



Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

August 12, 2008

Producers below 1982 Values

Summary and Recommendation

Stocks of independent producers appear priced lower today relative to the recent high in oil price than was the case in 1982. In that year a 16-year stock market decline ended and an 18-year advance began. At the end of 1982, large independent producers were priced at a median McDep Ratio that implied a long-term oil price of \$26 a barrel, or 66% of the 1980 high. That was about right for the long-term oil price then and virtually all the independent producers in 1982 were subsequently acquired by others. Today, large independent producers are priced at a median McDep Ratio that implies a long-term oil price of \$67 or 46% of the recent high (see table [Rank by McDep Ratio](#)). Thus, stock prices for the group are below where they were at the lowest general stock market prices of 34 years. It is hard for us to see much further lasting stock price weakness

The greater bargains in 1982 were the integrated companies priced at little more than half the McDep Ratio of independent producers. All eleven of our U.S. Integrated group in 1982 have since been acquired or absorbed into successors. An oil and gas stock attractive to an acquirer for its resource value usually has appeal to investors as well.

Oil Price above 200-Day Average

Despite all the cheerleading in the press and on the screen for oil to go down in price, the 200-day or 40-week trend is still up, though not by much. Partly affecting the oil price trend, the larger currency market has been especially volatile lately, with the dollar increasing relative to the euro by 2% in one day on August 8. While currencies can fluctuate wildly, they don't do much in the long term except go down as measured by inflation. Oil, too, can be volatile, but in the long term it goes up.

Current quotes for near-month, twelve months and 72 month oil are \$114, \$115, and \$113 compared to 200-day or 40-week averages of \$110, \$109 and \$106 respectively (see chart, page 2, [Six-Year and One-Year Oil and Natural Gas Futures](#)). Should the price drop below the moving average it would still not be obvious that the decline would continue. Amid signs of slowing economic activity the trend could be flat for awhile as it was during 2006 (see chart, page 2, [Six-Year Commodity Price Meter](#)).

BG Group plc Added, Kinder Morgan Discontinued

We add the U.K. company, **BG Group plc (BRGYY)**, to our producer/refiner coverage at a low McDep Ratio. We are attracted to the company's oil resource potential including offshore Brazil and its leading position as a producer, transporter and trader of liquefied natural gas. The five letter U.S. stock symbol represents the quote in U.S. dollars for 5 U.K. shares.

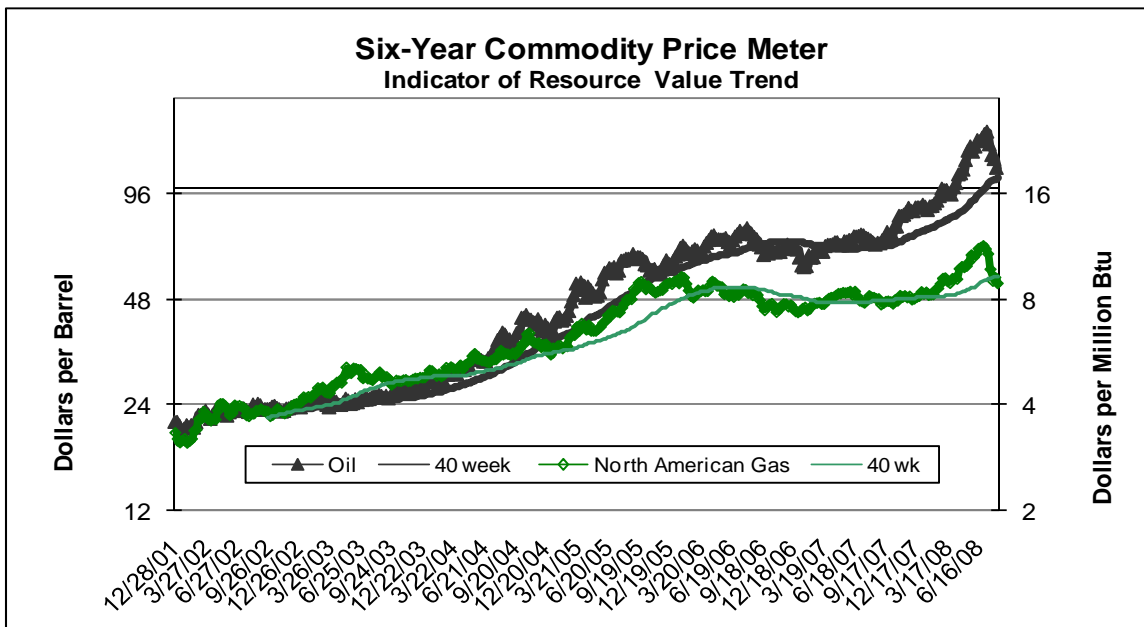
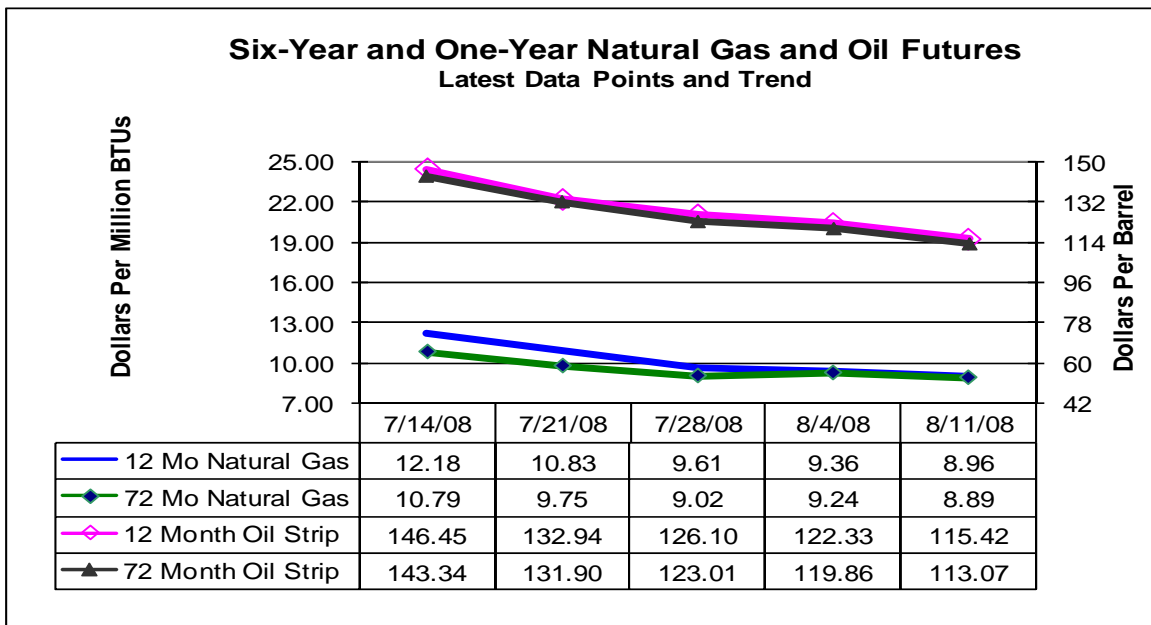


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Our unfavorable view of the general partner compensation structure for **Kinder Morgan Energy Partners (KMP)** has been explained in our past research available on www.mcdep.com.

Kurt H. Wulff, CFA





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Oil and Gas Producers - Rank by McDep Ratio							
			Price			Net	
			(US\$/sh)		Market	Present	Debt/
	Symbol/		11-Aug	Shares	Cap	Value	Present
	Rating		2008	(mm)	(US\$m)	(US\$/sh)	Value
							Ratio
Mega Cap							
Petrobras	PBR		49.44	4,387	216,890	75.00	0.10
Exxon Mobil Corporation	XOM	B	78.16	5,261	411,000	118.00	0.05
Chevron Corporation	CVX	B	84.08	2,206	186,000	135.00	0.09
BP plc	BP	B	60.24	3,137	189,000	104.00	0.17
Total S.A.	TOT	B	72.19	2,253	163,000	125.00	0.09
Royal Dutch Shell plc	RDS-A	B	68.14	3,095	211,000	120.00	0.11
ConocoPhillips	COP	B	80.23	1,555	125,000	150.00	0.17
Gazprom (50%)	OGZPY	B	43.00	2,865	123,200	88.00	0.09
<i>Total or Median</i>					1,625,000		0.09
Producer/Refiners - Large Cap							
BG Group plc	BRGY		104.16	677	70,500	140.00	0.08
Marathon Oil Corporation	MRO	H	46.73	714	33,370	70.00	0.21
Suncor Energy	SU	B	51.08	953	48,680	75.00	0.08
Imperial Oil Limited (30%)	IMO	B	44.55	269	11,960	65.00	0.05
PetroChina Company Ltd (14%)	PTR	B	131.68	256	33,740	220.00	0.04
StatoilHydro ASA (29%)	STO	B	28.75	928	26,680	52.00	0.12
Petro-Canada	PCZ	B	43.44	484	21,020	90.00	0.11
Lukoil Oil Company	LUKOY	B	78.40	826	65,000	170.00	0.01
<i>Total or Median</i>					311,000		0.08
Independent Natural Gas and Oil - Large Cap							
CNOOC Limited (34%)	CEO	H	130.87	152	19,930	180.00	-
Encana Corporation	ECA	B	66.24	751	49,700	100.00	0.19
EOG Resources	EOG	B	95.36	251	23,900	140.00	0.07
Canadian Natural Resources	CNQ	B	73.90	541	40,000	124.00	0.18
Anadarko Petroleum Corp.	APC	B	54.52	471	25,700	100.00	0.27
Occidental Petroleum Corp.	OXY	B	75.89	826	62,700	120.00	0.06
Chesapeake Energy Corporation	CHK		43.53	556	24,200	80.00	0.22
XTO Energy Inc.	XTO	B	45.40	571	25,910	88.00	0.19
Devon Energy Corporation	DVN	B	90.80	450	40,900	170.00	0.10
<i>Total or Median</i>					313,000		0.18
Independent Natural Gas and Oil - Small Cap							
Berry Petroleum Company	BRY	B	39.51	46	1,800	65.00	0.37
Encore Acquisition Company	EAC	B	46.55	52	2,430	75.00	0.28
Birchcliff Energy Ltd. (US\$)	BIR.TO		9.63	112	1,080	14.00	0.08
Energy Partners Ltd.	EPL		11.94	32	380	30.00	0.39
Cimarex Energy Company	XEC	B	50.35	86	4,310	100.00	0.06
<i>Total or Median</i>					10,000		0.28
Income							
Canadian Oil Sands Trust	COSWF	B	44.72	480	21,460	57.00	0.04
Pengrowth Energy Trust	PGH		16.38	248	4,060	24.00	0.26
Penn West Energy Trust	PWE	B	27.29	380	10,370	40.00	0.26
San Juan Basin Royalty Trust	SJT	B	36.79	47	1,710	48.00	-
Hugoton Royalty Trust	HGT	B	28.40	40	1,140	42.00	-
Enerplus Resources Fund	ERF		38.54	165	6,340	63.00	0.13
<i>Total or Median</i>					45,100		0.08
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							
Estimated present value presumes a long-term price for oil of US\$100 a barrel and natural gas, \$14 a million btu.							



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Oil and Gas Producers - Rank by EV/Ebitda							
			Price (US\$/sh)	Adjustd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	Divd or Distrib
	Symbol/ Rating		11-Aug 2008	NTM	NTM	NTM	NTM (%)
Mega Cap							
Petrobras	PBR		49.44	10.4	9.4	6.5	11 1.7
Gazprom (50%)	OGZPY	B	43.00	24.6	11.0	5.9	8 1.0
Exxon Mobil Corporation	XOM	B	78.16	12.2	7.2	4.9	8 2.0
Chevron Corporation	CVX	B	84.08	9.5	6.9	4.5	7 3.1
BP plc	BP	B	60.24	10.0	6.8	4.5	7 5.6
ConocoPhillips	COP	B	80.23	10.9	7.0	4.3	7 2.3
Total S.A.	TOT	B	72.19	9.1	6.8	4.2	7 4.3
Royal Dutch Shell plc	RDS-A	B	68.14	7.6	6.3	3.9	7 4.7
	<i>Median</i>			10.2	6.9	4.5	7 2.7
Producer/Refiners - Large Cap							
BG Group plc	BRGYY		104.16	7.5	9.2	7.0	13 1.0
Suncor Energy	SU	B	51.08	22.6	9.7	6.9	11 0.4
Imperial Oil Limited (30%)	IMO	B	44.55	14.2	9.0	6.3	10 0.8
Marathon Oil Corporation	MRO	H	46.73	8.8	6.9	5.1	9 2.1
PetroChina Company Ltd (14%)	PTR	B	131.68	14.4	7.2	4.4	8 4.0
StatoilHydro ASA (29%)	STO	B	28.75	7.9	6.7	4.0	8 5.5
Petro-Canada	PCZ	B	43.44	7.2	6.0	3.2	6 1.7
Lukoil Oil Company	LUKOY	B	78.40	18.4	6.8	3.2	5 2.0
	<i>Median</i>			11.5	7.0	4.8	9 1.9
Independent Natural Gas and Oil - Large Cap							
Chesapeake Energy Corporation	CHK		43.53	11.5	10.4	6.7	13 0.6
Canadian Natural Resources	CNQ	B	73.90	9.0	9.2	6.2	13 0.5
XTO Energy Inc.	XTO	B	45.40	11.7	9.6	5.8	12 1.1
EOG Resources	EOG	B	95.36	9.8	8.2	5.8	13 0.6
Encana Corporation	ECA	B	66.24	8.6	7.4	5.3	15 2.4
Anadarko Petroleum Corp.	APC	B	54.52	9.7	7.6	5.1	11 1.3
Occidental Petroleum Corp.	OXY	B	75.89	11.9	7.3	4.7	8 1.7
CNOOC Limited (34%)	CEO	H	130.87	9.2	6.4	4.7	8 2.9
Devon Energy Corporation	DVN	B	90.80	9.3	8.0	4.7	9 0.7
	<i>Median</i>			9.7	8.0	5.3	12 1.1
Independent Natural Gas and Oil - Small Cap							
Birchcliff Energy Ltd. (US\$)	BIR.TO		9.63	7.0	10.2	7.3	27 -
Berry Petroleum Company	BRY	B	39.51	9.7	7.6	5.7	13 0.8
Encore Acquisition Company	EAC	B	46.55	13.9	7.7	5.6	10 -
Cimarex Energy Company	XEC	B	50.35	7.4	6.1	3.3	7 0.3
Energy Partners Ltd.	EPL		11.94	7.2	5.0	3.1	-
	<i>Median</i>			7.4	7.6	5.6	12 -
Income							
San Juan Basin Royalty Trust	SJT	B	36.79	10.4	11.2	8.5	10 9.5
Canadian Oil Sands Trust	COSWF	B	44.72	22.2	9.9	7.9	9 11.8
Hugoton Royalty Trust	HGT	B	28.40	13.1	9.9	6.7	10 10.3
Enerplus Resources Fund	ERF		38.54	9.6	8.1	5.4	(126) 13.4
Penn West Energy Trust	PWE	B	27.29	7.5	6.9	5.3	12 14.0
Pengrowth Energy Trust	PGH		16.38	9.1	6.9	5.3	(18) 15.4
	<i>Median</i>			10.0	9.0	6.1	9 12.6
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2009; 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>Subject</u>	<u>Theme</u>
8-Aug	PWE	Penn West Energy Trust	Distribution Yield 13% (Income Weekly)
7-Aug	CNQ	Canadian Natural Resources	Horizon Slippage
6-Aug	EAC	Encore Acquisition Company	Sale Called Off
6-Aug	DVN	Devon Energy Corporation	John W. Nichols, 1914-2008
5-Aug	XEC	Cimarex Energy Company	Ten Percent a Year Volume Growth
5-Aug	APC	Anadarko Petroleum Corporation	Takeover Climate
4-Aug	PTR	PetroChina Company Limited	Price Controls and Punitive Taxes
4-Aug	CEO	CNOOC Ltd	Punitive Taxes and Price Controls
1-Aug	CVX	Chevron Corporation	Income Model
1-Aug	TOT	Total S.A.	Oil Sands Strategy
1-Aug	STO	StatoilHydro ASA	High-Quality Offshore Producer
31-Jul	IMO	Imperial Oil Limited	Resources Concentrated on Fewer Shares
31-Jul	MRO	Marathon Oil Corporation	May Form Two Independent Companies
31-Jul	XOM	Exxon Mobil Corporation	Income Model
31-Jul	RDSA	Royal Dutch Shell plc	Rebuilding North American Natural Gas
30-Jul	EOG	EOG Resources Inc.	Stellar Record Marred by Hedging
29-Jul	COSWF	Canadian Oil Sands Trust	Distribution Increased 25%
29-Jul	BP	BP p.l.c.	Control Dispute in Russia
25-Jul	BRY	Berry Petroleum	A Bit of Haynesville Glamour
24-Jul	ECA	EnCana Corporation	Two Growth Companies in One
24-Jul	OXY	Occidental Petroleum Corporation	Largest Oil Producer in Texas
24-Jul	SU	Suncor Energy	Operations Challenge
24-Jul	PCZ	Petro-Canada	Construction Challenge
23-Jul	COP	ConocoPhillips	Income Model
22-Jul	XTO	XTO Energy Inc.	Stock Price Momentum Changes
17-Jul	KMP	Kinder Morgan	Oil Hedge Loss Twice Cash Flow
1-Jul	* OGZPY	Gazprom	Cheap Natural Gas (Meter Reader)
4-Jun	* LUKOY	Lukoil Oil Company	Raise Net Present Value to \$170 a Share
22-May	* PBR	Petrobras	Raise Net Present Value to \$75 a Share
25-Apr	* SJT	San Juan Basin Royalty Trust	Better News Ahead (Income Weekly)
18-Apr	* HGT	Hugoton Royalty Trust	Simpson Sustainability (Income Weekly)

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12-Aug		Weekly	
5-Aug		Weekly	Takeover Climate
29-Jul		Weekly	Oil and Stocks Diverge
22-Jul	*	Weekly	McDep Ratio Says Buy

Oil and Gas Income Stocks

8-Aug		Penn West Energy Trust	Distribution Yield 13%
1-Aug		Weekly	Oil Income
25-Jul		Weekly	Income Stability
18-Jul	*	Encore Energy Partners, L.P.	Upgrade Estimates for ENP

* Archived on www.mcdep.com



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Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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Research Methodology/Ratings Description: McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the forty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.