

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

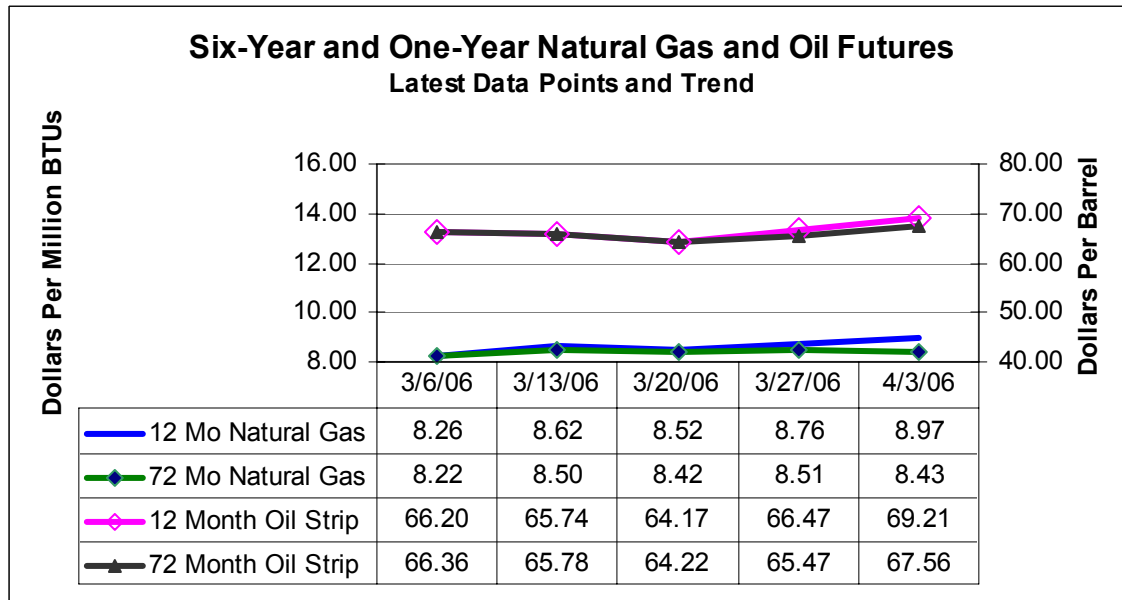
April 4, 2006

Qatari Quandary

Summary and Recommendation

Anecdotal evidence suggests that the inflationary capital spending boom is in full force in Qatar, the peninsular Middle Eastern country that is the world's third largest holder of natural gas reserves. *Natural Gas Week* quotes a source that since projects were announced a few years ago, steel costs are up 40% and labor costs up 30%. The inflation may be just beginning as more recent projects in Qatar apparently are having trouble attracting any bids for construction because contractors are busy all over the world, including the hurricane-wrecked U.S. Gulf Coast. Stretched out time tables and higher interest rates combine to multiply the financial cost that is a large burden in capital intensive projects. Higher costs for new clean energy capacity boosts resource value in 28 buy recommendations, half non-U.S, concentrated 38% in natural gas, 49% oil and 13% downstream. The stocks are valued at a median McDep Ratio of 0.86 that implies a long-term oil price of about \$43 a barrel. That compares to our vision of \$150 oil in 2010 that seems reinforced by the Qatari Quandary.

Kurt H. Wulff, CFA



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Oil and Gas Producers Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/ Rating		Price (\$/sh) 3-Apr 2006	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
BP plc	BP	B	69.68	3,465	241,000	77.00	0.15	0.92
Total S.A.	TOT	B	132.31	1,173	155,000	160.00	0.12	0.85
Exxon Mobil Corporation	XOM	B	60.98	6,211	379,000	74.00	0.04	0.83
Royal Dutch Shell plc	RDS-A	B	62.85	3,293	207,000	80.00	0.11	0.81
ConocoPhillips	COP	B	64.41	1,693	109,000	95.00	0.22	0.75
Chevron Corporation	CVX	B	58.34	2,236	130,000	85.00	0.11	0.72
<i>Total or Median</i>					1,221,000		0.12	0.82
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	92.02	139	12,830	33.00	0.74	1.47
Imperial Oil Limited (30%)	IMO	B	108.65	101	10,950	90.00	0.09	1.19
Petro-Canada	PCZ	B	47.95	523	25,080	42.00	0.19	1.12
Norsk Hydro ASA	NHY	B	141.76	251	35,510	130.00	0.16	1.08
Suncor Energy	SU	B	78.81	461	36,340	75.00	0.09	1.05
Marathon Oil Corporation	MRO	B	76.70	367	28,180	75.00	0.20	1.02
PetroChina Company Ltd (10%)	PTR	B	108.44	178	19,280	120.00	0.05	0.91
Lukoil Oil Company	LUKOY	B	82.90	830	69,000	100.00	0.01	0.83
Gazprom (50%)	OGZPF	B	92.00	1,133	104,200	140.00	0.02	0.66
<i>Total or Median</i>					341,000		0.09	1.05
Independent Natural Gas and Oil - Large Cap and Mid Cap								
CNOOC Limited (29%)	CEO	B	79.00	119	9,420	84.00	-	0.94
Encana Corporation	ECA	B	47.10	873	41,100	51.00	0.18	0.94
XTO Energy Inc.	XTO	B	43.75	372	16,280	52.00	0.16	0.87
Occidental Petroleum Corp.	OXY	B	94.23	432	40,700	120.00	0.12	0.81
EOG Resources	EOG	B	71.90	245	17,600	90.00	0.04	0.81
Devon Energy Corporation	DVN	B	61.78	451	27,900	94.00	0.12	0.70
Anadarko Petroleum Corp.	APC	B	103.87	234	24,300	160.00	0.10	0.69
<i>Total or Median</i>					177,000		0.12	0.81
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	68.75	23	1,550	65.00	0.11	1.05
Energy Partners Ltd.	EPL	B	23.57	41	960	29.00	0.21	0.85
Encore Acquisition Company	EAC	B	31.16	50	1,550	50.00	0.24	0.72
Cimarex Energy Company	XEC	B	43.25	85	3,680	64.00	0.08	0.70
<i>Total or Median</i>					7,700		0.16	0.78
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	47.92	165	7,890	15.00	0.55	2.00
Kinder Morgan Management, LLC	KMR	S3	43.96	58	2,530	15.00	0.55	1.88
Pengrowth Energy Trust	PGH		22.87	160	3,660	18.00	0.16	1.23
Enerplus Resources Fund	ERF		50.72	114	5,790	42.00	0.14	1.18
Penn West Energy Trust (US\$)	PWTFF	B	36.02	165	5,950	33.00	0.12	1.08
San Juan Basin Royalty Trust	SJT	B	41.55	47	1,940	40.00	-	1.04
Canadian Oil Sands Trust (US\$)	COSWF	B	142.03	93	13,260	136.00	0.11	1.04
<i>Total or Median</i>					41,000		0.14	1.18

B = Buy, S2 = Short half unlevered position, S3 = Short quarter unlevered position, H = Hold
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

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Oil and Gas Producers

Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	Symbol/ Rating		Price (\$/sh) 3-Apr 2006	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Mega Cap								
BP plc	BP	B	69.68	9.6	6.5	6.0	10	3.2
ConocoPhillips	COP	B	64.41	12.1	5.8	4.3	6	2.2
Chevron Corporation	CVX	B	58.34	10.7	5.5	4.0	7	3.1
Royal Dutch Shell plc	RDS-A	B	62.85	7.3	5.4	4.4	8	3.5
Total S.A.	TOT	B	132.31	9.3	6.1	5.2	9	2.9
Exxon Mobil Corporation	XOM	B	60.98	11.7	6.3	5.2	9	2.1
	<i>Median</i>			<i>10.2</i>	<i>6.0</i>	<i>4.8</i>	<i>8</i>	<i>3.0</i>
Producer/Refiners - Large Cap and Mid Cap								
Imperial Oil Limited (30%)	IMO	B	108.65	9.3	6.4	7.6	13	0.8
Kinder Morgan, Inc.	KMI	S2	92.02		8.2	12.0	18	3.8
Lukoil Oil Company	LUKOY	B	82.90	19.7	5.8	4.8	7	1.2
Marathon Oil Corporation	MRO	B	76.70	7.8	4.7	4.8	8	1.7
Norsk Hydro ASA	NHY	B	141.76	7.8	4.7	5.1	15	2.4
Gazprom (50%)	OGZPF	B	92.00	20.0	9.6	6.4	10	0.5
Petro-Canada	PCZ	B	47.95	6.0	5.4	6.0	11	0.7
PetroChina Company Ltd (10%)	PTR	B	108.44	11.6	6.0	5.4	10	3.9
Suncor Energy	SU	B	78.81	17.7	7.8	8.1	16	0.3
	<i>Median</i>			<i>10.4</i>	<i>6.0</i>	<i>6.0</i>	<i>11</i>	<i>1.2</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap								
Anadarko Petroleum Corp.	APC	B	103.87	12.7	7.0	4.8	9	0.7
CNOOC Limited (29%)	CEO	B	79.00	10.1	4.7	4.5	8	3.3
Devon Energy Corporation	DVN	B	61.78	8.6	5.7	4.0	8	0.7
Encana Corporation	ECA	B	47.10	8.7	5.7	5.3	11	0.6
EOG Resources	EOG	B	71.90	9.6	6.8	5.5	12	0.3
Occidental Petroleum Corp.	OXY	B	94.23	10.2	6.1	5.0	9	1.5
XTO Energy Inc.	XTO	B	43.75	12.4	7.6	6.6	12	0.5
	<i>Median</i>			<i>10.1</i>	<i>6.1</i>	<i>5.0</i>	<i>9</i>	<i>0.7</i>
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	68.75	10.6	5.6	5.9	16	0.9
Encore Acquisition Company	EAC	B	31.16	14.8	7.8	5.6	12	-
Energy Partners Ltd.	EPL	B	23.57	5.7	4.3	3.7	28	-
Cimarex Energy Company	XEC	B	43.25	7.2	5.2	3.7	8	0.4
	<i>Median</i>			<i>8.9</i>	<i>5.4</i>	<i>4.6</i>	<i>14</i>	<i>0.2</i>
Income								
Canadian Oil Sands Trust (US\$)	COSWF	B	142.03	20.0	9.3	9.7	12	2.4
Enerplus Resources Fund	ERF		50.72	9.4	5.8	6.8	12	8.5
Kinder Morgan Energy Partners, L.P.	KMP	S3	47.92		7.9	15.8	24	6.7
Kinder Morgan Management, LLC	KMR	S3	43.96		7.9	14.9	22	7.3
Pengrowth Energy Trust	PGH		22.87	7.2	5.2	6.4	9	11.2
Penn West Energy Trust (US\$)	PWTFF	B	36.02	7.7	6.1	6.6	10	9.7
San Juan Basin Royalty Trust	SJT	B	41.55	13.6	10.8	11.2	13	7.9
	<i>Median</i>			<i>9.4</i>	<i>7.9</i>	<i>9.7</i>	<i>12</i>	<i>7.9</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2007; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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Oil and Gas Producers Portfolio Composite of Buy Recommendations

	<i>Symbol</i>	<i>Non- U.S. Home</i>	<i>Port- folio Wgt</i>	<i>North Amer. Natural Gas (%)</i>	<i>of World Natural Gas (%)</i>	<i>Oil Prod'n (%)</i>	<i>Down- stream (%)</i>	<i>McDep Ratio</i>
Mega Cap								
BP plc	BP	UK	1.0	9	12	43	36	0.92
Total S.A.	TOT	Fra	1.0	-	28	37	35	0.85
Exxon Mobil Corporation	XOM		1.0	8	27	35	30	0.83
Royal Dutch Shell plc	RDS-A	UK	1.0	3	20	32	44	0.81
ConocoPhillips	COP		1.0	16	10	47	27	0.75
Chevron Corporation	CVX		1.0	6	10	58	26	0.72
Producer/Refiners - Large Cap and Mid Cap								
Imperial Oil Limited	IMO	Can	1.0	12	-	64	24	1.19
Petro-Canada	PCZ	Can	1.0	23	4	53	20	1.12
Norsk Hydro ASA	NHY	Nor	1.0	-	30	37	34	1.08
Suncor Energy	SU	Can	1.0	4	-	89	7	1.05
Marathon Oil Corporation	MRO		1.0	11	11	36	42	1.02
PetroChina Company Ltd.	PTR	Chi	1.0	-	9	81	10	0.91
Lukoil Oil Company	LUKOY	Rus	1.0	-	-	75	25	0.83
Gazprom	OGZPF	Rus	1.0		100			0.66
Independent Natural Gas and Oil - Large Cap and Mid Cap								
CNOOC Limited	CEO	Chi	1.0	-	12	88	-	0.94
Encana Corporation	ECA	Can	1.0	81	-	19	-	0.94
XTO Energy Inc.	XTO		1.0	83	-	17	-	0.87
Occidental Petroleum Corp.	OXY		1.0	14	2	74	11	0.81
EOG Resources	EOG		1.0	79	8	13	-	0.81
Devon Energy Corporation	DVN		1.0	64	-	36	-	0.70
Anadarko Petroleum Corp.	APC		1.0	60	-	40	-	0.69
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY		1.0	15	-	85	-	1.05
Energy Partners Ltd.	EPL		1.0	56	-	44	-	0.85
Encore Acquisition Company	EAC		1.0	24	-	76	-	0.72
Cimarex Energy Company	XEC		1.0	73	-	27	-	0.70
Income								
Penn West Energy Trust (US\$)	PWTFF	Can	1.0	38	-	62	-	1.08
San Juan Basin Royalty Trust	SJT		1.0	100	-	-	-	1.04
Canadian Oil Sands Trust (US\$)	COSWF	Can	1.0	-	-	100	-	1.04
Portfolio Composite			<i>14/28</i>	<i>28</i>	<i>10</i>	<i>49</i>	<i>13</i>	<i>0.86</i>

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Index of Recent Research

Stock Ideas

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
28-Mar	EPL	Energy Partners, Ltd.	Denali a Dry Hole
24-Mar	CEO	CNOOC Ltd	Growth Marches On
23-Mar	EOG	EOG Resources Inc.	New Natural Gas Buy Recommendation
21-Mar	PTR	PetroChina Company Limited	Growing Pains
20-Mar	SJT	San Juan Basin Royalty Trust	Upgrade to Buy
10-Mar	COP	ConocoPhillips	Longest Life Mega Cap
9-Mar	XOM	Exxon Mobil Corporation	Stronger than the Government
8-Mar	CVX	Chevron Corporation	Momentum Break
28-Feb	PWTFF	Penn West Energy Trust	Drilling and CO2 Upside
27-Feb	XTO	XTO Energy Inc.	Raise NPV to \$52 a Share
24-Feb	* EPL	Energy Partners, Ltd.	Lower NPV to \$32 a Share
23-Feb	* BRY	Berry Petroleum	Growth Record
21-Feb	* EAC	Encore Acquisition Company	Steady Progress
16-Feb	* XEC	Cimarex Energy Company	Eyed by Icahn
16-Feb	* TOT	Total S.A.	Challenges of Growth
16-Feb	* ECA	EnCana Corporation	Buying Opportunity
14-Feb	* NHY	Norsk Hydro ASA	Natural Gas Price Advance
9-Feb	* XTO	XTO Energy Inc.	Natural Gas Growth
8-Feb	* OXY	Occidental Petroleum Corporation	Longer Life Independent
8-Feb	* BP	BP p.l.c.	Temporary Setbacks
7-Feb	* APC	Anadarko Petroleum Corporation	Raise NPV to \$160 a Share
3-Feb	* RDSA	Royal Dutch Shell plc	Lower NPV to \$80 a Share
3-Feb	* IMO	Imperial Oil Limited	Raise NPV to \$90 a Share
2-Feb	* DVN	Devon Energy Corporation	Raise NPV to \$94 a Share
31-Jan	* OGZPF	Gazprom	Raise Net Present Value to \$140 a Share
27-Jan	* SU	Suncor Energy Inc.	Raise Net Present Value to \$75 a Share
27-Jan	* PCZ	Petro-Canada	Favorable Relative Recognition
27-Jan	* MRO	Marathon Oil Corporation	Raise Net Present Value to \$75 a Share
26-Jan	* COSWF	Canadian Oil Sands Trust	Volume Affirmed
19-Jan	* KMx	Kinder Morgan	Fading Returns, Rising Risk
17-Jan	* LUKOY	Lukoil Oil Company	Raise Net Present Value to \$100 a Share

Meter Reader - A Weekly Analysis

4-Apr		Qatari Quandary
28-Mar	*	Good Bye Burlington Resources!
21-Mar	*	Oil Factor II
14-Mar	*	Record U.K.Natural Gas Price

Natural Gas and Oil Royalty Trusts - A Weekly Analysis

31-Mar		Oil Sands and LNG
24-Mar	*	Defying Expectations
17-Mar	*	Opportunity Knocked
10-Mar	*	Inventory Investment

Industry Ideas

15-Feb	*	Presentation Slides	Russian Natural Gas, Canadian Tar Sands
26-Dec	*	Interview by Sandra Ward in Barron's	Bullish and Fully Fueled

* Archived on www.mcdep.com

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