



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

March 19, 2013

## Lukoil (LUKOY) Emerging Oil Capitalists

<i>Symbol</i>	LUKOY	<i>Ebitda Next Twelve Months ending 3/31/14 (US\$mm)</i>	19,400
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	63.83	<i>Natural Gas and Oil Production/Ebitda (%)</i>	69
<i>Pricing Date</i>	3/18/13	<i>Adjusted Reserves/Production NTM</i>	15.9
<i>Shares (mm)</i>	775	<i>EV/Ebitda</i>	2.7
<i>Market Capitalization (US\$mm)</i>	49,500	<i>PV/Ebitda</i>	6.2
<i>Debt (US\$mm)</i>	2,800	<i>Undeveloped Reserves (%)</i>	42
<i>Enterprise Value (EV) (US\$mm)</i>	52,300	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	19.78
<i>Present Value (PV) (US\$mm)</i>	119,000	<i>Present Value Proven Reserves(US\$/boe)</i>	6.26
<i>Net Present Value (US\$/share)</i>	150	<i>Present Value Proven Reserves(US\$/mcf)</i>	1.04
<i>Debt/Present Value</i>	0.02	<i>Earnings Next Twelve Months (US\$/sh)</i>	13.35
<i>McDep Ratio - EV/PV</i>	0.44	<i>Price/Earnings Next Twelve Months</i>	5
<i>Dividend Yield (%/year)</i>	3.8	<i>Indicated Annual Dividend (US\$/sh)</i>	2.43
Note: Estimated cash flow and earnings tied to one-year futures prices for oil.			
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 research on Lukoil since 2004 see <a href="http://www.mcdep.com/2luk.htm">www.mcdep.com/2luk.htm</a>			

### Summary and Recommendation

The largest publicly traded oil producer in developing countries and free of government ownership, Lukoil (LUKOY) is our buy recommendation for participation in rapidly growing economies. The main source of upside that keeps us interested is exceptionally low valuation by most measures including McDep Ratio of 0.44 and Net Present Value (NPV) of \$150 a share, more than twice stock price (see table Present Value on page 2). Unlevered cash flow multiple (EV/Ebitda) is a low 2.7 times implying that Lukoil generates annual cash flow that in less than three years would exceed the value of all of the company's stock and debt. Apparently investors doubt that the Russian government will allow the cash flow to continue or if it does, the stockholders won't benefit. The truth, we believe, is that Russia could not produce oil on better terms than those it grants Lukoil and Russia depends on oil for its well-being. Moreover, there is ample room for government to further reduce its tax take to keep oil production stable and for it to grow. As a measure of that upside, Lukoil's current cash flow margin is just 18% (see table Operating and Financial Estimates on page 2). At 50%, Russia would grow like North Dakota! Shareholders benefit from the cash flow through a dividend expected to grow some 12% a year and the continuing of a stock buyback program. Current dividends at 3.8% of stock price are perhaps just 6% of Ebitda and 15% of free cash flow after capital investment. At Capital Day on March 7, investors were told that 600 members of management were investing continually in Lukoil stock. Both chief executive Vagit Alekperov and Vice President Leonid Fedun with net worth of \$14 billion and \$7 billion, respectively, appear committed to Lukoil's capitalist success. Finally, Lukoil's valuation measures stand out among large cap stocks (see Tables 1-4 on pages 3-6).

Kurt H. Wulff, CFA



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<b>Lukoil</b>					
<b>Functional Cash Flow and Present Value</b>					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
Natural Gas	300	22.7	4.3	1,300	1%
Oil	13,100	15.9	6.9	90,800	76%
Downstream	6,000		4.5	27,000	23%
	19,400	16.9	6.1	119,100	100%
Debt (US\$mm)					2,800
Net Present Value (US\$mm)					116,300
Shares (mm)					775
Net Present Value - Standard Estimate (US\$/sh)					150
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					229

<b>Lukoil Oil Company</b>										
<b>Next Twelve Months Operating and Financial Estimates</b>										
	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Next</i>
	<i>3/31/12</i>	<i>12/31/12</i>	<i>2012</i>	<i>3/31/13</i>	<i>6/30/13</i>	<i>9/30/13</i>	<i>12/31/13</i>	<i>2013E</i>	<i>3/31/14</i>	<i>Twelve</i>
										<i>Months</i>
										<i>3/31/14</i>
<b>Volume</b>										
Natural Gas (mmcf)	2,046	1,968	<b>1,920</b>	2,046	1,818	1,848	1,968	<b>1,920</b>	2,046	<b>1,920</b>
Oil (mbd)	1,857	1,849	<b>1,850</b>	1,849	1,849	1,849	1,849	<b>1,849</b>	1,849	<b>1,849</b>
<b>Price</b>										
Natural gas (\$/mcf)	1.36	2.62	<b>1.83</b>	2.62	2.62	2.62	2.62	<b>2.62</b>	2.62	<b>2.62</b>
Oil (\$/bbl)										
WTI Cushing	102.93	88.18	<b>94.16</b>	93.88	92.37	92.94	92.29	<b>92.87</b>	91.25	<b>92.21</b>
Lukoil export	117.02	107.81	<b>110.20</b>	114.78	112.94	113.64	106.14	<b>111.85</b>	100.37	<b>108.30</b>
NY Harbor 3-2-1 (\$/bbl)	24.31	33.86	<b>31.29</b>	30.81	38.64	34.00	26.65	<b>32.53</b>	25.58	<b>31.22</b>
<b>Revenue (\$mm)</b>										
Natural Gas	253	474	<b>1,287</b>	482	433	445	474	<b>1,835</b>	482	<b>1,835</b>
Oil	19,775	18,339	<b>74,617</b>	19,100	19,003	19,330	18,054	<b>75,488</b>	16,702	<b>73,090</b>
Other	15,486	17,680	<b>64,554</b>	17,680	17,680	17,680	17,680	<b>70,720</b>	17,680	<b>70,720</b>
Total	35,261	36,019	<b>139,171</b>	37,262	37,116	37,456	36,208	<b>148,042</b>	34,865	<b>145,645</b>
<b>Ebitda (\$mm)</b>										
Exploration and Production	3,716	3,242	<b>13,310</b>	3,489	3,463	3,524	3,302	<b>13,778</b>	3,062	<b>13,351</b>
Other	1,602	1,632	<b>5,914</b>	1,500	1,500	1,500	1,500	<b>6,000</b>	1,500	<b>6,000</b>
Total Ebitda	5,318	4,874	<b>19,224</b>	4,989	4,963	5,024	4,802	<b>19,778</b>	4,562	<b>19,351</b>
Exploration	43	165	<b>364</b>	125	125	125	125	<b>500</b>	125	<b>500</b>
Deprec., Deplet., & Amort.	1,095	1,251	<b>4,832</b>	1,251	1,251	1,251	1,251	<b>5,004</b>	1,251	<b>5,004</b>
<b>Ebit</b>	4,180	3,458	<b>14,028</b>	3,613	3,587	3,648	3,426	<b>14,274</b>	3,186	<b>13,847</b>
Interest	10	56	<b>151</b>	56	56	56	56	<b>223</b>	56	<b>223</b>
<b>Ebt</b>	4,170	3,402	<b>13,877</b>	3,557	3,531	3,592	3,370	<b>14,051</b>	3,130	<b>13,623</b>
Income Tax	367	682	<b>2,798</b>	855	849	863	810	<b>3,377</b>	752	<b>3,274</b>
<b>Net Income (\$mm)</b>										
Exploration and Production	2,811	1,840	<b>8,326</b>							
Other	1,077	763	<b>3,082</b>							
Unallocated	(85)	117	<b>(329)</b>							
Total	3,803	2,720	<b>11,079</b>	2,702	2,683	2,729	2,560	<b>10,673</b>	2,378	<b>10,349</b>
<b>Shares (millions)</b>	794	775	<b>782</b>	775	775	775	775	<b>775</b>	775	<b>775</b>
Per share (\$)	4.79	3.51	<b>14.17</b>	3.49	3.46	3.52	3.30	<b>13.77</b>	3.07	<b>13.35</b>
Ebitda Margin (E&P)	19%	18%	<b>18%</b>	18%	18%	18%	18%	<b>18%</b>	18%	<b>18%</b>
Tax Rate	9%	20%	<b>20%</b>	24%	24%	24%	24%	<b>24%</b>	24%	<b>24%</b>





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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		18-Mar 2013	(mm)				
	B = Buy, CB (see below)							
<b>Global Integrated</b>								
Exxon Mobil Corporation	XOM	B	88.77	4,541	403,000	110.00	0.13	0.83
Chevron Corporation	CVX	H	119.13	1,953	233,000	170.00	0.08	0.72
PetroChina Company Ltd (14%)	PTR	H	134.65	256	34,500	210.00	0.21	0.72
Royal Dutch Shell plc	RDS-A	H	65.57	3,145	206,000	102.00	0.16	0.70
Petrobras	PBR	H	17.79	6,522	116,000	35.00	0.29	0.65
Total S.A.	TOT	H	50.00	2,270	114,000	90.00	0.17	0.63
Gazprom (50%)	OGZPY	H	9.32	5,735	53,500	23.00	0.14	0.49
Lukoil Oil Company	LUKOY	B	63.83	775	49,500	150.00	0.02	0.44
	<i>Total or Median</i>				<i>1,210,000</i>		<i>0.15</i>	<i>0.68</i>
<b>U.S. Independent</b>								
EOG Resources, Inc.	EOG	H	128.93	269	34,700	160.00	0.13	0.83
Occidental Petroleum Corp.	OXY	H	82.50	808	66,700	120.00	0.09	0.71
Marathon Oil Corporation	MRO	B	34.98	711	24,870	60.00	0.19	0.66
ConocoPhillips	COP	H	59.15	1,216	72,000	105.00	0.22	0.66
Devon Energy Corporation	DVN	B	57.97	405	23,500	102.00	0.19	0.65
	<i>Total or Median</i>				<i>221,800</i>		<i>0.19</i>	<i>0.66</i>
<b>Canada/Norway/Australia</b>								
Woodside Petroleum Ltd.	WOPEY	H	38.20	820	31,300	45.00	0.13	0.87
EnCana Corporation	ECA	H	19.96	736	14,700	30.00	0.28	0.76
Cenovus Energy Inc.	CVE	H	32.03	758	24,300	48.00	0.17	0.72
Imperial Oil Limited (30%)	IMO	CB	42.42	255	10,800	62.00	0.11	0.72
Statoil ASA (33%)	STO	H	24.23	1,049	25,400	44.00	0.22	0.65
Suncor Energy	SU	CB	30.38	1,529	46,500	64.00	0.13	0.54
Canadian Oil Sands Limited	COSWF	H	20.66	485	10,000	45.00	0.10	0.51
	<i>Total or Median</i>				<i>163,000</i>		<i>0.13</i>	<i>0.72</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 (US\$/sh)	Adjustd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	P/E	Dividend NTM	
	Symbol/Rating	18-Mar	2013	NTM	NTM	NTM	NTM	(%)	
B = Buy, CB (see below)									
<b>Global Integrated</b>									
	Exxon Mobil Corporation	XOM	B	88.77	13.2	7.9	6.6	12	2.6
	PetroChina Company Ltd (14%)	PTR	H	134.65	12.7	7.7	5.5	11	3.8
	Petrobras	PBR	H	17.79	12.9	8.2	5.4	7	2.7
	Chevron Corporation	CVX	H	119.13	9.0	7.1	5.1	10	3.0
	Total S.A.	TOT	H	50.00	10.4	7.4	4.6	9	6.2
	Royal Dutch Shell plc	RDS-A	H	65.57	9.9	6.6	4.6	8	5.2
	Lukoil Oil Company	LUKOY	B	63.83	15.9	6.2	2.7	5	3.8
	Gazprom (50%)	OGZPY	H	9.32	31.2	4.6	2.2	3	6.3
	<i>Median</i>				12.8	7.2	4.9	8	3.8
<b>U.S. Independent</b>									
	Devon Energy Corporation	DVN	B	57.97	10.4	10.1	6.6	15	1.4
	EOG Resources, Inc.	EOG	H	128.93	7.8	6.9	5.8	18	0.6
	ConocoPhillips	COP	H	59.15	12.7	8.4	5.5	10	4.5
	Occidental Petroleum Corp.	OXY	H	82.50	9.8	7.3	5.3	11	2.6
	Marathon Oil Corporation	MRO	B	34.98	8.9	7.4	4.9	10	1.9
	<i>Median</i>				9.8	7.4	5.5	11	1.9
<b>Canada/Norway/Australia</b>									
	EnCana Corporation	ECA	H	19.96	8.4	11.1	8.5		4.0
	Imperial Oil Limited (30%)	IMO	CB	42.42	19.1	11.5	8.3	11	1.1
	Woodside Petroleum Ltd.	WOPEY	H	38.20	9.5	8.9	7.7	16	3.4
	Cenovus Energy Inc.	CVE	H	32.03	13.7	9.9	7.2	8	2.9
	Canadian Oil Sands Limited	COSWF	H	20.66	19.2	12.5	6.4	10	6.6
	Suncor Energy	SU	CB	30.38	15.8	9.5	5.2	10	1.7
	Statoil ASA (33%)	STO	H	24.23	6.3	6.0	3.9	7	4.9
	<i>Median</i>				13.7	9.9	7.2	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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				Equity						
				Price	Total					
				(\$/sh)	Return	Enterprise Value/				
	Symbol		18-Mar	YTD	52Wk	52Wk	50 Day	200 Day	McDep	
	Rating		2013	(%)	High	Low	Avg.	Avg.	Ratio	
<b>Global Integrated</b>										
	Chevron Corporation	CVX	H	119.13	11	0.99	1.21	1.03	1.07	0.72
	Lukoil Oil Company	LUKOY	B	63.83	(3)	0.94	1.25	0.97	1.04	0.44
	Total S.A.	TOT	H	50.00	(1)	0.92	1.14	0.97	1.01	0.63
	PetroChina Company Ltd (14%)	PTR	H	134.65	(6)	0.92	1.11	0.97	1.01	0.72
	Exxon Mobil Corporation	XOM	B	88.77	4	0.96	1.12	0.99	1.01	0.83
	Gazprom (50%)	OGZPY	H	9.32	(3)	0.75	1.06	1.00	0.99	0.49
	Royal Dutch Shell plc	RDS-A	H	65.57	(3)	0.91	1.06	0.97	0.97	0.70
	Petrobras	PBR	H	17.79	(9)	0.75	1.12	1.01	0.94	0.65
	<i>Median</i>				(3)	0.92	1.12	0.98	1.01	0.68
<b>U.S. Independent</b>										
	Marathon Oil Corporation	MRO	B	34.98	15	0.98	1.31	1.03	1.12	0.66
	EOG Resources, Inc.	EOG	H	128.93	9	0.94	1.43	1.01	1.12	0.83
	ConocoPhillips	COP	H	59.15	3	0.97	1.11	1.01	1.03	0.66
	Devon Energy Corporation	DVN	B	57.97	12	0.82	1.10	1.03	1.01	0.65
	Occidental Petroleum Corp.	OXY	H	82.50	10	0.83	1.12	0.99	0.99	0.71
	<i>Median</i>				10	0.94	1.12	1.01	1.03	0.66
<b>Canada/Norway/Australia</b>										
	Woodside Petroleum Ltd.	WOPEY	H	38.20	10	0.95	1.23	1.02	1.07	0.87
	Canadian Oil Sands Limited	COSWF	H	20.71	5	0.90	1.13	0.99	1.01	0.51
	Statoil ASA (33%)	STO	H	24.23	(2)	0.90	1.06	0.96	0.98	0.65
	Cenovus Energy Inc.	CVE	H	32.03	(3)	0.88	1.08	0.98	0.98	0.72
	EnCana Corporation	ECA	H	19.96	4	0.88	1.09	1.03	0.97	0.76
	Imperial Oil Limited (30%)	IMO	CB	42.42	(1)	0.87	1.09	0.99	0.97	0.72
	Suncor Energy	SU	CB	30.38	(5)	0.88	1.13	0.95	0.96	0.54
	<i>Median</i>				(1)	0.88	1.09	0.99	0.98	0.72

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



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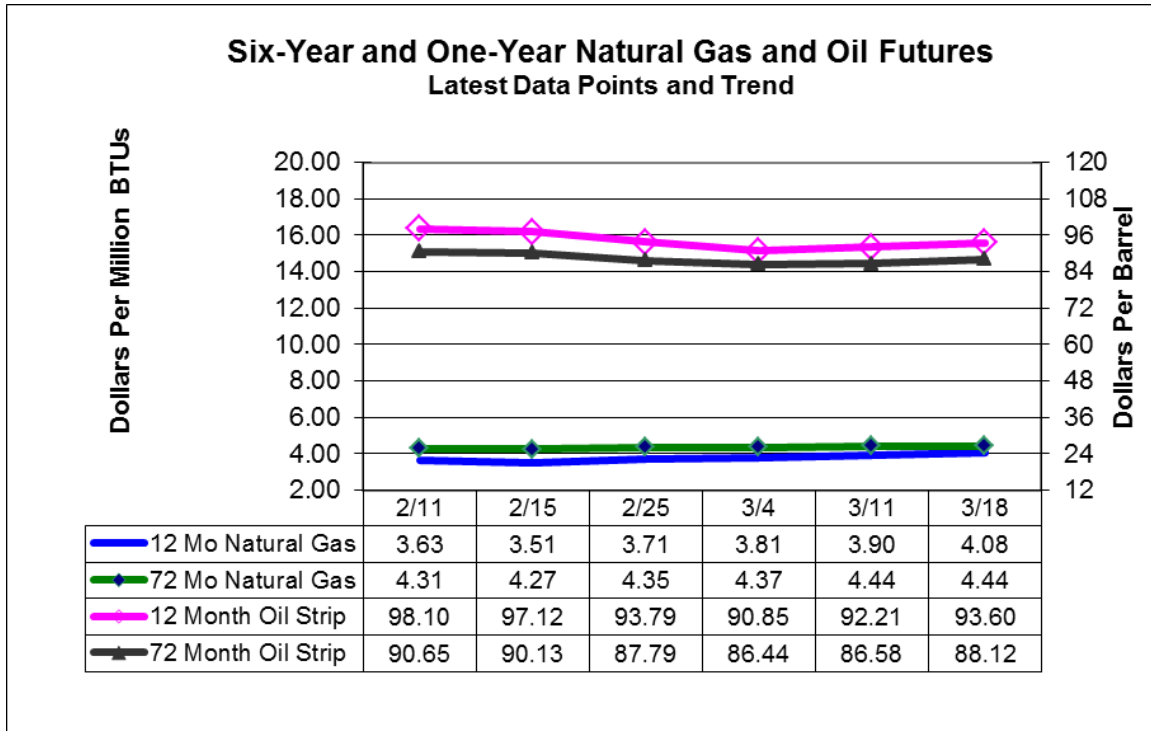
<b>Index of Recent Research</b>			
<b>Stock Ideas</b>			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
15-Mar	CRT	Cross Timbers Royalty Trust	San Juan Basin Gem (Income and Small Cap Weekly)
12-Mar	XOM	Exxon Mobil	Energy Anchor (Meter Reader)
8-Mar	RRC	Range Resources	Raise NPV to \$90 from \$70 on Big Wells (Income and Small Cap Wkly)
5-Mar	EOG	EOG Resources	Raise NPV to \$160 from \$145 on Shale Oil (Meter Reader)
1-Mar	ERF	Enerplus Corporation	Back on Track, Discontinue Buy (Income and Small Cap Weekly)
26-Feb	SU	Suncor Energy	Keystone Decision Beneficiary (Meter Reader)
22-Feb	XEC	Cimarex Energy	Wolfcamp New Legacy Asset (Income and Small Cap Weekly)
21-Feb	BRY	Berry Petroleum	Linn Energy to Acquire Berry for McDep Ratio of 0.77
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)
20-Nov	MRO	Marathon Oil	Raise NPV to \$60 from \$54 on Volume (Meter Reader)
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
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)
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>			
12-Mar	XOM	Exxon Mobil	Energy Anchor
5-Mar	EOG	EOG Resources	Raise NPV to \$160 from \$145 on Shale Oil
26-Feb	SU	Suncor Energy	Keystone Decision Beneficiary
19-Feb	ECA	Encana Corporation	Survived the Downside, Ready for the Upside
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>			
15-Mar	CRT	Cross Timbers Royalty Trust	San Juan Basin Gem
8-Mar	RRC	Range Resources	Raise NPV to \$90 from \$70 on Big Wells
1-Mar	ERF	Enerplus Corporation	Back on Track, Discontinue Buy
22-Feb	XEC	Cimarex Energy	Wolfcamp New Legacy Asset
For earlier editions, go to <a href="http://mcdep.com">mcdep.com</a> , click on <a href="#">Energy Income</a> .			



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