

## Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

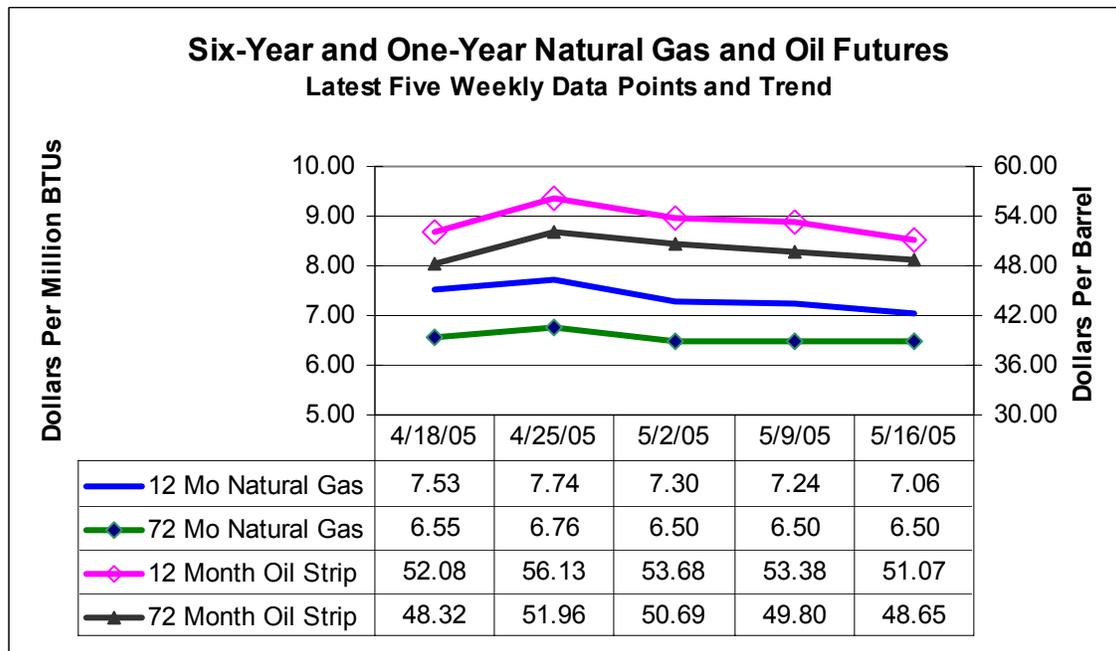
May 17, 2005

# Merger Stocks and Small Cap

## Summary and Recommendation

Merger stocks **Chevron (CVX)** and **Cimarex (XEC)** along with small cap producers are off the most in stock price during the past two months when the median buy-recommended stock lost 12% of equity value. Combined with low McDep Ratios those stocks might offer extra potential in the eventual rebound from the recent steep decline. The fundamental case remains solid with long-term oil price holding well above the level implied by stock price (see chart Latest Five Weekly Data Points and Trend). McDep Ratios at a median 0.81 imply that stocks are valued as though oil were \$32 a barrel or less (see table Rank by McDep Ratio). Considering the industry prospects, other valuation measures all seem low at a median unlevered cash flow multiple of 4.9 times, median P/E at 9.5 and median dividend yield at 2.6% per year (see table Rank by EV/Ebitda).

Kurt H. Wulff, CFA



Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at [www.mcdep.com](http://www.mcdep.com). Analyses are prepared from sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Mr. Wulff is not paid by covered companies. Neither he nor his spouse trade a subject stock within a week before or after a change in rating.

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#### Oil and Gas Producers Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/ Rating		Price (\$/sh) 16-May 2005	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
<b>Mega Cap</b>								
Shell Transport and Trading Co. plc	SC	B	51.20	1,587	81,000	56.00	0.14	0.93
BP plc	BP	B	58.45	3,574	209,000	64.00	0.13	0.92
Exxon Mobil Corporation	XOM	B	53.35	6,421	343,000	60.00	0.06	0.90
Total S.A.	TOT	B	109.15	1,192	130,000	126.00	0.15	0.89
Royal Dutch Petroleum	RD	B	56.69	2,018	114,000	66.00	0.14	0.88
Chevron Corporation	CVX	B	50.51	2,100	106,000	76.00	0.10	0.70
<i>Total or Median</i>					983,000		0.13	0.89
<b>Producer/Refiners - Large Cap and Mid Cap</b>								
Kinder Morgan, Inc.	KMI	S2	74.58	125	9,320	20.00	0.74	1.72
Marathon Oil Corporation	MRO	B	44.70	349	15,580	42.00	0.30	1.04
Imperial Oil Limited (30%)	IMO	B	65.19	105	6,840	64.00	0.10	1.02
ConocoPhillips	COP	B	96.78	706	68,300	128.00	0.23	0.81
Petro-Canada	PCZ	B	53.40	263	14,070	70.00	0.19	0.81
Norsk Hydro ASA	NHY	B	76.88	252	19,400	101.00	0.16	0.80
Suncor Energy	SU	B	36.35	460	16,720	54.00	0.09	0.70
PetroChina Company Ltd (10%)	PTR	B	60.52	176	10,640	94.00	0.05	0.66
Lukoil Oil Company	LUKOY	B	32.25	834	27,000	52.00	0.03	0.63
<i>Total or Median</i>					188,000		0.16	0.81
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>								
Encana Corporation	ECA	B	64.49	471	30,400	77.00	0.19	0.87
Unocal Corporation	UCL	B	53.93	271	14,600	65.00	0.21	0.87
XTO Energy Inc.	XTO	B	27.30	364	9,930	36.00	0.20	0.81
Occidental Petroleum Corp.	OXY	B	65.90	406	26,800	87.00	0.14	0.79
CNOOC Limited (19%)	CEO	B	52.98	78	4,140	67.00	-	0.79
Burlington Resources	BR	B	46.56	389	18,100	67.00	0.12	0.73
Devon Energy Corporation	DVN	B	42.49	500	21,200	63.00	0.16	0.72
Anadarko Petroleum Corp.	APC	B	70.06	246	17,200	113.00	0.14	0.67
<i>Total or Median</i>					142,000		0.15	0.79
<b>Independent Natural Gas and Oil - Small Cap</b>								
Berry Petroleum Company	BRY	B	41.99	22	940	50.00	0.12	0.86
Cimarex Energy Company	XEC	B	34.58	81	2,790	50.00	0.15	0.74
Energy Partners Ltd.	EPL	B	20.02	39	790	30.00	0.20	0.74
Encore Acquisition Company	EAC	B	34.81	33	1,130	57.00	0.19	0.68
<i>Total or Median</i>					5,700		0.17	0.74
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S3	46.82	150	7,020	15.00	0.52	2.02
Kinder Morgan Management, LLC	KMR	S3	43.15	56	2,430	15.00	0.52	1.91
Pengrowth Energy Trust	PGH		19.22	153	2,940	16.00	0.18	1.16
San Juan Basin Royalty Trust	SJT		34.60	47	1,610	32.00	-	1.08
Enerplus Resources Fund	ERF		32.97	105	3,460	32.00	0.16	1.03
Canadian Oil Sands Trust (US\$)	COSWF	B	57.97	92	5,350	94.00	0.16	0.68
<i>Total or Median</i>					22,800		0.17	1.12

B = Buy, S2 = Short half unlevered position, S3 = Short quarter unlevered position

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

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#### Oil and Gas Producers

##### Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	Symbol/ Rating		Price (\$/sh) 16-May 2005	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
<b>Mega Cap</b>								
Exxon Mobil Corporation	XOM	B	53.35	11.2	6.8	6.1	11	2.0
BP plc	BP	B	58.45	9.4	5.9	5.5	10	3.5
Total S.A.	TOT	B	109.15	9.0	5.9	5.2	9	3.1
Shell Transport and Trading Co. plc	SC	B	51.20	7.3	5.3	4.9	9	3.9
Royal Dutch Petroleum	RD	B	56.69	7.3	5.3	4.6	9	4.1
Chevron Corporation	CVX	B	50.51	9.7	6.3	4.4	8	3.6
	<i>Median</i>			9.2	5.9	5.0	9	3.5
<b>Producer/Refiners - Large Cap and Mid Cap</b>								
Kinder Morgan, Inc.	KMI	S2	74.58		7.5	12.9	17	3.8
Suncor Energy	SU	B	36.35	18.2	11.6	8.2	20	0.5
Imperial Oil Limited (30%)	IMO	B	65.19	9.9	7.4	7.5	14	1.1
Marathon Oil Corporation	MRO	B	44.70	7.5	4.5	4.7	8	2.5
ConocoPhillips	COP	B	96.78	11.6	5.5	4.5	7	2.6
Petro-Canada	PCZ	B	53.40	6.7	5.5	4.4	8	0.9
Norsk Hydro ASA	NHY	B	76.88	8.5	5.2	4.2	10	4.1
PetroChina Company Ltd (10%)	PTR	B	60.52	13.5	6.0	4.0	7	5.3
Lukoil Oil Company	LUKOY	B	32.25	12.2	4.5	2.8	5	3.1
	<i>Median</i>			10.7	5.5	4.5	8	2.6
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>								
XTO Energy Inc.	XTO	B	27.30	11.8	7.1	5.7	11	0.7
Encana Corporation	ECA	B	64.49	7.2	5.8	5.0	11	0.9
Occidental Petroleum Corp.	OXY	B	65.90	11.6	5.9	4.7	8	1.9
Unocal Corporation	UCL	B	53.93	8.5	5.2	4.5	10	1.5
Burlington Resources	BR	B	46.56	9.9	6.0	4.4	10	0.7
Anadarko Petroleum Corp.	APC	B	70.06	11.9	6.3	4.2	8	1.0
Devon Energy Corporation	DVN	B	42.49	7.9	5.4	3.9	9	0.7
CNOOC Limited (19%)	CEO	B	52.98	8.7	4.7	3.7	7	3.9
	<i>Median</i>			9.3	5.9	4.5	9	1.0
<b>Independent Natural Gas and Oil - Small Cap</b>								
Berry Petroleum Company	BRY	B	41.99	11.2	6.1	5.2	12	1.1
Encore Acquisition Company	EAC	B	34.81	15.4	7.6	5.2	12	-
Cimarex Energy Company	XEC	B	34.58	7.6	5.1	3.8	9	-
Energy Partners Ltd.	EPL	B	20.02	5.0	3.8	2.8	7	-
	<i>Median</i>			9.4	5.6	4.5	10	-
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S3	46.82		7.6	15.4	20	6.2
Kinder Morgan Management, LLC	KMR	S3	43.15		7.6	14.5	19	6.8
San Juan Basin Royalty Trust	SJT		34.60	12.1	9.5	10.2	11	8.8
Pengrowth Energy Trust	PGH		19.22	7.4	6.2	7.2	12	11.3
Enerplus Resources Fund	ERF		32.97	9.4	6.2	6.4	12	10.0
Canadian Oil Sands Trust (US\$)	COSWF	B	57.97	20.0	8.7	5.9	6	2.7
	<i>Median</i>			10.8	7.6	8.7	12	7.8

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2006; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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#### **Index of Recent Research**

##### **Stock Ideas**

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
16-May	EAC	Encore Acquisition Company	Momentum Test
11-May	XTO	XTO Energy Inc.	Raise Net Present Value to \$36 a Share
9-May	TOT	Total S.A.	Raise Net Present Value to \$120 a Share
6-May	IMO	Imperial Oil Limited	Oil Sands Strategy
5-May	BRY	Berry Petroleum Company	Oil in the Kitty Litter
29-Apr	MRO	Marathon Oil Corporation	Between China and Canada
28-Apr	SJT	San Juan Basin Royalty Trust	Ten Bagger
27-Apr	PCZ	Petro-Canada	Oil Sands Strategy
26-Apr	* COSWF	Canadian Oil Sands Trust	If You Could Own Only One
22-Apr	* OXY	Occidental Petroleum Corporation	Return to Libya
22-Apr	* ECA	EnCana Corporation	Natural Gas Leader
14-Apr	* KMx	Kinder Morgan	Our Contrary View
8-Apr	* NHY	Norsk Hydro ASA	New High for Oil and Aluminum
7-Apr	* LUKOY	Lukoil Oil Company	National Treasure
31-Mar	* BR	Burlington Resources, Inc.	San Juan Basin Value Expanding
29-Mar	* CEO	CNOOC Ltd	Nice Dividend
23-Mar	* CEO	CNOOC Ltd	Volume Gains Expected in 2005
21-Mar	* PTR	PetroChina Company Limited	Nice Dividend
18-Mar	* RD	Royal Dutch Petroleum	Transformation Approaching
18-Mar	* SC	Shell Transport & Trading Company, p.l.c.	Transformation Approaching
17-Mar	* BP	BP p.l.c.	More Cash Flow to Owners
7-Mar	* EPL	Energy Partners, Ltd.	Layer Cake
7-Mar	* DVN	Devon Energy Corporation	Target Diversification
7-Mar	* XEC	Cimarex Energy Company	Raise Net Present Value to \$50 a Share
7-Mar	* XOM	Exxon Mobil Corporation	Raise Net Present Value to \$60 a Share
2-Mar	* SU	Suncor Energy Inc.	Fire Tests Patience
28-Feb	* CVX	ChevronTexaco Corporation	Raise Net Present Value to \$76 a Share
25-Feb	* COP	ConocoPhillips	Raise Net Present Value to \$128 a Share
17-Feb	* APC	Anadarko Petroleum Corporation	Raise Net Present Value to \$113 a Share
10-Feb	* UCL	Unocal Corporation	Raise Net Present Value to \$65 a Share

##### **Meter Reader - A Weekly Analysis**

17-May		Merger Stocks and Small Cap
10-May	*	Nice Return for Low Risk
3-May	*	In It to Win It
25-Apr	*	Refining Deal
18-Apr	*	Trend Intact

\* Archived on [www.mcdep.com](http://www.mcdep.com)

Also see

**U.S. Natural Gas Royalty Trusts - A Weekly Analysis, and Single-Trust Analyses**

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