

Small Cap Producers for the Upcycle

Symbol/Rating	9-Nov 2015	Market Cap	EV/ Cap	Enterprise Value (\$mm)	Present Value by Segment (%)				Dist. Yield	McDep Ratio
					North Amer.	Rest of World	Oil Prod'n	Down- stream		
					Natural Gas	Natural Gas				
Small Independent										
Cimarex Energy Company	XEC	117.35	1.10	12,000	41		59		0.5	1.08
California Resources	CRC	4.87	4.66	8,700	13		87		-	0.82
Range Resources	RRC	33.29	1.75	9,700	80		20		0.5	0.78
Continental Resources (32%)	CLR B	35.66	1.55	6,500	20		80		-	0.71
Whiting Petroleum Corporation	WLL B	18.31	2.47	9,300	7		93		-	0.57
<i>Total or Median</i>				1.75	46,000	20		80	-	0.78

Summary and Recommendation

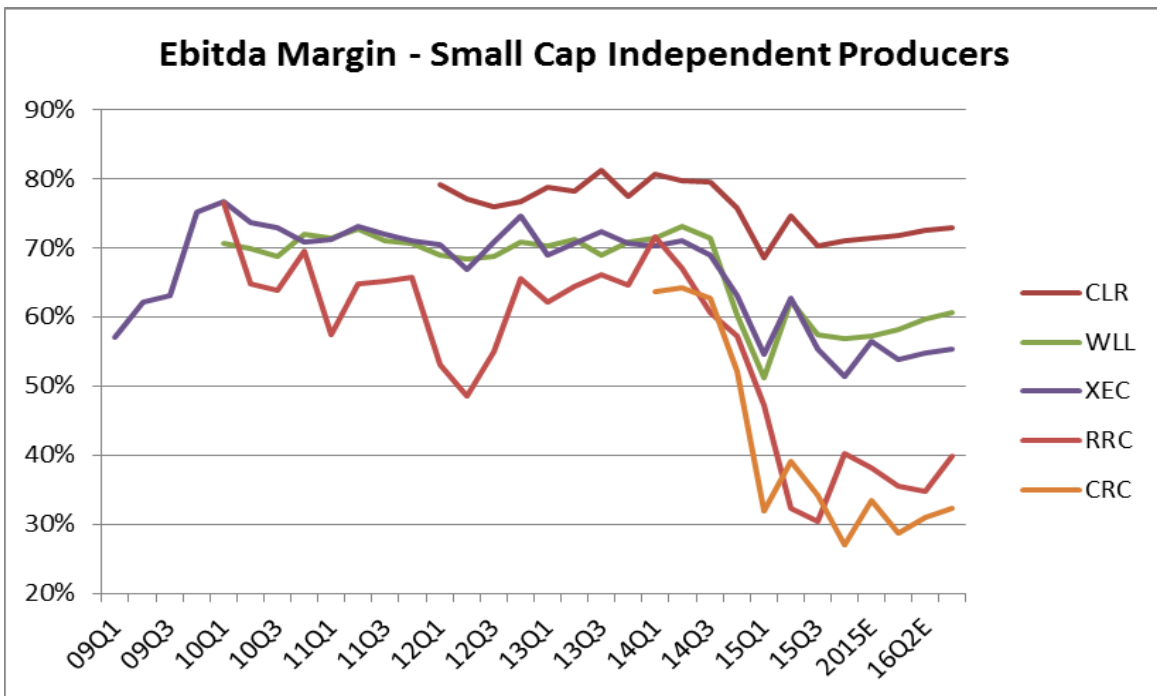
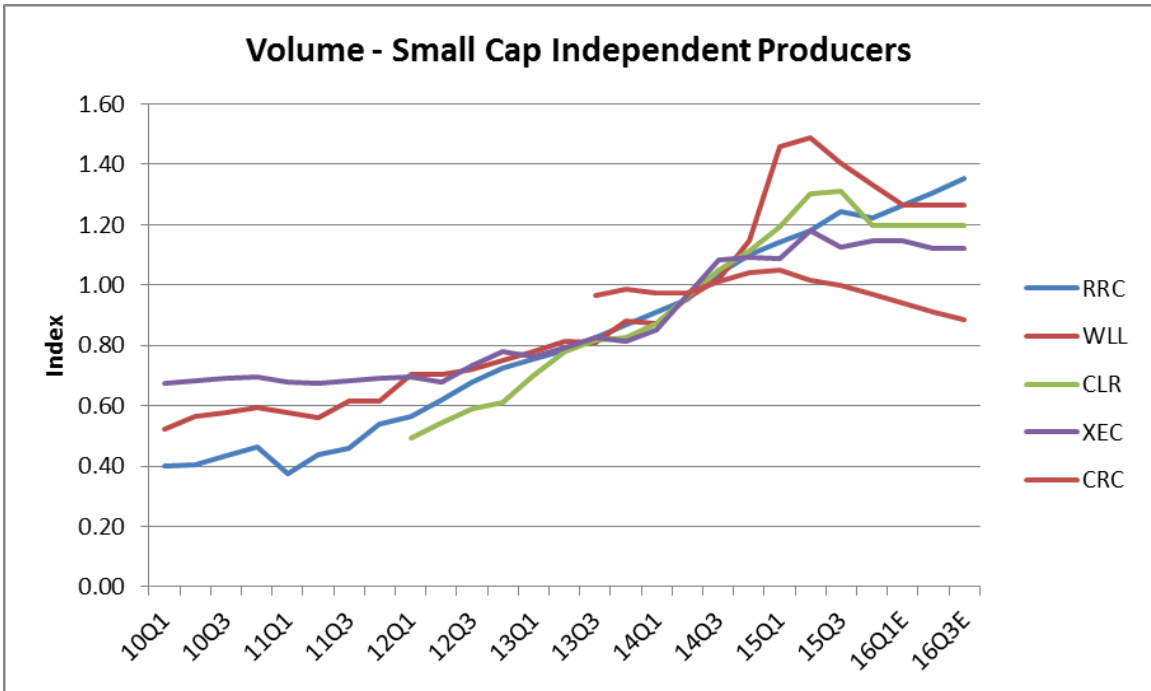
Having weathered the storm of the down cycle in oil price, Small Cap Independent Producers appear poised to outperform in the upcycle that may have begun with the market advances from the lows of August and September. By its lowest McDep Ratio of 0.57, Buy-recommended **Whiting Petroleum (WLL)** offers the most unlevered potential gain. Absorbing the acquisition of Kodiak Oil & Gas during the downturn, the company improved the quality of its leading position in the North Dakota Bakken shale oil. Latest rises in fracking efficiency allow WLL to keep production stable at current low oil price and grow rapidly again at higher oil price. Buy-recommended **Continental Resources (CLR)** has an equally commanding position in the Bakken enhanced by the SCOOP and STACK oil shale plays in Oklahoma. Lower cost operations and lower debt than WLL, CLR stock declined less and has a less depressed, though still low McDep Ratio of 0.71. **Range Resources (RRC)** continues to grow rapidly despite an even steeper decline this year in natural gas price compared to oil (see chart [Volume](#) on page 2). We believe RRC's commanding resource position in the Marcellus and Utica of Pennsylvania should be more valuable eventually. **California Resources (CRC)**'s West Point-trained management battles the onerous debt imposed on it by former owner Occidental Petroleum (OXY). Investors can balance that risk by using CRC's high 4.68 ratio of EV/Market Cap to limit the size of a smaller stock position for desired Enterprise Value. **Cimarex (XEC)** has built a great historical success that might be harvested while McDep Ratio is as high as 1.08. More broadly, we see opportunity in each of our five oil and gas sub-sectors (see [Tables 1-4](#) on pages 3-6).

Kurt H. Wulff, CFA



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A Monthly Analysis of Oil and Gas Stocks
November 10, 2015





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November 10, 2015

						Present Value by Segment (%)					
		Price				North	Rest of			Dist.	
		(US\$/sh)	EV/	Enterprise		Amer.	World			Yield	
Symbol/Rating		9-Nov	Market	Value		Natural	Natural	Oil	Down-	NTM	McDep
		2015	Cap	(\$mm)		Gas	Gas	Prod'n	stream	(%)	Ratio
Global Integrated											
Exxon Mobil Corporation	XOM	81.96	1.24	427,000		7	12	56	25	3.6	0.91
Chevron Corporation	CVX B	92.32	1.33	230,000		3	8	64	25	4.6	0.87
Royal Dutch Shell (BG pro form)	RDS-A	51.92	1.61	330,000						7.2	0.84
Total S.A.	TOT B	49.53	1.50	172,000			16	55	29	5.3	0.78
<i>Total or Median</i>			<i>1.42</i>	<i>1,159,000</i>				<i>56</i>	<i>25</i>	<i>5.0</i>	<i>0.85</i>
Large Independent											
EOG Resources, Inc.	EOG	85.37	1.15	53,700		16	3	81		0.8	1.06
Occidental Petroleum Corp.	OXY	75.22	1.15	66,300		5	1	78	17	4.0	1.00
ConocoPhillips	COP	54.64	1.55	106,000		16	11	73		5.4	0.86
Devon Energy Corporation	DVN B	46.98	1.89	36,500		25		60	15	2.0	0.83
Marathon Oil Corporation	MRO B	18.36	1.75	21,700		9	1	90		1.1	0.67
<i>Total or Median</i>			<i>1.55</i>	<i>284,000</i>		<i>16</i>		<i>78</i>		<i>2.0</i>	<i>0.86</i>
Small Independent											
Cimarex Energy Company	XEC	117.35	1.10	12,000		41		59		0.5	1.08
California Resources	CRC	4.87	4.66	8,700		13		87		-	0.82
Range Resources	RRC	33.29	1.75	9,700		80		20		0.5	0.78
Continental Resources (32%)	CLR B	35.66	1.55	6,500		20		80		-	0.71
Whiting Petroleum Corporation	WLL B	18.31	2.47	9,300		7		93		-	0.57
<i>Total or Median</i>			<i>1.75</i>	<i>46,000</i>		<i>20</i>		<i>80</i>		<i>-</i>	<i>0.78</i>
Income											
Sabine Royalty Trust	SBR	31.80	1.00	460		53		48		7.7	0.58
Cross Timbers Royalty Trust	CRT	17.41	1.00	100		62		38		6.1	0.56
Permian Basin RT	PBT	6.62	1.00	310		23		77		6.0	0.55
Dorchester Minerals, L.P.	DMLP B	14.50	1.00	450		40		60		6.9	0.52
San Juan Basin Royalty Trust	SJT B	6.87	1.00	320		100		-		5.3	0.46
<i>Total or Median</i>			<i>1.00</i>	<i>1,600</i>		<i>53</i>		<i>48</i>		<i>6.1</i>	<i>0.55</i>
Canada											
Imperial Oil Limited (30%)	IMO	32.24	1.34	11,000		1		69	30	1.3	0.85
EnCana Corporation	ECA	8.04	2.30	15,600		56		44		3.5	0.79
Cenovus Energy Inc.	CVE	15.73	1.29	16,800		12		75	13	3.1	0.74
Canadian Oil Sands Limited	COSWF B	7.33	1.80	6,400				100		2.1	0.60
Birchcliff Energy Ltd.	BIREF B	4.43	1.80	1,200		77		23		-	0.52
<i>Total or Median</i>			<i>1.80</i>	<i>51,000</i>				<i>69</i>		<i>2.1</i>	<i>0.74</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



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A Monthly Analysis of Oil and Gas Stocks

November 10, 2015

			<i>Price (US\$/sh)</i>	<i>Shares</i>	<i>Market Cap (US\$m)</i>	<i>Net Present Value (US\$/sh)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>
	<i>Symbol/Rating</i>	<i>9-Nov 2015</i>		<i>(mm)</i>				
	<i>B = Buy</i>							
Global Integrated								
Exxon Mobil Corporation	XOM		81.96	4,190	343,000	92.00	0.18	0.91
Chevron Corporation	CVX	B	92.32	1,872	173,000	111.00	0.22	0.87
Royal Dutch Shell (BG pro forma)	RDS-A		51.92	3,965	206,000	68.00	0.32	0.84
Total S.A.	TOT	B	49.53	2,312	115,000	71.00	0.26	0.78
	<i>Total or Median</i>				<i>837,000</i>		<i>0.24</i>	<i>0.85</i>
Large Independent								
EOG Resources, Inc.	EOG		85.37	549	46,900	80.00	0.13	1.06
Occidental Petroleum Corp.	OXY		75.22	763	57,400	75.00	0.13	1.00
ConocoPhillips	COP		54.64	1,242	68,000	68.00	0.31	0.86
Devon Energy Corporation	DVN	B	46.98	411	19,300	65.00	0.39	0.83
Marathon Oil Corporation	MRO	B	18.36	677	12,430	34.00	0.29	0.67
	<i>Total or Median</i>				<i>204,000</i>		<i>0.29</i>	<i>0.86</i>
Small Independent								
Cimarex Energy Company	XEC		117.35	93	10,900	108.00	0.10	1.08
California Resources	CRC		4.87	382	1,900	10.00	0.64	0.82
Range Resources	RRC		33.29	167	5,600	50.00	0.33	0.78
Continental Resources (32%)	CLR	B	35.66	118	4,200	58.00	0.25	0.71
Whiting Petroleum Corporation	WLL	B	18.31	204	3,700	52.00	0.34	0.57
	<i>Total or Median</i>				<i>26,000</i>		<i>0.33</i>	<i>0.78</i>
Income								
Sabine Royalty Trust	SBR		31.80	15	460	55.00	-	0.58
Cross Timbers Royalty Trust	CRT		17.41	6	100	31.00	-	0.56
Permian Basin RT	PBT		6.62	47	310	12.00	-	0.55
Dorchester Minerals, L.P.	DMLP	B	14.50	31	450	28.00	-	0.52
San Juan Basin Royalty Trust	SJT	B	6.87	47	320	15.00	-	0.46
	<i>Total or Median</i>				<i>1,600</i>		<i>-</i>	<i>0.55</i>
Canada								
Imperial Oil Limited (30%)	IMO		32.24	255	8,200	40.00	0.21	0.85
EnCana Corporation	ECA		8.04	841	6,800	13.00	0.45	0.79
Cenovus Energy Inc.	CVE		15.73	829	13,100	23.00	0.17	0.74
Canadian Oil Sands Limited	COSWF	B	7.33	485	3,600	16.00	0.27	0.60
Birchcliff Energy Ltd.	BIREF	B	4.43	155	700	12.00	0.23	0.52
	<i>Total or Median</i>				<i>32,000</i>		<i>0.23</i>	<i>0.74</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

November 10, 2015

			<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>9-Nov 2015</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>(\$/sh)</i>
	<i>B = Buy</i>							
Global Integrated								
Exxon Mobil Corporation	XOM		81.96	14.4	10.1	9.2	20	2.92
Chevron Corporation	CVX	B	92.32	9.3	9.1	7.9	26	4.28
Total S.A.	TOT	B	49.53	9.9	7.8	6.0	11	2.62
Royal Dutch Shell (BG pro forma)	RDS-A		51.92					3.76
	<i>Median</i>			<i>9.9</i>	<i>9.1</i>	<i>7.9</i>	<i>20</i>	
Large Independent								
EOG Resources, Inc.	EOG		85.37	9.2	14.5	15.4	185	0.67
Devon Energy Corporation	DVN	B	46.98	10.1	16.1	13.4	77	0.96
Occidental Petroleum Corp.	OXY		75.22	8.8	12.9	12.9	253	3.00
ConocoPhillips	COP		54.64	11.4	13.4	11.6		2.96
Marathon Oil Corporation	MRO	B	18.36	11.7	13.7	9.2		0.20
	<i>Median</i>			<i>10.1</i>	<i>13.7</i>	<i>12.9</i>	<i>185</i>	
Small Independent								
Range Resources	RRC		33.29	14.3	26.1	20.2	375	0.16
Cimarex Energy Company	XEC		117.35	7.7	15.3	16.4		0.64
California Resources	CRC		4.87	12.3	17.9	14.6		-
Continental Resources (32%)	CLR	B	35.66	11.4	17.3	12.3	159	-
Whiting Petroleum Corporation	WLL	B	18.31	11.1	14.7	8.5		-
	<i>Median</i>			<i>11.4</i>	<i>17.3</i>	<i>14.6</i>	<i>267</i>	
Income								
San Juan Basin Royalty Trust	SJT	B	6.87	8.4	30.5	14.0	19	0.36
Sabine Royalty Trust	SBR		31.80	8.0	22.6	13.1	13	2.43
Cross Timbers Royalty Trust	CRT		17.41	12.4	23.3	13.0	16	1.06
Dorchester Minerals, L.P.	DMLP	B	14.50	7.1	19.7	10.2	21	0.99
Permian Basin RT	PBT		6.62	9.7	17.6	9.7	17	0.40
	<i>Median</i>			<i>8.4</i>	<i>22.6</i>	<i>13.0</i>	<i>17</i>	
Canada								
EnCana Corporation	ECA		8.04	6.4	19.6	15.5	89	0.28
Cenovus Energy Inc.	CVE		15.73	15.0	18.4	13.5		0.48
Canadian Oil Sands Limited	COSWF	B	7.33	17.5	19.9	12.0		0.15
Imperial Oil Limited (30%)	IMO		32.24	23.6	12.5	10.6	17	0.42
Birchcliff Energy Ltd.	BIREF	B	4.43	12.4	16.5	8.5		-
	<i>Median</i>			<i>15.0</i>	<i>18.4</i>	<i>12.0</i>	<i>53</i>	
	<i>Grand Median</i>			<i>11</i>	<i>17</i>	<i>13</i>		
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								



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A Monthly Analysis of Oil and Gas Stocks

November 10, 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		9-Nov	29-Dec	Change	Distrib.	Return	Debt	Return	McDep
			2015	2014	(%)	(%)	(%)	(\$/sh)	(%)	Ratio
Global Integrated										
Total S.A.	TOT	B	49.53	52.74	(6)	4	(2)	25	(2)	0.78
Exxon Mobil Corporation	XOM		81.96	93.07	(12)	2	(10)	20	(8)	0.91
Chevron Corporation	CVX	B	92.32	113.32	(19)	3	(16)	31	(12)	0.87
Royal Dutch Shell (BG pro forma)	RDS-A		51.92	68.31	(24)	4	(20)	31	(14)	0.84
	<i>Median</i>				(15)		(13)		(10)	0.85
Large Independent										
Occidental Petroleum Corp.	OXY		75.22	81.71	(8)	3	(5)	12	(5)	1.00
EOG Resources, Inc.	EOG		85.37	94.33	(9)	0	(9)	12	(8)	1.06
ConocoPhillips	COP		54.64	70.11	(22)	3	(19)	30	(13)	0.86
Devon Energy Corporation	DVN	B	46.98	61.15	(23)	1	(22)	42	(13)	0.83
Marathon Oil Corporation	MRO	B	18.36	28.58	(36)	2	(34)	14	(23)	0.67
	<i>Median</i>				(22)		(19)		(13)	0.86
Small Independent										
Cimarex Energy Company	XEC		117.35	110.27	6	0	7	12	6	1.08
California Resources	CRC		4.87	5.77	(16)	1	(15)	18	(4)	0.82
Continental Resources (32%)	CLR	B	35.66	38.26	(7)	-	(7)	19	(5)	0.71
Whiting Petroleum Corporation	WLL	B	18.31	34.09	(46)	-	(46)	27	(26)	0.57
Range Resources	RRC		33.29	56.00	(41)	0	(40)	25	(28)	0.78
	<i>Median</i>				(16)		(15)		(5)	0.78
Income										
Cross Timbers Royalty Trust	CRT		17.41	18.07	(4)	6	3	-	3	0.56
Sabine Royalty Trust	SBR		31.80	36.68	(13)	8	(5)	-	(5)	0.58
Permian Basin RT	PBT		6.62	9.12	(27)	3	(24)	-	(24)	0.55
Dorchester Minerals, L.P.	DMLP	B	14.50	25.16	(42)	5	(38)	-	(38)	0.52
San Juan Basin Royalty Trust	SJT	B	6.87	13.97	(51)	2	(49)	-	(49)	0.46
	<i>Median</i>				(27)		(24)		(24)	0.55
Canada										
Canadian Oil Sands Limited	COSWF	B	7.33	9.20	(20)	1	(19)	6	(12)	0.60
Cenovus Energy Inc.	CVE		15.73	20.95	(25)	3	(22)	5	(18)	0.74
Imperial Oil Limited (30%)	IMO		32.24	43.49	(26)	1	(25)	11	(20)	0.85
Birchcliff Energy Ltd.	BIREF	B	4.43	6.75	(34)	-	(34)	4	(22)	0.52
EnCana Corporation	ECA		8.04	13.94	(42)	2	(41)	11	(23)	0.79
	<i>Median</i>				(26)		(25)		(20)	0.74
	<i>Grand Median</i>				(23)		(19)		(13)	0.78
Natural Gas (\$/mmbtu)			2.31	3.19	(28)					
Oil - West Texas Intermediate (\$/bbl)			43.98	53.69	(18)					

Source: McDep LLC, Yahoo, CME Group, Bloomberg



Meter Reader

A Monthly Analysis of Oil and Gas Stocks

November 10, 2015

Index of 2015 Research

<u>Date</u>	<u>Series</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
6-Nov	ISI	DMLP	Dorchester Minerals, L.P.	25% Volume Beat
2-Nov	ISI	XOM	Exxon Mobil	Potential Gain with Minimal Pain
27-Oct	ISI	COSWF	Canadian Oil Sands Ltd.	Deal Likely at Higher Price
21-Oct	ISI	SJT	San Juan Basin Royalty Trust	Southwest Bank Potential Successor Trustee
13-Oct	MR			Hedge Mideast Political Risk
5-Oct	ISI	COSWF	Canadian Oil Sands Ltd.	Suncor Makes Tender Offer at 0.57 McDep Ratio
1-Oct	ISI	SJT	San Juan Basin Royalty Trust	Trust Officer Resigns
29-Sep	II	COSWF, BIREF, IMO, CVE, ECA		High-Torque Canadian Producers
22-Sep	ISI	CRT	Cross Timbers Royalty Trust	Low Risk 7.5% Income
15-Sep	MR			Endless Discussion
10-Sep	ISI	DMLP	Dorchester Minerals, L.P.	Raise Distribution to 6.3% Cash Yield
1-Sep	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.



McDEP
LLC

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