



# Meter Reader

A Monthly Analysis of Oil and Gas Stocks

October 11, 2016

## Canada Comeback

	Symbol/Rating	Price (US\$/sh)	EV/ Market	Enterprise Value (\$mm)	Present Value by Segment (%)				Dist. Yield	NTM (%)	McDep Ratio
					North Amer.		Rest of World				
					Natural Gas	Natural Gas	Oil Prod'n	Down-stream			
EnCana Corporation	ECA	11.09	1.79	19,300	43		57		0.5	1.35	
Imperial Oil Limited (30%)	IMO	32.77	1.33	11,100	0		63	36	1.4	0.89	
Suncor Energy	SU	28.40	1.37	65,000	-		79	21	3.1	0.86	
Cenovus Energy Inc.	CVE	15.34	1.31	16,800	10		79	12	1.0	0.81	
Birchcliff Energy Ltd.	BIREF B	7.13	1.33	2,500	74		26		-	0.77	

### Summary and Recommendation

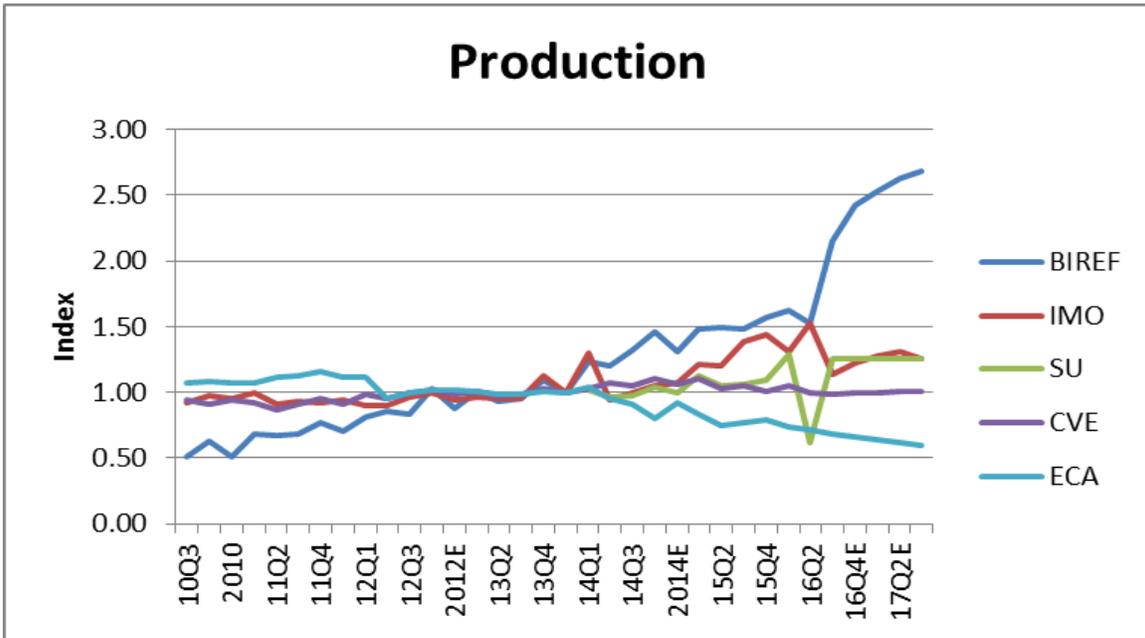
Canadian stocks in our coverage have outperformed in the past month as oil and gas prices rise and quality and location discounts narrow. Oil commentary by Saudi Arabia appears more price friendly again after a price unfriendly tone for the past two years. Much Canadian oil is priced at a discount that is narrowing again after widening for the past two years. Large volumes shut in by wildfires in late spring have been restored. Canadian natural gas price is now recovering from having suffered longer after a warm winter. While offering attractive value at a McDep Ratio of 0.77, buy-recommended, small-cap **Birchcliff Energy (BIREF)** is the growth standout (see chart [Volume](#) on page 2). At a McDep Ratio of 1.35, **Encana (ECA)** stock is priced like a favored U.S. independent producer, but more time may be needed for debt reduction and proven growth. At McDep Ratios ranging from 0.81 to 0.89, the remaining three stocks offer attractive value concentrated primarily on oil. **Cenovus (CVE)** is the smallest of the three with more sensitivity to the downside we see behind us and upside we see ahead of us. **Suncor (SU)** is the largest, most diversified and offers the most income at a dividend yield of 3.1%. **Imperial Oil (IMO)** stock price momentum appears to be picking up as the 50-day average may soon cross above the 200-day average to trace the positive pattern of the golden cross, the last of Canadian peers to do so (see chart [IMO](#) on page 2). Finally, politics and currency are risk factors that we think are mitigated in a diversified portfolio that includes stocks from each of our five groups (see [Tables 1-4](#) on pages 3-6).

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October 11, 2016

Table 2								
McDep Energy Stocks								
Net Present Value and McDep Ratio								
			Price (US\$/sh)		Market	Net		
	Symbol/Rating		10-Oct	Shares	Cap	Present	Debt/	McDep
	B = Buy		2016	(mm)	(US\$mm)	(US\$/sh)	Present	Ratio
							Value	
<b>Global Integrated</b>								
Exxon Mobil Corporation	XOM		88.44	4,178	370,000	100.00	0.18	0.91
Chevron Corporation	CVX		103.98	1,872	195,000	135.00	0.21	0.82
Royal Dutch Shell	RDS-A	B	52.20	3,980	208,000	80.00	0.30	0.76
Total S.A.	TOT	B	48.81	2,379	116,000	90.00	0.22	0.64
	<i>Total or Median</i>				889,000		0.21	0.79
<b>Large Independent</b>								
EOG Resources, Inc.	EOG		97.29	547	53,200	75.00	0.15	1.25
Occidental Petroleum Corp.	OXY		74.77	764	57,100	75.00	0.15	1.00
Devon Energy Corporation	DVN		44.39	524	23,300	45.00	0.32	0.99
Marathon Oil Corporation	MRO	B	15.72	848	13,330	20.00	0.31	0.85
ConocoPhillips	COP	B	44.39	1,245	55,000	70.00	0.31	0.75
	<i>Total or Median</i>				201,900		0.31	0.99
<b>Small Independent</b>								
Cimarex Energy Company	XEC		141.16	93	13,100	120.00	0.10	1.16
Continental Resources (32%)	CLR	B	54.14	118	6,400	56.00	0.26	0.98
Range Resources	RRC		39.24	244	9,600	42.00	0.29	0.95
Whiting Petroleum Corporation	WLL		9.41	285	2,700	12.00	0.58	0.91
California Resources	CRC		11.67	40	500	50.00	0.77	0.83
	<i>Total or Median</i>				32,000		0.29	0.95
<b>Income</b>								
San Juan Basin Royalty Trust	SJT		6.04	47	280	8.00	-	0.76
Dorchester Minerals, L.P.	DMLP	B	16.70	31	510	24.00	-	0.70
Permian Basin RT	PBT		7.01	47	330	11.00	-	0.64
Cross Timbers Royalty Trust	CRT		18.25	6	110	29.00	-	0.63
Sabine Royalty Trust	SBR	B	37.29	15	540	60.00	-	0.62
	<i>Total or Median</i>				1,800		-	0.64
<b>Canada</b>								
EnCana Corporation	ECA		11.09	973	10,800	6.00	0.59	1.35
Imperial Oil Limited (30%)	IMO		32.77	255	8,400	38.00	0.22	0.89
Suncor Energy	SU		28.40	1,665	47,300	35.00	0.23	0.86
Cenovus Energy Inc.	CVE		15.34	833	12,800	20.00	0.19	0.81
Birchcliff Energy Ltd.	BIREF	B	7.13	263	1,900	10.00	0.19	0.77
	<i>Total or Median</i>				81,000		0.22	0.86
Estimated present value presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.00 a million btu.								
Estimated present value capped by unlevered cash flow multiple (EV/Ebitda)								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
For historical research see <a href="http://www.mcdep.com">www.mcdep.com</a>								



# Meter Reader

A Monthly Analysis of Oil and Gas Stocks

October 11, 2016

			<i>Price (US\$/sh)</i>	<i>Adjustd Resrvs/ Prod</i>	<i>PV/ Ebitda</i>	<i>EV/ Ebitda</i>	<i>P/E</i>	<i>Dividend NTM</i>
	<i>Symbol/Rating</i>		<i>10-Oct 2016</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>(\$/sh)</i>
	<i>B = Buy</i>							
<b>Global Integrated</b>								
Exxon Mobil Corporation	XOM		88.44	14.5	11.6	10.5	25	3.00
Chevron Corporation	CVX		103.98	9.2	11.8	9.7	36	4.28
Royal Dutch Shell	RDS-A	B	52.20	9.8	10.7	8.1	25	3.76
Total S.A.	TOT	B	48.81	9.9	9.9	6.4	13	2.73
	<i>Median</i>			<i>9.8</i>	<i>11.1</i>	<i>8.9</i>	<i>25</i>	
<b>Large Independent</b>								
EOG Resources, Inc.	EOG		97.29	8.2	12.7	15.9		0.67
Devon Energy Corporation	DVN		44.39	8.4	14.5	14.4		0.24
Occidental Petroleum Corp.	OXY		74.77	8.3	13.5	13.5		3.00
Marathon Oil Corporation	MRO	B	15.72	12.7	13.3	11.3		0.20
ConocoPhillips	COP	B	44.39	11.3	14.5	10.9		1.00
	<i>Median</i>			<i>8.4</i>	<i>13.5</i>	<i>13.5</i>		
<b>Small Independent</b>								
Continental Resources (32%)	CLR	B	54.14	11.4	16.4	16.0		-
Cimarex Energy Company	XEC		141.16	6.9	13.3	15.4		0.32
Range Resources	RRC		39.24	12.6	15.6	14.8		0.08
California Resources	CRC		11.67	12.0	12.4	10.3		-
Whiting Petroleum Corporation	WLL		9.41	9.5	10.4	9.4		-
	<i>Median</i>			<i>11.4</i>	<i>13.3</i>	<i>14.8</i>		
<b>Income</b>								
Sabine Royalty Trust	SBR	B	37.29	9.1	19.9	12.4	12	3.02
Dorchester Minerals, L.P.	DMLP	B	16.70	7.0	17.3	12.0	16	1.25
Cross Timbers Royalty Trust	CRT		18.25	8.1	17.7	11.2	13	1.43
San Juan Basin Royalty Trust	SJT		6.04	10.4	12.4	9.4	10	0.62
Permian Basin RT	PBT		7.01	8.5	14.5	9.2	10	0.72
	<i>Median</i>			<i>8.5</i>	<i>17.3</i>	<i>11.2</i>	<i>12</i>	
<b>Canada</b>								
EnCana Corporation	ECA		11.09	5.6	10.7	14.4		0.06
Imperial Oil Limited (30%)	IMO		32.77	33.2	10.7	9.5		0.45
Suncor Energy	SU		28.40	21.6	11.1	9.5		0.87
Cenovus Energy Inc.	CVE		15.34	16.6	11.0	9.0		0.15
Birchcliff Energy Ltd.	BIREF	B	7.13	12.9	11.6	8.9		-
	<i>Median</i>			<i>16.6</i>	<i>11.0</i>	<i>9.5</i>		
	<i>Grand Median</i>			<i>10</i>	<i>13</i>	<i>11</i>		
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2017; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses For historical research see <a href="http://www.mcdep.com">www.mcdep.com</a>								



# Meter Reader

A Monthly Analysis of Oil and Gas Stocks

October 11, 2016

<b>Table 4</b>										
<b>McDep Energy Stocks</b>										
<b>Total Return Year-to-Date 2016</b>										
<b>Ranked by Unlevered Total Return</b>										
			Price	Price			Equity	Unlevered		
			(\$/sh)	(\$/sh)	Price	Cash	Total	Total		
	Symbol/Rati		10-Oct	31-Dec	Change	Distrib.	Return	Debt	Return	
			2016	2015	(%)	(%)	(%)	(\$/sh)	(%)	
									McDep	
									Ratio	
<b>Global Integrated</b>										
	Chevron Corporation	CVX	103.98	89.96	16	4	19	36	14	0.82
	Exxon Mobil Corporation	XOM	88.44	77.95	13	3	16	23	13	0.91
	Royal Dutch Shell	RDS-A B	52.20	45.79	14	6	20	34	12	0.76
	Total S.A.	TOT B	48.81	44.95	9	5	13	25	8	0.64
	<i>Median</i>				14		18		12	0.79
<b>Large Independent</b>										
	EOG Resources, Inc.	EOG	97.29	70.79	37	1	38	13	32	1.25
	Devon Energy Corporation	DVN	44.39	32.00	39	1	40	21	24	0.99
	Marathon Oil Corporation	MRO B	15.72	12.58	25	1	26	9	15	0.85
	Occidental Petroleum Corp.	OXY	74.77	67.61	11	3	14	13	12	1.00
	ConocoPhillips	COP B	44.39	46.69	(5)	2	(3)	32	(2)	0.75
	<i>Median</i>				25		26		15	0.99
<b>Small Independent</b>										
	Continental Resources (32%)	CLR B	54.14	22.98	136	-	136	19	74	0.98
	Cimarex Energy Company	XEC	141.16	89.38	58	0	58	14	50	1.16
	Range Resources	RRC	39.24	24.62	59	0	60	17	35	0.95
	Whiting Petroleum Corporation	WLL	9.41	9.44	(0)	-	(0)	17	(0)	0.91
	California Resources	CRC	11.67	23.30	(50)	-	(50)	170	(6)	0.83
	<i>Median</i>				58		58		35	0.95
<b>Income</b>										
	Dorchester Minerals, L.P.	DMLP B	16.70	9.89	69	6	75	-	75	0.70
	San Juan Basin Royalty Trust	SJT	6.04	4.14	46	4	50	-	50	0.76
	Sabine Royalty Trust	SBR B	37.29	26.26	42	6	48	-	48	0.62
	Cross Timbers Royalty Trust	CRT	18.25	13.01	40	7	47	-	47	0.63
	Permian Basin RT	PBT	7.01	5.06	39	6	44	-	44	0.64
	<i>Median</i>				42		48		48	0.64
<b>Canada</b>										
	Birchcliff Energy Ltd.	BIREF B	7.13	2.93	143	-	143	2	79	0.77
	EnCana Corporation	ECA	11.09	5.09	118	1	119	9	44	1.35
	Cenovus Energy Inc.	CVE	15.34	12.62	22	1	22	5	16	0.81
	Suncor Energy	SU	28.40	25.80	10	3	13	11	9	0.86
	Imperial Oil Limited (30%)	IMO	32.77	32.52	1	1	2	11	1	0.89
	<i>Median</i>				22		22		16	0.86
	<i>Grand Median</i>				31		32		20	0.84
	<b>Natural Gas (\$/mmbtu)</b>		3.19	2.33	37					
	<b>Oil - West Texas Intermediate (\$/bbl)</b>		49.66	37.06	34					
	<b>S&amp;P 500</b>		2,164	2,044	6					

Source: McDep LLC, Yahoo, CME Group, Bloomberg

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# Meter Reader

A Monthly Analysis of Oil and Gas Stocks

October 11, 2016

Index of 2016 Research				
<u>Date</u>	<u>Series</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
4-Oct	ISI	COP	ConocoPhillips	Pure Play Producer
24-Sep	ISI	SJT	San Juan Basin Royalty Trust	Rising for the Dead---Again
13-Sep	Meter Reader			Permian Surprises
6-Sep	ISI	DVN	Devon Energy	Raise NPV to \$45 from \$33 on Stress Test Success
30-Aug	ISI	SBR	Sabine Royalty Trust	Long-Life Top Line Cash Payer
21-Aug	ISI	BIREF	Birchcliff Energy	Canadian Independent Producer Transformed
17-Aug	ISI	SJT	San Juan Basin Royalty Trust	Preliminary Filing to Replace Trustee
16-Aug	Meter Reader			The Money Glut
11-Aug	ISI	XEC	Cimarex Energy	Raise NPV to \$120 from \$90
1-Aug	II	XOM, RDS, CVX, TOT		Real Return Standouts
1-Aug	ISI	WLL	Whiting Petroleum	Remove Buy Designation
22-Jul	II	CRT, DMLP, PBT, SBR, SJT		Income Payers in Uptrend
12-Jul	Meter Reader			Mid-Year Strategy
7-Jul	ISI	XOM	Exxon Mobil	Durable Real Return
22-Jun	ISI	BIREF	Birchcliff Energy	Half Billion Dollar Deal with Encana
21-Jun	ISI	SJT	San Juan Basin Royalty Trust	Record Administrative Costs
21-Jun	ISI	PBT	Permian Basin Royalty Trust	Raise Distribution to 9%
14-Jun	Meter Reader			Good Year for Oil and Gas
10-Jun	ISI	SU	Suncor Energy Inc.	Revitalized after Wildfire
7-Jun	ISI	WLL	Whiting Petroleum	Looking Up Again
23-May	ISI	DMLP	Dorchester Minerals, L.P.	Raise Distribution to 9%
17-May	ISI	COP	ConocoPhillips	Strategy Reset to Low Risk Value
12-May	ISI	BIREF	Birchcliff Energy	Record Low Operating Cost
10-May	Meter Reader			Value, Growth, Income and Momentum
9-May	ISI	RRC	Range Resources	Restore Net Present Value to \$42 a Share
26-Apr	ISI	CLR	Continental Resources	Disciplined Visionary
13-Apr	Meter Reader			Road to Profits
5-Apr	ISI	TOT	Total S.A.	Globally Diversified Income
22-Mar	II	CRT, DMLP, PBT, SBR, SJT		Income Payer Appreciation Potential 55%-110%
15-Mar	Meter Reader			Best Oil Outlook in Seven Years
7-Mar	II	COP, MRO, CLR, WLL		Buy Low
29-Feb	ISI	DMLP	Dorchester Minerals, L.P.	Oil Income for All Seasons
19-Feb	ISI	DVN	Devon Energy	Flexibility to Adapt
19-Feb	ISI	MRO	Marathon Oil	Flexibility to Adapt
9-Feb	Meter Reader			Outperforming in 2016
3-Feb	ISI	XOM	Exxon Mobil	For Nervous Investors Seeking Reliable Income
28-Jan	ISI	BIREF	Birchcliff Energy	Protection and Growth
22-Jan	II	CRT, PBT, SBR, SJT, DMLP		Income Payer Surprises
21-Jan	ISI	SU	Suncor Energy Inc.	Likely Acquirer of Canadian Oil Sands
19-Jan	ISI	COSWF	Canadian Oil Sands Ltd.	Farewell
13-Jan	II	MRO, DVN, COP, OXY, EOG		Wild Markets in Oil and Securities
1-Jan	Meter Reader			Lower Natural Gas to \$4.00 from \$4.50
				MR = Meter Reader (published monthly on or about second or third Tuesday)
				ISI = Independent Stock Idea
				II = Industry Idea
				For historical research by stock, go to <a href="http://mcdep.com">mcdep.com</a> , click on <a href="#">Stock Ideas</a> , click on stock by name.



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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.