



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

February 26, 2013

Suncor Energy (SU) Keystone Decision Beneficiary

<i>Symbol</i>	SU	<i>Ebitda Next Twelve Months ending 3/31/14 (US\$mm)</i>	11,900
<i>Rating</i>	Contrarian Buy	<i>North American Natural Gas/Ebitda (%)</i>	1
<i>Price (US\$/sh)</i>	30.56	<i>Natural Gas and Oil Production/Ebitda (%)</i>	77
<i>Pricing Date</i>	2/25/13	<i>Adjusted Reserves/Production NTM</i>	15.8
<i>Shares (mm)</i>	1529	<i>EV/Ebitda</i>	5.1
<i>Market Capitalization (US\$mm)</i>	46,700	<i>PV/Ebitda</i>	9.4
<i>Debt (US\$mm)</i>	14,400	<i>Undeveloped Reserves (%)</i>	31
<i>Enterprise Value (EV) (US\$mm)</i>	61,100	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	50.80
<i>Present Value (PV) (US\$mm)</i>	112,300	<i>Present Value Proven Reserves(US\$/boe)</i>	25.55
<i>Net Present Value (US\$/share)</i>	64	<i>Ebitda Margin NTM (%)</i>	50
<i>Debt/Present Value</i>	0.13	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.24
<i>McDep Ratio - EV/PV</i>	0.54	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	1.7	<i>Indicated Annual Dividend (US\$/sh)</i>	0.51
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.			
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, \$6 a million btu.			
For historical analysis of SU since 2004 see www.mcdep.com/2su.htm			

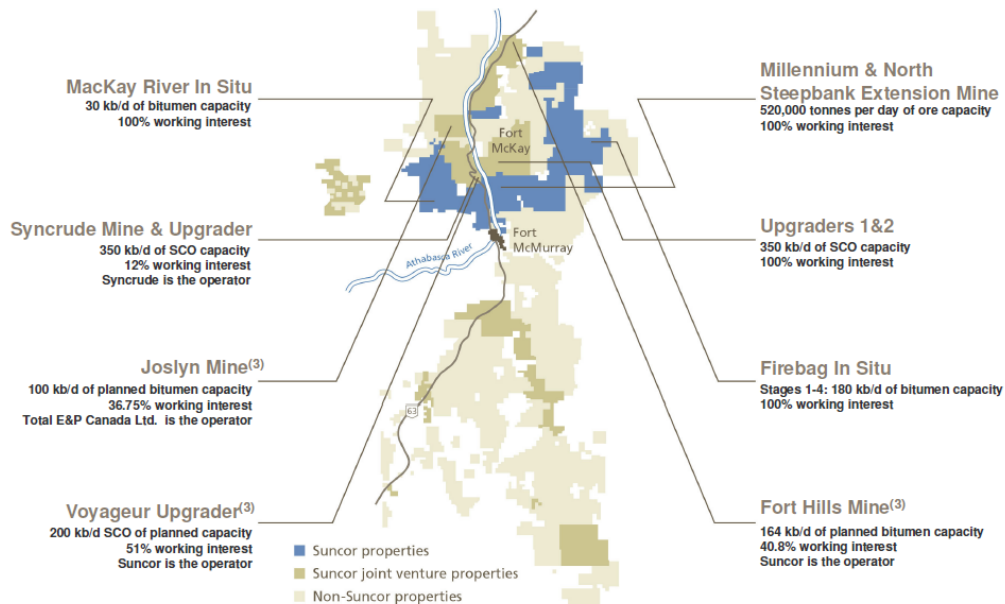
Summary and Recommendation

Contrarian buy-recommended **Suncor Energy (SU)** is doing well despite U.S. presidential policy that has blocked the Keystone pipeline from bringing more Canadian oil to the U.S. Unlevered cash flow (Ebitda) at a high 20% a year on enterprise value makes stock price look low. We think the company's rich cash flow stream justifies Net Present Value (NPV) of \$64 a share compared to stock price of \$31 (see table [Present Value](#) on page 2 and table [Operating and Financial Estimates](#) on page 3). The politically-imposed supply blockage acts to reduce North American crude oil price, but it also acts to increase global crude oil price, which in turn increases the price of petroleum products like gasoline, home heating oil and diesel fuel. What Suncor gives up in lower North American crude oil price it gains from refining cheap crude oil into refined products sold at international prices. Nor is that likely to change much immediately regardless of whether the U.S. president directs his newly-confirmed secretary of state, Mr. Kerry, to approve or disapprove a border crossing for the pending pipeline. The implementation of Keystone or alternatives not requiring presidential approval may eventually restore global parity in crude oil price and return refining margins to normal levels. Meanwhile, Suncor's oil production offers real growth as well as a hedge against inflation from the glut of free money flowing from central banks. In the event of weak economic activity, Suncor is well-protected by a low-debt financial position. Finally, at a McDep Ratio of 0.54, stock price for Suncor is among the lowest relative to estimated value of oil and gas resources (see [Tables 1 and 2](#) on pages 4 and 5). Unlevered cash flow multiple (EV/Ebitda) at 5.1 is also among the lowest considering long reserve life, yet stock price is lagging (see [Tables 3 and 4](#) on pages 6 and 7).

Kurt H. Wulff, CFA

Suncor					
Functional Cash Flow and Present Value					
				<i>Present</i>	
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Value</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>(US\$mm)</i>	
Natural Gas	150	13.6	16.0	2,400	2%
Oil	9,070	16.0	9.8	88,900	79%
Downstream	2,730		7.7	21,000	19%
	11,950	15.8	9.4	112,300	100%
Debt (US\$mm)					14,400
Net Present Value (US\$mm)					97,900
Shares (mm)					1,529
Net Present Value - Standard Estimate (US\$/sh)					64
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					64

Largest reserves in the oil sands⁽¹⁾
 monetized through a balanced portfolio of mining, in situ and upgrading⁽²⁾



(1) Source: Sproule Canadian Oil & Gas Reserves 2011 Chart.

(2) Capacity targets provided above do not necessarily equate to daily production.

(3) Not producing—subject to project sanction and Board of Directors' approval, and approval by joint venture owners.



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Suncor										
Next Twelve Months Operating and Financial Estimates										
(Canadian Dollars)										
										<i>Next Twelve Months</i>
	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Q1E</i>	<i>Q1E</i>
	12/31/11	9/30/12	12/31/12	2012	3/31/13	6/30/13	9/30/13	12/31/13	3/31/14	3/31/14
Volume										
Natural Gas (mmcf)	335	279	264	291	264	256	248	241	241	247
Oil (mbd)	520	490	512	501	522	533	543	554	565	549
Total gas & oil (bcf)	318	296	307	1,217	306	314	323	328	327	1,292
Total gas & oil (mbd)	576	537	556	549	566	575	585	594	605	590
Price										
Natural gas (\$/mcf)										
Henry Hub (\$/mmbtu)	3.55	2.80	3.40	2.79	3.33	3.52	3.64	3.81	4.05	3.76
Currency (US\$/C\$)	0.98	1.00	1.01	1.00	0.97	0.97	0.97	0.97	0.97	0.97
Henry Hub (C\$/mmbtu)	3.63	2.79	3.37	2.78	3.42	3.62	3.74	3.92	4.16	3.86
Company	3.18	2.15	2.96	2.17	3.00	3.17	3.28	3.32	3.53	3.32
Oil (\$/bbl)										
WTI Cushing	94.06	92.22	88.18	94.16	94.50	93.53	94.33	94.06	93.25	93.79
WTI Cushing (C\$/bbl)	96.20	91.79	87.41	94.12	97.00	96.01	96.82	96.55	95.72	96.28
Company	102.24	86.89	84.62	89.73	93.91	92.95	93.74	93.48	92.67	93.21
Total gas & oil (\$/mcf)	15.70	13.41	13.22	13.70	14.67	14.58	14.75	14.75	14.65	14.68
NY Harbor 3-2-1 (\$/bbl)	21.79	36.23	33.86	31.29	34.26	40.58	34.55	26.23	24.60	31.49
Revenue (\$mm)										
Natural Gas	98	55	72	230	71	74	75	74	76	299
Oil	4,891	3,917	3,986	16,454	4,414	4,506	4,686	4,766	4,715	18,672
Other	5,088	5,629	5,477	21,932	5,477	5,477	5,477	6,000	6,000	22,954
Total	10,077	9,601	9,535	38,616	9,962	10,057	10,238	10,840	10,791	41,925
Expense (\$mm)	6,991	6,591	7,012	26,173	7,025	7,072	7,163	7,725	7,701	29,662
Ebitda (\$mm)										
Exploration and Production	2,501	1,798	1,749	8,317	2,237	2,285	2,375	2,414	2,390	9,464
Other	584	1,212	775	4,126	700	700	700	700	700	2,800
Total Ebitda	3,086	3,010	2,523	12,443	2,937	2,985	3,075	3,114	3,090	12,264
Exploration	10	97	71	309	71	71	71	71	71	284
Deprec., Deplet., & Amort.	1,023	896	1,032	4,467	1,032	1,032	1,032	1,032	1,032	4,129
Ebit (\$mm)	2,053	2,017	1,420	7,667	1,834	1,881	1,972	2,011	1,987	7,850
Interest	-	-	-	20	-	-	-	-	-	-
Ebt (\$mm)	2,053	2,017	1,420	7,647	1,834	1,881	1,972	2,011	1,987	7,850
Income Tax	622	710	426	2,736	648	664	696	710	701	2,772
Net Income (\$mm)										
Exploration and Production	1,074	623	(892)	596						
Other	307	708	448	2,129						
Unallocated	50	(24)	1,438	2,186						
Total	1,431	1,307	994	4,911	1,187	1,217	1,276	1,301	1,285	5,079
Shares (millions)	1,572	1,538	1,529	1,549	1,529	1,529	1,529	1,529	1,529	1,529
Per share (\$)	0.91	0.85	0.65	3.17	0.78	0.80	0.83	0.85	0.84	3.32
Ebitda Margin (E&P)	50%	45%	43%	50%	50%	50%	50%	50%	50%	50%
Tax Rate	30%	35%	30%	36%	35%	35%	35%	35%	35%	35%



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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		25-Feb 2013	(mm)				
	B = Buy, CB (see below)							
Global Integrated								
Exxon Mobil Corporation	XOM	B	87.70	4,541	398,000	110.00	0.12	0.82
PetroChina Company Ltd (14%)	PTR	H	135.85	256	34,800	210.00	0.21	0.72
Chevron Corporation	CVX	H	113.54	1,953	222,000	170.00	0.08	0.69
Royal Dutch Shell plc	RDS-A	H	64.53	3,145	203,000	102.00	0.16	0.69
Total S.A.	TOT	H	49.27	2,270	112,000	90.00	0.17	0.62
Petrobras	PBR	H	14.91	6,522	97,200	35.00	0.29	0.59
Gazprom (50%)	OGZPY	H	8.95	5,735	51,300	23.00	0.14	0.47
Lukoil Oil Company	LUKOY	B	64.05	775	49,600	150.00	0.01	0.43
	<i>Total or Median</i>				<i>1,168,000</i>		<i>0.15</i>	<i>0.66</i>
U.S. Independent								
EOG Resources, Inc.	EOG	H	121.77	269	32,800	160.00	0.13	0.79
Occidental Petroleum Corp.	OXY	H	82.13	808	66,400	120.00	0.09	0.71
ConocoPhillips	COP	H	56.89	1,216	69,000	105.00	0.24	0.65
Marathon Oil Corporation	MRO	B	32.94	711	23,420	60.00	0.19	0.64
Devon Energy Corporation	DVN	CB	54.00	405	21,900	102.00	0.19	0.62
	<i>Total or Median</i>				<i>213,500</i>		<i>0.19</i>	<i>0.65</i>
Canada/Norway/Australia								
Woodside Petroleum Ltd.	WOPEY	H	38.55	820	31,600	45.00	0.13	0.87
Cenovus Energy Inc.	CVE	H	31.54	758	23,900	48.00	0.17	0.72
EnCana Corporation	ECA	H	17.97	736	13,200	30.00	0.28	0.71
Imperial Oil Limited (30%)	IMO	CB	41.26	255	10,500	62.00	0.12	0.70
Statoil ASA (33%)	STO	H	24.70	1,049	25,900	44.00	0.22	0.66
Suncor Energy	SU	CB	30.56	1,529	46,700	64.00	0.13	0.54
Canadian Oil Sands Limited	COSWF	H	19.81	485	9,600	45.00	0.10	0.49
	<i>Total or Median</i>				<i>161,000</i>		<i>0.13</i>	<i>0.70</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 3								
McDep Large Cap Energy Stocks								
Value Multiples and Dividend Yield								
			Price	Adjustd				
			(US\$/sh)	Resrvs/	PV/	EV/		Dividend
	Symbol/Rating		25-Feb	Prod	Ebitda	Ebitda	P/E	NTM
	B = Buy, CB (see below)		2013	NTM	NTM	NTM	NTM	(%)
Global Integrated								
Exxon Mobil Corporation	XOM	B	87.70	13.4	7.9	6.5	11	2.6
PetroChina Company Ltd (14%)	PTR	H	135.85	12.7	7.6	5.4	11	3.7
Chevron Corporation	CVX	H	113.54	9.0	7.0	4.8	9	3.2
Petrobras	PBR	H	14.91	12.9	8.1	4.8	5	3.2
Total S.A.	TOT	H	49.27	10.4	7.3	4.6	8	6.3
Royal Dutch Shell plc	RDS-A	H	64.53	9.9	6.5	4.5	8	5.3
Lukoil Oil Company	LUKOY	B	64.05	16.4	6.3	2.7	5	3.8
Gazprom (50%)	OGZPY	H	8.95	31.2	4.6	2.2	3	6.6
	<i>Median</i>			12.8	7.1	4.7	8	3.8
U.S. Independent								
Devon Energy Corporation	DVN	CB	54.00	10.4	10.1	6.3	14	1.5
ConocoPhillips	COP	H	56.89	13.1	8.5	5.5	10	4.6
EOG Resources, Inc.	EOG	H	121.77	7.8	6.9	5.4	16	0.6
Occidental Petroleum Corp.	OXY	H	82.13	9.8	7.3	5.2	11	2.6
Marathon Oil Corporation	MRO	B	32.94	8.9	7.3	4.6	9	2.1
	<i>Median</i>			9.8	7.3	5.4	11	2.1
Canada/Norway/Australia								
EnCana Corporation	ECA	H	17.97	8.4	11.4	8.1		4.5
Imperial Oil Limited (30%)	IMO	CB	41.26	19.1	11.4	8.0	10	1.1
Woodside Petroleum Ltd.	WOPEY	H	38.55	9.5	8.9	7.8	16	3.4
Cenovus Energy Inc.	CVE	H	31.54	13.7	9.9	7.1	7	3.0
Canadian Oil Sands Limited	COSWF	H	19.81	21.8	12.6	6.2	10	6.9
Suncor Energy	SU	CB	30.56	15.8	9.4	5.1	9	1.7
Statoil ASA (33%)	STO	H	24.70	6.3	5.9	3.9	7	4.8
	<i>Median</i>			13.7	9.9	7.1	10	3.4
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 March 31, 2014; 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		25-Feb	YTD	52Wk	52Wk	50 Day	200 Day	McDep
	Rating		2013	(%)	High	Low	Avg.	Avg.	Ratio
Global Integrated									
	LUKOY	B	64.05	(4)	0.95	1.27	0.97	1.06	0.43
	CVX	H	113.54	7	0.96	1.16	1.01	1.04	0.69
	PTR	H	135.85	(5)	0.92	1.11	0.97	1.02	0.72
	TOT	H	49.27	(4)	0.90	1.13	0.96	1.01	0.62
	XOM	B	87.70	3	0.95	1.11	0.99	1.00	0.82
	RDS-A	H	64.53	(4)	0.90	1.05	0.95	0.96	0.69
	OGZPY	H	8.95	(8)	0.73	1.03	0.97	0.96	0.47
	PBR	H	14.91	(22)	0.65	1.00	0.89	0.85	0.59
	<i>Median</i>			(4)	0.91	1.11	0.97	1.00	0.66
U.S. Independent									
	MRO	B	32.94	10	0.94	1.26	1.00	1.09	0.64
	EOG	H	121.77	3	0.90	1.37	0.97	1.08	0.79
	COP	H	56.89	0	0.95	1.08	0.98	1.01	0.65
	OXY	H	82.13	9	0.79	1.12	1.00	0.99	0.71
	DVN	CB	54.00	5	0.78	1.04	0.99	0.96	0.62
	<i>Median</i>			5	0.90	1.12	0.99	1.01	0.65
Canada/Norway/Australia									
	WOPEY	H	38.55	8	0.95	1.24	1.04	1.09	0.87
	STO	H	24.70	(0)	0.90	1.08	0.98	1.00	0.66
	SU	CB	30.56	(6)	0.86	1.13	0.94	0.97	0.54
	COSWF	H	19.80	(0)	0.84	1.09	0.97	0.97	0.49
	CVE	H	31.54	(4)	0.84	1.07	0.96	0.96	0.72
	IMO	CB	41.26	(3)	0.85	1.07	0.96	0.95	0.70
	ECA	H	17.97	(8)	0.82	1.02	0.95	0.91	0.71
	<i>Median</i>			(3)	0.85	1.08	0.96	0.97	0.70

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



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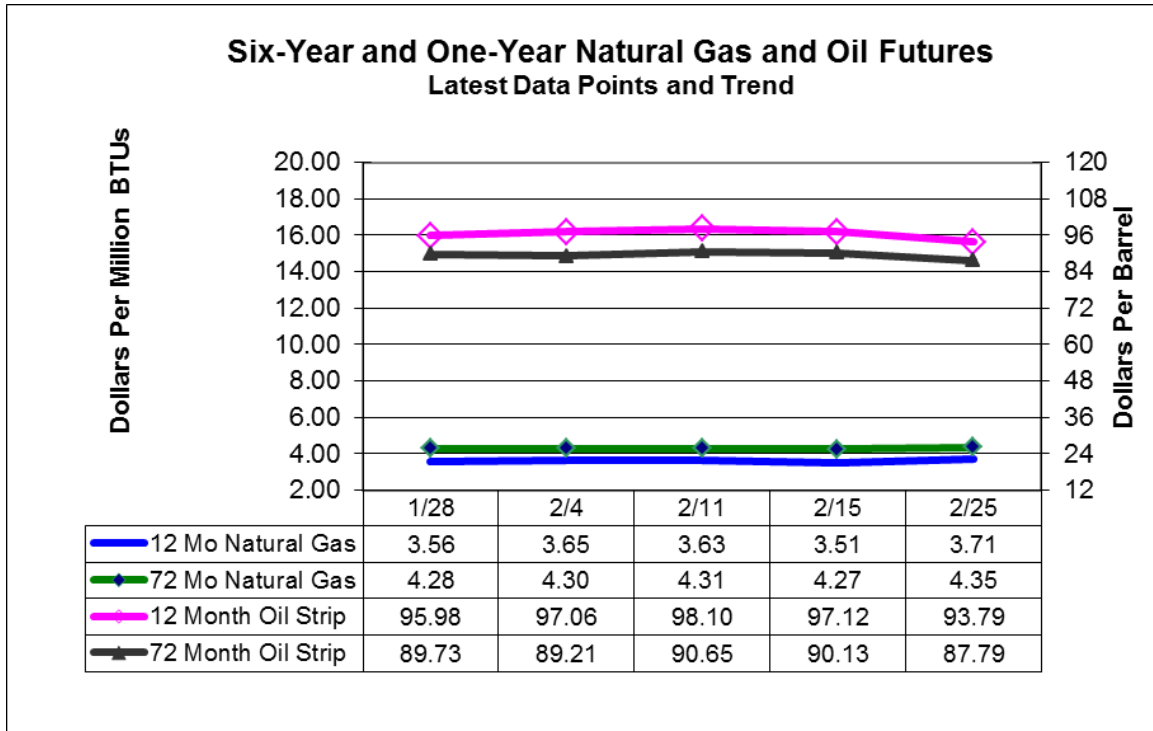
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Index of Recent Research			
Stock Ideas			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
22-Feb	XEC	Cimarex Energy	Wolfcamp New Legacy Asset (Income and Small Cap Weekly)
19-Feb	ECA	Encana Corporation	Survived the Downside, Ready for the Upside (Meter Reader)
15-Feb	BIREF	Birchcliff Energy	Production Up 26% in 2012 (Income and Small Cap Weekly)
12-Feb	IMO	Imperial Oil	New Volume Imminent (Meter Reader)
8-Feb	WLL	Whiting Petroleum	Low McDep Ratio Shale Oil (Inc and Small Cap Wkly)
5-Feb	COP	ConocoPhillips	Raise NPV to \$105 from \$96 on Performance (Meter Reader)
1-Feb	SJT	San Juan Basin Royalty Trust	Horizontal Mancos Well Apparently Successful (ISCW)
25-Jan	CLR	Continental Resources	Bakken Reserves Exceed a Half-Billion Barrels (ISCW)
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
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)
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)
2-Oct	CVX	Chevron	Top Performer Shows Further Promise (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)
31-Jul	OXY	Occidental Petroleum	California Oil Growth Accelerates (Meter Reader)
For historical research by stock, go to mcdep.com , click on Stock Ideas , click on stock by name.			
Meter Reader			
19-Feb	ECA	Encana Corporation	Survived the Downside, Ready for the Upside
12-Feb	IMO	Imperial Oil	New Volume Imminent
5-Feb	COP	ConocoPhillips	Raise NPV to \$105 from \$96 on Performance
29-Jan			Crude Oil Price - North American Advantage
For earlier editions, go to mcdep.com , click on Meter Reader .			
Income and Small Cap Weekly			
22-Feb	XEC	Cimarex Energy	Wolfcamp New Legacy Asset
15-Feb	BIREF	Birchcliff Energy	Production Up 26% in 2012
8-Feb	WLL	Whiting Petroleum	Low McDep Ratio Shale Oil
1-Feb	SJT	San Juan Basin Royalty Trust	Horizontal Mancos Well Apparently Successful
For earlier editions, go to mcdep.com , click on Energy Income .			



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