

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

September 4, 2001

Stash Your Cash in Energy

Summary and Recommendation

We recommend that investors divert some of the more than \$2 trillion in money market funds to energy stocks. Dividends at 2.5% on Mega Cap Energy stocks are safe bets to be met by companies that are among the strongest in the world economy. Moderate appreciation in principal seems likely and risk of lasting loss seems low. Strong Buy **Marathon Oil Corporation (MRO)**, in the Mid Cap size group pays 2.9%. A low McDep Ratio signals low valuation risk. Large Cap Power Buy recommendations, **American Electric Power (AEP)**, and **Exelon Corporation (EXC)** pay dividends of 5.2% and 3.1% respectively. Mid Cap Natural Gas and Oil Buy, **PetroChina (PTR)**, pays 8.3% in an annual dividend. Our champion energy cash distributors are the natural gas royalty trusts whose Next Twelve Months payouts range from 7 to 9% at a low point in the natural gas futures price cycle. For more recommendations, McDep Ratios, EV/Ebitda multiples and cash distribution estimates see Tables L-1, L-2, S-1, S-2.

Five Mega Cap Stocks Pay Median 2.5% a Year

While we have not been emphasizing energy undervaluation in the five Mega Cap stocks that account for 65% of the market cap in our coverage we can emphasize their low risk and consequent attraction as alternatives to heavy short term cash reserves. Since we see no compelling valuation differences for the time being, we can confidently suggest any or all of the five as suitable cash substitutes. The five stocks offer dividends at current indicated annual rates of 2.3 to 2.9%. Foreign taxes may be withheld on the three companies headquartered in Europe. U.S. investors may be able to recover the withheld taxes, but recovery is not assured. Our estimate of dividend for Total includes a French government tax refund, *avoir fiscal*, at the rate paid in 2001 to holders of record in 2000.

Twenty-One More Stocks Pay More Than 2% a Year

We use the McDep Ratio to rank remaining high dividend paying stocks in our coverage (see chart on page 3). Our confidence is greatest in recommended stocks. Valuation risk is low in the low McDep Ratio stocks.

There Is Virtue In Returning Funds To Shareholders

We agree readily that total return - appreciation plus cash distributions - is the most valid measure of investment performance provided one also pays attention to risk. The best performing U.S. natural gas and oil production stocks during the 1990s were royalty trusts. The discipline of paying out cash flow can exert gentle pressure on the

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management of operating companies to reinvest remaining funds in only the highest potential projects. Companies without that discipline had inferior performance.

At the same time, we strongly favor stock repurchase as a tax efficient means to enhance return. Royalty trusts offer tax efficiency also. Yet much of the money going into short term fixed income investments will earn a fully taxable return. Shifting some of those funds to distribution-paying energy stocks would substitute one taxable source for another.

Stronger Than The Banks

While it is hard to beat the safety of treasury bills as short-term investments, commercial paper as found in money market funds is another story. Many of the issuers are highly leveraged financial entities like banks, brokerage houses or financial subsidiaries of manufacturing and retail companies. At the same time, deposit insurance is comforting for savings accounts and certificates of deposit, but the insurance fund would be quickly depleted if it had to make good on more than a few failures. The Mega Cap Energy companies have almost no financial leverage and deliver products that are essential for mobility and health.

Just as one could be overconfident about the safety of short-term investments, one could be over confident about the safety of energy investments. When energy exceeded, say 25%, of a diversified investor's financial assets - stocks, bonds, and cash - we would be concerned about too much in one industry.

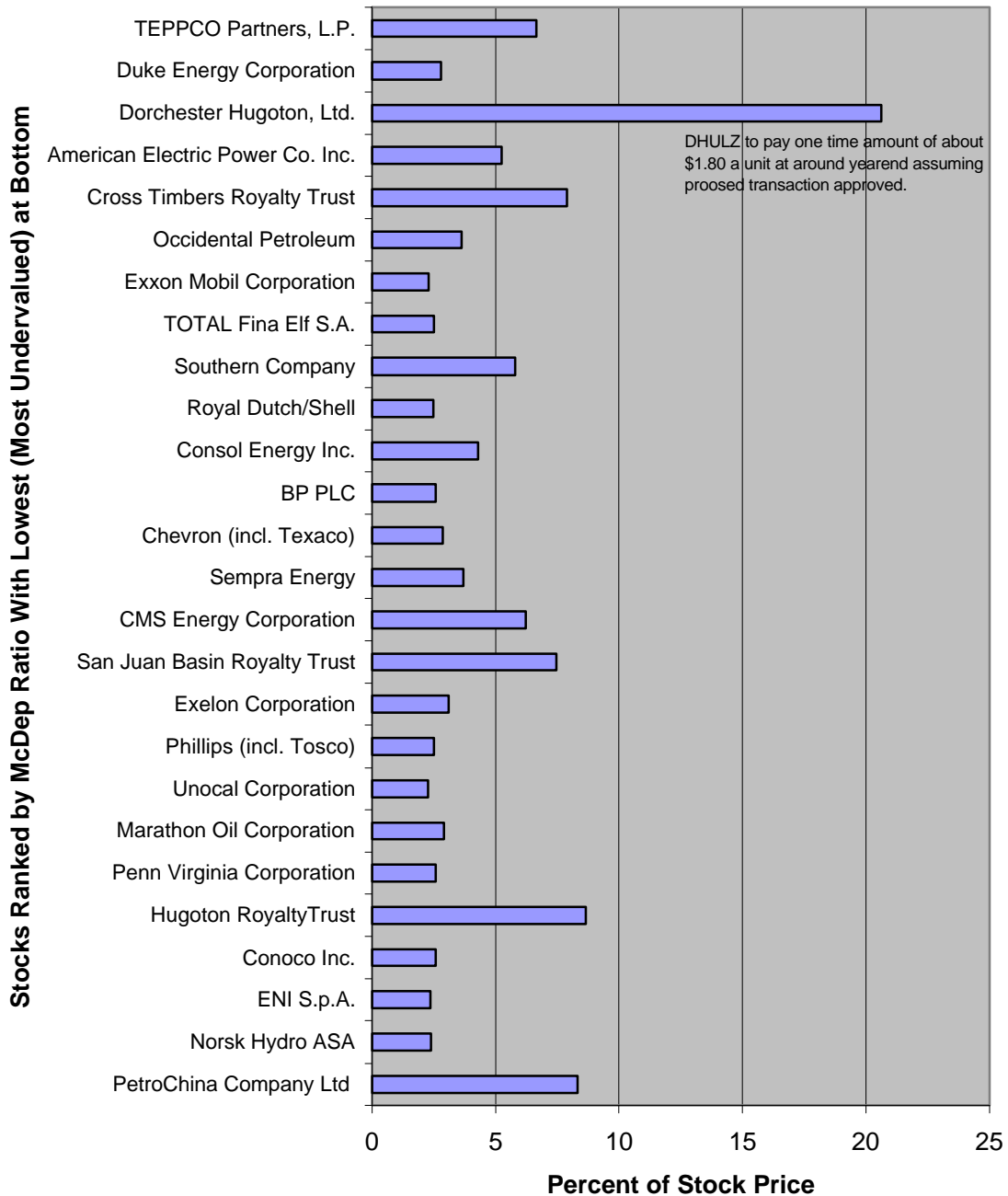
Kurt H. Wulff, CFA

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Highest Cash Distributions Next Twelve Months



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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) 31-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	40.15	6,963	280,000	39.10	0.04	1.03
TOTAL Finna Elf S.A.	TOT	73.85	1,400	103,000	72.00	0.16	1.02
Royal Dutch/Shell	RD	56.63	3,544	201,000	56.70	0.06	1.00
BP PLC	BP	50.88	3,744	191,000	52.90	0.14	0.97
Chevron (incl. Texaco)	CHV	90.75	1,063	96,500	98.00	0.15	0.94
	<i>Total or Median</i>			<i>872,000</i>		<i>0.14</i>	<i>1.00</i>
Power							
Enron Corp.	ENE	34.99	891	31,200	5.40	0.86	1.77
Dynegy Inc.	DYN	42.17	338	14,300	15.40	0.63	1.65
Calpine Corporation	CPN 4	33.02	318	10,500	14.40	0.60	1.52
Duke Energy Corporation	DUK	39.31	779	30,600	19.90	0.62	1.37
Mirant Corporation	MIR	28.65	353	10,100	12.70	0.73	1.34
Williams Companies	WMB	32.55	485	15,800	16.60	0.69	1.30
AES Corporation	AES	33.12	538	17,800	17.40	0.71	1.26
El Paso Corporation	EPG	48.59	532	25,800	38.40	0.53	1.12
American Electric Power Co. Inc.	AEP 2	45.77	322	14,700	33.20	0.68	1.12
Southern Company	SO	23.17	683	15,800	22.20	0.47	1.02
Exelon Corporation	EXC 2	54.60	324	17,700	71.30	0.44	0.87
	<i>Total or Median</i>			<i>204,000</i>		<i>0.63</i>	<i>1.30</i>
Natural Gas and Oil							
Occidental Petroleum	OXY	27.52	372	10,200	25.30	0.52	1.04
Anadarko Petroleum Corp.	APC	51.75	263	13,600	66.30	0.24	0.83
Phillips (incl. Tosco)	P	57.50	383	22,000	75.90	0.31	0.83
Burlington Resources, Inc	BR 1	38.00	215	8,200	48.50	0.19	0.83
Conoco Inc.	COC.B	29.62	636	18,800	43.70	0.31	0.78
ENI S.p.A.	E	67.40	800	53,900	91.90	0.10	0.76
	<i>Total or Median</i>			<i>127,000</i>		<i>0.27</i>	<i>0.83</i>
Service							
Baker Hughes Inc.	BHI	32.94	338	11,100	24.50	0.13	1.30
Schlumberger Ltd.	SLB	49.00	581	28,500	44.00	0.12	1.10
Halliburton Company	HAL	27.86	430	12,000	27.20	0.13	1.02

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>Price</i> <i>(\$/sh)</i>	<i>EV/</i>	<i>EV/</i>	<i>Dividend or</i>	<i>PV/</i>	
	<i>Symbol</i>	<i>31-Aug</i>	<i>Sales</i>	<i>Ebitda</i>	<i>Distribution</i>	<i>Ebitda</i>	
		<i>2001</i>	<i>2001E</i>	<i>NTM</i>	<i>P/E</i>	<i>NTM</i>	
					<i>NTM</i>	<i>NTM</i>	
					<i>(%)</i>		
Mega Cap							
E Exxon Mobil Corporation	XOM	40.15	1.3	8.2	16	2.3	8.0
R Royal Dutch/Shell	RD	56.63	1.2	8.0	16	2.5	8.0
B BP PLC	BP	50.88	1.2	7.7	16	2.6	8.0
C Chevron (incl. Texaco)	CHV	90.75	1.1	7.5	15	2.9	8.0
T TOTAL Finna Elf S.A.	TOT	73.85	1.1	7.1	17	2.5	7.0
	<i>Median</i>		<i>1.2</i>	<i>7.7</i>	<i>16</i>	<i>2.5</i>	<i>8.0</i>
Power							
E Enron Corp.	ENE	34.99	0.3	14.2	18	1.4	8.0
D Dynegy Inc.	DYN	42.17	0.4	13.2	20	0.7	8.0
C Calpine Corporation	CPN 4	33.02	2.4	12.1	18	-	8.0
D Duke Energy Corporation	DUK	39.31	0.9	11.0	15	2.8	8.0
M Mirant Corporation	MIR	28.65	0.6	10.7	13	-	8.0
W Williams Companies	WMB	32.55	3.3	10.4	14	1.8	8.0
A AES Corporation	AES	33.12	3.6	10.1	15	-	8.0
E El Paso Corporation	EPG	48.59	0.9	9.0	14	1.7	8.0
A American Electric Power Co. Inc.	AEP 2	45.77	0.7	8.9	12	5.2	8.0
S Southern Company	SO	23.17	2.7	8.2	14	5.8	8.0
E Exelon Corporation	EXC 2	54.60	2.4	7.0	12	3.1	8.0
	<i>Median</i>		<i>0.9</i>	<i>10.4</i>	<i>14</i>	<i>1.7</i>	<i>8.0</i>
Natural Gas and Oil							
B Burlington Resources, Inc	BR 1	38.00	4.5	7.4	37	1.4	9.0
O Occidental Petroleum	OXY	27.52	1.5	6.3	8	3.6	7.0
P Phillips (incl. Tosco)	P	57.50	0.8	5.8	9	2.5	7.0
C Conoco Inc.	COC.B	29.62	0.8	5.4	10	2.6	7.0
A Anadarko Petroleum Corp.	APC	51.75	2.2	5.0	9	0.4	6.0
E ENI S.p.A.	E	67.40	1.2	3.8	7	2.4	5.0
	<i>Median</i>		<i>1.3</i>	<i>5.6</i>	<i>9</i>	<i>2.4</i>	<i>7.0</i>
Service							
B Baker Hughes Inc.	BHI	32.94	2.1	10.4	23	1.4	8.0
S Schlumberger Ltd.	SLB	49.00	2.5	8.8	24	1.5	8.0
H Halliburton Company	HAL	27.86	1.0	8.2	19	1.8	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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Mid Cap and Small Cap Energy Companies
Rank by McDep Ratio: Market Cap and Debt to Present Value

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Power								
Consol Energy Inc.	CNX	26.00	79	2,100	27.80	0.57	0.97	
Sempra Energy	SRE	27.09	203	5,500	32.40	0.57	0.93	
CMS Energy Corporation	CMS	23.46	128	3,000	34.00	0.70	0.91	
Constellation Energy Group	CEG	30.02	152	4,600	46.80	0.40	0.78	
<i>Total or Median</i>				<i>15,200</i>		<i>0.57</i>	<i>0.92</i>	
Natural Gas and Oil								
TEPPCO Partners, L.P.	TPP	31.57	38	1,200	13.20	0.65	1.48	
Valero Energy Corp.(with UDS)	VLO	41.50	110	4,600	44.80	0.54	0.97	
Ocean Energy, Inc.	OEI	18.85	177	3,300	24.40	0.25	0.83	
Unocal Corporation	UCL	35.30	257	9,100	47.80	0.30	0.82	
Marathon Oil Corporation	MRO	1	31.51	310	9,800	42.60	0.26	0.81
Petro-Canada	PCZ	25.15	267	6,700	33.00	0.08	0.78	
Devon Energy Corp (incl MND)	DVN	46.27	165	7,600	66.20	0.26	0.78	
Norsk Hydro ASA (49%)	NHY	43.50	128	5,600	61.60	0.16	0.75	
PanCanadian Energy	PCX_w	2	23.63	262	6,190	33.90	0.14	0.74
PetroChina Company Ltd (10%)	PTR	2	20.54	176	3,600	32.50	0.15	0.69
<i>Total or Median</i>				<i>57,700</i>		<i>0.26</i>	<i>0.80</i>	
Small Cap								
Dorchester Hugoton, Ltd.*	DHULZ	14.25	10.7	153	11.30	-	1.26	
Quicksilver Resources Inc.	KWK	14.00	19.3	270	10.80	0.59	1.12	
Cross Timbers Royalty Tr*	CRT	18.53	6.0	111	17.00	-	1.09	
Spinnaker Exploration Company	SKE	38.30	28.4	1,090	37.00	-	1.04	
Swift Energy Company	SFY	23.21	25.7	600	27.70	0.24	0.88	
San Juan Basin Royalty Tr*	SJT	12.94	46.6	600	14.80	-	0.87	
Encore Acquisition Corporation	EAC	14.20	30.0	430	17.40	0.14	0.84	
Penn Virginia Corporation	PVA	34.94	8.8	310	44.20	0.00	0.79	
Hugoton RoyaltyTrust*	HGT	12.11	40.0	480	15.40	-	0.79	
Energy Partners Ltd.*	EPL	2	9.15	27.0	250	16.40	0.07	0.59
<i>Total or Median</i>				<i>4,290</i>		<i>0.00</i>	<i>0.88</i>	
Micro Cap								
Abraxas Petroleum Corporation	ABP	2.37	23.6	56	1.70	0.89	1.05	
Purcell Energy, Ltd. (US\$)	PEL.TO	2.18	26.0	57	3.70	0.07	0.63	

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

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

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

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Power								
Consol Energy Inc.	CNX	26.00	2.1	7.8	9	4.3	8.0	
Sempra Energy	SRE	27.09	1.2	7.4	10	3.7	8.0	
CMS Energy Corporation	CMS	23.46	0.9	7.3	8	6.2	8.0	
Constellation Energy Group	CEG	30.02	1.8	6.3	9	1.6	8.0	
	<i>Median</i>		<i>1.5</i>	<i>7.3</i>	<i>9</i>	<i>4.0</i>	<i>8.0</i>	
Natural Gas and Oil								
TEPPCO Partners, L.P.	TPP	31.57	0.7	11.9	16	6.7	8.0	
Valero Energy Corp.(with UDS)	VLO	41.50	0.3	6.8	6	0.8	7.0	
Unocal Corporation	UCL	35.30	2.3	5.7	15	2.3	7.0	
Ocean Energy, Inc.	OEI	18.85	3.4	5.4	12	0.8	6.5	
Devon Energy Corp (incl MND)	DVN	46.27	2.7	5.1	11	0.4	6.5	
Petro-Canada	PCZ	25.15	1.3	4.7	10	1.1	6.0	
PanCanadian Energy	PCX_w	2	23.63	1.1	4.1	8	1.1	5.5
Marathon Oil Corporation	MRO	1	31.51	0.4	4.0	7	2.9	5.0
Norsk Hydro ASA (49%)	NHY		43.50	0.8	3.8	9	2.4	5.0
PetroChina Company Ltd (10%)	PTR	2	20.54	1.5	2.8	5	8.3	4.0
	<i>Median</i>		<i>1.2</i>	<i>4.9</i>	<i>9</i>	<i>1.7</i>	<i>6.3</i>	
Small Cap								
Dorchester Hugoton, Ltd.*	DHULZ		14.25	8.8	13.2	17	20.6	10.4
Cross Timbers Royalty Tr*	CRT		18.53	6.8	11.4	13	7.9	10.5
Quicksilver Resources Inc.	KWK		14.00	4.5	10.1	-	9.0	
San Juan Basin Royalty Tr*	SJT		12.94	7.0	9.1	13	7.5	10.4
Hugoton RoyaltyTrust*	HGT		12.11	5.4	8.3	12	8.7	10.5
Encore Acquisition Corporation	EAC		14.20	4.2	6.7	16	-	8.0
Spinnaker Exploration Company	SKE		38.30	5.5	6.2	18	-	6.0
Swift Energy Company	SFY		23.21	3.9	5.3	12	-	6.0
Penn Virginia Corporation	PVA		34.94	3.4	4.7	11	2.6	6.0
Energy Partners Ltd.*	EPL	2	9.15	1.9	3.6	37	-	6.1
	<i>Median</i>		<i>4.9</i>	<i>7.5</i>	<i>13</i>	<i>1.3</i>	<i>8.5</i>	
Micro Cap								
Abraxas Petroleum Corporation	ABP		2.37	4.9	7.3	-	7.0	
Purcell Energy, Ltd. (US\$)	PEL.TO		2.18	2.9	3.8	12	-	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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