



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

March 9, 2010

## Upside in Anadarko's Oil and Gas Portfolio

### Summary and Recommendation

At its meeting for analysts in New York on March 2, management of buy-recommended **Anadarko Petroleum (APC)** estimated that a low (conservative) value of its oil and gas portfolio could be \$55 billion compared to \$46 billion that we estimate in arriving at Net Present Value (NPV) of \$64 a share. Chief financial officer Bob Gwin also gave high (aggressive) estimates that imply as much as \$96 billion though he cautioned against adding the high estimates because they have a wide range of uncertainty. Excluding any management estimates for exploration, the range from low to high forms a balanced bracket around our estimate of \$46 billion (see table below, [Oil and Gas Portfolio Values](#)). Management illustrates West Africa exploration potential as 30 prospects times a 33% chance of success times 600 million barrels each times 40% for Anadarko times \$10 a barrel equals \$24 billion. Favorable upside keeps us recommending buy. Yet, because the stock's McDep Ratio at 1.08 is high, we encourage rebalancing to trim the position to average size on an enterprise value basis in the McDep Energy Portfolio. Meanwhile, long-term oil price trends up with current quote of \$88 a barrel above the 40-week average of \$83 (see charts on page 2, [Six-Year Commodity Price Meter](#) and [Six-Year and One-Year Natural Gas and Oil Futures](#)). We also restore more stocks to buy from contrarian buy leaving four stocks with price below the 200-day average (see Tables 1-3).

Kurt H. Wulff, CFA

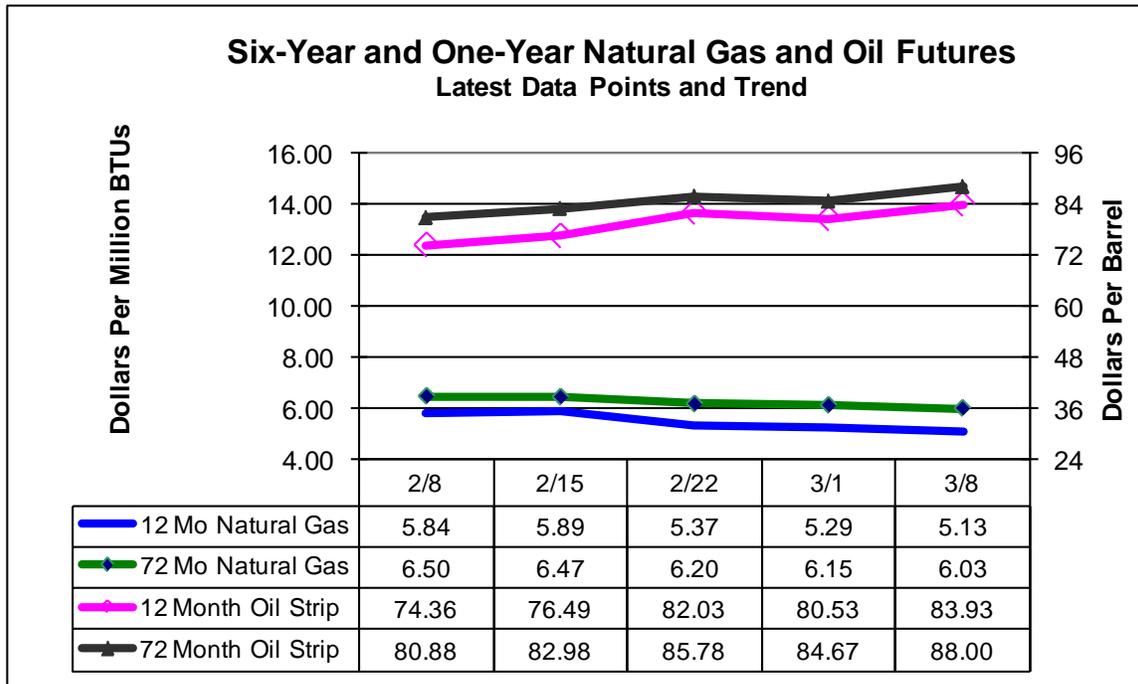
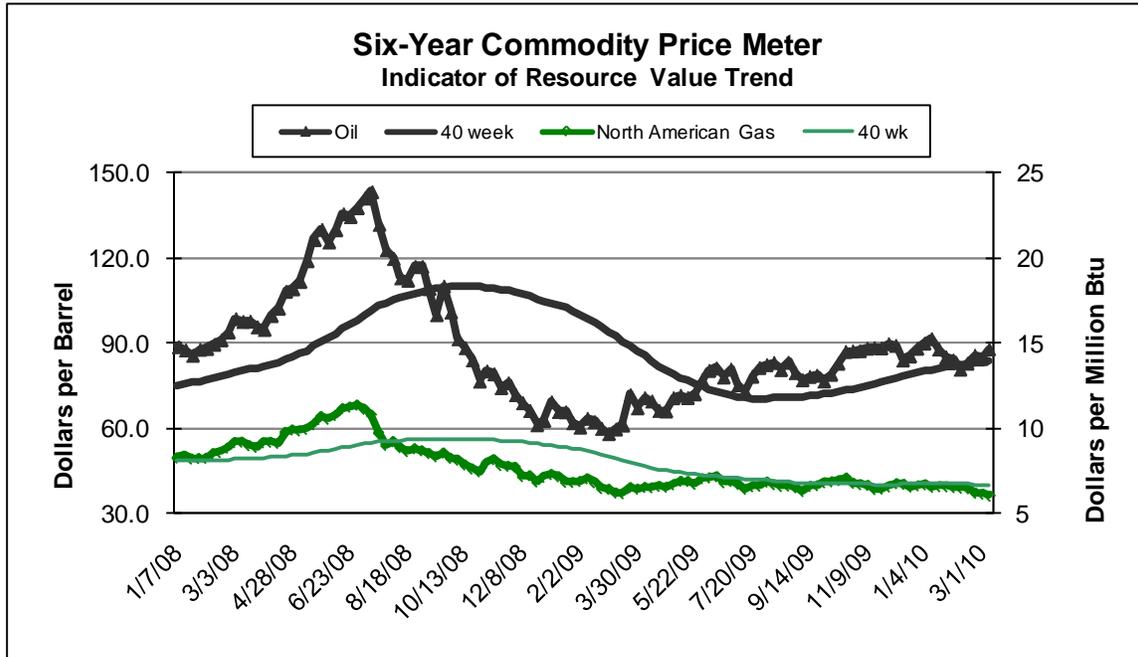
| Anadarko Petroleum Corporation   |          |             |                      |                      |     |      |  |
|----------------------------------|----------|-------------|----------------------|----------------------|-----|------|--|
| Oil and Gas Portfolio Values     |          |             |                      |                      |     |      |  |
|                                  | 2009     | Lower Risk  |                      |                      |     |      |  |
|                                  | Proven   | Development | Management Estimated | Management Estimated |     |      |  |
|                                  | Reserves | Resources   | Value (\$billion)    | Value (\$billion)    |     |      |  |
|                                  | (mmboe)  | (mmboe)     | Low                  | High                 | Low | High |  |
| U.S. Onshore                     | 1,725    | 4,000       | 17                   | 19                   |     |      |  |
| Major Shale Plays                |          |             | 6                    | 7                    |     |      |  |
| Exploration                      |          |             |                      |                      | 1   | 2    |  |
| Deep Gulf of Mexico              | 275      | 270         | 5                    | 7                    |     |      |  |
| Sanctioned Projects              |          |             | 1                    | 2                    |     |      |  |
| Emerging Projects                |          |             | 3                    | 6                    |     |      |  |
| Exploration                      |          |             |                      |                      | 6   | 10   |  |
| International                    | 300      | 100         | 4                    | 5                    |     |      |  |
| West Africa                      |          |             |                      |                      | 5   | 30   |  |
| Brazil                           |          |             |                      |                      | 2   | 4    |  |
| Midstream and Minerals           |          |             | 5                    | 6                    |     |      |  |
| Total Management Estimated Value |          |             | 41                   | 52                   | 14  | 46   |  |
| McDep NPV \$64 = \$46 billion PV |          |             |                      |                      |     |      |  |

Management estimates assume an oil price of \$75 a barrel and a natural gas price of \$6 a thousand cubic feet.  
 McDep estimates of value assume long-term price of \$75 a barrel and \$8 a million Btu (or thousand cubic feet).



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| Table 2                              |               |    |                    |                |                           |                         |                           |                |
|--------------------------------------|---------------|----|--------------------|----------------|---------------------------|-------------------------|---------------------------|----------------|
| McDep Energy Portfolio               |               |    |                    |                |                           |                         |                           |                |
| Net Present Value and McDep Ratio    |               |    |                    |                |                           |                         |                           |                |
|                                      |               |    | Price<br>(US\$/sh) |                |                           | Net<br>Present<br>Value | Debt/<br>Present<br>Value | McDep<br>Ratio |
|                                      | Symbol/Rating |    | 8-Mar<br>2010      | Shares<br>(mm) | Market<br>Cap<br>(US\$mm) | (US\$/sh)               |                           |                |
| B = Buy, CB (see below)              |               |    |                    |                |                           |                         |                           |                |
| <b>U.S. Integrated</b>               |               |    |                    |                |                           |                         |                           |                |
| Exxon Mobil Corporation              | XOM           | CB | 66.48              | 5,215          | 347,000                   | 89.00                   | 0.12                      | 0.78           |
| Chevron Corporation                  | CVX           | B  | 74.64              | 2,004          | 150,000                   | 110.00                  | 0.12                      | 0.72           |
| Marathon Oil Corporation             | MRO           | CB | 30.80              | 711            | 21,900                    | 53.00                   | 0.24                      | 0.68           |
| ConocoPhillips                       | COP           | B  | 50.73              | 1,501          | 76,000                    | 105.00                  | 0.25                      | 0.61           |
| <i>Total or Median</i>               |               |    |                    |                |                           | 595,000                 | 0.18                      | 0.70           |
| <b>Europe</b>                        |               |    |                    |                |                           |                         |                           |                |
| BG Group plc                         | BRGXF         | B  | 17.91              | 3,397          | 60,800                    | 22.00                   | 0.10                      | 0.83           |
| Royal Dutch Shell plc                | RDS-A         | B  | 57.15              | 3,064          | 175,000                   | 79.00                   | 0.21                      | 0.78           |
| BP plc                               | BP            | B  | 56.17              | 3,162          | 178,000                   | 80.00                   | 0.19                      | 0.76           |
| Statoil ASA (33%)                    | STO           | B  | 23.37              | 1,050          | 24,600                    | 35.00                   | 0.22                      | 0.74           |
| Total S.A.                           | TOT           | CB | 57.62              | 2,241          | 129,000                   | 90.00                   | 0.15                      | 0.69           |
| <i>Total or Median</i>               |               |    |                    |                |                           | 567,000                 | 0.19                      | 0.76           |
| <b>Australia/Brazil/China/Russia</b> |               |    |                    |                |                           |                         |                           |                |
| CNOOC Limited (34%)                  | CEO           | B  | 162.61             | 152            | 24,700                    | 135.00                  | 0.01                      | 1.20           |
| Woodside Petroleum Ltd.              | WOPEY         | B  | 41.20              | 763            | 31,400                    | 44.00                   | 0.14                      | 0.95           |
| Petrobras                            | PBR           | B  | 44.76              | 4,387          | 196,400                   | 58.00                   | 0.17                      | 0.81           |
| PetroChina Company Ltd (14%)         | PTR           | B  | 118.90             | 256            | 30,500                    | 150.00                  | 0.06                      | 0.81           |
| Gazprom (50%)                        | OGZPY         | B  | 24.10              | 2,955          | 71,200                    | 64.00                   | 0.10                      | 0.44           |
| Lukoil Oil Company                   | LUKOY         | B  | 54.55              | 847            | 46,200                    | 135.00                  | 0.05                      | 0.43           |
| <i>Total or Median</i>               |               |    |                    |                |                           | 400,000                 | 0.08                      | 0.81           |
| <b>U.S. Independent</b>              |               |    |                    |                |                           |                         |                           |                |
| Anadarko Petroleum Corp.             | APC           | B  | 71.14              | 494            | 35,100                    | 64.00                   | 0.32                      | 1.08           |
| EOG Resources                        | EOG           | B  | 97.37              | 251            | 24,500                    | 92.00                   | 0.12                      | 1.05           |
| XTO Energy Inc.                      | XTO           | B  | 46.86              | 580            | 27,200                    | 47.00                   | 0.28                      | 1.00           |
| Occidental Petroleum Corp.           | OXY           | B  | 81.49              | 814            | 66,300                    | 95.00                   | 0.06                      | 0.87           |
| Chesapeake Energy Corp.              | CHK           |    | 25.59              | 628            | 16,100                    | 34.00                   | 0.39                      | 0.85           |
| Devon Energy Corporation             | DVN           | B  | 69.69              | 450            | 31,400                    | 98.00                   | 0.16                      | 0.76           |
| <i>Total or Median</i>               |               |    |                    |                |                           | 200,600                 | 0.22                      | 0.93           |
| <b>Canada</b>                        |               |    |                    |                |                           |                         |                           |                |
| EnCana Corporation                   | ECA           | B  | 34.18              | 751            | 25,700                    | 35.00                   | 0.25                      | 0.98           |
| Enovus Energy Inc.                   | CVE           | B  | 25.79              | 751            | 19,400                    | 27.00                   | 0.25                      | 0.97           |
| Canadian Natural Resources           | CNQ           | B  | 72.21              | 542            | 39,100                    | 90.00                   | 0.19                      | 0.84           |
| Imperial Oil Limited (30%)           | IMO           | B  | 38.48              | 256            | 9,900                     | 48.00                   | 0.06                      | 0.81           |
| Canadian Oil Sands Trust             | COSWF         | B  | 27.40              | 484            | 13,300                    | 38.00                   | 0.07                      | 0.74           |
| Suncor Energy                        | SU            | CB | 31.14              | 1,562          | 48,600                    | 48.00                   | 0.20                      | 0.72           |
| <i>Total or Median</i>               |               |    |                    |                |                           | 156,000                 | 0.19                      | 0.83           |

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.



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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>8-Mar</i>     | <i>Prod</i>    | <i>Ebitda</i> | <i>Ebitda</i> | <i>P/E</i> | <i>NTM</i>     |
|   | B = Buy, CB (see below) |    | <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                     | CB | 66.48            | 12.1           | 8.3           | 6.4           | 12         | 2.5            |
| Marathon Oil Corporation  | MRO                     | CB | 30.80            | 8.8            | 7.3           | 5.0           | 10         | 3.1            |
| ConocoPhillips  | COP                     | B  | 50.73            | 14.2           | 8.1           | 4.9           | 9          | 3.9            |
| Chevron Corporation   | CVX                     | B  | 74.64            | 9.0            | 6.5           | 4.7           | 9          | 3.6            |
|   | <i>Total or Median</i>  |    |                  | <i>10.6</i>    | <i>7.7</i>    | <i>5.0</i>    | <i>10</i>  | <i>3.4</i>     |
| <b>Europe</b>   |                         |    |                  |                |               |               |            |                |
| BG Group plc  | BRGXF                   | B  | 17.91            | 8.3            | 8.9           | 7.4           | 14         | 1.0            |
| Royal Dutch Shell plc   | RDS-A                   | B  | 57.15            | 7.8            | 6.5           | 5.1           | 10         | 5.9            |
| BP plc  | BP                      | B  | 56.17            | 9.5            | 6.7           | 5.0           | 9          | 6.0            |
| Total S.A.  | TOT                     | CB | 57.62            | 9.3            | 7.1           | 4.9           | 9          | 5.4            |
| Statoil ASA (33%)   | STO                     | B  | 23.37            | 7.4            | 6.0           | 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>5.4</i>     |
| <b>Australia/Brazil/China/Russia</b>  |                         |    |                  |                |               |               |            |                |
| Woodside Petroleum Ltd.   | WOPEY                   | B  | 41.20            | 17.8           | 11.8          | 11.2          | 19         | 2.4            |
| Petrobras   | PBR                     | B  | 44.76            | 9.1            | 8.9           | 7.2           | 12         | 3.0            |
| CNOOC Limited (34%)   | CEO                     | B  | 162.61           | 6.5            | 5.5           | 6.6           | 12         | 3.2            |
| PetroChina Company Ltd (14%)  | PTR                     | B  | 118.90           | 13.9           | 7.5           | 6.0           | 15         | 3.4            |
| Gazprom (50%)   | OGZPY                   | B  | 24.10            | 24.6           | 8.4           | 3.7           | 5          | 0.2            |
| Lukoil Oil Company  | LUKOY                   | B  | 54.55            | 15.6           | 8.5           | 3.7           | 7          | 2.3            |
|   | <i>Total or Median</i>  |    |                  | <i>14.8</i>    | <i>8.5</i>    | <i>6.3</i>    | <i>12</i>  | <i>2.7</i>     |
| <b>U.S. Independent</b>   |                         |    |                  |                |               |               |            |                |
| XTO Energy Inc.   | XTO                     | B  | 46.86            | 11.3           | 10.7          | 10.7          | 19         | 1.1            |
| EOG Resources   | EOG                     | B  | 97.37            | 10.8           | 9.5           | 10.0          | 45         | 0.6            |
| Chesapeake Energy Corp.   | CHK                     |    | 25.59            | 11.8           | 11.4          | 9.7           | 20         | 1.2            |
| Anadarko Petroleum Corp.  | APC                     | B  | 71.14            | 9.2            | 7.6           | 8.1           | 88         | 0.5            |
| Occidental Petroleum Corp.  | OXY                     | B  | 81.49            | 10.9           | 7.5           | 6.5           | 14         | 1.6            |
| Devon Energy Corporation  | DVN                     | B  | 69.69            | 10.3           | 8.5           | 6.4           | 13         | 0.9            |
|   | <i>Total or Median</i>  |    |                  | <i>10.8</i>    | <i>9.0</i>    | <i>8.9</i>    | <i>20</i>  | <i>1.0</i>     |
| <b>Canada</b>   |                         |    |                  |                |               |               |            |                |
| EnCana Corporation  | ECA                     | B  | 34.18            | 9.1            | 9.9           | 9.8           | 87         | 2.3            |
| Canadian Oil Sands Trust  | COSWF                   | B  | 27.40            | 23.1           | 13.0          | 9.6           | 19         | 5.0            |
| Imperial Oil Limited (30%)  | IMO                     | B  | 38.48            | 20.1           | 11.5          | 9.3           | 18         | 1.0            |
| Canadian Natural Resources  | CNQ                     | B  | 72.21            | 15.9           | 11.0          | 9.3           | 15         | 0.8            |
| Cenovus Energy Inc.   | CVE                     | B  | 25.79            | 10.2           | 9.0           | 8.7           | 18         | 3.1            |
| Suncor Energy   | SU                      | CB | 31.14            | 14.3           | 10.1          | 7.2           | 21         | 1.3            |
|   | <i>Total or Median</i>  |    |                  | <i>15.1</i>    | <i>10.6</i>   | <i>9.3</i>    | <i>19</i>  | <i>1.8</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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