

## Downstream on Moving Average

### Summary and Recommendation

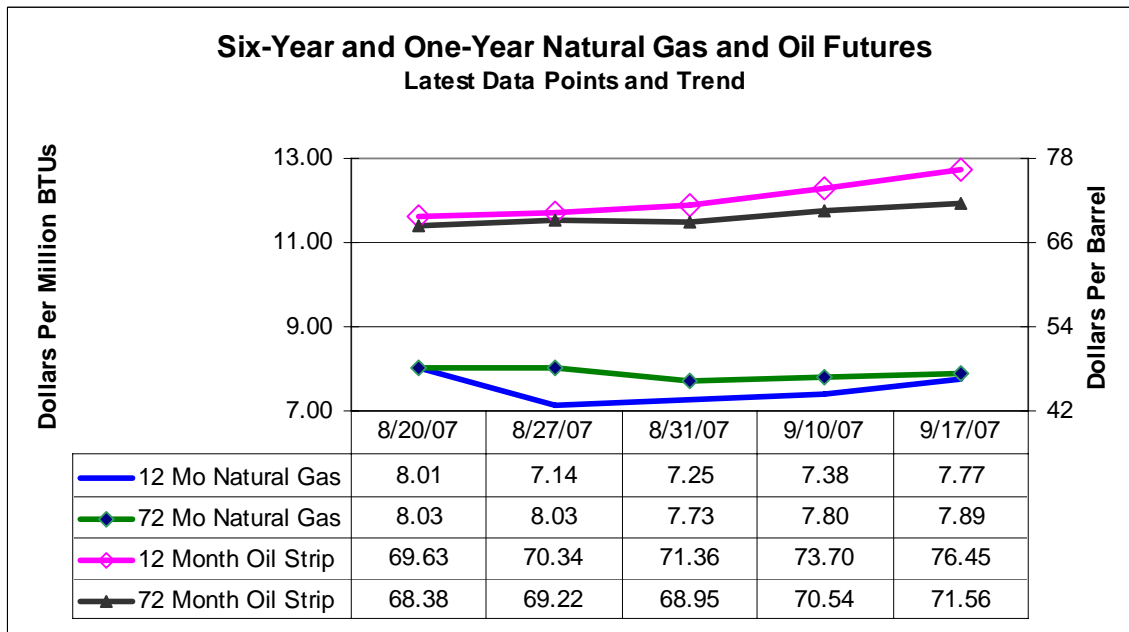
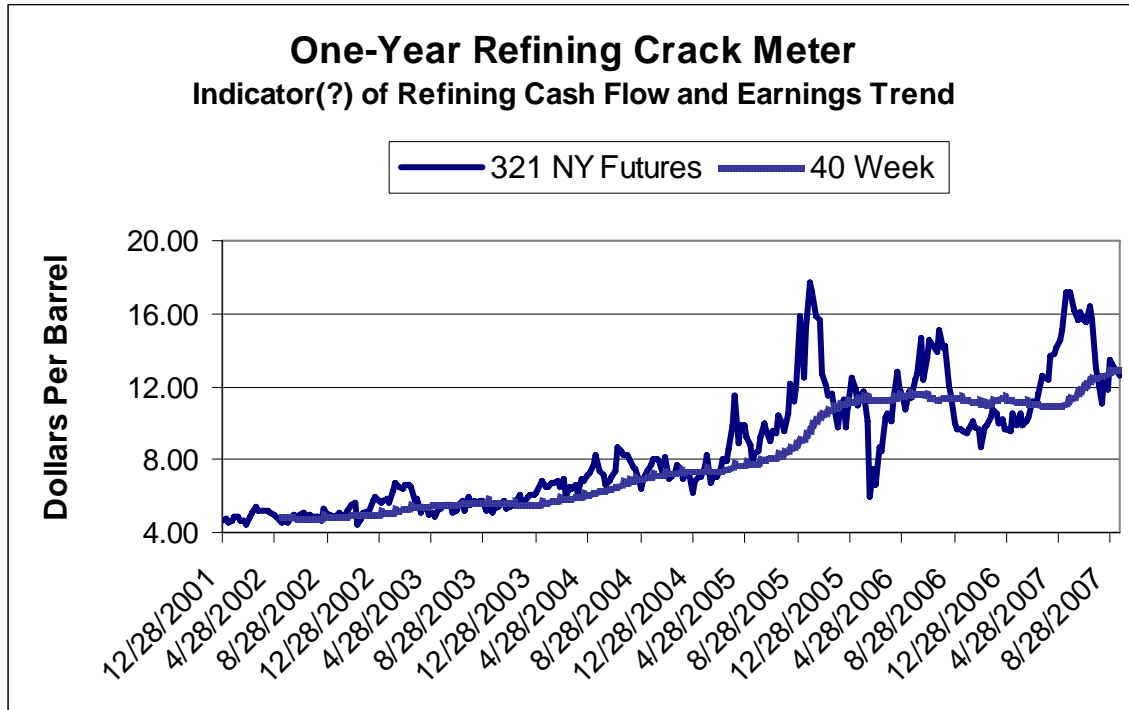
Buy recommendations that have attractively valued downstream refining/marketing businesses include the largest oil products players, **ExxonMobil (XOM)** and **Royal Dutch Shell (RDS)**. Buy-recommendations among downstream companies that may have the most potential signaled by lowest McDep Ratios are **Lukoil (LUKOY)** and 20% owner, **ConocoPhillips (COP)** (see table below). The timing seems favorable for long-term investment in clean oil products with the one-year refining crack on the 40-week average after declining from a recent peak (see chart One-Year Refining Crack Meter). Meanwhile any surprise downturn in the months ahead seems cushioned by low product inventories reported by the U.S. Energy Information Administration. Moreover, stocks may be priced for a long-term \$10 a barrel margin between prices for crude oil and products (McDep Ratio of 0.89 times \$11 basis for present value) compared to current one-year futures of \$13. At the same time, rising price for crude oil and catch-up potential for natural gas also imply a favorable outlook for oil and gas production, the dominant business for all the oil products players in our coverage (see chart Six-Year and One-Year Natural Gas and Oil Futures).

Kurt H. Wulff, CFA

### Oil Products Players

		<i>Downstream</i>		
		<i>Present Value</i>		<i>McDep</i>
		<i>(US\$m)</i>	<i>(%)</i>	<i>Ratio</i>
Imperial Oil Limited	IMO	7,000	16	1.14
Exxon Mobil Corporation	XOM	140,000	26	0.97
Marathon Oil Corporation	MRO	23,000	42	0.93
Suncor Energy	SU	4,000	7	0.92
PetroChina Company Ltd	PTR	23,000	7	0.89
Encana Corporation	ECA	5,400	8	0.89
Total S.A.	TOT	50,000	21	0.89
Petro-Canada	PCZ	6,000	16	0.89
Chevron Corporation	CVX	66,000	26	0.88
Royal Dutch Shell plc	RDS-A	115,000	35	0.87
BP plc	BP	77,000	23	0.82
ConocoPhillips	COP	54,000	23	0.80
Lukoil Oil Company	LUKOY	29,000	28	0.64

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

	Symbol/ Rating		Price (US\$/sh) 17-Sep 2007	Shares (mm)	Market Cap (US\$m)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
<b>Mega Cap</b>								
Exxon Mobil Corporation	XOM	B	89.26	5,620	502,000	92.00	0.05	0.97
Total S.A.	TOT	B	77.45	2,278	176,000	89.00	0.13	0.89
Chevron Corporation	CVX	B	90.93	2,206	201,000	105.00	0.08	0.88
Royal Dutch Shell plc	RDS-A	B	80.87	3,152	255,000	94.00	0.10	0.87
BP plc	BP	B	68.32	3,198	219,000	87.00	0.16	0.82
ConocoPhillips	COP	B	84.73	1,658	141,000	112.00	0.19	0.80
Gazprom (50%)	OGZPY	B	42.19	2,855	120,500	62.00	0.07	0.70
<i>Total or Median</i>					<i>1,615,000</i>		<i>0.10</i>	<i>0.87</i>
<b>Producer/Refiners - Large Cap</b>								
Imperial Oil Limited (30%)	IMO	B	48.16	282	13,580	42.00	0.07	1.14
Norsk Hydro ASA (post Oct 1)	NHY	H	12.81	1,241	15,900	13.00	0.12	0.99
StatoilHydro ASA (29%)	STO	B	32.15	928	29,840	35.00	0.14	0.93
Marathon Oil Corporation	MRO	H	56.43	722	40,740	62.00	0.18	0.93
Suncor Energy	SU	B	95.88	472	45,260	105.00	0.08	0.92
PetroChina Company Ltd (10%)	PTR	B	147.31	178	26,210	166.00	0.06	0.89
Petro-Canada	PCZ	B	56.28	498	28,030	65.00	0.15	0.89
Lukoil Oil Company	LUKOY	B	75.60	832	63,000	121.00	0.03	0.64
<i>Total or Median</i>					<i>263,000</i>		<i>0.10</i>	<i>0.92</i>
<b>Independent Natural Gas and Oil - Large Cap</b>								
CNOOC Limited (34%)	CEO	B	132.96	149	19,850	108.00	-	1.23
Canadian Natural Resources	CNQ		74.91	539	40,400	87.00	0.21	0.89
Encana Corporation	ECA	B	62.11	765	47,500	72.00	0.18	0.89
XTO Energy Inc.	XTO	B	60.31	390	23,520	70.00	0.15	0.88
Occidental Petroleum Corp.	OXY	B	61.03	842	51,400	77.00	0.07	0.81
Anadarko Petroleum Corp.	APC	B	50.66	467	23,700	74.00	0.35	0.80
EOG Resources	EOG	B	71.85	247	17,800	102.00	0.05	0.72
Devon Energy Corporation	DVN	B	79.94	450	36,000	129.00	0.14	0.67
<i>Total or Median</i>					<i>260,000</i>		<i>0.15</i>	<i>0.84</i>
<b>Independent Natural Gas and Oil - Small Cap</b>								
Berry Petroleum Company	BRY	B	36.50	45	1,640	44.00	0.23	0.87
Encore Acquisition Company	EAC	B	30.90	54	1,670	54.00	0.32	0.71
Energy Partners Ltd.	EPL	B	14.60	35	500	38.00	0.31	0.57
Cimarex Energy Company	XEC	B	37.80	85	3,210	76.00	0.09	0.54
<i>Total or Median</i>					<i>7,000</i>		<i>0.27</i>	<i>0.64</i>
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S	49.70	179	8,880	17.00	0.53	1.91
Kinder Morgan Management, LLC	KMR	S	46.90	62	2,890	17.00	0.53	1.83
Pengrowth Energy Trust	PGH		17.08	246	4,200	17.00	0.27	1.00
Enerplus Resources Fund	ERF		44.79	128	5,730	52.00	0.12	0.88
Penn West Energy Trust	PWE	B	29.94	242	7,230	36.00	0.19	0.86
Canadian Oil Sands Trust	COSWF	B	32.40	479	15,520	39.00	0.07	0.84
San Juan Basin Royalty Trust	SJT	B	32.26	47	1,500	40.00	-	0.80
Hugoton Royalty Trust	HGT	B	24.13	40	970	34.00	-	0.71
<i>Total or Median</i>					<i>46,900</i>		<i>0.16</i>	<i>0.87</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) 17-Sep 2007	Adjustd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
<b>Mega Cap</b>								
Gazprom (50%)	OGZPY	B	42.19	24.6	9.4	6.6	10	0.9
Exxon Mobil Corporation	XOM	B	89.26	11.7	6.6	6.4	11	1.6
Total S.A.	TOT	B	77.45	9.7	6.4	5.7	10	3.6
BP plc	BP	B	68.32	9.6	6.9	5.7	9	3.8
Chevron Corporation	CVX	B	90.93	10.1	6.1	5.3	9	2.6
ConocoPhillips	COP	B	84.73	10.3	6.4	5.1	9	1.9
Royal Dutch Shell plc	RDS-A	B	80.87	8.1	5.7	5.0	9	3.6
	<i>Median</i>			<i>10.1</i>	<i>6.4</i>	<i>5.7</i>	<i>9</i>	<i>2.6</i>
<b>Producer/Refiners - Large Cap</b>								
Suncor Energy	SU	B	95.88	23.8	10.4	9.6	17	0.4
Imperial Oil Limited (30%)	IMO	B	48.16	13.2	7.7	8.8	15	0.7
PetroChina Company Ltd (10%)	PTR	B	147.31	15.0	7.5	6.7	13	3.2
Norsk Hydro ASA (post Oct 1)	NHY	H	12.81	-	6.5	6.4	10	1.4
StatoilHydro ASA (29%)	STO	B	32.15	7.7	6.0	5.6	12	5.0
Marathon Oil Corporation	MRO	H	56.43	8.6	5.4	5.0	9	1.7
Petro-Canada	PCZ	B	56.28	6.5	5.7	5.0	10	0.9
Lukoil Oil Company	LUKOY	B	75.60	17.8	7.2	4.6	8	2.0
	<i>Median</i>			<i>10.9</i>	<i>6.9</i>	<i>6.0</i>	<i>11</i>	<i>1.5</i>
<b>Independent Natural Gas and Oil - Large Cap</b>								
CNOOC Limited (34%)	CEO	B	132.96	10.7	6.6	8.1	15	2.6
Canadian Natural Resources	CNQ		74.91	8.1	8.9	7.9	16	0.4
XTO Energy Inc.	XTO	B	60.31	11.3	8.3	7.4	13	0.8
Encana Corporation	ECA	B	62.11	9.2	7.5	6.7	13	1.3
Anadarko Petroleum Corp.	APC	B	50.66	11.2	8.1	6.5	12	1.4
EOG Resources	EOG	B	71.85	9.3	8.4	6.1	16	0.5
Occidental Petroleum Corp.	OXY	B	61.03	11.5	6.9	5.6	11	1.6
Devon Energy Corporation	DVN	B	79.94	9.0	8.2	5.5	11	0.7
	<i>Median</i>			<i>10.0</i>	<i>8.2</i>	<i>6.6</i>	<i>13</i>	<i>1.0</i>
<b>Independent Natural Gas and Oil - Small Cap</b>								
Berry Petroleum Company	BRY	B	36.50	10.2	8.7	7.5	15	0.8
Encore Acquisition Company	EAC	B	30.90	15.5	8.7	6.2	16	-
Cimarex Energy Company	XEC	B	37.80	8.0	7.3	4.0	10	0.4
Energy Partners Ltd.	EPL	B	14.60	5.9	6.1	3.5	-	-
	<i>Median</i>			<i>9.1</i>	<i>8.0</i>	<i>5.1</i>	<i>15</i>	<i>0.2</i>
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S	49.70		8.0	15.3	34	6.8
Kinder Morgan Management, LLC	KMR	S	46.90		8.0	14.6	32	7.2
San Juan Basin Royalty Trust	SJT	B	32.26	10.0	13.4	10.7	13	7.4
Hugoton Royalty Trust	HGT	B	24.13	14.1	12.4	8.9	13	7.8
Canadian Oil Sands Trust	COSWF	B	32.40	20.9	10.2	8.6	11	9.4
Enerplus Resources Fund	ERF		44.79	9.4	9.0	7.9	16	10.7
Pengrowth Energy Trust	PGH		17.08	7.1	7.7	7.7	43	16.7
Penn West Energy Trust	PWE	B	29.94	7.7	7.9	6.8	14	12.9
	<i>Median</i>			<i>9.7</i>	<i>8.5</i>	<i>8.7</i>	<i>15</i>	<i>8.6</i>

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

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

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
12-Sep	LUKOY	Lukoil Oil Company	Emerging Oil Blue Chip
6-Sep	SJT	San Juan Basin Royalty Trust	Mountains and Valleys
5-Sep	COSWF	Canadian Oil Sands Trust	Record 375,000 Barrels Daily for August
29-Aug	CEO	CNOOC Ltd	Making Money Offshore China
23-Aug	PTR	PetroChina Company Limited	Price Controls Ease in 2007 Half
8-Aug	* EPL	Energy Partners, Ltd.	Oversold
3-Aug	* EOG	EOG Resources Inc.	Natural Gas with North Dakota Oil
3-Aug	* PWE	Penn West Energy Trust	High Return from Distributions
3-Aug	* IMO	Imperial Oil Limited	High Return from Stock Repurchase
2-Aug	* TOT	Total S.A.	Constructive Russo-French Interdependence
2-Aug	* BRY	Berry Petroleum	Rocky Mountain Constraints
1-Aug	* XEC	Cimarex Energy Company	Stable Volume
1-Aug	* DVN	Devon Energy Corporation	Volume Advances
1-Aug	* EAC	Encore Acquisition	Nice to be Oily
31-Jul	* MRO	Marathon Oil Corporation	Oil Sands Acquirer
31-Jul	* APC	Anadarko Petroleum Corporation	Transition Maturing
30-Jul	* STO	Statoil ASA	Norwegian Oil and Gas Champion
27-Jul	* CVX	Chevron Corporation	Oil and Downstream Vigor
26-Jul	* SU	Suncor Energy	Oil Sands Growth Stock
26-Jul	* XOM	Exxon Mobil Corporation	Steady Strength
26-Jul	* PCZ	Petro-Canada	Raise NPV to US\$65 a Share
26-Jul	* RDSA	Royal Dutch Shell plc	Downstream Benefit
25-Jul	* ECA	EnCana Corporation	Downstream Blessing
25-Jul	* COP	ConocoPhillips	Downstream Blessing
25-Jul	* BP	BP p.l.c.	Controversy Diminishing
24-Jul	* XTO	XTO Energy Inc.	Volume Growth in Underpriced Natural Gas
24-Jul	* OXY	Occidental Petroleum Corporation	Ready for Peak Oil Test
24-Jul	* NHY	Norsk Hydro ASA	Confidence in Aluminium
23-Jul	* HGT	Hugoton Royalty Trust	Paying Unitholders to Wait
19-Jul	* KMx	Kinder Morgan	Suggestions for New General Partner Owners
29-Jun	* OGZPY	Gazprom	Raise NPV to \$62 a Share

**Meter Reader - A Weekly Analysis**

18-Sep		Downstream on Moving Average
11-Sep		China Natural Gas Price Breakthrough
4-Sep	*	Oil Looking Up
14-Aug	*	Refresh and Reload

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

7-Sep		Poised to Win
17-Aug	*	Buy Systematically
10-Aug	*	Real Assets for a Time of Financial Turmoil
6-Aug	*	Seymour Schulich's Book

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