

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

June 7, 2005

Rest of World Natural Gas

Summary and Recommendation

The long-term global natural gas future looks bright considering the availability of clean fuel at a discounted price. Favorite North American producers in our coverage are concentrated more than 50% on natural gas while only two ongoing stocks have overseas, or rest of world, concentration as high as a quarter. The distinctive resource mix of buy-recommended **Unocal (UCL)** makes it a particularly timely acquisition for buy-recommended **Chevron (CVX)**. Reported wellhead prices for natural gas outside North America in the first quarter of 2005 ranged in a small sample from \$3.40 to \$6.60 a million Btu compared to the oil equivalent of \$10 (5:1).

North American Market Dynamics Spreading to Rest of World

Oil investors cannot be xenophobes because profit opportunities are to be found around the globe. For sound economic reasons we have differentiated the North American natural gas market as in a more mature stage of demand and supply. It has also been insulated from the rest of the world by lack of transportation capability. The non-North American market has segments with their own dynamics each developing toward a profitable and competitive future.

At the same time a linked global natural gas market is taking more defined shape. The most obvious link is physical where an active Atlantic market is developing in liquefied natural gas (LNG). We now hear repeatedly of tanker loads of LNG that are sent to North America or Europe depending on where the price is higher among other factors.

The other link may be in maturity of supply and demand. Long ago our interest in natural gas was kindled in our work on a consulting study of the expected evolution of the U.K. natural gas market as a result of discoveries in the North Sea. After decades of gains, we now see that the market expects less supply to be available in the U.K. next winter. The U.K. supply and demand picture has come to resemble North America. Local supply has reached practical limits as demand has become well-established.

Rest of world also includes China where natural gas is at an early stage of evolution comparable to the U.K. and Western Europe forty years ago and the U.S. sixty years ago. While China may be the most untapped consumer, Russia is still a largely untapped producer of natural gas. In fact, most oil exporting countries have large natural gas reserves that require only time, money and political stability to be developed.

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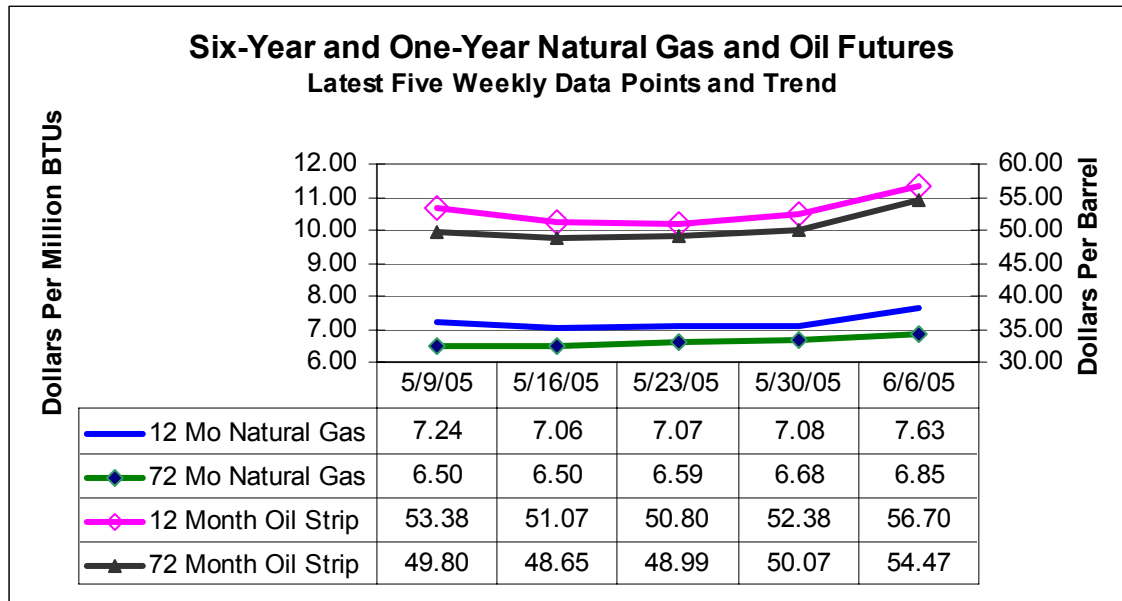
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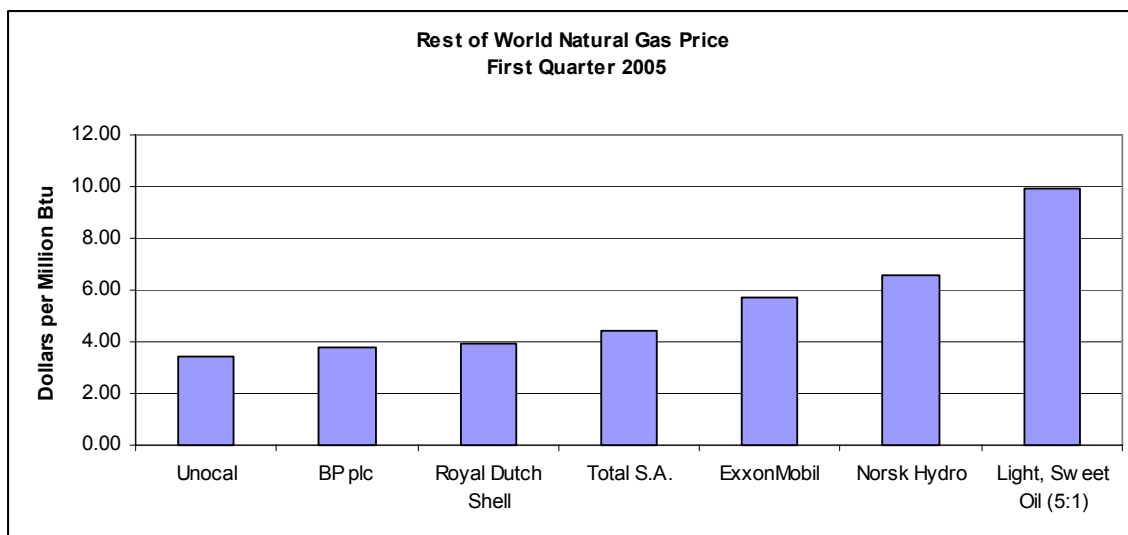
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New Highs for Six-Year Futures

New highs for six-year futures prices put oil ahead of North American natural gas (see chart Latest Five Weekly Data Points and Trend). The scales of the chart match oil price to natural gas price at the 5:1 ratio we expect for the next decade.



Rest of World Natural Gas covers a more disparate market place. **Norsk Hydro (NHY)** serving Europe earns a gas price similar to North America, but less than oil (see chart Rest of World Natural Gas Price). Unocal serves Asia, primarily where the natural gas price lags the most.



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Oil may continue to advance from here and natural gas may continue to lag. Or oil may rest and natural gas may catch up. In any event it looks like a good long-term bet that the widest gaps between natural gas and oil will narrow.

Pure Plays in North America

Among the stocks in our research coverage, only North American producers are among the most concentrated on natural gas (see table [Rank by Present Value Concentration on Global Natural Gas](#)). To be well-represented in the natural gas future, investors should have an overweight representation in the most concentrated producers.

Rank by Present Value Concentration on Global Natural Gas

	<i>North Amer. Natural Gas (%)</i>	<i>Rest of World Natural Gas (%)</i>	<i>Global Natural Gas (%)</i>	<i>Oil Prod'n (%)</i>	<i>Down- stream (%)</i>	<i>Total (US\$m)</i>	<i>McDep Ratio</i>
San Juan Basin Royalty Trust	100	-	100	-	-	1,490	1.17
XTO Energy Inc.	82	-	82	18	-	16,400	0.91
Encana Corporation	81	-	81	19	-	43,400	0.95
Burlington Resources	68	4	72	28	-	29,500	0.80
Cimarex Energy Company	71	-	71	29	-	4,900	0.83
Devon Energy Corporation	63	-	63	37	-	37,100	0.80
Anadarko Petroleum Corp.	57	-	57	43	-	31,400	0.72
Energy Partners Ltd.	57	-	57	43	-	1,500	0.83
Unocal Corporation	25	28	53	47	-	21,800	0.91
Marathon Oil Corporation	18	12	30	35	35	21,000	1.13
Encore Acquisition Company	29	-	29	71	-	2,280	0.74
Exxon Mobil Corporation	9	18	27	38	35	409,000	0.96
Petro-Canada	22	4	25	53	22	22,800	0.86
Norsk Hydro ASA	-	25	25	39	36	31,900	0.79
Total S.A.	-	24	24	39	37	177,000	0.91
BP plc	10	12	23	45	32	262,000	0.96
Royal Dutch/Shell	4	17	21	33	46	257,000	0.91
ConocoPhillips	13	7	20	41	39	125,300	0.83
Chevron Corporation	9	8	17	53	30	187,000	0.81
Occidental Petroleum Corp.	15	1	16	73	12	41,100	0.89
Berry Petroleum Company	14	-	14	86	-	1,480	1.01
Imperial Oil Limited	13	-	13	61	26	25,000	1.12
CNOOC Limited	-	12	12	88	-	27,600	0.83
PetroChina Company Ltd	-	7	7	73	20	174,000	0.73

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Few Plays in Rest of World

Only **Norsk Hydro (NHY)** and **Total S.A. (TOT)** offer rest of world natural gas concentration of as much as a quarter among companies in our coverage. In each case those positions ought to offer a high quality long-term cash flow stream.

Unocal Well-Timed Strategic Fit for Chevron

Unocal's 53% percent representation in global gas is unique in its balance of North America and Rest of World, primarily Asia. Considering the commodity pricing relationships this appears to be a good time to buy global natural gas.

Unocal's resources are included in our estimates for Chevron. Though the acquisition gets Chevron more global gas opportunity, Chevron still has less clean fuel exposure than its mega cap peers. Mega Caps could consider additional natural gas acquisitions.

Kurt H. Wulff, CFA

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

	Symbol/ Rating		Price (\$/sh) 6-Jun 2005	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
BP plc	BP	B	61.32	3,574	219,000	64.00	0.13	0.96
Exxon Mobil Corporation	XOM	B	57.60	6,421	370,000	60.00	0.06	0.96
Shell Transport and Trading Co. plc	SC	B	53.23	1,587	84,000	56.00	0.14	0.96
Total S.A.	TOT	B	112.61	1,192	134,000	126.00	0.15	0.91
Royal Dutch Petroleum	RD	B	59.11	2,018	119,000	66.00	0.14	0.91
Chevron Corporation	CVX	B	54.85	2,311	127,000	70.00	0.13	0.81
<i>Total or Median</i>					<i>1,053,000</i>		<i>0.13</i>	<i>0.93</i>
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	79.60	125	9,950	20.00	0.74	1.78
Marathon Oil Corporation	MRO	B	49.90	349	17,400	42.00	0.30	1.13
Imperial Oil Limited (30%)	IMO	B	72.87	105	7,640	64.00	0.11	1.12
Petro-Canada	PCZ	B	57.59	263	15,170	70.00	0.19	0.86
ConocoPhillips	COP	B	55.19	1,420	78,400	70.00	0.21	0.83
Norsk Hydro ASA	NHY	B	83.31	251	20,900	110.00	0.13	0.79
Suncor Energy	SU	B	40.56	461	18,700	54.00	0.10	0.78
PetroChina Company Ltd (10%)	PTR	B	66.80	176	11,740	94.00	0.05	0.73
Lukoil Oil Company	LUKOY	B	35.25	834	29,000	52.00	0.03	0.69
<i>Total or Median</i>					<i>209,000</i>		<i>0.13</i>	<i>0.83</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap								
Encana Corporation	ECA	B	36.26	909	33,000	38.50	0.19	0.95
Unocal Corporation	UCL	B	57.49	273	15,700	65.00	0.19	0.91
XTO Energy Inc.	XTO	B	31.77	366	11,630	36.00	0.19	0.91
Occidental Petroleum Corp.	OXY	B	75.37	406	30,600	87.00	0.14	0.89
CNOOC Limited (19%)	CEO	B	55.77	78	4,360	67.00	-	0.83
Burlington Resources	BR	B	52.08	389	20,300	67.00	0.12	0.80
Devon Energy Corporation	DVN	B	47.72	496	23,700	63.00	0.16	0.80
Anadarko Petroleum Corp.	APC	B	76.57	239	18,300	113.00	0.14	0.72
<i>Total or Median</i>					<i>158,000</i>		<i>0.15</i>	<i>0.86</i>
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	50.32	22	1,130	50.00	0.12	1.01
Cimarex Energy Company	XEC	B	39.71	81	3,220	50.00	0.17	0.83
Energy Partners Ltd.	EPL	B	23.55	40	950	30.00	0.20	0.83
Encore Acquisition Company	EAC	B	38.85	33	1,270	57.00	0.19	0.74
<i>Total or Median</i>					<i>6,600</i>		<i>0.18</i>	<i>0.83</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	48.86	150	7,330	15.00	0.52	2.09
Kinder Morgan Management, LLC	KMR	S3	44.78	56	2,520	15.00	0.52	1.96
Pengrowth Energy Trust	PGH		21.13	153	3,230	16.00	0.19	1.26
San Juan Basin Royalty Trust	SJT		37.29	47	1,740	32.00	-	1.17
Enerplus Resources Fund	ERF		36.09	105	3,780	32.00	0.16	1.11
Canadian Oil Sands Trust (US\$)	COSWF	B	67.11	93	6,210	94.00	0.16	0.76
<i>Total or Median</i>					<i>24,800</i>		<i>0.17</i>	<i>1.21</i>

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) 6-Jun 2005	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Mega Cap								
Exxon Mobil Corporation	XOM	B	57.60	11.2	6.3	6.1	11	1.9
BP plc	BP	B	61.32	9.4	5.4	5.2	9	3.3
Total S.A.	TOT	B	112.61	9.0	5.5	5.0	8	2.9
Shell Transport and Trading Co. plc	SC	B	53.23	7.3	4.9	4.6	9	3.6
Royal Dutch Petroleum	RD	B	59.11	7.3	4.9	4.4	8	3.8
Chevron Corporation	CVX	B	54.85	9.6	5.3	4.3	7	3.3
	<i>Median</i>			9.2	5.3	4.8	9	3.3
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	79.60		7.4	13.2	17	3.5
Imperial Oil Limited (30%)	IMO	B	72.87	9.9	6.7	7.6	14	1.0
Suncor Energy	SU	B	40.56	20.1	9.1	7.1	15	0.5
Marathon Oil Corporation	MRO	B	49.90	7.5	4.2	4.7	8	2.2
Petro-Canada	PCZ	B	57.59	5.4	5.0	4.3	8	0.8
ConocoPhillips	COP	B	55.19	11.6	5.2	4.3	7	4.5
PetroChina Company Ltd (10%)	PTR	B	66.80	13.5	5.7	4.1	8	4.8
Norsk Hydro ASA	NHY	B	83.31	8.2	4.9	3.9	8	3.7
Lukoil Oil Company	LUKOY	B	35.25	20.0	4.6	3.1	5	2.8
	<i>Median</i>			10.7	5.2	4.3	8	2.8
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	31.77	11.8	6.5	5.9	11	0.6
Encana Corporation	ECA	B	36.26	7.2	5.3	5.1	10	1.7
Occidental Petroleum Corp.	OXY	B	75.37	11.6	5.4	4.8	8	1.6
Burlington Resources	BR	B	52.08	9.9	5.6	4.5	9	0.7
Anadarko Petroleum Corp.	APC	B	76.57	12.3	6.0	4.4	8	0.9
Unocal Corporation	UCL	B	57.49	8.5	4.7	4.2	8	1.4
Devon Energy Corporation	DVN	B	47.72	7.8	4.9	3.9	8	0.6
CNOOC Limited (19%)	CEO	B	55.77	8.7	4.2	3.5	6	3.7
	<i>Median</i>			9.3	5.3	4.4	8	1.2
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRYP	B	50.32	11.2	5.4	5.4	14	1.0
Encore Acquisition Company	EAC	B	38.85	15.4	6.7	5.0	11	-
Cimarex Energy Company	XEC	B	39.71	7.5	4.6	3.8	9	-
Energy Partners Ltd.	EPL	B	23.55	4.8	3.4	2.8	7	-
	<i>Median</i>			9.4	5.0	4.4	10	-
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	48.86		7.5	15.7	20	6.0
Kinder Morgan Management, LLC	KMR	S3	44.78		7.5	14.7	19	6.5
San Juan Basin Royalty Trust	SJT		37.29	12.0	8.5	9.9	11	9.2
Pengrowth Energy Trust	PGH		21.13	7.4	5.5	6.9	11	10.5
Enerplus Resources Fund	ERF		36.09	9.4	5.7	6.3	11	9.4
Canadian Oil Sands Trust (US\$)	COSWF	B	67.11	20.0	7.7	5.8	6	2.4
	<i>Median</i>			10.7	7.5	8.4	11	7.9

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 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>
6-Jun	NHY	Norsk Hydro ASA	European Natural Gas Awakes
3-Jun	EPL	Energy Partners, Ltd.	Exploration Exposure
1-Jun	RD	Royal Dutch Petroleum	Nice Return for Low Risk
1-Jun	SC	Shell Transport & Trading Company, p.l.c.	Nice Return for Low Risk
1-Jun	BP	BP p.l.c.	Nice Return for Low Risk
1-Jun	XOM	Exxon Mobil Corporation	Nice Return for Low Risk
31-May	ECA	EnCana Corporation	Clean Fuel Supplier
31-May	DVN	Devon Energy Corporation	Clean Fuel Supplier
31-May	BR	Burlington Resources, Inc.	Clean Fuel Supplier
31-May	APC	Anadarko Petroleum Corporation	Clean Fuel Supplier
31-May	LUKOY	Lukoil Oil Company	Profits in Refining
26-May	UCL	Unocal Corporation	Buy Chevron at a Discount
26-May	CVX	ChevronTexaco Corporation	Reduce Net Present Value to \$70 a Share
25-May	XEC	Cimarex Energy Company	Natural Gas Growth
23-May	SU	Suncor Energy Inc.	Syncrude Sister
20-May	COP	ConocoPhillips	Raise Net Present Value to \$140 a Share
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
14-Apr	* KMx	Kinder Morgan	Our Contrary View
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

Meter Reader - A Weekly Analysis

7-Jun		Rest of World Natural Gas
31-May	*	Europe Bids Natural Gas Higher
24-May	*	Clean Air Tradeoff Indicator
17-May	*	Merger Stocks and Small Cap
10-May	*	Nice Return for Low Risk

* Archived on www.mcdep.com

Also see

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

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