



Meter Reader

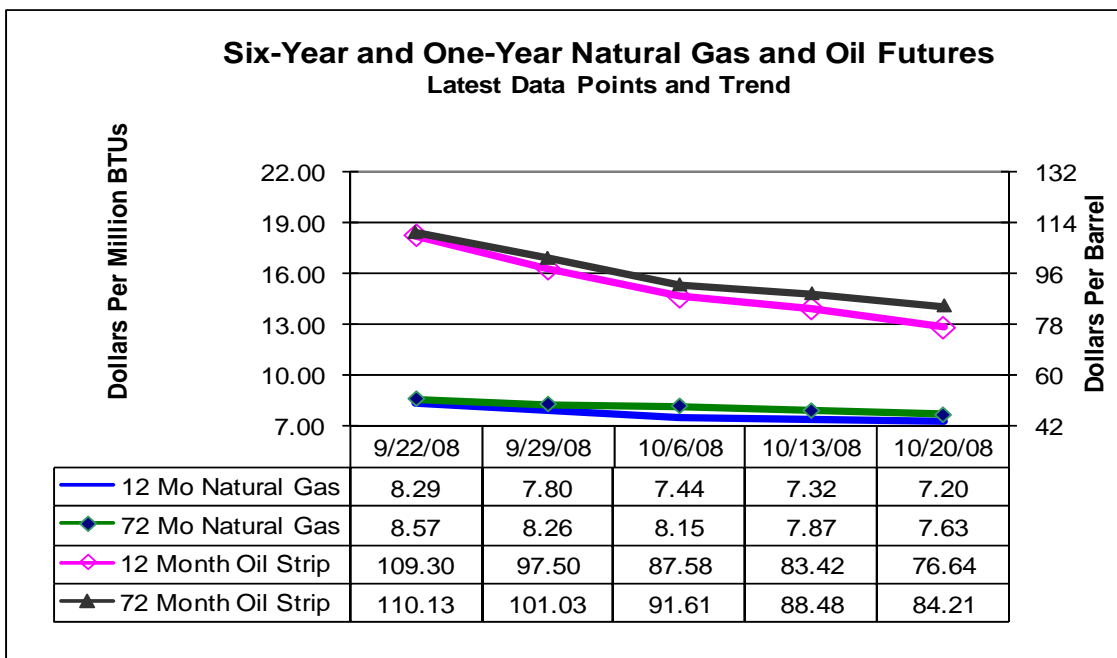
A Weekly Analysis of Energy Stocks Using the McDep Ratio
 October 21, 2008

Look Ahead

Summary and Recommendation

Stock prices may have started a new uptrend, yet to be confirmed, even though the economic news may not be encouraging. Futures prices for oil and gas may closely follow stocks considering the strong winter demand season is approaching. Stock prices were ahead of futures in confirming the need for investor patience in the recent downtrend. Oil and gas stock prices fell below the 200-day average in July, while oil and gas futures fell below the 200-day average in early September. Meanwhile, quarterly results to be reported in the next few weeks are likely to be positive compared to the year ago quarter judging by the trajectory of oil and gas price (see chart [Oil and Gas Quarterly Price Marker Change](#)). The markers were strong indicators of actual results in past quarters (see chart [Six Major Oils Quarterly Cash Flow Change](#)). Reported results can also reveal surprises and at the least provide operating information for use in anticipating more precisely the impact of commodity price in future quarters. Enthusiastic about the potential for a seasonal rebound in stock price into next year, we have buy recommendations on 11 stocks. Wary of the political risk in the first year of a new president's term, we have hold recommendations on 18 stocks. Among the latter, blue chips **Royal Dutch Shell (RDS)** and **BP plc (BP)** offer high dividend yields of 5.9% and 6.6%, levels not seen in a long time (see table [Value Multiples and Distribution Yield](#)).

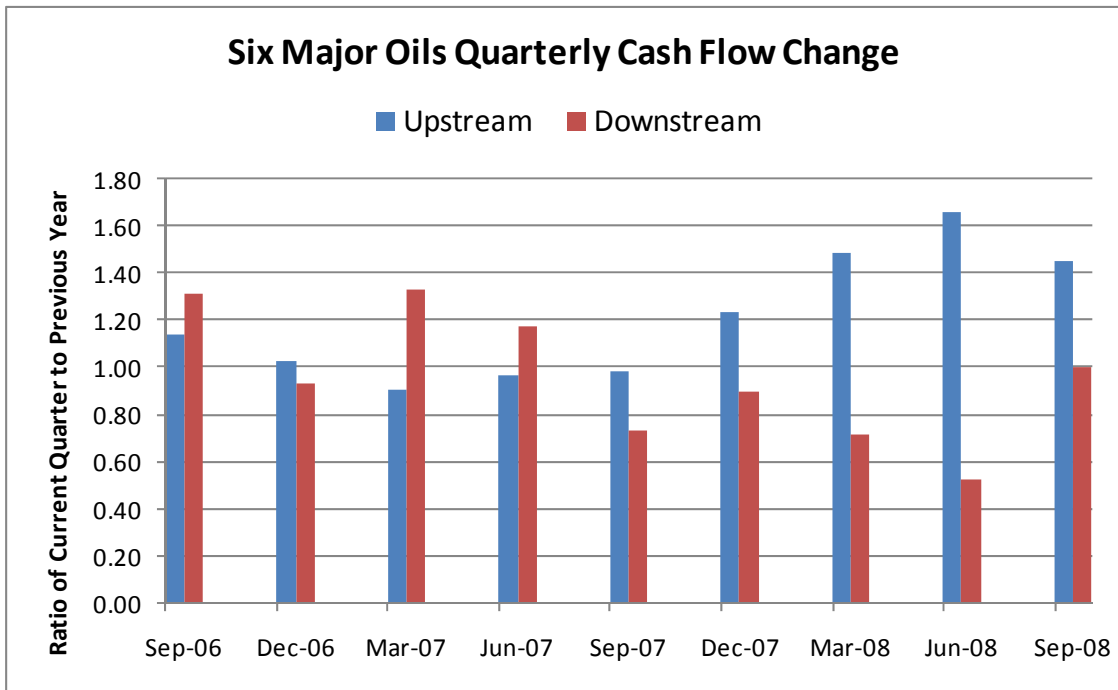
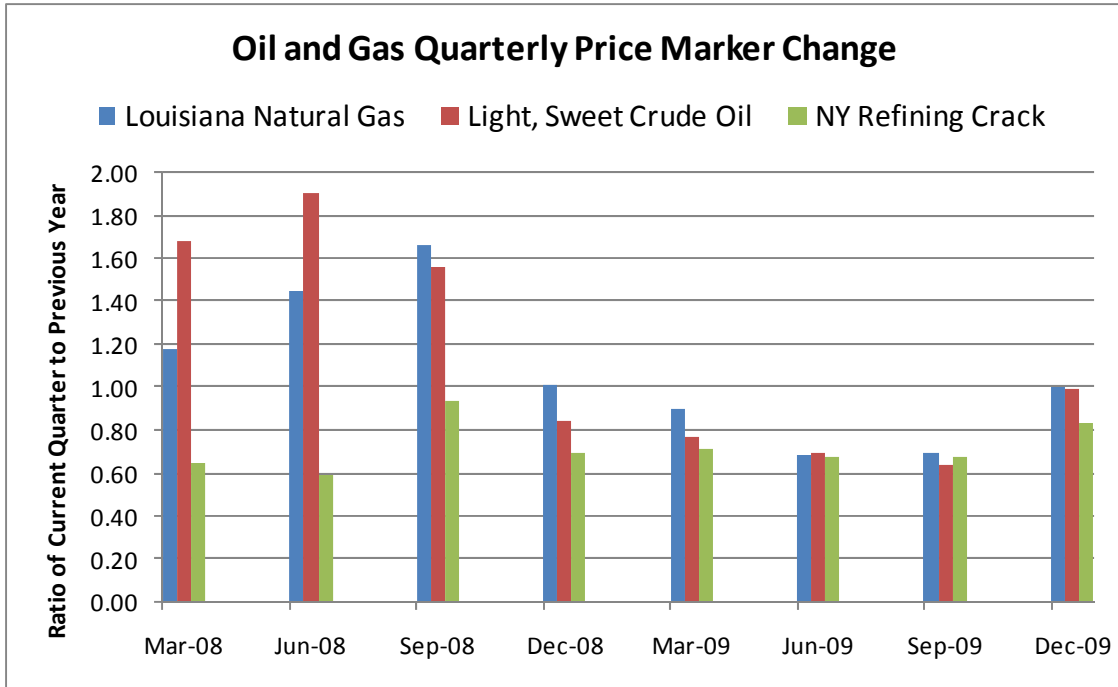
Kurt H. Wulff, CFA





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McDep Energy Portfolio - Geographic Domicile and Business Segments											
						Present Value by Segment (%)					
	Symbol/Rating		Price (US\$/sh)	EV/ Market	Enterprise Value (\$mm)	North Amer. Natural Gas	Rest of World Natural Gas	Oil Prod'n	Down- stream	McDep Ratio	
	B = Buy H = Hold		20-Oct 2008	Cap							
U.S. Integrated											
Exxon Mobil Corporation	XOM	H	74.99	1.09	428,000	7	17	57	20	0.65	
Chevron Corporation	CVX	H	69.61	1.18	181,000	5	8	75	12	0.56	
Marathon Oil Corporation	MRO	H	27.38	1.67	32,600	8	6	66	20	0.52	
ConocoPhillips	COP	B	57.73	1.53	138,000	15	8	58	19	0.49	
<i>Total or Median *</i>	<i>36%</i>	<i>11%</i>	<i>9%</i>		<i>780,000</i>					<i>0.54</i>	
Europe											
BP plc	BP	H	50.93	1.43	229,000	9	10	70	11	0.58	
Royal Dutch Shell plc	RDS-A	H	54.68	1.28	217,000	3	16	55	26	0.52	
BG Group	BRGXF		13.25	1.16	51,900		23	58	20	0.51	
Total S.A.	TOT	B	54.25	1.22	149,000		17	68	15	0.48	
StatoilHydro ASA (29%)	STO	B	18.85	1.34	23,500		38	62		0.43	
<i>Total or Median *</i>	<i>31%</i>	<i>14%</i>	<i>18%</i>		<i>670,000</i>					<i>0.51</i>	
Brazil/China/Russia											
CNOOC Limited (34%)	CEO	H	82.79	1.00	12,600		9	91		0.46	
Petrobras	PBR		29.10	1.27	163,000		7	85	8	0.45	
PetroChina Company Ltd (14%)	PTR	B	87.56	1.12	25,200		9	80	12	0.42	
Gazprom (50%)	OGZPY	B	16.62	1.49	71,000		82	18		0.26	
Lukoil Oil Company	LUKOY	H	33.50	1.14	32,100			66	34	0.22	
<i>Total or Median *</i>	<i>14%</i>	<i>14%</i>	<i>18%</i>		<i>304,000</i>					<i>0.42</i>	
U.S. Independent											
San Juan Basin Royalty Trust	SJT	H	36.99	1.00	1,720	100				0.77	
Berry Petroleum Company	BRY	H	25.22	2.53	2,910	38		62		0.62	
Encore Acquisition Company	EAC	H	30.77	1.93	3,110	17		83		0.57	
EOG Resources	EOG	H	75.04	1.13	21,300	69	5	26		0.57	
Hugoton Royalty Trust	HGT	B	23.23	1.00	930	100				0.55	
Anadarko Petroleum Corp.	APC	H	37.41	1.99	35,000	51		46	3	0.54	
Devon Energy Corporation	DVN	B	79.70	1.24	44,500	55		45		0.52	
XTO Energy Inc.	XTO	B	34.39	1.60	31,900	74		26		0.51	
Energy Partners Ltd.	EPL		5.50	4.40	790	38		62		0.50	
Chesapeake Energy Corp.	CHK		23.32	2.22	28,500	84		16		0.48	
Occidental Petroleum Corp.	OXY	H	53.53	1.13	50,000	12	1	81	6	0.48	
Cimarex Energy Company	XEC	B	41.25	1.17	4,120	63		37		0.45	
<i>Total or Median *</i>	<i>10%</i>	<i>33%</i>	<i>36%</i>		<i>225,000</i>					<i>0.53</i>	
Canada											
Pengrowth Energy Trust	PGH		11.83	1.66	4,850	34		66		0.62	
Penn West Energy Trust	PWE	H	18.55	1.68	11,800	32		69		0.59	
Encana Corporation	ECA	B	47.01	1.49	52,600	69		25	6	0.57	
Imperial Oil Limited (30%)	IMO	H	35.52	1.08	10,300	6		81	13	0.57	
Enerplus Resources Fund	ERF		27.56	1.30	5,910	48		52		0.50	
Canadian Natural Resources	CNQ	H	48.92	1.51	39,900	27		73		0.50	
Canadian Oil Sands Trust	COSWF	B	26.14	1.08	13,600			100		0.48	
Birchcliff Energy Ltd. (US\$)	BIR.TO		5.45	1.25	800	69		31		0.45	
Suncor Energy	SU	H	25.24	1.24	29,900	3		93	4	0.39	
Petro-Canada	PCZ	H	26.03	1.39	17,500	11	3	72	13	0.36	
<i>Total or Median *</i>	<i>9%</i>	<i>28%</i>	<i>18%</i>		<i>187,000</i>					<i>0.50</i>	
Composite											
<i>Enterprise Value Weighting</i>	<i>100%</i>				<i>2,166,000</i>	<i>12</i>	<i>13</i>	<i>61</i>	<i>14</i>	<i>0.50</i>	
<i>Equal Weighting</i>		<i>100%</i>				<i>29</i>	<i>7</i>	<i>57</i>	<i>7</i>	<i>0.50</i>	
<i>Equal Weighted Buys</i>			<i>100%</i>			<i>34</i>	<i>14</i>	<i>47</i>	<i>5</i>	<i>0.47</i>	
* Percentages in Symbol column refer to current market Enterprise Value weightings; Rating column, equal weightings.											
* Percentages in Price column refer to equal weighted buys.											



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Oil and Gas Producers - Net Present Value and McDep Ratio								
			Price			Net		
	Symbol/Rating		(US\$/sh)		Market	Present	Debt/	
	B = Buy	20-Oct	Shares		Cap	Value	Present	
	H = Hold	2008	(mm)		(US\$mm)	(US\$/sh)	Value	McDep
								Ratio
U.S. Integrated								
Exxon Mobil Corporation	XOM	H	74.99	5,261	395,000	118.00	0.05	0.65
Chevron Corporation	CVX	H	69.61	2,206	154,000	135.00	0.09	0.56
Marathon Oil Corporation	MRO	H	27.38	714	19,550	70.00	0.21	0.52
ConocoPhillips	COP	B	57.73	1,555	90,000	150.00	0.17	0.49
<i>Total or Median</i>					659,000		0.13	0.54
Europe								
BP plc	BP	H	50.93	3,137	160,000	104.00	0.17	0.58
Royal Dutch Shell plc	RDS-A	H	54.68	3,095	169,000	120.00	0.11	0.52
BG Group plc	BRGXF		13.25	3,384	44,840	28.00	0.07	0.51
Total S.A.	TOT	B	54.25	2,253	122,000	125.00	0.09	0.48
StatoilHydro ASA (29%)	STO	B	18.85	928	17,490	52.00	0.11	0.43
<i>Total or Median</i>					513,000		0.11	0.51
Brazil/China/Russia								
CNOOC Limited (34%)	CEO	H	82.79	152	12,610	180.00	-	0.46
Petrobras	PBR		29.10	4,387	127,660	75.00	0.10	0.45
PetroChina Company Ltd (14%)	PTR	B	87.56	257	22,540	220.00	0.04	0.42
Gazprom (50%)	OGZPY	B	16.62	2,865	47,600	88.00	0.09	0.26
Lukoil Oil Company	LUKOY	H	33.50	839	28,000	170.00	0.03	0.22
<i>Total or Median</i>					238,000		0.04	0.42
U.S. Independent								
San Juan Basin Royalty Trust	SJT	H	36.99	47	1,720	48.00	-	0.77
Berry Petroleum Company	BRY	H	25.22	46	1,150	65.00	0.37	0.62
Encore Acquisition Company	EAC	H	30.77	52	1,610	75.00	0.28	0.57
EOG Resources	EOG	H	75.04	251	18,800	140.00	0.07	0.57
Hugoton Royalty Trust	HGT	B	23.23	40	930	42.00	-	0.55
Anadarko Petroleum Corp.	APC	H	37.41	471	17,600	100.00	0.27	0.54
Devon Energy Corporation	DVN	B	79.70	450	35,900	170.00	0.10	0.52
XTO Energy Inc.	XTO	B	34.39	580	19,950	88.00	0.19	0.51
Energy Partners Ltd.	EPL		5.50	32	180	30.00	0.39	0.50
Chesapeake Energy Corp.	CHK		23.32	550	12,830	80.00	0.26	0.48
Occidental Petroleum Corp.	OXY	H	53.53	826	44,200	120.00	0.06	0.48
Cimarex Energy Company	XEC	B	41.25	86	3,530	100.00	0.06	0.45
<i>Total or Median</i>					158,400		0.15	0.53
Canada								
Pengrowth Energy Trust	PGH		11.83	248	2,930	24.00	0.24	0.62
Penn West Energy Trust	PWE	H	18.55	380	7,050	40.00	0.24	0.59
Encana Corporation	ECA	B	47.01	751	35,300	100.00	0.19	0.57
Imperial Oil Limited (30%)	IMO	H	35.52	269	9,540	65.00	0.04	0.57
Enerplus Resources Fund	ERF		27.56	165	4,530	63.00	0.12	0.50
Canadian Natural Resources	CNQ	H	48.92	541	26,500	124.00	0.17	0.50
Canadian Oil Sands Trust	COSWF	B	26.14	481	12,570	57.00	0.04	0.48
Birchcliff Energy Ltd. (US\$)	BIR.TO		5.45	117	640	14.00	0.09	0.45
Suncor Energy	SU	H	25.24	953	24,050	75.00	0.08	0.39
Petro-Canada	PCZ	H	26.03	484	12,600	90.00	0.10	0.36
<i>Total or Median</i>					136,000		0.11	0.50
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 - Value Multiples and Distribution Yield								
			Price	Adjustd			Divd or	
	Symbol/Rating		(US\$/sh)	Resrvs/	PV/	EV/	Distrib	
	B = Buy	20-Oct	Prod	Ebitda	Ebitda	P/E	NTM	
	H = Hold	2008	NTM	NTM	NTM	NTM	(%)	
U.S. Integrated								
Exxon Mobil Corporation	XOM	H	74.99	12.2	9.1	5.9	10	2.1
Chevron Corporation	CVX	H	69.61	9.5	9.2	5.1	9	3.7
Marathon Oil Corporation	MRO	H	27.38	8.8	8.9	4.6	9	3.5
ConocoPhillips	COP	B	57.73	10.9	9.0	4.4	7	3.3
	<i>Total or Median</i>			<i>10.2</i>	<i>9.0</i>	<i>4.9</i>	<i>9</i>	<i>3.4</i>
Europe								
BG Group plc	BRGXF		13.25	7.5	11.2	5.7	10	1.4
BP plc	BP	H	50.93	10.0	9.1	5.3	8	6.6
Total S.A.	TOT	B	54.25	9.1	9.0	4.3	7	5.5
Royal Dutch Shell plc	RDS-A	H	54.68	7.6	7.9	4.1	7	5.9
StatoilHydro ASA (29%)	STO	B	18.85	7.9	9.2	4.0	8	7.1
	<i>Total or Median</i>			<i>7.9</i>	<i>9.1</i>	<i>4.3</i>	<i>8</i>	<i>5.9</i>
Brazil/China/Russia								
Petrobras	PBR		29.10	10.4	12.2	5.5	11	3.0
PetroChina Company Ltd (14%)	PTR	B	87.56	14.3	9.6	4.1	9	4.8
CNOOC Limited (34%)	CEO	H	82.79	9.3	8.2	3.8	7	5.8
Gazprom (50%)	OGZPY	B	16.62	24.6	12.0	3.1	4	2.4
Lukoil Oil Company	LUKOY	H	33.50	18.6	8.3	1.8	3	4.3
	<i>Total or Median</i>			<i>14.3</i>	<i>9.6</i>	<i>3.8</i>	<i>7</i>	<i>4.3</i>
U.S. Independent								
San Juan Basin Royalty Trust	SJT	H	36.99	10.6	16.2	12.5	15	6.5
Hugoton Royalty Trust	HGT	B	23.23	13.1	14.6	8.1	11	8.8
Berry Petroleum Company	BRY	H	25.22	9.7	10.9	6.7	27	1.2
Chesapeake Energy Corp.	CHK		23.32	11.1	13.6	6.5	10	1.3
Encore Acquisition Company	EAC	H	30.77	13.9	11.2	6.5	16	-
XTO Energy Inc.	XTO	B	34.39	11.4	12.6	6.4	13	1.4
EOG Resources	EOG	H	75.04	9.8	10.7	6.1	16	0.7
Devon Energy Corporation	DVN	B	79.70	9.3	11.3	5.9	15	0.8
Anadarko Petroleum Corp.	APC	H	37.41	9.7	10.3	5.6	19	1.9
Occidental Petroleum Corp.	OXY	H	53.53	11.8	10.2	4.9	9	2.4
Energy Partners Ltd.	EPL		5.50	8.5	9.4	4.7		-
Cimarex Energy Company	XEC	B	41.25	7.4	8.4	3.8	9	0.6
	<i>Total or Median</i>			<i>10.2</i>	<i>11.1</i>	<i>6.2</i>	<i>15</i>	<i>1.2</i>
Canada								
Canadian Oil Sands Trust	COSWF	B	26.14	21.6	15.8	7.6	9	12.6
Birchcliff Energy Ltd. (US\$)	BIR.TO		5.45	7.1	15.9	7.1		-
Imperial Oil Limited (30%)	IMO	H	35.52	14.2	12.4	7.0	11	0.8
Canadian Natural Resources	CNQ	H	48.92	9.0	13.1	6.5	15	0.7
Pengrowth Energy Trust	PGH		11.83	9.1	9.2	5.6		19.4
Penn West Energy Trust	PWE	H	18.55	7.5	9.3	5.5	9	18.7
Encana Corporation	ECA	B	47.01	8.6	9.5	5.4	23	3.4
Enerplus Resources Fund	ERF		27.56	9.6	10.5	5.3	27	17.4
Suncor Energy	SU	H	25.24	21.7	13.4	5.2	8	0.7
Petro-Canada	PCZ	H	26.03	7.2	8.3	3.0	5	2.6
	<i>Total or Median</i>			<i>9.1</i>	<i>11.5</i>	<i>5.6</i>	<i>10</i>	<i>3.0</i>
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>
17-Oct	PWE	Penn West Energy Trust	Hold Rating (Income Weekly)
17-Oct	SJT	San Juan Basin Royalty Trust	Hold Rating (Income Weekly)
14-Oct	ECA	EnCana Corporation	Restore Buy Recommendation (Meter Reader)
14-Oct	OGZPY	Gazprom	Restore Buy Recommendation (Meter Reader)
14-Oct	TOT	Total S.A.	Restore Buy Recommendation (Meter Reader)
14-Oct	XTO	XTO Energy Inc.	Restore Buy Recommendation (Meter Reader)
7-Oct	HGT	Hugoton Royalty Trust	Buy amid Financial Panic (Meter Reader)
30-Sep	* XEC	Cimarex Energy Company	Buy after Record Decline for Stock Prices (Meter Reader)
16-Sep	* COP	ConocoPhillips	Reinstate Buy Recommendation (Flash)
16-Sep	* COSWF	Canadian Oil Sands Trust	Reinstate Buy Recommendation (Flash)
16-Sep	* DVN	Devon Energy Corporation	Reinstate Buy Recommendation (Flash)
16-Sep	* PTR	PetroChina Company Limited	Reinstate Buy Recommendation (Flash)
16-Sep	* STO	StatoilHydro ASA	Reinstate Buy Recommendation (Flash)
16-Sep	* BRGXF	BG Group	Deep Water Brazil (Meter Reader)
16-Sep	* PBR	Petrobras	Deep Water Brazil (Meter Reader)
5-Sep	* APC	Anadarko Petroleum Corporation	Suspend Buy Recommendation (Flash)
5-Sep	* BP	BP p.l.c.	Suspend Buy Recommendation (Flash)
5-Sep	* BRY	Berry Petroleum	Suspend Buy Recommendation (Flash)
5-Sep	* CEO	CNOOC Ltd	Suspend Buy Recommendation (Flash)
5-Sep	* CNQ	Canadian Natural Resources	Suspend Buy Recommendation (Flash)
5-Sep	* CVX	Chevron Corporation	Suspend Buy Recommendation (Flash)
5-Sep	* EAC	Encore Acquisition Company	Suspend Buy Recommendation (Flash)
5-Sep	* EOG	EOG Resources Inc.	Suspend Buy Recommendation (Flash)
5-Sep	* IMO	Imperial Oil Limited	Suspend Buy Recommendation (Flash)
5-Sep	* LUKOY	Lukoil Oil Company	Suspend Buy Recommendation (Flash)
5-Sep	* MRO	Marathon Oil Corporation	Suspend Buy Recommendation (Flash)
5-Sep	* OXY	Occidental Petroleum Corporation	Suspend Buy Recommendation (Flash)
5-Sep	* PCZ	Petro-Canada	Suspend Buy Recommendation (Flash)
5-Sep	* RDSA	Royal Dutch Shell plc	Suspend Buy Recommendation (Flash)
5-Sep	* SU	Suncor Energy	Suspend Buy Recommendation (Flash)
5-Sep	* XOM	Exxon Mobil Corporation	Suspend Buy Recommendation (Flash)

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21-Oct		Weekly	
14-Oct		Weekly	Restore Four Buy Recommendations
7-Oct		Hugoton Royalty Trust	Buy Hugoton Royalty Trust amid Financial Panic
30-Sep	*	Cimarex Energy Company	Buy Cimarex after Record Decline for Stock Prices

Oil and Gas Income Stocks

17-Oct		Weekly	Low Long-Term Risk
10-Oct		Weekly	Rebound Candidates
3-Oct		Weekly	Seasonal Swing
26-Sep	*	Weekly	Income Sensitivity to Oil and Gas Price

Industry Ideas

9-Oct		Presentation	Oil and Gas Strategy in Treacherous Times
24-Sep	*	Presentation	Energy Investment amid Financial Turmoil
16-Sep	*	Flash	Reinstate Five Buy Recommendations
5-Sep	*	Flash	Suspend Buy Recommendations

* Archived on www.mcdep.com

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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.

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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.