	52.50	0.78	1.13	0.88	0.92	0.36
Woodside Petroleum Ltd.	WOPEY		30.90	0.68	1.05	0.89	0.90	0.74
Petrobras	PBR	CB	20.67	0.69	1.05	0.89	0.85	0.44
Gazprom (50%)	OGZPY	CB	9.14	0.67	1.04	0.83	0.84	0.40
	<i>Median</i>			<i>0.72</i>	<i>1.09</i>	<i>0.89</i>	<i>0.91</i>	<i>0.57</i>
U.S. Independent								
EOG Resources, Inc.	EOG	B	100.20	0.86	1.38	0.94	1.01	0.80
Devon Energy Corporation	DVN	CB	62.89	0.79	1.17	0.94	0.97	0.68
Marathon Oil Corporation	MRO	CB	24.52	0.77	1.17	0.87	0.90	0.55
Anadarko Petroleum Corp.	APC		64.74	0.81	1.08	0.91	0.90	0.82
Occidental Petroleum Corp.	OXY	CB	80.87	0.76	1.19	0.90	0.89	0.70
Southwestern Energy Company	SWN		29.65	0.64	1.08	0.98	0.88	0.77
Chesapeake Energy Corp.	CHK		14.91	0.67	1.04	0.89	0.82	0.78
ConocoPhillips	COP	B	51.77					0.64
	<i>Median</i>			<i>0.77</i>	<i>1.17</i>	<i>0.91</i>	<i>0.90</i>	<i>0.73</i>
Canada								
EnCana Corporation	ECA	CB	20.34	0.69	1.11	1.02	1.00	0.66
Imperial Oil Limited (30%)	IMO	CB	40.84	0.84	1.22	0.92	0.96	0.69
Canadian Oil Sands Limited	COSWF	CB	20.15	0.70	1.17	0.97	0.95	0.44
Cenovus Energy Inc.	CVE	CB	31.61	0.82	1.12	0.93	0.94	0.71
Suncor Energy	SU	CB	27.88	0.71	1.17	0.91	0.92	0.50
Penn West Exploration	PWE		14.14	0.65	1.06	0.85	0.83	0.59
	<i>Median</i>			<i>0.70</i>	<i>1.15</i>	<i>0.93</i>	<i>0.94</i>	<i>0.63</i>

CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average.



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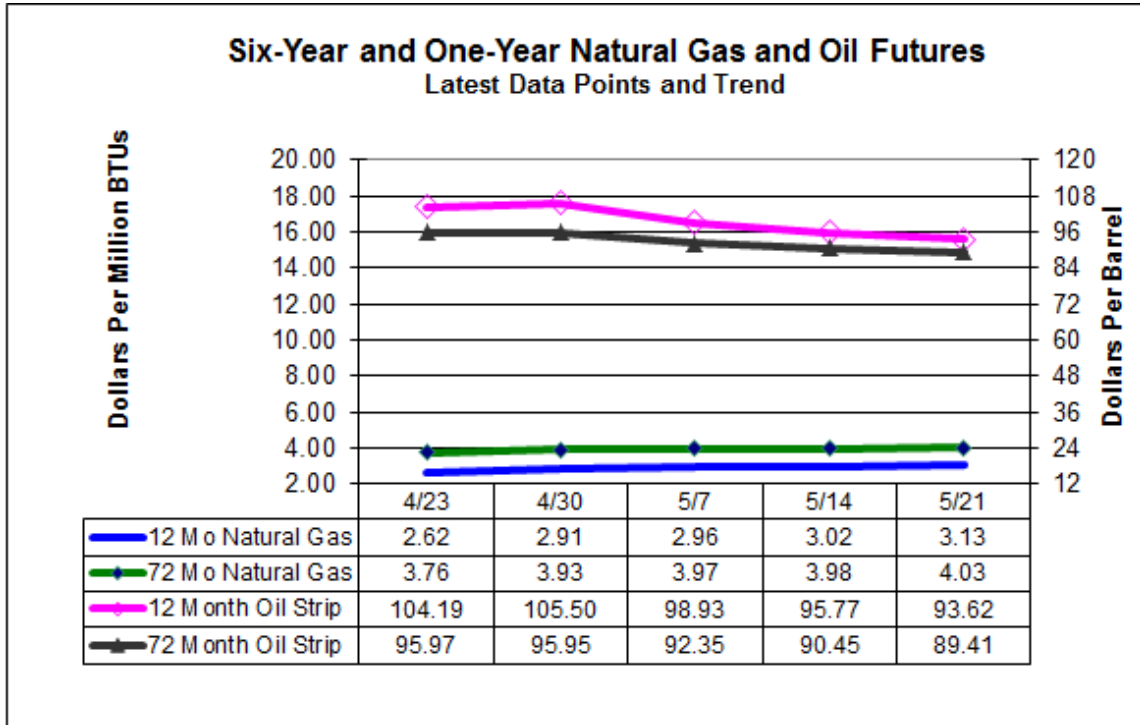
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Index of Recent Research			
Stock Ideas			
<i>Date</i>	<i>Symbol</i>	<i>Subject</i>	<i>Theme</i>
18-May	BIREF	Birchcliff Energy	Contrarian Buy at Lower NPV (Income and Small Cap Weekly)
15-May	EOG	EOG Resources	Raise NPV to \$130 a Share on Oil Volume (Meter Reader)
11-May	DMLP	Dorchester Minerals, L.P.	Rising Oil Production (Income and Small Cap Wkly)
8-May	ECA	Encana	Long-Term Natural Gas Appeal (Meter Reader)
4-May	WLL	Whiting Petroleum	Oil Price Discount Narrows (Income and Small Cap Weekly)
1-May	COSWF	Canadian Oil Sands Limited	Dividend Raised 17%
1-May	RDS	Royal Dutch Shell	LNG and GTL Profit Gains (Meter Reader)
27-Apr	RRC	Range Resources	Shale Strength (Income and Small Cap Weekly)
24-Apr	WOPEY	Woodside Petroleum	Pluto LNG Imminent (Meter Reader)
20-Apr	XEC,WLL,ERF,RRC		Good Stuff (Income and Small Cap Weekly)
17-Apr	COP	ConocoPhillips	Largest North American Independent Producer Debut (MR)
13-Apr	ERF	Enerplus Corporation	Shale Oil Growth with Income Option (ISCW)
10-Apr	DVN	Devon Energy	Shale Oil Excitement at a Favorite Value Stock (Meter Reader)
6-Apr	SJT, HGT, NDRO, MTR		Enduring Energy in Bottom Line Royalty Trusts (ISCW)
3-Apr	PTR	PetroChina	Global Growth in Oil and Gas (Meter Reader)
30-Mar	BIREF,XEC,PETD,RRC,WLL		Independents Delivering Growth (ISCW)
27-Mar	IMO,COSWF	Imperial, Canadian Oil Sands Ltd.	Optimism on Kearn and Syncrude (Meter Reader)
23-Mar	CRT,HGT,MTR,PEYUF,SJT		Gut Check on Natural Gas (ISCW)
20-Mar	CVX	Chevron	Investing in Australian LNG for Growth (Meter Reader)
13-Mar	XOM	Exxon Mobil	Renewable Energy Cash Flow (Meter Reader)
9-Mar	BRY, DNR, WLL, FRHLF, LGCY		Vote for Oil (Income and Small Cap Weekly)
6-Mar	IMO	Imperial Oil	Kearn Startup Late This Year (Meter Reader)
20-Feb	OGZPY	Gazprom	Dividend Double Expected (Meter Reader)
17-Feb	XEC	Cimarex Energy	Permian Payoff (ISCW)
13-Feb	TOT	Total	Sharpening Competitive Edge (Meter Reader)
3-Feb	CRT	Cross Timbers Royalty Trust	Firm Oil Balances Soft Natural Gas (ISCW)
31-Jan	OXY	Occidental Petroleum	Delivering U.S. Oil Results (Meter Reader)
27-Jan	PETD	PDC Energy	Raise NPV to \$40 from \$36 on Reserves and Production (ISCW)
24-Jan	SU	Suncor Energy	Oil as a Political Weapon against Canada (Meter Reader)
17-Jan	MRO	Marathon Oil	Oil Resources and Shale Growth (Meter Reader)
29-Nov	LUKOY, OGZPY	Lukoil, Gazprom	Oil and Gas Undervalued in Russian Stocks (Meter Reader)
15-Nov	CVE, IMO, SU, COSWF		Buy Canadian Oil on U.S. Presidential Disappointment (MR)
For historical research by stock, go to mcdep.com , click on Stock Ideas , click on stock by name.			
Meter Reader			
15-May	EOG	EOG Resources	Raise NPV to \$130 a Share on Oil Volume
8-May	ECA	Encana	Long-Term Natural Gas Appeal
1-May	RDS	Royal Dutch Shell	LNG and GTL Profit Gains
24-Apr	WOPEY	Woodside Petroleum	Pluto LNG Imminent
17-Apr	COP	ConocoPhillips	Largest North American Independent Producer Debut
For earlier editions, go to mcdep.com , click on Meter Reader .			
Income and Small Cap Weekly			
18-May	BIREF	Birchcliff Energy	Contrarian Buy at Lower NPV
11-May	DMLP	Dorchester Minerals, L.P.	Rising Oil Volume
4-May	WLL	Whiting Petroleum	Oil Price Discount Narrows
27-Apr	RRC	Range Resources	Shale Strength
20-Apr	XEC,WLL,ERF,RRC		Good Stuff
For earlier editions, go to mcdep.com , click on Energy Income .			



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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. 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.