



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

July 2, 2013

Large Cap Oil and Gas Strategy

Summary and Recommendation

Large cap oil and gas stocks look secure in a diversified investment portfolio after mixed performance during the first half of 2013. Among 20 stocks in our large cap coverage, 7 U.S. stocks gained in total return, 7 Canadian stocks lost and 6 overseas stocks lost more (see [Table 4](#) on page 5). The oil and gas performance mirrors the geography of the broader stock market.U.S. was strong, other developed countries were up modestly and emerging markets were down sharply. Though we do not pretend to make the call on global stock markets, we are optimistic on the U.S., in part because shale oil and shale gas make North America the most important source of incremental energy supply for the remainder of the 2010s decade. We are constructive on other developed countries because the stocks we cover are strong companies whose production is priced globally subject to temporary disparities. We like emerging markets for long-term growth, but are concerned that price controls are weakening the companies in our coverage. Our number of buy recommendations roughly reflects that perspective with 3 U.S., 2 developed countries (Canada) and 1 emerging market stock. Logically, a diversified portfolio should also include the customers who would benefit from increased North American supply. Those are the global economies and the global stock markets with the U.S. in the lead.

ExxonMobil (XOM) If You Could Only Own One

Well-managed, efficient, diversified geographically and by segment, Buy-recommended **ExxonMobil (XOM)** is a complete oil, gas and petrochemical investment that has outperformed for a hundred years. In our experience it has been better to own Exxon during periods when oil and gas price are comparatively stable and better to own independent producers when price is advancing as well as it did in the 2000s and 1970s. With its credit rating higher than sovereign governments and its long record, XOM also seems a good substitute for bonds and cash. XOM's premium characteristics are reflected in a higher McDep Ratio of 0.90 while it still offers appreciation potential to 1.0 (see [Tables 1-3](#) on pages 2-4).

Try to Beat XOM with Specialization and/or Value

While XOM gets a portion of its profits from successful operation in Russia, Buy-recommended **Lukoil (LUKOY)** is concentrated mostly in Russia and is priced at a McDep Ratio half of XOM's. Buy recommendations **Marathon Oil (MRO)** and **Devon Energy (DVN)** are concentrated more than XOM on North American shale oil and natural gas respectively, have lower McDep Ratios and have modest takeover potential. Buy recommendations **Imperial Oil (IMO)** and **Suncor (SU)** are concentrated more than XOM on long-life Canadian oil, which appears temporarily underpriced. Covered in a separate weekly analysis, small cap stocks offer further alternatives to beat XOM along with higher risk of not beating XOM.

Kurt H. Wulff, CFA



Meter Reader

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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 (%)				McDep Ratio
						North Amer.	Rest of World	Oil Prod'n	Down- stream	
Global Integrated										
Exxon Mobil Corporation	XOM	B	90.30	1.20	485,000	7	19	54	20	0.90
Chevron Corporation	CVX	H	119.08	1.15	266,000	4	11	72	13	0.82
PetroChina Company Ltd (14%)	PTR	H	110.01	1.57	44,300		13	79	8	0.79
Petrobras	PBR	H	13.29	2.22	192,000		7	80	13	0.72
Royal Dutch Shell plc	RDS-A	H	63.99	1.35	273,000	4	22	55	19	0.71
Total S.A.	TOT	H	48.86	1.39	155,000		22	61	17	0.69
Lukoil Oil Company	LUKOY	CB	58.05	1.07	48,000			75	25	0.45
Gazprom (50%)	OGZPY	H	6.55	1.52	57,000		14	19	66	0.42
<i>Total or Median</i>				<i>1.37</i>	<i>1,520,000</i>			<i>67</i>	<i>18</i>	<i>0.71</i>
U.S. Independent										
EOG Resources, Inc.	EOG	H	135.31	1.17	43,100	22	3	75	-	0.87
Occidental Petroleum Corp.	OXY	H	90.02	1.14	82,600	8	1	80	11	0.85
Marathon Oil Corporation	MRO	B	34.83	1.43	35,400	9	4	87	-	0.77
ConocoPhillips	COP	H	61.23	1.46	109,000	14	12	74	-	0.70
Devon Energy Corporation	DEV	CB	52.28	1.50	31,700	52		48	-	0.66
<i>Total or Median</i>				<i>1.43</i>	<i>302,000</i>	<i>14</i>		<i>75</i>		<i>0.77</i>
Canada/Norway/Australia										
Woodside Petroleum Ltd.	WOPEY	H	32.35	1.20	32,000		63	37	-	0.84
Imperial Oil Limited (30%)	IMO	CB	38.43	1.28	12,600	2		79	19	0.78
Cenovus Energy Inc.	CVE	H	28.50	1.34	29,000	13		67	20	0.74
EnCana Corporation	ECA	H	16.90	1.74	21,600	84		16	-	0.69
Statoil ASA (33%)	STO	H	20.86	1.58	34,700		33	67	-	0.66
Canadian Oil Sands Limited	COSWF	H	18.88	1.25	11,500			100	-	0.61
Suncor Energy	SU	CB	29.49	1.33	59,500	2		77	21	0.60
<i>Total or Median</i>				<i>1.33</i>	<i>201,000</i>			<i>67</i>		<i>0.69</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

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July 2, 2013

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		1-Jul 2013	(mm)				
	B = Buy, CB (see below)							
Global Integrated								
Exxon Mobil Corporation	XOM	B	90.30	4,485	405,000	102.00	0.15	0.90
Chevron Corporation	CVX	H	119.08	1,944	232,000	150.00	0.11	0.82
PetroChina Company Ltd (14%)	PTR	H	110.01	256	28,200	155.00	0.29	0.79
Petrobras	PBR	H	13.29	6,522	86,700	25.00	0.39	0.72
Royal Dutch Shell plc	RDS-A	H	63.99	3,157	202,000	100.00	0.18	0.71
Total S.A.	TOT	H	48.86	2,269	111,000	80.00	0.19	0.69
Lukoil Oil Company	LUKOY	CB	58.05	776	45,100	135.00	0.03	0.45
Gazprom (50%)	OGZPY	H	6.55	5,735	37,600	20.00	0.14	0.42
	<i>Total or Median</i>				<i>1,148,000</i>		<i>0.17</i>	<i>0.71</i>
U.S. Independent								
EOG Resources, Inc.	EOG	H	135.31	272	36,800	160.00	0.13	0.87
Occidental Petroleum Corp.	OXY	H	90.02	805	72,500	108.00	0.10	0.85
Marathon Oil Corporation	MRO	B	34.83	712	24,800	50.00	0.23	0.77
ConocoPhillips	COP	H	61.23	1,215	74,000	100.00	0.22	0.70
Devon Energy Corporation	DVN	CB	52.28	406	21,200	92.00	0.22	0.66
	<i>Total or Median</i>				<i>229,300</i>		<i>0.22</i>	<i>0.77</i>
Canada/Norway/Australia								
Woodside Petroleum Ltd.	WOPEY	H	32.35	820	26,500	40.00	0.14	0.84
Imperial Oil Limited (30%)	IMO	CB	38.43	255	9,800	52.00	0.17	0.78
Cenovus Energy Inc.	CVE	H	28.50	758	21,600	42.00	0.19	0.74
EnCana Corporation	ECA	H	16.90	736	12,400	30.00	0.29	0.69
Statoil ASA (33%)	STO	H	20.86	1,050	21,900	38.00	0.24	0.66
Canadian Oil Sands Limited	COSWF	H	18.88	485	9,200	34.00	0.12	0.61
Suncor Energy	SU	CB	29.49	1,521	44,900	56.00	0.15	0.60
	<i>Total or Median</i>				<i>146,000</i>		<i>0.17</i>	<i>0.69</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

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July 2, 2013

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		1-Jul 2013	NTM	NTM	NTM	NTM	(%)	
B = Buy, CB (see below)									
Global Integrated									
	Exxon Mobil Corporation	XOM	B	90.30	13.3	7.1	6.4	11	2.8
	PetroChina Company Ltd (14%)	PTR	H	110.01	12.5	6.7	5.3	10	4.2
	Chevron Corporation	CVX	H	119.08	9.1	6.1	5.0	9	2.5
	Petrobras	PBR	H	13.29	11.1	6.7	4.8	5	3.6
	Royal Dutch Shell plc	RDS-A	H	63.99	9.6	6.3	4.4	8	5.6
	Total S.A.	TOT	H	48.86	9.4	6.0	4.1	7	6.3
	Lukoil Oil Company	LUKOY	CB	58.05	15.9	5.6	2.5	5	4.7
	Gazprom (50%)	OGZPY	H	6.55	31.0	4.4	1.9	2	5.5
	<i>Median</i>				11.8	6.2	4.6	7	4.5
U.S. Independent									
	Devon Energy Corporation	DVN	CB	52.28	10.2	10.0	6.6	15	1.3
	Occidental Petroleum Corp.	OXY	H	90.02	10.3	7.0	6.0	14	2.8
	EOG Resources, Inc.	EOG	H	135.31	8.0	6.7	5.8	18	0.6
	ConocoPhillips	COP	H	61.23	11.7	7.8	5.5	10	4.3
	Marathon Oil Corporation	MRO	B	34.83	9.1	6.6	5.1	13	2.0
	<i>Median</i>				10.2	7.0	5.8	14	2.0
Canada/Norway/Australia									
	EnCana Corporation	ECA	H	16.90	6.7	11.6	8.0		4.7
	Imperial Oil Limited (30%)	IMO	CB	38.43	21.8	10.0	7.9	10	1.2
	Woodside Petroleum Ltd.	WOPEY	H	32.35	9.6	8.3	7.0	15	4.0
	Cenovus Energy Inc.	CVE	H	28.50	13.4	8.6	6.3	16	3.2
	Canadian Oil Sands Limited	COSWF	H	18.88	19.9	10.1	6.2	10	7.1
	Suncor Energy	SU	CB	29.49	15.8	7.9	4.7	8	1.9
	Statoil ASA (33%)	STO	H	20.86	6.2	5.6	3.7	6	5.3
	<i>Median</i>				13.4	8.6	6.3	10	4.0
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 June 30, 2014; 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
July 2, 2013

Table 4										
McDep Large Cap Energy Stocks										
Total Return and Enterprise Value Momentum										
				Equity						
			Price	Total						
			(\$/sh)	Return	Enterprise Value/					
	Symbol		1-Jul	YTD	52Wk	52Wk	50 Day	200 Day	McDep	
	Rating		2013	(%)	High	Low	Avg.	Avg.	Ratio	
Global Integrated										
	Chevron Corporation	CVX	H	119.08	12	0.94	1.16	0.98	1.03	0.82
	Exxon Mobil Corporation	XOM	B	90.30	6	0.97	1.07	1.00	1.01	0.90
	Total S.A.	TOT	H	48.86	(3)	0.91	1.11	0.99	0.98	0.69
	Royal Dutch Shell plc	RDS-A	H	63.99	(5)	0.90	1.01	0.97	0.96	0.71
	Lukoil Oil Company	LUKOY	CB	58.05	(14)	0.86	1.07	0.95	0.92	0.45
	PetroChina Company Ltd (14%)	PTR	H	110.01	(23)	0.82	1.07	0.95	0.89	0.79
	Petrobras	PBR	H	13.29	(30)	0.72	1.01	0.88	0.84	0.72
	Gazprom (50%)	OGZPY	H	6.55	(32)	0.68	1.01	0.91	0.81	0.42
	<i>Median</i>				(9)	0.88	1.07	0.96	0.94	0.71
U.S. Independent										
	EOG Resources, Inc.	EOG	H	135.31	12	0.98	1.43	1.04	1.08	0.87
	Occidental Petroleum Corp.	OXY	H	90.02	20	0.95	1.21	1.00	1.07	0.85
	Marathon Oil Corporation	MRO	B	34.83	15	0.96	1.28	1.01	1.05	0.77
	ConocoPhillips	COP	H	61.23	8	0.96	1.10	1.00	1.03	0.70
	Devon Energy Corporation	DVN	CB	52.28	2	0.87	1.02	0.95	0.95	0.66
	<i>Median</i>				12	0.96	1.21	1.00	1.05	0.77
Canada/Norway/Australia										
	Suncor Energy	SU	CB	29.49	(9)	0.86	1.07	0.97	0.94	0.60
	Canadian Oil Sands Limited	COSWF	H	18.55	(4)	0.85	1.04	0.98	0.94	0.61
	Imperial Oil Limited (30%)	IMO	CB	38.43	(10)	0.81	1.03	0.99	0.93	0.78
	Woodside Petroleum Ltd.	WOPEY	H	32.35	(6)	0.84	1.06	0.92	0.92	0.84
	Cenovus Energy Inc.	CVE	H	28.50	(13)	0.81	1.03	0.98	0.91	0.74
	EnCana Corporation	ECA	H	16.90	(12)	0.80	1.01	0.95	0.90	0.69
	Statoil ASA (33%)	STO	H	20.86	(12)	0.83	1.03	0.95	0.90	0.66
	<i>Median</i>				(10)	0.83	1.03	0.97	0.92	0.69

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



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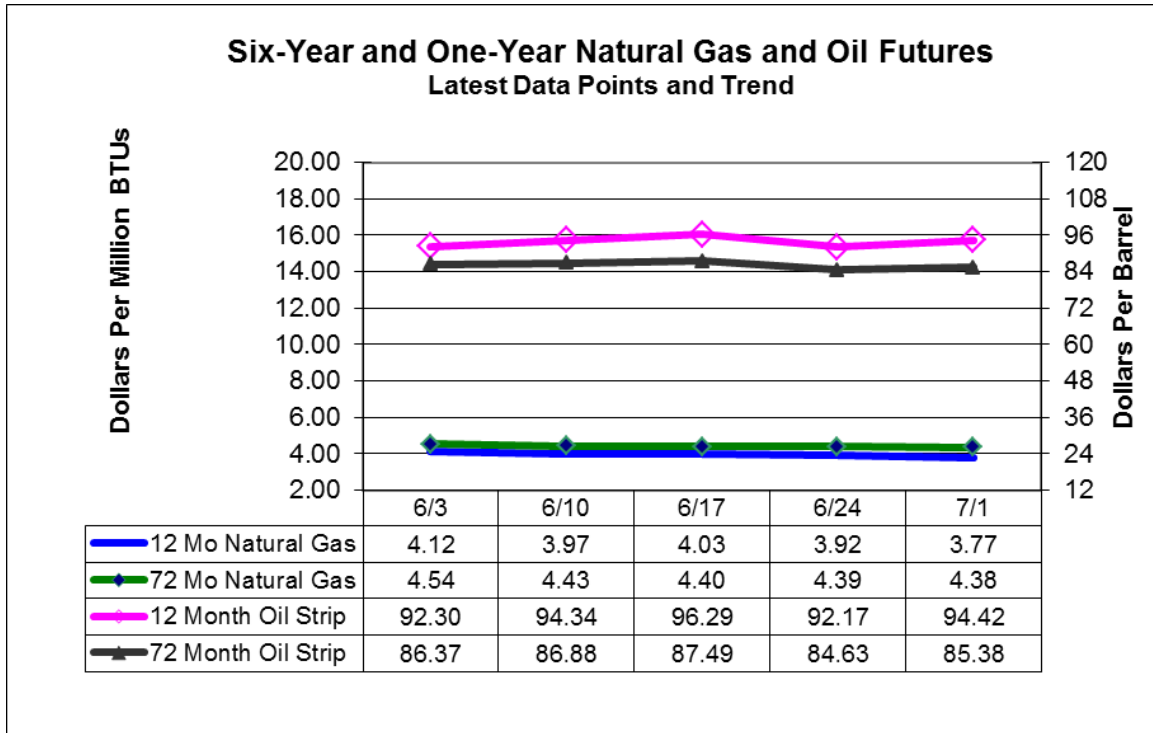
July 2, 2013

Index of Recent Research			
Stock Ideas			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
21-Jun	RRC	Range Resources	Superlatives (Income and Small Cap Weekly)
18-Jun	SU	Suncor Energy	Conservative Growth and Income (Meter Reader)
14-Jun	SJT	San Juan Basin Royalty Trust	First Mancos Frac Flows 30% Oil (Income and Small Cap Weekly)
11-Jun	XOM	Exxon Mobil	5% a Year Growth per Share (Meter Reader)
7-Jun	XEC	Cimarex Energy	Uncovering Culberson Value (Income and Small Cap Weekly)
4-Jun	DVN	Devon Energy	Natural Gas Strength, Oil Growth (Meter Reader)
31-May	HGT	Hugoton Royalty Trust	Beating the Bear (Income and Small Cap Weekly)
28-May	LUKOY	Lukoil	20% Dividend Increase (Meter Reader)
24-May	BIREF	Birchcliff Energy	Small Cap North American Natural Gas (Income and Small Cap Weekly)
21-May	IMO	Imperial Oil	Timely on Bitumen Price (Meter Reader)
17-May	DMLP	Dorchester Minerals, L.P.	U.S. Oil Ascending (Income and Small Cap Weekly)
14-May	EOG	EOG Resources	Raise NPV to \$180 on More Big Wells (Meter Reader)
10-May	CLR	Continental Resources	Raise NPV to \$110 from \$100 on Oil Growth (ISCW)
7-May	RDSA	Royal Dutch Shell plc	Raise NPV to \$110 a Share from \$102 (Meter Reader)
3-May	NDRO	Enduro Royalty Trust	RTF Stock for Permian Oil (Income and Small Cap Weekly)
30-Apr	TOT	Total	Recovery Potential (Meter Reader)
26-Apr	WLL	Whiting Petroleum	Synergistic Fracker (Income and Small Cap Weekly)
23-Apr	COSWF	Canadian Oil Sands Limited	Long-Term Oil Investment (Meter Reader)
19-Apr	HK	Halcón Resources	Fourth Core Area - El Halcón ("The Hawk") (Inc. and Small Cap Wkly)
16-Apr	CVX	Chevron	Deflation Resistance (Meter Reader)
12-Apr	MTR	Mesa Royalty Trust	RTF Stealth Play on Long-Life Natural Gas (Income and Small Cap Wkly)
9-Apr	MRO	Marathon Oil	Oil Shale and Global Exploration (Meter Reader)
5-Apr	SBR	Sabine Royalty Trust	Accelerating Volume Growth (Income and Small Cap Weekly)
2-Apr	OXY	Occidental Petroleum	Six-Year Oil Price Returns to Uptrend (Meter Reader)
28-Mar	PEYUF	Peyto Exploration and Development	Raise NPV to \$32 for Fracking Winner (Income and Small Cap Weekly)
15-Mar	CRT	Cross Timbers Royalty Trust	San Juan Basin Gem (Income and Small Cap Weekly)
1-Mar	ERF	Enerplus Corporation	Back on Track, Discontinue Buy (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)
5-Feb	COP	ConocoPhillips	Raise NPV to \$105 from \$96 on Performance (Meter Reader)
22-Jan	WOPEY	Woodside Petroleum, Ltd.	Politically-Secure, Clean Fuel Supplier (Meter Reader)
11-Jan	PDCE	PDC Energy	Mancos (Niobrara) Winner (Income and Small Cap Weekly)
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)
For historical research by stock, go to mcdep.com , click on Stock Ideas , click on stock by name.			
Meter Reader			
25-Jun			Reduce Long-Term Oil Price to \$90 a Barrel
18-Jun	SU	Suncor Energy	Conservative Growth and Income
11-Jun	XOM	Exxon Mobil	5% a Year Growth per Share
4-Jun	DVN	Devon Energy	Natural Gas Strength, Oil Growth
For earlier editions, go to mcdep.com , click on Meter Reader .			
Income and Small Cap Weekly			
28-Jun			Innovators Profiting from Shale Oil at \$90 a Barrel
21-Jun	RRC	Range Resources	Superlatives
14-Jun	SJT	San Juan Basin Royalty Trust	First Mancos Frac Flows 30% Oil
7-Jun	XEC	Cimarex Energy	Uncovering Culberson Value
For earlier editions, go to mcdep.com , click on Energy Income .			



Meter Reader

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July 2, 2013



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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.