



Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

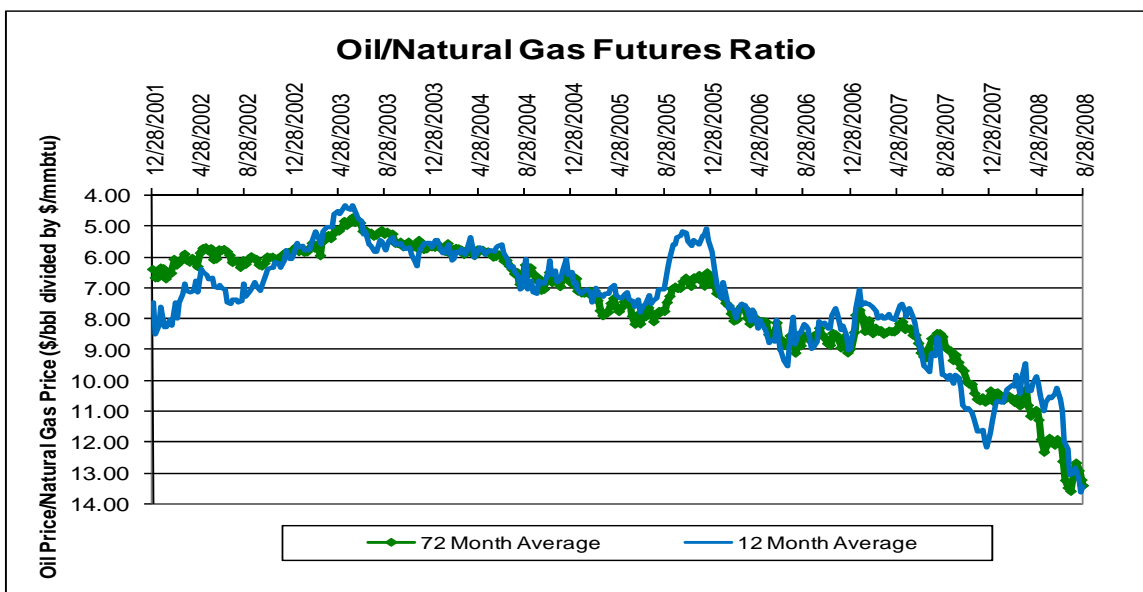
September 2, 2008

Obama for Natural Gas

Summary and Recommendation

Low market cash flow multiples (EV/Ebitda) for oil and gas stocks are a sign of opportunity in buy recommendations including **Chevron (CVX)** – 4.6 times), **Petro-Canada (PCZ)** - 3.3 times) and **XTO Energy (XTO)** – 6.5 times) (see table, page 3, [Rank by EV/Ebitda](#)). The low multiples would be appropriate if oil price were to decline to a long-term level of about \$70 a barrel and natural gas price would be no higher than a long-term level of about \$10 a million btu. Instead, we see long-term oil at \$100 a barrel and a more likely ratio of oil price to natural gas price of 7 to 1, rather than the current extreme of 13 to 1 (see chart below [Oil/Natural Gas Futures Ratio](#)). The great bargain in natural gas justifies the new emphasis on the clean fuel from Mr. Barack Obama in his acceptance speech for his nomination as the Democratic candidate for U.S. President. We object to Mr. Obama’s previous support for a “windfall” profits tax on oil and his demonizing of our buy recommendation, **ExxonMobil (XOM)**. On the other side, the presumptive Republican nominee has picked a vice presidential running mate who has been unfriendly to oil producers. Governor Sarah Palin has promoted a “windfall” profits tax on Alaskan producers that reaches 50% before consideration of Federal income tax. The Palin tax effectively delays the Alaskan natural gas pipeline for another generation, in our opinion. Back to the numbers, estimates for Next Twelve Months (NTM) cash flow (Ebitda) have been rolled forward to the period ending September 30, 2009 from the period ending June 30, 2009 with little effect on the relative ranking by market cash flow multiple.

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Oil and Gas Producers - Rank by McDep Ratio								
			Price			Net		
			(US\$/sh)			Market	Debt/	
	Symbol/		29-Aug	Shares		Cap	Present	McDep
		Rating	2008	(mm)		(US\$mm)	Value	Ratio
Mega Cap								
Petrobras	PBR		52.74	4,387		231,370	75.00	0.73
Exxon Mobil Corporation	XOM	B	80.01	5,261		421,000	118.00	0.69
Chevron Corporation	CVX	B	86.32	2,206		190,000	135.00	0.67
BP plc	BP	B	57.63	3,137		181,000	104.00	0.63
Royal Dutch Shell plc	RDS-A	B	69.52	3,095		215,000	120.00	0.63
ConocoPhillips	COP	B	82.51	1,555		128,000	150.00	0.63
Total S.A.	TOT	B	71.88	2,253		162,000	125.00	0.61
Gazprom (50%)	OGZPY	B	38.85	2,865		111,300	88.00	0.49
<i>Total or Median</i>						1,640,000		0.63
Producer/Refiners - Large Cap								
Imperial Oil Limited (30%)	IMO	B	51.27	269		13,770	65.00	0.80
BG Group plc	BRGXF		21.85	3,384		73,940	28.00	0.80
Suncor Energy	SU	B	56.84	953		54,170	75.00	0.78
Marathon Oil Corporation	MRO	H	45.07	714		32,180	70.00	0.72
StatoilHydro ASA (29%)	STO	B	30.63	928		28,420	52.00	0.64
PetroChina Company Ltd (14%)	PTR	B	129.20	257		33,240	220.00	0.61
Petro-Canada	PCZ	B	44.14	484		21,360	90.00	0.55
Lukoil Oil Company	LUKOY	B	73.90	839		62,000	170.00	0.45
<i>Total or Median</i>						319,000		0.68
Independent Natural Gas and Oil - Large Cap								
CNOOC Limited (34%)	CEO	H	155.76	152		23,720	180.00	0.87
Encana Corporation	ECA	B	74.90	751		56,200	100.00	0.80
EOG Resources	EOG	B	104.42	251		26,200	140.00	0.76
Canadian Natural Resources	CNQ	B	85.05	541		46,000	124.00	0.74
Anadarko Petroleum Corp.	APC	B	61.73	471		29,100	100.00	0.72
Chesapeake Energy Corporation	CHK		48.40	550		26,620	80.00	0.71
Occidental Petroleum Corp.	OXY	B	79.36	826		65,500	120.00	0.68
XTO Energy Inc.	XTO	B	50.41	580		29,240	88.00	0.65
Devon Energy Corporation	DVN	B	102.05	450		45,900	170.00	0.64
<i>Total or Median</i>						348,000		0.72
Independent Natural Gas and Oil - Small Cap								
Birchcliff Energy Ltd. (US\$)	BIR.TO		11.99	117		1,400	14.00	0.87
Encore Acquisition Company	EAC	B	51.56	52		2,700	75.00	0.77
Berry Petroleum Company	BRY	B	41.62	46		1,900	65.00	0.77
Energy Partners Ltd.	EPL		11.90	32		380	30.00	0.63
Cimarex Energy Company	XEC	B	55.54	86		4,750	100.00	0.58
<i>Total or Median</i>						11,100		0.77
Income								
San Juan Basin Royalty Trust	SJT	B	40.96	47		1,910	48.00	0.85
Canadian Oil Sands Trust	COSWF	B	48.30	479		23,160	57.00	0.85
Pengrowth Energy Trust	PGH		17.75	248		4,400	24.00	0.81
Penn West Energy Trust	PWE	B	29.36	380		11,160	40.00	0.80
Hugoton Royalty Trust	HGT	B	30.98	40		1,240	42.00	0.74
Enerplus Resources Fund	ERF		43.29	165		7,120	63.00	0.73
<i>Total or Median</i>						49,000		0.81
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.								

Please see disclosures on the final page.

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Oil and Gas Producers - Rank by EV/Ebitda								
			Price (US\$/sh)	Adjustd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	P/E	Divd or Distrib NTM (%)
	Symbol/ Rating		29-Aug 2008	NTM	NTM	NTM	NTM	
Mega Cap								
Petrobras	PBR		52.74	10.4	9.1	6.6	13	1.6
Gazprom (50%)	OGZPY	B	38.85	24.6	11.2	5.5	8	1.1
Exxon Mobil Corporation	XOM	B	80.01	12.2	7.2	5.0	9	2.0
Chevron Corporation	CVX	B	86.32	9.5	6.9	4.6	7	3.0
ConocoPhillips	COP	B	82.51	10.9	7.1	4.4	7	2.3
BP plc	BP	B	57.63	10.0	6.9	4.3	6	5.8
Total S.A.	TOT	B	71.88	9.1	6.8	4.2	7	4.2
Royal Dutch Shell plc	RDS-A	B	69.52	7.6	6.4	4.0	7	4.6
	<i>Median</i>			10.2	7.0	4.5	7	2.6
Producer/Refiners - Large Cap								
BG Group plc	BRGXF		21.85	7.5	9.5	7.5	14	0.9
Suncor Energy	SU	B	56.84	21.7	9.4	7.3	12	0.3
Imperial Oil Limited (30%)	IMO	B	51.27	14.2	8.9	7.1	11	0.7
Marathon Oil Corporation	MRO	H	45.07	8.8	6.9	5.0	9	2.1
PetroChina Company Ltd (14%)	PTR	B	129.20	14.3	7.8	4.7	10	3.3
StatoilHydro ASA (29%)	STO	B	30.63	7.9	6.8	4.4	8	5.1
Petro-Canada	PCZ	B	44.14	7.2	6.1	3.3	6	1.7
Lukoil Oil Company	LUKOY	B	73.90	18.6	6.8	3.0	5	2.1
	<i>Median</i>			11.5	7.4	4.8	9	1.9
Independent Natural Gas and Oil - Large Cap								
Chesapeake Energy Corporation	CHK		48.40	11.1	11.1	7.8	14	0.6
Canadian Natural Resources	CNQ	B	85.05	9.0	9.7	7.2	15	0.4
EOG Resources	EOG	B	104.42	9.8	8.6	6.5	15	0.5
XTO Energy Inc.	XTO	B	50.41	11.4	9.9	6.5	14	1.0
Encana Corporation	ECA	B	74.90	8.6	7.7	6.1	19	2.1
Anadarko Petroleum Corp.	APC	B	61.73	9.7	7.8	5.6	13	1.2
CNOOC Limited (34%)	CEO	H	155.76	9.3	6.4	5.5	10	3.0
Devon Energy Corporation	DVN	B	102.05	9.3	8.4	5.4	11	0.6
Occidental Petroleum Corp.	OXY	B	79.36	11.8	7.3	5.0	9	1.6
	<i>Median</i>			9.7	8.4	6.1	14	1.0
Independent Natural Gas and Oil - Small Cap								
Birchcliff Energy Ltd. (US\$)	BIR.TO		11.99	7.1	12.1	10.6	123	-
Encore Acquisition Company	EAC	B	51.56	13.9	7.9	6.1	11	-
Berry Petroleum Company	BRY	B	41.62	9.7	7.7	6.0	12	0.7
Cimarex Energy Company	XEC	B	55.54	7.4	6.4	3.7	8	0.3
Energy Partners Ltd.	EPL		11.90	7.2	5.2	3.3		-
	<i>Median</i>			7.4	7.7	6.0	12	-
Income								
San Juan Basin Royalty Trust	SJT	B	40.96	10.5	13.1	11.2	14	7.4
Hugoton Royalty Trust	HGT	B	30.98	13.1	11.6	8.6	12	8.2
Canadian Oil Sands Trust	COSWF	B	48.30	21.3	9.4	8.0	9	11.7
Enerplus Resources Fund	ERF		43.29	9.6	7.9	5.8	16	12.2
Pengrowth Energy Trust	PGH		17.75	9.1	6.8	5.5	26	14.3
Penn West Energy Trust	PWE	B	29.36	7.5	6.8	5.5	12	13.0
	<i>Median</i>			10.1	8.6	6.9	13	12.0
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2009; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



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Index of Recent Research

Stock Ideas

<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
27-Aug	PTR	PetroChina Company Limited	Sacrifice Acknowledged
27-Aug	CEO	CNOOC Ltd	Strong Operating and Financial Results
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

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2-Sep		Weekly	
26-Aug		Weekly	Russian Rebalance
19-Aug		Weekly	Five Year of Oil Price in Stock Price
12-Aug	*	Weekly	Producers below 1982 Values

Oil and Gas Income Stocks

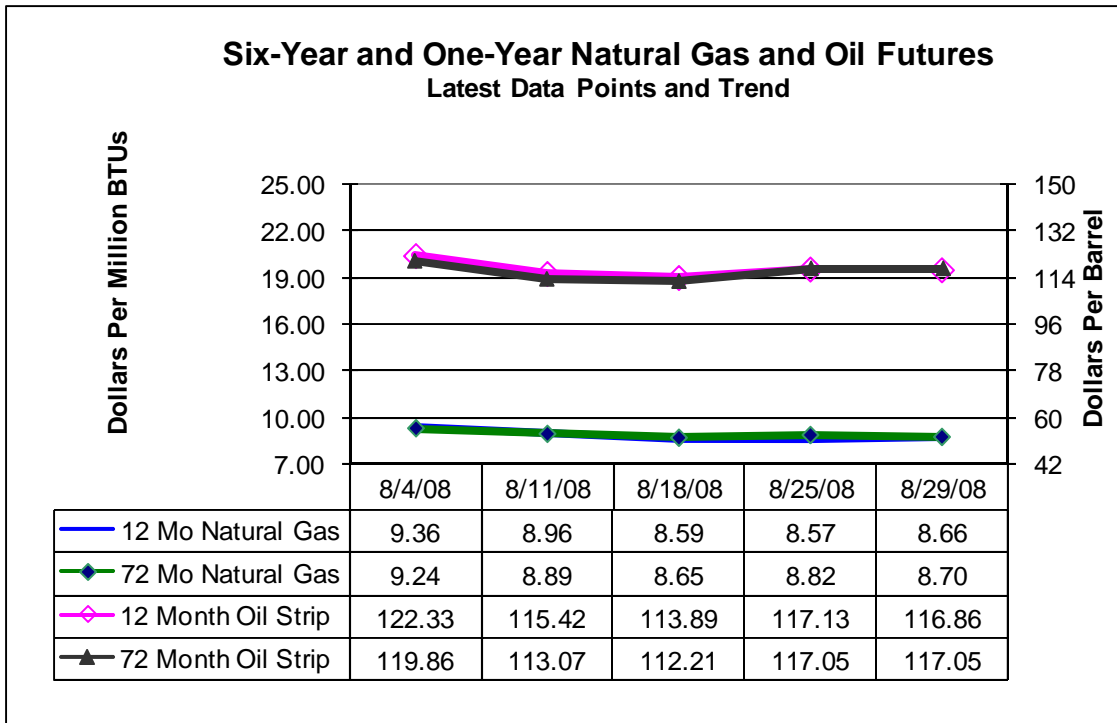
29-Aug		Weekly	Opportunity in Long-Term Natural Gas Futures
22-Aug	HGT	Hugoton Royalty Trust	Long-Term Natural Gas Income
15-Aug	SJT	San Juan Basin Royalty Trust	Long-Term Natural Gas Income
8-Aug	* PWE	Penn West Energy Trust	Distribution Yield 13%

* Archived on www.mcdep.com



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