



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

June 9, 2009

Energy Policy Warning

Summary and Recommendation

Stock prices above the 200-day averages for our buy-recommendations among Canadian, Chinese, Russian, Brazilian and European stocks, including **Canadian Oil Sands Trust (COSWF)**, **PetroChina (PTR)**, **Lukoil (LUKOY)**, **Petrobras (PBR)** and **StatoilHydro (STO)** may be reflecting investor misgivings about developing U.S. energy policy. The trend for non U.S. producers contrasts with stock prices hanging below the 200-day averages for the largest U.S. oil companies, including buy recommendations **ExxonMobil (XOM)** and **ConocoPhillips (COP)**. Though the debate continues, our political leaders appear to be gutless on coal, silent on natural gas, prejudiced against oil, and falsely promoting clean energy. The tendency for such attitudes may also contribute to weak expectations for U.S. economic activity and the dollar. Ironically, U.S. political bias against oil has probably helped drive up the long-term oil price in our weekly tabulation to more than \$80 a barrel for the first time in the new cycle (see chart page 7, Six-Year and One-Year Natural Gas and Oil Futures).

Gutless on Coal

Representatives Waxman and Markey have released a draft bill to reduce carbon dioxide, a perceived pollutant created in large quantities from coal burned by electric utilities. The bill would require permits to emit the colorless, odorless, tasteless and mostly benign gas blamed for contributing to a global warming trend. Yet, the bill proposes to give away free permits to coal burners thereby undoing almost all but the symbolic impact of the action.

Silent on Natural Gas

Logically, our political leaders should be rejoicing that natural gas prices are low and that when they go up again the higher price will bring forth more supply than previously expected. Natural gas is our cleanest energy source and we already have the electrical generating capacity in place to use more. It has also long been used as a transportation fuel, mostly in other countries. Natural gas could represent a cost-effective economic solution for the majority of Americans who live outside the densely populated Northeast and want to drive something larger and safer than a golf cart. It is mystifying why our political leaders are largely silent on the most logical alternative energy source.



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Prejudiced against Oil

The Waxman-Markey bill would give away free permits to almost all except the oil refiners. In its extreme, oil refiners could be forced to pay exorbitant prices to buy unneeded permits given freely to others. In any case the costs would be passed on to consumers, mostly automobile owners who buy gasoline. In the worst case, the bill to save the “climate” becomes nothing more than a gasoline tax, that decades old, worn out, discredited idea. The misrepresented concept seems periodically regurgitated primarily by persons in the Northeast, which has public transit, and little oil industry, who would tax differentially the rest of the country, which has little or no public transit and some oil industry. A gasoline tax is nothing more than self-destructive political divisiveness, in our opinion.

Falsely Promoting Clean Energy

In our mind, the probabilities of unfavorable consequences of global warming are not high enough to justify taking too much of an economic penalty. Experts at our beloved research institutions have been wrong before. Our experience with butter comes to mind. Having grown up in an agricultural community, I told my spouse in the early days of our marriage that we would have no substitutes for butter in our house. Within a few years we were partly persuaded by nutritional research that margarine was good and butter was bad. Hedging those apparent findings, we changed our spread to a combination of butter and margarine. Now decades later, the top nutritional research apparently concludes that margarine is bad and delicious butter is neutral unless it leads to too many calories.

As a result, we think the draft legislation is right not to penalize most carbon emitters too heavily. Yet, to require oil to pay heavy penalties exposes the use of a false premise of protecting the climate to attack oil and those who depend on the automobile for their livelihood.

Meanwhile, coal is still the largest polluter without considering carbon dioxide. Coal burning is primitive and should be subject to stricter environmental requirements in a balanced tradeoff of economics and health. As long as the world burns coal, we can't get too excited about less significant pollution from increasingly refined oil. Substituting natural gas for coal is a giant step forward environmentally wherever it can be done.

Nor are wind and solar likely to be more than niche fuels for a long time without giant subsidies. Subsidizing research makes sense, but not mass consumption, as we see it.

Kurt H. Wulff, CFA



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Table 1										
McDep Energy Portfolio										
Geographic Domicile and Business Segments										
						<i>Present Value by Segment (%)</i>				
	<i>Symbol/Rating</i>	<i>Price (US\$/sh)</i>	<i>EV/Market Cap</i>	<i>Enterprise Value (\$mm)</i>	<i>North Amer. Natural Gas</i>	<i>Rest of World Natural Gas</i>	<i>Oil Prod'n</i>	<i>Down-stream</i>	<i>McDep Ratio</i>	
	B = Buy H = Hold	8-Jun 2009								
U.S. Integrated										
Exxon Mobil Corporation	XOM	B	73.17	1.12	405,000	6	21	49	23	0.83
Chevron Corporation	CVX	H	69.58	1.23	172,000	4	11	66	18	0.75
Marathon Oil Corporation	MRO	B	32.45	1.49	34,400	10	7	57	26	0.69
ConocoPhillips	COP	B	45.02	1.77	119,000	13	10	61	16	0.55
<i>Total or Median *</i>	<i>32%</i>	<i>9%</i>	<i>12%</i>		<i>730,000</i>					<i>0.72</i>
Europe										
BG Group	BRGXF	B	18.53	1.12	70,100		27	46	27	0.86
BP plc	BP	B	51.35	1.40	227,000	8	12	64	15	0.76
Royal Dutch Shell plc	RDS-A	B	54.45	1.29	216,000	3	24	40	33	0.73
Total S.A.	TOT	B	57.66	1.25	161,000		25	53	22	0.69
StatoilHydro ASA (33%)	STO	B	20.98	1.37	30,300		53	47	-	0.67
<i>Total or Median *</i>	<i>31%</i>	<i>12%</i>	<i>20%</i>		<i>704,000</i>					<i>0.73</i>
Brazil/China/Russia										
CNOOC Limited (34%)	CEO	B	139.86	1.00	21,300		12	88	-	1.04
PetroChina Company Ltd (14%)	PTR	B	119.42	1.14	34,800		13	74	13	0.82
Petrobras	PBR	B	43.22	1.19	226,000		7	77	16	0.78
Lukoil Oil Company	LUKOY	B	53.35	1.14	51,500			62	38	0.43
Gazprom (50%)	OGZPY	B	22.80	1.24	83,000		79	21	-	0.41
<i>Total or Median *</i>	<i>18%</i>	<i>12%</i>	<i>16%</i>		<i>417,000</i>					<i>0.78</i>
U.S. Independent										
Anadarko Petroleum Corp.	APC	B	48.23	1.70	37,700	55		41	4	0.79
Occidental Petroleum Corp.	OXY	B	68.33	1.10	61,200	12	1	78	9	0.78
XTO Energy Inc.	XTO	B	40.51	1.47	34,500	79		21	-	0.75
EOG Resources	EOG	B	73.70	1.13	20,800	77	3	19	-	0.70
Chesapeake Energy Corp.	CHK		22.92	2.03	27,700	89		11	-	0.67
Devon Energy Corporation	DVN	B	63.90	1.32	37,500	67		33	-	0.62
<i>Total or Median *</i>	<i>10%</i>	<i>14%</i>	<i>16%</i>		<i>219,000</i>					<i>0.72</i>
Canada										
Imperial Oil Limited (30%)	IMO	B	40.04	1.08	11,100	5		79	16	0.84
Encana Corporation	ECA	B	54.37	1.30	52,900	69		26	4	0.77
Canadian Natural Resources	CNQ	B	57.20	1.41	43,600	24		76	-	0.74
Suncor Energy pro forma	SU	B	33.84	1.31	69,500	6		86	7	0.71
Canadian Oil Sands Trust	COSWF	B	24.64	1.11	13,200			100	-	0.61
Petro-Canada (to be SU@1.28)	PCZ	B	42.60							
<i>Total or Median *</i>	<i>8%</i>	<i>12%</i>	<i>20%</i>		<i>190,000</i>					<i>0.74</i>
Income and Small Cap (see separate weekly analysis)										
	<i>2%</i>	<i>42%</i>	<i>16%</i>		<i>40,700</i>	<i>46</i>		<i>54</i>		<i>0.74</i>
Composite										
<i>Enterprise Value Weighting</i>	<i>100%</i>				<i>2,300,700</i>	<i>12</i>	<i>16</i>	<i>56</i>	<i>17</i>	<i>0.72</i>
<i>Equal Weighting</i>		<i>100%</i>				<i>35</i>	<i>7</i>	<i>50</i>	<i>7</i>	<i>0.72</i>
<i>Equal Weighted Buys</i>			<i>100%</i>			<i>18</i>	<i>12</i>	<i>59</i>	<i>11</i>	<i>0.73</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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			<i>Price</i>			<i>Net</i>		
	<i>Symbol/Rating</i>		<i>(US\$/sh)</i>	<i>8-Jun</i>	<i>Shares</i>	<i>Market</i>	<i>Present</i>	<i>Debt/</i>
	B = Buy					<i>Cap</i>	<i>Value</i>	<i>Present</i>
	H = Hold					<i>(US\$mm)</i>	<i>(US\$/sh)</i>	<i>Value</i>
								<i>Ratio</i>
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	73.17	4,959	363,000	90.00	0.09	0.83
Chevron Corporation	CVX	H	69.58	2,000	139,000	98.00	0.14	0.75
Marathon Oil Corporation	MRO	B	32.45	712	23,100	54.00	0.23	0.69
ConocoPhillips	COP	B	45.02	1,495	67,000	109.00	0.24	0.55
	<i>Total or Median</i>				<i>592,000</i>		<i>0.18</i>	<i>0.72</i>
Europe								
BG Group plc	BRGXF	B	18.53	3,384	62,710	22.00	0.09	0.86
BP plc	BP	B	51.35	3,153	162,000	74.00	0.22	0.76
Royal Dutch Shell plc	RDS-A	B	54.45	3,063	167,000	80.00	0.17	0.73
Total S.A.	TOT	B	57.66	2,235	129,000	90.00	0.14	0.69
StatoilHydro ASA (33%)	STO	B	20.98	1,051	22,050	35.00	0.18	0.67
	<i>Total or Median</i>				<i>543,000</i>		<i>0.17</i>	<i>0.73</i>
Brazil/China/Russia								
CNOOC Limited (34%)	CEO	B	139.86	152	21,300	135.00	-	1.04
PetroChina Company Ltd (14%)	PTR	B	119.42	256	30,600	150.00	0.10	0.82
Petrobras	PBR	B	43.22	4,387	189,610	58.00	0.13	0.78
Lukoil Oil Company	LUKOY	B	53.35	847	45,000	135.00	0.05	0.43
Gazprom (50%)	OGZPY	B	22.80	2,925	66,700	64.00	0.08	0.41
	<i>Total or Median</i>				<i>353,000</i>		<i>0.08</i>	<i>0.78</i>
U.S. Independent								
Anadarko Petroleum Corp.	APC	B	48.23	460	22,200	70.00	0.33	0.79
Occidental Petroleum Corp.	OXY	B	68.33	814	55,700	89.00	0.07	0.78
XTO Energy Inc.	XTO	B	40.51	578	23,410	60.00	0.24	0.75
EOG Resources	EOG	B	73.70	250	18,400	110.00	0.08	0.70
Chesapeake Energy Corp.	CHK		22.92	597	13,680	46.00	0.34	0.67
Devon Energy Corporation	DVN	B	63.90	444	28,400	116.00	0.15	0.62
	<i>Total or Median</i>				<i>161,800</i>		<i>0.20</i>	<i>0.72</i>
Canada								
Imperial Oil Limited (30%)	IMO	B	40.04	257	10,280	48.00	0.06	0.84
Encana Corporation	ECA	B	54.37	751	40,800	75.00	0.18	0.77
Canadian Natural Resources	CNQ	B	57.20	541	30,900	85.00	0.22	0.74
Suncor Energy pro forma	SU	B	33.84	1,565	52,950	52.00	0.17	0.71
Canadian Oil Sands Trust	COSWF	B	24.64	482	11,880	42.00	0.06	0.61
Petro-Canada (to be SU@1.28)	PCZ	B	42.60					
	<i>Total or Median</i>				<i>147,000</i>		<i>0.17</i>	<i>0.74</i>
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.								



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Table 3

McDep Energy Portfolio Value Multiples and Distribution Yield

			<i>Price</i>	<i>Adjustd</i>				<i>Divd or</i>
	<i>Symbol/Rating</i>		<i>(US\$/sh)</i>	<i>Resrvs/</i>	<i>PV/</i>	<i>EV/</i>		<i>Distrib</i>
	B = Buy		<i>8-Jun</i>	<i>Prod</i>	<i>Ebitda</i>	<i>Ebitda</i>	<i>P/E</i>	<i>NTM</i>
	H = Hold		<i>2009</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>(%)</i>
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	73.17	11.9	8.4	7.0	12	2.2
Chevron Corporation	CVX	H	69.58	9.9	7.5	5.6	12	3.7
Marathon Oil Corporation	MRO	B	32.45	9.2	7.4	5.1	11	3.0
ConocoPhillips	COP	B	45.02	10.5	8.8	4.9	8	4.2
	<i>Total or Median</i>			<i>10.2</i>	<i>8.0</i>	<i>5.4</i>	<i>12</i>	<i>3.3</i>
Europe								
BG Group plc	BRGXF	B	18.53	9.1	8.8	7.5	15	1.0
BP plc	BP	B	51.35	9.8	7.4	5.6	9	6.5
Total S.A.	TOT	B	57.66	9.3	7.5	5.2	9	5.5
Royal Dutch Shell plc	RDS-A	B	54.45	7.6	7.1	5.2	10	6.2
StatoilHydro ASA (33%)	STO	B	20.98	7.4	5.9	4.0	8	5.4
	<i>Total or Median</i>			<i>9.1</i>	<i>7.4</i>	<i>5.2</i>	<i>9</i>	<i>5.5</i>
Brazil/China/Russia								
Petrobras	PBR	B	43.22	9.4	11.4	8.8	16	3.8
PetroChina Company Ltd (14%)	PTR	B	119.42	14.3	10.0	8.1	28	3.4
CNOOC Limited (34%)	CEO	B	139.86	7.5	6.8	7.0	13	3.7
Gazprom (50%)	OGZPY	B	22.80	24.6	11.5	4.7	7	1.5
Lukoil Oil Company	LUKOY	B	53.35	16.4	10.9	4.6	10	2.3
	<i>Total or Median</i>			<i>14.3</i>	<i>10.9</i>	<i>7.0</i>	<i>13</i>	<i>3.4</i>
U.S. Independent								
XTO Energy Inc.	XTO	B	40.51	11.5	12.3	9.3	17	1.2
Chesapeake Energy Corp.	CHK		22.92	11.7	13.0	8.7	19	1.3
EOG Resources	EOG	B	73.70	9.8	11.5	8.0	51	0.8
Anadarko Petroleum Corp.	APC	B	48.23	9.2	9.1	7.2		1.5
Occidental Petroleum Corp.	OXY	B	68.33	10.9	7.9	6.2	13	1.9
Devon Energy Corporation	DVN	B	63.90	8.8	9.7	6.0	14	1.0
	<i>Total or Median</i>			<i>10.3</i>	<i>10.6</i>	<i>7.6</i>	<i>17</i>	<i>1.3</i>
Canada								
Imperial Oil Limited (30%)	IMO	B	40.04	18.3	13.4	11.3	22	0.9
Canadian Oil Sands Trust	COSWF	B	24.64	22.1	14.0	8.6	12	2.2
Encana Corporation	ECA	B	54.37	9.0	10.3	8.0	13	2.9
Canadian Natural Resources	CNQ	B	57.20	7.9	10.5	7.8	16	0.6
Suncor Energy pro forma	SU	B	33.84	-	9.3	6.6	46	0.5
Petro-Canada (to be SU@1.28)	PCZ	B	42.60					
	<i>Total or Median</i>			<i>9.0</i>	<i>10.5</i>	<i>8.0</i>	<i>16</i>	<i>0.9</i>
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2010; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



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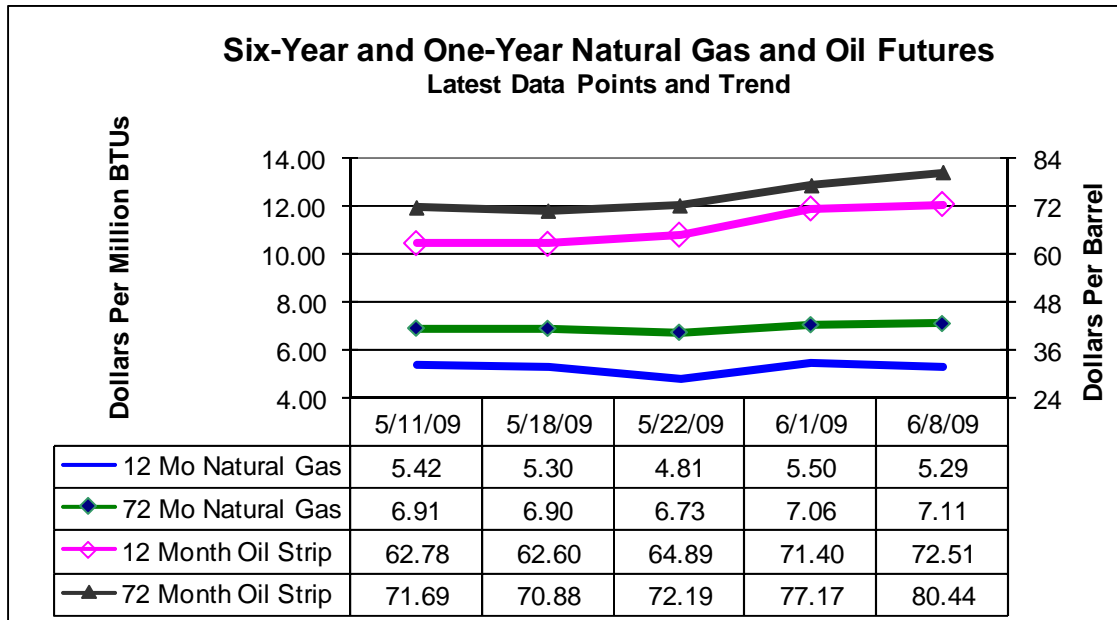
Index of Recent Research				
Stock Ideas				
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>	
5-Jun	DMLP	Dorchester Minerals, L.P.	New Buy on Shale Formation Backlog (ISC Weekly)	
2-Jun	RDSA	Royal Dutch Shell plc	Restore Buy (Meter Reader)	
2-Jun	BP	BP p.l.c.	Restore Buy (Meter Reader)	
2-Jun	MRO	Marathon Oil Corporation	Restore Buy (Meter Reader)	
12-May	OXY	Occidental Petroleum Corporation	Restore Buy (Meter Reader)	
12-May	LUKOY	Lukoil Oil Company	Restore Buy (Meter Reader)	
11-May	STO	StatoilHydro ASA	Alternative Energy Practical Idealist	
8-May	EAC	Encore Acquisition Company	Restore Buy (Income and Small Cap Weekly)	
8-May	SU	Suncor Energy	Restore Buy on New Price Trend	
8-May	PCZ	Petro-Canada	Restore Buy on New Price Trend	
8-May	IMO	Imperial Oil Limited	Restore Buy on New Price Trend	
8-May	CNQ	Canadian Natural Resources	Restore Buy on New Price Trend	
7-May	* APC	Anadarko Petroleum Corporation	Restore Buy on New Price Trend	
6-May	* PWE	Penn West Energy Trust	Transitioning to Exploration and Production Company	
6-May	* XTO	XTO Energy Inc.	Restore Buy on New Price Trend	
6-May	* DVN	Devon Energy Corporation	Efficient Producer	
6-May	* TOT	Total S.A.	Resilience to Recession	
5-May	* XEC	Cimarex Energy Company	Ready to Drill Shale	
5-May	* EOG	EOG Resources Inc.	Ready to Develop More Oil and Gas	
5-May	* BRGXF	BG Group	New Buy on Global LNG and Brazil Oil	
5-May	* PBR	Petrobras	New Buy on Oil Growth	
1-May	* CVX	Chevron Corporation	Creating Energy Wealth Globally	
1-May	* BRY	Berry Petroleum	Getting through Tough Times	
30-Apr	* IMO	Imperial Oil Limited	Investing through the Cycle	
30-Apr	* XOM	Exxon Mobil Corporation	Strong Performer in Tough Times	
29-Apr	* COSWF	Canadian Oil Sands Trust	Cash Flow Exceeds Distribution	
29-Apr	* OGZPY	Gazprom	Expect Modest Results for 2009	
29-Apr	* CEO	CNOOC Ltd	Reinstate Buy on Rising Outlook	
28-Apr	* PTR	PetroChina Company Limited	Tax and Price Control Relief	
23-Apr	* COP	ConocoPhillips	Overlooked Rich Resources	
22-Apr	* ECA	EnCana Corporation	Billion Dollar Hedge Gain	
17-Apr	* SJT	San Juan Basin Royalty Trust	Lower Net Present Value to \$26 from \$34 a Unit (Weekly)	
17-Apr	* HGT	Hugoton Royalty Trust	Natural Gas Price Limits Distributions (ISC Weekly)	
4-Mar	* BIR.TO	Birchcliff Energy Ltd.	Alberta Reduces Royalties (Taxes) on New Wells	
Meter Reader				
9-Jun		Weekly		
2-Jun		Weekly	Restore Buys on Marathon, BP and Royal Dutch	
26-May		Weekly	Lagging U.S. Integrated Oil Stocks	
19-May	*	Weekly	Track the Cash	
Income and Small Cap Weekly				
5-Jun		Dorchester Minerals, L.P.	New Buy on Shale Formation Backlog	
29-May		Weekly	Deal Conditions Ripe	
22-May		Weekly	Hedge U.S. Dollar with Canadian Income and Small Cap	
15-May	*	Weekly	Cash Flow Strength	
Industry Ideas				
2-Apr	*	Presentation	Making Money in Oil and Gas Stocks	
	*	Archived on www.mcdep.com		



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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.