



# Independent Stock Idea

October 18, 2016

## California Resources Corporation (CRC) Option on Oil Price

<i>Symbol</i>	CRC	<i>Ebitda Next Twelve Months ending 9/30/17 (US\$m)</i>	713
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	11
<i>Price (\$/sh)</i>	11.52	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	10/18/16	<i>Adjusted Reserves/Production NTM</i>	12.0
<i>Shares (mm)</i>	40	<i>EV/Ebitda</i>	10.2
<i>Market Capitalization (\$mm)</i>	500	<i>PV/Ebitda</i>	12.3
<i>Debt (\$mm)</i>	6,800	<i>Undeveloped Reserves (%)</i>	25
<i>Enterprise Value (EV) (\$mm)</i>	7,300	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	15.20
<i>Present Value (PV) (\$mm)</i>	8,800	<i>Present Value Proven Reserves(\$/boe)</i>	13.66
<i>Net Present Value (\$/share)</i>	50	<i>Oil and Gas Ebitda Margin (%)</i>	41
<i>Debt/Present Value</i>	0.77	<i>Earnings Next Twelve Months (US\$/sh)</i>	-5.87
<i>McDep Ratio - EV/PV</i>	0.82	<i>Price/Earnings Next Twelve Months</i>	-2
<i>Dividend Yield (%/year)</i>	0.0	<i>Indicated Annual Dividend (US\$/sh)</i>	0.00
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.00 a million btu			

### Summary and Recommendation

Down some 90% from its initial price two years ago, the common stock of **California Resources (CRC)** may have its best value as an option on oil price in tax-deferred accounts or as a tax loss in taxable accounts. Though the McDep Ratio looks attractive at 0.83, debt exposure is extraordinary as measured by Enterprise Value (EV) to Market Cap near 16 times (see [Table 1](#) on page 2). Similarly, appreciation potential to Net Present Value (NPV) of \$50 looks great until it is paired with a high 0.77 ratio of Debt to Present Value (see [Table 2](#) on page 3). Previous owner **Occidental Petroleum (OXY)** set the threatening debt level in 2014 before distributing CRC shares to OXY stockholders in late 2014. Irrespective of the financial structure, oil and gas cash flow appears neutrally valued in the market place for today's conditions at an unlevered multiple of 10 times, which matches the median for 24 stocks (see [Table 3](#) on page 4). Nonetheless, the high level of debt contributed to the worst stock price performance for the year (see [Table 4](#) on page 5). Meanwhile, current futures prices point to an upward trend in cash flow (see table [Operating and Financial Estimates](#) on page 6). Cash flow in turn supports estimated NPV concentrated 84% on oil (see table [Present Value](#) on page 7). To its credit, management has kept control in the face of financial challenges while preserving upside for equity holders. The upside and the downside depend largely on oil price. We think the current price at about \$50 a barrel will reach \$70 before any unlikely decline to \$30 again. Economically, negative real interest rates are good for oil. Politically, the Mideast oil producing region looks increasingly unstable.

Kurt H. Wulff, CFA



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Symbol/Rating	Price (US\$/sh)	EV/ Market Cap	Enterprise Value (\$mm)	Present Value by Segment (%)				Dist. Yield	NTM (%)	McDep Ratio	
				North Amer.	Rest of World	Oil Prod'n	Down- stream				
				Natural Gas	Natural Gas						
<b>Global Integrated</b>											
Exxon Mobil Corporation	XOM	86.77	1.26	457,000	6	16	55	23	3.5	0.89	
Chevron Corporation	CVX	101.79	1.35	257,000	2	13	66	19	4.2	0.81	
Royal Dutch Shell	RDS-A	B	50.62	1.68	338,000	2	21	53	24	7.4	0.74
Total S.A.	TOT	B	48.54	1.51	175,000		20	58	22	5.5	0.64
<i>Total or Median</i>				<i>1.43</i>	<i>1,227,000</i>			<i>56</i>	<i>23</i>	<i>4.9</i>	<i>0.77</i>
<b>Large Independent</b>											
EOG Resources, Inc.	EOG	93.13	1.14	58,300	11	1	87		0.7	1.20	
Occidental Petroleum Corp.	OXY	72.57	1.18	65,400	4	2	86	7	4.1	0.97	
Devon Energy Corporation	DVN	41.90	1.50	32,900	25		66	10	0.6	0.95	
Marathon Oil Corporation	MRO	B	14.20	1.63	19,700	10	2	88	1.4	0.80	
ConocoPhillips	COP	B	40.65	1.78	90,000	13	13	75	2.5	0.71	
<i>Total or Median</i>				<i>1.50</i>	<i>266,000</i>	<i>11</i>		<i>86</i>	<i>1.4</i>	<i>0.95</i>	
<b>Small Independent</b>											
Cimarex Energy Company	XEC	136.93	1.10	14,000	34		66		0.2	1.13	
Continental Resources (32%)	CLR	B	51.56	1.37	8,400	22		78	-	0.94	
Range Resources	RRC	38.07	1.45	13,400	77		23		0.2	0.93	
Whiting Petroleum Corporation	WLL	8.36	3.01	7,200	10		90		-	0.87	
California Resources	CRC	11.52	15.78	7,300	16		84		-	0.83	
<i>Total or Median</i>				<i>1.45</i>	<i>50,000</i>	<i>22</i>		<i>78</i>	<i>-</i>	<i>0.93</i>	
<b>Income</b>											
San Juan Basin Royalty Trust	SJT	6.61	1.00	310	100		-		9.7	0.83	
Dorchester Minerals, L.P.	DMLP	B	16.00	1.00	490	28		72	7.9	0.67	
Permian Basin RT	PBT	7.08	1.00	330	23		77		10.3	0.64	
Cross Timbers Royalty Trust	CRT	18.16	1.00	110	57		43		8.0	0.63	
Sabine Royalty Trust	SBR	B	37.17	1.00	540	48		52	8.2	0.62	
<i>Total or Median</i>				<i>1.00</i>	<i>1,800</i>	<i>48</i>		<i>52</i>	<i>8.2</i>	<i>0.64</i>	
<b>Canada</b>											
EnCana Corporation	ECA	11.12	1.79	19,300	43		57		0.5	1.35	
Imperial Oil Limited (30%)	IMO	32.51	1.34	11,100	0		63	36	1.4	0.89	
Suncor Energy	SU	28.93	1.37	66,100	-		79	21	3.1	0.87	
Cenovus Energy Inc.	CVE	15.46	1.31	16,900	10		79	12	1.0	0.82	
Birchcliff Energy Ltd.	BIREF	B	7.01	1.34	2,500	74		26	-	0.76	
<i>Total or Median</i>				<i>1.34</i>	<i>116,000</i>			<i>63</i>	<i>1.0</i>	<i>0.87</i>	
Estimated present value presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.00 a million btu.											
Estimated present value capped by unlevered cash flow multiple (EV/Ebitda)											
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses											
For historical research see <a href="http://www.mcdep.com">www.mcdep.com</a>											



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<b>McDep Energy Stocks</b>								
<b>Net Present Value and McDep Ratio</b>								
			<i>Price</i>			<i>Net</i>		
			<i>(US\$/sh)</i>		<i>Market</i>	<i>Present</i>	<i>Debt/</i>	
	<i>Symbol/Rating</i>		<i>18-Oct</i>	<i>Shares</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	
	<i>B = Buy</i>		<i>2016</i>	<i>(mm)</i>	<i>(US\$mm)</i>	<i>(US\$/sh)</i>	<i>Value</i>	
							<i>McDep</i>	
							<i>Ratio</i>	
<b>Global Integrated</b>								
Exxon Mobil Corporation	XOM		86.77	4,178	363,000	100.00	0.18	0.89
Chevron Corporation	CVX		101.79	1,872	191,000	135.00	0.21	0.81
Royal Dutch Shell	RDS-A	B	50.62	3,980	202,000	80.00	0.30	0.74
Total S.A.	TOT	B	48.54	2,379	116,000	90.00	0.22	0.64
	<i>Total or Median</i>				<i>872,000</i>		<i>0.21</i>	<i>0.77</i>
<b>Large Independent</b>								
EOG Resources, Inc.	EOG		93.13	547	50,900	75.00	0.15	1.20
Occidental Petroleum Corp.	OXY		72.57	764	55,400	75.00	0.15	0.97
Devon Energy Corporation	DVN		41.90	524	22,000	45.00	0.32	0.95
Marathon Oil Corporation	MRO	B	14.20	848	12,040	20.00	0.31	0.80
ConocoPhillips	COP	B	40.65	1,245	51,000	70.00	0.31	0.71
	<i>Total or Median</i>				<i>191,300</i>		<i>0.31</i>	<i>0.95</i>
<b>Small Independent</b>								
Cimarex Energy Company	XEC		136.93	93	12,800	120.00	0.10	1.13
Continental Resources (32%)	CLR	B	51.56	118	6,100	56.00	0.26	0.94
Range Resources	RRC		38.07	244	9,300	42.00	0.29	0.93
Whiting Petroleum Corporation	WLL		8.36	285	2,400	12.00	0.58	0.87
California Resources	CRC		11.52	40	500	50.00	0.77	0.83
	<i>Total or Median</i>				<i>31,000</i>		<i>0.29</i>	<i>0.93</i>
<b>Income</b>								
San Juan Basin Royalty Trust	SJT		6.61	47	310	8.00	-	0.83
Dorchester Minerals, L.P.	DMLP	B	16.00	31	490	24.00	-	0.67
Permian Basin RT	PBT		7.08	47	330	11.00	-	0.64
Cross Timbers Royalty Trust	CRT		18.16	6	110	29.00	-	0.63
Sabine Royalty Trust	SBR	B	37.17	15	540	60.00	-	0.62
	<i>Total or Median</i>				<i>1,800</i>		<i>-</i>	<i>0.64</i>
<b>Canada</b>								
EnCana Corporation	ECA		11.12	973	10,800	6.00	0.59	1.35
Imperial Oil Limited (30%)	IMO		32.51	255	8,300	38.00	0.22	0.89
Suncor Energy	SU		28.93	1,665	48,200	35.00	0.24	0.87
Cenovus Energy Inc.	CVE		15.46	833	12,900	20.00	0.20	0.82
Birchcliff Energy Ltd.	BIREF	B	7.01	263	1,800	10.00	0.19	0.76
	<i>Total or Median</i>				<i>82,000</i>		<i>0.22</i>	<i>0.87</i>
Estimated present value presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.00 a million btu.								
Estimated present value capped by unlevered cash flow multiple (EV/Ebitda)								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
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Table 3							
McDep Energy Stocks							
Value Multiples and Dividend							
Ranked by EV/Ebitda							
			Price (US\$/sh)	Adjustd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	Dividend NTM
	Symbol/Rating		18-Oct 2016	NTM	NTM	NTM	NTM
	B = Buy						(\$/sh)
<b>Global Integrated</b>							
Exxon Mobil Corporation	XOM		86.77	14.5	11.6	10.3	24
Chevron Corporation	CVX		101.79	9.2	11.8	9.5	35
Royal Dutch Shell	RDS-A	B	50.62	9.8	10.7	7.9	24
Total S.A.	TOT	B	48.54	9.9	10.0	6.4	13
	<i>Median</i>			9.8	11.1	8.7	24
<b>Large Independent</b>							
EOG Resources, Inc.	EOG		93.13	8.2	12.6	15.2	0.67
Devon Energy Corporation	DVN		41.90	8.4	14.5	13.8	0.24
Occidental Petroleum Corp.	OXY		72.57	8.3	13.5	13.2	3.00
Marathon Oil Corporation	MRO	B	14.20	12.7	13.2	10.6	0.20
ConocoPhillips	COP	B	40.65	11.3	14.5	10.3	1.00
	<i>Median</i>			8.4	13.5	13.2	
<b>Small Independent</b>							
Continental Resources (32%)	CLR	B	51.56	11.4	16.2	15.2	-
Cimarex Energy Company	XEC		136.93	6.9	13.1	14.8	0.32
Range Resources	RRC		38.07	12.6	14.9	14.0	0.08
California Resources	CRC		11.52	12.0	12.3	10.2	-
Whiting Petroleum Corporation	WLL		8.36	9.5	10.3	9.0	-
	<i>Median</i>			11.4	13.1	14.0	
<b>Income</b>							
Sabine Royalty Trust	SBR	B	37.17	9.1	19.7	12.2	12
Dorchester Minerals, L.P.	DMLP	B	16.00	7.0	17.1	11.4	15
Cross Timbers Royalty Trust	CRT		18.16	8.1	17.5	11.0	13
San Juan Basin Royalty Trust	SJT		6.61	10.4	12.0	9.9	10
Permian Basin RT	PBT		7.08	8.5	14.3	9.2	10
	<i>Median</i>			8.5	17.1	11.0	12
<b>Canada</b>							
EnCana Corporation	ECA		11.12	5.6	10.4	14.0	0.06
Imperial Oil Limited (30%)	IMO		32.51	33.2	10.7	9.5	0.46
Suncor Energy	SU		28.93	21.6	11.2	9.7	0.88
Cenovus Energy Inc.	CVE		15.46	16.6	11.2	9.2	0.15
Birchcliff Energy Ltd.	BIREF	B	7.01	12.9	11.4	8.6	-
	<i>Median</i>			16.6	11.2	9.5	
	<i>Grand Median</i>			10	13	10	

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2017; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

For historical research see [www.mcdep.com](http://www.mcdep.com)



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<b>Table 4</b>										
<b>McDep Energy Stocks</b>										
<b>Total Return Year-to-Date 2016</b>										
<b>Ranked by Unlevered Total Return</b>										
			Price	Price			Equity	Unlevered		
	Symbol/Rati		(\$/sh)	(\$/sh)	Price	Cash	Total	Debt	Return	McDep
			18-Oct	31-Dec	Change	Distrib.	Return	(\$/sh)	(%)	Ratio
			2016	2015	(%)	(%)	(%)			
<b>Global Integrated</b>										
	Chevron Corporation	CVX	101.79	89.96	13	4	17	36	12	0.81
	Exxon Mobil Corporation	XOM	86.77	77.95	11	3	14	23	11	0.89
	Royal Dutch Shell	RDS-A B	50.62	45.79	11	6	17	34	10	0.74
	Total S.A.	TOT B	48.54	44.95	8	5	13	25	8	0.64
	<i>Median</i>				11		15		10	0.77
<b>Large Independent</b>										
	EOG Resources, Inc.	EOG	93.13	70.79	32	1	33	13	27	1.20
	Devon Energy Corporation	DVN	41.90	32.00	31	1	32	21	19	0.95
	Marathon Oil Corporation	MRO B	14.20	12.58	13	1	14	9	8	0.80
	Occidental Petroleum Corp.	OXY	72.57	67.61	7	3	11	13	9	0.97
	ConocoPhillips	COP B	40.65	46.69	(13)	2	(11)	32	(7)	0.71
	<i>Median</i>				13		14		9	0.95
<b>Small Independent</b>										
	Continental Resources (32%)	CLR B	51.56	22.98	124	-	124	19	68	0.94
	Cimarex Energy Company	XEC	136.93	89.38	53	0	53	14	46	1.13
	Range Resources	RRC	38.07	24.62	55	0	55	17	32	0.93
	Whiting Petroleum Corporation	WLL	8.36	9.44	(11)	-	(11)	17	(4)	0.87
	California Resources	CRC	11.52	23.30	(51)	-	(51)	170	(6)	0.83
	<i>Median</i>				53		53		32	0.93
<b>Income</b>										
	Dorchester Minerals, L.P.	DMLP B	16.00	9.89	62	6	68	-	68	0.67
	San Juan Basin Royalty Trust	SJT	6.61	4.14	60	4	64	-	64	0.83
	Sabine Royalty Trust	SBR B	37.17	26.26	42	6	47	-	47	0.62
	Cross Timbers Royalty Trust	CRT	18.16	13.01	40	7	46	-	46	0.63
	Permian Basin RT	PBT	7.08	5.06	40	6	46	-	46	0.64
	<i>Median</i>				42		47		47	0.64
<b>Canada</b>										
	Birchcliff Energy Ltd.	BIREF B	7.01	2.93	139	-	139	2	77	0.76
	EnCana Corporation	ECA	11.12	5.09	118	1	119	9	44	1.35
	Cenovus Energy Inc.	CVE	15.46	12.62	23	1	23	5	17	0.82
	Suncor Energy	SU	28.93	25.80	12	3	15	11	10	0.87
	Imperial Oil Limited (30%)	IMO	32.51	32.52	(0)	1	1	11	1	0.89
	<i>Median</i>				23		23		17	0.87
	<i>Grand Median</i>				27		28		18	0.83
	<b>Natural Gas (\$/mmbtu)</b>		3.26	2.33	40					
	<b>Oil - West Texas Intermediate (\$/bbl)</b>		50.38	37.06	36					
	<b>S&amp;P 500</b>		2,140	2,044	5					
Source: McDep LLC, Yahoo, CME Group, Bloomberg										
For historical research see <a href="http://www.mcdep.com">www.mcdep.com</a>										



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California Resources Corporation										
Next Twelve Months Operating and Financial Estimates										
	Q3	Year	Q2	Q3E	Q4E	Year	Q1E	Q2E	Q3E	Next Twelve Months
	9/30/15	2015	6/30/16	9/30/16	12/31/16	2016E	3/31/17	6/30/17	9/30/17	9/30/17
<b>Volume</b>										
Natural Gas (bcf)	20.8	<b>83</b>	18.4	18.0	17.5	<b>72</b>	17.1	16.8	16.5	<b>67.8</b>
Natural Gas (mmcf)	226	<b>228</b>	202	196	190	<b>196</b>	190	184	179	<b>186</b>
Days	92	<b>365</b>	91	92	92	<b>365</b>	90	91	92	<b>365</b>
Oil (mmb)	11.1	<b>45</b>	9.6	9.5	9.2	<b>39</b>	9.0	8.8	8.6	<b>36</b>
Oil (mbd)	121	<b>122</b>	106	103	100	<b>106</b>	100	97	94	<b>98</b>
Total (mb)	14.6	<b>58.5</b>	12.7	12.5	12.1	<b>50.6</b>	11.8	11.6	11.4	<b>46.9</b>
Total (mbd)	159	<b>160</b>	140	135	131	<b>139</b>	131	127	124	<b>128</b>
<b>Price</b>										
Henry Hub (\$/mmbtu)	2.76	<b>2.67</b>	1.95	2.81	3.23	<b>2.52</b>	3.60	3.29	3.31	<b>3.36</b>
Differential (\$/mmbtu)	(0.07)	<b>0.05</b>	0.29	0.42	0.48	<b>0.32</b>	0.54	0.49	0.50	<b>0.50</b>
Company (\$/mcf)	2.83	<b>2.62</b>	1.66	2.39	2.74	<b>2.20</b>	3.06	2.80	2.81	<b>2.85</b>
WTI Cushing (\$/bbl)	46.39	<b>48.79</b>	45.66	44.91	50.09	<b>43.53</b>	51.40	52.62	53.26	<b>51.84</b>
Differential	3.20	<b>5.31</b>	7.09	6.98	7.78	<b>7.05</b>	7.99	8.18	8.28	<b>8.08</b>
Company (\$/bbl)	43.20	<b>43.48</b>	38.56	37.93	42.31	<b>36.48</b>	43.41	44.44	44.99	<b>43.76</b>
Total (\$/bbl)	36.97	<b>36.88</b>	31.67	32.24	36.07	<b>31.00</b>	37.38	37.78	38.21	<b>37.34</b>
<b>Revenue (\$mm)</b>										
Natural Gas	59	<b>218</b>	31	43	48	<b>158</b>	52	47	46	<b>194</b>
Oil	481	<b>1,940</b>	372	359	388	<b>1,409</b>	390	391	388	<b>1,558</b>
Total	540	<b>2,158</b>	402	402	436	<b>1,567</b>	442	438	435	<b>1,751</b>
<b>Expense</b>										
Production	246	<b>951</b>	188	184	178	<b>734</b>	174	171	168	<b>692</b>
Production taxes	42	<b>180</b>	42	42	42	<b>165</b>	38	38	38	<b>156</b>
General and administrative	67	<b>292</b>	61	50	49	<b>227</b>	48	47	46	<b>190</b>
Total	355	<b>1,423</b>	291	276	269	<b>1,127</b>	260	256	252	<b>1,038</b>
<b>Ebitda</b>										
Exploration	5	<b>34</b>	5	5	5	<b>20</b>	9	9	9	<b>32</b>
Deprec., Deplet., & Amort.	253	<b>1,004</b>	138	218	212	<b>715</b>	207	203	199	<b>821</b>
Other	(26)	<b>(158)</b>	5			<b>(30)</b>				<b>-</b>
<b>Ebit</b>	(47)	<b>(145)</b>	(36)	(98)	(50)	<b>(264)</b>	(34)	(30)	(25)	<b>(139)</b>
Interest	82	<b>326</b>	74	74	74	<b>296</b>	49	49	49	<b>221</b>
<b>Ebt</b>	(129)	<b>(471)</b>	(110)	(172)	(124)	<b>(560)</b>	(83)	(79)	(74)	<b>(360)</b>
Income Tax	(45)	<b>(165)</b>	(39)	(60)	(43)	<b>(196)</b>	(29)	(28)	(26)	<b>(126)</b>
<b>Net Income (\$mm)</b>	(84)	<b>(306)</b>	(72)	(112)	(80)	<b>(364)</b>	(54)	(51)	(48)	<b>(234)</b>
Per Share (\$)	(2.20)	<b>(8.00)</b>	(1.80)	(2.79)	(2.02)	<b>(9.21)</b>	(1.36)	(1.28)	(1.21)	<b>(5.87)</b>
<b>Shares (millions)</b>										
Ebitda Margin	34%	<b>34%</b>	28%	31%	38%	<b>28%</b>	41%	42%	42%	<b>41%</b>
Tax rate	35%	<b>35%</b>	35%	35%	35%	<b>35%</b>	35%	35%	35%	<b>35%</b>



# Independent Stock Idea

October 18, 2016

<b>California Resources Corporation</b>					
<b>Functional Cash Flow and Present Value</b>					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	79	9.5	17.8	1,400	16%
Oil	635	12.8	11.7	7,400	84%
	713	12.0	12.3	8,800	100%
Debt (US\$mm)					6,800
Net Present Value (US\$mm)					2,000
Shares (mm)					40
Net Present Value - Standard Estimate (US\$/sh)					50
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					80

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