

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

August 2, 2005

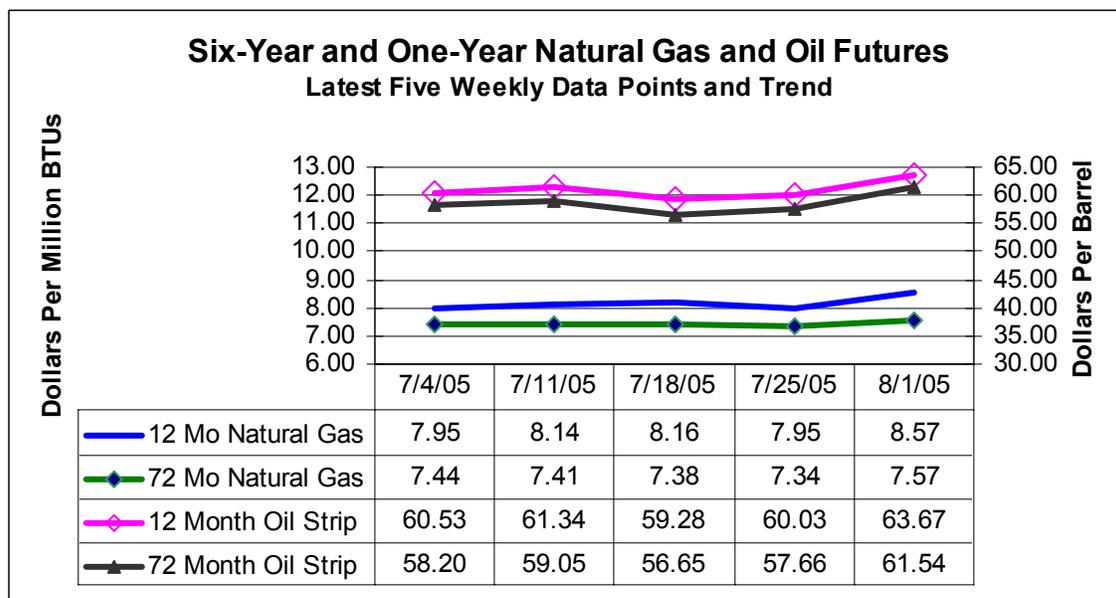
Raise Present Value for \$50 Oil

Summary and Recommendation

Buy-recommended oil and natural gas producers have more obvious appreciation potential as we boost our estimates of present value to reflect a long-term real oil price expectation of \$50 a barrel. Since January 25, 2005, we had been assuming \$40 a barrel for Light, Sweet Crude. The long-term commodity price in the futures market exceeds \$60 a barrel. Our long-term natural gas expectation is \$10 a million BTU, up from \$8. Our natural gas price expectations are ahead of the futures market which is just now approaching \$8. Our long-term real expectation for the refining margin, known as the 3-2-1 crack spread, in New York Harbor is now \$10 a barrel up from \$8. Constructing an energy portfolio from our buy recommendations we suggest favoring lower McDep Ratios for new commitments and spreading choices among five groups. We would also skew representation to natural gas and to non-U.S. domicile.

Record Futures Prices

Closing quotes on August 1 set new highs when cast in our 12-month and 72-month average format (see chart Six-Year and One-Year Natural Gas and Oil Futures). The death of King Fahd of Saudi Arabia is an historic event.



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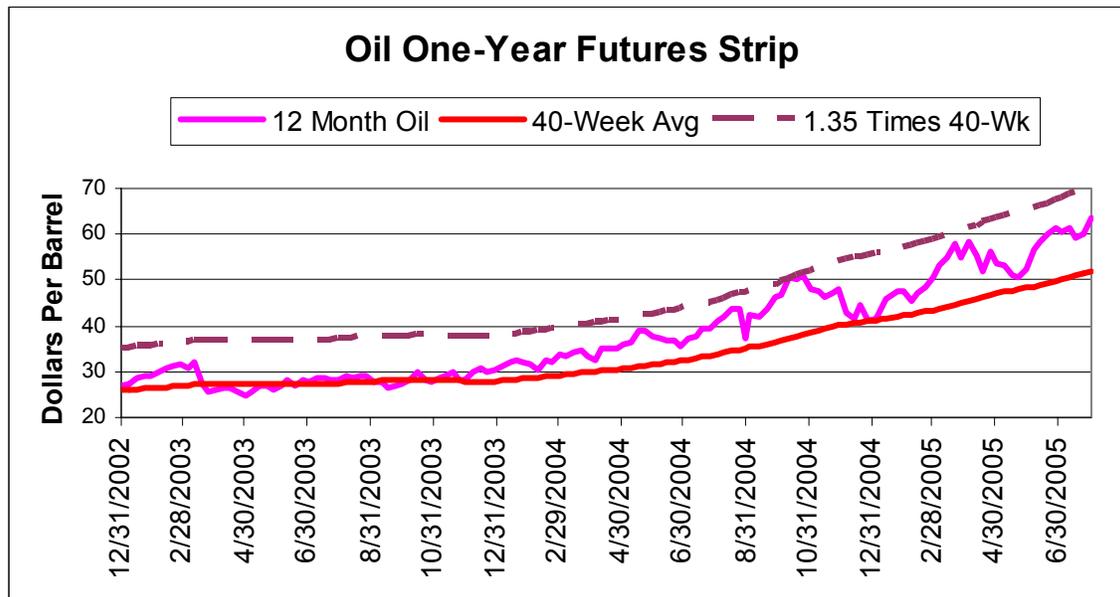
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Price March Orderly

One-year futures march upward in an orderly trend hewing close to the 200-day average. In other words there is little fear that prices have gone up too fast, too soon.



Raise Unlevered Value about 25%, Levered Value 29%

Estimates of present value of oil reserves, natural gas reserves and downstream businesses have each been raised about 25%. That may be a conservative approximation as in most cases there should be some favorable operating leverage to boost the gain. In the unusual case of **Canadian Oil Sands Trust (COSWF)** with relatively high fixed costs, where most of the investment has been made and with unusually long life, all detailed in a recently published discounted cash flow calculation, the increase is 37%.

A 25% change in present value, the denominator of the McDep Ratio, would decrease the ratio from a typical 1.00 to 0.80. Debt has the effect of increasing the degree of change for net present value, levered value. An unlevered change of 25% would become a levered change of 29% if the ratio of debt were a typical 0.15.

Correlate Present Value with Adjusted Reserve Life

Our most recent present value change for all companies was on January 25, 2005. While we regularly compare our long term assumption to the futures market, we do not change it every time we interpolate and average the commodity quotes. In other words, we do not rely on futures for our long-term forecast.

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In contrast, we do use futures for our short-term estimates of next twelve months cash flow. As a result the estimates change frequently with futures quotes for the same period. Cash flow estimates also start from recent quarterly statements of operations that capture most of the current producing variables.

The link between steady present value estimates and continually changing near term cash flow estimates is the present value cash flow multiple, PV/Ebitda. The most common variable that differentiates cash flow multiple is the expected life of the cash flow which we approximate with adjusted reserve life. We keep updated a separate linear correlation of cash flow life as a function of adjusted reserve life for North American Natural Gas, Rest of World Natural Gas, and Global Oil. For the statistically inclined, correlation factor, intercept and slope for the current relationships are 0.93, 2.00, and 0.51; 0.98, 0.87 and 0.64; 0.97, 1.04 and 0.46. For downstream operations we compare present value cash flow multiple with the median that is currently 6.9.

Separately we are posting brief individual company summaries that communicate our changes in present value estimates on the independent research site for investment banks. Independent consultants select research for investment banks on a single stock basis. There are too many single stock summaries to email, but we would be happy to furnish any to a client of McDep Associates on request.

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) 1-Aug 2005	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
BP plc	BP	B	66.63	3,545	236,000	82.00	0.10	0.83
Total S.A.	TOT	B	126.26	1,192	151,000	160.00	0.12	0.81
Exxon Mobil Corporation	XOM	B	59.23	6,370	377,000	74.00	0.04	0.81
Royal Dutch Shell plc	RDS-A	B	63.02	3,372	213,000	84.00	0.11	0.78
Chevron Corporation	CVX	B	58.43	2,086	122,000	90.00	0.08	0.68
<i>Total or Median</i>					<i>1,099,000</i>		<i>0.10</i>	<i>0.81</i>
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	88.61	123	10,910	20.00	0.76	1.83
Imperial Oil Limited (30%)	IMO	B	86.93	104	9,000	84.00	0.09	1.03
Marathon Oil Corporation	MRO	B	59.67	367	21,900	65.00	0.27	0.94
Petro-Canada	PCZ	B	73.30	263	19,280	84.00	0.18	0.90
PetroChina Company Ltd (10%)	PTR	B	92.67	176	16,290	120.00	0.04	0.78
Suncor Energy	SU	B	50.43	461	23,250	68.00	0.10	0.77
Norsk Hydro ASA	NHY	B	95.98	251	24,090	130.00	0.12	0.77
ConocoPhillips	COP	B	63.00	1,419	89,400	100.00	0.15	0.69
Lukoil Oil Company	LUKOY	B	41.75	830	35,000	65.00	0.02	0.65
<i>Total or Median</i>					<i>249,000</i>		<i>0.12</i>	<i>0.78</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap								
Encana Corporation	ECA	B	41.86	892	37,300	51.00	0.16	0.85
CNOOC Limited (29%)	CEO	B	69.33	119	8,270	84.00	0.01	0.83
Unocal Corporation	UCL	B	64.39	275	17,700	85.00	0.15	0.79
XTO Energy Inc.	XTO	B	35.58	370	13,150	48.00	0.17	0.79
Burlington Resources	BR	B	65.03	385	25,000	86.00	0.09	0.78
Devon Energy Corporation	DVN	B	56.63	496	28,100	82.00	0.13	0.73
Occidental Petroleum Corp.	OXY	B	82.78	406	33,600	120.00	0.11	0.72
Anadarko Petroleum Corp.	APC	B	88.72	238	21,100	140.00	0.11	0.67
<i>Total or Median</i>					<i>184,000</i>		<i>0.12</i>	<i>0.78</i>
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	58.66	22	1,320	65.00	0.10	0.91
Energy Partners Ltd.	EPL	B	26.80	40	1,080	38.00	0.16	0.75
Cimarex Energy Company	XEC	B	42.86	81	3,470	64.00	0.13	0.71
Encore Acquisition Company	EAC	B	32.16	49	1,590	50.00	0.17	0.70
<i>Total or Median</i>					<i>7,500</i>		<i>0.15</i>	<i>0.73</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	52.30	156	8,170	15.00	0.55	2.11
Kinder Morgan Management, LLC	KMR	S3	47.60	56	2,650	15.00	0.55	1.97
Pengrowth Energy Trust	PGH		23.51	153	3,600	20.00	0.16	1.15
San Juan Basin Royalty Trust	SJT		45.42	47	2,120	40.00	-	1.14
Enerplus Resources Fund	ERF		40.68	105	4,260	42.00	0.13	0.97
Canadian Oil Sands Trust (US\$)	COSWF	B	85.84	93	7,950	136.00	0.12	0.67
<i>Total or Median</i>					<i>28,800</i>		<i>0.15</i>	<i>1.14</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) 1-Aug 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	59.23	11.5	7.2	5.8	10	2.0
Total S.A.	TOT	B	126.26	9.0	6.3	5.1	9	2.6
BP plc	BP	B	66.63	9.4	6.2	5.1	9	3.2
Royal Dutch Shell plc	RDS-A	B	63.02	7.2	5.6	4.3	8	3.6
Chevron Corporation	CVX	B	58.43	9.6	6.0	4.1	7	3.1
	<i>Median</i>			9.4	6.2	5.1	9	3.1
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	88.61		8.2	15.0	21	3.4
Suncor Energy	SU	B	50.43	20.7	10.5	8.0	17	0.4
Imperial Oil Limited (30%)	IMO	B	86.93	10.5	6.8	7.0	12	0.9
PetroChina Company Ltd (10%)	PTR	B	92.67	13.7	7.0	5.4	10	3.4
Petro-Canada	PCZ	B	73.30	7.2	5.4	4.9	8	0.9
Marathon Oil Corporation	MRO	B	59.67	7.1	5.1	4.8	7	1.9
ConocoPhillips	COP	B	63.00	11.2	6.1	4.2	6	2.0
Norsk Hydro ASA	NHY	B	95.98	8.2	5.0	3.9	8	3.2
Lukoil Oil Company	LUKOY	B	41.75	19.8	5.3	3.4	6	2.3
	<i>Median</i>			10.9	6.1	4.9	8	2.0
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	35.58	11.5	7.2	5.7	10	0.6
Encana Corporation	ECA	B	41.86	7.2	6.1	5.2	10	1.4
Burlington Resources	BR	B	65.03	9.9	6.4	4.9	10	0.6
Anadarko Petroleum Corp.	APC	B	88.72	12.5	7.0	4.7	9	0.8
CNOOC Limited (29%)	CEO	B	69.33	9.6	5.7	4.7	8	2.9
Occidental Petroleum Corp.	OXY	B	82.78	11.3	6.2	4.5	8	1.5
Unocal Corporation	UCL	B	64.39	7.9	5.2	4.1	7	1.2
Devon Energy Corporation	DVN	B	56.63	7.8	5.4	4.0	9	0.5
	<i>Median</i>			9.7	6.2	4.7	9	1.0
Independent Natural Gas and Oil - Small Cap								
Encore Acquisition Company	EAC	B	32.16	14.7	7.6	5.3	12	-
Berry Petroleum Company	BRP	B	58.66	11.2	5.8	5.3	14	0.8
Cimarex Energy Company	XEC	B	42.86	7.5	5.1	3.6	8	-
Energy Partners Ltd.	EPL	B	26.80	4.8	3.6	2.7	6	-
	<i>Median</i>			9.4	5.4	4.4	10	-
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	52.30		8.3	17.4	29	6.0
Kinder Morgan Management, LLC	KMR	S3	47.60		8.3	16.3	26	6.6
San Juan Basin Royalty Trust	SJT		45.42	12.0	10.0	11.4	12	8.0
Canadian Oil Sands Trust (US\$)	COSWF	B	85.84	20.0	10.6	7.1	8	1.9
Pengrowth Energy Trust	PGH		23.51	7.4	5.8	6.7	10	9.7
Enerplus Resources Fund	ERF		40.68	9.4	6.4	6.2	10	8.5
	<i>Median</i>			10.7	8.3	9.3	11	7.3

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>
28-Jul	EAC	Encore Acquisition Company	HPAI Incline
27-Jul	BP	BP p.l.c.	Steady-State Growth
27-Jul	NHY	Norsk Hydro ASA	Norsk Natural Gas
26-Jul	OXY	Occidental Petroleum Corporation	Back in Libya
22-Jul	COSWF	Canadian Oil Sands Trust	Distribution Capability Blossoming
22-Jul	IMO	Imperial Oil Limited	Syncrude Boost
22-Jul	MRO	Marathon Oil Corporation	Raise Net Present Value to \$45 a Share
22-Jul	PCZ	Petro-Canada	Approaching Par
21-Jul	KMx	Kinder Morgan	The Game Goes On
20-Jul	XTO	XTO Energy Inc.	Simpson Sense
14-Jul	* RD	Royal Dutch Petroleum	Frontier Challenge
14-Jul	* SC	Shell Transport & Trading Company, p.l.c.	Frontier Challenge
6-Jul	* COSWF	Canadian Oil Sands Trust	Free (Cash Flow) at Last
29-Jun	* LUKOY	Lukoil Oil Company	Profits and Taxes Rising
23-Jun	* CEO	CNOOC, Unocal, Chevron	Bidding Battle
8-Jun	* CEO	CNOOC Ltd	Unocal Bid?
8-Jun	* PTR	PetroChina Company Limited	News Pending
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	* XOM	Exxon Mobil Corporation	Nice Return for Low Risk
31-May	* APC	Anadarko Petroleum Corporation	Clean Fuel Supplier
31-May	* BR	Burlington Resources, Inc.	Clean Fuel Supplier
31-May	* DVN	Devon Energy Corporation	Clean Fuel Supplier
31-May	* ECA	EnCana Corporation	Clean Fuel Supplier
26-May	* CVX	ChevronTexaco Corporation	Reduce Net Present Value to \$70 a Share
26-May	* UCL	Unocal Corporation	Buy Chevron at a Discount
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
9-May	* TOT	Total S.A.	Raise Net Present Value to \$120 a Share
5-May	* BRY	Berry Petroleum Company	Oil in the Kitty Litter
28-Apr	* SJT	San Juan Basin Royalty Trust	Ten Bagger

Meter Reader - A Weekly Analysis

3-Aug		Raise Present Value for \$50 Oil
25-Jul	*	Strong Trends
19-Jul	*	An Incentive, Not a Tax
12-Jul	*	Up to Par
5-Jul	*	Oil Cheap, Natural Gas Cheaper

* Archived on www.mcdep.com

Also see

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

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