



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

March 10, 2009

## ExxonMobil's Supreme Test

### Summary and Recommendation

Borrowing a phrase from Chief Executive Rex Tillerson of buy-recommended **ExxonMobil (XOM)**, the current global financial situation is not only a “supreme test” of the company’s business model, but also of every person’s investment strategy. Even before long-term strategic considerations, the first concern is, “Where is the cash?” In an 18-month effort, XOM has reduced its vulnerability to Wall Street, bank, vendor or borrower failure to “very, very low exposure”. Also holding an analyst meeting last week, hold-rated **Encore Acquisition Company (EAC)** cashed in its oil price insurance citing counterparty risk, i.e. EAC might not get paid. Turning back to long-term opportunity, XOM is guided by its energy outlook. We notice a reduced share for coal in the formal forecast the company discloses annually and Mr. Tillerson confirms “natural gas will grow much faster than oil or coal”. XOM does not invest in renewable energy beyond a vigorous research effort because it has been conditioned to believe the government would make the largest oil company ineligible for the subsidies without which wind and solar is uneconomic. Moreover even after achieving President Obama’s goal of doubling wind and solar by 2012, the popular palliatives would still contribute less than 1% of total energy. Instead, XOM is increasing its spending on dependable oil and gas in a year when others are cutting back. We like to think of our recommended investment strategy in the same terms. After securing the cash, invest for the long-term upside.

### U.S. Stocks May be Suffering from Tax Concerns

XOM has fallen sharply along with most stocks since the inauguration of a new U.S. President, perhaps along with concerns of rising taxation. The XOM chief declares that changes being debated are not positive for U.S. companies, particularly changes to the foreign tax system that would put U.S. companies at a competitive advantage. Indeed, we notice that Russian, Brazilian, Chinese, European and Canadian stocks in our coverage seem to be outperforming U.S. stocks lately. As a result, much of the damage in the U.S has already been done to stocks. At the same time, the actual implementation of onerous taxes in a weak economic and stock market environment may not happen as it could be politically ruinous to those who would do so.

### Brazil is Nothing Like Ghawar

Pleased to have a promising position in Pre-Salt oil discoveries offshore Brazil, Mr. Tillerson thinks a comparison to Saudi Arabia may be mischaracterized. Ghawar, the largest oil field in the world, is comparatively easy and inexpensive to develop. The XOM CEO says the Brazilian discoveries require technological improvements, even breakthroughs, potentially, as well as a different approach to operating in such large volume, so far offshore and in water so deep. We like the prospects for **Petrobras (PBR)**, the dominant player in the Pre-Salt, and are waiting for the opportunity to initiate a rating on the stock.



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

March 10, 2009

## **Russia Sorting out Latest Events like Everyone Else**

XOM is proceeding in normal fashion with its project at Sakhalin in the Russian Far East. In Mr. Tillerson's view the government of the resource rich country has known its conventional oil and gas production would be declining by now, but has been caught by surprise by the global financial crisis. He thinks it is still early to say how new policies to encourage investment and attract new capital will evolve. With a little extra courage we remain interested in buy-recommended **Gazprom (OGZPY)** believing the value of the company's natural gas resources outweighs the political risk.

## **Qatar an Example of Producing Country/Private Country Partnership**

For an indication of the kind of deal XOM would like to do with other countries, Mr. Tillerson points to the Middle East nation, Qatar, owner of half of the world's largest natural gas field. XOM and Qatar are developing the world's largest liquefied natural gas (LNG) export project in a joint venture where the host government and the oil company have a common interest in long-term profits. We might add that just in case any pirate wants to raid the small emirate, the U.S. military has its giant regional headquarters nearby.

## **Share Buybacks a Flywheel**

In mechanical devices like the farm tractors of our youth, the spinning of a heavy flywheel smoothed the pulsations of an internal combustion engine power source. In using the analogy Mr. Tillerson may have in mind that commodity price, energy demand and myriad other factors contribute to a pulsating cash flow. After predictable dividends and programmed capital expenditures are covered the remaining pulsations in cash flow are smoothed by the share buyback flywheel. Repurchasing shares is an automatic reinvestment in all of the company's projects on efficient terms. As we see it, the buyback flywheel allows a company that long ago reached the conventional limits of size and profit to continue to deliver per share results like those of a long-term growth investment.

## **Oil and Gas Price Diverging Near-Term**

Our weekly chart illustrates a divergence as Six-Year and One-Year Futures for oil tip up in the past week while those for natural gas tip down (see chart on last page). In fact the trend of near-month crude oil currently quoted above a rising 50-day average is more positive than any stock price trend. Oil oriented stocks like hold-rated **Suncor (SU)**, buy-recommended **Canadian Oil Sands Trust (COSWF)**, hold-rated **Lukoil (LUKOY)** and unrated **Petrobras (PBR)** are the few in our large cap coverage priced above their 50-day averages.

Kurt H. Wulff, CFA



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

March 10, 2009

Table 1											
McDep Energy Portfolio											
Geographic Domicile and Business Segments											
						Present Value by Segment (%)					
	Symbol/Rating	Price (US\$/sh)	EV/ Market Cap	Enterprise Value (\$mm)	North Amer. Natural Gas	Rest of World Natural Gas	Oil Prod'n	Down- stream	McDep Ratio		
	B = Buy H = Hold	9-Mar 2009									
<b>U.S. Integrated</b>											
Exxon Mobil Corporation	XOM	B	64.57	1.11	362,000	5	27	47	21	0.74	
Chevron Corporation	CVX	H	58.28	1.25	161,000	4	12	65	19	0.65	
Marathon Oil Corporation	MRO	H	21.22	1.72	25,700	7	6	60	27	0.53	
ConocoPhillips	COP	B	36.53	1.93	105,000	13	10	61	17	0.49	
<i>Total or Median *</i>	<i>36%</i>	<i>10%</i>	<i>17%</i>		<i>654,000</i>					<i>0.59</i>	
<b>Europe</b>											
BG Group	BRGXF		13.39	1.13	51,300		33	40	27	0.73	
BP plc	BP	H	36.18	1.58	178,000	8	15	62	16	0.60	
StatoilHydro ASA (33%)	STO	B	16.35	1.46	25,200		51	49	-	0.56	
Total S.A.	TOT	B	44.85	1.29	129,000		25	52	23	0.56	
Royal Dutch Shell plc	RDS-A	H	41.19	1.37	173,000	3	23	45	29	0.53	
<i>Total or Median *</i>	<i>31%</i>	<i>12%</i>	<i>17%</i>		<i>557,000</i>					<i>0.56</i>	
<b>Brazil/China/Russia</b>											
Petrobras	PBR		26.59	1.31	153,000		13	77	10	0.60	
CNOOC Limited (34%)	CEO	H	80.08	1.00	12,200		12	88	-	0.59	
PetroChina Company Ltd (14%)	PTR	B	65.85	1.16	19,500		17	66	17	0.47	
Lukoil Oil Company	LUKOY	H	33.85	1.07	30,700			61	39	0.26	
Gazprom (50%)	OGZPY	B	12.65	1.31	49,000		80	20	-	0.24	
<i>Total or Median *</i>	<i>15%</i>	<i>12%</i>	<i>17%</i>		<i>264,000</i>					<i>0.47</i>	
<b>U.S. Independent</b>											
Anadarko Petroleum Corp.	APC	H	33.55	1.98	30,500	58		37	5	0.64	
XTO Energy Inc.	XTO	H	31.09	1.65	29,700	79		21	-	0.64	
Occidental Petroleum Corp.	OXY	H	50.39	1.14	46,500	9	1	81	9	0.60	
Chesapeake Energy Corp.	CHK		14.06	2.76	22,300	91		9	-	0.55	
EOG Resources	EOG	B	50.42	1.19	15,000	75	5	20	-	0.50	
Devon Energy Corporation	DVN	B	38.84	1.50	25,800	67		33	-	0.43	
<i>Total or Median *</i>	<i>9%</i>	<i>14%</i>	<i>17%</i>		<i>170,000</i>					<i>0.57</i>	
<b>Canada</b>											
Imperial Oil Limited (30%)	IMO	H	31.02	1.08	8,700	5		80	16	0.66	
Encana Corporation	ECA	B	37.55	1.44	40,500	69		26	4	0.59	
Canadian Natural Resources	CNQ	H	33.30	1.59	28,600	25		75	-	0.51	
Suncor Energy	SU	H	23.20	1.36	29,800	3		92	5	0.50	
Petro-Canada	PCZ	H	20.31	1.54	15,200	11	3	71	15	0.44	
Canadian Oil Sands Trust	COSWF	B	16.02	1.14	8,800			100	-	0.41	
<i>Total or Median *</i>	<i>7%</i>	<i>14%</i>	<i>17%</i>		<i>132,000</i>					<i>0.50</i>	
<b>Income and Small Cap (see separate weekly analysis)</b>											
	<i>1%</i>	<i>38%</i>	<i>17%</i>		<i>24,000</i>	<i>45</i>		<i>55</i>		<i>0.49</i>	
<b>Composite</b>											
<i>Enterprise Value Weighting</i>	<i>100%</i>				<i>1,801,000</i>	<i>11</i>	<i>18</i>	<i>54</i>	<i>16</i>	<i>0.57</i>	
<i>Equal Weighting</i>		<i>100%</i>				<i>#REF!</i>	<i>8</i>	<i>51</i>	<i>7</i>	<i>0.53</i>	
<i>Equal Weighted Buys</i>			<i>100%</i>			<i>33</i>	<i>18</i>	<i>43</i>	<i>7</i>	<i>0.51</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.											



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

March 10, 2009

Table 2								
McDep Energy Portfolio								
Net Present Value and McDep Ratio								
			Price			Net		
	Symbol/Rating		(US\$/sh)		Market	Present	Debt/	
	B = Buy	9-Mar	Shares		Cap	Value	Present	McDep
	H = Hold	2009	(mm)		(US\$mm)	(US\$/sh)	Value	Ratio
<b>U.S. Integrated</b>								
Exxon Mobil Corporation	XOM	B	64.57	5,045	326,000	90.00	0.07	0.74
Chevron Corporation	CVX	H	58.28	2,206	129,000	98.00	0.13	0.65
Marathon Oil Corporation	MRO	H	21.22	707	15,000	54.00	0.22	0.53
ConocoPhillips	COP	B	36.53	1,486	54,000	109.00	0.24	0.49
<i>Total or Median</i>					524,000		0.18	0.59
<b>Europe</b>								
BG Group plc	BRGXF		13.39	3,379	45,230	19.00	0.09	0.73
BP plc	BP	H	36.18	3,119	113,000	74.00	0.22	0.60
StatoilHydro ASA (33%)	STO	B	16.35	1,051	17,180	35.00	0.18	0.56
Total S.A.	TOT	B	44.85	2,235	100,000	90.00	0.13	0.56
Royal Dutch Shell plc	RDS-A	H	41.19	3,064	126,000	92.00	0.14	0.53
<i>Total or Median</i>					401,000		0.14	0.56
<b>Brazil/China/Russia</b>								
Petrobras	PBR		26.59	4,387	116,650	50.00	0.14	0.60
CNOOC Limited (34%)	CEO	H	80.08	152	12,190	135.00	-	0.59
PetroChina Company Ltd (14%)	PTR	B	65.85	256	16,870	150.00	0.06	0.47
Lukoil Oil Company	LUKOY	H	33.85	848	29,000	135.00	0.02	0.26
Gazprom (50%)	OGZPY	B	12.65	2,940	37,200	64.00	0.06	0.24
<i>Total or Median</i>					212,000		0.06	0.47
<b>U.S. Independent</b>								
Anadarko Petroleum Corp.	APC	H	33.55	460	15,400	70.00	0.32	0.64
XTO Energy Inc.	XTO	H	31.09	577	17,940	60.00	0.25	0.64
Occidental Petroleum Corp.	OXY	H	50.39	812	40,900	89.00	0.07	0.60
Chesapeake Energy Corp.	CHK		14.06	575	8,080	46.00	0.35	0.55
EOG Resources	EOG	B	50.42	250	12,600	110.00	0.08	0.50
Devon Energy Corporation	DVN	B	38.84	444	17,200	116.00	0.14	0.43
<i>Total or Median</i>					112,100		0.20	0.57
<b>Canada</b>								
Imperial Oil Limited (30%)	IMO	H	31.02	262	8,110	48.00	0.05	0.66
Encana Corporation	ECA	B	37.55	751	28,200	75.00	0.18	0.59
Canadian Natural Resources	CNQ	H	33.30	541	18,000	85.00	0.19	0.51
Suncor Energy	SU	H	23.20	943	21,880	55.00	0.13	0.50
Petro-Canada	PCZ	H	20.31	484	9,830	60.00	0.16	0.44
Canadian Oil Sands Trust	COSWF	B	16.02	482	7,720	42.00	0.05	0.41
<i>Total or Median</i>					94,000		0.14	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\$75 a barrel and natural gas, \$10 a million btu.								



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

March 10, 2009

Table 3								
McDep Energy Portfolio								
Value Multiples and Distribution Yield								
			Price	Adjustd			Divd or	
	Symbol/Rating		(US\$/sh)	Resrvs/	PV/	EV/	Distrib	
	B = Buy	9-Mar	Prod	Ebitda	Ebitda	P/E	NTM	
	H = Hold	2009	NTM	NTM	NTM	NTM	(%)	
<b>U.S. Integrated</b>								
Exxon Mobil Corporation	XOM	B	64.57	12.0	10.1	7.5	15	2.5
Chevron Corporation	CVX	H	58.28	10.1	10.2	6.6	14	4.5
ConocoPhillips	COP	B	36.53	10.6	10.5	5.2	10	5.1
Marathon Oil Corporation	MRO	H	21.22	8.5	8.3	4.4	10	4.5
	<i>Total or Median</i>			<i>10.3</i>	<i>10.2</i>	<i>5.9</i>	<i>12</i>	<i>4.5</i>
<b>Europe</b>								
BG Group plc	BRGXF		13.39	7.4	10.4	7.6	15	1.2
BP plc	BP	H	36.18	9.8	9.5	5.7	9	9.3
Total S.A.	TOT	B	44.85	9.3	9.8	5.5	12	6.4
StatoilHydro ASA (33%)	STO	B	16.35	7.5	8.4	4.7	15	6.2
Royal Dutch Shell plc	RDS-A	H	41.19	7.6	8.4	4.4	9	8.2
	<i>Total or Median</i>			<i>7.6</i>	<i>9.5</i>	<i>5.5</i>	<i>12</i>	<i>6.4</i>
<b>Brazil/China/Russia</b>								
Petrobras	PBR		26.59	10.2	12.7	7.6	17	3.2
CNOOC Limited (34%)	CEO	H	80.08	7.8	8.7	5.1	10	6.0
PetroChina Company Ltd (14%)	PTR	B	65.85	14.1	9.4	4.5	13	6.4
Gazprom (50%)	OGZPY	B	12.65	24.6	8.0	1.9	2	2.4
Lukoil Oil Company	LUKOY	H	33.85	18.2	7.0	1.9	3	3.2
	<i>Total or Median</i>			<i>14.1</i>	<i>8.7</i>	<i>4.5</i>	<i>10</i>	<i>3.2</i>
<b>U.S. Independent</b>								
XTO Energy Inc.	XTO	H	31.09	11.9	15.2	9.7	16	1.6
Chesapeake Energy Corp.	CHK		14.06	11.5	14.8	8.1	33	2.1
Anadarko Petroleum Corp.	APC	H	33.55	9.3	11.5	7.4		2.1
EOG Resources	EOG	B	50.42	10.0	13.2	6.6	53	1.2
Occidental Petroleum Corp.	OXY	H	50.39	11.4	10.8	6.4	17	2.5
Devon Energy Corporation	DVN	B	38.84	8.8	12.1	5.2	24	1.6
	<i>Total or Median</i>			<i>10.7</i>	<i>12.6</i>	<i>7.0</i>	<i>24</i>	<i>1.9</i>
<b>Canada</b>								
Imperial Oil Limited (30%)	IMO	H	31.02	19.1	14.6	9.7	18	1.0
Canadian Oil Sands Trust	COSWF	B	16.02	23.3	23.2	9.6	19	2.9
Suncor Energy	SU	H	23.20	22.5	19.1	9.5	18	0.7
Canadian Natural Resources	CNQ	H	33.30	8.0	14.5	7.3	15	0.9
Encana Corporation	ECA	B	37.55	9.1	11.2	6.6	24	4.3
Petro-Canada	PCZ	H	20.31	6.9	9.7	4.3	15	3.0
	<i>Total or Median</i>			<i>14.1</i>	<i>14.6</i>	<i>8.4</i>	<i>18</i>	<i>1.9</i>
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2010; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

March 10, 2009

## Index of Recent Research

### Stock Ideas

<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
5-Mar	CNQ	Canadian Natural Resources	Horizon Produces First Oil
5-Mar	OGZPY	Gazprom	Tax Risk Diversification
4-Mar	BIR.TO	Birchcliff Energy Ltd.	Alberta Reduces Royalties (Taxes) on New Wells
25-Feb	BRY	Berry Petroleum	Resource Rich, Credit Sensitive
19-Feb	PWE	Penn West Energy Trust	Distribution Keyed to US\$45 Oil
19-Feb	XTO	XTO Energy Inc.	Hedging Helping
18-Feb	XEC	Cimarex Energy Company	Lower NPV to \$55 a Share
17-Feb	STO	StatoilHydro ASA	Low Cost Offshore Operator
12-Feb	ECA	EnCana Corporation	Steady Production and Reserves
12-Feb	TOT	Total S.A.	Dividend and Investment Strength
11-Feb	EAC	Encore Acquisition Company	Lower NPV to \$44 a Share
5-Feb	* EOG	EOG Resources Inc.	Raise NPV on Higher Reserves
4-Feb	* DVN	Devon Energy Corporation	Harvesting Accounting Losses
3-Feb	* MRO	Marathon Oil Corporation	Raise NPV to \$54 a Share
3-Feb	* BP	BP p.l.c.	Cash Flow Balance at \$50 to \$60 Oil in 2009
3-Feb	* APC	Anadarko Petroleum Corporation	Deep Water Explorer
30-Jan	* CVX	Chevron Corporation	Downstream Surprise
30-Jan	* XOM	Exxon Mobil Corporation	Natural Gas Leader
29-Jan	* IMO	Imperial Oil Limited	Extra Price Sensitivity in Heavy Oil
29-Jan	* OXY	Occidental Petroleum Corporation	Resilience and Financial Strength
29-Jan	* PCZ	Petro-Canada	Managing for \$50 to \$60 Oil in 2009
29-Jan	* RDSA	Royal Dutch Shell plc	Dividend Trend Beats Inflation
28-Jan	* COSWF	Canadian Oil Sands Trust	Quarterly Distribution of C\$0.15 a Unit
28-Jan	* COP	ConocoPhillips	Harvesting Accounting Losses
22-Jan	* PTR	PetroChina Company Limited	Government Managed Pricing
21-Jan	* CEO	CNOOC Ltd	More Volume Growth in 2009
20-Jan	* SU	Suncor Energy	Volumes Climbing
9-Jan	* SJT	San Juan Basin Royalty Trust	Clean Fuel Pure Play (Income and Small Cap Weekly)
26-Dec	* HGT	Hugoton Royalty Trust	Under Year-End Price Pressure (Income Weekly)
16-Dec	* LUKOY	Lukoil Oil Company	Credible Russian Champion

### Meter Reader

10-Mar		Weekly	ExxonMobil's Supreme Test
3-Mar		Weekly	Home of the Brave
24-Feb		Weekly	Buy EOG, Hold XTO (Meter Reader)
17-Feb	*	Weekly	Long-Term Oil Supply Declining

### Income and Small Cap Weekly

6-Mar		Weekly	Accumulate Away
27-Feb		Weekly	Turning Points
20-Feb		Weekly	Geographic Distortion in Natural Gas Price
13-Feb	*	Weekly	Revisions, Differentials and Anomalies

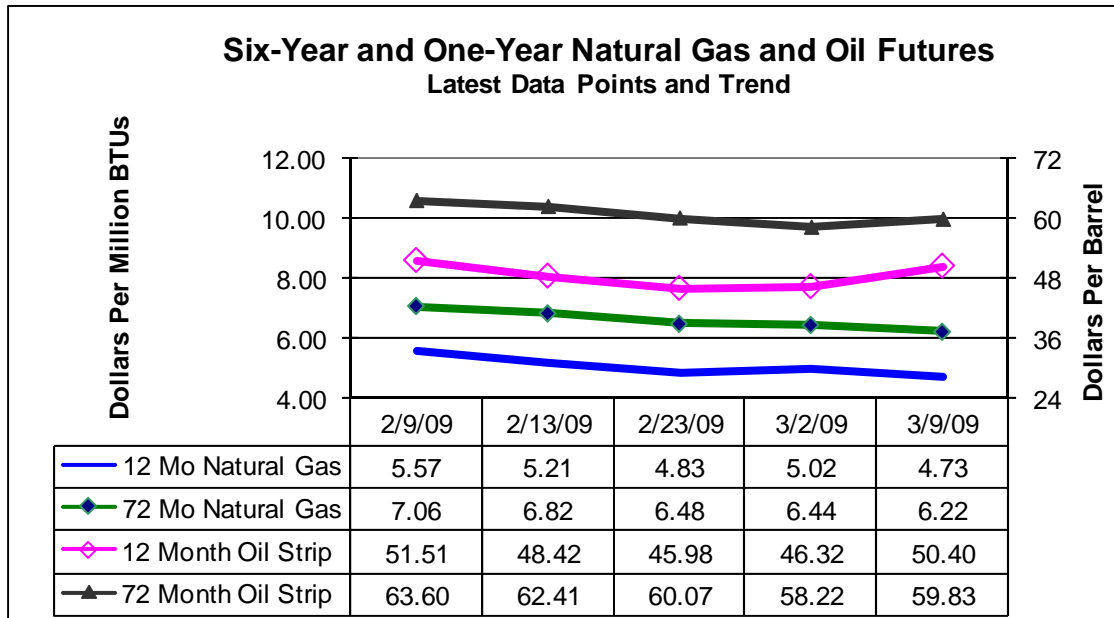
\* Archived on [www.mcdep.com](http://www.mcdep.com)



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

March 10, 2009



**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.

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.