



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

December 27, 2011

## Natural Gas Buys and Contrarian Buys for 2012

### Summary and Recommendation

Despite reducing our long-term price for North American Natural Gas (NANG) to \$6 a million Btu from \$8, we see attractive value in Buy recommendations **Encana (ECA)**, **Devon Energy (DVN)** and **EOG Resources (EOG)** at McDep Ratios of 0.64, 0.66 and 0.85 respectively. Decreasing concentration on NANG at 88%, 52% and 36% ([Table 1](#)) determines much of the reduction in Net Present Value (NPV) to \$37 a share from \$46 for ECA, to \$102 from \$112 for DVN and to \$120 from \$130 for EOG ([Table 2](#)). Natural gas concentration likely has already contributed to recent stock price performance measured by ratio of enterprise value to 200-day average at 0.80, 0.87 and 1.00 respectively ([Table 4](#)). Investment in pure-play Encana may require extra patience to realize new gains. Devon's growing oil production offsets low natural gas price. EOG is a leader in oil shale in the Bakken of North Dakota and Eagle Ford of Texas. The risk of further underperformance of NANG relative to oil on an industry basis is limited by the Large Cap Composite concentration that has fallen to 8% of present value ([Table 1](#)).

With no change in present value, Rest of World Natural Gas (ROWNG) is holding its share of industry present value at 15%, probably because price is more closely tied to oil. Buy recommendations **Statoil (STO)**, **Total (TOT)**, and **Gazprom (OGZPY)** at McDep Ratios of 0.67, 0.58 and 0.44 respectively, are most concentrated on ROWNG at 34%, 21% and 64%. Recent stock price action places ratio of enterprise value to 200-day average at 1.02, 0.97 and 0.86 respectively. Statoil stock may be in a rising trend with favorable oil exploration results in the North Sea while it received a price for natural gas more than double the U.S. Henry Hub quote in the third quarter. We see diversification value in Total's euro domicile and Gazprom's emerging market domicile.

Both oil price and natural gas price represented by contracts on the New York Mercantile Exchange (Nymex) proved to be more continental than global in 2011. Oil quotes have been some 10-20% under the global level. Natural gas markets have lost their intercontinental connection as North America trades at a third to half the global market. Comparatively cheap energy is a reason to be optimistic about U.S. economic performance in spite of divisive election-year politics.

Nymex oil for the next six years at \$94 a barrel is below the 40-week average of \$96. Six-year Nymex natural gas trades at \$4.43 a million Btu compared to its 40-week average of \$5.22 (see chart [Six-Year and One-Year Natural Gas and Oil Futures](#) on page 7). Oil at \$94 is thermally equivalent to natural gas at \$16.

Kurt H. Wulff, CFA





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<b>McDep Large Cap Energy Stocks</b>								
<b>Net Present Value and McDep Ratio</b>								
			Price (US\$/sh)	Shares	Market Cap (US\$mm)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
	Symbol/Rating		27-Dec 2011	(mm)				
	B = Buy, CB (see below)							
<b>U.S. Integrated</b>								
Exxon Mobil Corporation	XOM	B	85.28	4,843	413,000	110.00	0.12	0.80
ConocoPhillips	COP	B	72.94	1,345	98,000	114.00	0.21	0.72
Chevron Corporation	CVX	B	107.98	1,999	216,000	170.00	0.07	0.66
<i>Total or Median</i>					<i>727,000</i>		<i>0.12</i>	<i>0.72</i>
<b>Europe</b>								
BG Group plc	BRGXF		21.00	3,412	71,700	25.00	0.16	0.86
Royal Dutch Shell plc	RDS-A	B	73.43	3,124	229,000	102.00	0.16	0.77
Statoil ASA (33%)	STO	B	25.69	1,050	27,000	44.00	0.21	0.67
BP plc	BP		43.14	3,170	137,000	84.00	0.25	0.64
Total S.A.	TOT	CB	50.66	2,261	115,000	100.00	0.14	0.58
<i>Total or Median</i>					<i>580,000</i>		<i>0.16</i>	<i>0.67</i>
<b>Brazil/Russia/Australia/China</b>								
Woodside Petroleum Ltd.	WOPEY		32.02	787	25,200	45.00	0.16	0.76
CNOOC Limited (36%)	CEO		176.30	162	28,500	250.00	0.01	0.71
PetroChina Company Ltd (14%)	PTR	CB	121.43	256	31,100	210.00	0.17	0.65
Petrobras	PBR	CB	25.49	6,465	164,800	62.00	0.14	0.49
Gazprom (50%)	OGZPY	CB	10.84	5,750	62,300	28.00	0.08	0.44
Lukoil Oil Company	LUKOY	CB	52.85	799	42,200	150.00	0.02	0.37
<i>Total or Median</i>					<i>354,000</i>		<i>0.11</i>	<i>0.57</i>
<b>U.S. Independent</b>								
Anadarko Petroleum Corp.	APC		77.23	498	38,500	86.00	0.30	0.93
Chesapeake Energy Corp.	CHK		23.52	753	17,700	27.00	0.45	0.93
EOG Resources, Inc.	EOG	B	99.01	258	25,500	120.00	0.14	0.85
Southwestern Energy Company	SWN		32.57	350	11,400	40.00	0.09	0.83
Occidental Petroleum Corp.	OXY	B	95.45	813	77,600	120.00	0.07	0.81
Devon Energy Corporation	DVN	CB	62.36	415	25,900	102.00	0.13	0.66
Marathon Oil Corporation	MRO	B	29.34	714	20,950	54.00	0.12	0.60
<i>Total or Median</i>					<i>217,600</i>		<i>0.13</i>	<i>0.83</i>
<b>Canada</b>								
Penn West Exploration	PWE		20.16	469	9,500	30.00	0.22	0.75
Cenovus Energy Inc.	CVE	CB	32.92	758	25,000	48.00	0.15	0.73
Imperial Oil Limited (30%)	IMO	CB	43.46	256	11,100	62.00	0.09	0.73
EnCana Corporation	ECA	CB	18.69	738	13,800	37.00	0.28	0.64
Suncor Energy	SU	CB	28.68	1,582	45,400	64.00	0.12	0.51
Canadian Oil Sands Limited	COSWF	CB	22.63	485	11,000	52.00	0.06	0.47
<i>Total or Median</i>					<i>116,000</i>		<i>0.13</i>	<i>0.69</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, \$6 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	EV/ Ebitda	P/E	Divd or Distrib NTM
	Symbol/Rating		27-Dec 2011	NTM	NTM	NTM	NTM	(%)
	B = Buy, CB (see below)							
<b>U.S. Integrated</b>								
Exxon Mobil Corporation	XOM	B	85.28	14.3	7.0	5.6	9	2.2
ConocoPhillips	COP	B	72.94	12.6	7.1	5.1	9	3.6
Chevron Corporation	CVX	B	107.98	8.8	6.2	4.1	7	3.0
	<i>Total or Median</i>			12.6	7.0	5.1	9	3.0
<b>Europe</b>								
BG Group plc	BRGXF		21.00	16.8	9.5	8.2	15	1.1
Royal Dutch Shell plc	RDS-A	B	73.43	9.0	6.0	4.6	8	4.6
BP plc	BP		43.14	11.4	6.9	4.4	5	3.9
Statoil ASA (33%)	STO	B	25.69	6.6	6.1	4.1	8	4.1
Total S.A.	TOT	CB	50.66	9.9	6.7	3.9	6	5.9
	<i>Total or Median</i>			9.9	6.7	4.4	8	4.1
<b>Brazil/Russia/Australia/China</b>								
Woodside Petroleum Ltd.	WOPEY		32.02	20.6	8.5	6.4	10	3.4
Petrobras	PBR	CB	25.49	13.6	9.3	4.6	6	5.0
PetroChina Company Ltd (14%)	PTR	CB	121.43	13.3	6.3	4.1	7	4.5
CNOOC Limited (36%)	CEO		176.30	6.9	5.1	3.6	6	3.6
Gazprom (50%)	OGZPY	CB	10.84	30.2	5.8	2.5	4	2.8
Lukoil Oil Company	LUKOY	CB	52.85	16.6	5.8	2.1	3	3.6
	<i>Total or Median</i>			15.1	6.0	3.8	6	3.6
<b>U.S. Independent</b>								
Southwestern Energy Company	SWN		32.57	7.2	12.9	10.7	19	-
Chesapeake Energy Corp.	CHK		23.52	9.7	8.6	8.0	8	1.5
Anadarko Petroleum Corp.	APC		77.23	7.2	7.3	6.8	22	0.5
EOG Resources, Inc.	EOG	B	99.01	9.0	6.7	5.7	19	0.6
Occidental Petroleum Corp.	OXY	B	95.45	11.1	6.8	5.5	11	1.9
Devon Energy Corporation	DVN	CB	62.36	10.2	8.1	5.4	10	1.1
Marathon Oil Corporation	MRO	B	29.34	9.8	5.7	3.4	7	2.0
	<i>Total or Median</i>			9.7	7.3	5.7	11	1.1
<b>Canada</b>								
Imperial Oil Limited (30%)	IMO	CB	43.46	43.0	12.1	8.8	13	1.0
Cenovus Energy Inc.	CVE	CB	32.92	21.3	11.2	8.2	22	2.4
EnCana Corporation	ECA	CB	18.69	12.2	12.1	7.8	39	4.3
Penn West Exploration	PWE		20.16	8.4	9.5	7.1	16	5.3
Canadian Oil Sands Limited	COSWF	CB	22.63	27.8	10.5	4.9	7	5.2
Suncor Energy	SU	CB	28.68	24.5	9.1	4.7	8	1.5
	<i>Total or Median</i>			22.9	10.8	7.4	15	3.3
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, 2012; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



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			Price (\$/sh)	Enterprise Value/					
	Symbol		27-Dec 2011	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	McDep Ratio	
		Rating							
<b>U.S. Integrated</b>									
	Exxon Mobil Corporation	XOM	B	85.28	0.97	1.22	1.06	1.06	0.80
	Chevron Corporation	CVX	B	107.98	0.98	1.22	1.05	1.06	0.66
	ConocoPhillips	COP	B	72.94	0.92	1.16	1.03	1.01	0.72
	<i>Median</i>			<i>0.97</i>	<i>1.22</i>	<i>1.05</i>	<i>1.06</i>	<i>0.72</i>	
<b>Europe</b>									
	Royal Dutch Shell plc	RDS-A	B	73.43	0.95	1.20	1.04	1.05	0.77
	Statoil ASA (33%)	STO	B	25.69	0.90	1.18	1.01	1.02	0.67
	BP plc	BP		43.14	0.92	1.15	1.01	1.01	0.64
	Total S.A.	TOT	CB	50.66	0.83	1.19	1.00	0.97	0.58
	BG Group plc	BRGXF		105.00	0.84	1.16	0.99	0.96	0.86
	<i>Median</i>			<i>0.91</i>	<i>1.18</i>	<i>1.01</i>	<i>1.02</i>	<i>0.69</i>	
<b>Brazil/Russia/Australia/China</b>									
	PetroChina Company Ltd (14%)	PTR	CB	121.43	0.81	1.07	0.97	0.93	0.65
	Lukoil Oil Company	LUKOY	CB	52.85	0.71	1.13	0.97	0.88	0.37
	Petrobras	PBR	CB	25.49	0.67	1.15	0.98	0.87	0.49
	Gazprom (50%)	OGZPY	CB	10.84	0.67	1.20	0.97	0.86	0.44
	CNOOC Limited (36%)	CEO		176.30	0.65	1.24	0.95	0.84	0.71
	Woodside Petroleum Ltd.	WOPEY		32.02	0.67	1.08	0.94	0.82	0.76
	<i>Median</i>			<i>0.67</i>	<i>1.14</i>	<i>0.97</i>	<i>0.86</i>	<i>0.57</i>	
<b>U.S. Independent</b>									
	Anadarko Petroleum Corp.	APC		77.23	0.93	1.21	0.99	1.01	0.93
	Occidental Petroleum Corp.	OXY	B	95.45	0.82	1.39	1.03	1.01	0.81
	EOG Resources, Inc.	EOG	B	99.01	0.84	1.37	1.02	1.00	0.85
	Marathon Oil Corporation	MRO	B	29.34	0.87	1.37	1.02	1.00	0.60
	Chesapeake Energy Corp.	CHK		23.52	0.79	1.03	0.96	0.88	0.93
	Devon Energy Corporation	DVN	CB	62.36	0.71	1.18	0.98	0.87	0.66
	Southwestern Energy Company	SWN		41.22	0.69	1.05	0.86	0.83	0.83
	<i>Median</i>			<i>0.82</i>	<i>1.21</i>	<i>0.99</i>	<i>1.00</i>	<i>0.83</i>	
<b>Canada</b>									
	Imperial Oil Limited (30%)	IMO	CB	43.46	0.80	1.29	1.04	0.98	0.73
	Penn West Exploration	PWE		20.16	0.77	1.37	1.09	0.97	0.75
	Cenovus Energy Inc.	CVE	CB	32.92	0.84	1.16	1.00	0.95	0.73
	Canadian Oil Sands Limited	COSWF	CB	22.56	0.67	1.27	1.06	0.88	0.47
	Suncor Energy	SU	CB	28.68	0.65	1.20	0.97	0.84	0.51
	EnCana Corporation	ECA	CB	18.69	0.67	1.03	0.97	0.80	0.64
	<i>Median</i>			<i>0.77</i>	<i>1.21</i>	<i>1.00</i>	<i>0.95</i>	<i>0.73</i>	

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



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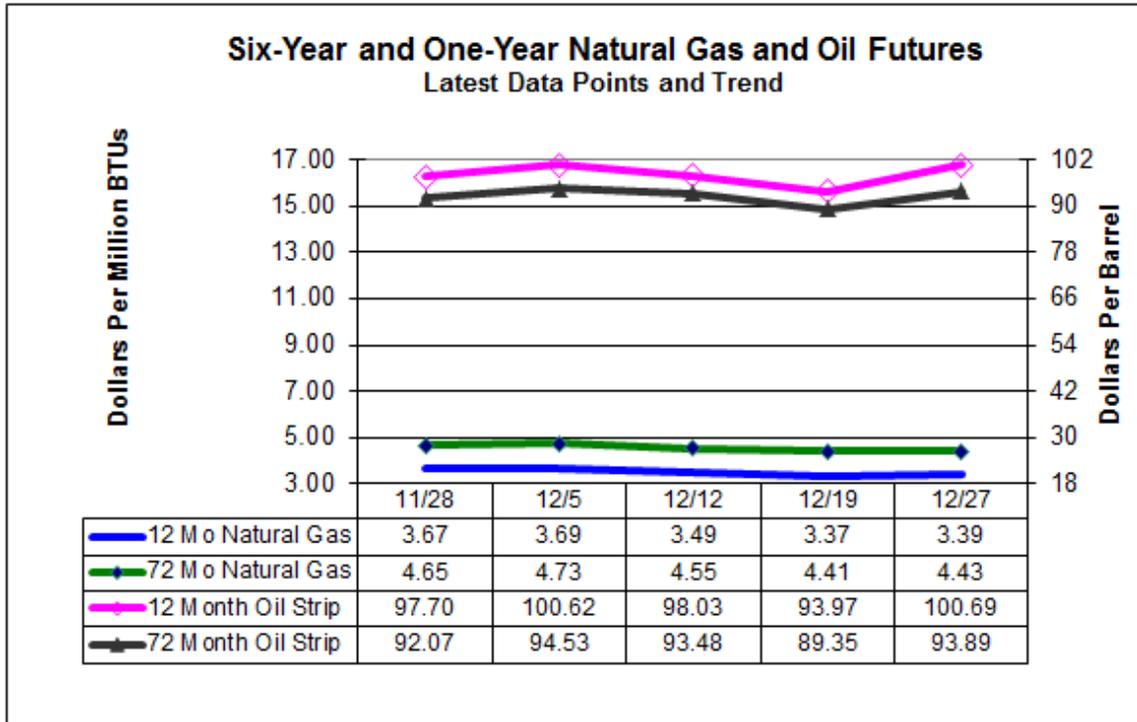
Index of Recent Research			
<b>Stock Ideas</b>			
<i>Date</i>	<i>Symbol</i>	<i>Subject</i>	<i>Theme</i>
9-Dec	PETD	PDC Energy	Raise NPV to \$36 from \$32 on Wattenberg Drilling (ISCW)
8-Dec	COSWF	Canadian Oil Sands Limited	Dividend Upside in 2012
6-Dec	COP	ConocoPhillips	Buy Ahead of Downstream Spinoff (Meter Reader)
2-Dec	XEC	Cimarex Energy	Hedged against Frackophobia (ISCW)
29-Nov	LUKOY, OGZPY	Lukoil, Gazprom	Oil and Gas Undervalued in Russian Stocks (Meter Reader)
23-Nov	WLL	Whiting Petroleum	North Dakota Shale Oil (Income and Small Cap Weekly)
22-Nov	XOM	Exxon Mobil	Stash Your Cash in ExxonMobil Stock (Meter Reader)
18-Nov	DMLP	Dorchester Minerals, L.P.	Insider Accumulation (Income and Small Cap Weekly)
15-Nov	CVE, IMO, SU, COSWF		Buy Canadian Oil on U.S. Presidential Disappointment (MR)
8-Nov	DVN, EOG, OXY, MRO		U.S. Independent Shale Buys (Meter Reader)
4-Nov	NDRO	Enduro Royalty Trust	New Bottom Line Cash Payer (Income and Small Cap Weekly)
1-Nov	RDS	Royal Dutch Shell plc	Raise NPV to \$102 from \$96 on Reappearing Luster (MR)
25-Oct	ECA, PBR	Encana, Petrobras	Most Out-of-Favor Buys (Meter Reader)
18-Oct	APC, BP	Anadarko Petroleum, BP plc	Settle Oil Spill Dispute (Meter Reader)
14-Oct	ERF	Enerplus Corporation	Marcellus, Bakken and Canada with 8% Income (ISCW)
3-Oct	STO	Statoil	Giant North Sea Oil Discovery (Meter Reader)
7-Oct	BIREF	Birchcliff Energy	Seeks Offers to Acquire the Company (ISCW)
30-Sep	RRC, WLL, XEC, LINE, LGCY		5 Ideas from IPAA San Francisco
23-Sep	SJT, HGT	San Juan Basin RT, Hugoton RT	Transfer Buy to SJT from HGT (Income and Small Cap Wkly)
16-Sep	FRHLF, PBT, SBR, DMLP, CRT		Volume Upside in Top Line Cash Payers (Income and Small Cap)
13-Sep	EOG	EOG Resources	Horizontal Leads Renewed U.S. Oil Growth (Meter Reader)
30-Aug	PTR	PetroChina	China Growth at Low Stock Market Value (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)
5-Jul	DVN	Devon Energy	Thermal Oil Growth in Canada (Meter Reader)
21-Jun	WOPEY	Woodside Petroleum	Remove Buy on Costs and Delay (Meter Reader)
17-Jun	PEYUF	Peyto Exploration	Update Growth (Income and Small Cap)
For historical research by stock, go to <a href="http://mcdep.com">mcdep.com</a> , click on <a href="#">Stock Ideas</a> , click on stock by name.			
<b>Meter Reader</b>			
20-Dec			Centenarians Win Large Cap Race in 2011
13-Dec			No Fluff
6-Dec	COP	ConocoPhillips	Buy Ahead of Downstream Spinoff
29-Nov	LUKOY, OGZPY	Lukoil, Gazprom	Oil and Gas Undervalued in Russian Stocks
For earlier editions, go to <a href="http://mcdep.com">mcdep.com</a> , click on <a href="#">Meter Reader</a> .			
<b>Income and Small Cap Weekly</b>			
22-Dec			New NPV for \$6 Long-Term Natural Gas Price
16-Dec			Hits Offset Misses in Small Cap Producers
9-Dec	PETD	PDC Energy	Raise NPV to \$36 from \$32 on Wattenberg Drilling
2-Dec	XEC	Cimarex	Hedged against Frackophobia
For earlier editions, go to <a href="http://mcdep.com">mcdep.com</a> , click on <a href="#">Energy Income</a> .			
<b>Industry Ideas</b>			
10-Oct	China Buys More Oil and Gas in Canada		Sinopec Bids for Daylight Energy



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**Disclaimer:** This analysis was prepared by Kurt Wulff, Manager of McDep LLC. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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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.