



Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

August 26, 2008

Russian Rebalance

Summary and Recommendation

Steeper declines in stock prices of buy recommendations **Gazprom (OGZPY)** and **Lukoil (LUKOY)** since Russian troops entered Georgia has opened an opportunity for portfolio rebalancing. In other words, buy more shares of the two recommended Russian stocks to restore their weightings to desired long-term levels. Admittedly that takes courage because political risk is particularly hard to assess and changes in stock price trends are hard to anticipate. We believe some risk is worth taking because there are no other large cap opportunities with so much resource value and such low stock price as measured by McDep Ratios. Though we do not apologize for the Russian military, the Georgia maneuver looks to us like a reaction to a poorly conceived expansion of U.S. led NATO, the North Atlantic Treaty Organization. The U.S. overpromised small countries abutting Russia that we would protect them militarily at the same time we can't seem to run a mortgage insurer much less police the world. Today, Russia is telling NATO to back off; tomorrow Russia has the opportunity to create capitalist successes in energy that count Gazprom and Lukoil among world leaders.

Reasserting Russian Influence in the Caspian

Meanwhile, the conflict in Georgia coincides with Russia reasserting its influence in the Caspian region that holds the giant fields of oil in Kazakhstan and Azerbaijan and natural gas in Turkmenistan. (Try to pronounce the name of the latter country's leader, Gurbanguly Berdymukhammedov.) Juxtapose Russia's comeback with U.S. influence over the Middle East and the two military powers have a lock on the world's conventional supply of oil for export. As a net exporter, Russia has an interest in higher oil price. As a net importer, the U.S. has generally attempted to keep oil price artificially low. Well-known oil journalist Jim Norman, in his new book, *The Oil Card*, argues that the U.S. and Russia have a common interest in high oil price to restrain China's rapid ascendance to global power.

The Russian factor coincides with a turn up in the oil price trend during the past week (see chart, page 5, [Six-Year and One-Year Oil and Natural Gas Futures](#)). Moving averages on a 200-day or 40-week basis are holding, implying a continuing uptrend. Amid signs of slowing economic activity the trend could be flat for awhile as it was during 2006. In that more cautious case, our estimates of Present Value, the denominator of the McDep Ratio, would be sustained and buy recommendations would continue to be amply attractive.

Kurt H. Wulff, CFA



Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

August 26, 2008

Oil and Gas Producers - Rank by McDep Ratio								
			Price			Net		
			(US\$/sh)		Market	Present	Debt/	
	Symbol/		25-Aug	Shares	Cap	Value	Present	McDep
		Rating	2008	(mm)	(US\$mm)	(US\$/sh)	Value	Ratio
Mega Cap								
Petrobras	PBR		51.48	4,387	225,840	75.00	0.10	0.72
Exxon Mobil Corporation	XOM	B	78.71	5,261	414,000	118.00	0.05	0.68
Chevron Corporation	CVX	B	85.51	2,206	189,000	135.00	0.09	0.66
BP plc	BP	B	56.80	3,137	178,000	104.00	0.17	0.63
ConocoPhillips	COP	B	81.82	1,555	127,000	150.00	0.17	0.62
Royal Dutch Shell plc	RDS-A	B	68.36	3,095	212,000	120.00	0.11	0.62
Total S.A.	TOT	B	71.21	2,253	160,000	125.00	0.09	0.61
Gazprom (50%)	OGZPY	B	37.75	2,865	108,200	88.00	0.09	0.48
<i>Total or Median</i>					1,614,000		0.10	0.62
Producer/Refiners - Large Cap								
BG Group plc	BRGXF		21.94	3,384	74,240	28.00	0.07	0.80
Imperial Oil Limited (30%)	IMO	B	50.39	269	13,530	65.00	0.05	0.79
Suncor Energy	SU	B	56.41	953	53,760	75.00	0.08	0.77
Marathon Oil Corporation	MRO	H	44.34	714	31,660	70.00	0.21	0.71
StatoilHydro ASA (29%)	STO	B	30.27	928	28,090	52.00	0.12	0.63
PetroChina Company Ltd (14%)	PTR	B	125.64	256	32,190	220.00	0.04	0.59
Petro-Canada	PCZ	B	43.89	484	21,240	90.00	0.11	0.54
Lukoil Oil Company	LUKOY	B	69.75	826	58,000	170.00	0.01	0.42
<i>Total or Median</i>					313,000		0.08	0.67
Independent Natural Gas and Oil - Large Cap								
CNOOC Limited (34%)	CEO	H	141.39	152	21,530	180.00	-	0.79
Encana Corporation	ECA	B	71.67	751	53,800	100.00	0.19	0.77
EOG Resources	EOG	B	102.21	251	25,700	140.00	0.07	0.75
Canadian Natural Resources	CNQ	B	82.23	541	44,500	124.00	0.18	0.72
Chesapeake Energy Corporation	CHK		48.00	550	26,400	80.00	0.26	0.71
Occidental Petroleum Corp.	OXY	B	80.84	826	66,700	120.00	0.06	0.69
Anadarko Petroleum Corp.	APC	B	57.84	471	27,200	100.00	0.27	0.69
Devon Energy Corporation	DVN	B	101.81	450	45,800	170.00	0.10	0.64
XTO Energy Inc.	XTO	B	48.18	571	27,490	88.00	0.19	0.63
<i>Total or Median</i>					339,000		0.18	0.71
Independent Natural Gas and Oil - Small Cap								
Birchcliff Energy Ltd. (US\$)	BIR.TO		11.80	117	1,380	14.00	0.10	0.86
Berry Petroleum Company	BRY	B	42.53	46	1,940	65.00	0.37	0.78
Encore Acquisition Company	EAC	B	51.50	52	2,690	75.00	0.28	0.77
Energy Partners Ltd.	EPL		11.24	32	360	30.00	0.39	0.62
Cimarex Energy Company	XEC	B	52.89	86	4,530	100.00	0.06	0.56
<i>Total or Median</i>					10,900		0.28	0.77
Income								
San Juan Basin Royalty Trust	SJT	B	41.20	47	1,920	48.00	-	0.86
Canadian Oil Sands Trust	COSWF	B	48.26	480	23,160	57.00	0.04	0.85
Pengrowth Energy Trust	PGH		17.78	248	4,410	24.00	0.26	0.81
Penn West Energy Trust	PWE	B	29.15	380	11,080	40.00	0.26	0.80
Hugoton Royalty Trust	HGT	B	30.65	40	1,230	42.00	-	0.73
Enerplus Resources Fund	ERF		40.87	165	6,720	63.00	0.13	0.69
<i>Total or Median</i>					48,500		0.08	0.80
B = Buy, S = Sell, H = Hold								
Present Value = Shares times Net Present Value divided by (1-Debt/Present Value).								
Debt = Present Value times Debt/Present Value								
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, \$14 a million btu.								



Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

August 26, 2008

Oil and Gas Producers - Rank by EV/Ebitda								
			Price (US\$/sh)	Adjustd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	P/E	Divd or Distrib
	Symbol/ Rating		25-Aug 2008	Prod NTM	Ebitda NTM	Ebitda NTM	P/E NTM	NTM (%)
Mega Cap								
Petrobras	PBR		51.48	10.4	9.1	6.6	13	1.7
Gazprom (50%)	OGZPY	B	37.75	24.6	11.0	5.3	7	1.2
Exxon Mobil Corporation	XOM	B	78.71	12.2	7.2	4.9	8	2.0
Chevron Corporation	CVX	B	85.51	9.5	6.9	4.6	7	3.0
ConocoPhillips	COP	B	81.82	10.9	7.0	4.3	7	2.3
BP plc	BP	B	56.80	10.0	6.8	4.3	6	5.9
Total S.A.	TOT	B	71.21	9.1	6.8	4.2	7	4.3
Royal Dutch Shell plc	RDS-A	B	68.36	7.6	6.3	3.9	7	4.7
	<i>Median</i>			10.2	6.9	4.5	7	2.7
Producer/Refiners - Large Cap								
Suncor Energy	SU	B	56.41	22.6	9.7	7.5	12	0.3
BG Group plc	BRGXF		21.94	7.5	9.3	7.4	14	0.9
Imperial Oil Limited (30%)	IMO	B	50.39	14.2	9.0	7.1	12	0.7
Marathon Oil Corporation	MRO	H	44.34	8.8	6.9	4.9	9	2.2
PetroChina Company Ltd (14%)	PTR	B	125.64	14.4	7.2	4.2	8	4.2
StatoilHydro ASA (29%)	STO	B	30.27	7.9	6.7	4.2	8	5.2
Petro-Canada	PCZ	B	43.89	7.2	6.0	3.3	6	1.7
Lukoil Oil Company	LUKOY	B	69.75	18.4	6.8	2.9	5	2.2
	<i>Median</i>			11.5	7.0	4.6	8	1.9
Independent Natural Gas and Oil - Large Cap								
Chesapeake Energy Corporation	CHK		48.00	11.1	10.4	7.4	14	0.6
Canadian Natural Resources	CNQ	B	82.23	9.0	9.2	6.7	14	0.5
EOG Resources	EOG	B	102.21	9.8	8.2	6.1	14	0.5
XTO Energy Inc.	XTO	B	48.18	11.7	9.6	6.1	13	1.0
Encana Corporation	ECA	B	71.67	8.6	7.4	5.7	16	2.2
Anadarko Petroleum Corp.	APC	B	57.84	9.7	7.6	5.2	11	1.2
Devon Energy Corporation	DVN	B	101.81	9.3	8.0	5.1	10	0.6
CNOOC Limited (34%)	CEO	H	141.39	9.2	6.4	5.1	9	2.7
Occidental Petroleum Corp.	OXY	B	80.84	11.9	7.3	5.0	9	1.6
	<i>Median</i>			9.7	8.0	5.7	13	1.0
Independent Natural Gas and Oil - Small Cap								
Birchcliff Energy Ltd. (US\$)	BIR.TO		11.80	7.2	11.6	10.0	86	-
Encore Acquisition Company	EAC	B	51.50	13.9	7.7	6.0	11	-
Berry Petroleum Company	BRY	B	42.53	9.7	7.6	6.0	14	0.7
Cimarex Energy Company	XEC	B	52.89	7.4	6.1	3.4	7	0.3
Energy Partners Ltd.	EPL		11.24	7.2	5.0	3.1	-	-
	<i>Median</i>			7.4	7.6	6.0	13	-
Income								
San Juan Basin Royalty Trust	SJT	B	41.20	10.6	11.8	10.2	12	8.4
Canadian Oil Sands Trust	COSWF	B	48.26	22.2	10.1	8.6	10	10.8
Hugoton Royalty Trust	HGT	B	30.65	13.1	10.6	7.7	10	9.8
Enerplus Resources Fund	ERF		40.87	9.6	7.9	5.4	(843)	12.7
Pengrowth Energy Trust	PGH		17.78	9.1	6.7	5.4	(20)	14.3
Penn West Energy Trust	PWE	B	29.15	7.5	6.7	5.4	11	13.2
	<i>Median</i>			10.1	9.0	6.6	10	11.8
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2009; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

August 26, 2008

Index of Recent Research

Stock Ideas

<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
22-Aug	HGT	Hugoton Royalty Trust	Long-Term Natural Gas Income (Income Weekly)
15-Aug	SJT	San Juan Basin Royalty Trust	Long-Term Natural Gas Income (Income Weekly)
8-Aug	PWE	Penn West Energy Trust	Distribution Yield 13% (Income Weekly)
7-Aug	CNQ	Canadian Natural Resources	Horizon Slippage
6-Aug	EAC	Encore Acquisition Company	Sale Called Off
6-Aug	DVN	Devon Energy Corporation	John W. Nichols, 1914-2008
5-Aug	XEC	Cimarex Energy Company	Ten Percent a Year Volume Growth
5-Aug	APC	Anadarko Petroleum Corporation	Takeover Climate
4-Aug	PTR	PetroChina Company Limited	Price Controls and Punitive Taxes
4-Aug	CEO	CNOOC Ltd	Punitive Taxes and Price Controls
1-Aug	CVX	Chevron Corporation	Income Model
1-Aug	TOT	Total S.A.	Oil Sands Strategy
1-Aug	STO	StatoilHydro ASA	High-Quality Offshore Producer
31-Jul	IMO	Imperial Oil Limited	Resources Concentrated on Fewer Shares
31-Jul	MRO	Marathon Oil Corporation	May Form Two Independent Companies
31-Jul	XOM	Exxon Mobil Corporation	Income Model
31-Jul	RDSA	Royal Dutch Shell plc	Rebuilding North American Natural Gas
30-Jul	EOG	EOG Resources Inc.	Stellar Record Marred by Hedging
29-Jul	* COSWF	Canadian Oil Sands Trust	Distribution Increased 25%
29-Jul	* BP	BP p.l.c.	Control Dispute in Russia
25-Jul	* BRY	Berry Petroleum	A Bit of Haynesville Glamour
24-Jul	* ECA	EnCana Corporation	Two Growth Companies in One
24-Jul	* OXY	Occidental Petroleum Corporation	Largest Oil Producer in Texas
24-Jul	* SU	Suncor Energy	Operations Challenge
24-Jul	* PCZ	Petro-Canada	Construction Challenge
23-Jul	* COP	ConocoPhillips	Income Model
22-Jul	* XTO	XTO Energy Inc.	Stock Price Momentum Changes
1-Jul	* OGZPY	Gazprom	Cheap Natural Gas (Meter Reader)
4-Jun	* LUKOY	Lukoil Oil Company	Raise Net Present Value to \$170 a Share
22-May	* PBR	Petrobras	Raise Net Present Value to \$75 a Share

Meter Reader

26-Aug		Weekly	
19-Aug		Weekly	Five Year of Oil Price in Stock Price
12-Aug		Weekly	Producers below 1982 Values
5-Aug	*	Weekly	Takeover Climate

Oil and Gas Income Stocks

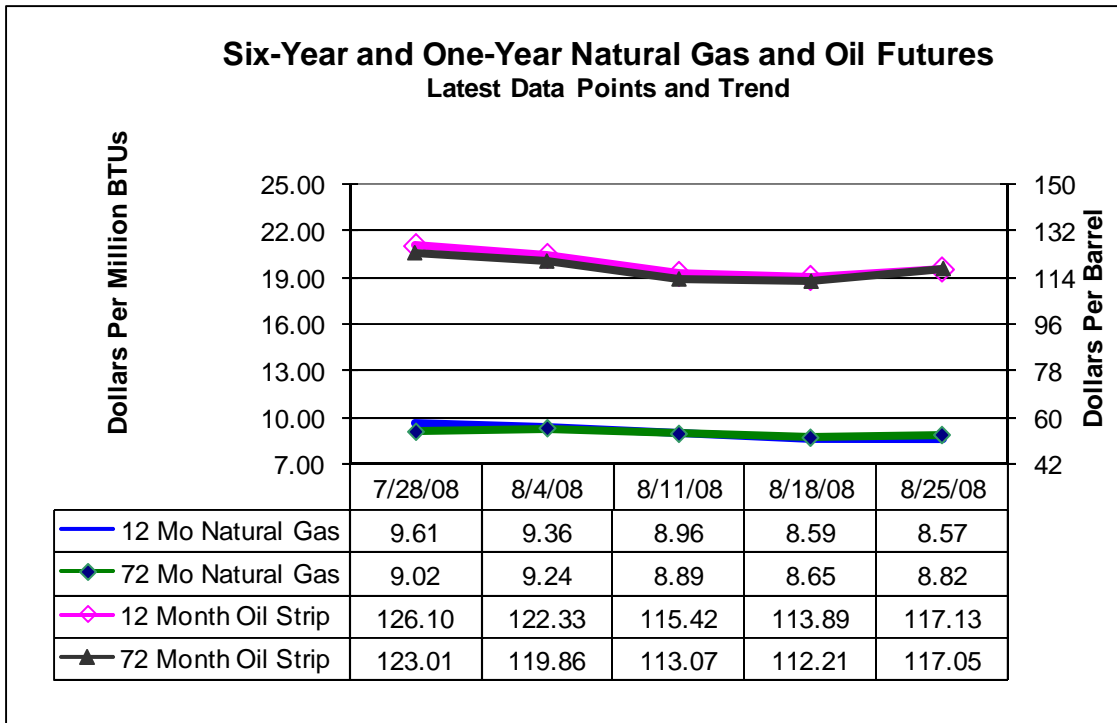
22-Aug	HGT	Hugoton Royalty Trust	Long-Term Natural Gas Income
15-Aug	SJT	San Juan Basin Royalty Trust	Long-Term Natural Gas Income
8-Aug	PWE	Penn West Energy Trust	Distribution Yield 13%
1-Aug	*	Weekly	Oil Income

* Archived on www.mcdep.com



Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio
August 26, 2008



Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was doing business as McDep Associates. 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 does no investment banking business. McDep is not paid by covered companies including revenue from advertising, trading, consulting, subscriptions or research service. McDep shall not own more than 1% of outstanding stock in a covered company. No one at McDep is on the Board of Directors at a covered company nor is anyone at a covered company on the Board of Directors of McDep.

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.