

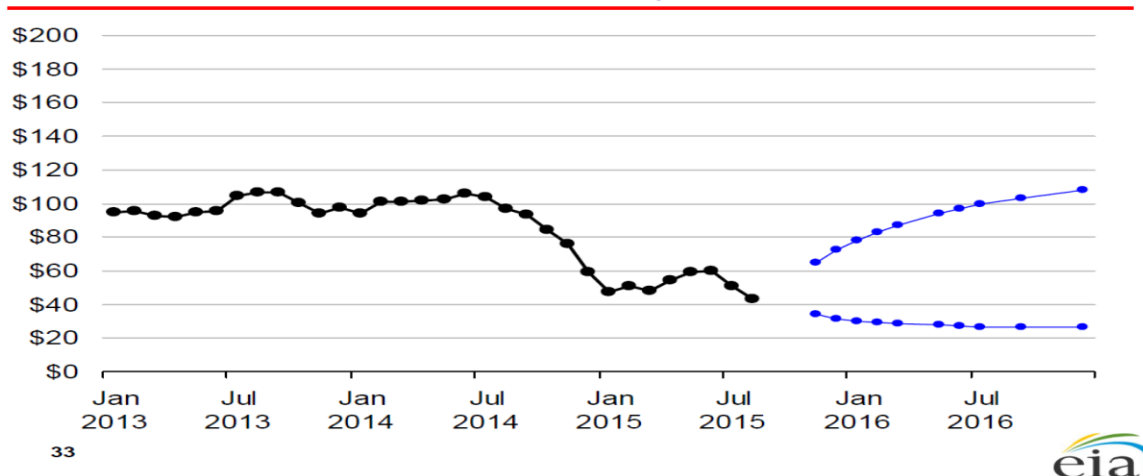


Meter Reader

A Monthly Analysis of Oil and Gas Stocks
September 15, 2015

Endless Discussion

Historical WTI price and 95% NYMEX Confidence Interval, September 2015



Summary and Recommendation

To move beyond seemingly endless market chatter on oil price, not to mention interest rates or currencies, we emphasize acting on buy recommendations where there are fewer voices and challenges enough to anticipate the future. The U.S. Energy Information Administration acknowledges unavoidable uncertainties in oil price by measuring the probabilities it sees embedded in the futures market. On that basis, the EIA estimates with 95% confidence that U.S. crude oil price at the end of 2016 will be in the range of \$25 to \$115 a barrel (see chart above). Though that forecast gives little validity to a single point estimate, we could say that from a current price near \$44, the upside increment near \$70 exceeds the downside increment near \$20. Meanwhile, more instinctively we think the bottom of the current cycle was reached in late August at \$38. The argument that oil price would fall to the marginal cost, perhaps \$20 a barrel today, has never materialized for any significant time in the 50 years we have been hearing it from eminent economists. Tied to value at \$70 a barrel, the McDep Ratio emphasizes unlevered upside. At times of stress, companies with high debt could have greater downside if pressured to take actions that give up value. All of our Buy-recommended companies can weather current price temporarily. We recommend investment in each of five industry groups (see Tables 1-4 on pages 2-5). Like income? **Chevron (CVX)**, **Total (TOT)**, **Marathon (MRO)**, **Sabine Royalty Trust (SBR – New Buy)**, and **Cross Timbers Royalty Trust (CRT)** offer more than 5% for the next year. **Devon Energy (DVN – New Buy)** offers 2.5% and **Canadian Oil Sands Ltd (COSWF)**, 3.2%. Prefer capital gains? **Continental Resources (CLR)**, **Whiting Petroleum (WLL)** and **Birchcliff Energy (BIREF)** reinvest all shareholder cash flow.

Kurt H. Wulff, CFA



Meter Reader

A Monthly Analysis of Oil and Gas Stocks

September 15, 2015

Table 1

McDep Energy Stocks Enterprise Value, Segments, Yield and McDep Ratio

Present Value by Segment (%)											
					North Amer.	Rest of World			Dist. Yield		
Symbol/Rating		Price (US\$/sh) 14-Sep 2015	EV/Market Cap	Enterprise Value (\$mm)	Natural Gas	Natural Gas	Oil Prod'n	Down-stream	NTM (%)	McDep Ratio	
Global Integrated											
Exxon Mobil Corporation	XOM	72.49	1.28	389,000	8	10	62	20	4.0	0.83	
Royal Dutch Shell (BG pro form)	RDS-A	49.92	1.63	318,000					7.5	0.82	
Chevron Corporation	CVX B	75.77	1.39	197,000	3	6	68	23	5.6	0.75	
Total S.A.	TOT B	44.99	1.56	161,000			12	60	28	6.1	0.73
<i>Total or Median</i>			<i>1.48</i>	<i>1,065,000</i>			<i>62</i>	<i>23</i>	<i>5.9</i>	<i>0.78</i>	
Large Independent											
EOG Resources, Inc.	EOG	76.43	1.15	48,400	16	2	82		0.9	0.96	
Occidental Petroleum Corp.	OXY	66.19	1.17	59,500	5	1	78	17	4.5	0.90	
ConocoPhillips	COP	46.77	1.65	96,000	16	9	75		6.3	0.78	
Devon Energy Corporation	DVN B	38.91	1.70	27,200	29		54	17	2.5	0.72	
Marathon Oil Corporation	MRO B	15.41	1.89	19,700	9	1	90		5.5	0.61	
<i>Total or Median</i>			<i>1.65</i>	<i>251,000</i>	<i>16</i>		<i>78</i>		<i>4.5</i>	<i>0.78</i>	
Small Independent											
Cimarex Energy Company	XEC	104.01	1.12	11,000	41		59		0.6	0.97	
Range Resources	RRC	36.05	1.69	10,100	80		20		0.4	0.81	
California Resources	CRC	3.04	6.86	8,000	12		88		1.3	0.75	
Continental Resources (32%)	CLR B	27.72	1.70	5,600	21		79		-	0.61	
Whiting Petroleum Corporation	WLL B	15.91	2.64	8,900	5		95		-	0.54	
<i>Total or Median</i>			<i>1.70</i>	<i>44,000</i>	<i>21</i>		<i>79</i>		<i>0.4</i>	<i>0.75</i>	
Income											
San Juan Basin Royalty Trust	SJT	9.75	1.00	450	100		-		4.6	0.65	
Permian Basin RT	PBT	6.90	1.00	320	23		77		5.1	0.58	
Dorchester Minerals, L.P.	DMLP	16.00	1.00	490	38		62		5.8	0.57	
Sabine Royalty Trust	SBR B	30.45	1.00	440	43		58		7.8	0.55	
Cross Timbers Royalty Trust	CRT B	15.09	1.00	90	56		44		5.7	0.49	
<i>Total or Median</i>			<i>1.00</i>	<i>1,800</i>	<i>43</i>		<i>58</i>		<i>5.7</i>	<i>0.57</i>	
Canada											
Imperial Oil Limited (30%)	IMO	31.24	1.34	10,700	1		67	32	1.3	0.83	
EnCana Corporation	ECA	7.10	2.47	14,800	56		44		3.9	0.75	
Cenovus Energy Inc.	CVE	13.09	1.45	15,700	9		74	17	3.7	0.66	
Birchcliff Energy Ltd.	BIREF B	4.48	1.81	1,200	77		23		-	0.52	
Canadian Oil Sands Limited	COSWF B	4.65	2.26	5,100			100		3.2	0.48	
<i>Total or Median</i>			<i>1.81</i>	<i>48,000</i>			<i>67</i>		<i>3.2</i>	<i>0.66</i>	

Estimated present value presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.50 a million btu.
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses



Meter Reader

A Monthly Analysis of Oil and Gas Stocks
September 15, 2015

			<i>Price</i> <i>(US\$/sh)</i>	<i>Shares</i>	<i>Market</i> <i>Cap</i> <i>(US\$mm)</i>	<i>Net</i> <i>Present</i> <i>Value</i> <i>(US\$/sh)</i>	<i>Debt/</i> <i>Present</i> <i>Value</i>	<i>McDep</i> <i>Ratio</i>
	<i>Symbol/Rating</i>	<i>14-Sep</i> <i>2015</i>		<i>(mm)</i>				
	<i>B = Buy</i>							
Global Integrated								
Exxon Mobil Corporation	XOM		72.49	4,200	305,000	92.00	0.18	0.83
Royal Dutch Shell (BG pro forma)	RDS-A		49.92	3,900	195,000	68.00	0.32	0.82
Chevron Corporation	CVX	B	75.77	1,877	142,000	111.00	0.21	0.75
Total S.A.	TOT	B	44.99	2,292	103,000	71.00	0.26	0.73
	<i>Total or Median</i>				<i>745,000</i>		<i>0.24</i>	<i>0.78</i>
Large Independent								
EOG Resources, Inc.	EOG		76.43	550	42,000	80.00	0.13	0.96
Occidental Petroleum Corp.	OXY		66.19	766	50,700	75.00	0.13	0.90
ConocoPhillips	COP		46.77	1,241	58,000	68.00	0.31	0.78
Devon Energy Corporation	DVN	B	38.91	411	16,000	65.00	0.30	0.72
Marathon Oil Corporation	MRO	B	15.41	677	10,430	34.00	0.29	0.61
	<i>Total or Median</i>				<i>177,100</i>		<i>0.29</i>	<i>0.78</i>
Small Independent								
Cimarex Energy Company	XEC		104.01	95	9,800	108.00	0.10	0.97
Range Resources	RRC		36.05	166	6,000	50.00	0.33	0.81
California Resources	CRC		3.04	382	1,200	10.00	0.64	0.75
Continental Resources (32%)	CLR	B	27.72	119	3,300	58.00	0.25	0.61
Whiting Petroleum Corporation	WLL	B	15.91	212	3,400	52.00	0.33	0.54
	<i>Total or Median</i>				<i>24,000</i>		<i>0.33</i>	<i>0.75</i>
Income								
San Juan Basin Royalty Trust	SJT		9.75	47	450	15.00	-	0.65
Permian Basin RT	PBT		6.90	47	320	12.00	-	0.58
Dorchester Minerals, L.P.	DMLP		16.00	31	490	28.00	-	0.57
Sabine Royalty Trust	SBR	B	30.45	15	440	55.00	-	0.55
Cross Timbers Royalty Trust	CRT	B	15.09	6	90	31.00	-	0.49
	<i>Total or Median</i>				<i>1,800</i>		<i>-</i>	<i>0.57</i>
Canada								
Imperial Oil Limited (30%)	IMO		31.24	255	8,000	40.00	0.21	0.83
EnCana Corporation	ECA		7.10	841	6,000	13.00	0.45	0.75
Cenovus Energy Inc.	CVE		13.09	826	10,800	23.00	0.20	0.66
Birchcliff Energy Ltd.	BIREF	B	4.48	155	700	12.00	0.23	0.52
Canadian Oil Sands Limited	COSWF	B	4.65	485	2,300	16.00	0.27	0.48
	<i>Total or Median</i>				<i>28,000</i>		<i>0.23</i>	<i>0.66</i>
Estimated present value presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.50 a million btu. McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								



Meter Reader

A Monthly Analysis of Oil and Gas Stocks
September 15, 2015

Table 3							
McDep Energy Stocks							
Value Multiples and Dividend							
Ranked by EV/Ebitda							
			Price (US\$/sh)	Adjustd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	Dividend
	Symbol/Rating		14-Sep 2015	NTM	NTM	NTM	NTM
	B = Buy						(\$/sh)
Global Integrated							
Exxon Mobil Corporation	XOM		72.49	14.6	10.8	8.9	20
Chevron Corporation	CVX	B	75.77	9.1	8.8	6.6	28
Total S.A.	TOT	B	44.99	10.1	7.9	5.8	11
Royal Dutch Shell (BG pro forma)	RDS-A		49.92				3.76
	<i>Median</i>			10.1	8.8	6.6	20
Large Independent							
EOG Resources, Inc.	EOG		76.43	9.0	13.6	13.0	156
Occidental Petroleum Corp.	OXY		66.19	9.1	12.8	11.5	139
Devon Energy Corporation	DVN	B	38.91	10.3	14.9	10.7	61
ConocoPhillips	COP		46.77	11.1	12.5	9.8	2.96
Marathon Oil Corporation	MRO	B	15.41	12.1	13.6	8.3	0.84
	<i>Median</i>			10.3	13.6	10.7	139
Small Independent							
California Resources	CRC		3.04	12.5	23.2	17.4	0.04
Cimarex Energy Company	XEC		104.01	7.9	16.7	16.1	0.64
Range Resources	RRC		36.05	14.0	19.2	15.6	83
Whiting Petroleum Corporation	WLL	B	15.91	11.5	19.6	10.5	-
Continental Resources (32%)	CLR	B	27.72	11.4	14.9	9.0	107
	<i>Median</i>			11.5	19.2	15.6	95
Income							
San Juan Basin Royalty Trust	SJT		9.75	8.4	24.5	15.9	22
Sabine Royalty Trust	SBR	B	30.45	9.2	23.1	12.8	13
Dorchester Minerals, L.P.	DMLP		16.00	7.8	22.1	12.6	27
Cross Timbers Royalty Trust	CRT	B	15.09	12.7	24.7	12.1	18
Permian Basin RT	PBT		6.90	9.9	19.1	11.0	19
	<i>Median</i>			9.2	23.1	12.6	19
Canada							
EnCana Corporation	ECA		7.10	6.4	15.7	11.8	73
Imperial Oil Limited (30%)	IMO		31.24	27.2	12.7	10.5	15
Canadian Oil Sands Limited	COSWF	B	4.65	17.5	20.2	9.7	(26)
Cenovus Energy Inc.	CVE		13.09	16.5	14.7	9.7	0.48
Birchcliff Energy Ltd.	BIREF	B	4.48	12.4	15.0	7.7	-
	<i>Median</i>			16.5	15.0	9.7	15
	<i>Grand Median</i>			11	15	11	
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2016; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses							



Meter Reader

A Monthly Analysis of Oil and Gas Stocks
September 15, 2015

Table 4										
McDep Energy Stocks										
Total Return Year-to-Date 2015										
Ranked by Unlevered Total Return										
			Price	Price			Equity	Unlevered		
			(\$/sh)	(\$/sh)	Price	Cash	Total		Total	
	Symbol/Rat		14-Sep	29-Dec	Change	Distrib.	Return	Debt	Return	McDep
			2015	2014	(%)	(%)	(%)	(\$/sh)	(%)	Ratio
Global Integrated										
Total S.A.	TOT	B	44.99	52.74	(15)	4	(11)	25	(7)	0.73
Royal Dutch Shell (BG pro forma)	RDS-A		49.92	68.31	(27)	4	(23)	32	(16)	0.82
Exxon Mobil Corporation	XOM		72.49	93.07	(22)	2	(20)	20	(16)	0.83
Chevron Corporation	CVX	B	75.77	113.32	(33)	3	(30)	29	(24)	0.75
	<i>Median</i>				(25)		(21)		(16)	0.78
Large Independent										
Occidental Petroleum Corp.	OXY		66.19	81.71	(19)	3	(16)	11	(14)	0.90
EOG Resources, Inc.	EOG		76.43	94.33	(19)	0	(19)	12	(17)	0.96
ConocoPhillips	COP		46.77	70.11	(33)	3	(30)	30	(21)	0.78
Devon Energy Corporation	DVN	B	38.91	61.15	(36)	1	(35)	27	(24)	0.72
Marathon Oil Corporation	MRO	B	15.41	28.58	(46)	2	(44)	14	(30)	0.61
	<i>Median</i>				(33)		(30)		(21)	0.78
Small Independent										
Cimarex Energy Company	XEC		104.01	110.27	(6)	0	(5)	12	(5)	0.97
California Resources	CRC		3.04	5.77	(47)	1	(47)	18	(11)	0.75
Continental Resources (32%)	CLR	B	27.72	38.26	(28)	-	(28)	19	(18)	0.61
Range Resources	RRC		36.05	56.00	(36)	0	(35)	25	(25)	0.81
Whiting Petroleum Corporation	WLL	B	15.91	34.09	(53)	-	(53)	26	(30)	0.54
	<i>Median</i>				(36)		(35)		(18)	0.75
Income										
Sabine Royalty Trust	SBR	B	30.45	36.68	(17)	7	(10)	-	(10)	0.55
Cross Timbers Royalty Trust	CRT	B	15.09	18.07	(16)	6	(11)	-	(11)	0.49
Permian Basin RT	PBT		6.90	9.12	(24)	3	(21)	-	(21)	0.58
San Juan Basin Royalty Trust	SJT		9.75	13.97	(30)	2	(29)	-	(29)	0.65
Dorchester Minerals, L.P.	DMLP		16.00	25.16	(36)	4	(33)	-	(33)	0.57
	<i>Median</i>				(24)		(21)		(21)	0.57
Canada										
Birchcliff Energy Ltd.	BIREF	B	4.48	6.75	(34)	-	(34)	4	(22)	0.52
Imperial Oil Limited (30%)	IMO		31.24	43.49	(28)	1	(27)	11	(22)	0.83
EnCana Energy Inc.	CVE		13.09	20.95	(38)	3	(34)	6	(27)	0.66
EnCana Corporation	ECA		7.10	13.94	(49)	2	(48)	11	(27)	0.75
Canadian Oil Sands Limited	COSWF	B	4.65	9.20	(49)	1	(48)	6	(29)	0.48
	<i>Median</i>				(38)		(34)		(27)	0.66
	<i>Grand Median</i>				(32)		(29)		(22)	0.72
Natural Gas (\$/mmbtu)			2.76	3.19	(13)					
Oil - West Texas Intermediate (\$/bbl)			44.15	53.69	(18)					

Source: McDep LLC, Yahoo, CME Group, Bloomberg



Meter Reader

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September 15, 2015

Index of 2015 Research				
<u>Date</u>	<u>Series</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
10-Sep	ISI	DMLP	Dorchester Minerals, L.P.	Raise Distribution to 6.3% Cash Yield
31-Aug	II	MRO, DVN, COP, OXY, EOG		Resilient Large Cap Independent Producers
25-Aug	II	CLR, XEC, WLL, RRC, CRC		Small Cap Producer Survivors
11-Aug	MR			Bottom May Be Near
3-Aug	II	XOM, RDS, CVX, TOT		Global Energy Stalwarts
27-Jul	ISI	ECA	Encana Corporation	Depressed Stock Price
22-Jul	II	SBR, CRT, SJT, PBT		Use Volatility to Advantage
17-Jul	ISI	DMLP	Dorchester Minerals, L.P.	Top Line Distribution Support
14-Jul	MR			Lower Long-Term Oil to \$70 from \$90
7-Jul	ISI	PBT	Permian Basin Royalty Trust	Buy Underestimated Future Oil & Gas Production
22-Jun	II	DMLP, SBR, CRT, SJT, PBT		Understated Reserves, June Distributions Up
16-Jun	MR	RDS, MRO, EOG, CLR, DMLP		Oil and Gas Strengthen U.S. Security
28-May	II	DMLP, SBR, CRT, SJT, PBT		Distributions Rise on Roll Forward
12-May	MR	MRO	Marathon Oil	New Buy on Independent Shale Oil
1-May	ISI		CVX, XOM, RDS, TOT	Raise NPV for XOM and TOT on Cash Flow Margin
30-Apr	ISI	SJT	San Juan Basin Royalty Trust	New Buy on Depressed Natural Gas
29-Apr	ISI	CVE	Cenovus Energy	New Buy on Operating Leverage
28-Apr		TOT	Total	Operating Strength Reinforces New Buy
14-Apr	MR	RDS	Royal Dutch Shell plc	Shell to Acquire BG - Catalyst for Confidence
1-Apr	II			Recommitting to Oil and Gas Stocks
10-Mar	MR	DMLP, SBR, CRT, SJT		RTF Income Tracks Oil Price
9-Mar	ISI	XOM	Exxon Mobil	Safe at Any Likely Oil Price
27-Feb	ISI	EOG	EOG Resources	Top Value Creator
10-Feb	MR	CRT, CRC, COP, CVX		Oil Price Cycle Advances
30-Jan	ISI	COSWF	Canadian Oil Sands Ltd.	Syncrude Lowers Breakeven to \$US32 a Barrel
13-Jan	MR	SBR, XEC, COSWF, DVN, XOM		Oil and Gas Stocks on Sale
MR = Meter Reader (published monthly on second or third Tuesday)				
ISI = Independent Stock Idea				
II = Industry Idea				
For historical research by stock, go to mcdep.com , click on Stock Ideas , click on stock by name.				

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.