



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

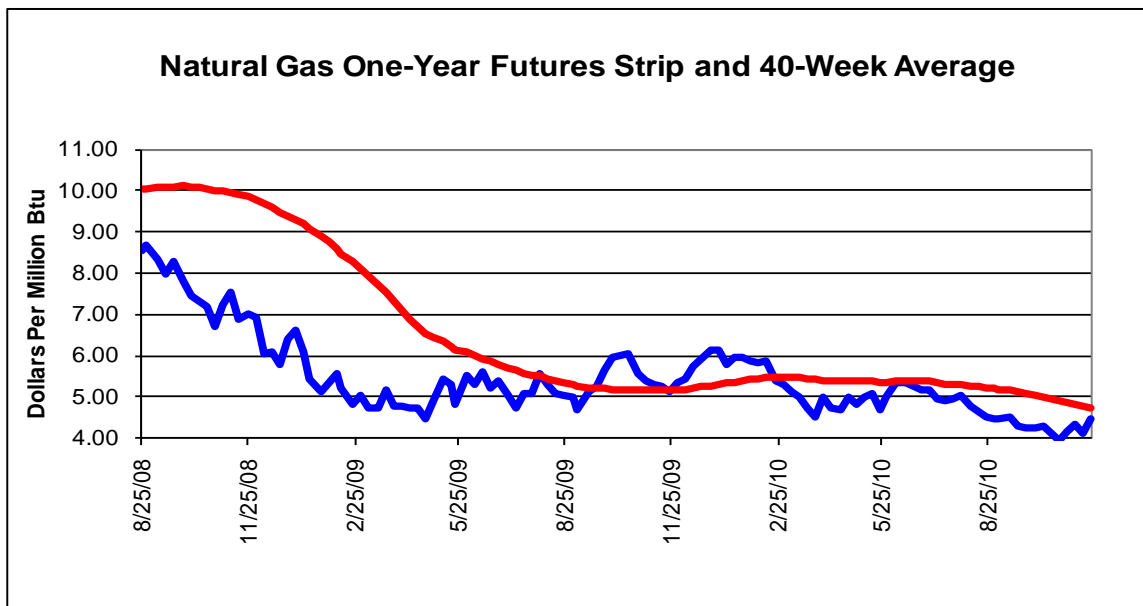
November 23, 2010

A Little Life in Natural Gas Price and Oil Refining Margin

Summary and Recommendation

A pickup in natural gas price in the past month is a welcome positive turn for buy-recommended large cap North American producers **Devon Energy (DVN)** and **Encana (ECA)**. A similar pickup in refining margin helps the prospects for buy recommendations including global player **Royal Dutch Shell (RDS)** and regional refiners **Lukoil (LUKOY)** and **Marathon Oil (MRO)**. The average of futures prices for the next twelve months for natural gas may have found a floor at \$4 a million btu (see charts [Natural Gas One-Year Futures Strip](#) below, [Natural Gas Futures](#) on page 2 and [Six-Year and One-Year Natural Gas and Oil Futures](#) on page 8). About 74% of our estimated value is in natural gas for ECA and 62% for DVN (see [Table 1](#) on page 3). About 34%, 27% and 25% of value may be in downstream for LUKOY, MRO and RDS respectively. For the five companies McDep Ratios range from 0.44 to 0.86, ratios of Debt to Present Value from 0.05 to 0.23 and unlevered cash flow multiples (EV/Ebitda) from 3.3 to 8.8 (see [Table 2](#) and [Table 3](#) on pages 3-4). DVN, RDA, MRO and LUKOY are in stock price up trends compared to the 200-day average while we are optimistic that ECA stock is not far behind. Natural gas price and oil refining margin are sensitive to growing economic activity in better-capitalized countries in the developed world and especially the developing world. In the back of our mind, we remember that the last two years of a one-term Democratic U.S. President were good for oil and gas stocks in 1979-1980.

Kurt H. Wulff, CFA

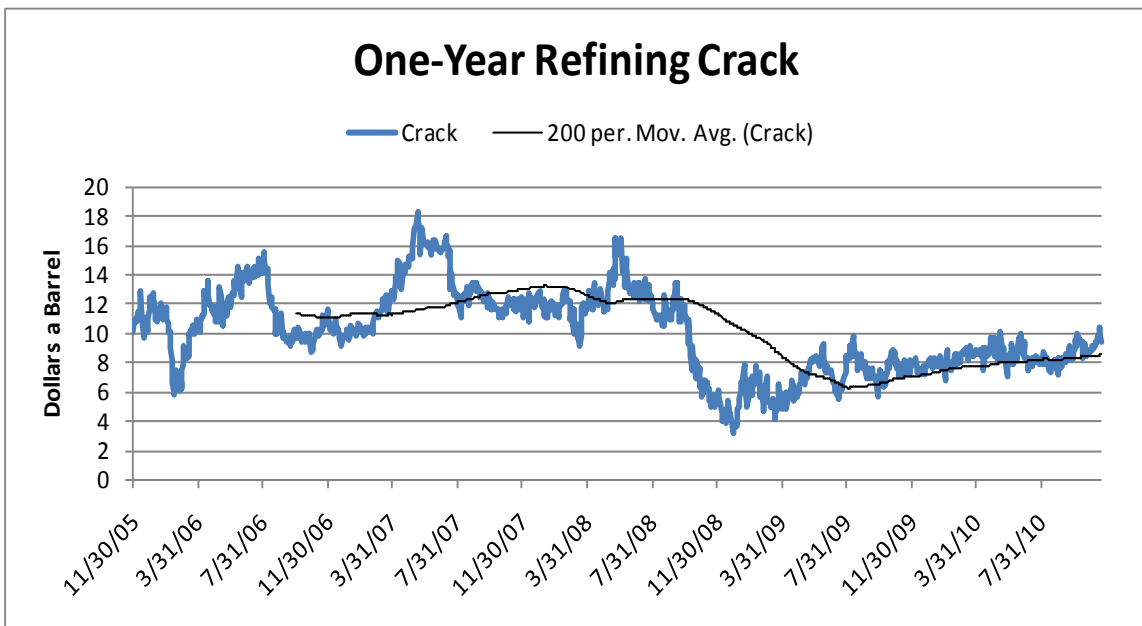
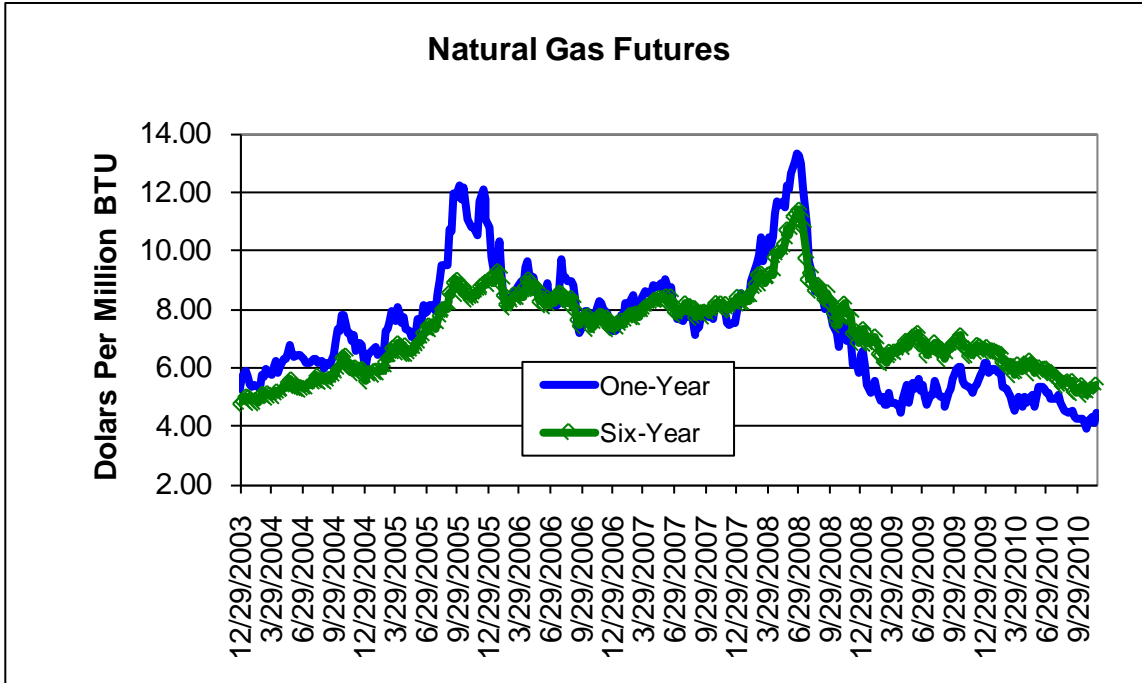




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McDep Large Cap Energy Portfolio								
Net Present Value and McDep Ratio								
			<i>Price</i>			<i>Net</i>		
	<i>Symbol/Rating</i>		<i>(US\$/sh)</i>	<i>Shares</i>	<i>Market</i>	<i>Present</i>	<i>Debt/</i>	
	B = Buy, CB (see below)		<i>22-Nov</i>	<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	70.19	5,089	357,000	89.00	0.13	0.82
Chevron Corporation	CVX	B	83.45	2,007	168,000	116.00	0.10	0.75
Marathon Oil Corporation	MRO	B	34.30	712	24,420	53.00	0.23	0.73
ConocoPhillips	COP	B	61.49	1,400	86,000	95.00	0.23	0.73
	<i>Total or Median</i>				<i>635,000</i>		<i>0.18</i>	<i>0.74</i>
Europe								
BG Group plc	BRGXF		19.33	3,402	65,800	22.00	0.13	0.89
Royal Dutch Shell plc	RDS-A	B	64.32	3,069	197,000	79.00	0.22	0.86
BP plc	BP		41.64	3,156	131,000	72.00	0.29	0.70
Statoil ASA (33%)	STO	CB	20.78	1,050	21,800	35.00	0.24	0.69
Total S.A.	TOT	B	52.52	2,245	118,000	90.00	0.16	0.65
	<i>Total or Median</i>				<i>534,000</i>		<i>0.22</i>	<i>0.70</i>
Australia/Brazil/China/Russia								
CNOOC Limited (34%)	CEO		227.74	152	34,700	170.00	0.05	1.32
Woodside Petroleum Ltd.	WOPEY	B	40.77	782	31,900	44.00	0.13	0.94
PetroChina Company Ltd (14%)	PTR	B	124.10	256	31,800	170.00	0.13	0.77
Petrobras	PBR		32.75	6,428	210,500	51.00	0.13	0.69
Lukoil Oil Company	LUKOY	B	55.29	848	46,900	135.00	0.05	0.44
Gazprom (50%)	OGZPY	B	21.85	2,865	62,600	64.00	0.09	0.40
	<i>Total or Median</i>				<i>418,000</i>		<i>0.11</i>	<i>0.73</i>
U.S. Independent								
Southwestern Energy Company	SWN		38.14	349	13,300	35.00	0.09	1.08
Anadarko Petroleum Corp.	APC		64.88	496	32,200	60.00	0.41	1.05
Occidental Petroleum Corp.	OXY	B	88.47	814	72,000	95.00	0.06	0.94
Chesapeake Energy Corp.	CHK		22.54	744	16,800	31.00	0.38	0.83
EOG Resources	EOG	CB	92.50	250	23,200	120.00	0.14	0.80
Devon Energy Corporation	DVN	B	72.41	436	31,600	98.00	0.09	0.76
	<i>Total or Median</i>				<i>189,100</i>		<i>0.12</i>	<i>0.88</i>
Canada								
Cenovus Energy Inc.	CVE	B	29.03	752	21,800	37.00	0.19	0.83
Canadian Natural Resources	CNQ	B	39.34	1,089	42,800	50.00	0.16	0.82
Imperial Oil Limited (30%)	IMO	CB	37.18	257	9,500	48.00	0.08	0.79
Suncor Energy	SU	B	34.33	1,572	54,000	48.00	0.17	0.76
Canadian Oil Sands Trust	COSWF	CB	26.11	484	12,600	38.00	0.08	0.71
EnCana Corporation	ECA	CB	28.47	736	21,000	50.00	0.19	0.65
	<i>Total or Median</i>				<i>162,000</i>		<i>0.17</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		22-Nov 2010	NTM	NTM	NTM	NTM	(%)
B = Buy, CB (see below)								
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	70.19	13.3	7.8	6.4	11	2.5
ConocoPhillips	COP	B	61.49	10.4	7.7	5.6	13	3.6
Marathon Oil Corporation	MRO	B	34.30	9.2	7.1	5.1	12	2.9
Chevron Corporation	CVX	B	83.45	9.2	6.3	4.7	10	3.5
<i>Total or Median</i>				9.8	7.4	5.4	11	3.2
Europe								
BG Group plc	BRGXF		19.33	14.9	8.8	7.9	15	1.0
Royal Dutch Shell plc	RDS-A	B	64.32	8.6	6.6	5.6	11	5.2
BP plc	BP		41.64	10.2	7.6	5.3	8	-
Total S.A.	TOT	B	52.52	9.5	7.1	4.6	8	5.9
Statoil ASA (33%)	STO	CB	20.78	7.0	6.0	4.2	8	4.8
<i>Total or Median</i>				9.5	7.1	5.3	8	4.8
Australia/Brazil/China/Russia								
Woodside Petroleum Ltd.	WOPEY	B	40.77	17.1	11.7	11.0	21	2.5
Petrobras	PBR		32.75	10.0	10.1	7.0	12	3.6
CNOOC Limited (34%)	CEO		227.74	5.6	4.9	6.5	12	2.4
PetroChina Company Ltd (14%)	PTR	B	124.10	13.6	7.1	5.4	11	3.5
Gazprom (50%)	OGZPY	B	21.85	30.2	9.1	3.6	5	0.2
Lukoil Oil Company	LUKOY	B	55.29	15.8	7.6	3.3	5	3.0
<i>Total or Median</i>				14.7	8.3	5.9	11	2.8
U.S. Independent								
Southwestern Energy Company	SWN		38.14	5.7	9.2	10.0	22	-
Chesapeake Energy Corp.	CHK		22.54	10.2	11.2	9.3	16	1.3
Anadarko Petroleum Corp.	APC		64.88	8.5	7.7	8.1		0.6
EOG Resources	EOG	CB	92.50	8.6	9.1	7.3	36	0.7
Devon Energy Corporation	DVN	B	72.41	10.1	9.3	7.1	14	0.9
Occidental Petroleum Corp.	OXY	B	88.47	10.4	7.1	6.6	14	1.7
<i>Total or Median</i>				9.4	9.2	7.7	16	0.8
Canada								
Cenovus Energy Inc.	CVE	B	29.03	18.2	11.3	9.4	24	2.7
Canadian Oil Sands Trust	COSWF	CB	26.11	29.2	12.6	9.0	17	6.0
EnCana Corporation	ECA	CB	28.47	13.9	13.4	8.8	26	2.8
Imperial Oil Limited (30%)	IMO	CB	37.18	21.0	10.7	8.5	16	1.2
Canadian Natural Resources	CNQ	B	39.34	18.2	10.1	8.3	22	0.7
Suncor Energy	SU	B	34.33	21.9	10.4	7.9	23	1.1
<i>Total or Median</i>				19.6	11.0	8.6	23	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 December 31, 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		22-Nov	52Wk	52Wk	50 Day	200 Day	McDep	
	Rating		2010	High	Low	Avg.	Avg.	Ratio	
U.S. Integrated									
	Exxon Mobil Corporation	XOM	B	70.19	0.93	1.21	1.06	1.08	0.82
	ConocoPhillips	COP	B	61.49	0.98	1.20	1.02	1.08	0.73
	Chevron Corporation	CVX	B	83.45	0.97	1.21	1.01	1.07	0.75
	Marathon Oil Corporation	MRO	B	34.30	0.96	1.15	1.01	1.04	0.73
	<i>Median</i>			<i>0.97</i>	<i>1.20</i>	<i>1.02</i>	<i>1.08</i>	<i>0.74</i>	
Europe									
	BG Group plc	BRGXF		96.65	0.92	1.31	1.02	1.10	0.89
	Royal Dutch Shell plc	RDS-A	B	64.32	0.95	1.21	1.02	1.08	0.86
	Total S.A.	TOT	B	52.52	0.82	1.16	0.99	1.00	0.65
	Statoil ASA (33%)	STO	CB	20.78	0.84	1.08	0.98	0.98	0.69
	BP plc	BP		41.64	0.77	1.27	1.01	0.97	0.70
	<i>Median</i>			<i>0.88</i>	<i>1.21</i>	<i>1.01</i>	<i>1.04</i>	<i>0.72</i>	
Australia/Brazil/China/Russia									
	CNOOC Limited (34%)	CEO		227.74	0.97	1.60	1.10	1.27	1.32
	PetroChina Company Ltd (14%)	PTR	B	124.10	0.92	1.20	1.01	1.06	0.77
	Woodside Petroleum Ltd.	WOPEY	B	40.77	0.89	1.20	0.96	1.01	0.94
	Lukoil Oil Company	LUKOY	B	55.29	0.90	1.21	0.97	1.01	0.44
	Gazprom (50%)	OGZPY	B	21.85	0.85	1.16	1.01	1.00	0.40
	Petrobras	PBR		32.75	0.66	1.04	0.95	0.89	0.69
	<i>Median</i>			<i>0.90</i>	<i>1.20</i>	<i>0.99</i>	<i>1.01</i>	<i>0.73</i>	
U.S. Independent									
	Devon Energy Corporation	DVN	B	72.41	0.95	1.21	1.08	1.09	0.76
	Occidental Petroleum Corp.	OXY	B	88.47	0.97	1.21	1.08	1.08	0.94
	Anadarko Petroleum Corp.	APC		64.88	0.91	1.40	1.05	1.07	1.05
	Southwestern Energy Company	SWN		44.14	0.74	1.22	1.10	1.00	1.08
	Chesapeake Energy Corp.	CHK		22.54	0.86	1.08	1.01	0.99	0.83
	EOG Resources	EOG	CB	92.50	0.83	1.08	0.98	0.95	0.80
	<i>Median</i>			<i>0.89</i>	<i>1.21</i>	<i>1.07</i>	<i>1.03</i>	<i>0.88</i>	
Canada									
	Canadian Natural Resources	CNQ	B	39.34	0.97	1.23	1.06	1.08	0.82
	Suncor Energy	SU	B	34.33	0.92	1.18	1.02	1.05	0.76
	Cenovus Energy Inc.	CVE	B	29.03	0.96	1.19	1.01	1.04	0.83
	Canadian Oil Sands Trust	COSWF	CB	26.11	0.81	1.11	1.01	0.97	0.71
	Imperial Oil Limited (30%)	IMO	CB	37.18	0.87	1.05	0.98	0.97	0.79
	EnCana Corporation	ECA	CB	28.47	0.85	1.07	0.99	0.95	0.65
	<i>Median</i>			<i>0.89</i>	<i>1.15</i>	<i>1.01</i>	<i>1.01</i>	<i>0.78</i>	
CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average.									



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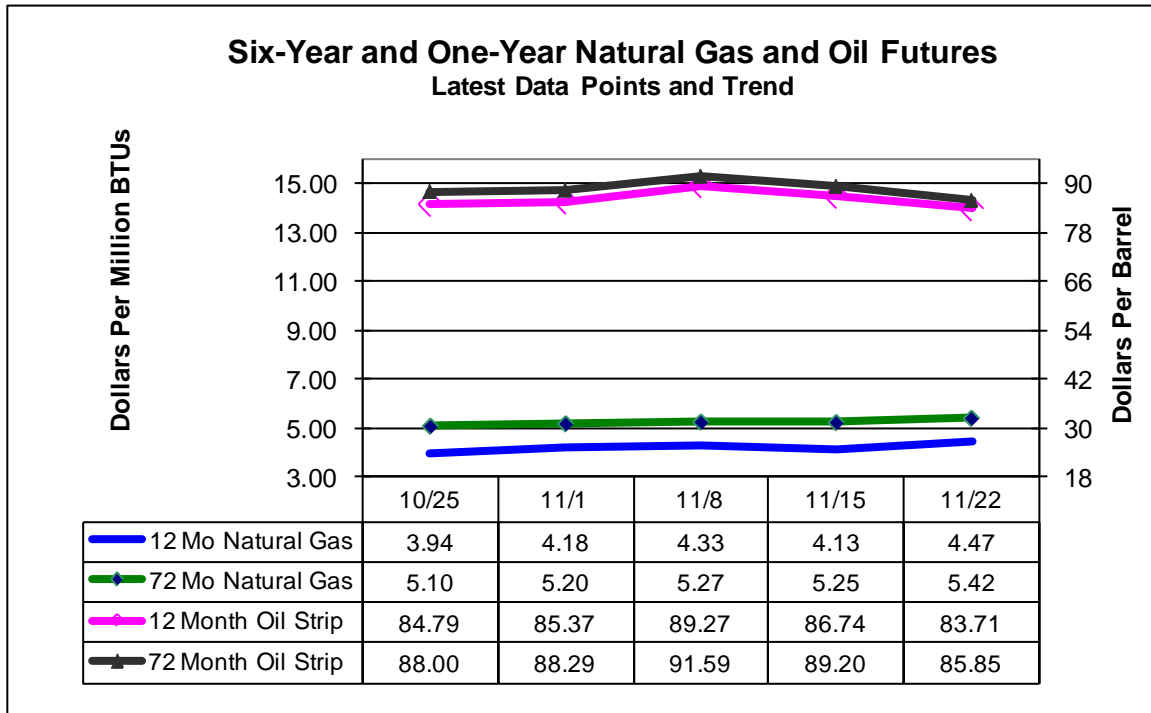
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Index of Recent Research			
Stock Ideas			
<i>Date</i>	<i>Symbol</i>	<i>Subject</i>	<i>Theme</i>
22-Nov	SJT	San Juan Basin Royalty Trust	Distribution Yield 5.8%, Not 4.6%
19-Nov	VNR	Vanguard Natural Resources	Vanguard to Manage High-Income Encore (Income and SCW)
19-Nov	ENP	Encore Energy Partners	Vanguard to Manage High-Income Encore (Income and SCW)
16-Nov	PBR	Petrobras	Digesting Record Stock Offering (Meter Reader)
11-Nov	BIREF	Birchcliff Energy Ltd.	Production Ahead of Forecast
9-Nov	OGZPY	Gazprom	Breakout from a Long Stock Price Base (Meter Reader)
9-Nov	SU	Suncor Energy	Breakout from a Long Stock Price Base (Meter Reader)
9-Nov	DVN	Devon Energy Corporation	Breakout from a Long Stock Price Base (Meter Reader)
4-Nov	EOG	EOG Resources	Buy on Stock Price Drop
2-Nov	XOM	ExxonMobil	Political Trends Turning (Meter Reader)
29-Oct	HGT	Hugoton Royalty Trust	Natural Gas Income at Low Price (Income and SC Weekly)
29-Oct	COSWF	Canadian Oil Sands Trust	Oil Value amid Political Turmoil
28-Oct	PTR	PetroChina	Raise NPV to \$170 from \$150 on Natural Gas and Downstream
8-Oct	DMLP	Dorchester Minerals	Golden Stocks (Income and Small Cap Weekly)
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)
7-Sep	LUKOY	Lukoil	Russian Growth in Oil (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)
5-Aug	XEC	Cimarex Energy Company	Raise NPV to \$80 from \$75
27-Jul	WOPEY	Woodside Petroleum	Double WOPEY LNG in 2011 (Meter Reader)
For historical research by stock, go to mcdep.com , click on Stock Ideas , click on stock by name.			
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16-Nov	PBR	Petrobras	Digesting Record Stock Offering
9-Nov	DVN, SU, OGZPY		Breakout from a Long Stock Price Base
2-Nov	XOM	ExxonMobil	Political Trends Turning
26-Oct	TOT, STO, RDS		Euro Oil Income Buys
19-Oct		Weekly Valuation	Invest 30-40% in Natural Gas, Half in Oil
12-Oct	EOG	EOG Resources	Leads in Eagle Ford Shale
5-Oct	COSWF	Canadian Oil Sands Trust	Investment Appeal and Cross Currents
For earlier editions, go to mcdep.com , click on Meter Reader .			
Income and Small Cap Weekly			
19-Nov	ENP, VNR	Encore Energy, Vanguard Natural	Vanguard (VNR) to Manage High-Income Encore (ENP)
12-Nov	DMLP	Dorchester Minerals, L.P.	Volume Trend Strengthening
5-Nov		Weekly Valuation	Frac Shortage Limits Energy Supply
29-Oct	SJT, HGT	San Juan RT, Hugoton RT	Natural Gas Income at Low Price
22-Oct		Weekly Valuation	Natural Gas Explorers Reduce Drilling
15-Oct	XEC, BIREF	Cimarex, Birchcliff	Looking for Latent Riches in Land
8-Oct		Top Line Cash Payers	Golden Stocks
For earlier editions, go to mcdep.com , click on Energy Income .			



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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.