



Meter Reader

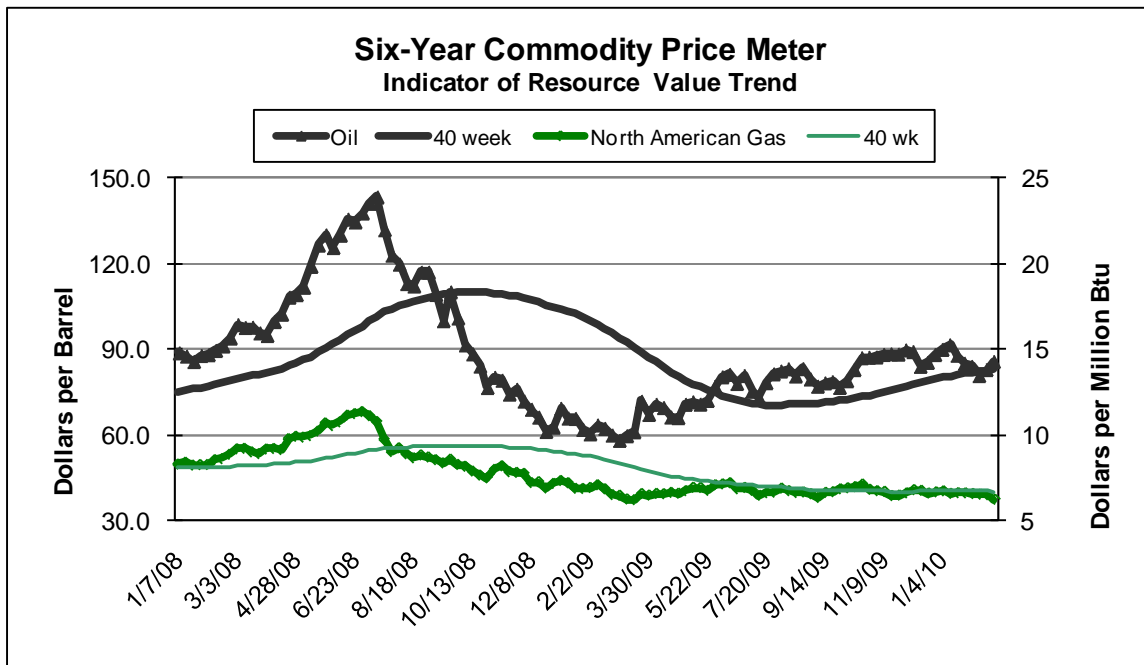
A Weekly Analysis of Large Cap Oil and Gas Stocks
February 23, 2010

Cheap Oil

Summary and Recommendation

The disparity between six-year oil at \$86 a barrel in the commodity market and large cap oil producers at a median \$58 a barrel in the stock market points to opportunity, we believe, in recommended high quality producers like **ExxonMobil (XOM)**, **Canadian Oil Sands Trust (COSWF)**, **Total (TOT)**, **Chevron (CVX)**, **PetroChina (PTR)** and **ConocoPhillips (COP)**. Trading above the 40-week average of \$83, oil for the next six years acts like it has to be part of global economic growth and that new supplies do not come cheaply (see chart below, Six-Year Commodity Price Meter and on last page, Six-Year and One-Year Natural Gas and Oil Futures). Oil does look cheap in oil stocks, which live in the shadow of governments who would like to load them down with more taxes. Ironically, higher taxes only drive up oil prices more, as we see it. Nonetheless, there can always be negative surprises in commodity prices or government actions. We think the gap between 86 and 58 is more than wide enough to cushion moderate risk in committing to high quality producers. We measure the price of oil in the stock market by multiplying the median McDep Ratio of 0.77 by \$75 a barrel, which is our long-term price assumption used in calculating the denominator of the McDep Ratio. There is a rich suite of attractive stocks at low McDep Ratios in our continuous analysis (see Tables 1-3).

Kurt H. Wulff, CFA





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Table 2									
McDep Energy Portfolio									
Net Present Value and McDep Ratio									
			Price (US\$/sh)			Net Present Value	Debt/ Present Value	McDep Ratio	
	Symbol/Rating		22-Feb 2010	Shares (mm)	Market Cap (US\$mm)	(US\$/sh)			
B = Buy, CB (see below)									
U.S. Integrated									
Exxon Mobil Corporation	XOM	CB	65.40	5,215	341,000	89.00	0.12	0.77	
Chevron Corporation	CVX	B	72.96	2,004	146,000	110.00	0.12	0.70	
Marathon Oil Corporation	MRO	CB	29.51	711	20,980	53.00	0.23	0.66	
ConocoPhillips	COP	B	48.70	1,501	73,000	105.00	0.25	0.60	
<i>Total or Median</i>						581,000		0.18	0.68
Europe									
BG Group plc	BRGXF	B	18.22	3,397	61,900	22.00	0.10	0.85	
Royal Dutch Shell plc	RDS-A	CB	55.57	3,064	170,000	79.00	0.21	0.76	
BP plc	BP	B	54.25	3,162	172,000	80.00	0.19	0.74	
Statoil ASA (33%)	STO	B	22.91	1,050	24,100	35.00	0.22	0.73	
Total S.A.	TOT	CB	58.06	2,241	130,000	90.00	0.15	0.70	
<i>Total or Median</i>						558,000		0.19	0.74
Australia/Brazil/China/Russia									
CNOOC Limited (34%)	CEO	B	157.00	152	23,900	135.00	0.01	1.16	
Woodside Petroleum Ltd.	WOPEY	B	40.10	709	28,500	44.00	0.16	0.93	
Petrobras	PBR	CB	42.57	4,387	186,800	58.00	0.17	0.78	
PetroChina Company Ltd (14%)	PTR	CB	112.16	256	28,700	150.00	0.06	0.76	
Gazprom (50%)	OGZPY	B	23.20	2,955	68,600	64.00	0.10	0.43	
Lukoil Oil Company	LUKOY	B	53.75	847	45,500	135.00	0.05	0.43	
<i>Total or Median</i>						382,000		0.08	0.77
U.S. Independent									
Anadarko Petroleum Corp.	APC	B	69.19	494	34,200	64.00	0.31	1.06	
EOG Resources	EOG	B	92.11	251	23,200	92.00	0.12	1.00	
XTO Energy Inc.	XTO	B	45.72	580	26,500	47.00	0.28	0.98	
Occidental Petroleum Corp.	OXY	B	80.01	814	65,100	95.00	0.06	0.85	
Chesapeake Energy Corp.	CHK		27.10	626	17,000	34.00	0.38	0.87	
Devon Energy Corporation	DVN	B	70.02	450	31,500	98.00	0.16	0.76	
<i>Total or Median</i>						197,500		0.22	0.93
Canada									
Cenovus Energy Inc.	CVE	B	25.61	751	19,200	27.00	0.25	0.96	
EnCana Corporation	ECA	B	32.51	751	24,400	35.00	0.25	0.95	
Canadian Natural Resources	CNQ	B	69.25	542	37,500	80.00	0.21	0.89	
Imperial Oil Limited (30%)	IMO	B	38.04	256	9,800	48.00	0.06	0.81	
Canadian Oil Sands Trust	COSWF	B	28.22	484	13,700	38.00	0.07	0.76	
Suncor Energy	SU	CB	30.31	1,562	47,300	48.00	0.20	0.70	
<i>Total or Median</i>						152,000		0.20	0.85

CB=Contrarian Buy, Stock Price may in downtrend compared to 200-day average.

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.

Please see disclosures on the final page.

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Table 3								
McDep Energy Portfolio								
Value Multiples and Distribution Yield								
			Price (US\$/sh)	Adjustd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	P/E	Divd or Distrib NTM
	Symbol/Rating		22-Feb 2010	NTM	NTM	NTM	NTM	(%)
B = Buy, CB (see below)								
U.S. Integrated								
Exxon Mobil Corporation	XOM	CB	65.40	12.1	8.3	6.3	12	2.6
Marathon Oil Corporation	MRO	CB	29.51	10.9	7.3	4.8	10	3.3
ConocoPhillips	COP	B	48.70	11.0	7.9	4.7	8	4.1
Chevron Corporation	CVX	B	72.96	9.5	6.6	4.6	9	3.7
<i>Total or Median</i>				<i>11.0</i>	<i>7.6</i>	<i>4.8</i>	<i>10</i>	<i>3.5</i>
Europe								
BG Group plc	BRGXF	B	18.22	8.3	8.9	7.5	15	1.0
Total S.A.	TOT	CB	58.06	9.3	7.2	5.0	10	5.3
BP plc	BP	B	54.25	9.5	6.7	5.0	9	6.2
Royal Dutch Shell plc	RDS-A	CB	55.57	7.8	6.5	5.0	10	6.0
Statoil ASA (33%)	STO	B	22.91	7.4	6.1	4.5	11	4.4
<i>Total or Median</i>				<i>8.3</i>	<i>6.7</i>	<i>5.0</i>	<i>10</i>	<i>5.3</i>
Australia/Brazil/China/Russia								
Woodside Petroleum Ltd.	WOPEY	B	40.10	15.0	12.7	11.8	27	2.5
Petrobras	PBR	CB	42.57	9.1	9.0	7.0	12	3.2
CNOOC Limited (34%)	CEO	B	157.00	6.5	5.5	6.4	11	3.3
PetroChina Company Ltd (14%)	PTR	CB	112.16	13.9	7.5	5.7	14	3.6
Lukoil Oil Company	LUKOY	B	53.75	16.4	8.6	3.7	7	2.4
Gazprom (50%)	OGZPY	B	23.20	24.6	8.5	3.6	5	0.2
<i>Total or Median</i>				<i>14.5</i>	<i>8.5</i>	<i>6.1</i>	<i>12</i>	<i>2.8</i>
U.S. Independent								
Chesapeake Energy Corp.	CHK		27.10	11.1	13.2	11.5	26	1.1
XTO Energy Inc.	XTO	B	45.72	11.3	10.4	10.2	19	1.1
EOG Resources	EOG	B	92.11	10.8	9.3	9.3	40	0.7
Anadarko Petroleum Corp.	APC	B	69.19	9.1	7.4	7.8	80	0.5
Occidental Petroleum Corp.	OXY	B	80.01	10.9	7.6	6.4	14	1.6
Devon Energy Corporation	DVN	B	70.02	10.3	8.4	6.3	12	0.9
<i>Total or Median</i>				<i>10.8</i>	<i>8.8</i>	<i>8.6</i>	<i>23</i>	<i>1.0</i>
Canada								
Canadian Oil Sands Trust	COSWF	B	28.22	23.1	13.5	10.2	21	4.8
Imperial Oil Limited (30%)	IMO	B	38.04	19.2	11.7	9.4	18	1.0
EnCana Corporation	ECA	B	32.51	9.1	9.5	9.0	60	2.5
Cenovus Energy Inc.	CVE	B	25.61	10.2	8.9	8.6	18	3.1
Canadian Natural Resources	CNQ	B	69.25	7.5	8.3	7.4	13	0.6
Suncor Energy	SU	CB	30.31	14.3	10.2	7.2	21	1.3
<i>Total or Median</i>				<i>12.2</i>	<i>9.9</i>	<i>8.8</i>	<i>19</i>	<i>1.9</i>

CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average.

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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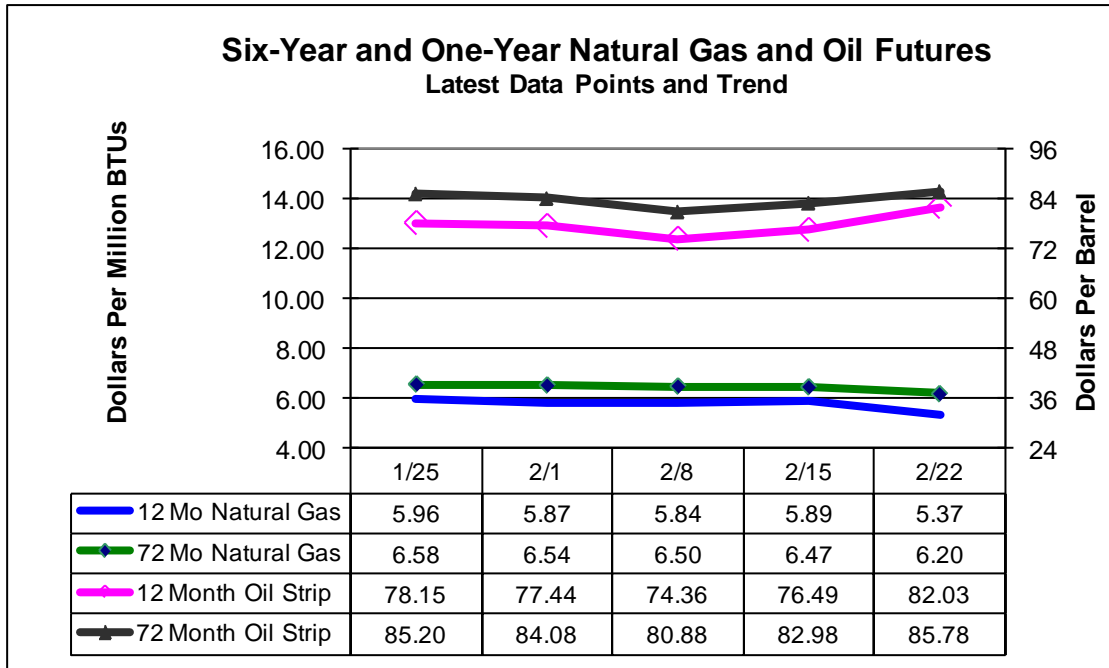
Index of Recent Research

Stock Ideas			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
22-Feb	XTO, XOM	XTO Energy, ExxonMobil	Merger on Track for Second Quarter Completion
19-Feb	BIREF	Birchcliff Energy Ltd.	Raise NPV to US\$11 a Share from US\$9
19-Feb	XEC	Cimarex Energy Company	On a Roll - Raise NPV to \$65
18-Feb	DVN	Devon Energy Corporation	Proven Reserves Increase 19%
15-Feb	CVE	Cenovus Energy Inc.	Quadruple Bitumen by 2017
15-Feb	STO	Statoil ASA	Reposition Dividend for Growth
15-Feb	EOG	EOG Resources Inc.	Proven Reserves Increase 24%
12-Feb	TOT	Total S.A.	Secure Income at 5.5%
12-Feb	ECA	EnCana Corporation	Best Large Cap Clean Energy Investment
9-Feb	PTR	PetroChina Company Limited	Change Buy to Contrarian Buy (Meter Reader)
8-Feb	XEC	Cimarex Energy Company	Booming Production Estimated up 18% in 2010
5-Feb	BRGXF	BG Group	Natural Gas Growth in Australia
4-Feb	RDSA	Royal Dutch Shell plc	Cautious Outlook, Nice Dividend
3-Feb	IMO	Imperial Oil Limited	Horn River Shale Gas Explorer
3-Feb	CEO	CNOOC Ltd	Blockbuster Growth Forecast
3-Feb	MRO	Marathon Oil Corporation	Ready for Recovery in Demand for Diesel Fuel
3-Feb	APC	Anadarko Petroleum Corporation	Raise Net Present Value to \$64 a Share from \$59
2-Feb	SU	Suncor Energy	Reduce Net Present Value to US\$48 a Share from US\$52
2-Feb	BP	BP p.l.c.	Credibility Reestablished
1-Feb	XOM	ExxonMobil Corporation	Modify to Contrarian Buy from Buy
1-Feb	OGZPY	Gazprom	European Natural Gas Sales Rebound
29-Jan	CVX	Chevron Corporation	Raise Net Present Value to \$110 a Share from \$102
29-Jan	COSWF	Canadian Oil Sands Trust	Distribution Unchanged, Reduce NPV to \$38 from \$42
28-Jan	OXY	Occidental Petroleum Corporation	Volume Growth Supporting Appreciation Potential
27-Jan	COP	ConocoPhillips	Lowest Large Cap McDep Ratio
8-Jan	* HGT	Hugoton Royalty Trust	Lower Net Present Value to \$21 a Unit from \$23
29-Dec	* WOPEY	Woodside Petroleum	Buy for Australian LNG (Meter Reader)
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
20-Nov	* FRHLF	Freehold Royalty Trust	Highest Distribution Rate Unhedged (ISC Weekly)
13-Nov	* PEYUF	Peyto Energy Trust	Deep Basin Drilling "Going to Explode" (ISC Weekly)
6-Nov	* DMLP	Dorchester Minerals, L.P.	More Drilling on DMLP Land
5-Nov	* CNQ	Canadian Natural Resources	Oil Sands Mining Challenge
2-Nov	* EAC	Encore Acquisition Company	Denbury Resources Offers \$50 a Share to Acquire Encore
Meter Reader			
23-Feb		Weekly	
16-Feb		Weekly	Free Downstream in Stock Prices
9-Feb		Weekly	Designate Seven More Contrarian Buys
2-Feb	*	Weekly	Create Contrarian Buy (CB) Category
Income and Small Cap Weekly			
19-Feb	XEC	Weekly	Cimarex on a Roll - Raise NPV to \$65
12-Feb		Weekly	Natural Gas Ideas
5-Feb	COSWF	Weekly	Sycrude Transaction in the Works
29-Jan	*	Weekly	Tenuous Timing
	* Archived on www.mcdep.com		



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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.