

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

May 7, 2001

Power to the Energy Investor

Summary and Recommendation

Initiating a Buy on **American Electric Power (AEP)**, we recommend that investors include power stocks in a diversified energy portfolio. Despite mishandling in California, the trend to deregulation appears irreversible. Freed electricity generators can be more profitable at the same time they meet the needs of the market more efficiently. California is showing us that the free market value of electric generation can be multiples of historic cost, the basis for regulation. A low McDep Ratio for AEP within a new group of eight large cap power companies supports our buy recommendation. Our new Large Cap Buy joins recently designated Mid Cap Strong Buy **USX-Marathon Group (MRO)** and Small Cap Strong Buy **Energy Partners, Ltd.(EPL)**.

Power Pulls Up the Energy Price Structure

In our analysis of AEP we hypothesize \$100 a Megawatt-hour (\$/MWh) as the going rate for power in 2005. That is higher than the current national average, but much less than what California is paying now. On the old regulated basis the value of electric generation in place corresponds to power at perhaps \$30/MWh with wide variations. New generation in an unregulated market gets the going rate by definition. The value of old generation is likely to be pulled up just as deeply regulated natural gas eventually got the unregulated price although it took many years in some cases. The gains for power in California may have already materialized, but much of the gains elsewhere are still to be realized. As investors we want to be represented in old generation where there is opportunity for value enhancement. There may also be select opportunities in new generation.

Incremental power is generated from natural gas that could be priced routinely at \$10 a million Btu in 2005. Once the low bidder for natural gas, power has now become the high bidder. As power pulls up natural gas, oil may be brought along as well. Refinery capacity dedicated to oil products that replaces natural gas in lower valued use is not available for other products, for example, and that pulls up oil prices.

The increasing impact of deregulating power in the energy picture prompts us to add seven power stocks to our McDep ranking (see table). The seven join with another already in coverage to form a Large Cap Power group. Among those stocks our first recommendation is American Electric Power (see McDep Stock Idea, American Electric Power, May 7, 2001)

Analyses are prepared from original sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Independent energy investment research by Kurt Wulff is accessible at <http://www.mcdep.com>. Owning shares in about 16 energy stocks, neither Mr. Wulff nor his spouse act contrary to a buy or sell rating. Mr. Wulff is not paid by covered companies.

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Weekly Commodity Price Trends Strongest for Oil Refining/Marketing

The price of cargos of oxygenated unleaded regular gasoline quoted in the daily general business press made a strong move to \$1.18 a gallon from \$1.13 a gallon the previous week. That is unusual strength for this time of year. It makes us feel confident of our Strong Buy recommendation of USX – Marathon, a leading refiner serving the U.S. Midwest.

Some Natural Gas Softness No Surprise

Quotes for near-month delivery of natural gas dropped 8% last week, while quotes for delivery in 2004 increased. Oil held steady. Interest rates and inflation dropped. The combination of all those factors reduced our estimate of present value recalculated weekly for five small cap stocks by a median 1%. Stock price for the same five issues dropped a median 2%. As a result McDep Ratios dropped 1%, thereby implying more appreciation potential.

Our Small Cap Strong Buy recommendation, EPL, has diversified exposure of about 60% to oil and 40% to gas. The stock has a particularly low McDep Ratio. EPL expects to report first quarter earnings this week.

Kurt H. Wulff, CFA

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Rank by McDep Ratio			Price (\$/sh)	Shares	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating	4-May 2001	(mm)					
Mega Cap								
	Exxon Mobil Corporation	XOM	87.55	3,520	308,000	72.10	0.16	1.18
	BP PLC	BP	51.90	3,720	193,000	48.90	0.17	1.05
	TOTAL Fina Elf S.A.	TOT	72.25	1,400	101,000	72.00	0.16	1.00
	Royal Dutch/Shell	RD	58.75	3,580	210,000	60.80	0.09	0.97
	<i>Total or Median</i>				<i>812,000</i>		<i>0.16</i>	<i>1.03</i>
Large Cap Natural Gas and Oil								
	Chevron (incl. Texaco)	CHV	93.35	1,060	99,000	103.40	0.15	0.92
	Burlington Resources, Inc	BR	44.28	216	9,600	60.50	0.17	0.78
	ENI S.p.A.	E	66.60	800	53,300	91.90	0.10	0.75
	Anadarko Petroleum Corp.	APC	62.06	249	15,400	90.90	0.17	0.73
	Conoco Inc.	COC.B	30.38	623	18,900	48.00	0.21	0.71
	Phillips (incl. Tosco)	P	57.46	379	21,800	102.10	0.27	0.68
	<i>Total or Median</i>				<i>218,000</i>		<i>0.17</i>	<i>0.74</i>
Large Cap Power								
	Enron Corp.	ENE	59.48	795	47,300	14.50	0.70	1.93
	Calpine Corporation	CPN	54.10	313	16,900	21.80	0.47	1.78
	Mirant Corporation	MIR	39.08	353	13,800	9.70	0.78	1.67
	Williams Companies	WMB	41.67	485	20,200	16.60	0.69	1.46
	Duke Energy Corporation	DUK	45.84	752	34,500	20.90	0.62	1.46
	El Paso Corporation	EPG	67.55	521	35,200	40.00	0.50	1.34
	American Electric Power Co. Inc.	AEP 2	48.54	324	15,700	25.90	0.73	1.23
	Southern Company	SO	22.46	683	15,300	16.90	0.54	1.15
	<i>Total or Median</i>				<i>199,000</i>		<i>0.66</i>	<i>1.46</i>
Mid Cap								
	Barrett Resources Corporation	BRR	67.30	34	2,300	53.80	0.21	1.20
	PanCanadian Pete Ltd. (15%)	PCP.TO	44.26	38	1,700	49.10	0.07	0.91
	Occidental Petroleum	OXY	28.97	370	10,700	35.60	0.46	0.90
	PetroChina Company Ltd (10%)	PTR	21.55	176	3,800	28.40	0.24	0.82
	Unocal Corporation	UCL	36.50	256	9,300	51.90	0.27	0.78
	Valero Energy Corp.	VLO	45.47	64	2,900	65.00	0.25	0.77
	USX-Marathon Group	MRO 1	30.69	360	11,100	47.00	0.30	0.76
	Petro-Canada	PCZ	25.70	272	7,000	38.70	0.08	0.69
	Norsk Hydro ASA	NHY	41.66	262	10,900	65.90	0.15	0.69
	Devon Energy Corporation	DVN	56.00	135	7,600	89.70	0.15	0.68
	<i>Total or Median</i>				<i>63,300</i>		<i>0.22</i>	<i>0.78</i>
Small Cap								
	Cross Timbers Royalty Tr*	CRT	20.99	6.0	126	18.90	-	1.11
	Dorchester Hugoton, Ltd.*	DHULZ	14.00	10.7	150	13.40	-	1.04
	San Juan Basin Royalty Tr*	SJT	17.42	46.6	810	17.70	-	0.98
	Hugoton RoyaltyTrust*	HGT	15.74	40.0	630	18.70	-	0.84
	Encore Acquisition Corporation	EAC	13.47	30.0	400	16.70	0.12	0.83
	Energy Partners Ltd.*	EPL 1	10.41	27.1	280	18.90	0.04	0.57
	<i>Total or Median</i>				<i>2,400</i>		<i>-</i>	<i>0.91</i>

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

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

* For small cap stocks marked with asterisk, estimated present value recalculated weekly.

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Rank by EV/Ebitda		Symbol	Price	EV/		Dividend or		PV/ Ebitda	
			(\$/sh) 4-May 2001	Sales 2001E	Ebitda NTM	P/E NTM	Distribution NTM (%)		
Mega Cap									
		XOM	87.55	1.5	8.3	18	2.0	7.0	
		BP PLC	51.90	1.3	7.4	12	2.7	7.0	
		TOTAL Fina Elf S.A.	72.25	1.1	7.0	17	1.6	7.0	
		Royal Dutch/Shell	58.75	1.4	6.8	15	2.4	7.0	
		<i>Median</i>		<i>1.4</i>	<i>7.2</i>	<i>16</i>	<i>2.2</i>	<i>7.0</i>	
Large Cap Natural Gas and Oil									
		CHEVRON (incl. Texaco)	CHV	93.35	1.1	5.5	11	2.8	6.0
		Burlington Resources, Inc	BR	44.28	3.2	4.7	8	1.2	6.0
		Anadarko Petroleum Corp.	APC	62.06	2.1	4.4	9	0.3	6.0
		Conoco Inc.	COC.B	30.38	0.6	4.2	8	2.5	6.0
		Phillips (incl. Tosco)	P	57.46	0.7	4.1	7	2.4	6.0
		ENI S.p.A.	E	66.60	1.2	3.8	7	2.4	5.0
		<i>Median</i>		<i>1.1</i>	<i>4.3</i>	<i>8</i>	<i>2.4</i>	<i>6.0</i>	
Large Cap Power									
		Enron Corp.	ENE	59.48	0.4	19.3	33	0.8	10.0
		Calpine Corporation	CPN	54.10	4.7	17.8	30	-	10.0
		Mirant Corporation	MIR	39.08	0.8	13.4	21	-	8.0
		Williams Companies	WMB	41.67	3.7	11.7	18	1.4	8.0
		Duke Energy Corporation	DUK	45.84	1.0	11.6	18	2.4	8.0
		El Paso Corporation	EPG	67.55	0.8	10.7	20	1.3	8.0
		American Electric Power Co. Inc.	AEP 2	48.54	0.7	8.6	13	4.9	7.0
		Southern Company	SO	22.46	2.7	8.0	14	6.0	7.0
		<i>Median</i>		<i>0.9</i>	<i>11.7</i>	<i>19</i>	<i>1.3</i>	<i>8.0</i>	
Mid Cap									
		Barrett Resources Corporation	BRR	67.30	5.2	7.2	15	-	6.0
		PanCanadian Pete Ltd. (15%)	PCP.TO	44.26	1.8	5.4	13	0.6	6.0
		Occidental Petroleum	OXY	28.97	1.3	5.4	8	3.5	6.0
		PetroChina Company Ltd (10%)	PTR	21.55	2.0	4.9	7	6.6	6.0
		Unocal Corporation	UCL	36.50	1.7	4.7	13	2.2	6.0
		Valero Energy Corp.	VLO	45.47	0.3	4.6	6	0.7	6.0
		USX-Marathon Group	MRO 1	30.69	0.4	4.5	6	3.0	6.0
		Petro-Canada	PCZ	25.70	1.1	4.1	9	1.1	6.0
		Devon Energy Corporation	DVN	56.00	2.8	3.7	8	0.4	5.5
		Norsk Hydro ASA	NHY	41.66	0.8	2.7	7	2.5	4.0
		<i>Median</i>		<i>1.5</i>	<i>4.7</i>	<i>8</i>	<i>1.6</i>	<i>6.0</i>	
Small Cap									
		Cross Timbers Royalty Tr*	CRT	20.99	5.9	9.0	9	10.5	8.1
		San Juan Basin Royalty Tr*	SJT	17.42	6.1	7.5	10	9.9	7.6
		Dorchester Hugoton, Ltd.*	DHULZ	14.00	5.4	6.7	7	7.7	6.4
		Hugoton RoyaltyTrust*	HGT	15.74	4.7	6.4	9	11.7	7.6
		Encore Acquisition Corporation	EAC	13.47	3.7	5.0		-	6.0
		Energy Partners Ltd.*	EPL 1	10.41	1.7	2.4	8	-	4.3
		<i>Median</i>		<i>5.1</i>	<i>6.6</i>	<i>9</i>	<i>8.8</i>	<i>7.0</i>	

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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