

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

August 27, 2001

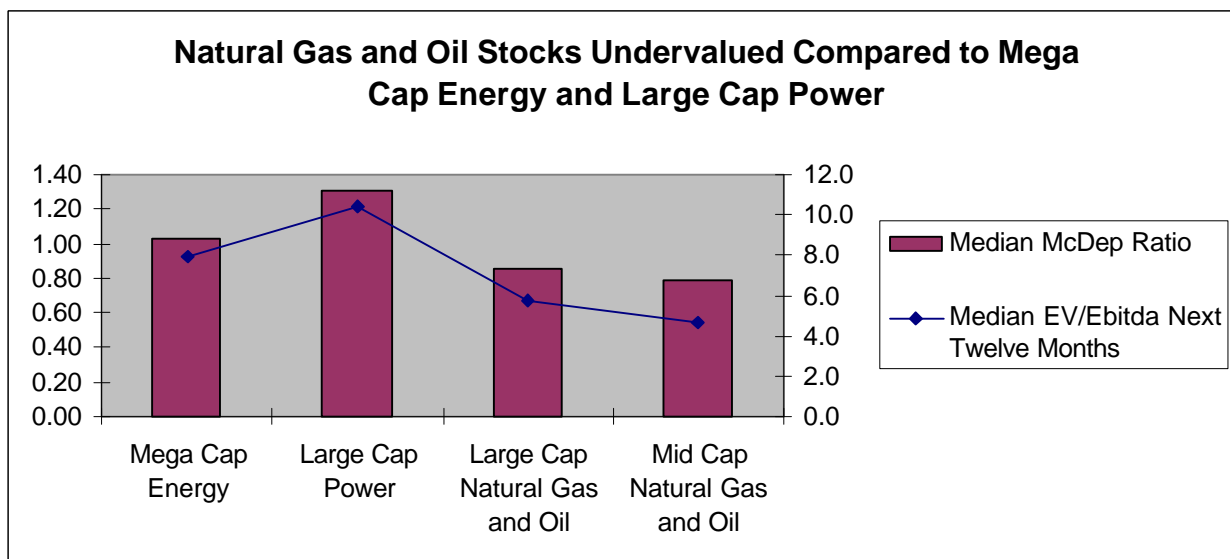
Buy Intermediate Size

Summary and Recommendation

We recommend that investors concentrate energy representation in intermediate size Natural Gas and Oil stocks (Large Cap and Mid Cap groups) that seem to be undervalued relative to Mega Cap Energy and especially relative to Large Cap Power. Our Strong Buys **Marathon Oil Corporation (MRO)** and **Burlington Resources Inc. (BR)** and our Buys **PanCanadian Energy Corporation (PCX when issued)** and **PetroChina (PTR)** fit that advice. Large Cap Power stocks have the most valuation and financial risk. Our selective approach recommends **American Electric Power (AEP)**, and **Exelon Corporation (EXC)** as Buys because their valuation implies more gain than that for peers and the surprising profitability we expect for old coal and nuclear plants will allow them to pay down debt. Our power Sell, **Calpine Corporation (CPN)**, is a reverse play on natural gas with high business and financial risk. Finally, our Small Cap Buy **Energy Partners, Ltd. (EPL)** seems particularly undervalued with one of the lowest McDep Ratios and EV/Ebitda multiples (see Tables L-1, L-2, S-1, S-2).

Intermediate Size Less Recognized

A wide valuation gap suggests that intermediate size natural gas and oil stocks could outperform Mega Caps and Large Cap Power in the next several years (see chart).



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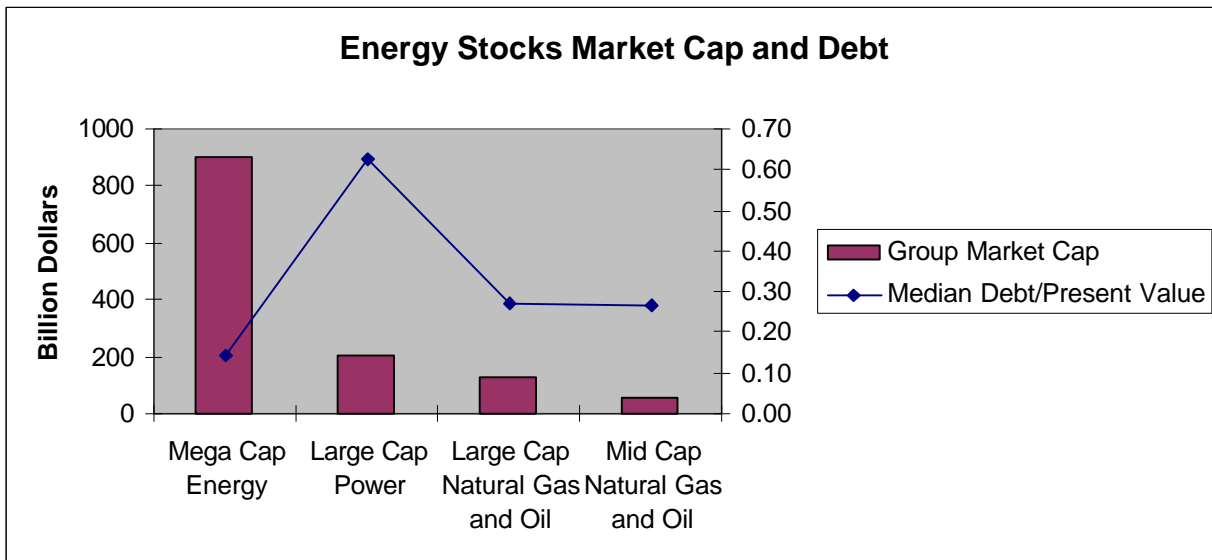
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Mega Caps Dominate the Industry

Many investors can do just fine by putting their money in the Mega Cap stocks that by market cap dwarf even the Power stocks in our coverage (see chart). For those investors who want to do a little more research there are opportunities to beat the performance of the Mega Caps.



Power Stock Debt Should Decline with Deregulation

Strong cash flows in the past year have helped natural gas and oil stocks reduce debt. Mega Caps have reduced debt to near negligible levels while intermediate size natural gas and energy stocks are in much better shape than historically (see previous chart).

Meanwhile power stocks are emerging from a regulated environment where risk sharing with ratepayers supported higher than normal debt levels. As generation, but not transmission and distribution, becomes deregulated we think lower debt levels are more appropriate. The higher profitability we expect for existing efficient plants will help that process along for coal leader AEP and nuclear leader EXC.

In contrast our sell recommendation, CPN, employs high financial leverage. While management justifies that strategy apparently on the basis of historical practices in the electric industry, we think a lower risk capital structure is more appropriate in a higher risk, deregulated business. That doesn't mean high debt companies can't be successful. Investors should just recognize when they are rolling the dice.

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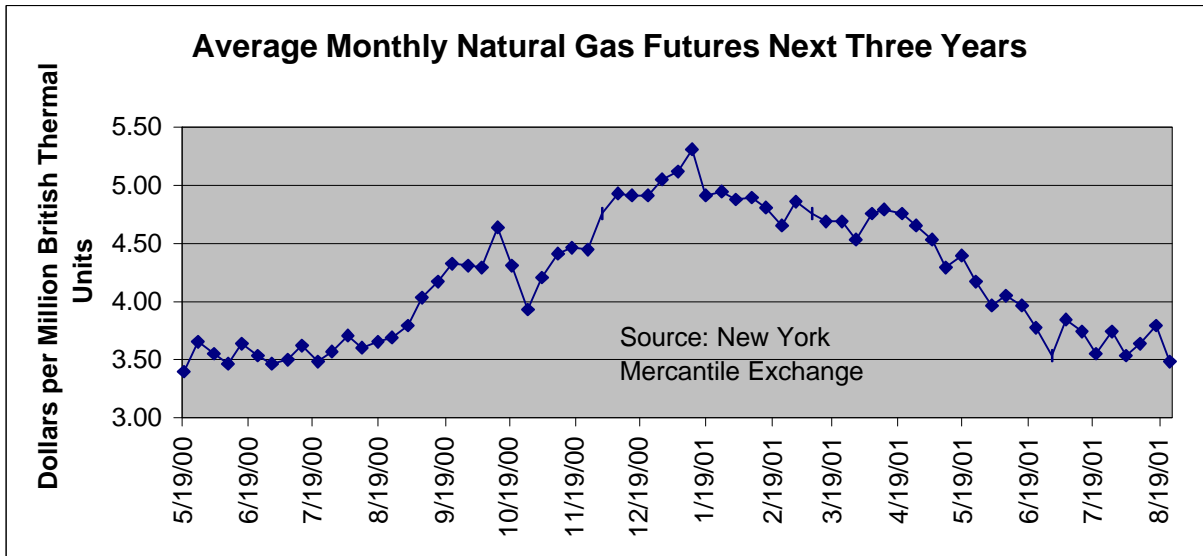
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Natural Gas Futures Drop Sharply

Reversing two weeks of gains, Nymex Henry Hub natural gas futures dropped sharply (see chart). The change contributed to a median 12% decline in estimated next twelve months distributions for three natural gas royalty trusts. Yet median present value of future cash flow for the life of those trusts was unchanged because of a move up in oil futures from which we estimate natural gas price after three years.



A chartist might say that three-years of futures are holding at the support level indicated by trading a year ago. We remain comfortable with our position that we are at a reentry point for buying natural gas stocks. We don't see a lot of downside in Strong Buy Burlington Resources in part because we expect strong stock repurchase activity by the company.

While confident in the values in natural gas royalty trusts, we are watching for possible weakness during the next few months if investors react to lower monthly distributions. Lagging real time by two months, we already know the industry conditions behind the distributions to be announced in October, for example. For our latest estimates, see Meter Reader Tables, a separate publication.

Good News for Refining Margins

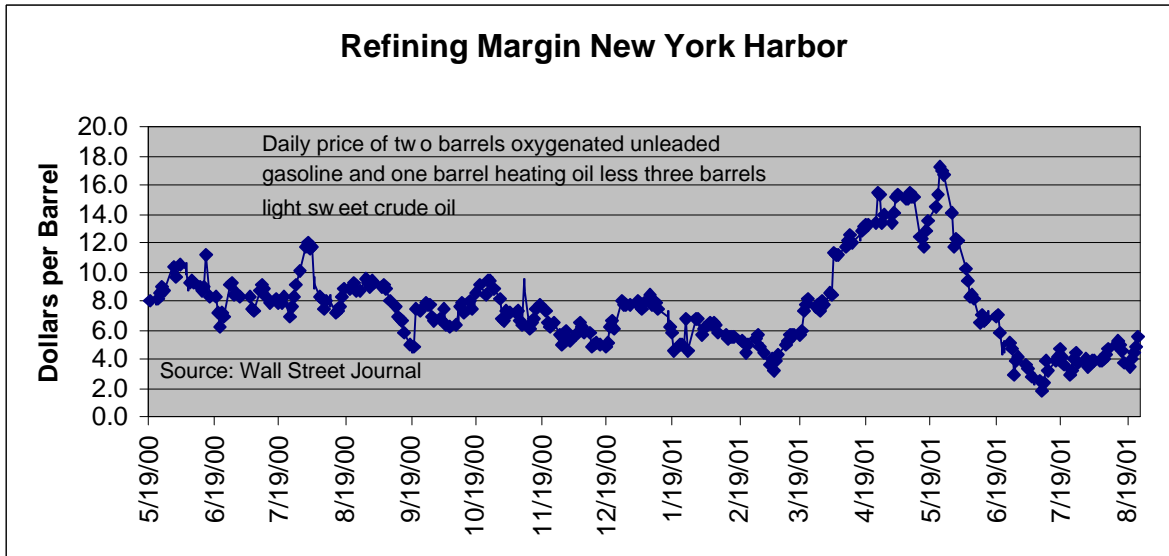
Strong Buy MRO should benefit from improving refining margins (see chart). A fire at a competitor's Midwest refinery is contributing to current strength. The accident has an impact because the underlying supply/demand balance is tight.

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Kurt H. Wulff, CFA

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Table L-1
Mega Cap and Large Cap Energy Companies
Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 24-Aug 2001</i>	<i>Shares (mm)</i>	<i>Market Cap (\$mm)</i>	<i>Net Present Value (\$/sh)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>
Mega Cap							
Exxon Mobil Corporation	XOM	41.70	6,963	290,000	39.10	0.04	1.06
TOTAL Fina Elf S.A.	TOT	74.87	1,400	105,000	72.00	0.16	1.03
Royal Dutch/Shell	RD	58.59	3,544	208,000	56.70	0.06	1.03
BP PLC	BP	52.29	3,744	196,000	52.90	0.14	0.99
Chevron (incl. Texaco)	CHV	92.80	1,063	98,700	98.00	0.15	0.96
	<i>Total or Median</i>			<i>898,000</i>		<i>0.14</i>	<i>1.03</i>
Power							
Enron Corp.	ENE	36.35	891	32,400	5.40	0.86	1.81
Dynegy Inc.	DYN	42.25	338	14,300	15.40	0.63	1.65
Calpine Corporation	CPN 4	32.48	318	10,300	14.40	0.60	1.50
Duke Energy Corporation	DUK	38.75	779	30,200	19.90	0.62	1.36
Mirant Corporation	MIR	28.90	353	10,200	12.70	0.73	1.34
AES Corporation	AES	35.32	538	19,000	17.40	0.71	1.30
Williams Companies	WMB	32.81	485	15,900	16.60	0.69	1.30
El Paso Corporation	EPG	51.02	521	26,600	40.00	0.50	1.14
American Electric Power Co. Inc.	AEP 2	45.44	322	14,600	33.20	0.68	1.12
Southern Company	SO	23.16	683	15,800	22.20	0.47	1.02
Exelon Corporation	EXC 2	55.82	324	18,100	71.30	0.44	0.88
	<i>Total or Median</i>			<i>207,000</i>		<i>0.63</i>	<i>1.30</i>
Natural Gas and Oil							
Occidental Petroleum	OXY	28.14	372	10,500	25.30	0.52	1.05
Burlington Resources, Inc	BR 1	40.52	215	8,700	48.50	0.19	0.87
Anadarko Petroleum Corp.	APC	53.49	263	14,100	66.30	0.24	0.85
Phillips (incl. Tosco)	P	59.37	383	22,700	75.90	0.31	0.85
Conoco Inc.	COC.B	30.57	636	19,400	43.70	0.31	0.79
ENI S.p.A.	E	66.53	800	53,200	91.90	0.10	0.75
	<i>Total or Median</i>			<i>129,000</i>		<i>0.27</i>	<i>0.85</i>
Service							
Baker Hughes Inc.	BHI	33.47	338	11,300	24.50	0.13	1.32
Schlumberger Ltd.	SLB	51.05	581	29,700	44.00	0.12	1.14
Halliburton Company	HAL	31.08	430	13,400	27.20	0.13	1.13

Buy/Sell rating after symbol: 1 - Strong Buy, 2 - Buy, 4 - Sell

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

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Table L-2
Mega Cap and Large Cap Energy Companies
Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	<i>Symbol</i>	<i>Price (\$/sh) 24-Aug 2001</i>	<i>EV/ Sales 2001E</i>	<i>EV/ Ebitda NTM</i>	<i>Dividend or Distribution P/E NTM</i>	<i>PV/ Ebitda NTM</i>	<i>NTM (%)</i>
Mega Cap							
	XOM	41.70	1.3	8.5	17	2.2	8.0
	RD	58.59	1.2	8.2	17	2.4	8.0
	BP	52.29	1.2	7.9	16	2.5	8.0
	CHV	92.80	1.2	7.6	16	2.8	8.0
	TOT	74.87	1.1	7.2	17	1.5	7.0
	<i>Median</i>		<i>1.2</i>	<i>7.9</i>	<i>17</i>	<i>2.4</i>	<i>8.0</i>
Power							
	ENE	36.35	0.3	14.5	18	1.4	8.0
	DYN	42.25	0.4	13.2	20	0.7	8.0
	CPN 4	32.48	2.4	12.0	17	-	8.0
	DUK	38.75	0.9	10.9	15	2.8	8.0
	MIR	28.90	0.6	10.8	13	-	8.0
	AES	35.32	3.7	10.4	17	-	8.0
	WMB	32.81	3.3	10.4	14	1.8	8.0
	EPG	51.02	0.7	9.1	15	1.7	8.0
	AEP 2	45.44	0.7	8.9	12	5.3	8.0
	SO	23.16	2.7	8.2	14	5.8	8.0
	EXC 2	55.82	2.4	7.0	12	3.0	8.0
	<i>Median</i>		<i>0.9</i>	<i>10.4</i>	<i>15</i>	<i>1.7</i>	<i>8.0</i>
Natural Gas and Oil							
	BR 1	40.52	4.7	7.8	39	1.4	9.0
	OXY	28.14	1.5	6.3	9	3.6	7.0
	P	59.37	0.8	5.9	10	2.4	7.0
	COC.B	30.57	0.8	5.5	10	2.5	7.0
	APC	53.49	2.3	5.1	9	0.4	6.0
	E	66.53	1.2	3.8	7	2.4	5.0
	<i>Median</i>		<i>1.3</i>	<i>5.7</i>	<i>9</i>	<i>2.4</i>	<i>7.0</i>
Service							
	BHI	33.47	2.1	10.5	24	1.4	8.0
	SLB	51.05	2.6	9.1	25	1.5	8.0
	HAL	31.08	1.1	9.0	21	1.6	8.0

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2002; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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Table S-1
Mid Cap and Small Cap Energy Companies
Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 24-Aug 2001</i>	<i>Shares (mm)</i>	<i>Market Cap (\$mm)</i>	<i>Net Present Value (\$/sh)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>	
Power								
Consol Energy Inc.	CNX	27.60	79	2,200	27.80	0.57	1.00	
Sempra Energy	SRE	27.27	203	5,500	32.40	0.57	0.93	
CMS Energy Corporation	CMS	24.19	128	3,100	34.00	0.70	0.91	
Constellation Energy Group	CEG	30.55	152	4,600	46.80	0.40	0.79	
<i>Total or Median</i>				<i>15,400</i>		<i>0.57</i>	<i>0.92</i>	
Natural Gas and Oil								
TEPPCO Partners, L.P.	TPP	32.57	38	1,240	13.20	0.65	1.51	
Valero Energy Corp.(with UDS)	VLO	38.01	110	4,200	30.80	0.63	1.09	
Ocean Energy, Inc.	OEI	19.74	177	3,500	21.90	0.27	0.93	
Devon Energy Corp (incl MND)	DVN	48.95	165	8,100	59.30	0.29	0.88	
Marathon Oil Corporation	MRO	1	30.90	310	9,600	42.60	0.26	0.80
Petro-Canada	PCZ	25.23	267	6,700	33.00	0.08	0.78	
Unocal Corporation	UCL	36.18	256	9,300	51.90	0.27	0.78	
PanCanadian Energy (US\$)	PCX	2	24.35	262	6,380	33.90	0.14	0.76
Norsk Hydro ASA (49%)	NHY	43.12	128	5,500	61.60	0.16	0.75	
PetroChina Company Ltd (10%)	PTR	2	20.30	176	3,600	32.50	0.15	0.68
<i>Total or Median</i>				<i>58,100</i>		<i>0.27</i>	<i>0.79</i>	
Small Cap								
Quicksilver Resources Inc.	KWK	17.40	19.3	340	10.80	0.59	1.25	
Dorchester Hugoton, Ltd.*	DHULZ	14.50	10.7	156	12.00	-	1.21	
Cross Timbers Royalty Tr*	CRT	19.72	6.0	118	16.90	-	1.16	
Spinnaker Exploration Company	SKE	41.64	28.4	1,180	37.00	-	1.13	
Swift Energy Company	SFY	27.16	25.7	700	27.70	0.24	0.99	
Encore Acquisition Corporation	EAC	14.82	30.0	450	16.40	0.15	0.92	
San Juan Basin Royalty Tr*	SJT	13.31	46.6	620	14.70	-	0.91	
Hugoton RoyaltyTrust*	HGT	12.60	40.0	500	15.30	-	0.82	
Penn Virginia Corporation	PVA	36.35	8.8	320	44.20	0.00	0.82	
Energy Partners Ltd.*	EPL	2	10.00	27.0	270	15.90	0.08	0.66
<i>Total or Median</i>				<i>4,650</i>		<i>0.00</i>	<i>0.95</i>	
Micro Cap								
Abraxas Petroleum Corporation	ABP	3.00	23.6	71	1.70	0.89	1.09	
Purcell Energy, Ltd. (US\$)	PEL.TO	2.33	26.0	61	3.70	0.07	0.67	

Buy/Sell rating after symbol: 1 - Strong Buy, 2 - Buy

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* For small cap stocks marked with asterisk, estimated present value recalculated weekly.

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	Symbol/ Rating							
Power								
Consol Energy Inc.	CNX	27.60	2.2	8.0	9	4.1	8.0	
Sempra Energy	SRE	27.27	1.2	7.5	11	3.7	8.0	
CMS Energy Corporation	CMS	24.19	0.9	7.3	9	6.0	8.0	
Constellation Energy Group	CEG	30.55	1.8	6.3	10	1.6	8.0	
	<i>Median</i>		<i>1.5</i>	<i>7.4</i>	<i>9</i>	<i>3.9</i>	<i>8.0</i>	
Natural Gas and Oil								
TEPPCO Partners, L.P.	TPP	32.57	0.7	12.1	16	6.4	8.0	
Valero Energy Corp.(with UDS)	VLO	38.01	0.3	6.5	6	0.8	6.0	
Ocean Energy, Inc.	OEI	19.74	3.5	5.6	12	0.8	6.0	
Devon Energy Corp (incl MND)	DVN	48.95	2.9	5.3	12	0.4	6.0	
Petro-Canada	PCZ	25.23	1.3	4.7	10	1.1	6.0	
Unocal Corporation	UCL	36.18	1.7	4.7	13	2.2	6.0	
PanCanadian Energy (US\$)	PCX	2	24.35	1.1	4.2	8	1.1	5.5
Marathon Oil Corporation	MRO	1	30.90	0.4	4.0	7	3.0	5.0
Norsk Hydro ASA (49%)	NHY		43.12	0.8	3.7	9	2.4	5.0
PetroChina Company Ltd (10%)	PTR	2	20.30	1.5	2.7	5	8.4	4.0
	<i>Median</i>		<i>1.2</i>	<i>4.7</i>	<i>9</i>	<i>1.6</i>	<i>6.0</i>	
Small Cap								
Dorchester Hugoton, Ltd.*	DHULZ		14.50	8.3	12.0	15	7.4	9.9
Cross Timbers Royalty Tr*	CRT		19.72	7.0	11.7	13	7.7	10.1
Quicksilver Resources Inc.	KWK		17.40	5.0	11.3		-	9.0
San Juan Basin Royalty Tr*	SJT		13.31	6.7	8.6	13	8.0	9.5
Hugoton RoyaltyTrust*	HGT		12.60	5.3	7.9	11	9.1	9.6
Spinnaker Exploration Company	SKE		41.64	5.9	6.8	20	-	6.0
Swift Energy Company	SFY		27.16	4.4	5.9	14	-	6.0
Encore Acquisition Corporation	EAC		14.82	3.7	5.5	13	-	6.0
Penn Virginia Corporation	PVA		36.35	3.5	4.9	11	2.5	6.0
Energy Partners Ltd.*	EPL	2	10.00	2.1	3.8	33	-	5.7
	<i>Median</i>			<i>5.2</i>	<i>7.3</i>	<i>13</i>	<i>1.2</i>	<i>7.5</i>
Micro Cap								
Abraxas Petroleum Corporation	ABP		3.00	5.1	7.6		-	7.0
Purcell Energy, Ltd. (US\$)	PEL.TO		2.33	3.1	4.0	13	-	6.0

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2002; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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