

## Abundant Value

### Summary and Recommendation

Buy recommendations at a median McDep Ratio of 0.72 imply a rate of return on investment of 7% a year after inflation at a long-term oil price of \$54 a barrel. The latest price for oil to be delivered over the next six years is \$82 a barrel. Attractive investments range from **ExxonMobil (XOM)** to **Canadian Oil Sands Trust (COSWF)**, to name the largest and the smallest of the stocks in *Meter Reader*. Corporate acquirers are acting on the opportunities. XOM expects to boost share purchase to \$3 billion (1% of market cap) in the third quarter now that the restrictions in connection with the XTO merger have expired. Securing the approval of the Canadian government, China Petrochemical Company apparently completed its purchase of a \$4.65 billion interest in Syncrude, which implies a value of COSWF near \$38 a share, 40% above current stock price. Whole company targets, XTO-size or smaller, may include buy recommendations **Devon Energy (DVN)**, **Cenovus (CVE)**, **Encana (ECA)** and **EOG Resources (EOG)**. Attracting attention because of its low stock price and declared willingness to sell \$10 billion of assets to cover liabilities from the Gulf of Mexico blowout, **BP plc (BP)** stock has closed the valuation gap that opened compared to Contrarian Buy **Total (TOT)** (see [Tables 1-3](#) on pages 2-4). BP stock may gain further should operations succeed in stopping all the well flow within a few days.

### Adjust NPV for Anadarko Refusal to Pay BP

Keeping our nominal value of the liabilities associated with the Gulf accident at \$50 billion, we reallocate costs to the responsible parties. Charging that BP acted improperly in conducting drilling operations, **Anadarko Petroleum (APC)** refused to meet a 25% share of expenses in line with its ownership of the well. We presume that a settlement ultimately will be reached at 12.5%. As a result, we reduce estimated Net Present Value of BP to \$72 a share from \$75 and increase NPV of APC to \$54 a share from \$44 (see tables [Functional Cash Flow and Present Value](#) on page 6).

### Oil and Gas Price Comparisons Up for the Second Quarter

The near-term trend may be downward for oil price where the latest settlement of six-year futures at \$82 a barrel compares to the 40-week average of \$87 (see charts on page 6, [Six-Year Commodity Price Meter](#) and [Six-Year and One-Year Natural Gas and Oil Futures](#)). Six-year natural gas may have leveled near \$6 a million btu. Yet the current quote of \$5.86 remains below the 40-week average of \$6.31. While we wait for oil and gas price uptrend to resume, comparisons for earnings to be reported in the next few weeks are favorable versus a year ago (see chart [Oil and Gas Quarterly Price Marker Change](#) on page 8). Benchmarks were up in the second quarter by 31% for Light Sweet Crude, 28% for the NY Harbor Refining Margin and 17% for Louisiana natural gas.

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Table 2								
McDep Large Cap Energy Portfolio								
Net Present Value and McDep Ratio								
			Price			Net		
	Symbol/Rating		(US\$/sh)	Shares	Market	Present	Debt/	
	B = Buy, CB (see below)		12-Jul	(mm)	Cap	Value	Present	McDep
			2010		(US\$mm)	(US\$/sh)	Value	Ratio
<b>U.S. Integrated</b>								
Exxon Mobil Corporation	XOM	B	58.94	5,215	307,000	89.00	0.12	0.70
Marathon Oil Corporation	MRO	B	32.10	711	22,820	53.00	0.23	0.70
Chevron Corporation	CVX	CB	71.85	2,004	144,000	110.00	0.11	0.69
ConocoPhillips	COP	CB	52.10	1,504	78,000	95.00	0.27	0.67
	<i>Total or Median</i>				552,000		0.18	0.70
<b>Europe</b>								
BG Group plc	BRGXF		16.40	3,400	55,800	22.00	0.11	0.77
Royal Dutch Shell plc	RDS-A	CB	53.51	3,066	164,000	79.00	0.21	0.74
Statoil ASA (33%)	STO	CB	20.52	1,050	21,600	35.00	0.21	0.67
BP plc	BP		36.76	3,167	116,000	72.00	0.20	0.61
Total S.A.	TOT	CB	48.57	2,243	109,000	90.00	0.14	0.60
	<i>Total or Median</i>				466,000		0.20	0.67
<b>Australia/Brazil/China/Russia</b>								
CNOOC Limited (34%)	CEO		167.32	152	25,500	145.00	0.03	1.15
Woodside Petroleum Ltd.	WOPEY	CB	37.37	794	29,400	44.00	0.13	0.86
PetroChina Company Ltd (14%)	PTR	CB	113.11	256	29,000	150.00	0.15	0.79
Petrobras	PBR		35.75	4,387	156,800	58.00	0.20	0.69
Lukoil Oil Company	LUKOY	CB	52.85	847	44,800	135.00	0.05	0.42
Gazprom (50%)	OGZPY	CB	20.20	2,915	58,900	64.00	0.10	0.39
	<i>Total or Median</i>				344,000		0.12	0.74
<b>U.S. Independent</b>								
Southwestern Energy Company	SWN		38.37	349	13,400	35.00	0.09	1.09
Anadarko Petroleum Corp.	APC		46.75	496	23,200	54.00	0.35	0.91
EOG Resources	EOG	B	105.54	250	26,400	120.00	0.10	0.89
Occidental Petroleum Corp.	OXY	B	80.91	814	65,800	95.00	0.06	0.86
Chesapeake Energy Corp.	CHK		21.26	647	13,800	31.00	0.40	0.81
Devon Energy Corporation	DVN	CB	63.50	448	28,400	98.00	0.03	0.66
	<i>Total or Median</i>				171,000		0.10	0.88
<b>Canada</b>								
EnCana Corporation	ECA	CB	33.14	749	24,800	42.00	0.22	0.83
Canadian Natural Resources	CNQ	B	35.37	1,086	38,400	45.00	0.18	0.82
Cenovus Energy Inc.	CVE	B	28.44	752	21,400	37.00	0.20	0.81
Imperial Oil Limited (30%)	IMO	CB	37.81	256	9,700	48.00	0.08	0.81
Suncor Energy	SU	CB	31.84	1,572	50,100	48.00	0.19	0.73
Canadian Oil Sands Trust	COSWF	CB	26.18	484	12,700	38.00	0.07	0.71
	<i>Total or Median</i>				157,000		0.19	0.81
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>12-Jul</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	B	58.94	13.5	8.9	6.2	11	2.9
Marathon Oil Corporation	MRO	B	32.10	9.1	7.7	5.4	12	2.3
ConocoPhillips	COP	CB	52.10	10.5	7.6	5.1	9	3.2
Chevron Corporation	CVX	CB	71.85	9.1	6.8	4.7	9	3.8
	<i>Total or Median</i>			9.8	7.7	5.2	10	3.0
<b>Europe</b>								
BG Group plc	BRGXF		16.40	13.4	9.0	7.0	13	0.8
Royal Dutch Shell plc	RDS-A	CB	53.51	8.7	6.7	4.9	9	6.3
Total S.A.	TOT	CB	48.57	9.6	7.5	4.5	8	5.9
Statoil ASA (33%)	STO	CB	20.52	6.4	6.0	4.0	8	4.6
BP plc	BP		36.76	9.7	6.1	3.7	5	9.1
	<i>Total or Median</i>			9.6	6.7	4.5	8	5.9
<b>Australia/Brazil/China/Russia</b>								
Woodside Petroleum Ltd.	WOPEY	CB	37.37	17.8	13.2	11.4	20	2.6
PetroChina Company Ltd (14%)	PTR	CB	113.11	13.8	8.3	6.5	15	3.6
Petrobras	PBR		35.75	9.1	9.2	6.4	10	3.8
CNOOC Limited (34%)	CEO		167.32	6.8	5.2	6.0	11	3.1
Gazprom (50%)	OGZPY	CB	20.20	30.2	9.8	3.8	5	0.2
Lukoil Oil Company	LUKOY	CB	52.85	15.7	8.2	3.5	7	3.2
	<i>Total or Median</i>			14.7	8.7	6.2	11	3.1
<b>U.S. Independent</b>								
Southwestern Energy Company	SWN		38.37	6.5	9.0	9.8	20	-
EOG Resources	EOG	B	105.54	9.7	10.6	9.4	37	0.6
Chesapeake Energy Corp.	CHK		21.26	12.0	11.1	9.0	13	1.4
Occidental Petroleum Corp.	OXY	B	80.91	10.5	7.8	6.7	15	1.3
Anadarko Petroleum Corp.	APC		46.75	8.4	6.2	5.6		0.8
Devon Energy Corporation	DVN	CB	63.50	10.0	8.2	5.4	12	1.0
	<i>Total or Median</i>			9.8	8.6	7.8	15	0.9
<b>Canada</b>								
Canadian Natural Resources	CNQ	B	35.37	20.2	11.9	9.8	37	0.8
Imperial Oil Limited (30%)	IMO	CB	37.81	20.2	11.8	9.5	18	1.0
Canadian Oil Sands Trust	COSWF	CB	26.18	31.0	13.0	9.2	16	7.4
EnCana Corporation	ECA	CB	33.14	17.0	10.9	9.1	26	2.4
Cenovus Energy Inc.	CVE	B	28.44	19.5	10.6	8.6	19	2.7
Suncor Energy	SU	CB	31.84	25.3	11.7	8.5	21	1.2
	<i>Total or Median</i>			20.2	11.7	9.2	20	1.8
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 June 30, 2011; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



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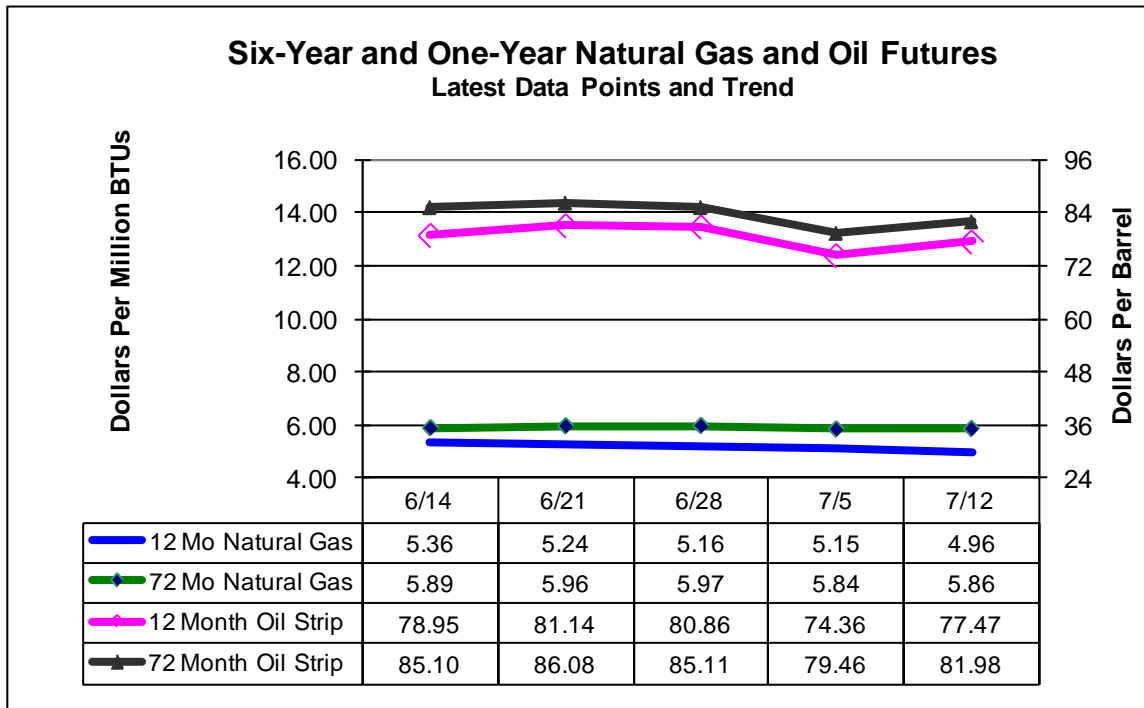
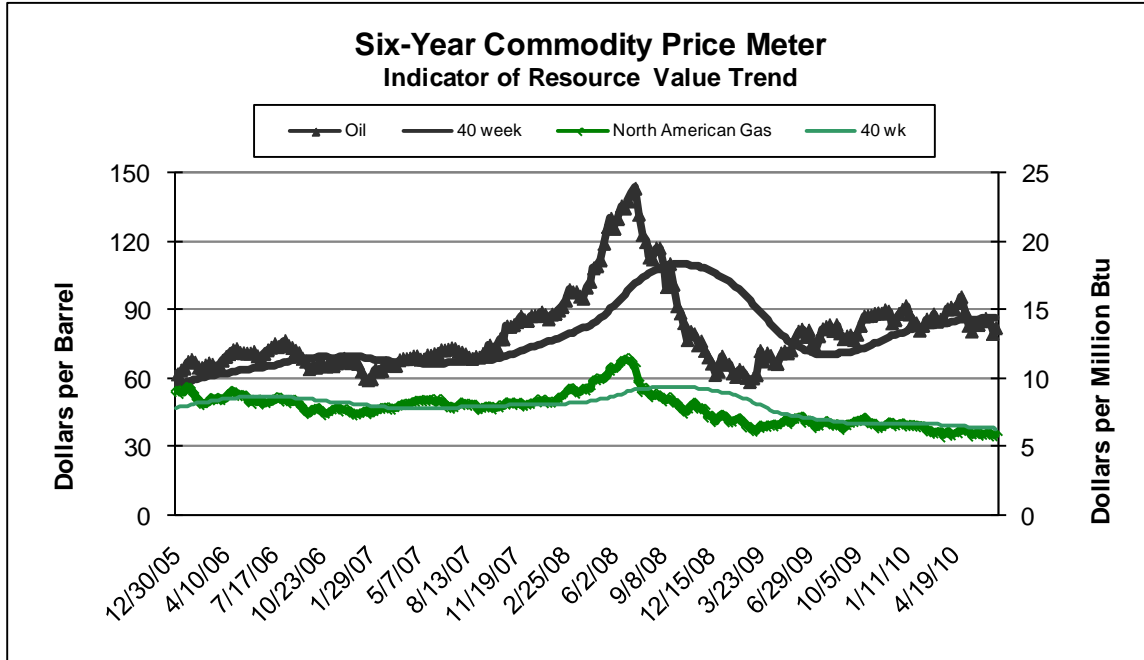
<b>BP plc</b>					
<b>Functional Cash Flow and Present Value</b>					
				<i>Present</i>	
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Value</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>(US\$mm)</i>	
North American Natural Gas	1,380	15.3	13.8	19,000	6%
Rest of World Natural Gas	4,370	9.5	8.7	38,000	12%
Oil	32,030	8.9	6.2	200,000	61%
Downstream	9,300		7.5	70,000	21%
Oil Spill Liability				(41,000)	-13%
	47,080	9.7	6.1	286,000	87%
Debt (US\$mm)					58,300
Net Present Value (US\$mm)					228,000
Shares (mm)					3,167
Net Present Value - Standard Estimate (US\$/sh)					72
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					78

<b>Anadarko Petroleum Corporation</b>					
<b>Functional Cash Flow and Present Value</b>					
				<i>Present</i>	
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Value</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>(US\$mm)</i>	
North American Natural Gas	2,280	8.4	9.2	21,000	45%
Oil	4,120	8.5	5.8	24,100	51%
Downstream and Minerals	240		8.3	2,000	4%
Oil Spill Liability				(6,000)	-13%
	6,640	8.4	6.2	41,100	87%
Debt (US\$mm)					14,300
Net Present Value (US\$mm)					26,800
Shares (mm)					496
Net Present Value - Standard Estimate (US\$/sh)					54
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					64



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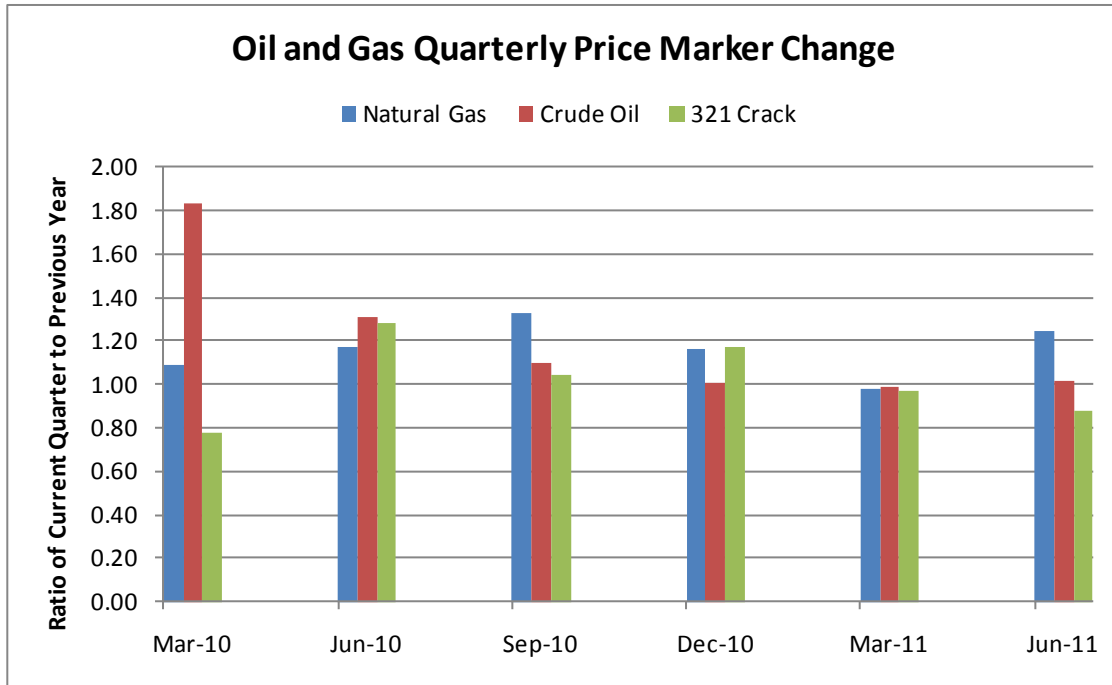
<b>Index of Recent Research</b>			
<b>Stock Ideas</b>			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
9-Jul	HK	Petrohawk	Early in Haynseville (Income and Small Cap Weekly)
7-Jul	EOG	EOG Resources	Raise NPV to \$120 from \$92 a Share (Meter Reader)
1-Jul	RRC	Range Resources	First in Marcellus (Income and Small Cap Weekly)
29-Jun	WOPEY, PTR, LUKOY, OGZPY, PBR, CNOOC		Value in Developing Country Growth (Meter Reader)
25-Jun	DNR	Denbury Resources	Small Cap Oil Growth (Income and Small Cap Weekly)
22-Jun	* CVE	Cenovus Energy	Quintuple in Deep Oil Sands (Meter Reader)
18-Jun	* BIREF, FRHLF, PWE, COSWF		Montney Buzz from Calgary (Income and Small Cap Weekly)
15-Jun	* XOM, COP, OXY, CVE, BP, APC		Onshore On, Offshore Off (Meter Reader)
11-Jun	* HGT, SJT, MTR, LGCY, LINE, ENP		Bright Outlook for Pure Play Oil and Gas (ISCW)
8-Jun	* OXY, DVN, EOG, SWN, CHK, APC		U.S. Independent Producers Unlocking Resources (MReader)
4-Jun	* DMLP, FRHLF, CRT, PBT, SBR		Top Line Cash - Pure Plays in Reawakening Oil and Gas (ISC)
3-Jun	* LUKOY	Lukoil Oil Company	Underrated Oil Performer
1-Jun	* ECA, COSWF, CNQ, CVE, IMO, SU		Long-Life Resources in Canada (Meter Reader)
28-May	* XEC, BIREF, WLL, BRY, RRC, HK, UPL		Shell Shale Gas Deal Boosts Independent Producers (ISCW)
25-May	* XOM, BP, TOT		Large Caps Go Contrarian (Meter Reader)
21-May	* COSWF, PWE, ERF, PGH, PEYUF		Canadian Income Trusts for Value and Distributions (ISCW)
20-May	* CEO	CNOOC Ltd	Remove Buy on Valuation and Trend
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
<b>Meter Reader</b>			
13-Jul		Weekly	
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<b>Income and Small Cap Weekly</b>			
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<b>Industry Ideas</b>			
30-Apr	* PBR, BG, APC and BP		Remove Buys - Accident May Delay Deep Water Oil
	* Archived on <a href="http://www.mcdep.com">www.mcdep.com</a>		



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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.