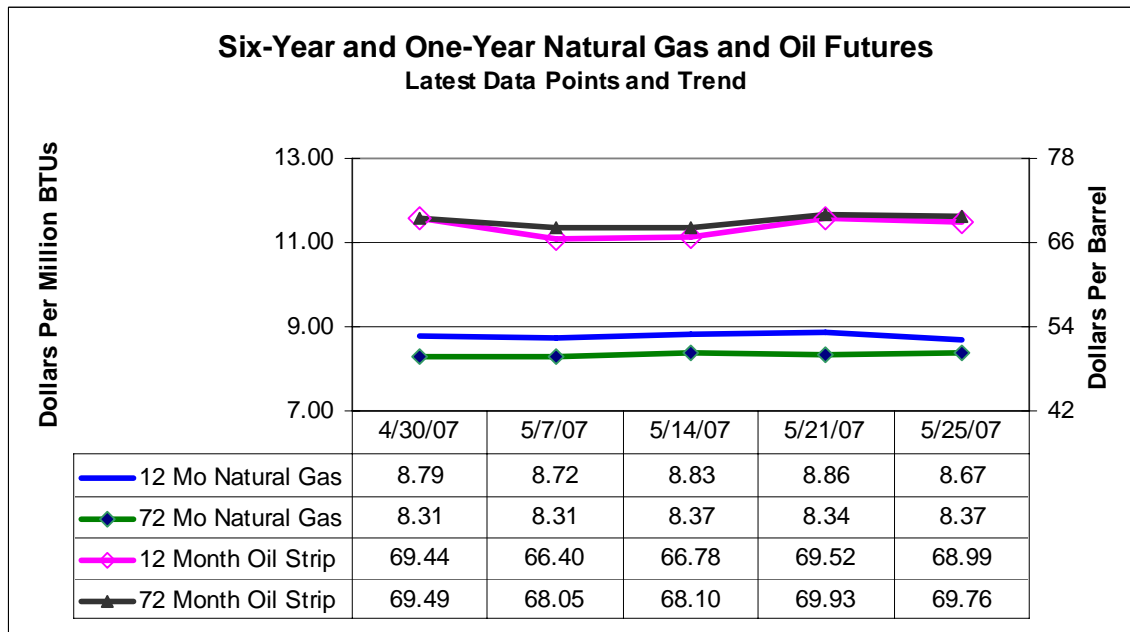


## Raise Present Value for \$66 Long-Term Oil

### Summary and Recommendation

Louis Baldwin, Chief Financial Officer of buy-recommended **XTO Energy (XTO)** presenting at the UBS Oil & Gas Conference last week said, as we paraphrase from the webcast, “Oil is not \$64, it’s \$70 globally and that’s \$12 natural gas”. Also wishing to keep our research more representative than the widely-quoted near-month futures price for Light Sweet Crude, we raise our long-term price assumptions for estimating present value to \$66 a barrel for oil from \$60, to \$11 a million btu for natural gas from \$10 and to \$11 a barrel for the refining margin from \$10. As a result of the near 10% increase in present value across the board, the median McDep Ratio declines to about 0.83 from 0.91 a week ago (see table on page two Rank by McDep Ratio). Six-year oil futures near \$70 a barrel support our increase in long-term price (see chart below Six-Year and One-Year Natural Gas and Oil Futures). Cash flow estimates, reserve life and stock prices, have changed enough to trigger some changes in the illustrative portfolio. Thus, unlevered weightings for buy recommendations have been boosted for **XTO**, **BP plc (BP)**, **Energy Partners (EPL)**, and **Hugoton Royalty Trust (HGT)** and lowered for **ExxonMobil (XOM)**, **Norsk Hydro (NHY)**, **Encana (ECA)**, and **Penn West Energy Trust (PWE)** to produce a low composite McDep Ratio of 0.75 (see table on page four McDep Energy Portfolio). The portfolio emphasis shifts slightly from Canada to the U.S. and to North American natural gas.

Kurt H. Wulff, CFA



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**Oil and Gas Producers - Rank by McDep Ratio**

	<i>Symbol/</i>	<i>Rating</i>	<i>Price</i> <i>(US\$/sh)</i>	<i>Shares</i>	<i>Market</i>	<i>Net</i>	<i>Debt/</i>	<i>McDep</i>
			<i>25-May</i>	<i>(mm)</i>	<i>Cap</i>	<i>Present</i>	<i>Present</i>	<i>Ratio</i>
			<i>2007</i>		<i>(US\$m)</i>	<i>(US\$/sh)</i>	<i>Value</i>	
<b>Mega Cap</b>								
Exxon Mobil Corporation	XOM	B	83.51	5,714	477,000	92.00	0.05	0.91
Total S.A.	TOT	B	75.97	2,281	173,000	89.00	0.13	0.87
Royal Dutch Shell plc	RDS-A	B	74.99	3,153	237,000	94.00	0.13	0.83
BP plc	BP	B	67.77	3,231	219,000	87.00	0.16	0.81
Chevron Corporation	CVX	B	81.13	2,206	179,000	105.00	0.09	0.79
ConocoPhillips	COP	B	76.42	1,669	128,000	112.00	0.18	0.74
Gazprom (50%)	OGZPY	B	37.05	2,849	105,600	62.00	0.06	0.62
<i>Total or Median</i>					<i>1,519,000</i>		<i>0.13</i>	<i>0.81</i>
<b>Producer/Refiners - Large Cap</b>								
Kinder Morgan, Inc.	KMI	S	107.29	133	14,300	33.00	0.76	1.54
Imperial Oil Limited (30%)	IMO	B	46.47	287	13,360	42.00	0.07	1.10
Marathon Oil Corporation	MRO	H	119.60	347	41,500	124.00	0.13	0.97
Norsk Hydro (pro forma)	NHY	B	35.41	1,229	43,520	38.00	0.20	0.95
Petro-Canada	PCZ	B	50.87	502	25,540	55.00	0.17	0.94
Suncor Energy	SU	B	87.13	461	40,180	105.00	0.07	0.84
PetroChina Company Ltd (10%)	PTR	B	128.95	181	23,340	166.00	0.05	0.79
Lukoil Oil Company	LUKOY	B	75.00	830	62,000	121.00	0.02	0.63
<i>Total or Median</i>					<i>264,000</i>		<i>0.10</i>	<i>0.94</i>
<b>Independent Natural Gas and Oil - Large Cap</b>								
Encana Corporation	ECA	B	61.28	780	47,800	72.00	0.14	0.87
CNOOC Limited (34%)	CEO	B	93.16	140	13,030	108.00	-	0.86
XTO Energy Inc.	XTO	B	57.63	372	21,440	70.00	0.13	0.85
Anadarko Petroleum Corp.	APC	B	48.38	465	22,500	74.00	0.38	0.79
EOG Resources	EOG	B	76.61	247	18,900	102.00	0.05	0.76
Occidental Petroleum Corp.	OXY	B	54.96	847	46,500	82.00	0.07	0.69
Devon Energy Corporation	DVN	B	76.60	450	34,500	129.00	0.15	0.65
<i>Total or Median</i>					<i>205,000</i>		<i>0.13</i>	<i>0.79</i>
<b>Independent Natural Gas and Oil - Small Cap</b>								
Berry Petroleum Company	BRY	B	35.84	45	1,600	44.00	0.24	0.86
Encore Acquisition Company	EAC	B	27.07	53	1,440	54.00	0.34	0.67
Energy Partners Ltd.	EPL	B	16.95	31	530	38.00	0.35	0.64
Cimarex Energy Company	XEC	B	40.73	84	3,440	76.00	0.09	0.58
<i>Total or Median</i>					<i>7,000</i>		<i>0.29</i>	<i>0.66</i>
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S	54.52	172	9,360	15.00	0.54	2.21
Kinder Morgan Management, LLC	KMR	S	51.80	62	3,200	15.00	0.54	2.13
Pengrowth Energy Trust	PGH		18.88	244	4,610	17.00	0.29	1.08
Penn West Energy Trust	PWE	B	35.28	240	8,460	36.00	0.17	0.98
Enerplus Resources Fund	ERF		47.76	123	5,890	52.00	0.13	0.93
San Juan Basin Royalty Trust	SJT	B	32.39	47	1,510	40.00	-	0.81
Canadian Oil Sands Trust	COSWF	B	30.82	479	14,760	39.00	0.08	0.81
Hugoton Royalty Trust	HGT	B	27.20	40	1,090	34.00	-	0.80
<i>Total or Median</i>					<i>48,900</i>		<i>0.15</i>	<i>0.96</i>

B = Buy, S = Sell, 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**

	Symbol/ Rating		Price (US\$/sh) 25-May 2007	Adjustd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)	
<b>Mega Cap</b>									
Exxon Mobil Corporation	XOM	B	83.51	11.5	7.1	6.5	11	1.7	
Total S.A.	TOT	B	75.97	9.4	6.8	5.9	10	1.5	
Gazprom (50%)	OGZPY	B	37.05	24.0	9.4	5.8	9	0.3	
BP plc	BP	B	67.77	9.6	7.1	5.7	9	3.7	
Chevron Corporation	CVX	B	81.13	10.0	6.6	5.2	9	2.9	
Royal Dutch Shell plc	RDS-A	B	74.99	7.9	6.2	5.1	9	3.8	
ConocoPhillips	COP	B	76.42	11.2	6.7	4.9	8	2.1	
	<i>Median</i>				10.0	6.8	5.7	9	2.1
<b>Producer/Refiners - Large Cap</b>									
Kinder Morgan, Inc.	KMI	S	107.29		8.9	13.6	21	3.3	
Imperial Oil Limited (30%)	IMO	B	46.47	13.3	8.5	9.3	16	0.6	
Suncor Energy	SU	B	87.13	23.6	10.2	8.6	15	0.3	
PetroChina Company Ltd (10%)	PTR	B	128.95	15.1	8.3	6.6	13	3.6	
Marathon Oil Corporation	MRO	H	119.60	7.8	6.0	5.8	10	1.6	
Petro-Canada	PCZ	B	50.87	6.9	5.6	5.2	11	1.0	
Norsk Hydro (pro forma)	NHY	B	35.41	8.6	5.3	5.0	9	2.3	
Lukoil Oil Company	LUKOY	B	75.00	18.3	7.9	5.0	9	1.7	
	<i>Median</i>				13.3	8.1	6.2	12	1.7
<b>Independent Natural Gas and Oil - Large Cap</b>									
XTO Energy Inc.	XTO	B	57.63	12.2	8.5	7.2	13	0.8	
Anadarko Petroleum Corp.	APC	B	48.38	11.2	8.4	6.6	12	1.5	
Encana Corporation	ECA	B	61.28	9.5	7.3	6.3	13	1.3	
EOG Resources	EOG	B	76.61	9.6	7.5	5.7	13	0.5	
CNOOC Limited (34%)	CEO	B	93.16	10.6	6.4	5.5	10	3.6	
Occidental Petroleum Corp.	OXY	B	54.96	11.9	7.7	5.4	10	1.6	
Devon Energy Corporation	DVN	B	76.60	9.4	7.9	5.2	9	0.7	
	<i>Median</i>				10.6	7.7	5.7	12	1.3
<b>Independent Natural Gas and Oil - Small Cap</b>									
Berry Petroleum Company	BRY	B	35.84	10.3	8.9	7.7	13	0.8	
Encore Acquisition Company	EAC	B	27.07	14.8	9.2	6.2	15	-	
Cimarex Energy Company	XEC	B	40.73	8.1	6.7	3.9	9	0.4	
Energy Partners Ltd.	EPL	B	16.95	5.4	5.2	3.3	-	-	
	<i>Median</i>				9.2	7.8	5.0	13	0.2
<b>Income</b>									
Kinder Morgan Energy Partners, L.P.	KMP	S	54.52		7.9	17.4	53	6.1	
Kinder Morgan Management, LLC	KMR	S	51.80		7.9	16.8	50	6.4	
Canadian Oil Sands Trust	COSWF	B	30.82	21.1	11.8	9.5	13	6.4	
San Juan Basin Royalty Trust	SJT	B	32.39	10.2	10.8	8.8	11	9.3	
Pengrowth Energy Trust	PGH		18.88	7.5	7.4	7.9	26	14.8	
Hugoton Royalty Trust	HGT	B	27.20	14.0	9.6	7.7	11	9.3	
Penn West Energy Trust	PWE	B	35.28	7.6	7.4	7.3	15	10.8	
Enerplus Resources Fund	ERF		47.76	9.0	7.6	7.1	13	9.9	
	<i>Median</i>				9.6	7.9	8.3	14	9.3

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2008; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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**McDep Energy Portfolio  
Composite of Buy Recommendations**

Symbol	Price (US\$/sh) 25-May 2007	Portfolio Weight		Non- U.S. HQ (%)	North Amer. Natural Gas (%)	Rest of World Natural Gas (%)	Oil Prod'n (%)	Down- stream (%)	McDep Ratio	
		Equity (%)	EV (%)							
<b>Mega Cap</b>										
Exxon Mobil Corporation	XOM	83.51	1.6	1.4		0.1	0.2	0.8	0.4	0.91
Total S.A.	TOT	75.97	2.9	2.9	2.9		0.7	1.5	0.6	0.87
Royal Dutch Shell plc	RDS-A	74.99	2.8	2.9	2.9	0.1	0.4	1.4	1.0	0.83
BP plc	BP	67.77	2.7	2.9	2.9	0.2	0.3	1.7	0.7	0.81
Chevron Corporation	CVX	81.13	6.0	5.7		0.3	0.4	3.6	1.5	0.79
ConocoPhillips	COP	76.42	5.1	5.7		0.9	0.4	3.0	1.4	0.74
Gazprom	OGZPY	37.05	9.1	8.6	8.6		6.6	2.0		0.62
<b>Producer/Refiners - Large Cap</b>										
Imperial Oil Limited	IMO	46.47	1.6	1.4	1.4	0.1		1.1	0.2	1.10
Norsk Hydro (pro forma)	NHY	35.41	1.3	1.4	1.4		0.3	0.6	0.6	0.95
Petro-Canada	PCZ	50.87	1.4	1.4	1.4	0.2	0.0	1.0	0.2	0.94
Suncor Energy	SU	87.13	1.5	1.4	1.4	0.1		1.3	0.1	0.84
PetroChina Company Ltd.	PTR	128.95	3.1	2.9	2.9		0.2	2.5	0.2	0.79
Lukoil Oil Company	LUKOY	75.00	6.5	5.7	5.7			4.1	1.6	0.63
<b>Independent Natural Gas and Oil - Large Cap</b>										
Encana Corporation	ECA	61.28	4.2	4.3	4.3	3.2		0.9	0.1	0.87
CNOOC Limited	CEO	93.16	3.4	2.9	2.9		0.3	2.6		0.86
XTO Energy Inc.	XTO	57.63	4.2	4.3		3.3		1.0		0.85
Anadarko Petroleum Corp.	APC	48.38	1.7	2.9		1.5		1.3	0.1	0.79
EOG Resources	EOG	76.61	6.3	5.7		4.3	0.4	1.0		0.76
Occidental Petroleum Corp	OXY	54.96	3.0	2.9		0.4	0.0	2.2	0.3	0.69
Devon Energy Corporation	DVN	76.60	5.2	5.7		3.2		2.5		0.65
<b>Independent Natural Gas and Oil - Small Cap</b>										
Berry Petroleum Company	BRY	35.84	1.2	1.4		0.4		1.0		0.86
Encore Acquisition Comp	EAC	27.07	1.6	2.9		0.5		2.4		0.67
Energy Partners Ltd.	EPL	16.95	1.5	2.9		1.4		1.5		0.64
Cimarex Energy Company	XEC	40.73	2.8	2.9		2.0		0.9		0.58
<b>Income</b>										
Penn West Energy Trust	PWE	35.28	2.8	2.9	2.9	0.9		1.9		0.98
San Juan Basin Royalty Tr	SJT	32.39	6.7	5.7		5.7				0.81
Canadian Oil Sands Trust	COSWF	30.82	6.1	5.7	5.7			5.7		0.81
Hugoton Royalty Trust	HGT	27.20	3.4	2.9		2.9				0.80
<b>Portfolio Composite</b>			<b>100</b>	<b>100</b>	<b>47</b>	<b>32</b>	<b>10</b>	<b>49</b>	<b>9</b>	<b>0.75</b>
Canada					17					
Russia					14					
Europe					10					
China					6					

Note: Percentages in the Portfolio Weight - EV column correspond to unlevered positions ranging from triple at 8.6% to half at 1.4%.

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

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
18-May	MRO	Marathon Oil Corporation	Downgrade to Hold from Buy on Price
9-May	XEC	Cimarex Energy Company	Lowest McDep Ratio
8-May	OGZPY	Gazprom	Russian Value
8-May	PWE	Penn West Energy Trust	Committed to Income Distributions
7-May	EAC	Encore Acquisition	Encore for Bell Creek
7-May	PTR	PetroChina Company Limited	Raise NPV on Discovery
4-May	TOT	Total S.A.	Integrated Model
4-May	EPL	Energy Partners, Ltd.	Strategic Alternatives Disappointment
3-May	RDSA	Royal Dutch Shell plc	Record Results
2-May	BRY	Berry Petroleum	Piceance and Diatomite
2-May	DVN	Devon Energy Corporation	Low McDep Ratio Natural Gas
2-May	IMO	Imperial Oil Limited	Oil Sands Deal Unmasks Value
1-May	EOG	EOG Resources Inc.	Productive Drilling Boosts Cash Flow
1-May	MRO	Marathon Oil Corporation	Stock Split Declared
1-May	* APC	Anadarko Petroleum Corporation	Adjust NPV to \$70 a Share on Lower Debt
27-Apr	* CVX	Chevron Corporation	Solid Results
26-Apr	* CEO	CNOOC Ltd	Volume up 5%
26-Apr	* XOM	Exxon Mobil Corporation	Another Record Quarter
26-Apr	* COSWF	Canadian Oil Sands Trust	Distribution Raised 33%
25-Apr	* XTO	XTO Energy Inc.	Buy for Natural Gas
25-Apr	* ECA	EnCana Corporation	Buy for Natural Gas
25-Apr	* COP	ConocoPhillips	Strong Demand, Constrained Supply
25-Apr	* BP	BP p.l.c.	CEO Cycle
25-Apr	* LUKOY	Lukoil Oil Company	Tax Timing
24-Apr	* OXY	Occidental Petroleum Corporation	Well-Positioned in Oil
24-Apr	* PCZ	Petro-Canada	Volume Up 15%
18-Apr	* KMX	Kinder Morgan	Deal Delayed
23-Mar	* SJT	San Juan Basin Royalty Trust	Planetary Emergency
23-Mar	* HGT	Hugoton Royalty Trust	Planetary Emergency
20-Feb	* NHY	Norsk Hydro ASA	Raise NPV to \$36 a Share

**Meter Reader - A Weekly Analysis**

29-May		Raise Present Value for \$66 Long-Term Oil
22-May		Refining Rewards and Risks
15-May	*	Peak Oil Test Looming
8-May	*	Russian Value

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

25-May		Futures Forecast Increasing Income
18-May		Encore's MLP Filed
11-May	*	Income from Clean Fuel for Global Growth
4-May	*	Out of Favor

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