



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

September 6, 2011

Lukoil (LUKOY – Contrarian Buy) Capitalist Success with Strong Upside

Summary and Recommendation

Contrarian-buy recommended **Lukoil (LUKOY)** offers unlevered appreciation potential of 140% to a McDep Ratio 1.0 as the company contributes to the rapid economic growth of its home country. During the more than seven years we have covered the stock, Lukoil has achieved nearly 3% a year growth in oil production to 1.9 million barrels daily. Any growth is significant because the volume is as large as that of Contrarian Buy-**Chevron (CVX)** while Lukoil's stock market capitalization is only one fourth of Chevron's. Lukoil also pays a competitive dividend of 3.4% and it has recently been repurchasing stock as the U.S. majors do. Political risk is probably the main reason Lukoil stock sells for a low valuation. On that measure, investors might take new assurance from the announcement on August 30 that Contrarian Buy-**ExxonMobil (XOM)** is partnering with Russian government oil company Rosneft to spend up to \$500 billion in Arctic exploration. To balance risk and opportunity, we suggest a 4% position in LUKOY in a portfolio of 19 large cap and 7 small cap McDep buys. Meanwhile, results for the second quarter reported on August 31 exceeded our projections from five months ago in cash flow and earnings (see table [Next Twelve Months Operating and Financial Estimates](#) on page 2). Unlevered cash flow multiple (EV/Ebitda) of just 2.7 times attests to low valuation regardless of what we estimate for Net Present Value (NPV) (see table of valuation measures on page 3). Yet, we see our estimate of NPV of \$150 a share compared to current stock price near \$58 as consistent with our estimates for other large companies (see table [Functional Cash Flow and Present Value](#) on page 3). We believe investors should take advantage of current market turmoil to increase holdings of energy and global equities to suitable portfolio weightings relative to gold, bonds and cash.

Many Low McDep Ratios

All buy recommended stocks score high appreciation potential measured by low McDep Ratios and low cash flow multiples (see Tables 1-3 on pages 4-6). All buys are trading below 200-day averages (see Table 4 on page 7). Finally, oil price for the next six years is a profitable \$90 a barrel compared to the 40-week average of \$98 (see chart [Six-Year and One-Year Natural Gas and Oil Futures](#) on page 9).

Kurt H. Wulff, CFA



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Lukoil Oil Company									
Next Twelve Months Operating and Financial Estimates									
									<i>Next Twelve Months</i>
	<i>Q2</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>2011E</i>
	<i>6/30/10</i>	<i>12/31/10</i>	<i>2010</i>	<i>3/31/11</i>	<i>6/30/11</i>	<i>9/30/11</i>	<i>12/31/11</i>	<i>2011E</i>	<i>9/30/12</i>
Volume									
Natural gas (bcf)	159	168	655	169	160	162	162	652	643
Natural Gas (mmcf)	1,752	1,825	1,794	1,878	1,758	1,758	1,758	1,788	1,758
Days	91	92	365	90	91	92	92	365	366
Oil (mmb)	178	175	708	169	168	170	170	676	675
Oil (mbd)	1,951	1,905	1,940	1,873	1,844	1,844	1,844	1,851	1,844
Price									
Natural gas (\$/mcf)	1.00	0.95	0.99	1.00	1.00	1.00	1.00	1.00	1.00
Oil (\$/bbl)									
WTI Cushing	77.85	85.10	79.43	94.10	102.55	89.90	86.35	93.22	87.44
Lukoil export	76.86	85.35	78.27	102.67	113.75	99.72	95.79	102.95	96.99
NY Harbor 3-2-1 (\$/bbl)	12.13	11.15	9.68	17.69	27.68	36.18	33.85	28.85	33.27
Revenue (\$mm)									
Natural Gas	159	160	647	169	160	162	162	652	643
Oil	13,646	14,957	55,420	17,307	19,088	16,917	16,250	69,562	65,458
Other	12,207	13,727	49,536	12,319	15,824	15,824	15,824	59,792	63,297
Total	25,853	28,684	104,956	29,626	34,912	32,903	32,236	129,677	129,399
Ebitda (\$mm)									
Exploration and Production	2,321	2,897	10,597	3,455	3,724	3,074	2,954	13,207	11,898
Other	1,379	1,298	5,738	1,905	1,683	2,044	1,436	7,067	7,000
Total Ebitda	3,699	4,195	16,335	5,360	5,407	5,118	4,390	20,274	18,898
Exploration	29	161	336	28	85	85	85	283	340
Deprec., Deplet., & Amort.	1,030	1,040	4,154	1,059	1,149	1,149	1,149	4,506	4,596
Ebit	2,640	2,994	11,845	4,273	4,173	3,884	3,156	15,485	13,962
Interest	117	116	491	104	87	87	87	364	347
Ebt	2,524	2,877	11,355	4,168	4,086	3,797	3,069	15,121	13,616
Income Tax	574	691	2,351	639	814	721	583	2,757	2,585
Net Income (\$mm)									
Exploration and Production	1,534	1,603	6,226	2,287	1,583				
Other	672	660	2,780	1,396	482				
Unallocated	(256)	(77)	(2)	(154)	1,207				
Total	1,950	2,186	9,004	3,529	3,272	3,076	2,486	12,364	11,030
Shares (millions)	848	781	820	786	802	802	802	797	802
Per share (\$)	2.30	2.80	10.98	4.49	4.08	3.84	3.10	15.51	13.75
Ebitda Margin (E&P)	17%	19%	19%	20%	20%	18%	18%	19%	18%
Tax Rate	23%	24%	21%	15%	20%	19%	19%	18%	19%



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<i>Symbol</i>	LUKOY	<i>Ebitda Next Twelve Months ending 9/30/12 (US\$mm)</i>	18,900
<i>Rating</i>	Contrarian Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	58.69	<i>Natural Gas and Oil Production/Ebitda (%)</i>	63
<i>Pricing Date</i>	9/6/11	<i>Adjusted Reserves/Production NTM</i>	16.4
<i>Shares (mm)</i>	802	<i>EV/Ebitda</i>	2.7
<i>Market Capitalization (US\$mm)</i>	47,100	<i>PV/Ebitda</i>	6.6
<i>Debt (US\$mm)</i>	4,300	<i>Undeveloped Reserves (%)</i>	40
<i>Enterprise Value (EV) (US\$mm)</i>	51,400	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	17.63
<i>Present Value (PV) (US\$mm)</i>	124,600	<i>Present Value Proven Reserves(US\$/boe)</i>	5.89
<i>Net Present Value (US\$/share)</i>	150	<i>Present Value Proven Reserves(US\$/mcf)</i>	0.98
<i>Debt/Present Value</i>	0.03	<i>Earnings Next Twelve Months (US\$/sh)</i>	13.75
<i>McDep Ratio - EV/PV</i>	0.41	<i>Price/Earnings Next Twelve Months</i>	4
<i>Dividend Yield (%/year)</i>	3.4	<i>Indicated Annual Dividend (US\$/sh)</i>	1.99
Note: Estimated cash flow and earnings tied to one-year futures prices for oil.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$100 a barrel and natural gas, \$8 a million btu.			
For historical research on Lukoil since 2004 see www.mcdep.com/2luk.htm			

Lukoil					
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	116	25.3	12.1	1,400	1%
Oil	11,780	16.4	7.6	89,200	72%
Downstream	7,000		4.9	34,000	27%
	18,900	17.6	6.6	124,600	100%
Debt (US\$mm)					4,300
Net Present Value (US\$mm)					120,300
Shares (mm)					802
Net Present Value - Standard Estimate (US\$/sh)					150
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					171



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McDep Large Cap Energy Stocks								
Net Present Value and McDep Ratio								
			<i>Price</i>			<i>Net</i>		
			<i>(US\$/sh)</i>			<i>Present</i>	<i>Debt/</i>	
	<i>Symbol/Rating</i>		<i>6-Sep</i>	<i>Shares</i>	<i>Market</i>	<i>Value</i>	<i>Present</i>	<i>McDep</i>
	<i>B = Buy, CB (see below)</i>		<i>2011</i>	<i>(mm)</i>	<i>Cap</i>	<i>(US\$/sh)</i>	<i>Value</i>	<i>Ratio</i>
					<i>(US\$mm)</i>			
U.S. Integrated								
Exxon Mobil Corporation	XOM	CB	71.15	4,912	350,000	112.00	0.11	0.68
ConocoPhillips	COP	CB	65.70	1,380	91,000	119.00	0.20	0.64
Chevron Corporation	CVX	CB	95.61	2,009	192,000	170.00	0.07	0.59
<i>Total or Median</i>					<i>633,000</i>		<i>0.11</i>	<i>0.64</i>
Europe								
BG Group plc	BRGXF		19.89	3,410	67,800	25.00	0.15	0.83
Royal Dutch Shell plc	RDS-A	CB	64.07	3,114	200,000	96.00	0.18	0.73
Statoil ASA (33%)	STO	CB	22.83	1,050	24,000	44.00	0.21	0.62
Total S.A.	TOT	CB	45.18	2,256	102,000	100.00	0.16	0.54
BP plc	BP		36.40	3,186	116,000	93.00	0.23	0.53
<i>Total or Median</i>					<i>510,000</i>		<i>0.18</i>	<i>0.62</i>
Brazil/Russia/Australia/China								
Woodside Petroleum Ltd.	WOPEY		35.30	774	27,300	45.00	0.15	0.82
CNOOC Limited (36%)	CEO		182.25	161	29,300	250.00	0.04	0.74
PetroChina Company Ltd (14%)	PTR	CB	124.77	256	32,000	210.00	0.16	0.66
Petrobras	PBR	CB	27.42	6,513	178,600	62.00	0.13	0.52
Gazprom (50%)	OGZPY	CB	11.59	5,750	66,600	28.00	0.09	0.46
Lukoil Oil Company	LUKOY	CB	58.69	802	47,100	150.00	0.03	0.41
<i>Total or Median</i>					<i>381,000</i>		<i>0.11</i>	<i>0.59</i>
U.S. Independent								
Chesapeake Energy Corp.	CHK		30.93	751	23,200	33.00	0.38	0.96
Southwestern Energy Company	SWN		36.33	350	12,700	42.00	0.09	0.88
Anadarko Petroleum Corp.	APC		70.45	500	35,200	90.00	0.32	0.85
EOG Resources, Inc.	EOG	CB	86.96	250	21,700	130.00	0.13	0.71
Occidental Petroleum Corp.	OXY	CB	82.72	813	67,300	123.00	0.07	0.69
Devon Energy Corporation	DVN	CB	63.85	423	27,000	112.00	0.10	0.61
Marathon Oil Corporation	MRO	CB	25.04	717	17,950	54.00	0.12	0.53
<i>Total or Median</i>					<i>205,100</i>		<i>0.12</i>	<i>0.71</i>
Canada								
Cenovus Energy Inc.	CVE	CB	34.36	758	26,000	49.00	0.15	0.75
Penn West Exploration	PWE		17.73	467	8,300	31.00	0.22	0.66
Imperial Oil Limited (30%)	IMO	CB	39.06	256	10,000	62.00	0.09	0.66
EnCana Corporation	ECA	CB	23.64	739	17,500	51.00	0.23	0.59
Suncor Energy	SU	CB	29.63	1,587	47,000	64.00	0.12	0.53
Canadian Oil Sands Limited	COSWF	CB	23.04	485	11,200	52.00	0.05	0.47
<i>Total or Median</i>					<i>120,000</i>		<i>0.14</i>	<i>0.62</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\$100 a barrel and natural gas, \$8 a million btu.								



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Table 3								
McDep Large Cap Energy Stocks								
Value Multiples and Distribution Yield								
			Price (US\$/sh)	Adjustd Resrvs/ Prod	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
	Symbol/Rating		6-Sep 2011	NTM	NTM	NTM	NTM	
	B = Buy, CB (see below)							
U.S. Integrated								
Exxon Mobil Corporation	XOM	CB	71.15	14.1	7.8	5.3	9	2.6
ConocoPhillips	COP	CB	65.70	12.0	8.0	5.1	9	4.0
Chevron Corporation	CVX	CB	95.61	8.5	7.1	4.2	8	3.3
	<i>Total or Median</i>			12.0	7.8	5.1	9	3.3
Europe								
BG Group plc	BRGXF		19.89	17.1	10.2	8.4	16	1.1
Royal Dutch Shell plc	RDS-A	CB	64.07	9.0	7.0	5.1	8	5.2
BP plc	BP		36.40	11.1	8.5	4.5	6	4.6
Statoil ASA (33%)	STO	CB	22.83	6.8	7.1	4.4	9	5.1
Total S.A.	TOT	CB	45.18	9.9	7.7	4.2	6	7.1
	<i>Total or Median</i>			9.9	7.7	4.5	8	5.1
Brazil/Russia/Australia/China								
Woodside Petroleum Ltd.	WOPEY		35.30	22.3	13.2	10.8	18	3.0
Petrobras	PBR	CB	27.42	13.5	11.6	6.0	9	4.6
PetroChina Company Ltd (14%)	PTR	CB	124.77	13.1	7.2	4.7	10	4.3
CNOOC Limited (36%)	CEO		182.25	6.5	5.9	4.3	8	3.2
Lukoil Oil Company	LUKOY	CB	58.69	16.4	6.6	2.7	4	3.4
Gazprom (50%)	OGZPY	CB	11.59	30.2	5.3	2.5	3	2.8
	<i>Total or Median</i>			14.9	6.9	4.5	8	3.3
U.S. Independent								
Chesapeake Energy Corp.	CHK		30.93	10.5	10.8	10.4	10	1.1
Southwestern Energy Company	SWN		36.33	7.5	11.2	9.8	21	-
Anadarko Petroleum Corp.	APC		70.45	7.2	8.3	7.0		0.5
Occidental Petroleum Corp.	OXY	CB	82.72	11.5	8.7	6.0	12	2.2
Devon Energy Corporation	DVN	CB	63.85	10.2	9.4	5.8	11	1.1
EOG Resources, Inc.	EOG	CB	86.96	9.1	7.8	5.6	22	0.7
Marathon Oil Corporation	MRO	CB	25.04	10.3	7.0	3.7	9	2.4
	<i>Total or Median</i>			10.2	8.7	6.0	11	1.1
Canada								
Cenovus Energy Inc.	CVE	CB	34.36	22.3	11.7	8.8	21	2.4
Imperial Oil Limited (30%)	IMO	CB	39.06	43.1	12.6	8.4	13	1.1
EnCana Corporation	ECA	CB	23.64	11.9	13.1	7.7	78	3.4
Penn West Exploration	PWE		17.73	8.5	10.8	7.2	13	6.2
Canadian Oil Sands Limited	COSWF	CB	23.04	26.1	12.2	5.8	9	5.3
Suncor Energy	SU	CB	29.63	25.2	9.9	5.2	13	1.5
	<i>Total or Median</i>			23.8	12.0	7.4	13	2.9
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 September 30, 2012; 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 Stocks								
Rank by Enterprise Value to 200 Day Average								
			Price					
	Symbol		(\$/sh)	Enterprise Value/				
			6-Sep	52Wk	52Wk	50 Day	200 Day	McDep
	Rating		2011	High	Low	Avg.	Avg.	Ratio
U.S. Integrated								
Chevron Corporation	CVX	CB	95.61	0.88	1.21	0.95	0.97	0.59
ConocoPhillips	COP	CB	65.70	0.86	1.14	0.95	0.94	0.64
Exxon Mobil Corporation	XOM	CB	71.15	0.83	1.14	0.93	0.91	0.68
	<i>Median</i>			<i>0.86</i>	<i>1.14</i>	<i>0.95</i>	<i>0.94</i>	<i>0.64</i>
Europe								
Statoil ASA (33%)	STO	CB	22.83	0.84	1.10	0.97	0.95	0.62
Royal Dutch Shell plc	RDS-A	CB	64.07	0.86	1.12	0.95	0.94	0.73
BG Group plc	BRGXF		99.44	0.80	1.17	0.92	0.91	0.83
BP plc	BP		36.40	0.83	1.02	0.92	0.89	0.53
Total S.A.	TOT	CB	45.18	0.77	1.02	0.91	0.86	0.54
	<i>Median</i>			<i>0.83</i>	<i>1.11</i>	<i>0.94</i>	<i>0.92</i>	<i>0.63</i>
Brazil/Russia/Australia/China								
PetroChina Company Ltd (14%)	PTR	CB	124.77	0.83	1.11	0.93	0.93	0.66
Lukoil Oil Company	LUKOY	CB	58.69	0.79	1.11	0.95	0.93	0.41
Gazprom (50%)	OGZPY	CB	11.59	0.71	1.11	0.89	0.85	0.46
Woodside Petroleum Ltd.	WOPEY		35.30	0.72	1.06	0.89	0.83	0.82
Petrobras	PBR	CB	27.42	0.71	1.09	0.91	0.83	0.52
CNOOC Limited (36%)	CEO		182.25	0.68	1.05	0.87	0.80	0.74
	<i>Median</i>			<i>0.71</i>	<i>1.10</i>	<i>0.90</i>	<i>0.84</i>	<i>0.59</i>
U.S. Independent								
Chesapeake Energy Corp.	CHK		30.93	0.91	1.25	0.99	1.02	0.96
Anadarko Petroleum Corp.	APC		70.45	0.88	1.22	0.96	0.96	0.85
Southwestern Energy Company	SWN		37.01	0.76	1.16	0.89	0.92	0.88
EOG Resources, Inc.	EOG	CB	86.96	0.76	1.02	0.91	0.88	0.71
Occidental Petroleum Corp.	OXY	CB	82.72	0.72	1.11	0.88	0.85	0.69
Devon Energy Corporation	DVN	CB	63.85	0.72	1.04	0.88	0.82	0.61
Marathon Oil Corporation	MRO	CB	25.04					0.53
	<i>Median</i>			<i>0.76</i>	<i>1.14</i>	<i>0.90</i>	<i>0.90</i>	<i>0.71</i>
Canada								
Cenovus Energy Inc.	CVE	CB	34.36	0.87	1.22	0.95	0.98	0.75
Imperial Oil Limited (30%)	IMO	CB	39.06	0.73	1.07	0.91	0.88	0.66
EnCana Corporation	ECA	CB	23.64	0.77	1.02	0.90	0.85	0.59
Canadian Oil Sands Limited	COSWF	CB	23.03	0.68	1.10	0.90	0.82	0.47
Penn West Exploration	PWE		17.73	0.70	1.03	0.89	0.80	0.66
Suncor Energy	SU	CB	29.63	0.67	1.02	0.86	0.79	0.53
	<i>Median</i>			<i>0.73</i>	<i>1.07</i>	<i>0.90</i>	<i>0.85</i>	<i>0.66</i>

CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average.



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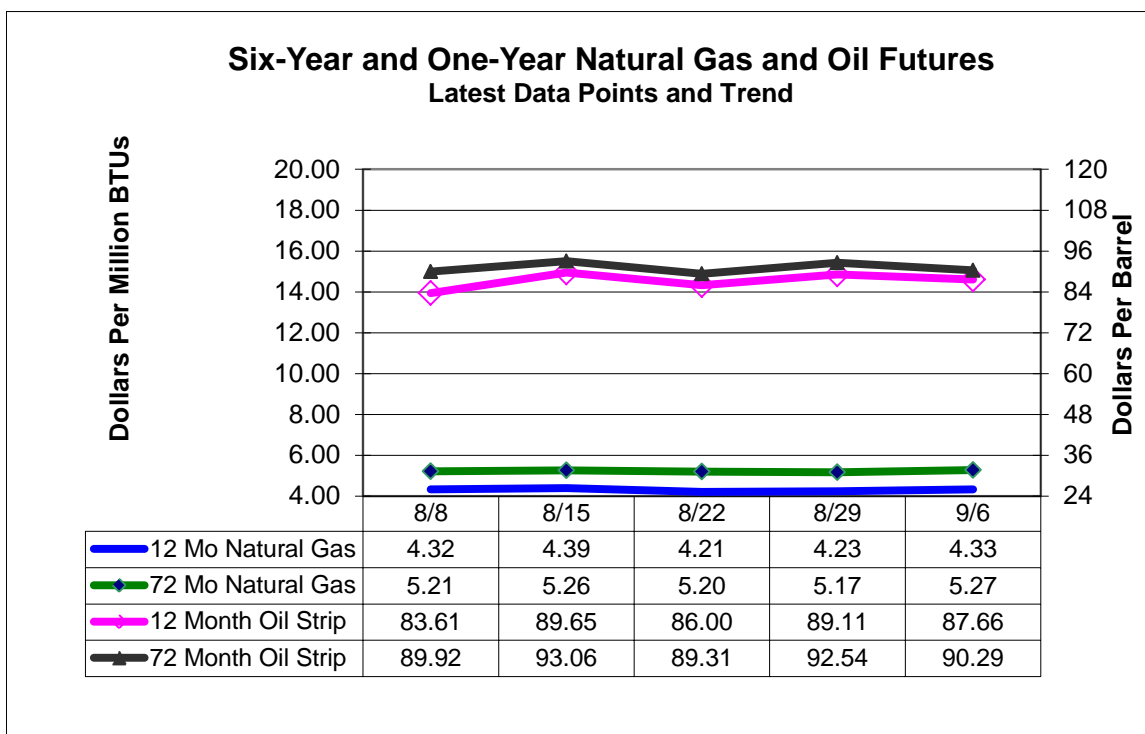
Index of Recent Research			
Stock Ideas			
<i>Date</i>	<i>Symbol</i>	<i>Subject</i>	<i>Theme</i>
2-Sep	XEC	Cimarex Energy	Solid Company, Bouncy Stock
30-Aug	PTR	PetroChina	China Growth at Low Stock Market Value (Meter Reader)
23-Aug	PBR	Petrobras	Product Price Controls Delay Cash Growth (Meter Reader)
19-Aug	DMLP	Dorchester Minerals, L.P.	Preferred Risk 7% Income with Oil and Gas Upside (ISCW)
16-Aug	COSWF	Canadian Oil Sands Limited	Undervalued Laggard (Meter Reader)
9-Aug	HK	Petrohawk	Discontinue on Pending Acquisition at NPV Premium (ISCW)
9-Aug	RRC	Range Resources	Raise NPV to \$70 from \$60 a Share (Income and Small Cap)
2-Aug	CVX	Chevron	Raise NPV to \$170 from \$154 on Cash Flow Margin
2-Aug	TOT	Total	Lower NPV to \$100 from \$111 on Cash Flow Margin (MReader)
29-Jul	WLL	Whiting Petroleum	Appreciation Potential after Stock Price Decline (ISCW)
27-Jul	APC	Anadarko Petroleum	Raise NPV to \$90 from \$78 on Oil Growth
26-Jul	ECA	Encana	High Margin at Low Natural Gas Price (Meter Reader)
19-Jul	COP	ConocoPhillips	Downstream Spinoff Promises to Unlock Value (Meter Reader)
5-Jul	DVN	Devon Energy	Thermal Oil Growth in Canada (Meter Reader)
28-Jun	MRO	Marathon Oil	Buy New U.S. Independent Producer (Meter Reader)
24-Jun	HGT, SJT, MTR	Hugoton, San Juan, Mesa RTrust	Income Enhancers (ISC Weekly)
21-Jun	WOPEY	Woodside Petroleum	Remove Buy on Costs and Delay (Meter Reader)
17-Jun	PEYUF	Peyto Exploration	Update Growth (Income and Small Cap)
14-Jun	CVE	Cenovus Energy	Accelerating Deep Oil Sands (Meter Reader)
7-Jun	IMO	Imperial Oil	Double Oil Production by 2020 (Meter Reader)
31-May	OXY	Occidental Petroleum	Triple California Oil Production by 2020 (Meter Reader)
24-May	STO	Statoil	Nordic Oil and Gas Stalwart (Meter Reader)
20-May	SBR	Sabine Royalty Trust	Raise NPV to \$70 from \$59 on Rising Volume (ISCW)
10-May	EOG	EOG Resources	High-Profit Light Sweet North American Oil (Meter Reader)
29-Apr	BIREF	Birchcliff Energy	Independent Engineer Confirms Natural Gas Upside (ISCW)
22-Apr	ERF	Enerplus Corporation	New Buy - Bakken and Marcellus with 7% Income (ISCW)
29-Mar	XOM	Exxon Mobil	Natural Gas Enhanced by Nuclear (Meter Reader)
15-Mar	LUKOY	Lukoil	Lukoil and Russia Ride the Rise of Oil (Meter Reader)
22-Feb	OGZPY	Gazprom	Nearer Accord on Natural Gas to China (Meter Reader)
For historical research by stock, go to mcdep.com , click on Stock Ideas , click on stock by name.			
Meter Reader			
30-Aug	PTR	PetroChina	China Growth at Low Stock Market Value
23-Aug	PBR	Petrobras	Product Price Controls Delay Cash Growth
16-Aug	COSWF	Canadian Oil Sands Ltd.	Undervalued Laggard
9-Aug			Buy Oil and Gas on the Decline
For earlier editions, go to mcdep.com , click on Meter Reader .			
Income and Small Cap Weekly			
2-Sep	XEC	Cimarex Energy	Solid Company, Bouncy Stock
26-Aug	RRC, PEYUF, BIREF, CRT, MTR		Invest in Natural Gas
19-Aug	DMLP	Dorchester Minerals, L.P.	Preferred Risk 7% Income with Oil and Gas Upside
12-Aug	BRY, DNR, LGCY	Berry, Denbury, Legacy	Raise NPV
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Meter Reader

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September 6, 2011



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