



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

January 1, 2013

Review Energy Weighting after 2012 Underperformance

Summary and Recommendation

Seeing large cap oil and gas stocks noticeably underperform the broader stock market for the first time in 12 years in 2012, we recognize that it may be time for that part of the economic cycle where consumers of oil and gas benefit as much as producers. The median of 20 large cap oil and gas stocks earned a total return of 5% during the year, yet global equities returned some 15%. Accordingly, we bring back a Hold rating for 14 of the 20 large cap stocks in our continuing coverage. We retain Buy and Contrarian Buy ratings for 6 large cap oil and gas producers, Global Integrated stocks XOM and LUKOY, U.S. Independents MRO and DVN and Canadian stocks IMO and SU. By the McDep Ratio, stock prices are low relative to estimated value of oil and gas resources in well-managed, financially strong oil and gas companies rated Buy, Contrarian Buy or Hold (see [Table 1](#) through [Table 4](#) on pages 2-5).

Integrated Companies May Outperform Producers when Oil Price Not Rising

Surprising discounts for North American crude oil relative to global crude oil arose during the past year. That reduced profits for North American oil producers and increased profits for North American refiners who could buy the discounted crude and turn it into products that continued to sell at global prices. Three of our six buys, **ExxonMobil (XOM)**, **Imperial Oil (IMO)** and **Suncor (SU)** were able to offset producing profit declines with refining profit gains. That integrated advantage is persisting as we begin 2013, though we expect it to diminish as the year proceeds.

Capitalism Helps in Growth Countries

More rapid economic growth in less developed countries Brazil, China and Russia can be an advantage to home country companies particularly if those companies operate on capitalist, free market principles. One of our six buys, **Lukoil (LUKOY)**, outperformed in 2012, perhaps helped by its freedom from government ownership. Lukoil Chairman Alekperov, former Communist government energy official, wrote the book on restructuring of the Russian oil industry along the lines of the global integrated leaders.

Growth and Growing Pains for Independent Producers

Another buy, newly independent **Marathon Oil (MRO)**, embraced the oil fracking model to deliver surprising volume growth in 2012 and to achieve a rising stock price relative to its 200-day average. Contrarian buy **Devon Energy (DVN)** has underperformed to a surprising degree as it incurs weakened natural gas liquids prices in Oklahoma and Texas and widespread crude oil price discounting in the Permian Basin. A similar discount that appeared in North Dakota early in 2012 has disappeared and the same may occur in West Texas in a few months.



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Natural Gas Gain in 2013

Though average Louisiana natural gas declined some 30% to about \$2.79 a million btu in 2012, the monthly bottom was reached in May and the monthly quote exceeded that of the previous year by December. As a result, 2013 seems sure to be a better year, weather notwithstanding. Among six buys, DVN is our large cap choice for natural gas with 48% of value concentrated on the North American resource. We take a less ebullient view toward Canadian producer, **Encana (ECA)**, as we reduce estimated Net Present Value (NPV) from \$37 a share to \$30, which we can justify more readily on recent cash flow trends. We also reduce estimated NPV for **Gazprom (OGZPY)**, from \$28 a share to \$23, a level that also remains well above stock price.

Kurt H. Wulff, CFA

Table 1										
McDep Large Cap Energy Stocks										
Enterprise Value, Business Segments and McDep Ratio										
						Present Value by Segment (%)				
						North	Rest			
						Amer.	of World			
						Natural	Natural	Oil	Down-	McDep
						Gas	Gas	Prod'n	stream	Ratio
Symbol/Rating	Price	EV/	Enterprise							
	(US\$/sh)	Market	Value							
B = Buy, CB (see below)	31-Dec	Cap	(\$mm)	Natural	Natural	Oil	Down-	McDep		
	2012			Gas	Gas	Prod'n	stream	Ratio		
Global Integrated										
Exxon Mobil Corporation	XOM CB	86.55	1.18	468,000	7	19	57	16	0.81	
PetroChina Company Ltd (14%)	PTR H	143.78	1.38	50,800		14	77	8	0.75	
Royal Dutch Shell plc	RDS-A H	68.95	1.28	277,000	3	22	56	18	0.73	
Chevron Corporation	CVX H	108.14	1.14	241,000	3	11	76	10	0.67	
Total S.A.	TOT H	52.01	1.37	161,000		19	67	14	0.60	
Petrobras	PBR H	19.47	1.61	205,000		6	81	13	0.55	
Gazprom (50%)	OGZPY H	9.73	1.39	78,000		12	18	69	0.50	
Lukoil Oil Company	LUKOY B	67.50	1.03	53,700			77	23	0.46	
<i>Total or Median</i>			<i>1.32</i>	<i>1,535,000</i>			<i>72</i>	<i>15</i>	<i>0.63</i>	
U.S. Independent										
EOG Resources, Inc.	EOG H	120.79	1.19	39,000	31	5	64	-	0.86	
ConocoPhillips	COP H	57.99	1.56	109,000	14	12	74	-	0.70	
Occidental Petroleum Corp.	OXY H	76.61	1.15	71,200	8	1	81	10	0.67	
Marathon Oil Corporation	MRO B	30.66	1.47	32,000	8	3	90	-	0.61	
Devon Energy Corporation	DVN CB	52.04	1.42	30,000	48		52	-	0.60	
<i>Total or Median</i>			<i>1.42</i>	<i>281,000</i>	<i>14</i>		<i>74</i>		<i>0.67</i>	
Canada/Norway/Australia										
Woodside Petroleum Ltd.	WOPEY H	35.74	1.26	36,000		66	34	-	0.83	
EnCana Corporation	ECA H	19.76	1.66	24,000	87		13	-	0.76	
Cenovus Energy Inc.	CVE H	33.54	1.29	32,900	10		72	18	0.75	
Imperial Oil Limited (30%)	IMO CB	43.00	1.19	13,000	2		84	14	0.73	
Statoil ASA (33%)	STO H	25.04	1.52	39,900		35	65	-	0.67	
Suncor Energy	SU B	32.98	1.28	64,700	2		79	19	0.58	
Canadian Oil Sands Limited	COSWF H	20.34	1.24	12,200			100	-	0.50	
<i>Total or Median</i>			<i>1.28</i>	<i>223,000</i>			<i>72</i>		<i>0.73</i>	
CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average. H = Hold										
Estimated present value presumes a long-term price for oil of US\$100 a barrel and natural gas, \$6 a million btu.										
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses										



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Table 2								
McDep Large Cap Energy Stocks								
Net Present Value and McDep Ratio								
			Price (US\$/sh)	Shares	Market Cap (US\$mm)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
	Symbol/Rating		31-Dec 2012	(mm)				
	B = Buy, CB (see below)							
Global Integrated								
Exxon Mobil Corporation	XOM	CB	86.55	4,597	398,000	110.00	0.12	0.81
PetroChina Company Ltd (14%)	PTR	H	143.78	256	36,800	210.00	0.21	0.75
Royal Dutch Shell plc	RDS-A	H	68.95	3,137	216,000	102.00	0.16	0.73
Chevron Corporation	CVX	H	108.14	1,960	212,000	170.00	0.08	0.67
Total S.A.	TOT	H	52.01	2,261	118,000	100.00	0.16	0.60
Petrobras	PBR	H	19.47	6,522	127,000	45.00	0.21	0.55
Gazprom (50%)	OGZPY	H	9.73	5,735	55,800	23.00	0.14	0.50
Lukoil Oil Company	LUKOY	B	67.50	775	52,300	150.00	0.01	0.46
	<i>Total or Median</i>				1,216,000		0.15	0.63
U.S. Independent								
EOG Resources, Inc.	EOG	H	120.79	271	32,700	145.00	0.14	0.86
ConocoPhillips	COP	H	57.99	1,207	70,000	96.00	0.25	0.70
Occidental Petroleum Corp.	OXY	H	76.61	810	62,100	120.00	0.09	0.67
Marathon Oil Corporation	MRO	B	30.66	709	21,740	60.00	0.19	0.61
Devon Energy Corporation	DVN	CB	52.04	405	21,100	102.00	0.18	0.60
	<i>Total or Median</i>				207,600		0.18	0.67
Canada/Norway/Australia								
Woodside Petroleum Ltd.	WOPEY	H	35.74	808	28,900	45.00	0.17	0.83
EnCana Corporation	ECA	H	19.76	736	14,500	30.00	0.30	0.76
Cenovus Energy Inc.	CVE	H	33.54	758	25,400	48.00	0.17	0.75
Imperial Oil Limited (30%)	IMO	CB	43.00	255	11,000	62.00	0.12	0.73
Statoil ASA (33%)	STO	H	25.04	1,050	26,300	44.00	0.23	0.67
Suncor Energy	SU	B	32.98	1,538	50,700	64.00	0.12	0.58
Canadian Oil Sands Limited	COSWF	H	20.34	485	9,900	45.00	0.10	0.50
	<i>Total or Median</i>				167,000		0.17	0.73
CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average. H = Hold								
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Table 3									
McDep Large Cap Energy Stocks									
Value Multiples and Dividend Yield									
			Price (US\$/sh)	Adjustd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	P/E	Dividend NTM	
	Symbol/Rating		31-Dec 2012	NTM	NTM	NTM	NTM	(%)	
B = Buy, CB (see below)									
Global Integrated									
	Exxon Mobil Corporation	XOM	CB	86.55	13.6	8.1	6.6	12	2.6
	PetroChina Company Ltd (14%)	PTR	H	143.78	12.8	7.6	5.7	11	3.5
	Petrobras	PBR	H	19.47	13.4	9.1	5.0	6	5.3
	Chevron Corporation	CVX	H	108.14	9.5	7.5	5.0	10	3.3
	Royal Dutch Shell plc	RDS-A	H	68.95	10.1	6.7	4.9	9	5.0
	Total S.A.	TOT	H	52.01	10.3	7.8	4.6	8	6.0
	Lukoil Oil Company	LUKOY	B	67.50	16.4	6.2	2.8	5	3.7
	Gazprom (50%)	OGZPY	H	9.73	31.2	5.1	2.6	3	6.1
	<i>Median</i>				13.1	7.6	5.0	9	4.3
U.S. Independent									
	EOG Resources, Inc.	EOG	H	120.79	8.5	7.2	6.2	20	0.6
	Devon Energy Corporation	DVN	CB	52.04	10.7	10.3	6.1	14	1.5
	ConocoPhillips	COP	H	57.99	12.5	8.2	5.8	10	4.6
	Occidental Petroleum Corp.	OXY	H	76.61	9.9	7.9	5.3	11	2.8
	Marathon Oil Corporation	MRO	B	30.66	8.7	7.4	4.5	9	2.2
	<i>Median</i>				9.9	7.9	5.8	11	2.2
Canada/Norway/Australia									
	EnCana Corporation	ECA	H	19.76	8.5	12.3	9.4		4.0
	Imperial Oil Limited (30%)	IMO	CB	43.00	18.5	10.7	7.8	10	1.1
	Woodside Petroleum Ltd.	WOPEY	H	35.74	13.0	9.1	7.6	12	3.6
	Cenovus Energy Inc.	CVE	H	33.54	12.4	9.5	7.1	17	2.6
	Canadian Oil Sands Limited	COSWF	H	20.34	20.7	12.0	6.1	9	6.9
	Suncor Energy	SU	B	32.98	17.3	10.1	5.8	10	1.6
	Statoil ASA (33%)	STO	H	25.04	6.3	6.3	4.2	8	4.5
	<i>Median</i>				13.0	10.1	7.1	10	3.6
CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average. H = Hold									
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 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									
Total Return and Enterprise Value Momentum									
				Equity					
			Price	Total					
			(\$/sh)	Return	Enterprise Value/				
	Symbol		31-Dec	YTD	52Wk	52Wk	50 Day	200 Day	McDep
	Rating		2012	(%)	High	Low	Avg.	Avg.	Ratio
Global Integrated									
	LUKOY	B	67.50	35	1.00	1.33	1.08	1.13	0.46
	PTR	H	143.78	20	0.95	1.16	1.04	1.06	0.75
	TOT	H	52.01	8	0.93	1.17	1.03	1.05	0.60
	RDS-A	H	68.95	(1)	0.94	1.10	1.01	1.01	0.73
	CVX	H	108.14	5	0.92	1.11	1.00	1.00	0.67
	XOM	CB	86.55	5	0.93	1.10	0.98	1.00	0.81
	OGZPY	H	9.73	(4)	0.78	1.09	1.04	0.98	0.50
	PBR	H	19.47	(20)	0.71	1.08	0.98	0.94	0.55
	<i>Median</i>			5	0.93	1.11	1.02	1.01	0.63
U.S. Independent									
	EOG	H	120.79	23	0.97	1.36	1.02	1.10	0.86
	MRO	B	30.66	7	0.90	1.20	1.00	1.05	0.61
	COP	H	57.99	9	0.98	1.09	1.01	1.02	0.70
	OXY	H	76.61	(16)	0.75	1.05	0.99	0.92	0.67
	DVN	CB	52.04	(15)	0.75	1.02	0.96	0.90	0.60
	<i>Median</i>			7	0.90	1.09	1.00	1.02	0.67
Canada/Norway/Australia									
	SU	B	32.98	16	0.91	1.20	1.00	1.04	0.58
	WOPEY	H	35.74	17	0.90	1.16	1.00	1.02	0.83
	CVE	H	33.54	4	0.87	1.12	1.00	1.00	0.75
	STO	H	25.04	2	0.91	1.09	1.01	1.00	0.67
	COSWF	H	20.31	(5)	0.84	1.12	0.99	0.99	0.50
	IMO	CB	43.00	(2)	0.88	1.10	0.98	0.98	0.73
	ECA	H	19.76	11	0.88	1.09	0.95	0.96	0.76
	<i>Median</i>			4	0.88	1.12	1.00	1.00	0.73

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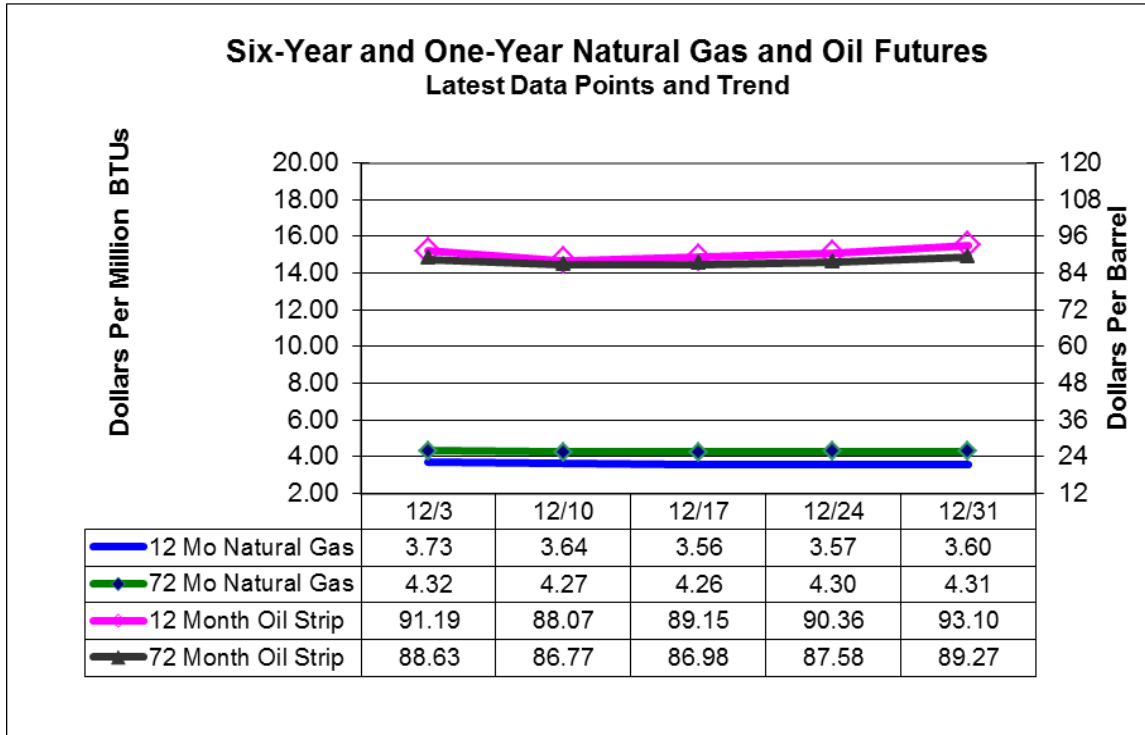
Index of Recent Research			
Stock Ideas			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
28-Dec	FRHLF	Freehold Royalties Ltd.	Advantaged Ride on North American Oil Growth (ISCW)
18-Dec	STO	Statoil	Profitable Reinvestment (Meter Reader)
11-Dec	CVE	Cenovus	Canada Approves CNOOC and Petronas Deals (Meter Reader)
7-Dec	PBT	Permian Basin Royalty Trust	New Volume from Horizontal Fracking (ISCW)
30-Nov	SJT	San Juan Basin Royalty Trust	Unlocking the Mancos Shale (Income and Small Cap Weekly)
27-Nov	XOM	Exxon Mobil	Making Money One Way or Another (Meter Reader)
20-Nov	MRO	Marathon Oil	Raise NPV to \$60 from \$54 on Volume (Meter Reader)
16-Nov	ERF	Enerplus Corporation	Bakken Sleeper (Income and Small Cap Weekly)
15-Nov	BIREF	Birchcliff Energy	Record Production, Raise Guidance
13-Nov	EOG	EOG Resources	Raise NPV to \$145 from \$130 on Eagle Ford Monster Wells (MR)
9-Nov	HK	Halcón Resources	Growing at Hawk Speed (Income and Small Cap Weekly)
6-Nov	HGT	Hugoton Royalty Trust	Interim Legal Ruling in Favor of Trust
6-Nov	ECA	Encana Corporation	Stock Trending with Natural Gas Price (Meter Reader)
2-Nov	RRC	Range Resources	Natural Gas Comeback Amplifies Volume Growth (ISCW)
30-Oct	COSWF	Canadian Oil Sands Limited	Discounted Pure Play on North American Oil with Income (MR)
23-Oct	PBR	Petrobras	Stock Price Recovering (Meter Reader)
19-Oct	DMLP	Dorchester Minerals, L.P.	Top Line Core (Income and Small Cap Weekly)
16-Oct	RDS	Royal Dutch Shell	Clean Energy for Global Growth (Meter Reader)
12-Oct	CLR	Continental Resources	New Buy on Bakken Growth (ISCW)
9-Oct	IMO	Imperial Oil	Kearl, Downstream and Syncrude (Meter Reader)
2-Oct	CVX	Chevron	Top Performer Shows Further Promise (Meter Reader)
25-Sep	COP	ConocoPhillips	Thriving Shale Oil, Potential Shale Gas (Meter Reader)
21-Sep	WLL	Whiting Petroleum	Growing, Secure, Price-Sensitive, Light Oil (Inc and Small Cap Wkly)
18-Sep	DVN	Devon Energy	Barnett Shale to Permian and Beyond (Meter Reader)
7-Sep	PEYUF	Peyto Exploration and Development	Canada Deep Basin Fracker (Income and Small Cap Weekly)
4-Sep	LUKOY	Lukoil	Proven Competitor, Uncommon Value (Meter Reader)
28-Aug	PTR	PetroChina	Pent-Up Profits (Meter Reader)
21-Aug	TOT	Total	Buy \$100 NPV for \$50 Stock Price (Meter Reader)
14-Aug	APC	Anadarko Petroleum	Raise NPV to \$100 as Growth Trumps Legal Issues (Meter Reader)
7-Aug	SU	Suncor Energy	New CEO, New Focus on Shareholder Return (Meter Reader)
3-Aug	XEC	Cimarex Energy	West Texas Wolfcamp Shale Oil (ISCW)
31-Jul	OXY	Occidental Petroleum	California Oil Growth Accelerates (Meter Reader)
24-Jul	CEO	CNOOC Ltd.	60% Premium in \$21 Billion Deal (Meter Reader)
20-Jul	BRY	Berry Petroleum	Momentum Resuming (Income and Small Cap Weekly)
3-Jul	OGZPY	Gazprom	Dividend Double Approved (Meter Reader)
For historical research by stock, go to mcdep.com , click on Stock Ideas , click on stock by name.			
Meter Reader			
25-Dec			Valuation Rankings
18-Dec	STO	Statoil	Profitable Reinvestment
11-Dec	CVE	Cenovus	Canada Approves CNOOC and Petronas Deals
4-Dec			Bigger Bakken Shale Oil
For earlier editions, go to mcdep.com , click on Meter Reader .			
Income and Small Cap Weekly			
28-Dec	FRHLF	Freehold Royalties Ltd.	Advantaged Ride on North American Oil Growth
21-Dec	CRT, PBT, SJT		Last Chance for Opportunistic Year-End Buys
14-Dec			Cash Payers: Leveraged and RTF
7-Dec	PBT	Permian Basin Royalty Trust	New Volume from Horizontal Fracking
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.