

U.S. Natural Gas Net Exports by 2018

Summary and Recommendation

U.S. natural gas production growth will likely exceed domestic consumption by enough to turn the country into a net exporter of natural gas by 2018, we believe. As a result, we expect the discount for natural gas price to oil price to narrow on a long-term basis to 60% at \$6 natural gas and \$90 oil (\$15 natural gas equivalent) from about 75% currently at \$4 natural gas and \$100 oil. Buy-recommended producers in order of decreasing concentration on North American natural gas in parenthesis include **San Juan Basin Royalty Trust (SJT)** (100%), **Encana (ECA)** (84%), **Range Resources (RRC)** (74%), **Birchcliff Energy (BIREF)** (69%), **Dorchester Minerals (DMLP)** (54%) and **Devon Energy (DVN)** (49%). For investors fanatical or pragmatic about climate change, more natural gas in the energy mix usually means less carbon emissions whether it is displacement of coal, cheap heat for the conversion of biomass to biofuel or backup power when the wind doesn't blow and the sun doesn't shine. Nor does natural gas have the radiation risk of nuclear power. The main risk in natural gas investment, as we see it, is that our price expectations, which are more optimistic than the futures market, may take time to materialize.

Supply Growth Slows in 2013

U.S. natural gas production growth may have slowed to 1 billion cubic feet daily (bcfd) in 2013 after increasing a remarkable 4 bcfd in both 2011 and 2012. While drilling directed purely to dry gas has been largely suspended, supplies continue to advance with drilling for wet gas that includes valuable liquids and for crude oil that includes associated gas as a byproduct. The slowdown in growth in 2013 may have more to do with the lag in completing new transportation and processing infrastructure. Expecting bottlenecks to be removed in 2104, we project 2.7% a year growth to 80 bcfd in 2020 from 66 in 2013 (see chart [Trend to U.S. Natural Gas Exports](#) on page 3).

Most of the new supply is coming from the Marcellus shale in Pennsylvania, which produced 8 bcfd in the first half of 2013 up from 5 bcfd for the first half of 2012, according to Bloomberg aggregation of data from the Pennsylvania Department of Environmental Protection. Range Resources, the discoverer and third largest operator at 9% share, plans 20-25% a year growth for years to come.

Domestic Demand from Multiple Sources

When clean energy is as cheap as natural gas today, consumers are going to find ways to use it more. Power generation is most price-sensitive and can absorb large quantities of natural gas when the price is competitive with coal, the main fuel for producing electricity. Ironically, Europe, the geographical area most fanatical that carbon dioxide emissions from coal cause adverse climate change, is accelerating its rate of emissions by burning coal imported from the U.S. as it is displaced by natural gas. Meanwhile, fuel conversion can be accomplished quickly,

but rising demand from new industrial plants, heavy trucks and railroad locomotives with take longer to develop. We project growth of 1.5% a year in total domestic consumption to 78 bcfd in 2020 from 70 in 2013.

Exports Tap Global Demand

Since World War II, the U.S. and Canada have built an increasingly versatile pipeline transportation network that allows the near-uninterrupted flow between the two countries. Now, growing Marcellus volumes are displacing gas from western Canada, the Gulf of Mexico and the Rocky Mountains. Initially the decline in net imports has come mainly at Canada's expense. Meanwhile, construction and permitting is proceeding to build liquefaction plants that will allow North American natural gas to be exported globally. Thus, the projected future decline in net imports actually will be an increase in exports in liquid form to Europe and global markets. There may also be an opportunity to export more to Mexico by pipeline.

As important as exports may become to the U.S. market, they will be a small part of the global market. U.S. natural gas consumption runs at about a fifth of world natural gas consumption (see chart [Global Natural Gas Demand](#) on page 3). At a small fraction of the U.S. market, exports will be a smaller fraction of the world market. By implication, the pricing of U.S. exports will be dominated by the pricing of the global market.

Export Price at Oil Equivalent

Liquefied natural gas (LNG) is priced at the oil equivalent in global trade. LNG priced near \$17 a million btu (mmbtu) matches oil priced near \$100 a barrel. Today's U.S. producer price of \$4 a mmbtu represents more than a 75% discount to the global price (see chart [Natural Gas and Oil Futures](#) on last page). How that discount will be shared among consumers, LNG developers and producers is the main subject of negotiation of long-term contracts that most developers want before committing billions of dollars to build liquefaction plants and tankers. By forecasting a long-term oil price of \$90 a barrel (\$15 a mmbtu) and natural gas of \$6 a mmbtu, we are saying that the discount for the producer price to the global market will narrow to 60% from 75%. Some developers will take a fixed fee, perhaps \$5 or \$6 a mmbtu. Other developers will offer consumers an equity share in the plant and tankers. Consumers will likely also buy some producers and take equity in others. In any case, an increase in the producer price from \$4 to \$6 seems quite modest in a growing market as part of a healthy global economy.

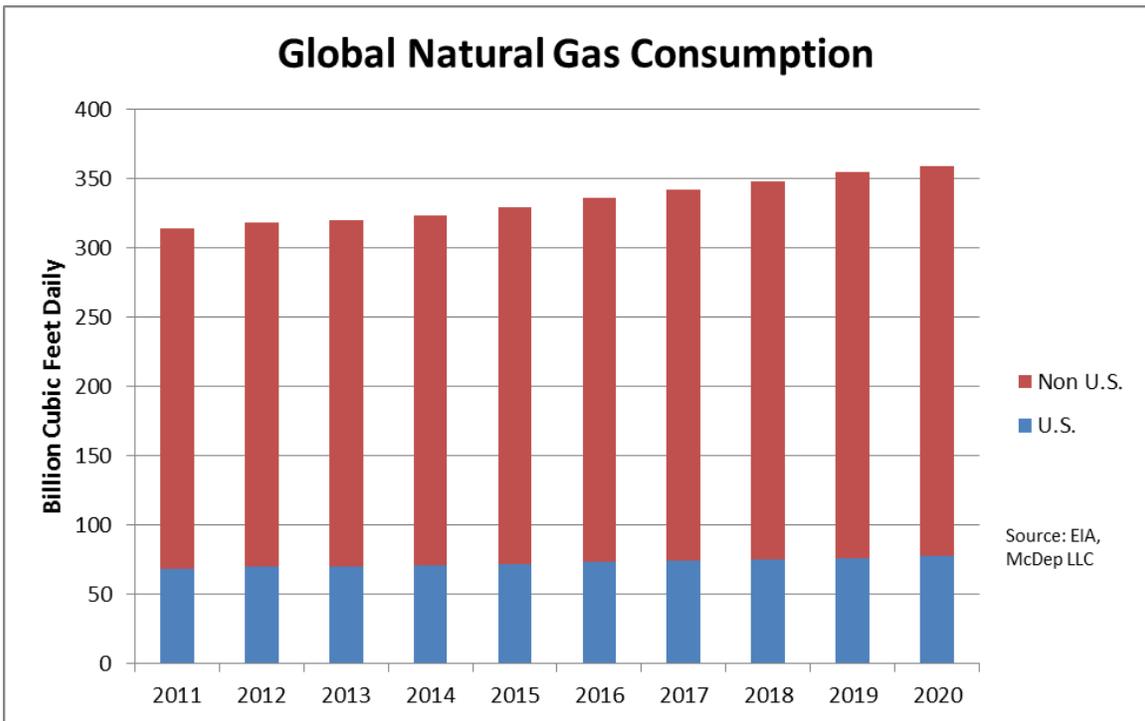
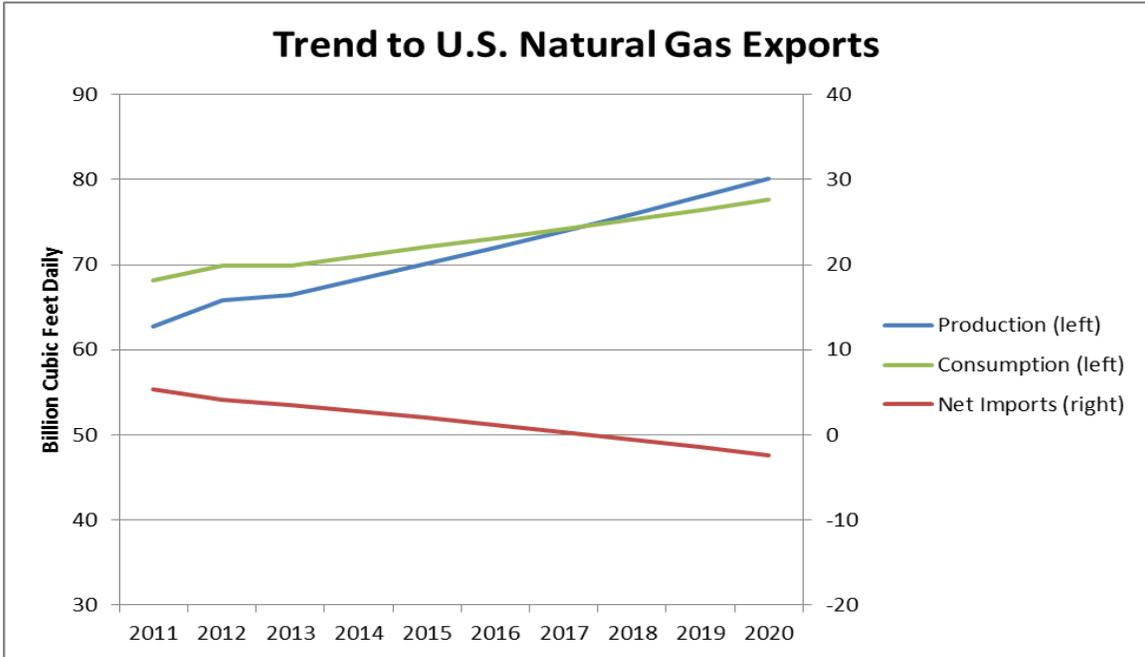
When we translate growing volume and moderate price to stocks we see attractive values (see [Tables 1-4](#) on pages 4-7).

Kurt H. Wulff, CFA



Meter Reader

A Weekly Analysis of Oil and Gas Stocks
October 15, 2013





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			<i>Price (US\$/sh) 14-Oct 2013</i>	<i>Shares (mm)</i>	<i>Market Cap (US\$m)</i>	<i>Net Present Value (US\$/sh)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>
		<i>B = Buy, CB (see below)</i>						
Global Integrated								
Exxon Mobil Corporation	XOM	CB	87.60	4,433	388,000	102.00	0.16	0.88
Chevron Corporation	CVX	H	118.58	1,937	230,000	150.00	0.11	0.81
Total S.A.	TOT	H	59.23	2,274	135,000	80.00	0.20	0.79
Royal Dutch Shell plc	RDS-A	H	64.94	3,159	205,000	100.00	0.18	0.71
Lukoil Oil Company	LUKOY	B	65.99	776	51,200	135.00	0.06	0.52
		<i>Total or Median</i>			<i>1,009,000</i>		<i>0.16</i>	<i>0.79</i>
U.S. Independent								
EOG Resources, Inc.	EOG	H	181.06	273	49,400	180.00	0.11	1.01
Occidental Petroleum Corp.	OXY	H	95.71	805	77,100	108.00	0.10	0.90
ConocoPhillips	COP	H	71.96	1,209	87,000	100.00	0.22	0.78
Marathon Oil Corporation	MRO	B	34.83	714	24,870	50.00	0.23	0.77
Devon Energy Corporation	DVN	B	60.94	407	24,800	100.00	0.20	0.69
		<i>Total or Median</i>			<i>263,200</i>		<i>0.20</i>	<i>0.78</i>
Canada/Australia								
Woodside Petroleum Ltd.	WOPEY	H	36.46	823	30,000	36.00	0.14	1.01
Imperial Oil Limited (30%)	IMO	H	43.53	255	11,100	52.00	0.19	0.87
Cenovus Energy Inc.	CVE	H	30.16	758	22,900	42.00	0.19	0.77
EnCana Corporation	ECA	CB	17.97	736	13,200	30.00	0.28	0.71
Canadian Oil Sands Limited	COSWF	CB	19.55	485	9,500	34.00	0.13	0.63
		<i>Total or Median</i>			<i>87,000</i>		<i>0.19</i>	<i>0.77</i>
Small Cap Independent Producers								
PDC Energy	PDCE		64.30	31	2,000	45.00	0.36	1.27
Continental Resources (32%)	CLR	B	112.96	59	6,700	120.00	0.17	0.95
Cimarex Energy Company	XEC	B	101.01	87	8,700	110.00	0.13	0.93
Peyto Exploration and Development Corp.	PEYUF		30.58	149	4,600	34.00	0.13	0.91
Range Resources	RRC	B	79.33	161	12,800	90.00	0.19	0.90
Whiting Petroleum Corporation	WLL	B	64.87	119	7,700	75.00	0.20	0.89
Halcón Resources	HK		5.02	441	2,200	7.00	0.50	0.86
WPX Energy Inc.	WPX		20.31	204	4,100	26.00	0.30	0.85
Birchcliff Energy Ltd.	BIREF	CB	7.03	166	1,200	12.00	0.20	0.67
		<i>Total or Median</i>			<i>50,000</i>		<i>0.20</i>	<i>0.90</i>
RTF Cash Payers								
Freehold Royalties Ltd.	FRHLF		22.97	67	1,530	21.00	0.05	1.09
Dorchester Minerals, L.P.	DMLP	B	24.34	31	750	26.00	-	0.94
Sabine Royalty Trust	SBR		52.01	15	760	64.00	-	0.81
Permian Basin RT	PBT		14.42	47	670	18.00	-	0.80
San Juan Basin Royalty Trust	SJT	B	16.24	47	760	21.00	-	0.77
Mesa Royalty Trust	MTR		21.80	2	40	30.00	-	0.73
Enduro Royalty Trust	NDRO		11.87	33	390	17.00	-	0.70
Cross Timbers Royalty Trust	CRT		29.15	6	180	42.00	-	0.69
Hugoton Royalty Trust	HGT		7.29	40	290	12.00	-	0.61
		<i>Total or Median</i>			<i>5,400</i>		<i>-</i>	<i>0.77</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\$90 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 Energy Stocks								
Value Multiples and Dividend								
Ranked by EV/Ebitda								
			Price (US\$/sh)	Adjustd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	P/E	Dividend
	Symbol/Rating		14-Oct	NTM	NTM	NTM	NTM	NTM
	B = Buy, CB (see below)		2013					(\$/sh)
Global Integrated								
Exxon Mobil Corporation	XOM	CB	87.60	13.2	7.3	6.4	11	2.52
Chevron Corporation	CVX	H	118.58	9.3	6.3	5.1	10	4.00
Total S.A.	TOT	H	59.23	9.9	6.3	5.0	9	3.20
Royal Dutch Shell plc	RDS-A	H	64.94	9.7	6.5	4.6	9	3.60
Lukoil Oil Company	LUKOY	B	65.99	15.8	5.9	3.1	6	2.79
	<i>Median</i>			9.9	6.3	5.0	9	
U.S. Independent								
EOG Resources, Inc.	EOG	H	181.06	7.3	6.3	6.3	22	2.56
ConocoPhillips	COP	H	71.96	11.4	7.8	6.1	12	0.75
Occidental Petroleum Corp.	OXY	H	95.71	10.1	6.6	5.9	13	2.76
Devon Energy Corporation	DVN	B	60.94	10.1	8.6	5.9	15	0.76
Marathon Oil Corporation	MRO	B	34.83	9.4	6.6	5.0	12	0.88
	<i>Median</i>			10.1	6.6	5.9	13	
Canada/Australia								
Woodside Petroleum Ltd.	WOPEY	H	36.46	9.8	8.2	8.3	17	1.66
Imperial Oil Limited (30%)	IMO	H	43.53	20.2	9.2	8.0	9	0.46
EnCana Corporation	ECA	CB	17.97	6.6	9.9	7.0	10	0.94
Canadian Oil Sands Limited	COSWF	CB	19.55	19.9	9.4	5.9	9	1.35
Cenovus Energy Inc.	CVE	H	30.16	12.2	7.7	5.9	20	0.80
	<i>Median</i>			12.2	9.2	7.0	10	
Small Cap Independent Producers								
Range Resources	RRC	B	79.33	13.1	14.8	13.4	57	0.16
PDC Energy	PDCE		64.30	15.3	10.0	12.7	61	-
Peyto Exploration and Development Corp.	PEYUF		30.58	8.9	10.9	10.0	21	0.75
Birchcliff Energy Ltd.	BIREF	CB	7.03	18.6	12.8	8.6	28	-
WPX Energy Inc.	WPX		20.31	8.0	9.3	7.8	-	-
Continental Resources (32%)	CLR	B	112.96	11.4	8.1	7.7	18	-
Cimarex Energy Company	XEC	B	101.01	7.4	7.0	6.5	14	0.56
Halcón Resources	HK		5.02	4.2	6.4	5.5	7	-
Whiting Petroleum Corporation	WLL	B	64.87	8.5	4.8	4.3	10	-
	<i>Median</i>			8.9	9.3	7.8	19	
RTF Cash Payers								
San Juan Basin Royalty Trust	SJT	B	16.24	9.8	16.6	12.9	18	0.91
Sabine Royalty Trust	SBR		52.01	10.1	15.5	12.6	13	4.12
Freehold Royalties Ltd.	FRHLF		22.97	4.8	10.7	11.7	26	1.62
Dorchester Minerals, L.P.	DMLP	B	24.34	7.3	11.3	10.5	17	1.89
Cross Timbers Royalty Trust	CRT		29.15	12.3	13.9	9.7	11	2.76
Mesa RoyaltyTrust	MTR		21.80	5.0	12.3	9.0	11	2.00
Permian Basin RT	PBT		14.42	12.7	9.6	7.7	12	1.22
Hugoton RoyaltyTrust	HGT		7.29	12.8	12.4	7.6	9	0.82
Enduro Royalty Trust	NDRO		11.87	6.2	10.2	7.1	8	1.55
	<i>Median</i>			9.8	12.3	9.7	12	
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 September 30, 2014; P/E = Stock Price to								
Earnings; PV = Present Value of oil and gas and other businesses								



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Table 4									
McDep Energy Stocks									
Total Return and Enterprise Value Momentum									
Ranked by EV/200-Day Average									
			Price	Equity					
			(\$/sh)	Total					
	Symbol		14-Oct	Return	Enterprise Value/				McDep
	Rating		2013	YTD	52Wk	52Wk	50 Day	200 Day	Ratio
				(%)	High	Low	Avg.	Avg.	
Global Integrated									
Total S.A.	TOT	H	59.23	19	1.00	1.20	1.04	1.10	0.79
Lukoil Oil Company	LUKOY	B	65.99	(0)	0.98	1.19	1.07	1.05	0.52
Chevron Corporation	CVX	H	118.58	12	0.94	1.15	0.98	0.99	0.81
Royal Dutch Shell plc	RDS-A	H	64.94	(2)	0.92	1.03	1.00	0.98	0.71
Exxon Mobil Corporation	XOM	CB	87.60	3	0.93	1.03	1.00	0.98	0.88
	<i>Median</i>			3	0.94	1.15	1.00	0.99	0.79
U.S. Independent									
EOG Resources, Inc.	EOG	H	181.06	51	1.00	1.56	1.09	1.27	1.01
ConocoPhillips	COP	H	71.96	29	1.00	1.22	1.04	1.10	0.78
Occidental Petroleum Corp.	OXY	H	95.71	28	1.00	1.27	1.05	1.08	0.90
Devon Energy Corporation	DVN	B	60.94	18	0.98	1.13	1.03	1.06	0.69
Marathon Oil Corporation	MRO	B	34.83	15	0.94	1.14	1.00	1.01	0.77
	<i>Median</i>			28	1.00	1.22	1.04	1.08	0.78
Canada/Australia									
Imperial Oil Limited (30%)	IMO	H	43.53	2	0.94	1.13	1.02	1.04	0.87
Woodside Petroleum Ltd.	WOPEY	H	36.46	8	0.93	1.14	1.02	1.01	1.01
Cenovus Energy Inc.	CVE	H	30.16	(8)	0.87	1.08	1.02	0.99	0.77
EnCana Corporation	ECA	CB	17.97	(6)	0.82	1.05	1.02	0.99	0.71
Canadian Oil Sands Limited	COSWF	CB	19.64	1	0.91	1.07	1.00	0.99	0.63
	<i>Median</i>			1	0.91	1.08	1.02	0.99	0.77
Small Cap Independent Producers									
Cimarex Energy Company	XEC	B	101.01	76	0.99	1.63	1.13	1.30	0.93
Whiting Petroleum Corporation	WLL	B	64.87	50	0.99	1.42	1.14	1.22	0.89
Continental Resources (32%)	CLR	B	112.96	54	0.99	1.52	1.10	1.22	0.95
PDC Energy	PDCE		64.30	94	0.97	1.75	1.07	1.19	1.27
Peyto Exploration and Development	PEYUF		30.58	34	0.97	1.31	1.07	1.10	0.91
WPX Energy Inc.	WPX		20.31	36	0.98	1.25	1.04	1.10	0.85
Range Resources	RRC	B	79.33	26	0.94	1.22	1.02	1.04	0.90
Birchcliff Energy Ltd.	BIREF	CB	7.03	(6)	0.85	1.04	1.01	0.95	0.67
Halcón Resources	HK		5.02	(27)	0.79	1.05	1.01	0.91	0.86
	<i>Median</i>			36	0.97	1.31	1.07	1.10	0.90
RTF Cash Payers									
Permian Basin RT	PBT		14.42	23	0.95	1.21	1.05	1.09	0.80
Sabine Royalty Trust	SBR		52.01	39	0.95	1.34	1.00	1.05	0.81
Dorchester Minerals, L.P.	DMLP	B	24.34	26	0.95	1.22	1.01	1.03	0.94
San Juan Basin Royalty Trust	SJT	B	16.24	25	0.90	1.32	0.99	1.03	0.77
Cross Timbers Royalty Trust	CRT		29.15	15	0.91	1.24	1.01	1.02	0.69
Freehold Royalties Ltd.	FRHLF		22.97	9	0.94	1.13	1.01	1.00	1.09
Mesa RoyaltyTrust	MTR		21.80	20	0.80	1.17	0.97	0.95	0.73
Hugoton RoyaltyTrust	HGT		7.29	8	0.73	1.18	0.92	0.86	0.61
Enduro Royalty Trust	NDRO		11.87	(24)	0.61	1.01	0.81	0.75	0.70
	<i>Median</i>			20	0.91	1.21	1.00	1.02	0.77

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

Source: Bloomberg, Yahoo, McDep LLC



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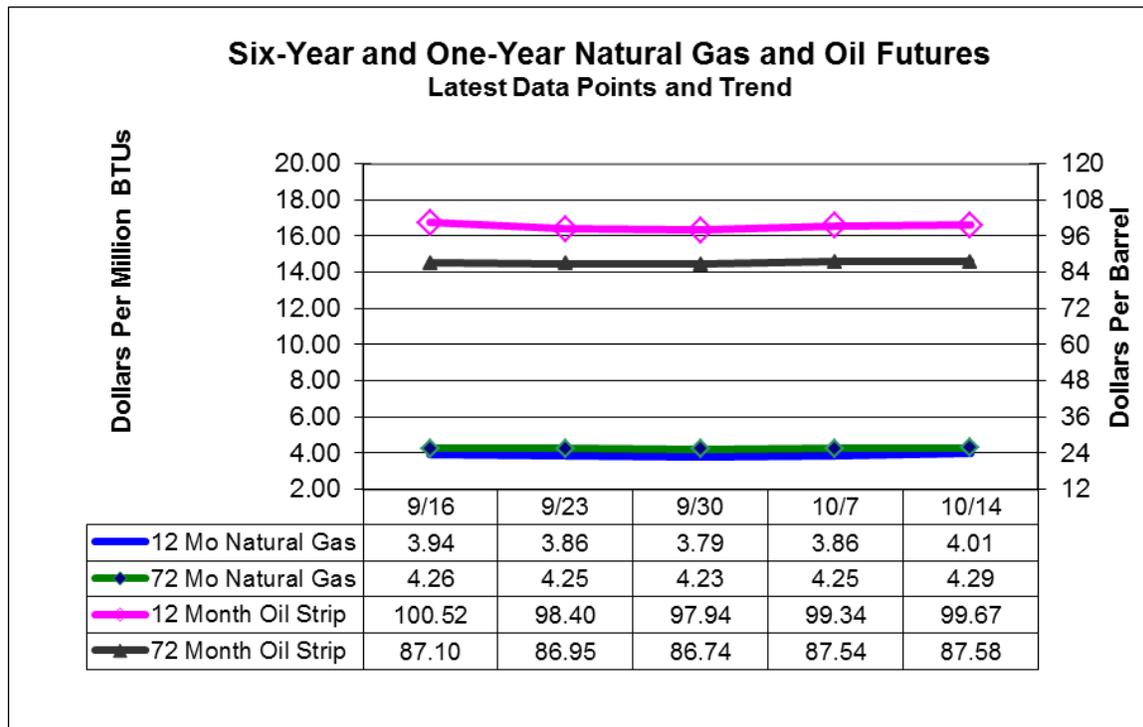
Index of Recent Research			
Stock Ideas			
<i>Date</i>	<i>Symbol</i>	<i>Subject</i>	<i>Theme</i>
4-Oct	NDRO	Enduro Royalty Trust	Worth Another Look after Stock Price Decline
27-Sep	WPX	WPX Energy	San Juan Basin Innovator (Income and Small Cap Weekly)
24-Sep	XOM	Exxon Mobil	Fracking Firms Long-Term Value (Meter Reader)
20-Sep	WLL	Whiting Petroleum	Activity Attracts Attention (Income and Small Cap Weekly)
17-Sep	COP	ConocoPhillips	Fracking Upside in Eagle Ford, Bakken and Permian (Meter Reader)
13-Sep	CRT	Cross Timbers Royalty Trust	Fracking Upside in Permian and Scoop (Income and Small Cap Weekly)
10-Sep	OXY	Occidental Petroleum	Permian Late Bloomer (Meter Reader)
3-Sep	LUKOY	Lukoil	Competitive Trends at Half Price (Meter Reader)
16-Aug	BIREF	Birchcliff Energy	Buy Natural Gas in Summer
16-Aug	CLR	Continental Resources	Raise NPV to \$120 from \$110 on More Oil Growth (ISCW)
13-Aug	DVN	Devon Energy	Raise NPV to \$100 from \$92 on Oil Gains (Meter Reader)
9-Aug	DMLP	Dorchester Minerals, L.P.	More Bakken and Permian Oil Cash (Income and Small Cap Weekly)
6-Aug	RDSA	Royal Dutch Shell plc	Value Choice after Latest Results (Meter Reader)
31-Jul	COSWF	Canadian Oil Sands Ltd.	CEO Change May Catalyze Operating Reliability
30-Jul	ECA, IMO	Encana, Imperial Oil	Buy Encana, Hold Imperial Oil (Meter Reader)
23-Jul	WOPEY	Woodside Petroleum, Ltd.	Distributing LNG Cash (Meter Reader)
19-Jul	SJT	San Juan Basin Royalty Trust	Acreage 75% in Liquids-Rich Shale Zone (Income and Small Cap Weekly)
16-Jul	COSWF, SU	Canadian Oil Sands Ltd, Suncor	Buy Canadian Oil Sands, Hold Suncor (Meter Reader)
12-Jul	PBT	Permian Basin Royalty Trust	Stock Price Recovering from Short-Term Overreaction
9-Jul	MRO	Marathon Oil	Bakken Strengthens (Meter Reader)
5-Jul	LINE	Linn Energy	Stock Undervalued while SEC Probes (Income and Small Stock Weekly)
21-Jun	RRC	Rrange Resources	Superlatives (Income and Small Cap Weekly)
7-Jun	XEC	Cimarex Energy	Uncovering Culberson Value (Income and Small Cap Weekly)
31-May	HGT	Hugoton Royalty Trust	Beating the Bear (Income and Small Cap Weekly)
14-May	EOG	EOG Resources	Raise NPV to \$180 on More Big Wells (Meter Reader)
30-Apr	TOT	Total	Recovery Potential (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)
5-Apr	SBR	Sabine Royalty Trust	Accelerating Volume Growth (Income and Small Cap Weekly)
28-Mar	PEYUF	Peyto Exploration and Development	Raise NPV to \$32 for Fracking Winner (Income and Small Cap Weekly)
1-Mar	ERF	Enerplus Corporation	Back on Track, Discontinue Buy (Income and Small Cap Weekly)
11-Jan	PDCE	PDC Energy	Mancos (Niobrara) Winner (Income and Small Cap Weekly)
For historical research by stock, go to mcdep.com , click on Stock Ideas , click on stock by name.			
Meter Reader			
8-Oct			U.S. Energy Independence Anticipation Advancing
1-Oct			Sharpen Focus to Wider Public Ownership and Lower Debt
24-Sep	XOM	Exxon Mobil	Fracking Firms Long-Term Value
17-Sep	COP	ConocoPhillips	Fracking Upside in Eagle Ford, Bakken and Permian
10-Sep	OXY	Occidental Petroleum	Permian Late Bloomer
For earlier editions, go to mcdep.com , click on Meter Reader .			
Income and Small Cap Weekly (merged into Meter Reader 10/1/13)			
27-Sep	WPX	WPX Energy	San Juan Basin Innovator
20-Sep	WLL	Whiting Petroleum	Activity Attracts Attention
13-Sep	CRT	Cross Timbers Royalty Trust	Fracking Upside in Permian and Scoop
6-Sep			Shale, McDep and the Portfolio
For earlier editions, go to mcdep.com , click on Energy Income .			



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