



Independent Stock Idea

May 2, 2018

Marathon Oil (MRO) Raise NPV to \$40 a Share from \$30

<i>Symbol</i>	MRO	<i>Ebitda Next Twelve Months ending 3/31/19 (US\$m)</i>	4,600
<i>Rating</i>		<i>Natural Gas/Ebitda (%)</i>	7
<i>Price (US\$/sh)</i>	19.72	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	5/4/18	<i>Developed Reserves/Production NTM</i>	5.5
<i>Shares (mm)</i>	852	<i>EV/Ebitda</i>	5.1
<i>Market Capitalization (US\$m)</i>	16,800	<i>PV/Ebitda</i>	8.9
<i>Debt (US\$m)</i>	6,700	<i>Undeveloped Reserves (%)</i>	38
<i>Enterprise Value (EV) (US\$m)</i>	23,500	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	28.00
<i>Present Value (PV) (US\$m)</i>	40,800	<i>Downstream Uplift (US\$/boe)</i>	0
<i>Net Present Value (US\$/share)</i>	40	<i>Oil and Gas Ebitda Margin (%)</i>	68
<i>Ebitda/Market Cap</i>	1.40	<i>Top Line/Ebitda (%)</i>	0
<i>McDep Ratio - EV/PV</i>	0.58	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	1.0	<i>Indicated Annual Dividend (US\$/sh)</i>	0.20
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value capped by unlevered cash flow multiple.			
For historical research on Marathon since 2001 see http://www.mcdep.com/3mro.htm			

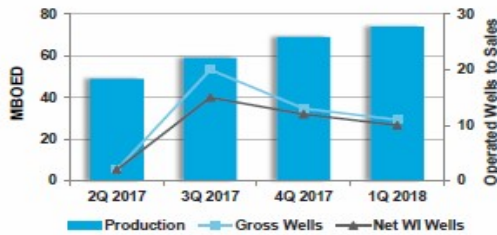
Summary and Recommendation

Record shale oil productivity driving cash flow beyond our previous estimates causes us to raise our estimated Net Present Value (NPV) of the common shares of **Marathon Oil (MRO)** 33% to \$40 a share from \$30. As disclosed with quarterly results on May 2, a single well in the North Dakota Bakken trend produced 10,875 barrels of oil equivalent in the first 24 hours (see slides [Bakken](#) on page 2). U.S. production, nearly all from resource plays—Bakken, Eagle Ford, Oklahoma and Permian---contributed 284 mboed in the latest quarter, up 37% from the previous year. U.S. growth was about 84% of global growth to the first quarter 2018 from the first quarter 2017 (see table [Operating and Financial Estimates](#) on page 3). Favorable performance contributes to attractive investment potential among the 22 stocks in our coverage (see [Table 1](#) on page 4). Improving financial strength has lowered the ratio of Enterprise Value to Market Cap to a median 1.40 among Mid-Size Producer peers. No stock in our coverage with an equal or lower EV/Mkt Cap has an unlevered cash flow multiple (EV/Ebitda) as low as MRO at 5.1 times. We think that Present Value (PV) in our framework ought to be 8.9 times Ebitda for MRO, about in line with the median for mid-size and larger companies. Coincidentally, the ratio of EV/Ebitda to PV/Ebitda, 0.58, is the McDep Ratio that rates MRO one of our most undervalued stocks. Among other quantitative measures compared to peers, MRO's Ebitda Margin of 68% matches the median (see [Table 2](#) on page 5). A low 10% of cash flow from natural gas minimizes exposure to current low price for that fuel (see [Table 3](#) on page 6). A 16% gain in stock price in 2018 makes up for low dividend return (see [Table 4](#) on page 7). Finally, the stock has made an impressive recovery from the depths of early 2016, thanks to better oil price, strong management, great technology and quality properties. We are optimistic for further gains.

Kurt H. Wulff, CFA

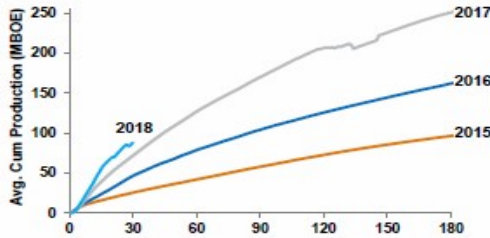
Bakken Delivering Record Wells Across the Basin

Production Volumes and Wells to Sales



- Production averaged **74 net MBOED**, up **7%** from 4Q 2017
- **11** gross operated wells to sales
- Hector success expanding the core
 - Six wells reached IP 30 rates averaging **~2,600 BOED** (81% oil)
 - Arkin well sets new basin Three Forks record with IP 30 oil rate of **3,040 BOPD**
- Continued outperformance in West Myrmidon
 - **2 record Williston Basin wells** from June and Chauncey at **3,470 BOPD** avg. IP30
 - **10,875 BOED** and **7,570 BOED** IP24s from the Mark and Wilbur wells; not yet at 30 days
- Testing Elk Creek and Ajax in 2018

Well Performance History



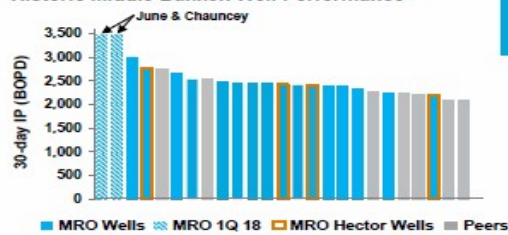
Includes MRO operated wells across Bakken & Three Forks formations. 2018 excludes one well with mechanical issues

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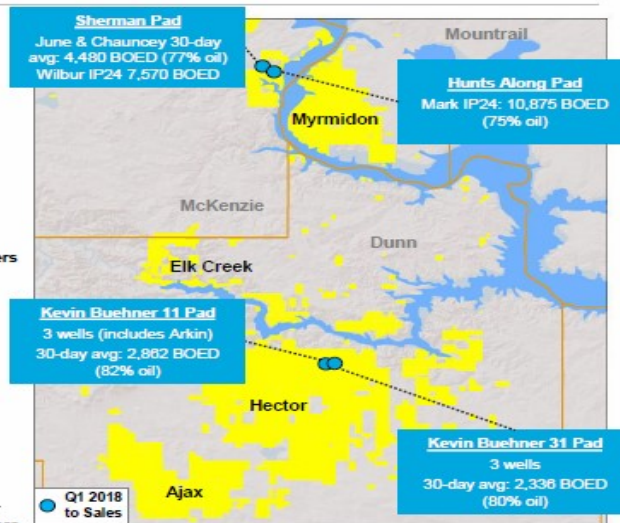
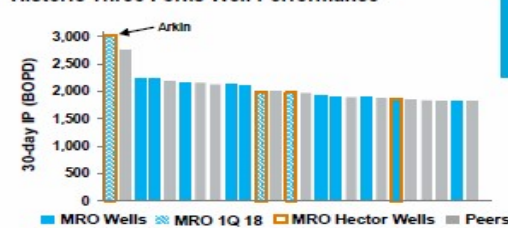
Record Setting Bakken Performance

Hector success continues to expand the core

Historic Middle Bakken Well Performance



Historic Three Forks Well Performance



* Source: Drilling info, competitor presentations and internal data. External data available through 1Q 2018.

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Marathon Oil Corporation											
Next Twelve Months Operating and Financial Estimates											
	Year	Q1	Q4	Year	Q1	Q2E	Q3E	Q4E	Year	Q1E	Next Twelve Months
	2016	3/31/17	12/31/17	2017	3/31/18	6/30/18	9/30/18	12/31/18	2018	3/31/19	3/31/19
Volume											
Natural Gas (mmcf)											
U.S. (or North America)	314	304	376	348	420	428	437	446	433	446	439
Overseas (or Int'l)	453	461	493	485	437	446	455	464	450	464	457
Total	766	765	869	833	857	874	892	909	883	909	896
Days	366	90	92	365	90	91	92	92	365	90	365
Oil (mmb)	101	19	25	88	26	27	28	28	108	28	110
Oil (mbd)	276	208	270	241	288	294	300	306	297	306	301
Total gas & oil (bcf)	886	181	229	831	233	240	247	252	972	247	987
Total gas & oil (mbd)	404	336	415	380	431	439	448	457	444	457	451
Price											
Natural gas (\$/mcf)											
Henry Hub (\$/mmbtu)	2.46	3.32	2.93	3.11	3.01	2.73	2.81	2.89	2.86	2.99	2.86
U.S. (or North America)	2.38	3.02	2.65	2.84	2.59	2.35	2.42	2.49	2.46	2.58	2.46
Overseas (or Int'l)	0.53	0.55	0.59	0.55	0.65	0.65	0.65	0.65	0.65	0.65	0.65
Total	1.29	1.53	1.48	1.51	1.60	1.48	1.52	1.55	1.54	1.59	1.54
Oil (\$/bbl)											
WTI Cushing	43.31	51.92	55.40	50.94	62.88	67.70	67.63	65.85	66.02	64.13	66.33
Worldwide	33.65	40.53	48.54	42.60	53.97	58.11	58.05	55.85	56.52	54.91	56.72
Total gas & oil (\$/mcf)	4.24	4.77	5.78	5.06	6.54	6.97	6.97	6.74	6.81	6.65	6.83
Revenue (\$mm)											
Natural Gas											
U.S. (or North America)	274	83	92	361	98	92	97	102	389	103	394
Overseas (or Int'l)	87	23	27	98	26	26	27	28	107	27	108
Total	361	105	118	459	123	118	125	130	496	131	503
Oil	3,396	759	1,206	3,743	1,399	1,553	1,600	1,570	6,123	1,510	6,234
Other	893	208	58	563	211	211	211	211	842	211	842
Total	4,650	1,072	1,382	4,765	1,733	1,882	1,935	1,911	7,461	1,851	7,579
Expense	3,369	596	521	2,283	722	730	747	757	2,956	745	2,980
Ebitda (\$mm)	1,281	476	861	2,482	1,011	1,152	1,189	1,153	4,505	1,106	4,599
Exploration	330	28	81	183	52	52	52	52	208	40	196
Deprec., Deplet., & Amort.	2,395	556	583	2,372	590	590	590	590	2,360	590	2,360
Other non cash	(722)	(94)	35	(16)	130				130		-
Ebit	(722)	(13)	163	(57)	239	510	547	511	1,807	476	2,043
Interest	335	78	71	270	45	45	45	45	180	45	180
Ebt	(1,057)	(91)	92	(327)	194	465	502	466	1,627	431	1,863
Income Tax	(370)	(32)	32	(114)	41	98	105	98	342	90	391
Net Income (\$mm)	(687)	(59)	60	(212)	153	367	396	368	1,285	340	1,472
Shares (millions)	789	849	850	850	852	852	852	852	852	852	852
Per share (\$)	(0.87)	(0.07)	0.07	(0.25)	0.18	0.43	0.47	0.43	1.51	0.40	1.73
Ebitda Margin (E&P)	34%	55%	65%	59%	66%	69%	69%	68%	68%	67%	68%
Tax Rate	35%	35%	35%	35%	21%	21%	21%	21%	21%	21%	21%
Dividends		0.05	0.05		0.05	0.05	0.05	0.05		0.05	0.20



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Table 1
McDep Energy Stocks
Ranked by McDep Ratio

		Price (US\$/sh)	Market Cap (US\$m)	Enterprise Value (\$mm)	EV/ Market Cap	EV/ Ebitda NTM	PV/ Ebitda NTM	Oil Prod'n/ Ebitda (%)	Dist. Yield NTM (%)	McDep Ratio (EV/PV)	
	Symbol/Rating	4-May 2018									
Integrated											
	Exxon Mobil Corporation	XOM	76.90	328,000	419,000	1.28	8.2	9.3	49	4.3	0.88
	Chevron Corporation	CVX	125.53	240,000	303,000	1.26	7.6	8.8	62	3.6	0.87
	Suncor Energy	SU	38.39	63,000	83,000	1.31	7.0	8.7	76	2.9	0.81
	Royal Dutch Shell	RDS-B	72.57	304,000	421,000	1.38	7.1	9.1	50	5.2	0.79
	<i>Total or Median</i>			935,000	1,226,000	1.29	7.4	8.9	56	3.9	0.84
Large Independent											
	Occidental Petroleum Corp.	OXY	77.71	59,500	73,100	1.23	7.8	7.6	79	4.0	1.03
	Pioneer Natural Resources	PXD	194.19	33,200	35,800	1.08	8.6	8.8	94	0.2	0.97
	EOG Resources, Inc.	EOG	114.66	68,600	75,600	1.10	8.3	9.3	90	0.6	0.89
	ConocoPhillips	COP	66.86	79,000	102,000	1.29	7.5	8.7	76	1.7	0.87
	<i>Total or Median</i>			240,300	286,500	1.17	8.0	8.7	85	1.2	0.93
Mid-Size Independent											
	Hess Corporation	HES	58.71	18,200	26,600	1.46	11.0	10.5	88	1.7	1.05
	Continental Resources	CLR	64.40	24,100	30,400	1.26	8.2	8.7	83	-	0.94
	Cimarex Energy Company	XEC	97.31	9,300	10,800	1.17	5.8	8.0	80	0.5	0.73
	Devon Energy Corporation	DVN	37.87	20,000	27,900	1.40	7.4	10.4	74	0.8	0.71
	Marathon Oil Corporation	MRO	19.72	16,800	23,500	1.40	5.1	8.9	90	1.0	0.58
	<i>Total or Median</i>			88,400	119,200	1.40	7.4	8.9	83	0.8	0.73
Small Independent											
	California Resources	CRC	31.58	1,500	8,100	5.6	6.2	8.6	92	-	0.72
	Whiting Petroleum Corporation	WLL	44.67	4,100	7,400	1.83	4.8	8.1	97	-	0.60
	Range Resources	RRC	13.62	3,400	8,000	2.39	5.9	10.7	45	0.6	0.55
	Birchcliff Energy Ltd.	BIREF	3.45	900	1,500	1.64	5.5	10.9	48	2.3	0.50
	<i>Total or Median</i>			9,900	25,000	2.11	5.7	9.6	70	0.3	0.57
Income											
	Permian Basin RT	PBT	9.61	450	450	1.00	11.1	11.5	80	8.8	0.96
	Sabine Royalty Trust	SBR	45.60	670	670	1.00	14.6	16.0	69	6.9	0.91
	San Juan Basin Royalty Trust	SJT	6.91	320	320	1.00	11.9	13.8	-	8.2	0.86
	Dorchester Minerals, L.P.	DMLP	18.15	590	590	1.00	9.6	12.8	83	10.7	0.76
	Cross Timbers Royalty Trust	CRT	13.20	80	80	1.00	7.6	14.4	39	10.7	0.53
	<i>Total or Median</i>			2,100	2,100	1.00	11.1	13.8	69	8.8	0.86

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation, amort.
 Estimated Ebitda (cash flow) tied to NTM futures prices for oil and natural gas. NTM = Next Twelve Months ending 3/31/19.
 Estimated Present Value (PV) presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.00 a million btu.
 McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses. For historical research see www.mcdep.com



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	Symbol/Rating	Price	Upstream NTM				Down-	Total	Distrib./ Ebitda (%)	Distrib. NTM (\$/sh)
		(US\$/sh)	Volume (mmboe)	Equiv.	Ebitda	Ebitda	stream Uplift (\$/boe)	Ebitda NTM (\$mm)		
		4-May 2018		Price (\$/boe)	Margin (%)					
Integrated										
Royal Dutch Shell	RDS-B	72.57	1359	46.11	69	31.60	11.77	42,945	27	3.76
Exxon Mobil Corporation	XOM	76.90	1442	49.30	49	24.30	11.30	35,037	27	3.28
Chevron Corporation	CVX	125.53	1050	50.69	61	30.90	7.05	32,451	22	4.48
Suncor Energy	SU	38.39	291	57.20	54	30.72	9.64	8,935	16	1.12
	<i>Total or Median</i>		<i>4142</i>	<i>50.00</i>	<i>57</i>	<i>30.81</i>	<i>10.47</i>	<i>119,368</i>	<i>24</i>	
Large Independent										
ConocoPhillips	COP	66.86	448	48.40	63	30.40	0.00	13,628	10	1.14
EOG Resources, Inc.	EOG	114.66	268	46.50	73	34.00	0.00	9,122	5	0.74
Occidental Petroleum Corp.	OXY	77.71	247	47.62	66	31.60	6.48	7,800	25	3.08
Pioneer Natural Resources	PXD	194.19	121	47.27	73	34.50	0.00	4,187	1	0.32
	<i>Total or Median</i>		<i>1085</i>	<i>47.44</i>	<i>70</i>	<i>32.80</i>	<i>0.00</i>	<i>34,736</i>	<i>7</i>	
Mid-Size Independent										
Marathon Oil Corporation	MRO	19.72	164	40.97	68	28.00	0.00	4,599	4	0.20
Continental Resources	CLR	64.40	108	42.82	81	34.60	0.00	3,720	-	-
Devon Energy Corporation	DVN	37.87	176	29.64	63	18.70	2.83	3,297	4	0.32
Hess Corporation	HES	58.71	96	45.12	56	25.10	0.00	2,418	13	1.00
Cimarex Energy Company	XEC	97.31	81	33.36	69	22.90	0.00	1,859	2	0.48
	<i>Total or Median</i>		<i>626</i>	<i>40.97</i>	<i>68</i>	<i>25.10</i>	<i>0.00</i>	<i>15,893</i>	<i>4</i>	
Small Independent										
Whiting Petroleum Corporation	WLL	44.67	48	47.99	67	32.20	0.00	1,537	-	-
Range Resources	RRC	13.62	137	18.93	52	9.90	0.00	1,358	1	0.08
California Resources	CRC	31.58	50	52.91	50	26.30	0.00	1,304	-	-
Birchcliff Energy Ltd.	BIREF	3.45	22	17.88	69	12.30	0.00	276	8	0.08
	<i>Total or Median</i>		<i>257</i>	<i>33.46</i>	<i>60</i>	<i>19.30</i>	<i>0.00</i>	<i>4,475</i>	<i>1</i>	
Income										
Dorchester Minerals, L.P.	DMLP	18.15	2.28	38.68	69	26.61	0.00	61	103	1.94
Sabine Royalty Trust	SBR	45.60	1.55	34.55	85	29.40	0.00	46	100	3.13
Permian Basin RT	PBT	9.61	1.24	46.71	70	32.66	0.00	41	97	0.84
San Juan Basin Royalty Trust	SJT	6.91	3.27	15.40	54	8.29	0.00	27	98	0.57
Cross Timbers Royalty Trust	CRT	13.20	0.49	37.54	56	21.19	0.00	10	81	1.41
	<i>Total or Median</i>		<i>9</i>	<i>37.54</i>	<i>69</i>	<i>26.61</i>	<i>0.00</i>	<i>184</i>	<i>98</i>	

For historical research see www.mcdep.com



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Table 3
McDep Energy Stocks
Net Present Value Per Share

		<i>Price</i>					<i>Devel.</i>	<i>Undev/</i>	<i>Nat</i>	<i>Top</i>	<i>Net</i>
		<i>(US\$/sh)</i>					<i>Resrvs/</i>	<i>Devel.</i>	<i>Gas/</i>	<i>Line/</i>	<i>Present</i>
	<i>Symbol/Rating</i>	<i>4-May</i>	<i>Shares</i>	<i>Debt</i>	<i>P/E</i>	<i>Prod</i>	<i>Resrvs</i>	<i>Ebitda</i>	<i>Ebitda</i>	<i>Value</i>	
		<i>2018</i>	<i>(mm)</i>	<i>(\$mm)</i>	<i>NTM</i>	<i>NTM</i>	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>	<i>(US\$/sh)</i>	
Integrated											
	Chevron Corporation	CVX	125.53	1,913	62,659	17	7.2	57	24		150.00
	Royal Dutch Shell	RDS-B	72.57	4,189	116,710	12	7.3	22	32		100.00
	Exxon Mobil Corporation	XOM	76.90	4,270	90,941	13	9.7	52	29		90.00
	Suncor Energy	SU	38.39	1,644	19,513	12	8.8	87			50.00
	<i>Median</i>						8.0	55			
Large Independent											
	Pioneer Natural Resources	PXD	194.19	171	2,600	22	7.4	9	6		200.00
	EOG Resources, Inc.	EOG	114.66	598	7,071	20	5.1	43	10		130.00
	ConocoPhillips	COP	66.86	1,186	23,143	15	7.8	31	24		80.00
	Occidental Petroleum Corp.	OXY	77.71	766	13,600	16	7.8	35	4		75.00
	<i>Median</i>						7.6	33			
Mid-Size Independent											
	Cimarex Energy Company	XEC	97.31	95	1,552	9	5.1	35	20		140.00
	Continental Resources	CLR	64.40	374	6,333	22	5.6	121	17		70.00
	Devon Energy Corporation	DVN	37.87	528	7,944	16	8.6	24	15		60.00
	Hess Corporation	HES	58.71	310	8,399		7.5	59	12		55.00
	Marathon Oil Corporation	MRO	19.72	852	6,734	11	5.5	60	10		40.00
	<i>Median</i>						5.6	59			
Small Independent											
	Whiting Petroleum Corporation	WLL	44.67	91	3,367	25	7.0	84	3		100.00
	California Resources	CRC	31.58	46	6,600		8.9	41	8		100.00
	Range Resources	RRC	13.62	247	4,657	13	10.1	83	55		40.00
	Birchcliff Energy Ltd.	BIREF	3.45	268	589	19	7.2	228	52		9.00
	<i>Median</i>						8.0	83			
Income											
	Sabine Royalty Trust	SBR	45.60	15	-	15	11.5	3	37	100	50.00
	Cross Timbers Royalty Trust	CRT	13.20	6	-	9	11.2	-	69	81	25.00
	Dorchester Minerals, L.P.	DMLP	18.15	32	-	12	7.1	-	21	83	24.00
	Permian Basin RT	PBT	9.61	47	-	11	6.7	-	21	37	10.00
	San Juan Basin Royalty Trust	SJT	6.91	47	-	12	12.8	-	100	-	8.00
	<i>Median</i>						11.2				

P/E = Stock Price to Earnings. For historical research see www.mcdep.com.



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Table 4										
McDep Energy Stocks										
Total Return Year-to-Date 2018										
Ranked by Unlevered Total Return										
		Price (\$/sh)	Price (\$/sh)	Price Change	Cash Distrib.	Equity Total Return	Unlevered Total Return		McDep	
	Symbol/Rati	4-May 2018	29-Dec 2017	(%)	(%)	(%)	Debt (\$/sh)	(%)	Ratio	
Integrated										
	Royal Dutch Shell	RDS-B	72.57	68.29	6	1	8	28	5	0.79
	Suncor Energy	SU	38.39	36.72	5	1	5	12	4	0.81
	Chevron Corporation	CVX	125.53	125.19	0	1	1	33	1	0.87
	Exxon Mobil Corporation	XOM	76.90	83.64	(8)	1	(7)	21	(6)	0.88
	<i>Median</i>				2		3		2	0.84
Large Independent										
	ConocoPhillips	COP	66.86	54.89	22	1	22	20	16	0.87
	Pioneer Natural Resources	PXD	194.19	172.85	12	0	12	15	11	0.97
	EOG Resources, Inc.	EOG	114.66	107.91	6	0	7	12	6	0.89
	Occidental Petroleum Corp.	OXY	77.71	73.66	5	1	7	18	5	1.03
	<i>Median</i>				9		10		9	0.93
Mid-Size Independent										
	Continental Resources	CLR	64.40	52.97	22	-	22	17	16	0.94
	Hess Corporation	HES	58.71	47.47	24	1	24	27	15	1.05
	Marathon Oil Corporation	MRO	19.72	16.93	16	0	17	8	11	0.58
	Devon Energy Corporation	DVN	37.87	41.40	(9)	0	(8)	15	(6)	0.71
	Cimarex Energy Company	XEC	97.31	122.01	(20)	0	(20)	16	(18)	0.73
	<i>Median</i>				16		17		11	0.73
Small Independent										
	Whiting Petroleum Corporation	WLL	44.67	26.48	69	-	69	37	29	0.60
	California Resources	CRC	31.58	19.44	62	-	62	143	7	0.72
	Birchcliff Energy Ltd.	BIREF	3.45	3.50	(1)	1	(1)	2	(1)	0.50
	Range Resources	RRC	13.62	17.06	(20)	0	(20)	19	(10)	0.55
	<i>Median</i>				31		31		3	0.57
Income										
	Dorchester Minerals, L.P.	DMLP	18.15	15.20	19	5	25	-	25	0.76
	Permian Basin RT	PBT	9.61	8.87	8	3	11	-	11	0.96
	Sabine Royalty Trust	SBR	45.60	44.60	2	2	4	-	4	0.91
	Cross Timbers Royalty Trust	CRT	13.20	14.69	(10)	3	(7)	-	(7)	0.53
	San Juan Basin Royalty Trust	SJT	6.91	8.24	(16)	3	(14)	-	(14)	0.86
	<i>Median</i>				2		4		4	0.86
	<i>Grand Median</i>				6		7		5	0.84
	Natural Gas (\$/mmbtu)		2.72	2.95	(8)					
	Oil -West Texas Intermediate (\$/bbl)		69.77	60.09	16					
	Total Stock Market - U.S.	VTI	137.11	137.25	(0)	0	0			
	Developed Markets - ex US	VEA	44.97	44.86	0	0	1			
	Emerging Markets	VWO	45.21	45.91	(2)	0	(1)			
	Total Stock Market - World	VT	74.22	74.26	(0)	0	0			
Source: McDep LLC, Yahoo, CME Group, Bloomberg					For historical research see www.mcdep.com					



Independent Stock Idea

May 2, 2018

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