



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks
May 25, 2010

Large Caps Go Contrarian

Summary and Recommendation

Nineteen of twenty large cap buy recommendations now trade below the 200-day average stock price signaling a downtrend by that measure. At the same time, lower McDep Ratios suggest increased appreciation potential. In the face of a declining stock price trend, a buy recommendation on the basis of McDep Ratio becomes a Contrarian Buy. Only a month ago, just 4 of 25 large cap buy recommendations were designated contrarian. Persisting in the slide of the past three weeks, oil price measured by six-year futures at \$81 a barrel settled below the 40-week average of \$86 (see charts on page 2, [Six-Year Commodity Price Meter](#) and [Six-Year and One-Year Natural Gas and Oil Futures](#)). Since \$81 is still above \$75 that we use in estimating McDep Ratios we make no change in value estimates as a result.

We are optimistic that market fears may be relieved within a few months. We believe that a positive trend in global economic growth is likely despite sharp reversals in the currency markets. It looks to us like the euro currency essentially may be taking back the devaluation of the dollar that it tolerated in the past decade. That devaluation probably contributed to relatively better economic performance for the U.S. versus Europe and now Europe may see relatively better economic activity with a lower currency. Pegged to the U.S. currency, the Chinese renminbi did not tolerate dollar devaluation, much to the consternation of vocal political sentiment in the U.S. Thus, global growth may be redistributed some by currency shifts, but not reduced necessarily.

Among recent developments, Contrarian Buy-recommended **ExxonMobil (XOM)**'s acquisition of XTO Energy passed an important timeline on May 20 when XTO disclosed a June 25 date for a special shareholder's meeting. We expect the merger to be completed soon after a favorable vote and by XOM's target date of June 30. After that it seems likely that XOM would step up purchase of its own stock, which has slowed somewhat during the merger event.

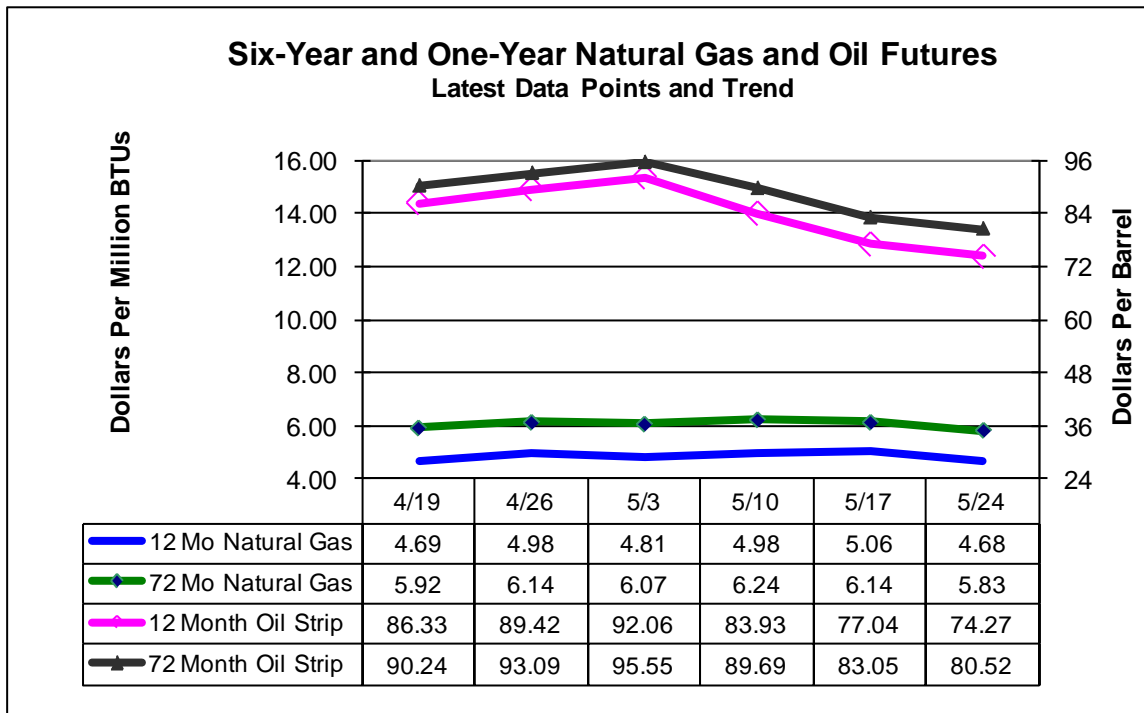
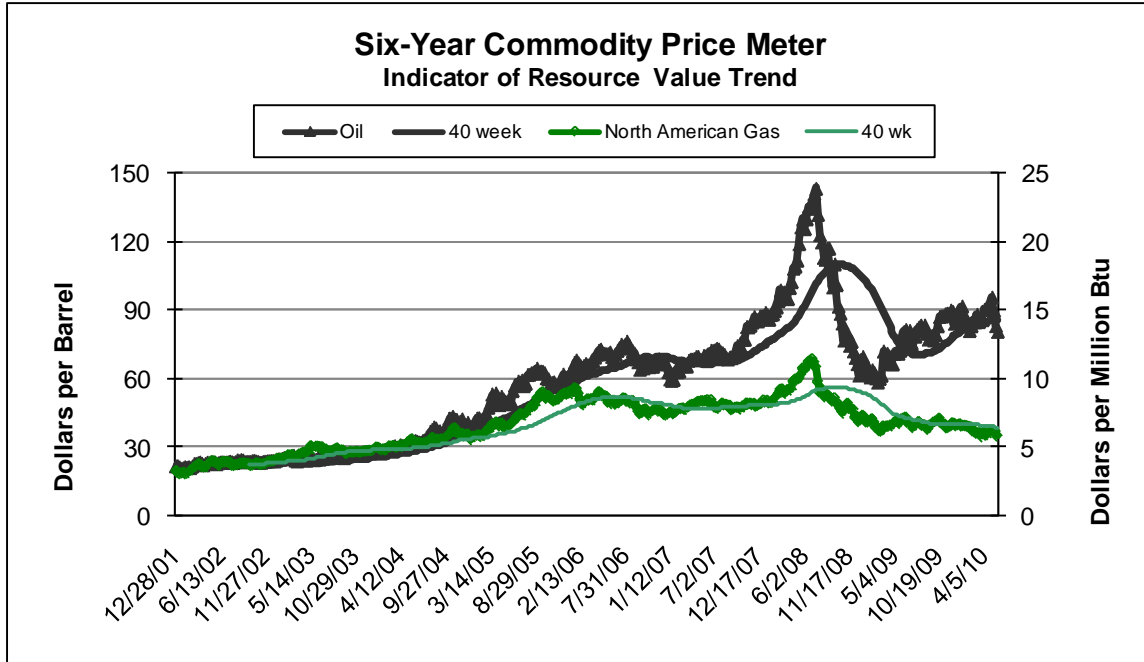
Investors who have patiently held **BP plc (BP)** stock during adverse publicity might get positive reinforcement in a few days if a "top kill" procedure succeeds in stopping the oil flow from a wild well in the Gulf of Mexico. Nor should investors be overly discouraged by stock price action the past few weeks. At the latest close, BP stock has a McDep Ratio of 0.58, a hair above Contrarian Buy-recommended **Total (TOT)** at 0.57, the lowest in our European group (see Tables 1-3, pages 3-5). Though that is down from 0.66 three weeks ago when both BP and TOT were at the same McDep Ratio, there has been no further relative depreciation in BP stock.

Kurt H. Wulff, CFA



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Table 2								
McDep Energy Portfolio								
Net Present Value and McDep Ratio								
			Price (US\$/sh)		Market Cap (US\$mm)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
	Symbol/Rating		24-May 2010	Shares (mm)				
	B = Buy, CB (see below)							
U.S. Integrated								
Exxon Mobil Corporation	XOM	CB	60.19	5,215	314,000	89.00	0.12	0.71
Chevron Corporation	CVX	CB	73.44	2,004	147,000	110.00	0.11	0.71
Marathon Oil Corporation	MRO	CB	31.60	711	22,470	53.00	0.23	0.69
ConocoPhillips	COP	CB	50.11	1,504	75,000	95.00	0.27	0.65
	<i>Total or Median</i>				558,000		0.18	0.70
Europe								
Royal Dutch Shell plc	RDS-A	CB	51.09	3,066	157,000	79.00	0.21	0.72
BG Group plc	BRGXF		14.24	3,400	48,400	22.00	0.11	0.69
Statoil ASA (33%)	STO	CB	19.22	1,050	20,200	35.00	0.21	0.64
BP plc	BP		41.86	3,167	133,000	85.00	0.18	0.58
Total S.A.	TOT	CB	45.13	2,243	101,000	90.00	0.13	0.57
	<i>Total or Median</i>				460,000		0.18	0.64
Australia/Brazil/China/Russia								
CNOOC Limited (34%)	CEO		156.83	152	23,900	145.00	0.03	1.08
Woodside Petroleum Ltd.	WOPEY	CB	35.69	794	27,400	44.00	0.13	0.81
PetroChina Company Ltd (14%)	PTR	CB	104.13	256	26,700	150.00	0.15	0.74
Petrobras	PBR		33.14	4,387	145,400	58.00	0.20	0.66
Lukoil Oil Company	LUKOY	CB	47.30	847	40,100	135.00	0.05	0.39
Gazprom (50%)	OGZPY	CB	19.30	2,915	56,300	64.00	0.10	0.37
	<i>Total or Median</i>				320,000		0.11	0.70
U.S. Independent								
Southwestern Energy Company	SWN		35.89	349	12,500	32.00	0.10	1.11
EOG Resources	EOG	B	97.36	251	24,400	92.00	0.13	1.05
Anadarko Petroleum Corp.	APC		53.19	496	26,400	64.00	0.31	0.88
Occidental Petroleum Corp.	OXY	CB	77.90	814	63,400	95.00	0.06	0.83
Chesapeake Energy Corp.	CHK		20.75	647	13,400	34.00	0.38	0.76
Devon Energy Corporation	DVN	CB	60.99	448	27,300	98.00	0.03	0.63
	<i>Total or Median</i>				167,400		0.11	0.86
Canada								
Cenovus Energy Inc.	CVE	CB	25.00	752	18,800	32.00	0.22	0.83
Imperial Oil Limited (30%)	IMO	CB	36.93	256	9,500	48.00	0.08	0.79
EnCana Corporation	ECA	CB	29.49	749	22,100	42.00	0.22	0.77
Canadian Natural Resources	CNQ	CB	63.60	543	34,500	90.00	0.18	0.76
Canadian Oil Sands Trust	COSWF	CB	25.12	484	12,200	38.00	0.07	0.68
Suncor Energy	SU	CB	28.90	1,573	45,500	48.00	0.19	0.68
	<i>Total or Median</i>				143,000		0.18	0.76

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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			<i>Price</i> <i>(US\$/sh)</i>	<i>Adjustd</i> <i>Resrvs/</i>	<i>PV/</i>	<i>EV/</i>		<i>Divd or</i> <i>Distrib</i>
	<i>Symbol/Rating</i>		<i>24-May</i>	<i>Prod</i>	<i>Ebitda</i>	<i>Ebitda</i>	<i>P/E</i>	<i>NTM</i>
	<i>B = Buy, CB (see below)</i>		<i>2010</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>(%)</i>
U.S. Integrated								
Exxon Mobil Corporation	XOM	CB	60.19	13.5	9.2	6.6	12	2.8
Marathon Oil Corporation	MRO	CB	31.60	9.4	8.1	5.6	13	3.2
ConocoPhillips	COP	CB	50.11	10.4	7.8	5.1	9	4.4
Chevron Corporation	CVX	CB	73.44	9.1	7.0	5.0	10	3.7
<i>Total or Median</i>				9.9	8.0	5.4	11	3.4
Europe								
BG Group plc	BRGXF		14.24	8.3	9.4	6.5	12	0.9
Royal Dutch Shell plc	RDS-A	CB	51.09	8.7	6.9	5.0	8	6.6
Total S.A.	TOT	CB	45.13	9.6	7.7	4.4	8	6.2
BP plc	BP		41.86	9.7	7.2	4.2	6	8.0
Statoil ASA (33%)	STO	CB	19.22	6.4	6.2	4.0	8	4.8
<i>Total or Median</i>				8.7	7.2	4.4	8	6.2
Australia/Brazil/China/Russia								
Woodside Petroleum Ltd.	WOPEY	CB	35.69	17.8	14.0	11.3	20	2.6
Petrobras	PBR		33.14	9.3	9.7	6.3	10	4.0
PetroChina Company Ltd (14%)	PTR	CB	104.13	13.8	8.5	6.3	14	3.8
CNOOC Limited (34%)	CEO		156.83	6.8	5.4	5.9	11	3.3
Gazprom (50%)	OGZPY	CB	19.30	30.2	10.2	3.8	5	0.2
Lukoil Oil Company	LUKOY	CB	47.30	15.8	9.2	3.6	7	3.4
<i>Total or Median</i>				14.8	9.5	6.1	10	3.3
U.S. Independent								
Southwestern Energy Company	SWN		35.89	6.8	9.9	11.0	23	-
Chesapeake Energy Corp.	CHK		20.75	12.0	12.7	9.6	15	1.4
EOG Resources	EOG	B	97.36	9.8	9.1	9.6	44	0.6
Occidental Petroleum Corp.	OXY	CB	77.90	10.5	8.1	6.7	16	1.8
Anadarko Petroleum Corp.	APC		53.19	8.4	7.3	6.5		0.7
Devon Energy Corporation	DVN	CB	60.99	10.0	8.8	5.6	13	1.0
<i>Total or Median</i>				9.9	9.0	8.2	16	0.9
Canada								
Imperial Oil Limited (30%)	IMO	CB	36.93	20.3	12.3	9.7	19	1.0
Canadian Oil Sands Trust	COSWF	CB	25.12	31.4	13.9	9.5	16	7.5
Canadian Natural Resources	CNQ	CB	63.60	15.8	12.5	9.5	14	0.9
EnCana Corporation	ECA	CB	29.49	7.7	11.8	9.1	27	2.7
Suncor Energy	SU	CB	28.90	16.9	12.1	8.2	20	1.3
Cenovus Energy Inc.	CVE	CB	25.00	10.9	9.8	8.1	17	3.0
<i>Total or Median</i>				16.3	12.2	9.3	18	2.0

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 March 31, 2011; P/E = Stock Price to

Earnings; PV = Present Value of oil and gas and other businesses

Please see disclosures on the final page.



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Index of Recent Research			
Stock Ideas			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
18-May	RDSA, STO, TOT		European Oil for Contrarians (Meter Reader)
13-May	BIREF	Birchcliff Energy Ltd.	New Buy for Small Cap Natural Gas Growth
11-May	XOM, CVX, COP, MRO		U.S. Integrated Oil in New Trend (Meter Reader)
10-May	XEC	Cimarex Energy Company	Raise NPV Again on More Production
5-May	DVN	Devon Energy Corporation	Stock Repurchase Compelling
4-May	BP	BP p.l.c.	Oil Spill and BP Stock Spill (Meter Reader)
30-Apr	WLL	Whiting Petroleum Corporation	Raise NPV to \$95 a Share on Onshore Oil Drilling (ISCW)
30-Apr	PBR, BG, APC and BP		Remove Buys - Accident May Delay Deep Water Oil
30-Apr	COSWF	Canadian Oil Sands Trust	Distribution Raised 43% to C\$0.50 a Quarter
27-Apr	* BP	BP p.l.c.	Raise Net Present Value to \$85 a Share from \$80
23-Apr	* LGCY, LINE	Legacy Reserves L.P., Linn Energy	Oily Cash Payers - Add Legacy, Raise Linn NPV (ISCW)
21-Apr	* ECA	EnCana Corporation	New Natural Gas Company Performs Well
20-Apr	* SWN	Southwestern Energy	Shale Gas Slowdown (Meter Reader)
16-Apr	* ERF	Enerplus Resources Fund	Attractive for 9% Distribution Yield (ISCW)
13-Apr	* COP, COSWF	ConocoPhillips, Canadian Oil Sands Trust	Syncrude Priced at a McDep Ratio of 0.96 (Meter Reader)
9-Apr	* UPL, RRC, and HK		Add Ultra, Range, Petrohawk to Coverage (ISCW)
2-Apr	* SJT	San Juan Basin Royalty Trust	Low Cost Natural Gas (Income and Small Cap Weekly)
31-Mar	* CEO	CNOOC Ltd	Raise NPV to \$145 from \$135 a Share on Reserves
31-Mar	* LUKOY	Lukoil Oil Company	Shares Available
26-Mar	* PEYUF	Peyto Energy Trust	Raise NPV to US\$15 from \$13 (ISC Weekly)
26-Mar	* PTR	PetroChina Company Limited	Gas Growth - Natural Gas and Gasoline
22-Mar	* HGT	Hugoton Royalty Trust	Monthly Volume Distortion
5-Mar	* CNQ	Canadian Natural Resources	Raise NPV to US\$90 a Share from \$80
26-Feb	* DMLP	Dorchester Minerals, L.P.	Replaces Reserves and Pays 8% Income (ISCW)
25-Feb	* WOPEY	Woodside Petroleum	Financing in Place for 2010
15-Feb	* CVE	Cenovus Energy Inc.	Quadruple Bitumen by 2017
15-Feb	* EOG	EOG Resources Inc.	Proven Reserves Increase 24%
5-Feb	* BRGXF	BG Group	Natural Gas Growth in Australia
3-Feb	* IMO	Imperial Oil Limited	Horn River Shale Gas Explorer
Meter Reader			
25-May		Weekly	
18-May	RDSA, STO, TOT		European Oil for Contrarians
11-May	XOM, CVX, COP, MRO		U.S. Integrated Oil in New Trend
4-May	* BP	BP plc	Oil Spill and BP Stock Spill
Income and Small Cap Weekly			
21-May	COSWF, PWE, ERF, PGH and PEYUF		Canadian Income Trusts for Value and Distributions
14-May		Weekly	Euroworries and the Appeal of Income and Small Cap
7-May	ENP	Encore Energy Partners	Mini-Panic and Encore Energy Partners
30-Apr	* WLL	Whiting Petroleum Corporation	Raise NPV to \$95 a Share on Onshore Oil Drilling
Industry Ideas			
30-Apr	* PBR, BG, APC and BP		Remove Buys - Accident May Delay Deep Water Oil
			* Archived on www.mcdep.com



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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.