

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

September 17, 2001

WAR

Summary

In sympathy to the pain and suffering we all feel for the loss of life in the Attack on America we make no reference to stocks as recommendations in our commentary this week. Yet we do carry on with our analysis of recent developments and implications for the future. Prices for oil and gas stocks might advance more than 5% when trading resumes to be consistent with the increase in financial measures and commodity prices. The present value of natural gas and oil production advanced 5% in the few days after the act of war. Lower interest rates contributed 3% offset by lower inflation expectations that subtracted 1%. Increases in natural gas and oil prices contributed the remaining 3%. Regardless of how trading proceeds for the next week, we believe that energy investments should be prominent in the diversified investment portfolio that promises growth along with protection from inflation and deflation.

Present Value Links Interest, Inflation and Commodity Price to Stock Price

Meter Reader Tables, a companion weekly analysis, details calculations of present value for five small cap U.S. stocks - three royalty trusts, one master limited partnership and one company. The first four are concentrated on natural gas and the fifth produces more oil than gas. The calculations produced a sharper than normal change last week (see Chart on next page).

The calculations depend primarily on measures of the market rather than on our own forecasts or expectations. Our feeling is that the numbers could be higher over the next few years. At the same time we watch for opportunities to emphasize investments where relative value as measured by the McDep Ratio is also attractive.

Dominion Resources Bids for Louis Dreyfus Natural Gas

Unbeknownst to us as we finished our Meter Reader comments last Sunday, Dominion Resources (D) was putting the last minute touches on its announcement to be made Monday morning. The Virginia power company with natural gas operations bid 0.3226 shares of Dominion and \$19.20 cash for each share of Louis Dreyfus Natural Gas (LD). After a day of trading, D closed at \$60.26 implying a value of \$38.64 for each share of LD. The target closed at \$38.68, a \$0.04 premium to the offer.

D appears to be getting LD at an attractive price in view of our net present value of \$45.90 (see Table S-1). At the same time, D stock that the sellers would take in exchange appears to be attractively valued among power companies (see Table L-1).

Kurt H. Wulff, CFA

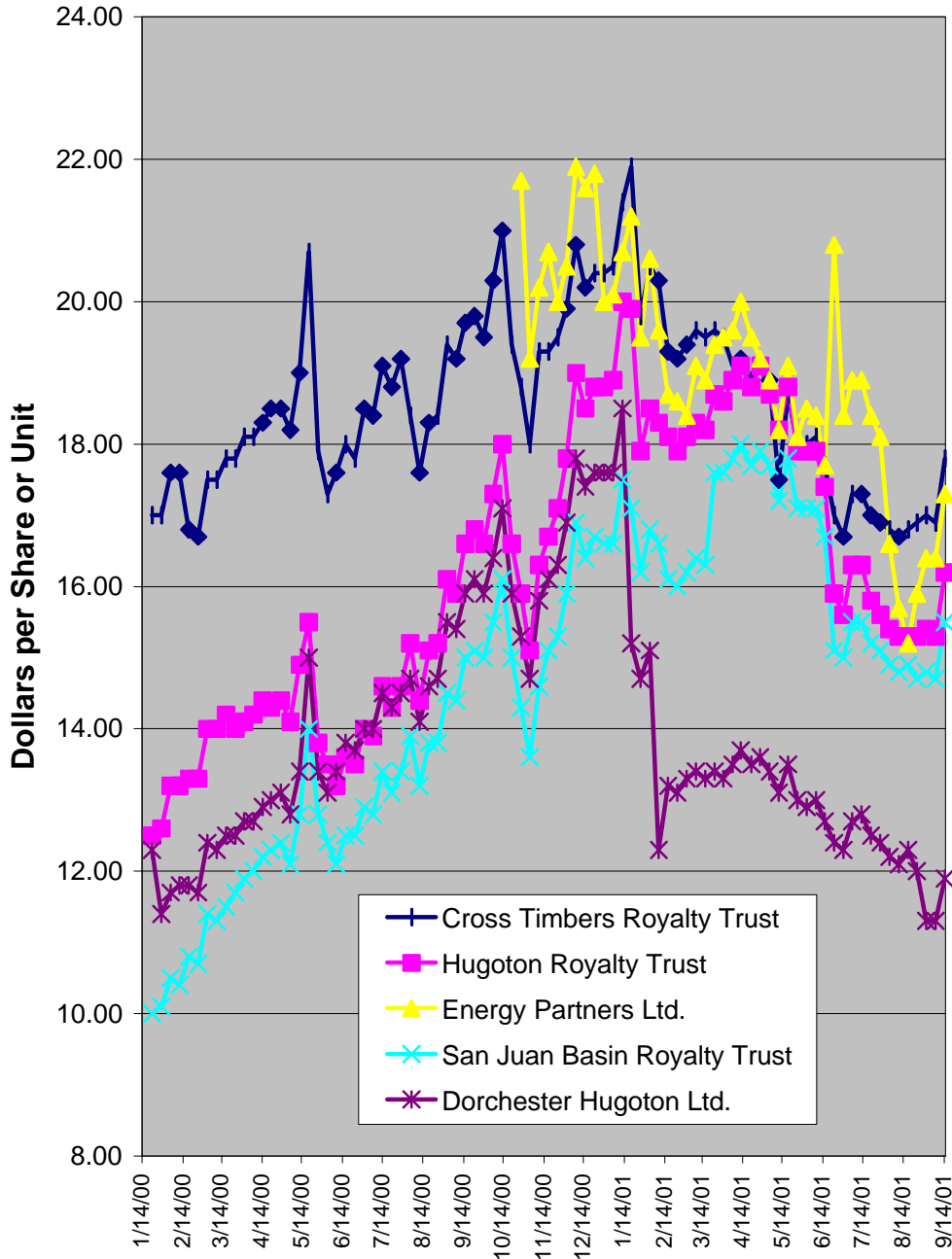
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Net Present Value of Small Cap Producers



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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) 10-Sep 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	41.24	6,963	287,000	39.10	0.04	1.05
TOTAL Fina Elf S.A.	TOT	71.88	1,406	101,000	75.60	0.16	0.96
Royal Dutch/Shell	RD	53.87	3,544	191,000	56.70	0.06	0.95
BP PLC	BP	49.52	3,744	185,000	52.90	0.14	0.95
Chevron (incl. Texaco)	CHV	91.70	1,063	97,500	98.00	0.15	0.95
	<i>Total or Median</i>			<i>862,000</i>		<i>0.14</i>	<i>0.95</i>
Power							
Enron Corp.	ENE	32.76	891	29,200	5.40	0.86	1.72
Dynegy Inc.	DYN	39.30	338	13,300	15.40	0.63	1.58
Calpine Corporation	CPN 4	29.05	318	9,200	14.40	0.60	1.40
Duke Energy Corporation	DUK	39.50	779	30,800	19.90	0.62	1.37
Williams Companies	WMB	31.46	485	15,300	16.60	0.69	1.28
Mirant Corporation	MIR	25.25	353	8,900	12.70	0.73	1.27
AES Corporation	AES	29.00	538	15,600	17.40	0.71	1.20
El Paso Corporation	EPG	50.02	532	26,600	38.40	0.53	1.14
American Electric Power Co. Inc.	AEP 2	46.67	322	15,000	33.20	0.68	1.13
Southern Company	SO	23.73	683	16,200	22.20	0.47	1.04
Dominion Resources	D	60.26	247	14,900	63.40	0.50	0.98
Exelon Corporation	EXC 2	55.27	324	17,900	71.30	0.44	0.87
	<i>Total or Median</i>			<i>213,000</i>		<i>0.62</i>	<i>1.23</i>
Natural Gas and Oil							
Occidental Petroleum	OXY	28.00	372	10,400	25.30	0.52	1.05
Anadarko Petroleum Corp.	APC	53.49	263	14,100	66.30	0.24	0.85
Phillips (incl. Tosco)	P	58.56	383	22,400	75.90	0.31	0.84
Burlington Resources, Inc	BR 1	37.88	215	8,100	48.50	0.19	0.82
Conoco Inc.	COC.B	30.73	636	19,500	43.70	0.31	0.79
ENI S.p.A.	E	64.60	800	51,700	91.90	0.10	0.73
	<i>Total or Median</i>			<i>126,000</i>		<i>0.27</i>	<i>0.83</i>
Service							
Baker Hughes Inc.	BHI	34.55	338	11,700	24.50	0.13	1.36
Schlumberger Ltd.	SLB	50.36	581	29,300	44.00	0.12	1.13
Halliburton Company	HAL	28.73	430	12,400	27.20	0.13	1.05

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)</i> <i>10-Sep 2001</i>	<i>EV/Sales</i> <i>2001E</i>	<i>EV/Ebitda</i> <i>NTM</i>	<i>P/E</i> <i>NTM</i>	<i>Dividend or Distribution</i> <i>NTM (%)</i>	<i>PV/Ebitda</i> <i>NTM</i>
Mega Cap							
	XOM	41.24	1.3	8.4	17	2.2	8.0
	TOT	71.88	1.4	7.7	15	2.5	8.0
	RD	53.87	1.1	7.6	15	2.6	8.0
	BP	49.52	1.1	7.6	15	2.7	8.0
	CHV	91.70	1.2	7.6	16	2.8	8.0
	<i>Median</i>		<i>1.2</i>	<i>7.6</i>	<i>15</i>	<i>2.6</i>	<i>8.0</i>
Power							
	ENE	32.76	0.3	13.7	17	1.5	8.0
	DYN	39.30	0.3	12.6	19	0.8	8.0
	CPN 4	29.05	2.2	11.2	16	-	8.0
	DUK	39.50	0.9	11.0	15	2.8	8.0
	WMB	31.46	3.3	10.2	14	1.9	8.0
	MIR	25.25	0.6	10.1	12	-	8.0
	AES	29.00	3.4	9.6	14	-	8.0
	EPG	50.02	0.9	9.1	14	1.7	8.0
	AEP 2	46.67	0.7	9.0	13	5.1	8.0
	SO	23.73	2.7	8.3	15	5.6	8.0
	D	60.26	3.4	7.8	14	4.3	8.0
	EXC 2	55.27	2.4	7.0	12	3.1	8.0
	<i>Median</i>		<i>1.6</i>	<i>9.8</i>	<i>14</i>	<i>1.8</i>	<i>8.0</i>
Natural Gas and Oil							
	BR 1	37.88	4.4	7.4	37	1.5	9.0
	OXY	28.00	1.5	6.3	9	3.6	7.0
	P	58.56	0.8	5.9	10	2.5	7.0
	COC.B	30.73	0.8	5.6	10	2.5	7.0
	APC	53.49	2.3	5.1	9	0.4	6.0
	E	64.60	1.1	3.7	6	2.5	5.0
	<i>Median</i>		<i>1.3</i>	<i>5.7</i>	<i>9</i>	<i>2.5</i>	<i>7.0</i>
Service							
	BHI	34.55	2.2	10.9	24	1.3	8.0
	SLB	50.36	2.6	9.0	25	1.5	8.0
	HAL	28.73	1.0	8.4	19	1.7	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

	Symbol/ Rating	Price (\$/sh) 10-Sep 2001	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio	
Power								
Consol Energy Inc.	CNX	25.39	79	2,000	27.80	0.57	0.96	
Sempra Energy	SRE	26.91	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	28.99	152	4,400	46.80	0.40	0.77	
<i>Total or Median</i>				<i>14,900</i>		<i>0.57</i>	<i>0.92</i>	
Natural Gas and Oil								
Valero Energy Corp.(with UDS)	VLO	42.86	110	4,700	54.50	0.49	0.89	
Ocean Energy, Inc.	OEI	19.85	177	3,500	24.40	0.25	0.86	
PanCanadian Energy	PCX_w	2	27.82	262	7,290	33.90	0.14	0.84
Unocal Corporation	UCL	35.65	257	9,200	47.80	0.30	0.82	
Marathon Oil Corporation	MRO	1	31.89	310	9,900	42.60	0.26	0.82
Devon Energy (incl MND,AXN)	DVN	43.38	165	7,200	64.50	0.39	0.80	
Petro-Canada	PCZ	25.54	267	6,800	33.00	0.08	0.79	
Norsk Hydro ASA (49%)	NHY	42.01	128	5,400	61.60	0.16	0.73	
PetroChina Company Ltd (10%)	PTR	2	20.13	176	3,500	32.50	0.15	0.68
<i>Total or Median</i>				<i>57,500</i>		<i>0.25</i>	<i>0.82</i>	
Small Cap								
Quicksilver Resources Inc.	KWK	16.15	19.3	310	10.80	0.59	1.20	
Spinnaker Exploration Company	SKE	37.52	28.4	1,070	33.60	-	1.12	
XTO Energy Inc.	XTO	15.60	123.0	1,920	17.80	0.29	0.91	
Southwestern Energy Company	SWN	11.65	25.7	300	14.30	0.48	0.90	
Louis Dreyfus Natural Gas Corp.	LD	2	38.68	44.8	1,730	45.90	0.22	0.88
Swift Energy Company	SFY	25.81	25.7	660	33.80	0.21	0.81	
Newfield Exploration Company	NFX	34.38	49.3	1,700	46.80	0.18	0.78	
Stone Energy Company	SGY	39.10	26.5	1,040	51.90	0.09	0.78	
Encore Acquisition Corporation	EAC	12.49	30.0	380	17.40	0.14	0.76	
Penn Virginia Corporation	PVA	33.45	8.8	290	44.20	0.00	0.76	
Forest Oil Corporation	FST	27.70	50.2	1,390	42.10	0.21	0.73	
<i>Total or Median</i>				<i>10,790</i>		<i>0.21</i>	<i>0.81</i>	
Trusts and Partnerships								
TEPPCO Partners, L.P.	TPP	32.06	38	1,220	13.20	0.65	1.50	
Dorchester Hugoton, Ltd.	DHULZ	13.90	10.7	149	11.90	-	1.17	
Cross Timbers Royalty Trust	CRT	19.34	6.0	116	17.80	-	1.09	
San Juan Basin Royalty Trust	SJT	12.39	46.6	580	15.50	-	0.80	
Hugoton RoyaltyTrust	HGT	12.07	40.0	480	16.20	-	0.75	
<i>Total or Median</i>				<i>2,550</i>		<i>-</i>	<i>1.09</i>	
Micro Cap								
Abraxas Petroleum Corporation	ABP	2.45	23.6	58	1.70	0.89	1.05	
Purcell Energy, Ltd. (US\$)	PEL.TO	2.11	26.6	56	3.60	0.09	0.63	
Energy Partners Ltd.(30%)	EPL	2	9.20	8.1	70	17.30	0.07	0.56

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

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	Symbol/ Rating	Price (\$/sh) 10-Sep 2001	EV/ Sales 2001E	EV/ Ebitda NTM	P/E NTM	Dividend or Distribution NTM (%)	PV/ Ebitda NTM	
Power								
Consol Energy Inc.	CNX	25.39	2.1	7.7	8	4.4	8.0	
Sempra Energy	SRE	26.91	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	28.99	1.8	6.2	9	1.7	8.0	
	<i>Median</i>		<i>1.5</i>	<i>7.3</i>	<i>9</i>	<i>4.1</i>	<i>8.0</i>	
Natural Gas and Oil								
Valero Energy Corp.(with UDS)	VLO	42.86	0.3	6.2	6	0.7	7.0	
Unocal Corporation	UCL	35.65	2.3	5.8	15	2.2	7.0	
Ocean Energy, Inc.	OEI	19.85	3.6	5.6	12	0.8	6.5	
Devon Energy (incl MND,AXN)	DVN	43.38	2.8	4.8	13	0.5	6.0	
Petro-Canada	PCZ	25.54	1.4	4.8	10	1.1	6.0	
PanCanadian Energy	PCX_w	2	27.82	1.2	4.6	9	0.9	5.5
Marathon Oil Corporation	MRO	1	31.89	0.4	4.1	7	2.9	5.0
Norsk Hydro ASA (49%)	NHY		42.01	0.8	3.7	8	2.5	5.0
PetroChina Company Ltd (10%)	PTR	2	20.13	1.4	2.7	5	8.5	4.0
	<i>Median</i>		<i>1.4</i>	<i>4.8</i>	<i>9</i>	<i>1.1</i>	<i>6.0</i>	
Small Cap								
Quicksilver Resources Inc.	KWK		16.15	4.8	10.8	-	9.0	
Louis Dreyfus Natural Gas Corp.	LD	2	38.68	5.4	7.9	23	-	9.0
Spinnaker Exploration Company	SKE		37.52	6.6	7.8	30	-	7.0
XTO Energy Inc.	XTO		15.60	4.8	7.3	17	0.3	8.0
Southwestern Energy Company	SWN		11.65	2.5	7.2	34	-	8.0
Encore Acquisition Corporation	EAC		12.49	3.8	6.1	14	-	8.0
Swift Energy Company	SFY		25.81	4.3	5.7	13	-	7.0
Forest Oil Corporation	FST		27.70	2.1	5.1	20	-	7.0
Newfield Exploration Company	NFX		34.38	3.7	4.7	16	-	6.0
Stone Energy Company	SGY		39.10	3.7	4.7	20	-	6.0
Penn Virginia Corporation	PVA		33.45	3.2	4.5	10	2.7	6.0
	<i>Median</i>			<i>3.8</i>	<i>6.1</i>	<i>18</i>	<i>-</i>	<i>7.0</i>
Trusts and Partnerships								
TEPPCO Partners, L.P.	TPP		32.06	0.7	12.0	16	6.6	8.0
Dorchester Hugoton, Ltd.	DHULZ		13.90	8.1	11.8	15	21.8	10.2
Cross Timbers Royalty Trust	CRT		19.34	6.8	11.3	12	8.0	10.4
San Juan Basin Royalty Trust	SJT		12.39	6.4	8.2	12	8.3	10.3
Hugoton RoyaltyTrust	HGT		12.07	5.2	7.7	11	9.3	10.4
	<i>Median</i>			<i>6.4</i>	<i>11.3</i>	<i>12</i>	<i>8.3</i>	<i>10.3</i>
Micro Cap								
Abraxas Petroleum Corporation	ABP		2.45	4.9	7.4	-	7.0	
Purcell Energy, Ltd. (US\$)	PEL.TO		2.11	2.8	3.8	9	-	6.0
Energy Partners Ltd.(30%)	EPL	2	9.20	1.8	3.2	20	-	5.7

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