

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

October 8, 2001

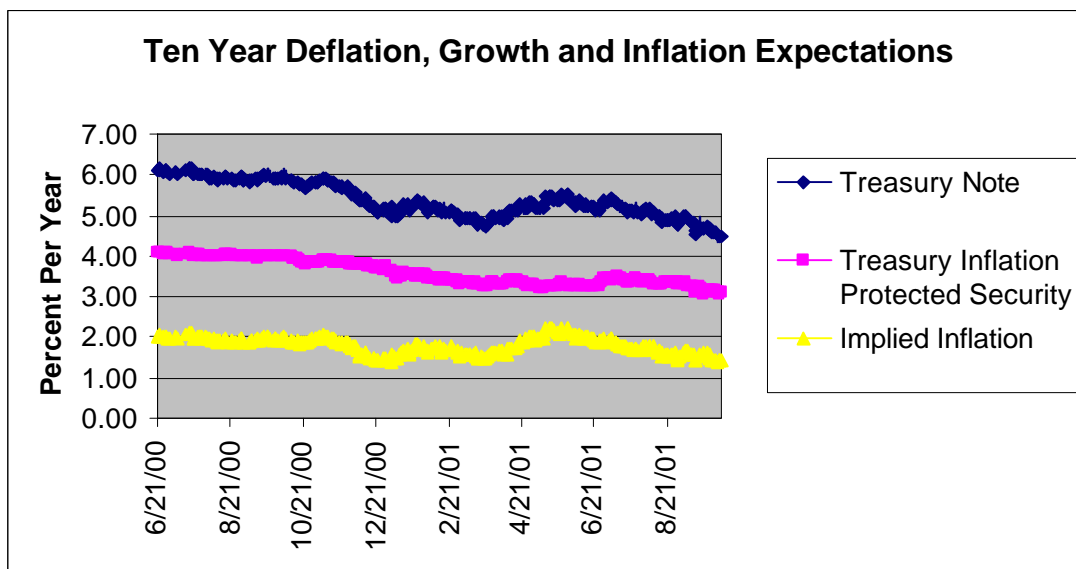
The Battle Is Joined

Summary and Recommendation

As we write this weekly analysis, President Bush has just issued his statement that an attack on Afghanistan has been launched. In view of this momentous time our usual comments on energy stocks will be brief. We believe in our country and in the world economy. We have confidence in our stock recommendations headed by Strong Buys **Marathon Oil (MRO)** and **Burlington Resources (BR)**. **PanCanadian Energy (PCX)**, a value stock with volume growth, begins its first full week as a fully publicly traded stock. Resource rich **PetroChina (PTR)** adds further global strength to our selections. **San Juan Basin Royalty Trust (SJT)** rewards investors practically every month with a distribution of cash from long life natural gas. **Energy Partners (EPL)** show signs of coming out of a stock price slump. The stats are in the valuation tables for those recommendations and more as well as possible alternatives (see Table L-1, L-2, S-1 and S-2).

Ten-Year Treasuries Set Valuation Standards

Lower yields on Treasuries reduce the return equities have to beat. For long-life natural gas reserves, investors can pay 4% less than three months ago to beat the return of Treasury Inflation Protected Securities (see middle line on Chart).



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Commodity Futures Prices Decline

While Treasury market trends are positive for energy valuation, commodity market trends are negative. Futures prices for natural gas and oil are lower (see Charts). That implies about 10% less present value for long life natural gas than three months ago.

Stock Prices Decline More Than Warranted in Many Cases

Thus the Treasury market implies long-life natural gas may be 4% more valuable, but the commodities market implies long-life natural gas may be 10% less valuable. While the two forces imply a net decline in value of 6% in the past three months, stock prices are typically down more. As a result many energy stocks are more attractive than they were three months ago.

Markets Don't Know the Future

The government fixed income markets and the commodity futures markets detail expectations from which we can construct a reasonably objective investment case. Our own biases are minimized and others could come to similar conclusions.

Yet as we can see from the charts, expectations of the future are continually changing. Thus the more interesting question is what next?

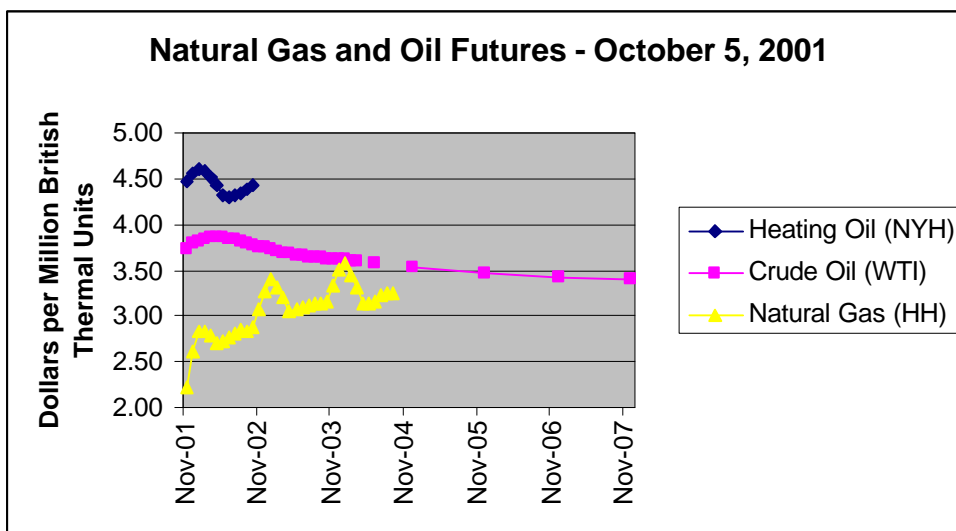
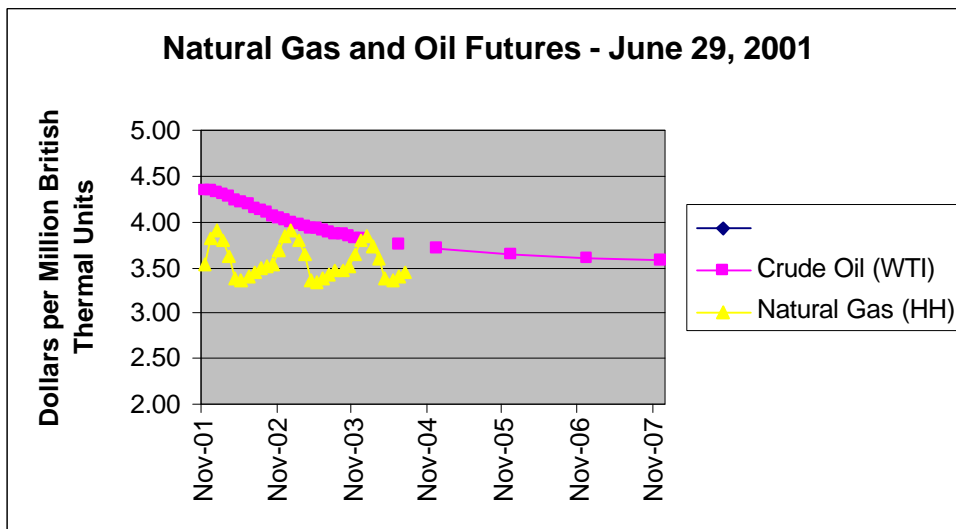
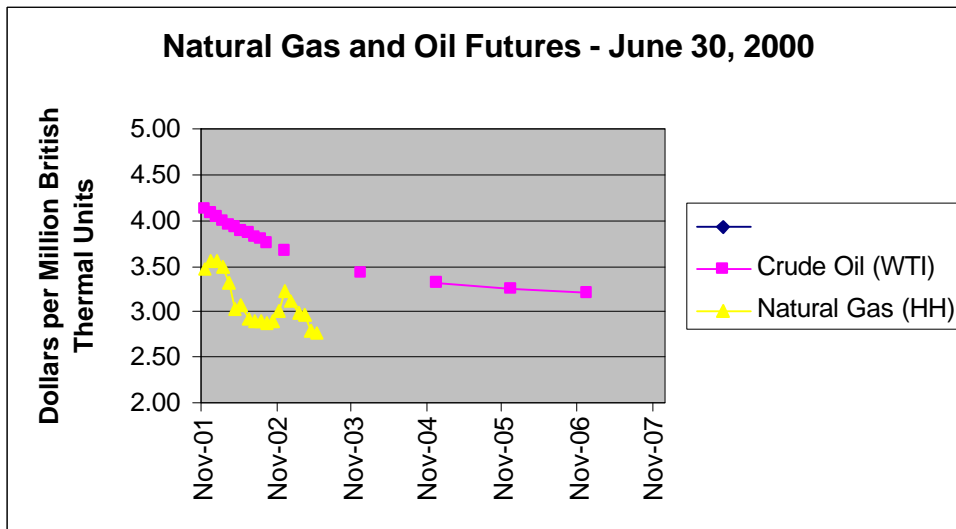
We think inflation will be greater than the markets expect. We think oil will be more than \$21 a barrel in 2006. We think natural gas will be at a premium to oil more often than not. As a result we believe our recommendations have more upside than implied by the McDep Ratios.

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) 5-Oct 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	40.69	6,963	283,000	38.60	0.04	1.05
Royal Dutch/Shell	RD 2	51.89	3,544	184,000	50.80	0.06	1.02
BP plc	BP	50.22	3,744	188,000	51.50	0.15	0.98
ChevronTexaco Corporation	CVX	88.44	1,063	94,000	92.00	0.16	0.97
TotalFinaElf S.A.	TOT	70.59	1,406	99,000	86.80	0.14	0.84
	<i>Total or Median</i>			<i>848,000</i>		<i>0.14</i>	<i>0.98</i>
Power							
Enron Corp.	ENE	31.73	891	28,300	10.20	0.76	1.50
Dynegy Inc.	DYN	40.00	338	13,500	20.60	0.56	1.42
Duke Energy Corporation	DUK	40.23	779	31,300	26.40	0.55	1.23
Calpine Corporation	CPN 4	25.47	318	8,100	18.90	0.54	1.16
Mirant Corporation	MIR	24.72	353	8,700	18.60	0.65	1.11
Williams Companies	WMB	28.85	485	14,000	23.30	0.62	1.09
American Electric Power Co. Inc.	AEP 2	46.75	322	15,100	46.40	0.61	1.00
El Paso Corporation	EPG	48.24	532	25,700	48.60	0.47	1.00
Southern Company	SO	25.87	683	17,700	27.40	0.42	0.97
Dominion Resources	D	62.49	247	15,400	79.40	0.45	0.88
AES Corporation	AES	13.63	538	7,300	24.80	0.63	0.83
Exelon Corporation	EXC 2	45.60	324	14,800	87.40	0.39	0.71
	<i>Total or Median</i>			<i>200,000</i>		<i>0.56</i>	<i>1.05</i>
Natural Gas and Oil							
Occidental Petroleum Corp.	OXY	25.30	372	9,400	32.20	0.46	0.88
Burlington Resources, Inc	BR 1	36.38	211	7,700	48.50	0.19	0.80
Anadarko Petroleum Corp.	APC	51.16	268	13,700	73.70	0.21	0.76
Phillips Petroleum Company	P	54.35	383	20,800	82.70	0.28	0.75
ENI S.p.A.	E	62.15	789	49,000	99.20	0.15	0.68
Conoco Inc.	COC.B	26.20	636	16,700	54.80	0.26	0.62
	<i>Total or Median</i>			<i>117,000</i>		<i>0.24</i>	<i>0.75</i>
Service							
Baker Hughes Inc.	BHI	30.80	338	10,400	24.50	0.13	1.22
Schlumberger Ltd.	SLB	45.30	581	26,300	44.00	0.12	1.03
Halliburton Company	HAL	23.38	430	10,100	27.20	0.13	0.88

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>EV/Sales</i>	<i>EV/Ebitda</i>	<i>P/E</i>	<i>Dividend or Distribution</i>	<i>PV/Ebitda</i>
		<i>5-Oct 2001</i>	<i>2001E</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM (%)</i>	<i>NTM</i>
Mega Cap							
	XOM	40.69	1.3	9.5	20	2.3	9.0
	Royal Dutch/Shell	RD 2	51.89	1.1	9.2	20	2.7
	BP plc	BP	50.22	1.2	8.8	20	2.6
	ChevronTexaco Corporation	CVX	88.44	1.1	8.7	20	2.9
	TotalFinaElf S.A.	TOT	70.59	1.4	7.6	14	2.6
	<i>Median</i>		<i>1.2</i>	<i>8.8</i>	<i>20</i>	<i>2.6</i>	<i>9.0</i>
Power							
	Enron Corp.	ENE	31.73	0.3	13.5	16	1.6
	Dynegy Inc.	DYN	40.00	0.3	12.7	19	0.8
	Duke Energy Corporation	DUK	40.23	0.9	11.1	16	2.7
	Calpine Corporation	CPN 4	25.47	2.1	10.5	14	-
	Williams Companies	WMB	28.85	3.1	9.8	13	2.1
	Mirant Corporation	MIR	24.72	0.6	10.0	11	-
	American Electric Power Co. Inc.	AEP 2	46.75	0.7	9.0	13	5.1
	Southern Company	SO	25.87	2.9	8.7	16	5.2
	El Paso Corporation	EPG	48.24	0.9	9.0	13	1.8
	Dominion Resources	D	62.49	3.4	7.9	14	4.1
	AES Corporation	AES	13.63	2.7	7.5	6	-
	Exelon Corporation	EXC 2	45.60	2.2	6.4	10	3.7
	<i>Median</i>		<i>1.5</i>	<i>9.4</i>	<i>14</i>	<i>1.9</i>	<i>9.0</i>
Natural Gas and Oil							
	Occidental Petroleum Corp.	OXY	25.30	1.5	8.0	14	4.0
	Burlington Resources, Inc	BR 1	36.38	4.2	7.2	45	1.5
	Phillips Petroleum Company	P	54.35	0.7	6.8	13	2.6
	Anadarko Petroleum Corp.	APC	51.16	2.5	6.8	17	0.4
	ENI S.p.A.	E	62.15	1.5	6.1	12	2.9
	Conoco Inc.	COC.B	26.20	0.8	5.6	12	2.9
	<i>Median</i>		<i>1.5</i>	<i>6.8</i>	<i>14</i>	<i>2.8</i>	<i>9.0</i>
Service							
	Baker Hughes Inc.	BHI	30.80	2.0	9.8	22	1.5
	Schlumberger Ltd.	SLB	45.30	2.4	8.2	22	1.7
	Halliburton Company	HAL	23.38	0.9	7.1	16	2.1

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

	Symbol/ Rating	Price (\$/sh) 5-Oct 2001	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio	
Power								
Consol Energy Inc.	CNX	23.76	79	1,900	35.90	0.51	0.83	
Sempra Energy	SRE	26.28	203	5,300	41.70	0.50	0.82	
CMS Energy Corporation	CMS	21.46	128	2,800	48.30	0.62	0.79	
Constellation Energy Group	CEG	26.03	152	4,000	56.50	0.35	0.65	
<i>Total or Median</i>				14,000		0.51	0.80	
Natural Gas and Oil								
Imperial Oil Limited (30%)	IMO	27.30	119	3,300	29.30	0.11	0.94	
Ocean Energy, Inc.	OEI	17.03	178	3,000	20.60	0.29	0.88	
Murphy Oil Corporation	MUR	76.80	46	3,500	94.60	0.16	0.84	
Valero Energy Corp.(with UDS)	VLO	37.01	110	4,100	54.50	0.49	0.84	
Unocal Corporation	UCL	33.14	257	8,500	44.90	0.31	0.82	
PanCanadian Energy	PCX_w	2	24.70	262	6,470	32.10	0.14	0.80
Petro-Canada	PCZ	25.88	267	6,900	34.40	0.08	0.77	
Norsk Hydro ASA (49%)	NHY	37.13	127	4,700	51.90	0.19	0.77	
Devon Energy (incl MND,AXN)	DVN	36.89	165	6,100	65.50	0.39	0.73	
PetroChina Company Ltd (10%)	PTR	2	18.95	176	3,300	31.70	0.14	0.66
Marathon Oil Corporation	MRO	1	29.04	310	9,000	55.00	0.22	0.63
<i>Total or Median</i>				58,900		0.19	0.80	
Small Cap								
Quicksilver Resources Inc.	KWK	13.50	19.3	260	5.50	0.73	1.38	
Magnum Hunter Resources, Inc.	MHR	10.70	37.0	400	10.40	0.36	1.02	
Spinnaker Exploration Company	SKE	38.00	28.4	1,080	38.60	-	0.98	
XTO Energy Inc.	XTO	15.57	123.0	1,920	17.70	0.29	0.92	
Encore Acquisition Corp. (25%)	EAC	13.95	7.5	105	15.60	0.16	0.92	
Louis Dreyfus Natural Gas Corp.	LD	3	40.03	44.8	1,790	45.10	0.23	0.91
Southwestern Energy Company	SWN	11.60	25.7	300	13.90	0.48	0.91	
Penn Virginia Corporation	PVA	29.20	8.8	260	47.70	0.19	0.69	
Forest Oil Corporation	FST	25.72	50.2	1,290	42.90	0.21	0.68	
Newfield Exploration Company	NFX	30.02	49.3	1,480	49.50	0.17	0.67	
Stone Energy Company	SGY	34.00	26.5	900	54.60	0.09	0.66	
Swift Energy Company	SFY	21.36	25.7	550	37.40	0.19	0.65	
<i>Total or Median</i>				10,340		0.20	0.91	
Trusts and Partnerships								
TEPPCO Partners, L.P.	TPP	32.89	38	1,250	18.00	0.58	1.35	
Dorchester Hugoton, Ltd.	DHULZ	12.29	10.7	132	10.80	-	1.14	
Cross Timbers Royalty Trust	CRT	16.56	6.0	99	16.50	-	1.00	
Hugoton RoyaltyTrust	HGT	10.84	40.0	430	14.00	-	0.78	
San Juan Basin Royalty Trust	SJT	2	10.76	46.6	500	14.60	-	0.74
<i>Total or Median</i>				2,410		-	1.00	
Micro Cap								
Abraxas Petroleum Corporation	ABP	1.61	23.6	38	0.90	0.94	1.05	
Purcell Energy, Ltd. (US\$)	PEL.TO	2.30	26.6	61	3.10	0.10	0.76	
Energy Partners Ltd.(30%)	EPL	2	7.60	8.1	61	12.30	0.10	0.65

Buy/Sell rating after symbol: 1 - Strong Buy, 2 - Buy, 3 - Neutral

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			Price (\$/sh)	EV/ Sales	EV/ Ebitda	P/E	Dividend or Distribution	PV/ Ebitda	
	Symbol/ Rating		5-Oct 2001	2001E	NTM	NTM	NTM (%)	NTM	
Power									
	Consol Energy Inc.	CNX	23.76	2.0	7.5	8	4.7	9.0	
	Sempra Energy	SRE	26.28	1.2	7.3	10	3.8	9.0	
	CMS Energy Corporation	CMS	21.46	0.8	7.1	8	6.8	9.0	
	Constellation Energy Group	CEG	26.03	1.7	5.9	8	1.8	9.0	
	<i>Median</i>			1.4	7.2	8	4.3	9.0	
Natural Gas and Oil									
	Imperial Oil Limited (30%)	IMO	27.30	1.0	8.4	19	2.0	9.0	
	Murphy Oil Corporation	MUR	76.80	0.9	6.7	24	2.0	8.0	
	Unocal Corporation	UCL	33.14	2.4	6.6	25	2.4	8.0	
	Ocean Energy, Inc.	OEI	17.03	3.8	6.1	19	0.9	7.0	
	Valero Energy Corp.(with UDS)	VLO	37.01	0.3	5.9	5	0.9	7.0	
	PanCanadian Energy	PCX_w	2	24.70	1.1	5.6	11	1.0	7.0
	Petro-Canada	PCZ	25.88	1.4	5.4	12	1.0	7.0	
	Devon Energy (incl MND,AXN)	DVN	36.89	2.8	5.1	16	0.5	7.0	
	Marathon Oil Corporation	MRO	1	29.04	0.4	4.4	9	3.2	7.0
	Norsk Hydro ASA (49%)	NHY	37.13	0.7	3.8	9	2.8	5.0	
	PetroChina Company Ltd (10%)	PTR	2	18.95	1.6	3.3	7	9.9	5.0
	<i>Median</i>			1.1	5.6	12	2.0	7.0	
Small Cap									
	Quicksilver Resources Inc.	KWK	13.50	5.6	19.3		-	14.0	
	Magnum Hunter Resources, Inc.	MHR	10.70	5.3	10.2		-	10.0	
	Louis Dreyfus Natural Gas Corp.	LD	3	40.03	6.1	9.1	33	-	10.0
	Spinnaker Exploration Company	SKE	38.00	7.4	8.9	41	-	9.0	
	XTO Energy Inc.	XTO	15.57	5.2	8.2	23	0.3	9.0	
	Encore Acquisition Corp. (25%)	EAC	13.95	4.7	8.2	25	-	9.0	
	Southwestern Energy Company	SWN	11.60	2.6	8.2	163	-	9.0	
	Penn Virginia Corporation	PVA	29.20	3.9	5.5	9	3.1	8.0	
	Forest Oil Corporation	FST	25.72	2.1	5.5	30	-	8.0	
	Swift Energy Company	SFY	21.36	3.9	5.2	12	-	8.0	
	Newfield Exploration Company	NFX	30.02	3.7	4.7	20	-	7.0	
	Stone Energy Company	SGY	34.00	3.6	4.6	25	-	7.0	
	<i>Median</i>			4.3	8.2	25	-	9.0	
Trusts and Partnerships									
	Dorchester Hugoton, Ltd.	DHULZ	12.29	8.4	12.9	17	22.8	11.3	
	TEPPCO Partners, L.P.	TPP	32.89	0.7	12.1	16	6.4	9.0	
	Cross Timbers Royalty Trust	CRT	16.56	6.8	11.9	13	7.7	11.9	
	Hugoton Royalty Trust	HGT	10.84	5.5	8.9	13	7.5	11.5	
	San Juan Basin Royalty Trust	SJT	2	10.76	6.6	8.8	13	7.8	12.0
	<i>Median</i>			6.6	11.9	13	7.7	11.5	
Micro Cap									
	Abraxas Petroleum Corporation	ABP	1.61	6.3	11.6		-	11.0	
	Energy Partners Ltd.(30%)	EPL	2	7.60	2.0	4.4	-	6.8	
	Purcell Energy, Ltd. (US\$)	PEL.TO	2.30	3.2	4.5	12	-	6.0	

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