



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

January 26, 2010

## A Few Price Flags

### Summary and Recommendation

Four of 26 large cap buy recommendations, **Imperial Oil (IMO)**, **Marathon Oil (MRO)**, **Petrobras (PBR)** and **ExxonMobil (XOM)** currently trade below their respective 200-day averages. That could be a sign of a downtrend beginning or a price opportunity before an uptrend resumes. In any case, we like the long-term fundamental prospects for the four stocks and will pay careful attention to economic and political signs. As one example, the declining trend of the U.S. dollar relative to its 50-day average has reversed. Yet the declining trend of the dollar relative to its 200-day average has not changed (see chart below of DXY, an index that tracks the dollar compared to a basket of other currencies). Politically, while the dollar was rebounding, normally Democratic Massachusetts elected Republican Scott Brown to the U.S. Senate where he promised to cast the deciding vote against pending unpopular health care legislation. Since currency and political issues often cut both ways in terms of implications for oil and gas stocks, we see about the same positive prospects for energy in the 2010s as we did late last year. Meanwhile, the trend in long-term oil price continues upward with the current quote of \$85 a barrel above the 40-week average of \$81 (see charts on page 2, Six-Year Commodity Price Meter and Six-Year and One-Year Natural Gas and Oil Futures). Six-year natural gas is trendless while one-year natural gas is in a rising trend indicated by a current quote of \$5.96 a million btu compared to the 40-week average of \$5.39.

Kurt H. Wulff, CFA

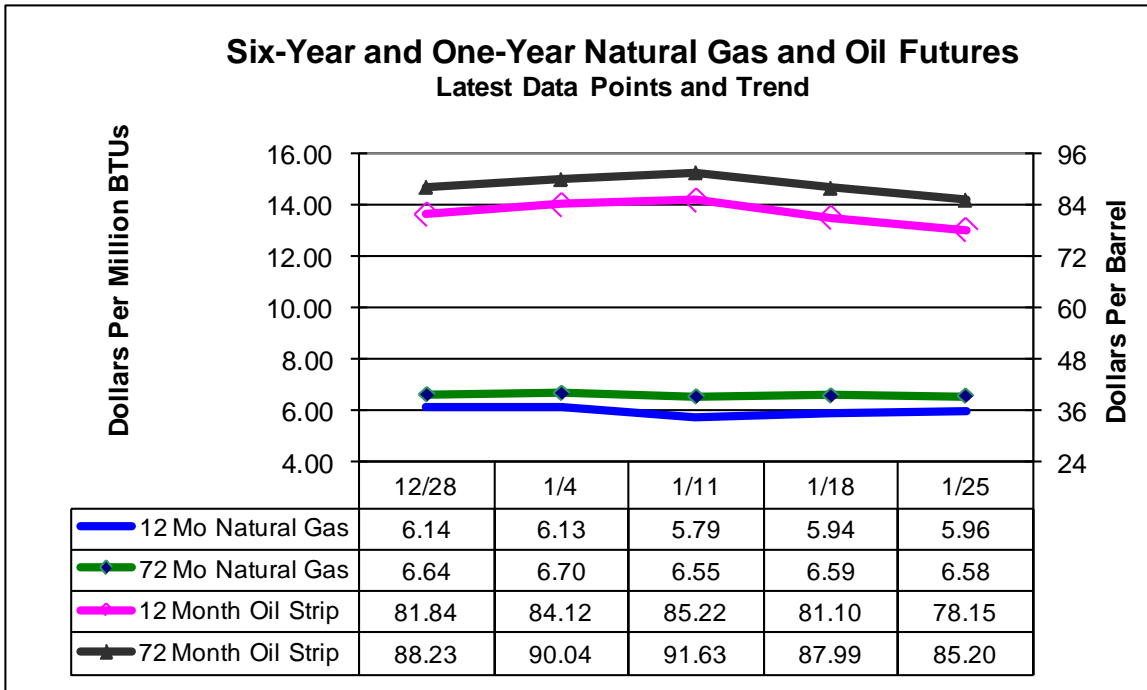
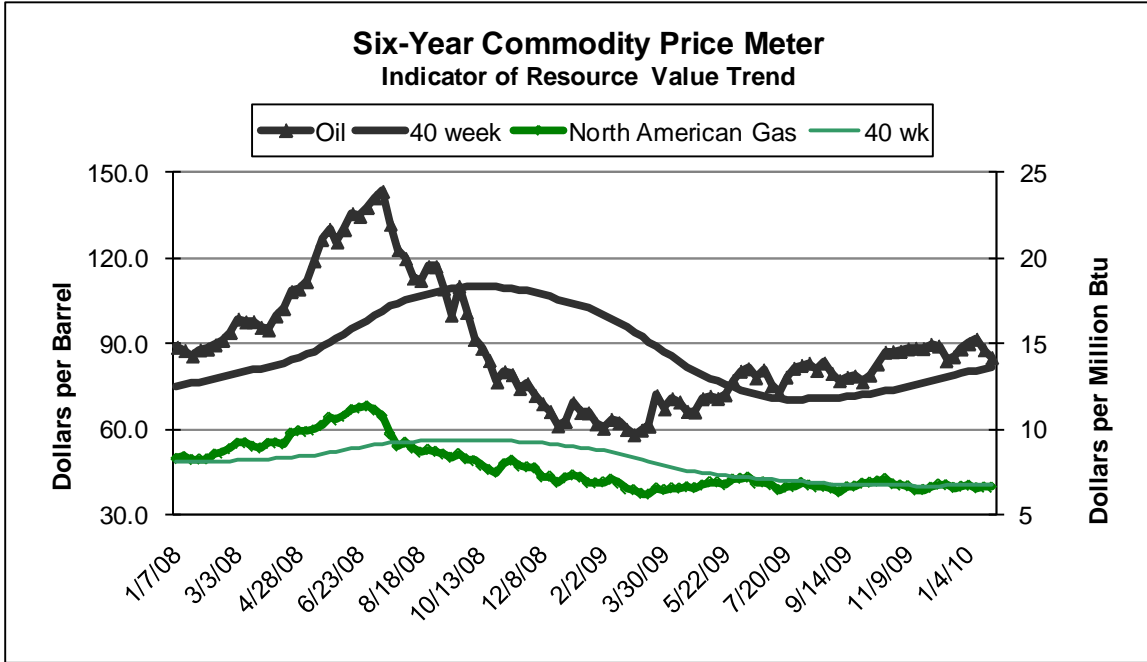




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			Price (US\$/sh)	Shares	Market Cap (US\$mm)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
	Symbol/Rating		25-Jan 2010	(mm)				
	B = Buy							
<b>U.S. Integrated</b>								
Exxon Mobil Corporation	XOM	B	65.85	4,803	316,000	89.00	0.11	0.77
Chevron Corporation	CVX	B	74.55	2,001	149,000	102.00	0.13	0.77
Marathon Oil Corporation	MRO	B	30.71	711	21,830	53.00	0.23	0.68
ConocoPhillips	COP	B	50.75	1,498	76,000	105.00	0.25	0.61
<i>Total or Median</i>					<i>563,000</i>		<i>0.18</i>	<i>0.72</i>
<b>Europe</b>								
BG Group plc	BRGXF	B	19.10	3,390	64,800	22.00	0.11	0.88
Royal Dutch Shell plc	RDS-A	B	58.34	3,066	179,000	79.00	0.20	0.79
BP plc	BP	B	58.55	3,156	185,000	80.00	0.20	0.78
Statoil ASA (33%)	STO	B	23.26	1,051	24,400	35.00	0.22	0.74
Total S.A.	TOT	B	60.42	2,237	135,000	90.00	0.15	0.72
<i>Total or Median</i>					<i>588,000</i>		<i>0.20</i>	<i>0.78</i>
<b>Australia/Brazil/China/Russia</b>								
CNOOC Limited (34%)	CEO	B	146.81	152	22,300	135.00	0.01	1.09
Woodside Petroleum Ltd.	WOPEY	B	39.65	709	28,100	44.00	0.16	0.92
PetroChina Company Ltd (14%)	PTR	B	116.35	256	29,800	150.00	0.06	0.79
Petrobras	PBR	B	41.22	4,387	180,800	58.00	0.17	0.76
Cazprom (50%)	OGZPY	B	24.40	2,965	72,300	64.00	0.09	0.44
Lukoil Oil Company	LUKOY	B	55.50	847	47,000	135.00	0.05	0.44
<i>Total or Median</i>					<i>380,000</i>		<i>0.08</i>	<i>0.78</i>
<b>U.S. Independent</b>								
Anadarko Petroleum Corp.	APC	B	64.93	493	32,000	59.00	0.32	1.07
EOG Resources	EOG	B	94.97	251	23,800	92.00	0.13	1.03
XTO Energy Inc.	XTO	B	45.62	580	26,500	47.00	0.29	0.98
Chesapeake Energy Corp.	CHK		26.96	626	16,900	34.00	0.38	0.87
Occidental Petroleum Corp.	OXY	B	77.65	814	63,200	95.00	0.06	0.83
Devon Energy Corporation	DVN	B	70.97	450	32,000	98.00	0.17	0.77
<i>Total or Median</i>					<i>194,400</i>		<i>0.23</i>	<i>0.93</i>
<b>Canada</b>								
EnCana Corporation	ECA	B	32.48	751	24,400	35.00	0.28	0.95
Cenovus Energy Inc.	CVE	B	23.76	751	17,800	27.00	0.23	0.91
Canadian Natural Resources	CNQ	B	66.36	542	36,000	80.00	0.21	0.87
Imperial Oil Limited (30%)	IMO	B	37.05	256	9,500	48.00	0.07	0.79
Suncor Energy	SU	B	33.23	1,572	52,200	52.00	0.18	0.70
Canadian Oil Sands Trust	COSWF	B	27.02	484	13,100	42.00	0.06	0.67
<i>Total or Median</i>					<i>153,000</i>		<i>0.20</i>	<i>0.83</i>
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
Estimated present value presumes a long-term price for oil of US\$75 a barrel and natural gas, \$8 a million btu.								



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<b>Table 3</b>								
<b>McDep Energy Portfolio</b>								
<b>Value Multiples and Distribution Yield</b>								
			<i>Price</i>	<i>Adjustd</i>				<i>Divd or</i>
			<i>(US\$/sh)</i>	<i>Resrvs/</i>	<i>PV/</i>	<i>EV/</i>		<i>Distrib</i>
	<i>Symbol/Rating</i>		<i>25-Jan</i>	<i>Prod</i>	<i>Ebitda</i>	<i>Ebitda</i>	<i>P/E</i>	<i>NTM</i>
	<i>B = Buy</i>		<i>2010</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>(%)</i>
<b>U.S. Integrated</b>								
Exxon Mobil Corporation	XOM	B	65.85	12.4	8.6	6.6	12	2.6
Chevron Corporation	CVX	B	74.55	9.7	7.2	5.5	12	3.6
ConocoPhillips	COP	B	50.75	11.2	8.5	5.2	9	3.9
Marathon Oil Corporation	MRO	B	30.71	9.3	7.2	4.9	10	3.1
	<i>Total or Median</i>			<i>10.4</i>	<i>7.8</i>	<i>5.3</i>	<i>11</i>	<i>3.4</i>
<b>Europe</b>								
BG Group plc	BRGXF	B	19.10	8.1	9.3	8.2	16	1.1
BP plc	BP	B	58.55	9.6	7.0	5.5	10	5.7
Total S.A.	TOT	B	60.42	9.4	7.6	5.5	10	5.3
Royal Dutch Shell plc	RDS-A	B	58.34	7.9	6.8	5.4	12	5.8
Statoil ASA (33%)	STO	B	23.26	7.5	6.5	4.8	21	5.4
	<i>Total or Median</i>			<i>8.1</i>	<i>7.0</i>	<i>5.5</i>	<i>12</i>	<i>5.4</i>
<b>Australia/Brazil/China/Russia</b>								
Woodside Petroleum Ltd.	WOPEY	B	39.65	15.0	13.1	12.0	28	2.5
Petrobras	PBR	B	41.22	9.1	9.3	7.1	12	3.3
CNOOC Limited (34%)	CEO	B	146.81	6.9	5.8	6.3	11	3.5
PetroChina Company Ltd (14%)	PTR	B	116.35	13.9	7.6	6.0	15	3.4
Lukoil Oil Company	LUKOY	B	55.50	16.4	8.8	3.9	8	2.3
Gazprom (50%)	OGZPY	B	24.40	24.6	8.4	3.7	5	0.2
	<i>Total or Median</i>			<i>14.5</i>	<i>8.6</i>	<i>6.2</i>	<i>12</i>	<i>2.9</i>
<b>U.S. Independent</b>								
Chesapeake Energy Corp.	CHK		26.96	11.1	12.2	10.6	21	1.1
EOG Resources	EOG	B	94.97	9.8	9.4	9.7	32	0.6
XTO Energy Inc.	XTO	B	45.62	10.7	9.6	9.4	19	1.1
Anadarko Petroleum Corp.	APC	B	64.93	8.9	6.8	7.3		0.6
Occidental Petroleum Corp.	OXY	B	77.65	11.2	7.9	6.6	14	1.7
Devon Energy Corporation	DVN	B	70.97	8.9	7.3	5.7	11	0.9
	<i>Total or Median</i>			<i>10.3</i>	<i>8.7</i>	<i>8.3</i>	<i>19</i>	<i>1.0</i>
<b>Canada</b>								
Canadian Oil Sands Trust	COSWF	B	27.02	23.1	14.4	9.6	16	6.5
Imperial Oil Limited (30%)	IMO	B	37.05	18.4	12.0	9.4	18	1.0
EnCana Corporation	ECA	B	32.48	8.7	9.0	8.5	27	2.5
Cenovus Energy Inc.	CVE	B	23.76	9.8	9.0	8.2	19	3.4
Suncor Energy	SU	B	33.23	13.9	10.5	7.4	26	1.1
Canadian Natural Resources	CNQ	B	66.36	7.5	8.3	7.2	13	0.6
	<i>Total or Median</i>			<i>11.8</i>	<i>9.8</i>	<i>8.3</i>	<i>19</i>	<i>1.8</i>
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2010; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



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<b>Index of Recent Research</b>			
<b>Stock Ideas</b>			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
31-Dec	* WLL	Whiting Petroleum	North Dakota Bakken Oil Producer (ISC Weekly)
29-Dec	* WOPEY	Woodside Petroleum	Buy for Australian LNG (Meter Reader)
15-Dec	* XTO, XOM	XTO Energy, ExxonMobil	ExxonMobil Offers \$52 a Share for XTO Energy (MR)
11-Dec	* SJT	San Juan Basin Royalty Trust	Natural Gas Income with Upside (ISC Weekly)
8-Dec	* PBR	Petrobras	Buy for Long-Term Growth (Meter Reader)
8-Dec	* LUKOY	Lukoil Oil Company	Reemphasizing Oil
4-Dec	* COSWF	Canadian Oil Sands Trust	November Production below Capacity (ISCW)
1-Dec	* ECA, CVE	EnCana, Cenovus Energy Inc.	Buy EnCana, Buy Cenovus (Meter Reader)
20-Nov	* FRHLF	Freehold Royalty Trust	Highest Distribution Rate Unhedged (ISC Weekly)
17-Nov	* BRGXF	BG Group	Oil Price Trend Validates Offshore Brazil (Meter Reader)
13-Nov	* PEYUF	Peyto Energy Trust	Deep Basin Drilling "Going to Explode" (ISC Weekly)
9-Nov	* OGZPY	Gazprom	Sharp Recovery from Sharp Dip
6-Nov	* SU	Suncor Energy	Expects to Keep 12% Syncrude
6-Nov	* MRO	Marathon Oil Corporation	Refinery Expansion Nearly Complete
6-Nov	* HGT	Hugoton Royalty Trust	Distribution Trend Up (Income and Small Cap Weekly)
6-Nov	* EOG	EOG Resources Inc.	Accenting Oil
6-Nov	* DMLP	Dorchester Minerals, L.P.	More Drilling on DMLP Land
6-Nov	* APC	Anadarko Petroleum Corporation	McDep Ratio above 1.0
5-Nov	* TOT	Total S.A.	New Projects for Growth
5-Nov	* STO	Statoil ASA	Oil Price Leading Natural Gas Price
5-Nov	* CNQ	Canadian Natural Resources	Oil Sands Mining Challenge
4-Nov	* XEC	Cimarex Energy Company	Raise Net Present Value to \$50 a Share from \$46
4-Nov	* DVN	Devon Energy Corporation	Progress in Shale Gas
3-Nov	* PTR	PetroChina Company Limited	Buy China Oil and Gas (Meter Reader)
3-Nov	* CEO	CNOOC Ltd	Buy China Oil and Gas (Meter Reader)
2-Nov	* IMO	Imperial Oil Limited	<i>In Situ</i> Oil Production Cumulates Past a Billion Barrels
2-Nov	* EAC	Encore Acquisition Company	Denbury Resources Offers \$50 a Share to Acquire Encore
2-Nov	* CVX	Chevron Corporation	Raise Net Present Value to \$102 a Share from \$97
29-Oct	* RDSA	Royal Dutch Shell plc	Shedding Downstream Image
28-Oct	* COP	ConocoPhillips	Downsizing to Revitalize
27-Oct	* BP	BP p.l.c.	Raise Net Present Value to \$80 a Share from \$72
23-Oct	* OXY	Occidental Petroleum Corporation	Raise Net Present Value to \$95 a Share from \$87
<b>Meter Reader</b>			
26-Jan		Weekly	
19-Jan		Weekly	Buy Canadian Oil and Gas Producers
12-Jan	DVN, EOG	U.S. Independent Producers	Buy Devon, Rebalance EOG Resources
5-Jan	*	Weekly	Natural Gas and Oil for the Twenty-Tens
<b>Income and Small Cap Weekly</b>			
22-Jan		Weekly	U.S. Natural Gas Inventories Drop Sharply
19-Jan	XEC	Cimarex Energy	Raise NPV to \$60 a Share from \$50
8-Jan	HGT, SJT	Bottom Line Cash Payers	Raise LINE NPV 13%; Lower HGT NPV 9%
31-Dec	* WLL	Whiting Petroleum	North Dakota Bakken Oil Producer
	*	Archived on <a href="http://www.mcdep.com">www.mcdep.com</a>	



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**Disclaimer:** This analysis was prepared by Kurt Wulff, Manager of McDep LLC. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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**Research Methodology/Ratings Description:** McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the forty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.