



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

July 24, 2012

CNOOC (CEO) to Acquire Nexen (NXY) at 0.93 McDep 60% Premium to Recent Stock Price in \$21 Billion Canadian Deal

Summary and Recommendation

A bold move by a knowledgeable corporate buyer to acquire oil resources in the stock market implies value some 60% higher than stock price for the median of our large cap buy recommendations. **CNOOC Ltd. (CEO)**, the Chinese independent oil producer in our research coverage, made a cash offer on July 23 for all the shares of Nexen (NXY), a Canadian independent oil producer not in our coverage, at US\$27 a share, 60% above recent share price of US\$17. According to our rough estimate made after the deal was announced, Net Present Value (NPV) may be about \$30 a share for NXY (see table [Nexen -- Summary Valuation](#) below). If the median buy recommendation were to be priced at the same McDep Ratio of 0.93 that CNOOC would pay for Nexen, the stock price increase would also be about 60%. Though the median buy has a lower McDep Ratio than Nexen had (0.65 compared to 0.70), the greater unlevered gain is dampened on the levered stock price basis by lower ratio of debt for the median buy (0.15 compared to 0.30). More practically, the likelihood of a buy recommendation benefitting from a takeover will be influenced by size. In that case, the large cap candidates in order of increasing market cap are **Canadian Oil Sands (COSWF)** at near \$10 billion, **Encana (ECA)** at \$15 and **Cenovus (CVE)** at \$24. Comparable U.S. possibilities include **Marathon (MRO)** at \$18 billion, **Devon (DVN)** at \$23 and **EOG Resources (EOG)** at \$26. We expect the Nexen deal to be approved by the Canadian government. While the U.S. was irrationally xenophobic in blocking CNOOC's bid for Unocal in the last decade, times have changed and the U.S. is more likely to approve a deal today. In any case, the proposed takeover is good for confidence in estimated values for oil and gas producers (see [Tables 1-4](#) on pages 2-5).

Kurt H. Wulff, CFA

Nexen - Summary Valuation			
<i>Symbol</i>	NXY	<i>Ebitda Next Twelve Months ending 6/30/13 (US\$m)</i>	2,800
<i>Rating</i>		<i>Natural Gas/Ebitda (%)</i>	5
<i>Offer Price (US\$/sh)</i>	27.00	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	7/23/12	<i>Adjusted Reserves/Production NTM</i>	9.8
<i>Shares (mm)</i>	529	<i>EV/Ebitda</i>	7.6
<i>Market Capitalization (US\$m)</i>	14,300	<i>PV/Ebitda</i>	8.2
<i>Debt (US\$m)</i>	6,900	<i>Undeveloped Reserves (%)</i>	53
<i>Enterprise Value (EV) (US\$m)</i>	21,200	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	37.05
<i>Present Value (PV) (US\$m)</i>	22,800	<i>Present Value Proven Reserves(US\$/boe)</i>	22.63
<i>Net Present Value (US\$/share)</i>	30	<i>Ebitda Margin NTM (%)</i>	50
<i>Debt/Present Value</i>	0.30	<i>Earnings Next Twelve Months (US\$/sh)</i>	
<i>McDep Ratio - EV/PV</i>	0.93	<i>Price/Earnings Next Twelve Months</i>	
<i>Dividend Yield (%/year)</i>	0.7	<i>Indicated Annual Dividend (US\$/sh)</i>	0.20
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.			
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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			Price (US\$/sh)	EV/ Market Cap	Enterprise Value (\$mm)	Present Value by Segment (%)			McDep Ratio	
						North Amer. Natural Gas	Rest of World Natural Gas	Oil Prod'n stream		
Symbol/Rating		23-Jul 2012								
B = Buy, CB (see below)										
U.S. and Europe Integrated										
BG Group	BRGYY		19.56	1.27	85,100		23	41	36	0.95
Exxon Mobil Corporation	XOM B		85.21	1.19	478,000	8	19	57	16	0.80
Royal Dutch Shell plc	RDS-A CB		68.17	1.29	274,000	3	22	56	18	0.72
Chevron Corporation	CVX B		107.95	1.14	243,000	3	11	76	10	0.66
Statoil ASA (33%)	STO CB		23.80	1.51	37,700		35	65	-	0.64
BP plc	BP		40.40	1.65	214,000	4	9	62	25	0.60
Total S.A.	TOT CB		43.32	1.39	137,000		23	62	14	0.52
<i>Total or Median</i>					<i>1,469,000</i>			<i>62</i>		<i>0.66</i>
Brazil/Russia/Australia/China										
Woodside Petroleum Ltd.	WOPEY		33.09	1.29	34,000		60	40	-	0.78
CNOOC Limited (36%)	CEO		193.96	1.02	31,800		9	91	-	0.78
PetroChina Company Ltd (14%)	PTR CB		123.35	1.38	43,700		15	70	14	0.66
Petrobras	PBR CB		19.04	1.61	199,000		6	81	14	0.54
Gazprom (50%)	OGZPY CB		9.10	1.35	71,000		11	13	76	0.39
Lukoil Oil Company	LUKOY CB		55.05	1.01	44,200			71	29	0.37
<i>Total or Median</i>					<i>424,000</i>			<i>71</i>		<i>0.60</i>
U.S. Independent										
Anadarko Petroleum Corp.	APC		70.29	1.50	52,800	33		64	3	0.87
Chesapeake Energy Corp.	CHK		17.44	2.59	34,000	64		36	-	0.83
Southwestern Energy Company	SWN		31.71	1.15	12,800	100			-	0.82
EOG Resources, Inc.	EOG CB		97.20	1.22	32,100	29	4	67	-	0.78
Occidental Petroleum Corp.	OXY CB		84.96	1.11	76,700	9	1	80	10	0.73
ConocoPhillips	COP CB		55.05	1.49	104,000	13	13	74	-	0.67
Devon Energy Corporation	DVN CB		58.35	1.34	31,700	49		51	-	0.64
Marathon Oil Corporation	MRO CB		25.95	1.47	27,100	7	3	90	-	0.58
<i>Total or Median</i>					<i>371,000</i>			<i>67</i>		<i>0.76</i>
Canada										
Penn West Exploration	PWE		12.90	1.75	10,500	18		82	-	0.75
Cenovus Energy Inc.	CVE CB		32.67	1.29	31,900	11		75	13	0.73
Imperial Oil Limited (30%)	IMO CB		42.29	1.17	12,700	2		84	14	0.72
EnCana Corporation	ECA B		21.11	1.58	24,500	90		10	-	0.68
Suncor Energy	SU CB		29.78	1.29	60,200	2		83	15	0.53
Canadian Oil Sands Limited	COSWF CB		20.19	1.20	11,700			100	-	0.43
<i>Total or Median</i>					<i>152,000</i>			<i>83</i>		<i>0.70</i>
Composite					2,416,000	8	14	63	16	0.65

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



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			Price (US\$/sh)	Shares	Market Cap (US\$mm)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
	Symbol/Rating		23-Jul 2012	(mm)				
B = Buy, CB (see below)								
U.S. and Europe Integrated								
BG Group plc	BRGY		19.56	3,416	66,800	21.00	0.20	0.95
Exxon Mobil Corporation	XOM	B	85.21	4,716	402,000	110.00	0.13	0.80
Royal Dutch Shell plc	RDS-A	CB	68.17	3,120	213,000	102.00	0.16	0.72
Chevron Corporation	CVX	B	107.95	1,979	214,000	170.00	0.08	0.66
Statoil ASA (33%)	STO	CB	23.80	1,050	25,000	44.00	0.22	0.64
BP plc	BP		40.40	3,207	130,000	84.00	0.24	0.60
Total S.A.	TOT	CB	43.32	2,265	98,000	100.00	0.15	0.52
<i>Total or Median</i>					<i>1,149,000</i>		<i>0.16</i>	<i>0.66</i>
Brazil/Russia/Australia/China								
Woodside Petroleum Ltd.	WOPEY		33.09	797	26,400	45.00	0.17	0.78
CNOOC Limited (36%)	CEO		193.96	161	31,200	250.00	0.02	0.78
PetroChina Company Ltd (14%)	PTR	CB	123.35	256	31,600	210.00	0.18	0.66
Petrobras	PBR	CB	19.04	6,489	123,600	45.00	0.20	0.54
Gazprom (50%)	OGZPY	CB	9.10	5,750	52,300	28.00	0.10	0.39
Lukoil Oil Company	LUKOY	CB	55.05	794	43,700	150.00	0.00	0.37
<i>Total or Median</i>					<i>309,000</i>		<i>0.14</i>	<i>0.60</i>
U.S. Independent								
Anadarko Petroleum Corp.	APC		70.29	501	35,200	86.00	0.29	0.87
Chesapeake Energy Corp.	CHK		17.44	753	13,100	27.00	0.51	0.83
Southwestern Energy Company	SWN		31.71	350	11,100	40.00	0.11	0.82
EOG Resources, Inc.	EOG	CB	97.20	270	26,200	130.00	0.14	0.78
Occidental Petroleum Corp.	OXY	CB	84.96	811	68,900	120.00	0.07	0.73
ConocoPhillips	COP	CB	55.05	1,270	70,000	96.00	0.22	0.67
Devon Energy Corporation	DVN	CB	58.35	405	23,600	102.00	0.16	0.64
Marathon Oil Corporation	MRO	CB	25.95	710	18,420	54.00	0.18	0.58
<i>Total or Median</i>					<i>266,500</i>		<i>0.17</i>	<i>0.76</i>
Canada								
Penn West Exploration	PWE		12.90	473	6,000	20.00	0.32	0.75
Cenovus Energy Inc.	CVE	CB	32.67	760	24,800	48.00	0.16	0.73
Imperial Oil Limited (30%)	IMO	CB	42.29	256	10,800	62.00	0.11	0.72
EnCana Corporation	ECA	B	21.11	736	15,500	37.00	0.25	0.68
Suncor Energy	SU	CB	29.78	1,567	46,700	64.00	0.12	0.53
Canadian Oil Sands Limited	COSWF	CB	20.19	485	9,800	52.00	0.07	0.43
<i>Total or Median</i>					<i>114,000</i>		<i>0.14</i>	<i>0.70</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 Dividend Yield							
			Price	Adjustd			
			(US\$/sh)	Resrvs/	PV/	EV/	Dividend
Symbol/Rating			23-Jul	Prod	Ebitda	Ebitda	P/E
B = Buy, CB (see below)			2012	NTM	NTM	NTM	NTM
							(%)
U.S. and Europe Integrated							
BG Group plc	BRGY		19.56	8.6	7.8	7.4	12
Exxon Mobil Corporation	XOM	B	85.21	13.0	8.2	6.6	11
Royal Dutch Shell plc	RDS-A	CB	68.17	10.0	7.2	5.2	9
Chevron Corporation	CVX	B	107.95	9.2	7.7	5.1	10
BP plc	BP		40.40	11.0	8.1	4.9	7
Statoil ASA (33%)	STO	CB	23.80	6.2	6.5	4.2	8
Total S.A.	TOT	CB	43.32	10.1	7.6	3.9	6
	<i>Median</i>			<i>10.0</i>	<i>7.7</i>	<i>5.1</i>	<i>9</i>
Brazil/Russia/Australia/China							
Woodside Petroleum Ltd.	WOPEY		33.09	13.2	8.5	6.7	10
PetroChina Company Ltd (14%)	PTR	CB	123.35	13.0	7.3	4.9	10
CNOOC Limited (36%)	CEO		193.96	6.9	5.9	4.6	9
Petrobras	PBR	CB	19.04	12.6	8.3	4.5	5
Gazprom (50%)	OGZPY	CB	9.10	31.2	5.8	2.3	3
Lukoil Oil Company	LUKOY	CB	55.05	16.3	5.9	2.2	4
	<i>Median</i>			<i>13.1</i>	<i>6.6</i>	<i>4.6</i>	<i>7</i>
U.S. Independent							
Southwestern Energy Company	SWN		31.71	7.9	14.2	11.6	21
Chesapeake Energy Corp.	CHK		17.44	9.8	10.7	8.8	15
Anadarko Petroleum Corp.	APC		70.29	8.4	7.8	6.8	23
EOG Resources, Inc.	EOG	CB	97.20	9.0	7.3	5.7	20
Occidental Petroleum Corp.	OXY	CB	84.96	10.1	7.6	5.5	12
Devon Energy Corporation	DVN	CB	58.35	9.9	8.4	5.4	10
ConocoPhillips	COP	CB	55.05	12.2	8.0	5.3	10
Marathon Oil Corporation	MRO	CB	25.95	10.3	7.3	4.2	9
	<i>Median</i>			<i>9.8</i>	<i>7.9</i>	<i>5.6</i>	<i>13</i>
Canada							
EnCana Corporation	ECA	B	21.11	8.4	13.9	9.4	3.8
Imperial Oil Limited (30%)	IMO	CB	42.29	36.9	11.4	8.1	11
Penn West Exploration	PWE		12.90	7.3	9.4	7.1	19
Cenovus Energy Inc.	CVE	CB	32.67	12.5	9.3	6.8	14
Canadian Oil Sands Limited	COSWF	CB	20.19	19.4	12.9	5.6	8
Suncor Energy	SU	CB	29.78	16.7	10.2	5.4	9
	<i>Median</i>			<i>14.6</i>	<i>10.8</i>	<i>6.9</i>	<i>11</i>
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, 2013; 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	Enterprise Value/				
	Symbol		(\$/sh)	52Wk	52Wk	50 Day	200 Day	McDep
		Rating	23-Jul	High	Low	Avg.	Avg.	Ratio
			2012					
U.S. and Europe Integrated								
Chevron Corporation	CVX	B	107.95	0.97	1.21	1.05	1.03	0.66
Exxon Mobil Corporation	XOM	B	85.21	0.97	1.22	1.03	1.02	0.80
Royal Dutch Shell plc	RDS-A	CB	68.17	0.92	1.13	1.03	0.99	0.72
BP plc	BP		40.40	0.89	1.11	1.02	0.97	0.60
Statoil ASA (33%)	STO	CB	23.80	0.87	1.11	1.01	0.96	0.64
BG Group plc	BRGY		19.56	0.83	1.09	0.99	0.92	0.95
Total S.A.	TOT	CB	43.32	0.81	1.06	0.99	0.91	0.52
	<i>Median</i>			<i>0.89</i>	<i>1.11</i>	<i>1.02</i>	<i>0.97</i>	<i>0.66</i>
Brazil/Russia/Australia/China								
CNOOC Limited (36%)	CEO		193.96	0.83	1.36	1.02	0.99	0.78
Lukoil Oil Company	LUKOY	CB	55.05	0.81	1.19	1.02	0.97	0.37
Woodside Petroleum Ltd.	WOPEY		33.09	0.80	1.10	1.03	0.96	0.78
PetroChina Company Ltd (14%)	PTR	CB	123.35	0.85	1.08	0.97	0.94	0.66
Gazprom (50%)	OGZPY	CB	9.10	0.68	1.04	0.98	0.86	0.39
Petrobras	PBR	CB	19.04	0.66	1.06	0.99	0.84	0.54
	<i>Median</i>			<i>0.80</i>	<i>1.09</i>	<i>1.01</i>	<i>0.95</i>	<i>0.60</i>
U.S. Independent								
EOG Resources, Inc.	EOG	CB	97.20	0.84	1.34	1.02	0.97	0.78
Southwestern Energy Company	SWN		31.71	0.68	1.20	1.06	0.97	0.82
Anadarko Petroleum Corp.	APC		70.29	0.85	1.15	1.05	0.96	0.87
Marathon Oil Corporation	MRO	CB	25.95	0.80	1.22	1.03	0.94	0.58
Occidental Petroleum Corp.	OXY	CB	84.96	0.80	1.24	1.02	0.93	0.73
Devon Energy Corporation	DVN	CB	58.35	0.75	1.11	1.00	0.93	0.64
Chesapeake Energy Corp.	CHK		17.44	0.71	1.10	1.00	0.91	0.83
ConocoPhillips	COP	CB	55.05					0.67
	<i>Median</i>			<i>0.80</i>	<i>1.20</i>	<i>1.02</i>	<i>0.94</i>	<i>0.76</i>
Canada								
EnCana Corporation	ECA	B	21.11	0.78	1.14	1.02	1.04	0.68
Imperial Oil Limited (30%)	IMO	CB	42.29	0.88	1.26	1.02	0.98	0.72
Suncor Energy	SU	CB	29.78	0.76	1.23	1.04	0.97	0.53
Cenovus Energy Inc.	CVE	CB	32.67	0.84	1.15	1.02	0.97	0.73
Canadian Oil Sands Limited	COSWF	CB	20.22	0.71	1.15	1.04	0.95	0.43
Penn West Exploration	PWE		12.90	0.69	1.02	0.97	0.82	0.75
	<i>Median</i>			<i>0.77</i>	<i>1.15</i>	<i>1.02</i>	<i>0.97</i>	<i>0.70</i>

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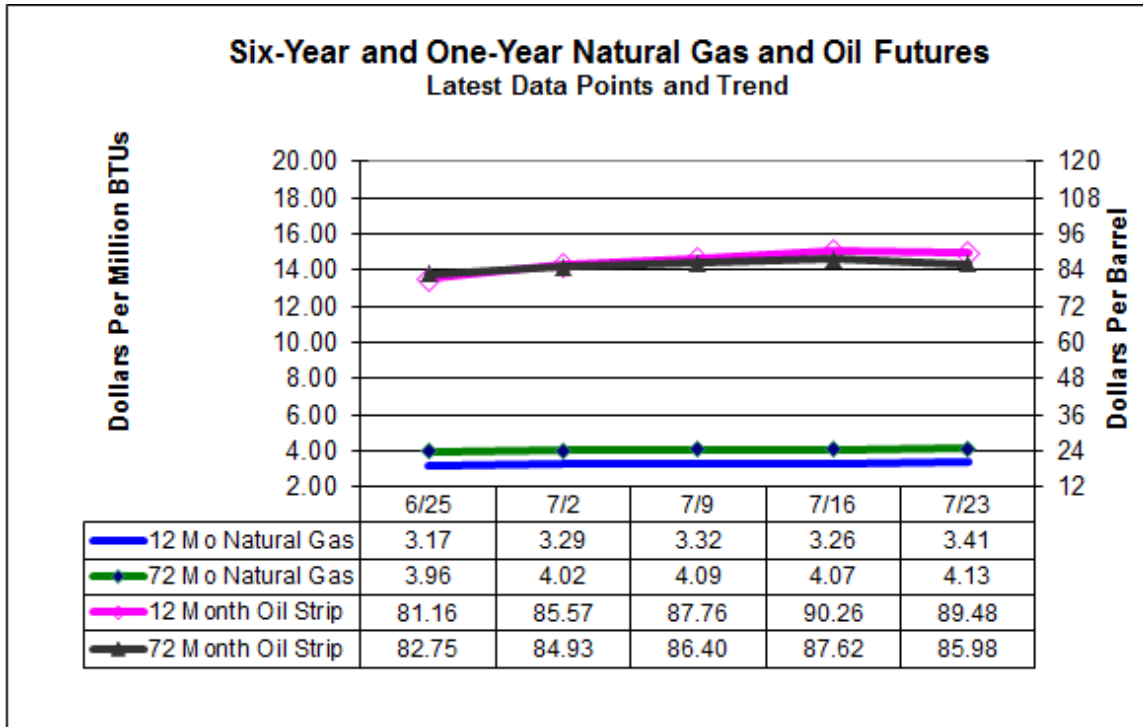
Index of Recent Research			
Stock Ideas			
<i>Date</i>	<i>Symbol</i>	<i>Subject</i>	<i>Theme</i>
20-Jul	BRY	Berry Petroleum	Momentum Resuming (Income and Small Cap Weekly)
13-Mar	XOM	Exxon Mobil	Low U.S. Energy Price Outperformer (Meter Reader)
10-Jul	MRO	Marathon Oil	Shale Growth, Dollar Hedge (Meter Reader)
3-Jul	OGZPY	Gazprom	Dividend Double Approved (Meter Reader)
26-Jun	STO	Statoil	Financially Strong Norse Explorers (Meter Reader)
22-Jun	CLR, HK	Continental, Halcon Resources	Great Energy Entrepreneurs - Hamm (CLR), Wilson (HK) - (ISCW)
19-Jun	CVE	Cenovus	Deep Oil Sands Growth at Lower Price (Meter Reader)
12-Jun	PBR	Petrobras	Deep Water Oil Growth, Lower NPV to \$45 (Meter Reader)
12-Jun	BRGYY	BG Group	Lower NPV to \$21 (6/12/12 Meter Reader, page 2)
13-Jun	ERF	Enerplus Corporation	Dividend Reduced by Half
8-Jun	SJT	San Juan Basin Royalty Trust	Price Decline Action in SJT and Royalty Trusts (ISCW)
5-Jun	WOPEY	Woodside Petroleum Ltd.	Pluto LNG Delivering (Meter Reader)
25-May	HGT	Hugoton Royalty Trust	HGT Bargain (Income and Small Cap Weekly)
18-May	BIREF	Birchcliff Energy	Contrarian Buy at Lower NPV (Income and Small Cap Weekly)
15-May	EOG	EOG Resources	Raise NPV to \$130 a Share on Oil Volume (Meter Reader)
11-May	DMLP	Dorchester Minerals, L.P.	Rising Oil Production (Income and Small Cap Wkly)
8-May	ECA	Encana	Long-Term Natural Gas Appeal (Meter Reader)
4-May	WLL	Whiting Petroleum	Oil Price Discount Narrows (Income and Small Cap Weekly)
1-May	COSWF	Canadian Oil Sands Limited	Dividend Raised 17%
1-May	RDS	Royal Dutch Shell	LNG and GTL Profit Gains (Meter Reader)
27-Apr	RRC	Range Resources	Shale Strength (Income and Small Cap Weekly)
17-Apr	COP	ConocoPhillips	Largest North American Independent Producer Debut (MR)
10-Apr	DVN	Devon Energy	Shale Oil Excitement at a Favorite Value Stock (Meter Reader)
3-Apr	PTR	PetroChina	Global Growth in Oil and Gas (Meter Reader)
20-Mar	CVX	Chevron	Investing in Australian LNG for Growth (Meter Reader)
6-Mar	IMO	Imperial Oil	Kearl Startup Late This Year (Meter Reader)
17-Feb	XEC	Cimarex Energy	Permian Payoff (ISCW)
13-Feb	TOT	Total	Sharpening Competitive Edge (Meter Reader)
3-Feb	CRT	Cross Timbers Royalty Trust	Firm Oil Balances Soft Natural Gas (ISCW)
31-Jan	OXY	Occidental Petroleum	Delivering U.S. Oil Results (Meter Reader)
27-Jan	PDCE	PDC Energy	Raise NPV to \$40 from \$36 on Reserves and Production (ISCW)
For historical research by stock, go to mcdep.com , click on Stock Ideas , click on stock by name.			
Meter Reader			
17-Jul	XOM	ExxonMobil	Low U.S. Energy Price Outperformer
10-Jul	MRO	Marathon Oil	Shale Growth, Dollar Hedge
3-Jul	OGZPY	Gazprom	Dividend Double Approved
26-Jun	STO	Statoil	Financially Strong Norse Explorers
19-Jun	CVE	Cenovus	Deep Oil Sands Growth at Lower Price
For earlier editions, go to mcdep.com , click on Meter Reader .			
Income and Small Cap Weekly			
20-Jul	BRY	Berry Petroleum	Momentum Resuming
13-Jul			Low-Priced Stocks
6-Jul			Lowballing LIBOR
29-Jun			Natural Gas Rising from the Price Gloom
22-Jun	CLR, HK	Continental, Halcon Resources	Two Great Energy Entrepreneurs - Hamm (CLR), Wilson (HK)
For earlier editions, go to mcdep.com , click on Energy Income .			



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