



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

August 17, 2010

Six Canadian Contrarian Buys Raise NPV for ECA and CNQ on Probable Reserves

Summary and Recommendation

In uncertain times, investors can take comfort owning oil and gas resources through stocks in politically stable Canada. **Canadian Natural Resources (CNQ), Canadian Oil Sands Trust (COSWF), Cenovus Energy (CVE), Encana (ECA), Imperial Oil (IMO) and Suncor Energy (SU)** are in solid buy range at McDep Ratios of 0.65-0.80 (see Tables 1-3 on pages 2-4). Nor is there much competition to acquire choice investments since current stock prices below 200-day averages suggest that only a contrarian would be interested. At the same time, the resource outlook is improving as the companies further develop bitumen from oil sands and both oil and natural gas from horizontal multistage formation fracturing. Accordingly, in 2010 we have modified our adjusted reserve life index for Canadian companies to recognize reported volumes of probable reserves in addition to proven reserves of oil and gas. Counting three-tenths of probable quantities, down from an initial five-tenths, and updating cash flow estimates, we raise Net Present Value (NPV) for ECA to US\$50 a share from \$42 and for CNQ to US\$50 a share from \$45. Cash flow forecasts and present value estimates for each of six companies take account of latest quarterly disclosures and daily commodity price settlements (see tables Functional Cash Flow and Present Value on pages 5-6). Those estimates are sensitive to cash flow (Ebitda) margin estimated for the next four quarters (see chart Ebitda Margin on page 7).

Canada Enhances North American Energy Security

With trouble brewing in Iran as it did three decades ago, the greater availability of oil and gas from Canada is a welcome improvement in security. A completely new industry producing refined fuel from oil sands has sprung up and is growing rapidly to displace long distance imports. Thirty years ago, Canada restricted exports of natural gas. Now there is more capacity to ship the cleaner fuel than is being used during the current economic soft patch.

There are also environmental advantages in Canadian energy. Coal accounts for less energy production in Canada relatively speaking than in the leading global economies and leading global polluters, the U.S. and China. The surface area (footprint) of an oil sands plant is comparatively small compared to that required for solar or wind power for an equivalent amount of reliable energy delivered.

Finally, the most recent uptrend in oil price was short-lived (see charts Six-Year Commodity Price Meter on page 7 and Six-Year and One-Year Natural Gas and Oil Futures on page 9). We look for positive trends in 2011 and 2012, perhaps beginning after the U.S. election in November. With that in mind, we believe the timing is good for patient investors to make new commitments.

Kurt H. Wulff, CFA



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Table 1											
McDep Large Cap Energy Portfolio											
Geographic Domicile and Business Segments											
						Present Value by Segment (%)					
			Price	EV/	Enterprise	North		Rest			
			(US\$/sh)	Market	Value	Amer.	of World				
			9-Aug	Cap	(\$mm)	Natural	Natural	Oil	Down-	McDep	
Symbol/Rating			2010			Gas	Gas	Prod'n	stream	Ratio	
B = Buy, CB (see below)											
U.S. Integrated											
Exxon Mobil Corporation	XOM	CB	62.45	1.20	385,000	10	19	54	17	0.74	
Marathon Oil Corporation	MRO	B	34.48	1.45	35,700	7	2	64	27	0.73	
Chevron Corporation	CVX	B	79.29	1.16	185,000	4	11	72	13	0.72	
ConocoPhillips	COP	B	57.31	1.54	123,000	16	10	59	16	0.70	
<i>Total or Median *</i>			30%	8%	16%					0.72	
Europe											
Royal Dutch Shell plc	RDS-A	B	58.17	1.35	240,000	3	24	48	26	0.79	
BG Group	BRGXF		16.26	1.18	65,100		29	39	32	0.77	
Statoil ASA (33%)	STO	CB	21.46	1.55	35,000		40	60	-	0.71	
BP plc	BP		40.86	1.67	216,000	6	10	63	22	0.69	
Total S.A.	TOT	CB	53.93	1.31	158,000		19	59	22	0.66	
<i>Total or Median *</i>			29%	10%	12%					0.71	
Australia/Brazil/China/Russia											
CNOOC Limited (34%)	CEO		172.93	1.02	26,900		12	88	-	1.19	
Woodside Petroleum Ltd.	WOPEY	CB	38.80	1.18	35,000		72	28	-	0.90	
PetroChina Company Ltd (14%)	PTR	CB	116.55	1.23	36,700		14	72	14	0.81	
Petrobras	PBR		38.10	1.37	229,000		4	77	20	0.72	
Lukoil Oil Company	LUKOY	B	57.35	1.12	54,200			68	32	0.45	
Gazprom (50%)	OGZPY	CB	22.67	1.33	88,000		77	23	-	0.42	
<i>Total or Median *</i>			19%	12%	16%					0.77	
U.S. Independent											
Southwestern Energy Compar	SWN		37.62	1.09	14,300	100			-	1.07	
Anadarko Petroleum Corp.	APC		56.35	1.74	48,500	44		52	4	0.96	
EOG Resources	EOG	B	99.94	1.17	29,200	53	4	43	-	0.85	
Occidental Petroleum Corp.	OXY	CB	76.95	1.07	67,200	10	1	82	7	0.82	
Chesapeake Energy Corp.	CHK		22.01	1.91	26,700	89		11	-	0.82	
Devon Energy Corporation	DVN	CB	65.23	1.14	33,100	61		39	-	0.69	
<i>Total or Median *</i>			9%	12%	12%					0.84	
Canada											
Imperial Oil Limited (30%)	IMO	B	39.04	1.11	11,100	4		82	15	0.83	
Canadian Natural Resources	CNQ	B	35.88	1.28	50,000	17		83	-	0.83	
Cenovus Energy Inc.	CVE	B	27.93	1.33	28,000	18		76	6	0.80	
EnCana Corporation	ECA	CB	30.91	1.38	31,500	94		6	-	0.79	
Suncor Energy	SU	B	33.39	1.33	69,900	4		85	11	0.75	
Canadian Oil Sands Trust	COSWF	CB	26.51	1.11	14,200			100	-	0.72	
<i>Total or Median *</i>			8%	12%	24%					0.80	
Income and Small Cap (see separate weekly analysis)											
			4%	46%	20%			49		0.97	
Composite											
<i>Enterprise Value Weighting</i>			100%			2,427,000	12	15	58	15	0.74
<i>Equal Weighting</i>				100%			36	7	52	6	0.88
<i>Equal Weighted Buys</i>					100%		12	12	52	8	0.74
CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average.											
* Percentages in Symbol column refer to current market Enterprise Value weightings; Rating column, equal weightings.											
* Percentages in Price column refer to equal weighted buys.											



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						Present Value by Segment (%)				
			Price (US\$/sh)	EV/ Market Cap	Enterprise Value (\$mm)	North Amer. Natural Gas	Rest of World Natural Gas	Oil Prod'n	Down- stream	McDep Ratio
Symbol/Rating B = Buy, CB (see below)			16-Aug 2010							
U.S. Integrated										
Exxon Mobil Corporation	XOM	CB	59.88	1.21	372,000	10	19	54	17	0.71
Chevron Corporation	CVX	B	77.71	1.17	182,000	4	11	72	13	0.70
Marathon Oil Corporation	MRO	B	32.53	1.48	34,300	7	2	64	27	0.70
ConocoPhillips	COP	B	54.93	1.56	120,000	16	10	59	16	0.68
<i>Total or Median *</i>			30%	8%	16%					0.70
Europe										
Royal Dutch Shell plc	RDS-A	CB	55.46	1.36	232,000	3	24	48	26	0.76
BG Group	BRGXF		16.03	1.18	64,300		29	39	32	0.76
Statoil ASA (33%)	STO	CB	20.08	1.57	33,200		41	59	-	0.68
BP plc	BP		38.40	1.71	208,000	6	10	63	22	0.66
Total S.A.	TOT	CB	49.86	1.32	148,000		19	59	22	0.62
<i>Total or Median *</i>			29%	10%	12%					0.68
Australia/Brazil/China/Russia										
CNOOC Limited (34%)	CEO		167.42	1.02	26,100		12	88	-	1.15
Woodside Petroleum Ltd.	WOPEY	CB	38.51	1.19	33,000		72	28	-	0.86
PetroChina Company Ltd (14%)	PTR	CB	110.99	1.24	35,200		14	72	14	0.78
Petrobras	PBR		36.15	1.39	220,000		4	77	20	0.70
Lukoil Oil Company	LUKOY	CB	53.95	1.12	51,400			68	32	0.43
Gazprom (50%)	OGZPY	CB	21.35	1.35	84,000		77	23	-	0.40
<i>Total or Median *</i>			19%	12%	16%					0.74
U.S. Independent										
Southwestern Energy Compan	SWN		33.53	1.10	12,900	100			-	0.96
Anadarko Petroleum Corp.	APC		51.94	1.80	46,300	44		52	4	0.92
EOG Resources	EOG	CB	94.09	1.18	27,700	53	4	43	-	0.81
Occidental Petroleum Corp.	OXY	CB	75.90	1.07	66,300	10	1	82	7	0.81
Chesapeake Energy Corp.	CHK		20.93	1.96	26,000	89		11	-	0.80
Devon Energy Corporation	DVN	CB	63.48	1.14	32,300	61		39	-	0.68
<i>Total or Median *</i>			9%	12%	12%					0.81
Canada										
Imperial Oil Limited (30%)	IMO	CB	37.68	1.11	10,700	4		82	15	0.80
Cenovus Energy Inc.	CVE	CB	25.90	1.35	26,400	18		76	6	0.76
Suncor Energy	SU	CB	31.71	1.34	67,000	5		85	11	0.72
Canadian Natural Resources	CNQ	CB	32.47	1.30	46,100	15		85	-	0.71
Canadian Oil Sands Trust	COSWF	CB	25.28	1.11	13,600			100	-	0.69
EnCana Corporation	ECA	CB	28.34	1.41	29,600	94		6	-	0.65
<i>Total or Median *</i>			8%	12%	24%					0.72
Income and Small Cap (see separate weekly analysis)										
			4%	46%	20%			49		0.94
Composite										
<i>Enterprise Value Weighting</i>	100%				2,336,000	11	15	58	15	0.71
<i>Equal Weighting</i>		100%				36	7	52	6	0.84
<i>Equal Weighted Buys</i>			100%			12	12	52	8	0.70
CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average.										
* Percentages in Symbol column refer to current market Enterprise Value weightings; Rating column, equal weightings.										
* Percentages in Price column refer to equal weighted buys.										



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Table 3								
McDep Large Cap 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		16-Aug 2010	NTM	NTM	NTM	NTM	(%)
B = Buy, CB (see below)								
U.S. Integrated								
Exxon Mobil Corporation	XOM	CB	59.88	13.2	8.5	6.0	11	2.9
ConocoPhillips	COP	B	54.93	10.2	8.2	5.6	12	4.0
Marathon Oil Corporation	MRO	B	32.53	9.1	7.8	5.4	13	2.3
Chevron Corporation	CVX	B	77.71	9.1	6.8	4.7	10	3.7
<i>Total or Median</i>				9.7	8.0	5.5	12	3.3
Europe								
BG Group plc	BRGXF		16.03	14.5	8.9	6.7	12	1.2
Royal Dutch Shell plc	RDS-A	CB	55.46	8.8	6.9	5.3	10	6.1
BP plc	BP		38.40	10.0	7.8	5.2	7	-
Total S.A.	TOT	CB	49.86	9.7	7.7	4.8	8	5.9
Statoil ASA (33%)	STO	CB	20.08	6.4	6.2	4.2	8	4.8
<i>Total or Median</i>				9.7	7.7	5.2	8	4.8
Australia/Brazil/China/Russia								
Woodside Petroleum Ltd.	WOPEY	CB	38.51	20.0	12.6	10.9	22	2.6
PetroChina Company Ltd (14%)	PTR	CB	110.99	13.8	8.2	6.4	15	3.6
Petrobras	PBR		36.15	9.1	9.2	6.4	10	3.7
CNOOC Limited (34%)	CEO		167.42	6.8	5.2	6.0	11	3.1
Gazprom (50%)	OGZPY	CB	21.35	30.2	9.7	3.9	5	0.2
Lukoil Oil Company	LUKOY	CB	53.95	15.7	8.2	3.5	7	3.2
<i>Total or Median</i>				14.7	8.7	6.2	11	3.1
U.S. Independent								
Southwestern Energy Company	SWN		33.53	6.3	10.0	9.6	20	-
Chesapeake Energy Corp.	CHK		20.93	11.1	10.6	8.5	14	1.4
EOG Resources	EOG	CB	94.09	9.1	10.0	8.1	48	0.7
Anadarko Petroleum Corp.	APC		51.94	8.3	7.7	7.1		0.7
Occidental Petroleum Corp.	OXY	CB	75.90	10.5	7.7	6.2	14	2.0
Devon Energy Corporation	DVN	CB	63.48	10.0	9.0	6.1	12	1.0
<i>Total or Median</i>				9.5	9.5	7.6	14	0.9
Canada								
Canadian Oil Sands Trust	COSWF	CB	25.28	28.0	13.6	9.3	15	7.6
Cenovus Energy Inc.	CVE	CB	25.90	18.0	12.1	9.2	22	3.0
Imperial Oil Limited (30%)	IMO	CB	37.68	20.3	11.0	8.9	16	1.1
Suncor Energy	SU	CB	31.71	22.3	11.4	8.3	25	1.2
EnCana Corporation	ECA	CB	28.34	13.7	12.7	8.2	29	2.8
Canadian Natural Resources	CNQ	CB	32.47	17.4	10.2	7.2	19	0.9
<i>Total or Median</i>				19.2	11.7	8.6	20	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 June 30, 2011; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



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Canadian Natural Resources					
Functional Cash Flow and Present Value					
	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<u><i>Ebitda</i></u>	<u><i>R/P</i></u>	<u><i>Ebitda</i></u>	<u><i>Value</i></u>	
North American Natural Gas	1,030	7.7	9.7	10,000	15%
Oil	5,370	21.9	10.3	55,200	85%
	6,400	17.4	10.2	65,200	100%
Debt					10,700
Net Present Value (US\$m)					54,500
Shares					1,089
Net Present Value - Standard Estimate (US\$/sh)					50
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					54

Canadian Oil Sands Trust					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<u><i>(US\$m)</i></u>	<u><i>R/P</i></u>	<u><i>Ebitda</i></u>	<u><i>(US\$m)</i></u>	
Oil	1,460	28.0	13.6	19,790	100%
Debt (US\$m)					1,400
Net Present Value (US\$m)					18,390
Shares (mm)					484
Net Present Value (US\$/sh)					38
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					36

Cenovus Energy Inc.					
Functional Cash Flow and Present Value					
	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<u><i>Ebitda</i></u>	<u><i>R/P</i></u>	<u><i>Ebitda</i></u>	<u><i>Value</i></u>	
North American Natural Gas	740	6.5	8.4	6,200	18%
Oil	1,960	28.4	13.5	26,500	76%
Downstream	300		6.7	2,000	6%
	3,000	18.0	11.6	34,700	100%
Debt					6,900
Net Present Value (\$mm)					27,800
Shares					752
Net Present Value - Standard Estimate (US\$/sh)					37
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					37



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Encana Corporation					
Functional Cash Flow and Present Value					
	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>Ebitda</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
North American Natural Gas	3,250	13.8	13.2	43,000	94%
Oil	350	12.8	7.4	2,600	6%
	3,600	13.7	12.7	45,600	100%
Debt					8,700
Net Present Value (\$mm)					36,900
Shares					738
Net Present Value - Standard Estimate (US\$/sh)					50
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					55

Imperial Oil Limited					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	176	5.8	9.1	1,600	4%
Oil and Bitumen	1,919	22.0	12.0	23,000	52%
Synthetic Oil	995	25.8	13.6	13,500	30%
Downstream	951		6.8	6,500	15%
	4,041	20.3	11.0	44,600	100%
Debt (US\$mm)					3,600
Net Present Value (US\$mm)					41,000
Shares (mm)					855
Net Present Value - Standard Estimate (US\$/sh)					48
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					45

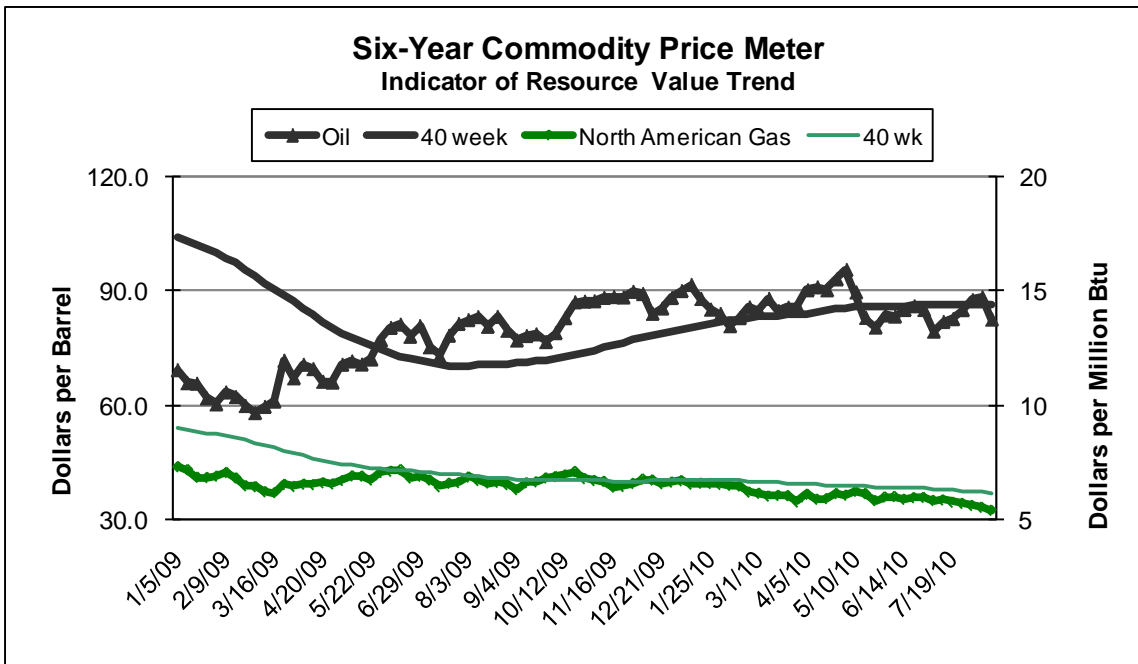
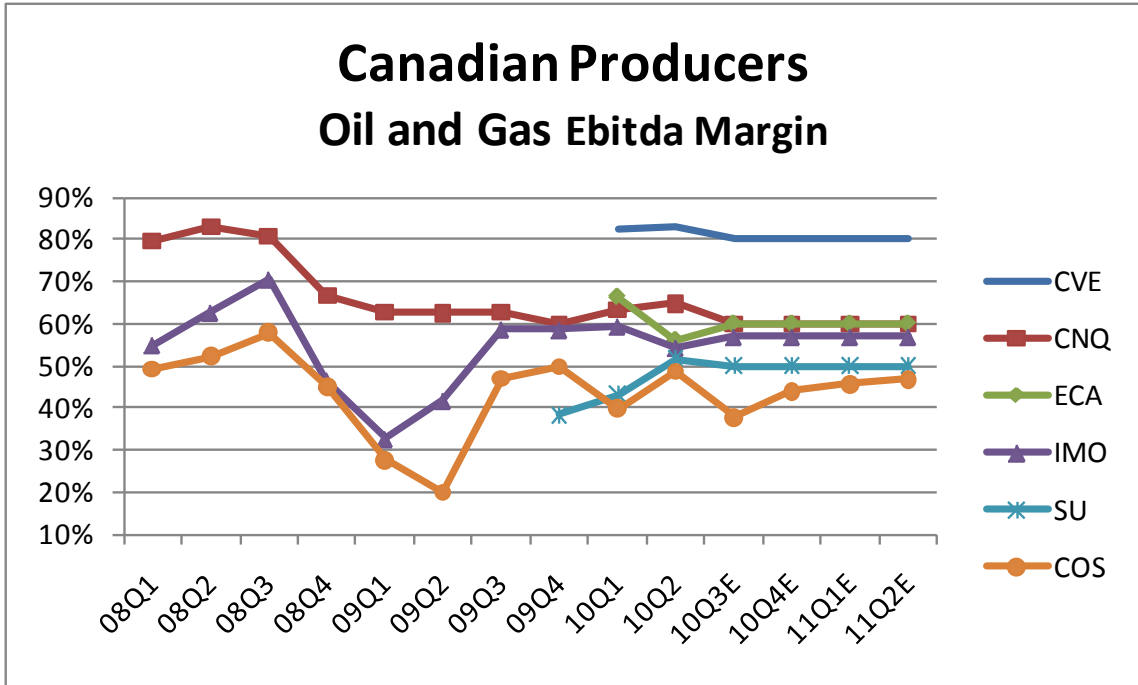
Suncor					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
Natural Gas	280	14.4	15.0	4,200	5%
Oil	6,610	23.4	11.9	78,400	85%
Downstream	1,230		8.1	10,000	11%
	8,120	22.3	11.4	92,600	100%
Debt (US\$mm)					17,200
Net Present Value (US\$mm)					75,400
Shares (mm)					1,572
Net Present Value - Standard Estimate (US\$/sh)					48
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					46



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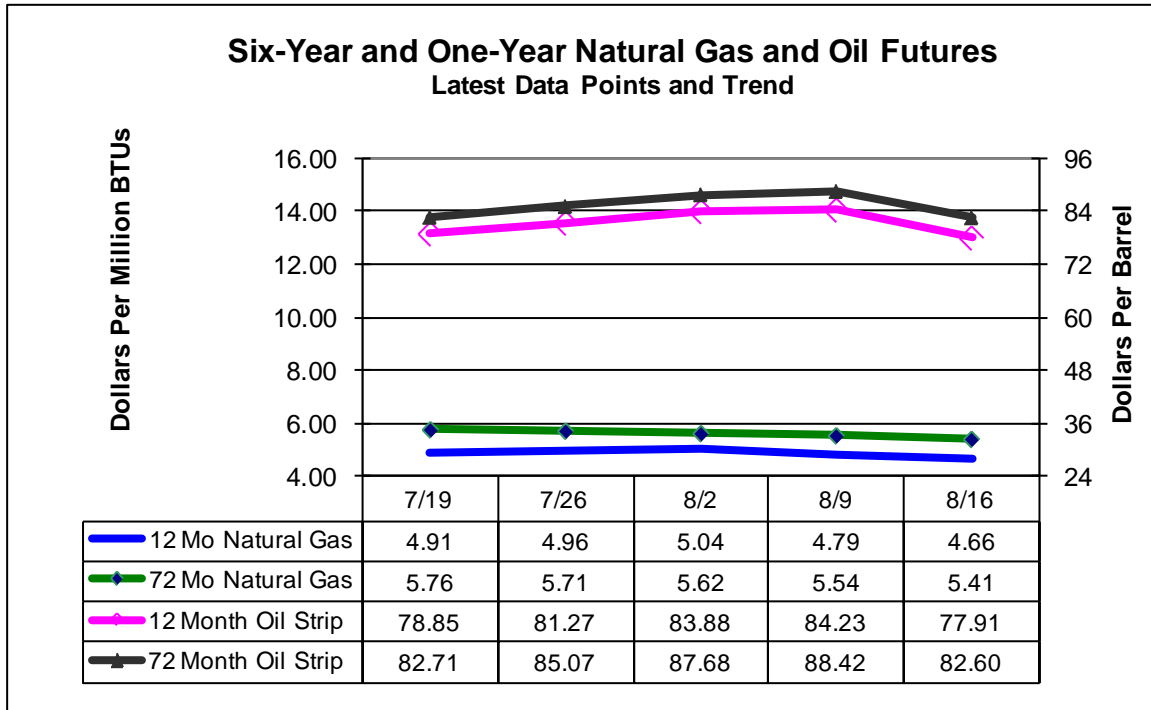
Index of Recent Research			
Stock Ideas			
<i>Date</i>	<i>Symbol</i>	<i>Subject</i>	<i>Theme</i>
13-Aug	PEYUF	Peyto Energy Trust	Raise NPV to US\$18 from \$15 (Income and Small Cap Weekly)
13-Aug	BIREF	Birchcliff Energy Ltd.	Alberta Small Cap Natural Gas Growth
6-Aug	DMLP	Dorchester Minerals	Free Ride on Bakken and Fayetteville Shale (ISCW)
5-Aug	XEC	Cimarex Energy Company	Raise NPV to \$80 from \$75
5-Aug	DVN	Devon Energy Corporation	Onshore North American Value
30-Jul	COSWF	Canadian Oil Sands Trust	Distribution Yield of 7% with Long Life and Oil Upside (ISCW)
29-Jul	XOM	ExxonMobil	Downstream Profits Restored
28-Jul	COP	ConocoPhillips	From Russia to Australia
27-Jul	* WOPEY	Woodside Petroleum	Double WOPEY LNG in 2011 (Meter Reader)
23-Jul	* HGT	Hugoton Royalty Trust	Pays 8% with Natural Gas Upside (ISCW)
21-Jul	* ECA	Encana	Aggressive Growth at Lower Cost
16-Jul	* SJT	San Juan Basin Royalty Trust	Raise NPV to \$25 from \$23 (Income and Small Cap Weekly)
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)
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)
3-Jun	* LUKOY	Lukoil Oil Company	Underrated Oil Performer
20-May	* CEO	CNOOC Ltd	Remove Buy on Valuation and Trend
Meter Reader			
17-Aug		Weekly	
10-Aug	DVN, EOG, OXY		Large Cap U.S. Producer Buys
3-Aug	TOT, COP, STO, XOM, CVX, RDS		Results Reinforce Euro and U.S. Buys
27-Jul	* WOPEY	Woodside Petroleum	Double WOPEY LNG in 2011
Income and Small Cap Weekly			
13-Aug	PEYUF	Peyto Energy Trust	Raise NPV to US\$18 from \$15
6-Aug	DMLP	Dorchester Minerals	Free Ride on Bakken and Fayetteville Shale
30-Jul	COSWF	Canadian Oil Sands Trust	Distribution Yield of 7% with Long Life and Oil Price Upside
23-Jul	* HGT	Hugoton Royalty Trust	Pays 8% with Natural Gas Upside
	* 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.