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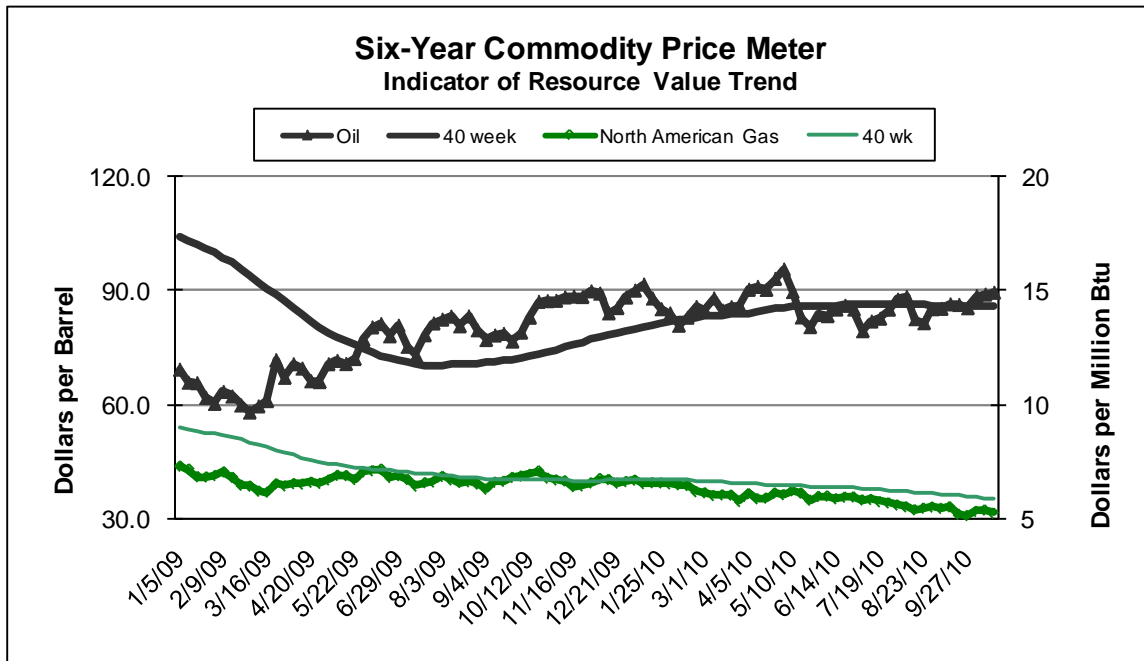
A Weekly Analysis of Large Cap Oil and Gas Stocks
 October 19, 2010

Invest 30-40% in Natural Gas, Half in Oil

Summary and Recommendation

Most of our large cap Buy recommendations appear to be in a rising stock price trend again. The change is evident in only a few stocks having the Contrarian qualifier ahead of Buy, which we created early in 2010 to flag a downtrend in stock price measured by the 200-day average (see [Tables 1-4](#) on pages 2-5). A rising price trend may be a comfort factor in timing new commitments, while low McDep Ratios provide the fundamental justification. We suggest that a McDep Energy Portfolio be concentrated half in the first three groups of larger companies – *U.S. Integrated, Europe* and *Australia/Brazil/China/Russia*. The other half would be in the combination of *U.S. Independent, Canada* and *Income and Small Cap*. We further suggest that selections be skewed to lower McDep Ratio stocks and be balanced about half in oil production and 30-40% in natural gas. The remainder would automatically be in other businesses, mostly downstream. Rising stock prices are supported by the rising quote for oil for the next six years (see chart below [Six-Year Commodity Price Meter](#) and chart [Six-Year and One-Year Natural Gas and Oil Futures](#) on page 7). Though six-year natural gas price is below the 40-week average, it is holding above the September low. Finally, most of the political trends support energy price – from restricting oil and gas supply with whimsical regulations to unproductive government spending financed by printing money.

Kurt H. Wulff, CFA





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Table 2								
McDep Large Cap Energy Portfolio								
Net Present Value and McDep Ratio								
			<i>Price</i>			<i>Net</i>		
	<i>Symbol/Rating</i>		<i>(US\$/sh)</i>	<i>Shares</i>	<i>Market</i>	<i>Present</i>	<i>Debt/</i>	
	B = Buy, CB (see below)		<i>18-Oct</i>	<i>(mm)</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	<i>McDep</i>
			<i>2010</i>		<i>(US\$mm)</i>	<i>(US\$/sh)</i>	<i>Value</i>	<i>Ratio</i>
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	66.28	5,141	341,000	89.00	0.12	0.78
Chevron Corporation	CVX	B	84.48	2,006	170,000	116.00	0.10	0.76
Marathon Oil Corporation	MRO	B	35.87	712	25,540	53.00	0.23	0.75
ConocoPhillips	COP	B	61.26	1,400	86,000	95.00	0.24	0.73
	<i>Total or Median</i>				<i>623,000</i>		<i>0.18</i>	<i>0.75</i>
Europe								
BG Group plc	BRGXF		19.09	3,400	64,900	22.00	0.12	0.88
Royal Dutch Shell plc	RDS-A	B	64.16	3,072	197,000	79.00	0.20	0.85
Statoil ASA (33%)	STO	B	22.06	1,050	23,200	35.00	0.26	0.73
BP plc	BP		41.49	3,172	132,000	72.00	0.27	0.69
Total S.A.	TOT	B	55.38	2,243	124,000	90.00	0.16	0.68
	<i>Total or Median</i>				<i>541,000</i>		<i>0.20</i>	<i>0.73</i>
Australia/Brazil/China/Russia								
CNOOC Limited (34%)	CEO		211.09	152	32,200	170.00	0.05	1.23
Woodside Petroleum Ltd.	WOPEY	B	43.61	782	34,100	44.00	0.13	0.99
PetroChina Company Ltd (14%)	PTR	B	128.95	256	33,000	150.00	0.14	0.88
Petrobras	PBR		34.46	4,387	151,200	58.00	0.20	0.68
Lukoil Oil Company	LUKOY	B	58.85	848	49,900	135.00	0.05	0.46
Gazprom (50%)	OGZPY	CB	21.66	2,870	62,200	64.00	0.09	0.40
	<i>Total or Median</i>				<i>363,000</i>		<i>0.11</i>	<i>0.78</i>
U.S. Independent								
Southwestern Energy Company	SWN		34.90	349	12,200	35.00	0.09	1.00
Anadarko Petroleum Corp.	APC		58.48	495	28,900	60.00	0.41	0.98
Occidental Petroleum Corp.	OXY	B	85.45	814	69,500	95.00	0.06	0.91
EOG Resources	EOG	B	101.33	250	25,300	120.00	0.12	0.86
Chesapeake Energy Corp.	CHK		22.69	635	14,400	31.00	0.39	0.84
Devon Energy Corporation	DVN	B	68.86	446	30,700	98.00	0.08	0.73
	<i>Total or Median</i>				<i>181,000</i>		<i>0.11</i>	<i>0.88</i>
Canada								
Cenovus Energy Inc.	CVE	B	29.67	752	22,300	37.00	0.20	0.84
Imperial Oil Limited (30%)	IMO	B	39.03	257	10,000	48.00	0.08	0.83
Canadian Natural Resources	CNQ	B	37.26	1,089	40,600	50.00	0.17	0.79
Suncor Energy	SU	B	34.20	1,572	53,800	48.00	0.19	0.77
Canadian Oil Sands Trust	COSWF	CB	26.11	484	12,600	38.00	0.07	0.71
EnCana Corporation	ECA	CB	30.19	738	22,300	50.00	0.19	0.68
	<i>Total or Median</i>				<i>162,000</i>		<i>0.18</i>	<i>0.78</i>
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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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		18-Oct 2010	NTM	NTM	NTM	NTM	(%)
B = Buy, CB (see below)								
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	66.28	13.2	8.2	6.4	12	2.7
ConocoPhillips	COP	B	61.26	10.3	8.0	5.8	13	3.6
Marathon Oil Corporation	MRO	B	35.87	9.2	7.3	5.5	13	2.8
Chevron Corporation	CVX	B	84.48	9.1	6.3	4.7	9	3.4
<i>Total or Median</i>				9.7	7.6	5.7	12	3.1
Europe								
BG Group plc	BRGXF		19.09	14.5	8.9	7.8	14	1.0
Royal Dutch Shell plc	RDS-A	B	64.16	8.8	6.5	5.5	11	5.2
BP plc	BP		41.49	10.0	7.3	5.0	7	-
Total S.A.	TOT	B	55.38	9.7	7.1	4.8	8	5.8
Statoil ASA (33%)	STO	B	22.06	6.5	5.8	4.2	8	4.7
<i>Total or Median</i>				9.7	7.1	5.0	8	4.7
Australia/Brazil/China/Russia								
Woodside Petroleum Ltd.	WOPEY	B	43.61	18.0	11.9	11.8	23	2.3
CNOOC Limited (34%)	CEO		211.09	6.6	5.7	7.0	14	2.6
PetroChina Company Ltd (14%)	PTR	B	128.95	13.6	7.2	6.3	16	3.4
Petrobras	PBR		34.46	9.6	8.4	5.7	8	3.4
Gazprom (50%)	OGZPY	CB	21.66	30.2	9.3	3.7	5	0.2
Lukoil Oil Company	LUKOY	B	58.85	15.8	7.5	3.5	6	2.9
<i>Total or Median</i>				14.7	7.9	6.0	11	2.7
U.S. Independent								
Southwestern Energy Company	SWN		34.90	6.0	10.8	10.7	25	-
Chesapeake Energy Corp.	CHK		22.69	11.1	11.4	9.6	17	1.3
EOG Resources	EOG	B	101.33	8.8	9.4	8.1	42	0.6
Anadarko Petroleum Corp.	APC		58.48	8.3	7.6	7.4		0.6
Devon Energy Corporation	DVN	B	68.86	10.0	9.1	6.6	13	0.9
Occidental Petroleum Corp.	OXY	B	85.45	10.5	7.1	6.4	14	1.8
<i>Total or Median</i>				9.4	9.2	7.8	17	0.8
Canada								
Cenovus Energy Inc.	CVE	B	29.67	18.3	11.5	9.6	23	2.7
EnCana Corporation	ECA	CB	30.19	13.7	14.1	9.6	31	2.6
Imperial Oil Limited (30%)	IMO	B	39.03	20.6	10.5	8.7	16	1.1
Canadian Oil Sands Trust	COSWF	CB	26.11	29.5	12.2	8.7	15	6.4
Suncor Energy	SU	B	34.20	22.3	10.6	8.1	22	1.2
Canadian Natural Resources	CNQ	B	37.26	17.4	9.6	7.5	19	0.8
<i>Total or Median</i>				19.5	11.0	8.7	21	1.9
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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Table 4									
McDep Large Cap Energy Portfolio									
Rank by Enterprise Value to 200 Day Average									
			Price						
			(\$/sh)	Enterprise Value/					
	Symbol		18-Oct	52Wk	52Wk	50 Day	200 Day	McDep	
	Ratin.		2010	High	Low	Avg.	Avg.	Ratio	
U.S. Integrated									
	Chevron Corporation	CVX	B	84.48	1.00	1.22	1.06	1.09	0.76
	ConocoPhillips	COP	B	61.26	1.00	1.19	1.06	1.09	0.73
	Marathon Oil Corporation	MRO	B	35.87	1.00	1.19	1.06	1.08	0.75
	Exxon Mobil Corporation	XOM	B	66.28	0.88	1.15	1.07	1.03	0.78
	<i>Median</i>			<i>1.00</i>	<i>1.19</i>	<i>1.06</i>	<i>1.09</i>	<i>0.75</i>	
Europe									
	BG Group plc	BRGXF		95.44	0.95	1.31	1.09	1.10	0.88
	Royal Dutch Shell plc	RDS-A	B	64.16	1.00	1.22	1.08	1.09	0.85
	Total S.A.	TOT	B	55.38	0.86	1.20	1.07	1.03	0.68
	Statoil ASA (33%)	STO	B	22.06	0.88	1.12	1.05	1.00	0.73
	BP plc	BP		41.49	0.77	1.27	1.04	0.94	0.69
	<i>Median</i>			<i>0.92</i>	<i>1.21</i>	<i>1.07</i>	<i>1.06</i>	<i>0.74</i>	
Australia/Brazil/China/Russia									
	CNOOC Limited (34%)	CEO		211.09	0.98	1.49	1.14	1.24	1.23
	PetroChina Company Ltd (14%)	PTR	B	128.95	0.96	1.24	1.10	1.10	0.88
	Woodside Petroleum Ltd.	WOPEY	B	43.61	0.89	1.27	1.07	1.08	0.99
	Lukoil Oil Company	LUKOY	B	58.85	0.89	1.28	1.05	1.06	0.46
	Gazprom (50%)	OGZPY	CB	21.66	0.83	1.15	1.02	0.98	0.40
	Petrobras	PBR		34.46	0.72	1.07	0.98	0.91	0.68
	<i>Median</i>			<i>0.89</i>	<i>1.26</i>	<i>1.06</i>	<i>1.07</i>	<i>0.78</i>	
U.S. Independent									
	Occidental Petroleum Corp.	OXY	B	85.45	0.94	1.17	1.09	1.05	0.91
	Devon Energy Corporation	DVN	B	68.86	0.91	1.15	1.07	1.04	0.73
	EOG Resources	EOG	B	101.33	0.90	1.22	1.07	1.02	0.86
	Anadarko Petroleum Corp.	APC		58.48	0.86	1.31	1.05	1.00	0.98
	Chesapeake Energy Corp.	CHK		22.69	0.86	1.08	1.03	0.98	0.84
	Southwestern Energy Company	SWN		45.72	0.68	1.13	1.04	0.89	1.00
	<i>Median</i>			<i>0.88</i>	<i>1.16</i>	<i>1.06</i>	<i>1.01</i>	<i>0.88</i>	
Canada									
	Cenovus Energy Inc.	CVE	B	29.67	0.98	1.21	1.05	1.08	0.84
	Canadian Natural Resources	CNQ	B	37.26	0.94	1.18	1.07	1.05	0.79
	Suncor Energy	SU	B	34.20	0.90	1.17	1.04	1.05	0.77
	Imperial Oil Limited (30%)	IMO	B	39.03	0.91	1.10	1.03	1.01	0.83
	EnCana Corporation	ECA	CB	30.19	0.89	1.11	1.03	0.97	0.68
	Canadian Oil Sands Trust	COSWF	CB	26.11	0.81	1.11	1.03	0.97	0.71
	<i>Median</i>			<i>0.90</i>	<i>1.14</i>	<i>1.04</i>	<i>1.03</i>	<i>0.78</i>	
CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average.									



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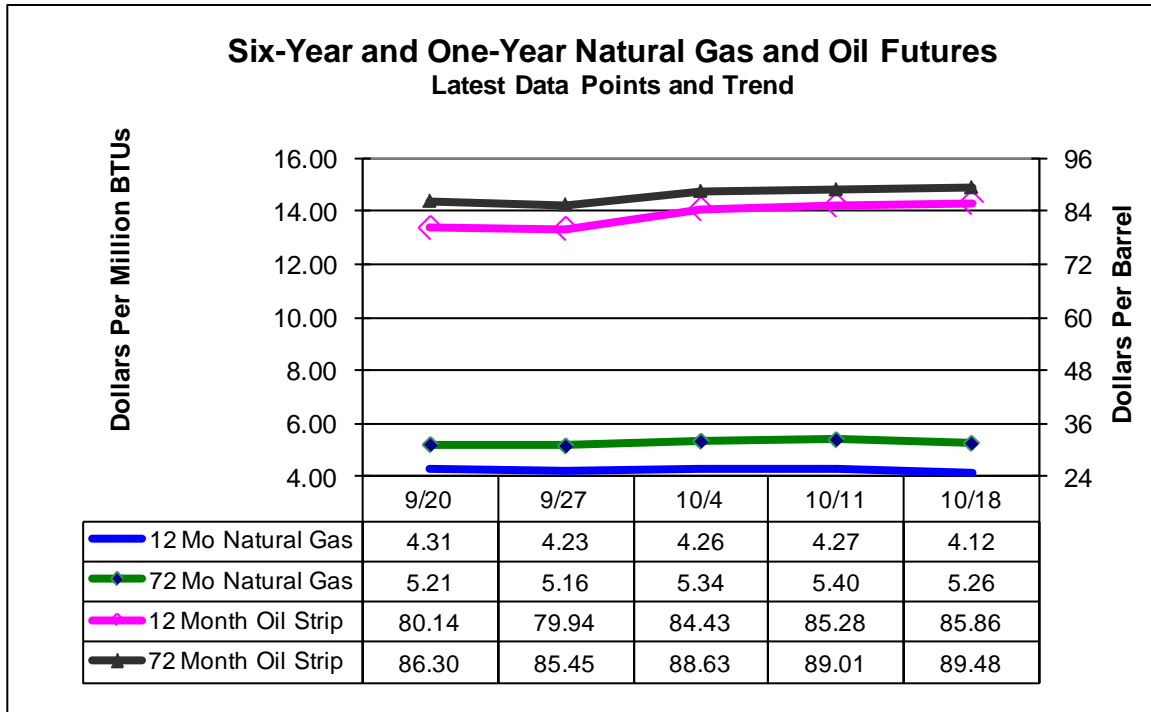
Index of Recent Research			
Stock Ideas			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
12-Oct	EOG	EOG Resources	Leads in Eagle Ford Shale (Meter Reader)
8-Oct	DMLP	Dorchester Minerals	Golden Stocks (Income and Small Cap Weekly)
5-Oct	COSWF	Canadian Oil Sands Trust	Investment Appeal and Cross Currents (Meter Reader)
28-Sep	* XOM	ExxonMobil	Reload Oil Stock Classics (Meter Reader)
28-Sep	* CVX	Chevron Corporation	Reload Oil Stock Classics (Meter Reader)
28-Sep	* MRO	Marathon Oil Company	Reload Oil Stock Classics (Meter Reader)
28-Sep	* COP	ConocoPhillips	Reload Oil Stock Classics (Meter Reader)
21-Sep	* PBR	Petrobras	Record Deal, Reasonable Price (Meter Reader)
7-Sep	* LUKOY	Lukoil	Russian Growth in Oil (Meter Reader)
7-Sep	* OGZPY	Gazprom	Russian Growth in Natural Gas (Meter Reader)
31-Aug	* PTR	PetroChina	Leader in Largest Energy Economy (Meter Reader)
24-Aug	* CEO	CNOOC Ltd	Raise NPV on Volume and Profit (Meter Reader)
17-Aug	* ECA, CNQ	Encana, Canadian Natural	Raise NPV for ECA and CNQ on Probable Reserves (MR)
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
5-Aug	* XEC	Cimarex Energy Company	Raise NPV to \$80 from \$75
5-Aug	* DVN	Devon Energy Corporation	Onshore North American Value
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 Haynesville (Income and Small Cap Weekly)
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)
Meter Reader			
19-Oct		Weekly Valuation	
12-Oct	EOG	EOG Resources	Leads in Eagle Ford Shale
5-Oct	COSWF	Canadian Oil Sands Trust	Investment Appeal and Cross Currents
28-Sep	* COP,MRO,CVX,XOM		Reload Oil Stock Classics
Income and Small Cap Weekly			
15-Oct	XEC, BIREF	Cimarex, Birchcliff	Looking for Latent Riches in Land
8-Oct		Top Line Cash Payers	Golden Stocks
1-Oct		Weekly Valuation	The Message of Gold Price
24-Sep	* COSWF, PEYUF		Big Income in Canada
	* 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.