



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

January 29, 2013

## **Improved Crude Oil Price Outlook North American Advantage**

### **Summary and Recommendation**

An uptrend in long-term oil price and reduced geographic differences may benefit oil and gas producers in 2013, including our six large cap buy recommendations **ExxonMobil (XOM)**, **Lukoil (LUKOY)**, **Marathon Oil (MRO)**, **Devon Energy (DVN)**, **Imperial Oil (IMO)** and **Suncor (SU)**. The global oil price is above our long-term expectations with Brent crude oil priced in the North Sea and traded on the Intercontinental Exchange (ICE) currently at \$113 a barrel. Strong global stock markets point to improving demand while supply suffers with high levels of violence, political instability, high taxes and price controls in major producing countries as well as transportation delays in North America. The North American oil price is below our long-term expectations with West Texas Intermediate (WTI) crude oil priced at Cushing, Oklahoma and traded on the New York Mercantile Exchange (Nymex) as Light Sweet Crude Oil currently at \$97 a barrel. The gradual resolution of logistic difficulties should help boost U.S. and Canadian crude oil to our long-term expectation of \$100 a barrel adjusted for inflation.

### **Syncrude and Bakken Better, Midland Recovering, Bitumen Off**

WTI at Cushing opened an average discount of \$16 a barrel in 2011-2012, compared to Brent. Despite the discount, the long-term price trend may be up with WTI futures prices for the next six years trading above their 40-week average in the first weeks of 2013 (see [Six-Year Commodity Price Meter](#) on page 2). Trading close to WTI again, Syncrude and Bakken recovered from their widest discounts in 2012 at \$6 and \$12 a barrel, respectively (see chart [Oil Price Geography](#) on page 3). It is different with WTI in Midland, Texas, where the oil is produced, selling at an average \$8 a barrel less than in Cushing in the fourth quarter, before narrowing in recent weeks. Finally, Bitumen widened its discount to Syncrude this month from \$27 a barrel in the fourth quarter compared to a two-year average of \$21.

### **U.S. Independents and Canadians Most to Gain**

Global Integrated companies including XOM and LUKOY will likely all average more than \$100 a barrel in 2013 (see chart [Global Integrated](#) on page 3). Among U.S. Independents, MRO and DVN bracket the trend (see chart [U.S. Independents](#) on page 4). MRO gets global pricing while DVN's oil price is most depressed. DVN has been bringing on new volume of Bitumen and a larger proportion of oil is in the form of



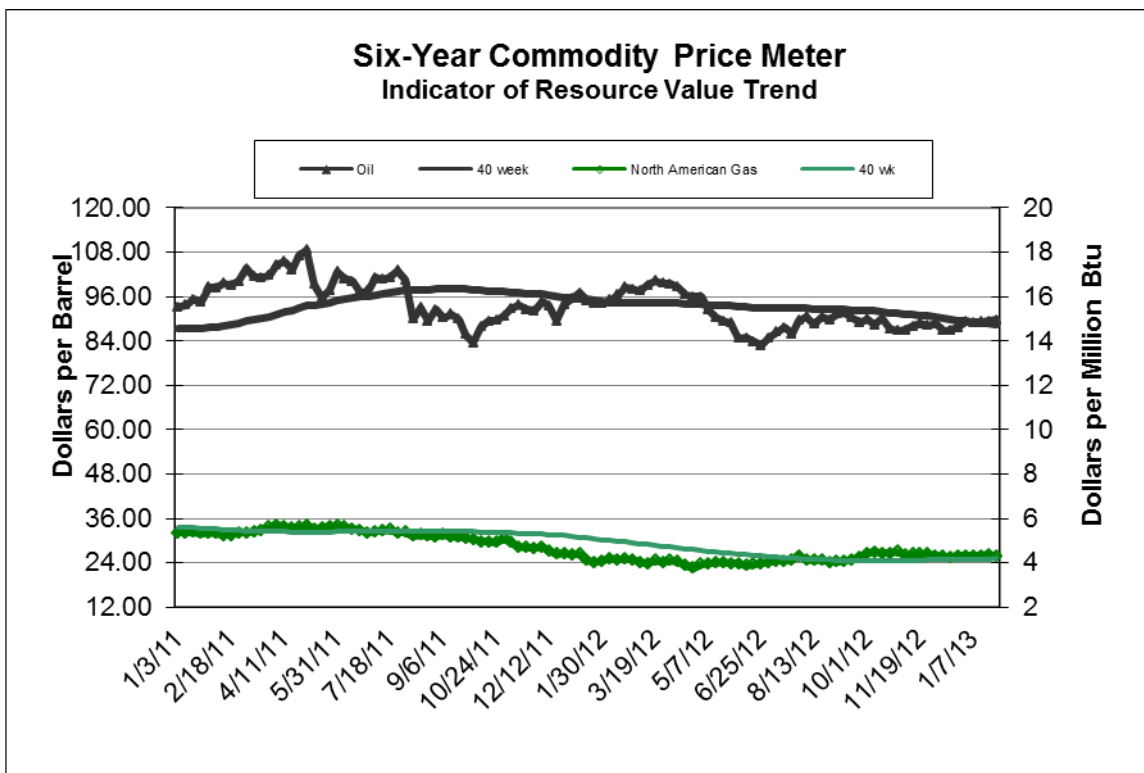
# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks  
 January 29, 2013

natural gas liquids, which also suffered sharp declines last year. Not captured in the chart, DVN has more natural gas, which has more price potential than oil. In our newly formed Canada/Norway/Australia group, the Canadian companies have been most affected by price disorder (see chart [Canada/Norway/Australia](#) on page 4). COSWF upgrades bitumen to Syncrude thereby neutralizing the quality discount for bitumen. SU and IMO recapture lost crude oil price through wholly owned refineries selling at higher product price. Similarly CVE makes up for low crude price with joint venture refineries in the U.S.

Thoroughly analyzing geographic pricing is complex and not easily forecast with true conviction. We can be more confident anticipating a restoration of normal patterns as transportation capacity catches up with production capacity. McDep Ratios, debt and unlevered cash flow multiples (EV/Ebitda) are low and stock price has favorable momentum for most of our large cap companies (see [Table 1](#) through [Table 4](#) on pages 5-8).

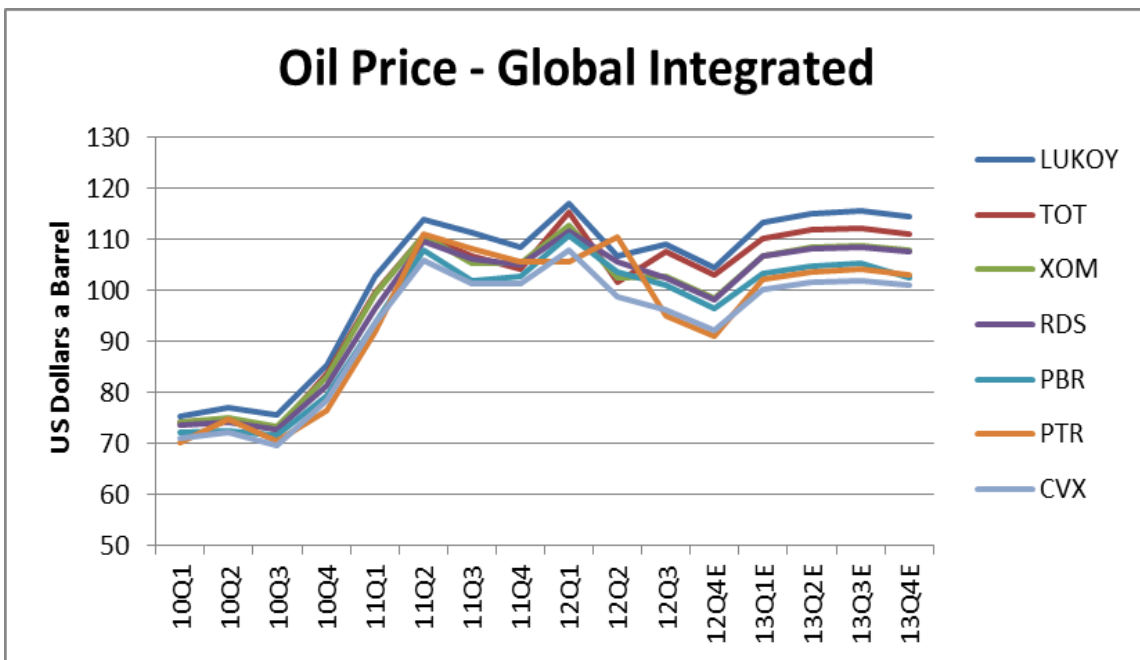
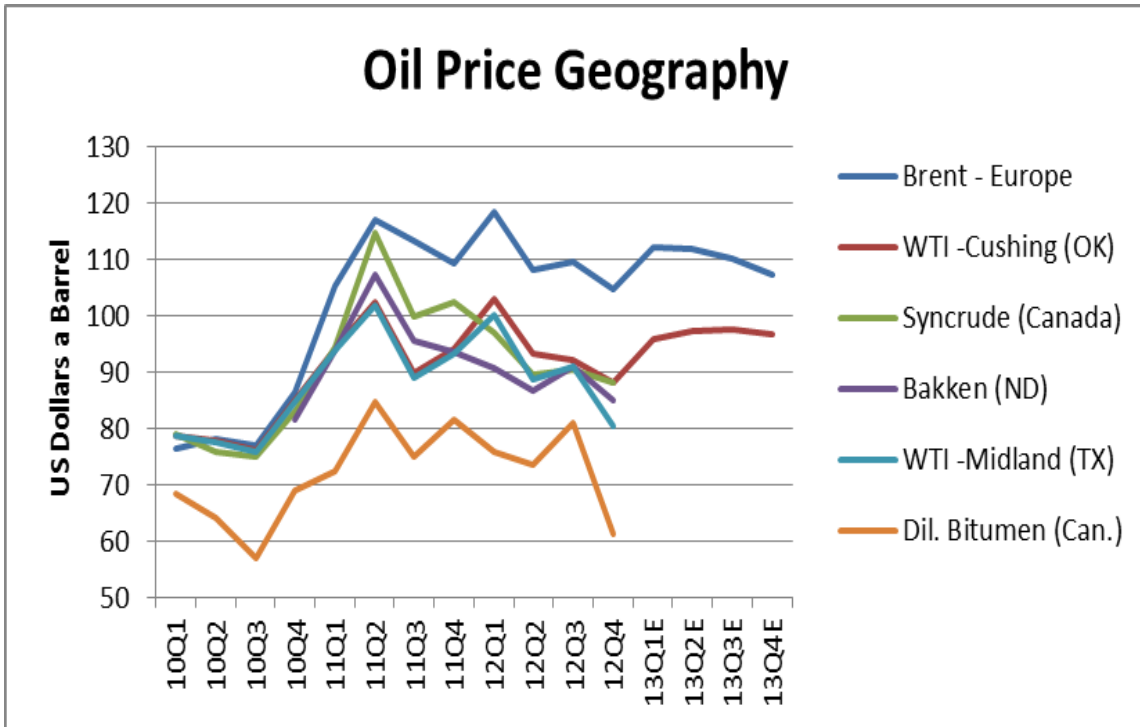
Kurt H. Wulff, CFA





# Meter Reader

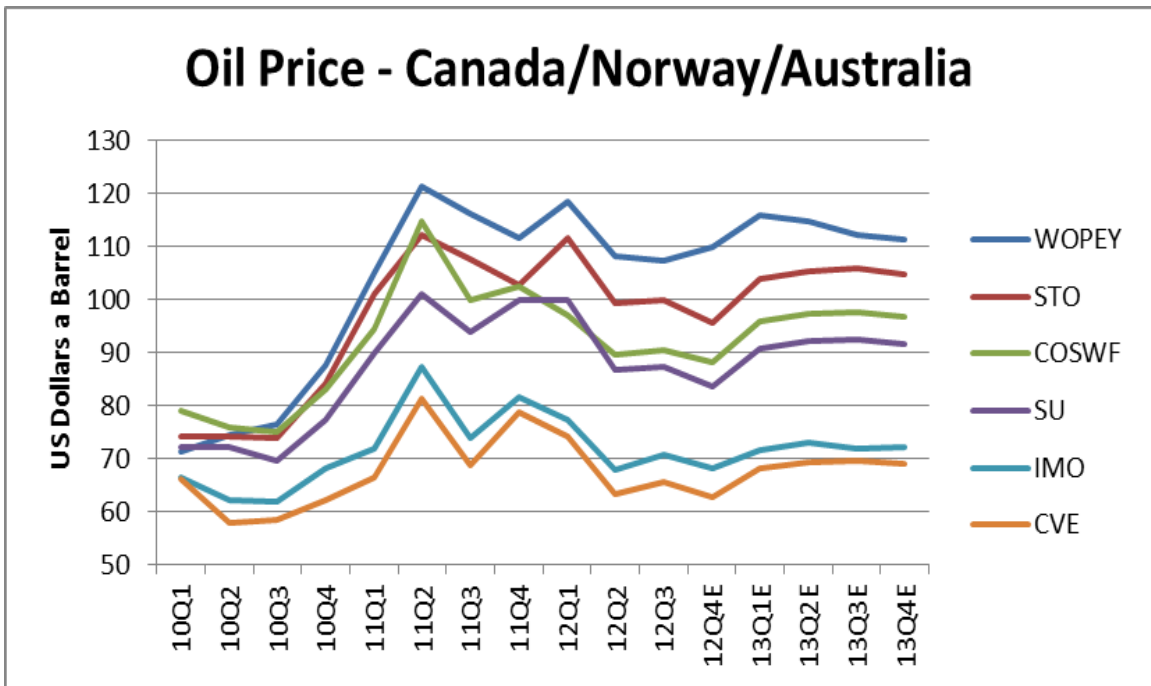
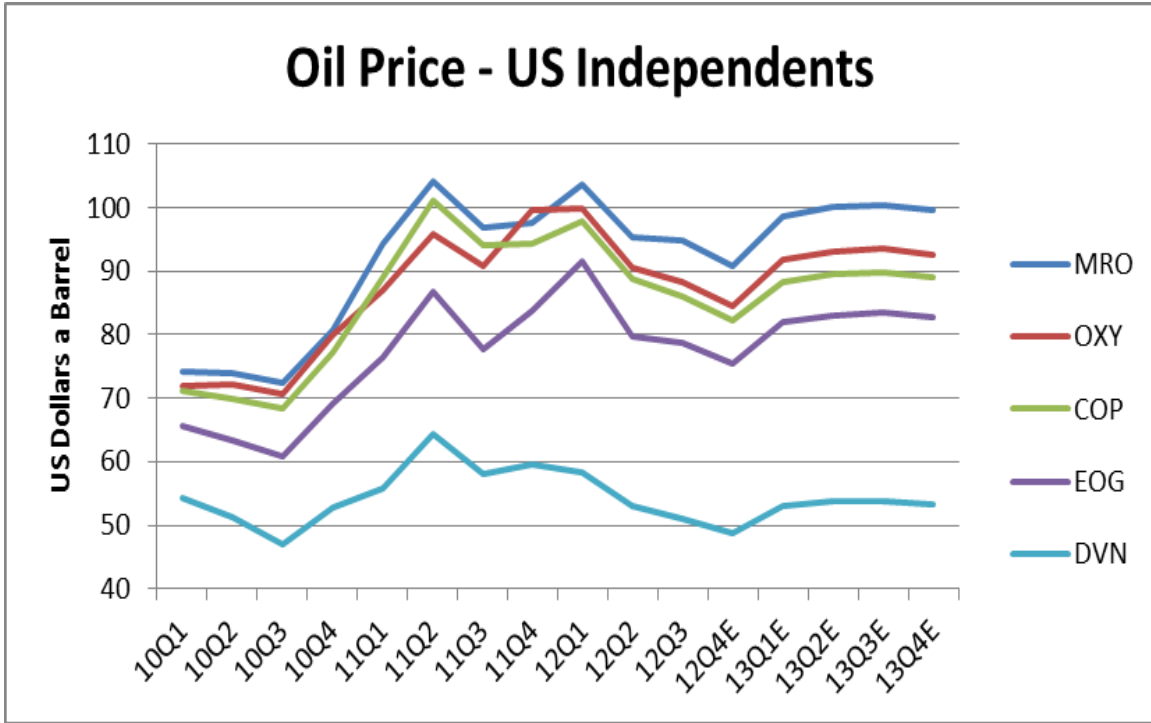
A Weekly Analysis of Large Cap Oil and Gas Stocks  
 January 29, 2013





# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks  
 January 29, 2013





# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

January 29, 2013

Table 1											
McDep Large Cap Energy Stocks											
Enterprise Value, Business Segments and McDep Ratio											
Symbol/Rating B = Buy, CB (see below)			Price (US\$/sh)	EV/ Market Cap	Enterprise Value (\$mm)	Present Value by Segment (%)			Oil Prod'n	Down- stream	McDep Ratio
						North Amer.	Rest of World				
						Natural Gas	Natural Gas				
<b>Global Integrated</b>											
Exxon Mobil Corporation	XOM	B	91.11	1.17	489,000	7	19	57	16	0.85	
Royal Dutch Shell plc	RDS-A	H	71.59	1.27	285,000	3	22	56	18	0.75	
PetroChina Company Ltd (14%)	PTR	H	142.03	1.38	50,300		14	77	8	0.74	
Chevron Corporation	CVX	H	116.04	1.13	256,000	3	11	76	10	0.71	
Total S.A.	TOT	H	53.28	1.37	165,000		19	67	14	0.61	
Petrobras	PBR	H	19.51	1.61	205,000		6	81	13	0.55	
Gazprom (50%)	OGZPY	H	9.68	1.40	77,000		12	18	69	0.50	
Lukoil Oil Company	LUKOY	B	67.07	1.03	53,400			77	23	0.45	
<i>Total or Median</i>				<i>1.32</i>	<i>1,581,000</i>			<i>72</i>	<i>15</i>	<i>0.66</i>	
<b>U.S. Independent</b>											
EOG Resources, Inc.	EOG	H	124.20	1.19	39,900	31	5	64	-	0.88	
ConocoPhillips	COP	H	60.75	1.54	113,000	14	12	74	-	0.73	
Occidental Petroleum Corp.	OXY	H	83.84	1.13	77,100	8	1	81	10	0.72	
Marathon Oil Corporation	MRO	B	33.52	1.43	34,000	8	3	90	-	0.64	
Devon Energy Corporation	DVN	CB	54.56	1.40	31,000	48		52	-	0.62	
<i>Total or Median</i>				<i>1.40</i>	<i>295,000</i>	<i>14</i>		<i>74</i>		<i>0.72</i>	
<b>Canada/Norway/Australia</b>											
Woodside Petroleum Ltd.	WOPEY	H	37.37	1.25	38,000		66	34	-	0.86	
EnCana Corporation	ECA	H	19.39	1.67	23,800	87		13	-	0.75	
Imperial Oil Limited (30%)	IMO	B	44.59	1.18	13,400	2		84	14	0.75	
Cenovus Energy Inc.	CVE	H	33.46	1.29	32,700	10		71	18	0.75	
Statoil ASA (33%)	STO	H	26.24	1.50	41,300		35	65	-	0.69	
Suncor Energy	SU	B	34.28	1.26	66,600	2		79	19	0.59	
Canadian Oil Sands Limited	COSWF	H	21.61	1.22	12,800			100	-	0.53	
<i>Total or Median</i>				<i>1.26</i>	<i>229,000</i>			<i>71</i>		<i>0.75</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											



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

January 29, 2013

Table 2								
McDep Large Cap Energy Stocks								
Net Present Value and McDep Ratio								
			Price			Net		
	Symbol/Rating		(US\$/sh)	Shares	Market	Present	Debt/	McDep
	B = Buy, CB (see below)		28-Jan	(mm)	Cap	Value	Present	Ratio
			2013		(US\$mm)	(US\$/sh)	Value	
<b>Global Integrated</b>								
Exxon Mobil Corporation	XOM	B	91.11	4,597	419,000	110.00	0.12	0.85
Royal Dutch Shell plc	RDS-A	H	71.59	3,137	225,000	102.00	0.16	0.75
PetroChina Company Ltd (14%)	PTR	H	142.03	256	36,400	210.00	0.21	0.74
Chevron Corporation	CVX	H	116.04	1,960	227,000	170.00	0.08	0.71
Total S.A.	TOT	H	53.28	2,261	121,000	100.00	0.16	0.61
Petrobras	PBR	H	19.51	6,522	127,200	45.00	0.21	0.55
Gazprom (50%)	OGZPY	H	9.68	5,735	55,500	23.00	0.14	0.50
Lukoil Oil Company	LUKOY	B	67.07	775	52,000	150.00	0.01	0.45
<i>Total or Median</i>					1,263,000		0.15	0.66
<b>U.S. Independent</b>								
EOG Resources, Inc.	EOG	H	124.20	271	33,700	145.00	0.14	0.88
ConocoPhillips	COP	H	60.75	1,207	73,000	96.00	0.25	0.73
Occidental Petroleum Corp.	OXY	H	83.84	810	67,900	120.00	0.09	0.72
Marathon Oil Corporation	MRO	B	33.52	709	23,770	60.00	0.19	0.64
Devon Energy Corporation	DVN	CB	54.56	405	22,100	102.00	0.18	0.62
<i>Total or Median</i>					220,500		0.18	0.72
<b>Canada/Norway/Australia</b>								
Woodside Petroleum Ltd.	WOPEY	H	37.37	808	30,200	45.00	0.17	0.86
EnCana Corporation	ECA	H	19.39	736	14,300	30.00	0.30	0.75
Imperial Oil Limited (30%)	IMO	B	44.59	255	11,400	62.00	0.11	0.75
Cenovus Energy Inc.	CVE	H	33.46	758	25,400	48.00	0.17	0.75
Statoil ASA (33%)	STO	H	26.24	1,050	27,600	44.00	0.23	0.69
Suncor Energy	SU	B	34.28	1,538	52,700	64.00	0.12	0.59
Canadian Oil Sands Limited	COSWF	H	21.61	485	10,500	45.00	0.10	0.53
<i>Total or Median</i>					172,000		0.17	0.75
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								



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

January 29, 2013

Table 3								
McDep Large Cap Energy Stocks								
Value Multiples and Dividend Yield								
				Price	Adjustd			
				(US\$/sh)	Resrvs/	PV/	EV/	Dividend
	Symbol/Rating		28-Jan	Prod	Ebitda	Ebitda	P/E	NTM
	B = Buy, CB (see below)		2013	NTM	NTM	NTM	NTM	(%)
<b>Global Integrated</b>								
Exxon Mobil Corporation	XOM	B	91.11	13.6	7.9	6.7	12	2.5
PetroChina Company Ltd (14%)	PTR	H	142.03	12.8	7.4	5.5	11	3.6
Chevron Corporation	CVX	H	116.04	9.5	7.3	5.2	10	3.1
Royal Dutch Shell plc	RDS-A	H	71.59	10.1	6.6	4.9	9	4.8
Petrobras	PBR	H	19.51	13.4	8.7	4.8	6	5.3
Total S.A.	TOT	H	53.28	10.3	7.7	4.7	8	6.0
Lukoil Oil Company	LUKOY	B	67.07	16.4	6.1	2.8	5	3.7
Gazprom (50%)	OGZPY	H	9.68	31.2	5.0	2.5	3	6.2
	<i>Median</i>			<i>13.1</i>	<i>7.4</i>	<i>4.9</i>	<i>9</i>	<i>4.3</i>
<b>U.S. Independent</b>								
Devon Energy Corporation	DVN	CB	54.56	10.7	10.0	6.2	14	1.5
EOG Resources, Inc.	EOG	H	124.20	8.5	7.0	6.1	20	0.5
ConocoPhillips	COP	H	60.75	12.5	7.9	5.8	10	4.3
Occidental Petroleum Corp.	OXY	H	83.84	9.9	7.6	5.5	12	2.6
Marathon Oil Corporation	MRO	B	33.52	8.7	7.2	4.6	9	2.0
	<i>Median</i>			<i>9.9</i>	<i>7.6</i>	<i>5.8</i>	<i>12</i>	<i>2.0</i>
<b>Canada/Norway/Australia</b>								
EnCana Corporation	ECA	H	19.39	8.5	12.3	9.3		4.1
Imperial Oil Limited (30%)	IMO	B	44.59	18.7	10.6	7.9	10	1.1
Woodside Petroleum Ltd.	WOPEY	H	37.37	13.4	9.1	7.8	13	3.5
Cenovus Energy Inc.	CVE	H	33.46	12.4	9.3	6.9	16	2.6
Canadian Oil Sands Limited	COSWF	H	21.61	22.0	12.5	6.6	10	6.4
Suncor Energy	SU	B	34.28	17.3	9.8	5.8	10	1.5
Statoil ASA (33%)	STO	H	26.24	6.3	6.2	4.2	8	4.3
	<i>Median</i>			<i>13.4</i>	<i>9.8</i>	<i>6.9</i>	<i>10</i>	<i>3.5</i>
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								



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

January 29, 2013

Table 4									
McDep Large Cap Energy Stocks									
Total Return and Enterprise Value Momentum									
				Equity					
			Price	Total					
			(\$/sh)	Return	Enterprise Value/				
	Symbol		28-Jan	YTD	52Wk	52Wk	50 Day	200 Day	McDep
	Rating		2013	(%)	High	Low	Avg.	Avg.	Ratio
<b>Global Integrated</b>									
Lukoil Oil Company	LUKOY	B	67.07	(1)	0.99	1.32	1.04	1.12	0.45
Total S.A.	TOT	H	53.28	2	0.95	1.19	1.03	1.07	0.61
Chevron Corporation	CVX	H	116.04	7	0.98	1.18	1.06	1.07	0.71
PetroChina Company Ltd (14%)	PTR	H	142.03	(1)	0.95	1.15	1.02	1.05	0.74
Exxon Mobil Corporation	XOM	B	91.11	5	0.98	1.15	1.03	1.04	0.85
Royal Dutch Shell plc	RDS-A	H	71.59	4	0.97	1.14	1.04	1.04	0.75
Gazprom (50%)	OGZPY	H	9.68	(1)	0.77	1.09	1.03	1.00	0.50
Petrobras	PBR	H	19.51	0	0.71	1.08	1.01	0.96	0.55
	<i>Median</i>			<i>1</i>	<i>0.96</i>	<i>1.15</i>	<i>1.03</i>	<i>1.04</i>	<i>0.66</i>
<b>U.S. Independent</b>									
EOG Resources, Inc.	EOG	H	124.20	3	0.98	1.40	1.02	1.12	0.88
Marathon Oil Corporation	MRO	B	33.52	9	0.96	1.28	1.05	1.12	0.64
ConocoPhillips	COP	H	60.75	5	1.00	1.12	1.03	1.05	0.73
Occidental Petroleum Corp.	OXY	H	83.84	9	0.81	1.14	1.07	1.01	0.72
Devon Energy Corporation	DVN	CB	54.56	5	0.78	1.05	1.02	0.95	0.62
	<i>Median</i>			<i>5</i>	<i>0.96</i>	<i>1.14</i>	<i>1.03</i>	<i>1.05</i>	<i>0.72</i>
<b>Canada/Norway/Australia</b>									
Suncor Energy	SU	B	34.28	4	0.93	1.24	1.03	1.07	0.59
Woodside Petroleum Ltd.	WOPEY	H	37.37	5	0.93	1.20	1.03	1.06	0.86
Canadian Oil Sands Limited	COSWF	H	21.65	6	0.88	1.17	1.05	1.04	0.53
Statoil ASA (33%)	STO	H	26.24	5	0.94	1.12	1.04	1.04	0.69
Imperial Oil Limited (30%)	IMO	B	44.59	4	0.91	1.14	1.02	1.01	0.75
Cenovus Energy Inc.	CVE	H	33.46	(0)	0.87	1.12	1.00	1.01	0.75
EnCana Corporation	ECA	H	19.39	(2)	0.87	1.07	0.97	0.95	0.75
	<i>Median</i>			<i>4</i>	<i>0.91</i>	<i>1.14</i>	<i>1.03</i>	<i>1.04</i>	<i>0.75</i>

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





# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

January 29, 2013

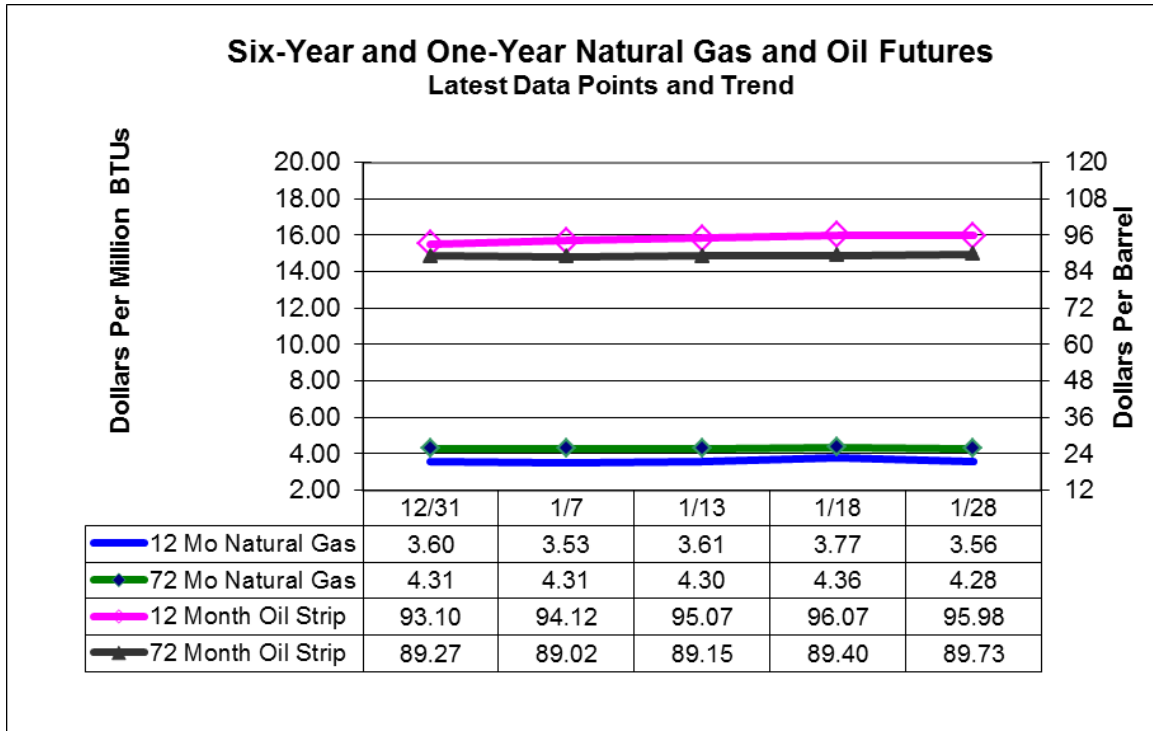
<b>Index of Recent Research</b>			
<b>Stock Ideas</b>			
<i>Date</i>	<i>Symbol</i>	<i>Subject</i>	<i>Theme</i>
22-Jan	WOPEY	Woodside Petroleum, Ltd.	Politically-Secure, Clean Fuel Supplier (Meter Reader)
18-Jan	DMLP	Dorchester Minerals, L.P.	Distribution Swings Up (Income and Small Cap Weekly)
17-Jan	SJT	San Juan Basin Royalty Trust	7.7% Holder Disclosed
15-Jan	ECA	Encana Corporation	Eresman Exits (Meter Reader)
11-Jan	PDCE	PDC Energy	Mancos (Niobrara) Winner (Income and Small Cap Weekly)
8-Jan	DVN	Devon Energy	Quality North American Oil and Gas Supplier (Meter Reader)
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)
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
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)
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)
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)
20-Jul	BRY	Berry Petroleum	Momentum Resuming (Income and Small Cap Weekly)
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>			
22-Jan	WOPEY	Woodside Petroleum, Ltd.	Politically-Secure, Clean Fuel Supplier
15-Jan	ECA	Encana Corporation	Eresman Exits
8-Jan	DVN	Devon Energy	Quality North American Oil and Gas Supplier
1-Jan			Review Energy Weighting after 2012 Underperformance
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>			
18-Jan	DMLP	Dorchester Minerals, L.P.	Distribution Swings Up
11-Jan	PDCE	PDC Energy	Mancos (Niobrara) Winner
4-Jan			Oil Price Perks Up - Six-Year Strip Touches 40-Week Average
28-Dec	FRHLF	Freehold Royalties Ltd.	Advantaged Ride on North American Oil Growth
For earlier editions, go to <a href="http://mcdep.com">mcdep.com</a> , click on <a href="#">Energy Income</a> .			



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

January 29, 2013



**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.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

**Certification:** I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

**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.