

## Seasonal Score

### Summary and Recommendation

With spot oil price near \$60 a barrel, down almost 25% from the recent high, stock prices reflect less than \$48 a barrel as implied by McDep Ratios. With spot natural gas price below \$5 a million btu, down two thirds from the winter peak, stock prices are about in line with futures price for delivery over the next six years of more than \$7 a million btu. A low seasonal price combined with turmoil associated with failed natural gas investments by two hedge funds contributes to natural gas price below normal equivalence with oil. At the same time, long-term investors need to be patient while commodity price and stock price momentum on a 40-week or 200-day basis is mostly negative. Yet the best values can arise before the change in momentum to the upside again becomes apparent. Buy recommendations with steeper stock price declines in the month include **Encana (ECA)**, **Lukoil (LUKOY)** and **Norsk Hydro (NHY)**.

### The Stock Market and the Futures Market

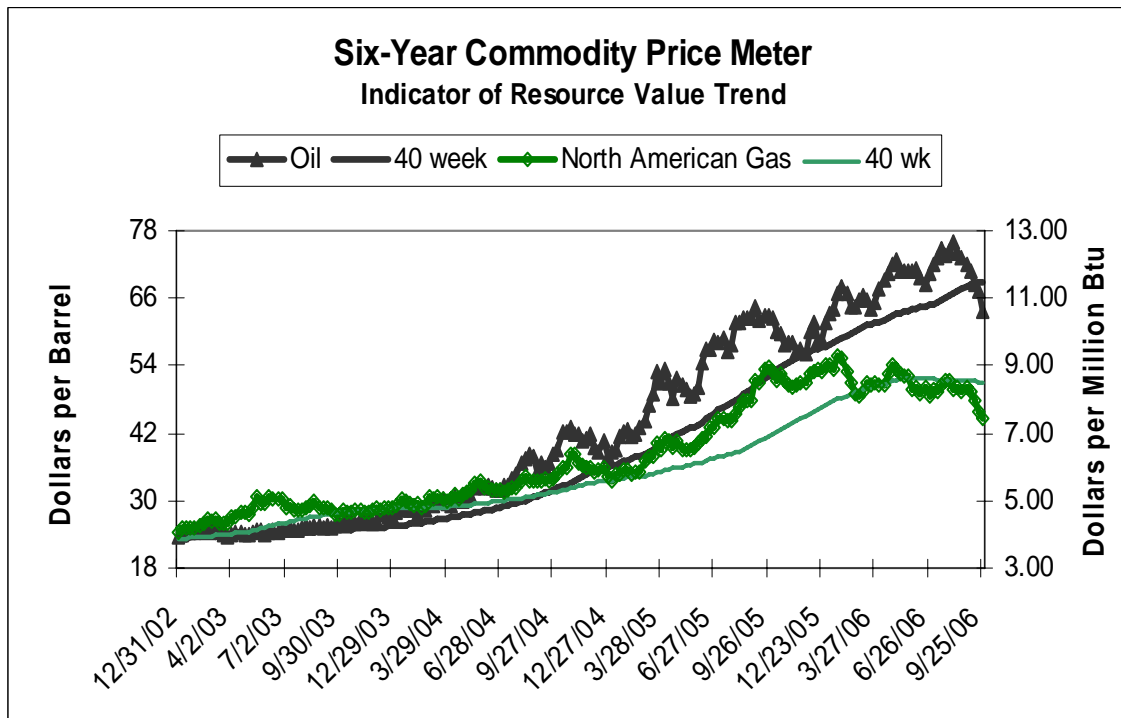
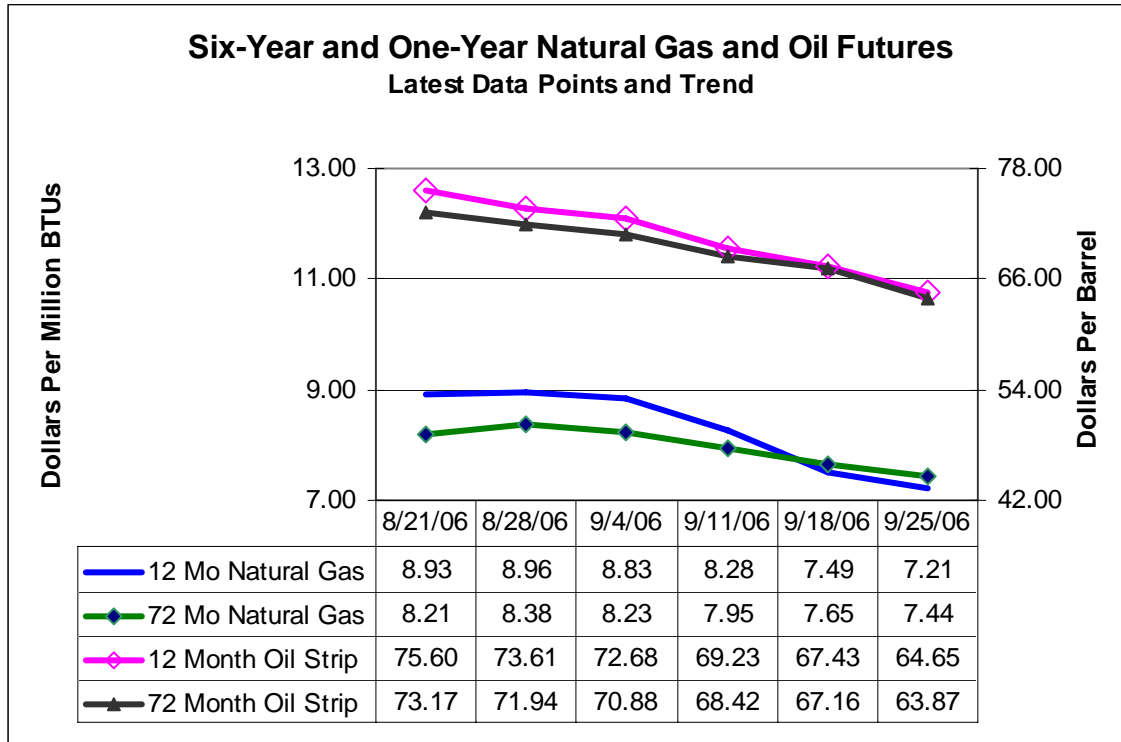
The stock market appears lower than the futures market on oil and about in line on natural gas. Our estimates of present value, the denominator of the McDep Ratio, presume a long-term oil price of \$60 a barrel compared to \$64 in the futures market for delivery over the next six years. McDep Ratios of 0.8, or less, suggest that stocks are priced for oil less than \$48 a barrel. Thus, futures could fall some \$16 a barrel or unlevered stock prices could rise some 30% to reach parity.

Our estimates of present value presume a long-term natural gas price of \$10 a million btu compared to \$7.40 in the futures market for delivery over the next six years. McDep Ratios of 0.8, or less, suggest that stocks are priced for natural gas less than \$8 a million btu. Thus, the stock market and the futures market may be aligned on natural gas. If our assumption of \$10 appears increasingly out of line, we can change it overnight. Yet, \$10 is oil price divided by 6, the standard industry conversion ratio for reporting oil and natural gas on an equivalent basis. Meanwhile, in addition to acute seasonal factors, there may be artificial pressures in the futures market as dealers work out the trading failures of two hedge funds in natural gas.

Estimates of cash flow for the next twelve months that form the denominator of EV/Ebitda multiples are tied to latest futures quotes. Investors can decide for themselves without subjective interpretation on our part whether cash flow multiples are low or high. We think the multiples are low at less than 6 times, typically.

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 (US\$/sh) 25-Sep 2006	Shares (mm)	Market Cap (US\$mm)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
<b>Mega Cap</b>								
BP plc	BP	B	65.06	3,362	219,000	80.00	0.16	0.84
Exxon Mobil Corporation	XOM	B	65.06	6,030	392,000	78.00	0.04	0.84
Total S.A.	TOT	B	64.14	2,323	149,000	80.00	0.13	0.83
Royal Dutch Shell plc	RDS-A	B	65.38	3,242	212,000	84.00	0.10	0.80
Chevron Corporation	CVX	B	62.18	2,206	137,000	88.00	0.10	0.74
Gazprom (50%)	OGZPY	B	39.20	2,845	111,500	56.00	0.06	0.72
ConocoPhillips	COP	B	57.31	1,678	96,000	100.00	0.21	0.66
<i>Total or Median</i>					<i>1,317,000</i>		<i>0.10</i>	<i>0.80</i>
<b>Producer/Refiners - Large Cap and Mid Cap</b>								
Kinder Morgan, Inc.	KMI	S2	104.40	135	14,090	33.00	0.75	1.54
Imperial Oil Limited (30%)	IMO	H	32.66	295	9,640	37.00	0.08	0.89
Petro-Canada	PCZ	B	38.24	512	19,580	49.00	0.18	0.82
PetroChina Company Ltd (10%)	PTR	B	106.33	179	19,030	140.00	0.04	0.77
Marathon Oil Corporation	MRO	B	71.32	367	26,170	98.00	0.14	0.76
Norsk Hydro ASA	NHY	B	21.97	1,247	27,400	31.00	0.14	0.75
Suncor Energy	SU	B	66.21	461	30,530	95.00	0.06	0.72
Lukoil Oil Company	LUKOY	B	71.00	830	59,000	110.00	0.01	0.65
<i>Total or Median</i>					<i>205,000</i>		<i>0.11</i>	<i>0.77</i>
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>								
CNOOC Limited (29%)	CEO	B	82.60	119	9,850	98.00	-	0.84
XTO Energy Inc.	XTO	B	40.08	369	14,790	52.00	0.18	0.81
Encana Corporation	ECA	B	44.14	845	37,300	60.00	0.13	0.77
Anadarko Petroleum Corp.	APC	B	42.32	463	19,600	77.00	0.46	0.76
EOG Resources	EOG	B	63.30	246	15,600	92.00	0.07	0.71
Occidental Petroleum Corp.	OXY	B	45.47	868	39,500	69.00	0.08	0.69
Devon Energy Corporation	DVN	B	60.63	446	27,000	115.00	0.13	0.59
<i>Total or Median</i>					<i>164,000</i>		<i>0.13</i>	<i>0.76</i>
<b>Independent Natural Gas and Oil - Small Cap</b>								
Energy Partners Ltd.	EPL	B	24.16	75	1,810	31.00	0.44	0.88
Berry Petroleum Company	BRY	B	26.77	45	1,200	39.00	0.19	0.74
Cimarex Energy Company	XEC	B	34.41	85	2,920	68.00	0.09	0.55
Encore Acquisition Company	EAC	B	23.34	54	1,250	54.00	0.19	0.54
<i>Total or Median</i>					<i>7,200</i>		<i>0.19</i>	<i>0.65</i>
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S3	43.21	165	7,120	15.00	0.56	1.83
Kinder Morgan Management, LLC	KMR	S3	41.54	60	2,470	15.00	0.56	1.78
Enerplus Resources Fund	ERF		47.50	123	5,840	47.00	0.11	1.01
Pengrowth Energy Trust	PGH		19.42	161	3,130	20.00	0.17	0.98
Penn West Energy Trust	PWE	B	35.39	246	8,710	39.00	0.13	0.92
San Juan Basin Royalty Trust	SJT	B	33.32	47	1,550	40.00	-	0.83
Canadian Oil Sands Trust	COSWF	B	26.23	466	12,220	35.00	0.09	0.77
<i>Total or Median</i>					<i>41,000</i>		<i>0.13</i>	<i>0.98</i>

B = Buy, S2 = Short half unlevered position, S3 = Short quarter unlevered position, H = Hold

Present Value = Shares times Net Present Value divided by (1-Debt/Present Value).

Debt = Present Value times Debt/Present Value

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 (US\$/sh) 25-Sep 2006	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
<b>Mega Cap</b>								
Gazprom (50%)	OGZPY	B	39.20	20.0	9.1	6.5	11	0.6
BP plc	BP	B	65.06	9.3	7.2	6.1	10	3.6
Exxon Mobil Corporation	XOM	B	65.06	11.4	6.7	5.6	10	2.0
Total S.A.	TOT	B	64.14	9.8	6.7	5.6	9	3.2
Royal Dutch Shell plc	RDS-A	B	65.38	7.4	5.9	4.7	9	3.9
Chevron Corporation	CVX	B	62.18	10.9	6.2	4.6	8	3.3
ConocoPhillips	COP	B	57.31	10.9	6.0	4.0	6	2.5
	<i>Median</i>			10.9	6.7	5.6	9	3.2
<b>Producer/Refiners - Large Cap and Mid Cap</b>								
Kinder Morgan, Inc.	KMI	S2	104.40		8.8	13.5	22	3.4
Suncor Energy	SU	B	66.21	18.8	10.8	7.8	14	0.3
Imperial Oil Limited (30%)	IMO	H	32.66	9.6	8.2	7.3	12	0.9
Petro-Canada	PCZ	B	38.24	6.8	7.2	5.9	11	0.9
PetroChina Company Ltd (10%)	PTR	B	106.33	14.7	6.4	4.9	10	4.5
Lukoil Oil Company	LUKOY	B	71.00	18.9	7.5	4.9	8	1.7
Norsk Hydro ASA	NHY	B	21.97	7.9	5.7	4.3	9	3.1
Marathon Oil Corporation	MRO	B	71.32	8.6	4.8	3.7	6	1.9
	<i>Median</i>			9.6	7.4	5.4	10	1.8
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>								
XTO Energy Inc.	XTO	B	40.08	11.6	9.1	7.4	14	0.5
EOG Resources	EOG	B	63.30	9.7	9.6	6.9	16	0.4
Anadarko Petroleum Corp.	APC	B	42.32	11.2	8.4	6.4	10	1.7
Encana Corporation	ECA	B	44.14	8.7	7.4	5.7	14	0.9
Occidental Petroleum Corp.	OXY	B	45.47	10.6	7.5	5.1	10	1.9
Devon Energy Corporation	DVN	B	60.63	8.7	8.2	4.8	10	0.7
CNOOC Limited (29%)	CEO	B	82.60	10.6	5.5	4.7	8	3.4
	<i>Median</i>			10.6	8.2	5.7	10	0.9
<b>Independent Natural Gas and Oil - Small Cap</b>								
Berry Petroleum Company	BRY	B	26.77	9.9	7.6	5.7	13	1.2
Energy Partners Ltd.	EPL	B	24.16	6.2	6.2	5.5		-
Encore Acquisition Company	EAC	B	23.34	14.9	8.8	4.7	10	-
Cimarex Energy Company	XEC	B	34.41	7.8	7.8	4.3	10	0.5
	<i>Median</i>			8.9	7.7	5.1	10	0.2
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S3	43.21		7.9	14.4	23	7.5
Kinder Morgan Management, LLC	KMR	S3	41.54		7.9	14.1	22	7.8
San Juan Basin Royalty Trust	SJT	B	33.32	14.6	12.9	10.8	14	7.2
Canadian Oil Sands Trust	COSWF	B	26.23	24.4	12.5	9.6	13	7.2
Enerplus Resources Fund	ERF		47.50	9.4	8.2	8.3	19	9.5
Penn West Energy Trust	PWE	B	35.39	8.0	8.7	8.0	15	10.3
Pengrowth Energy Trust	PGH		19.42	7.9	7.3	7.1	11	13.8
	<i>Median</i>			9.4	8.2	9.6	15	7.8

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 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**

Symbol	Price (US\$/sh) 25-Sep 2006	Portfolio Weight Equity (%)	EV (%)	Non- U.S. Home (%)	North Amer. Natural Gas (%)	Rest of World Natural Gas (%)	Oil Prod'n (%)	Down- stream (%)	McDep Ratio	
<b>Mega Cap</b>										
BP plc	BP	65.06	2.8	2.9	2.9	0.2	0.3	1.4	1.0	0.84
Exxon Mobil Corporation	XOM	65.06	3.3	2.9		0.2	0.7	1.2	0.9	0.84
Total S.A.	TOT	64.14	2.9	2.9	2.9		0.9	1.2	0.8	0.83
Royal Dutch Shell plc	RDS-A	65.38	3.0	2.9	2.9	0.1	0.5	1.1	1.2	0.80
Chevron Corporation	CVX	62.18	6.0	5.9		0.4	0.6	3.3	1.6	0.74
Gazprom	OGZPY	39.20	9.6	8.8	8.8		8.8			0.72
ConocoPhillips	COP	57.31	4.8	5.9		0.9	0.5	2.9	1.5	0.66
<b>Producer/Refiners - Large Cap and Mid Cap</b>										
Petro-Canada	PCZ	38.24	1.3	1.5	1.5	0.2	0.0	1.0	0.2	0.82
PetroChina Company Ltd.	PTR	106.33	3.3	2.9	2.9		0.2	2.5	0.2	0.77
Marathon Oil Corporation	MRO	71.32	1.4	1.5		0.2	0.1	0.5	0.6	0.76
Norsk Hydro ASA	NHY	21.97	1.4	1.5	1.5		0.4	0.6	0.5	0.75
Suncor Energy	SU	66.21	1.6	1.5	1.5	0.0		1.3	0.1	0.72
Lukoil Oil Company	LUKOY	71.00	6.8	5.9	5.9			4.4	1.5	0.65
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>										
CNOOC Limited	CEO	82.60	3.5	2.9	2.9		0.3	2.6		0.84
XTO Energy Inc.	XTO	40.08	2.7	2.9		2.2		0.7		0.81
Encana Corporation	ECA	44.14	2.9	2.9	2.9	2.2		0.7		0.77
Anadarko Petroleum Corp.	APC	42.32	1.4	2.9		1.7		1.2		0.76
EOG Resources	EOG	63.30	6.2	5.9		4.6	0.4	0.9		0.71
Occidental Petroleum Corp	OXY	45.47	3.1	2.9		0.4	0.0	2.2	0.3	0.69
Devon Energy Corporation	DVN	60.63	5.4	5.9		3.2		2.7		0.59
<b>Independent Natural Gas and Oil - Small Cap</b>										
Energy Partners Ltd.	EPL	24.16	0.9	1.5		0.8		0.6		0.88
Berry Petroleum Company	BRY	26.77	1.3	1.5		0.2		1.3		0.74
Cimarex Energy Company	XEC	34.41	2.9	2.9		2.0		1.0		0.55
Encore Acquisition Compæ	EAC	23.34	2.3	2.9		0.7		2.2		0.54
<b>Income</b>										
Penn West Energy Trust	PWE	35.39	6.0	5.9	5.9	1.8		4.1		0.92
San Juan Basin Royalty Tr	SJT	33.32	7.0	5.9		5.9				0.83
Canadian Oil Sands Trust	COSWF	26.23	6.2	5.9	5.9			5.9		0.77
<b>Portfolio Composite</b>			<b>100</b>	<b>100</b>	<b>49</b>	<b>28</b>	<b>14</b>	<b>48</b>	<b>10</b>	<b>0.73</b>

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**Index of Recent Research****Stock Ideas**

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
19-Sep	IMO	Imperial Oil Limited	Change to Hold on Oil Price Momentum
15-Sep	PTR	PetroChina Company Limited	Future Natural Gas and Downstream Profits
15-Sep	SJT	San Juan Basin Royalty Trust	Sub \$5 Natural Gas and SJT
7-Sep	EPL	Energy Partners, Ltd.	Woodside Offers \$23 a Share
6-Sep	DVN	Devon Energy Corporation	Raise NPV to \$115 a Share
29-Aug	CEO	CNOOC Ltd	Volume Growth and Commodity Price
23-Aug	* PTR	PetroChina Company Limited	Profits despite Government Limits
15-Aug	* PWTF	Penn West Energy Trust	Marketable High Current Income
10-Aug	* BRY	Berry Petroleum	Oil Rich
10-Aug	* EPL	Energy Partners, Ltd.	Gulf of Mexico and Natural Gas
7-Aug	* OXY	Occidental Petroleum Corporation	Positive Profit and Volume Trends
4-Aug	* EAC	Encore Acquisition Company	Abundant Appreciation Potential
4-Aug	* SU	Suncor Energy Inc.	Trading Oil Sands Leadership
4-Aug	* TOT	Total S.A.	Positioned to Profit
3-Aug	* XEC	Cimarex Energy Company	Volume Slippage
3-Aug	* DVN	Devon Energy Corporation	Best Value Large Cap Producer
2-Aug	* MRO	Marathon Oil Corporation	Raise NPV to \$98 a Share
2-Aug	* EOG	EOG Resources Inc.	Add Natural Gas to Your Portfolio
28-Jul	* CVX	Chevron Corporation	Lagging a Little Lately
28-Jul	* APC	Anadarko Petroleum Corporation	Favorable Volume Trend
28-Jul	* XOM	Exxon Mobil Corporation	Volume and Cash Advancing
28-Jul	* PCZ	Petro-Canada	Temporary Difficulties
28-Jul	* RDSA	Royal Dutch Shell plc	Share Buyback Enhances Return
26-Jul	* COP	ConocoPhillips	Raise NPV to \$100 a Share
26-Jul	* BP	BP p.l.c.	Cash Flow per Barrel Lags
26-Jul	* COSWF	Canadian Oil Sands Trust	0.7% Opportunity Loss
26-Jul	* XTO	XTO Energy Inc.	Growth Standout
25-Jul	* ECA	EnCana Corporation	Raise NPV to \$60 a Share
25-Jul	* NHY	Norsk Hydro ASA	Commodity Price Beneficiary
20-Jul	* KMx	Kinder Morgan	Focus Sharpens on Limited Partners
10-Jul	* OGZPY	Gazprom	Number One in Global Energy
30-Jun	* LUKOY	Lukoil Oil Company	Russia Stronger than Ever

**Meter Reader - A Weekly Analysis**

19-Sep	*	Oil Price Breaks Trend
12-Sep	*	A Dip to Buy
5-Sep	*	A 1978 Pause
15-Aug	*	Unchanged Thesis

**Natural Gas and Oil Royalty Trusts - A Weekly Analysis**

22-Sep		Sub \$5 Natural Gas and CRT
15-Sep		Sub \$5 Natural Gas and SJT
8-Sep	*	HGT Boosts Reinvestment
18-Aug	*	Widely-Held PBT

**Industry Ideas**

27-Jun	*	Presentation Slides	Oil and Gas Investment to 2010
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