



# Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

October 28, 2008

## Oil in the Stock Market for \$40 a Barrel

### Summary and Recommendation

Eleven buy recommendations are priced in the stock market as though the long-term oil price would be just \$40 a barrel by our calculation (see tables on pages two through four for designation of buy recommendations). Much higher, futures price for delivery of Light, Sweet Crude Oil over the next six years is currently about \$77 a barrel (see chart on last page Six-Year and One-Year Natural Gas and Oil Futures ). While both stock prices and oil prices have been declining steeply, the low levels add some support to the notion that selling pressure could ease in a few days as we pass the seasonal low point. We are also optimistic that the resolution of the U.S. presidential election next week may make investors feel better to have the uncertainty lifted and the long campaign ended. At the same time, eighteen stocks are rated hold as it may take time to work through a change in government and for stock prices to reestablish a positive trend above the 200-day average. To draw the conclusion about oil price in the stock market, we multiply the average McDep Ratio of buy recommendations of 0.53 times \$75 a barrel, the new long-term price in present value estimates. We discuss that change in more technical terms below.

### Reset NPV for \$75 Oil

Though we believe that oil price will be higher once economic growth resumes, we reset present value (PV) estimates for a long-term oil price of \$75 a barrel, down from \$100. The new estimates help address a frequently asked question about sensitivity to oil price. We consider PV to be directly dependent on price within a reasonable range, i.e. PV of oil resources at \$75 is three-fourths of what it was at \$100. PV of natural gas in North America, now estimated using \$10 a million btu, is five-sevenths, or 0.71 times what it was at \$14 a million btu. PV of downstream businesses at a refining crack of \$10 now is ten-elevenths, or 0.89 times what it was at \$11. Net present value per share (NPV) may be more sensitive than PV depending on the ratio of Debt/ PV. Fortunately in these stressed times, few of our covered stocks owe much debt relative to resource value.

Kurt H. Wulff, CFA



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McDep Energy Portfolio - Geographic Domicile and Business Segments											
						Present Value by Segment (%)					
	Symbol/Rating		Price (US\$/sh)	EV/ Market	Enterprise Value (\$mm)	North Amer. Natural Gas	Rest of World Natural Gas	Oil Prod'n	Down- stream	McDep Ratio	
	B = Buy H = Hold		27-Oct 2008	Cap							
<b>U.S. Integrated</b>											
Exxon Mobil Corporation	XOM	H	66.09	1.10	381,000	6	22	50	23	0.75	
Chevron Corporation	CVX	H	61.71	1.20	164,000	5	10	70	15	0.67	
Marathon Oil Corporation	MRO	H	22.18	1.82	28,900	8	9	60	23	0.61	
ConocoPhillips	COP	B	45.62	1.68	117,000	14	9	57	20	0.55	
<i>Total or Median *</i>	<i>38%</i>	<i>11%</i>	<i>9%</i>		<i>691,000</i>					<i>0.64</i>	
<b>Europe</b>											
BP plc	BP	H	40.15	1.55	195,000	8	13	65	13	0.65	
BG Group	BRGXF		10.33	1.18	41,300		29	46	26	0.58	
Royal Dutch Shell plc	RDS-A	H	44.70	1.34	186,000	3	20	47	30	0.56	
StatoilHydro ASA (29%)	STO	B	15.72	1.38	20,100		46	54		0.53	
Total S.A.	TOT	B	44.27	1.24	124,000		21	61	18	0.53	
<i>Total or Median *</i>	<i>31%</i>	<i>14%</i>	<i>18%</i>		<i>566,000</i>					<i>0.56</i>	
<b>Brazil/China/Russia</b>											
Petrobras	PBR		19.64	1.41	121,000		12	73	15	0.48	
CNOOC Limited (34%)	CEO	H	56.04	1.00	8,500		12	88		0.41	
PetroChina Company Ltd (14%)	PTR	B	57.25	1.18	17,400		11	76	14	0.37	
Gazprom (50%)	OGZPY	B	12.18	1.56	59,000		80	20		0.27	
Lukoil Oil Company	LUKOY	H	24.07	1.20	24,200			61	39	0.21	
<i>Total or Median *</i>	<i>13%</i>	<i>14%</i>	<i>18%</i>		<i>230,000</i>					<i>0.37</i>	
<b>U.S. Independent</b>											
San Juan Basin Royalty Trust	SJT	H	35.02	1.00	1,630	100				1.03	
Berry Petroleum Company	BRY	H	17.23	3.22	2,550	39		61		0.73	
Hugoton Royalty Trust	HGT	B	20.87	1.00	830	100				0.69	
Encore Acquisition Company	EAC	H	23.45	2.22	2,730	17		83		0.68	
Energy Partners Ltd.	EPL		3.50	6.57	720	41		59		0.68	
EOG Resources	EOG	H	62.99	1.16	18,300	73	7	20		0.67	
XTO Energy Inc.	XTO	B	30.02	1.69	29,400	77		23		0.64	
Anadarko Petroleum Corp.	APC	H	27.17	2.36	30,200	53		43	4	0.64	
Chesapeake Energy Corp.	CHK		17.65	2.61	25,400	90		10		0.62	
Devon Energy Corporation	DVN	B	64.47	1.30	37,600	63		38		0.62	
Occidental Petroleum Corp.	OXY	H	42.08	1.17	40,500	11	1	80	8	0.51	
Cimarex Energy Company	XEC	B	31.90	1.22	3,320	64		36		0.50	
<i>Total or Median *</i>	<i>11%</i>	<i>33%</i>	<i>36%</i>		<i>193,000</i>					<i>0.66</i>	
<b>Canada</b>											
Pengrowth Energy Trust	PGH		9.85	1.72	4,200	35		65		0.73	
Penn West Energy Trust	PWE	H	14.79	1.78	10,000	32		68		0.68	
Encana Corporation	ECA	B	39.51	1.46	43,500	68		29	4	0.62	
Imperial Oil Limited (30%)	IMO	H	28.20	1.10	8,300	5		79	16	0.60	
Enerplus Resources Fund	ERF		20.67	1.37	4,660	53		47		0.55	
Canadian Natural Resources	CNQ	H	35.87	1.63	31,700	26		74		0.54	
Canadian Oil Sands Trust	COSWF	B	19.76	1.10	10,500			100		0.49	
Birchcliff Energy Ltd. (USS)	BIR.TO		4.11	1.31	630	70		30		0.48	
Suncor Energy	SU	H	18.08	1.31	22,600	3		92	5	0.39	
Petro-Canada	PCZ	H	19.08	1.45	13,400	11	3	70	16	0.37	
<i>Total or Median *</i>	<i>8%</i>	<i>28%</i>	<i>18%</i>		<i>149,000</i>					<i>0.55</i>	
<b>Composite</b>											
<i>Enterprise Value Weighting</i>	<i>100%</i>				<i>1,829,000</i>	<i>12</i>	<i>16</i>	<i>56</i>	<i>16</i>	<i>0.56</i>	
<i>Equal Weighting</i>		<i>100%</i>				<i>30</i>	<i>8</i>	<i>54</i>	<i>8</i>	<i>0.57</i>	
<i>Equal Weighted Buys</i>			<i>100%</i>			<i>35</i>	<i>15</i>	<i>45</i>	<i>5</i>	<i>0.53</i>	
* Percentages in Symbol column refer to current market Enterprise Value weightings; Rating column, equal weightings.											
* Percentages in Price column refer to equal weighted buys.											



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Oil and Gas Producers - Net Present Value and McDep Ratio								
			Price			Net		
	Symbol/Rating		(US\$/sh)	Shares	Market Cap	Present Value	Debt/ Present Value	McDep Ratio
	B = Buy	27-Oct			(US\$mm)	(US\$/sh)		
	H = Hold	2008		(mm)				
<b>U.S. Integrated</b>								
Exxon Mobil Corporation	XOM	H	66.09	5,261	348,000	90.00	0.07	0.75
Chevron Corporation	CVX	H	61.71	2,206	136,000	98.00	0.11	0.67
Marathon Oil Corporation	MRO	H	22.18	714	15,840	48.00	0.28	0.61
ConocoPhillips	COP	B	45.62	1,528	70,000	109.00	0.22	0.55
<i>Total or Median</i>					570,000		0.17	0.64
<b>Europe</b>								
BP plc	BP	H	40.15	3,137	126,000	74.00	0.23	0.65
BG Group plc	BRGXF		10.33	3,384	34,960	19.00	0.09	0.58
Royal Dutch Shell plc	RDS-A	H	44.70	3,095	138,000	91.00	0.14	0.56
StatoilHydro ASA (29%)	STO	B	15.72	928	14,590	35.00	0.15	0.53
Total S.A.	TOT	B	44.27	2,253	100,000	94.00	0.10	0.53
<i>Total or Median</i>					414,000		0.14	0.56
<b>Brazil/China/Russia</b>								
Petrobras	PBR		19.64	4,387	86,160	50.00	0.14	0.48
CNOOC Limited (34%)	CEO	H	56.04	152	8,530	135.00	-	0.41
PetroChina Company Ltd (14%)	PTR	B	57.25	258	14,740	170.00	0.06	0.37
Gazprom (50%)	OGZPY	B	12.18	3,080	37,500	64.00	0.10	0.27
Lukoil Oil Company	LUKOY	H	24.07	839	20,000	135.00	0.03	0.21
<i>Total or Median</i>					167,000		0.06	0.37
<b>U.S. Independent</b>								
San Juan Basin Royalty Trust	SJT	H	35.02	47	1,630	34.00	-	1.03
Berry Petroleum Company	BRY	H	17.23	46	790	38.00	0.50	0.73
Hugoton Royalty Trust	HGT	B	20.87	40	830	30.00	-	0.69
Encore Acquisition Company	EAC	H	23.45	52	1,230	48.00	0.37	0.68
Energy Partners Ltd.	EPL		3.50	32	110	14.00	0.58	0.68
EOG Resources	EOG	H	62.99	251	15,800	99.00	0.09	0.67
XTO Energy Inc.	XTO	B	30.02	580	17,410	58.00	0.26	0.64
Anadarko Petroleum Corp.	APC	H	27.17	471	12,800	64.00	0.37	0.64
Chesapeake Energy Corp.	CHK		17.65	550	9,710	46.00	0.38	0.62
Devon Energy Corporation	DVN	B	64.47	450	29,000	116.00	0.14	0.62
Occidental Petroleum Corp.	OXY	H	42.08	826	34,700	89.00	0.07	0.51
Cimarex Energy Company	XEC	B	31.90	86	2,730	70.00	0.09	0.50
<i>Total or Median</i>					126,700		0.20	0.66
<b>Canada</b>								
Pengrowth Energy Trust	PGH		9.85	248	2,440	16.00	0.31	0.73
Penn West Energy Trust	PWE	H	14.79	380	5,620	27.00	0.30	0.68
Encana Corporation	ECA	B	39.51	751	29,700	75.00	0.20	0.62
Imperial Oil Limited (30%)	IMO	H	28.20	269	7,570	49.00	0.05	0.60
Enerplus Resources Fund	ERF		20.67	165	3,400	44.00	0.15	0.55
Canadian Natural Resources	CNQ	H	35.87	541	19,400	85.00	0.21	0.54
Canadian Oil Sands Trust	COSWF	B	19.76	481	9,500	42.00	0.05	0.49
Birchcliff Energy Ltd. (US\$)	BIR.TO		4.11	117	480	10.00	0.11	0.48
Suncor Energy	SU	H	18.08	953	17,230	55.00	0.09	0.39
Petro-Canada	PCZ	H	19.08	484	9,230	67.00	0.11	0.37
<i>Total or Median</i>					105,000		0.13	0.55
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\$75 a barrel and natural gas, \$10 a million btu.								



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Oil and Gas Producers - Value Multiples and Distribution Yield								
			Price	Adjustd			Divd or	
	Symbol/Rating		(US\$/sh)	Resrvs/	PV/	EV/	Distrib	
	B = Buy	27-Oct	Prod	Ebitda	Ebitda	P/E	NTM	
	H = Hold	2008	NTM	NTM	NTM	NTM	(%)	
<b>U.S. Integrated</b>								
Exxon Mobil Corporation	XOM	H	66.09	12.2	7.6	5.7	10	2.4
Chevron Corporation	CVX	H	61.71	9.5	7.8	5.2	9	4.2
Marathon Oil Corporation	MRO	H	22.18	8.8	7.4	4.5	9	4.3
ConocoPhillips	COP	B	45.62	11.0	7.9	4.3	7	4.1
	<i>Total or Median</i>			<i>10.3</i>	<i>7.7</i>	<i>4.9</i>	<i>9</i>	<i>4.2</i>
<b>Europe</b>								
BG Group plc	BRGXF		10.33	7.5	8.8	5.1	9	1.6
BP plc	BP	H	40.15	10.0	7.8	5.0	8	8.4
Total S.A.	TOT	B	44.27	9.1	7.7	4.1	7	6.3
StatoilHydro ASA (29%)	STO	B	15.72	7.9	7.4	3.9	8	7.8
Royal Dutch Shell plc	RDS-A	H	44.70	7.6	6.7	3.8	7	7.2
	<i>Total or Median</i>			<i>7.9</i>	<i>7.7</i>	<i>4.1</i>	<i>8</i>	<i>7.2</i>
<b>Brazil/China/Russia</b>								
Petrobras	PBR		19.64	10.4	9.6	4.6	9	4.4
PetroChina Company Ltd (14%)	PTR	B	57.25	14.3	8.3	3.1	7	7.4
CNOOC Limited (34%)	CEO	H	56.04	9.3	7.0	2.9	6	8.5
Gazprom (50%)	OGZPY	B	12.18	24.6	8.4	2.3	2	3.2
Lukoil Oil Company	LUKOY	H	24.07	18.6	7.1	1.5	2	5.8
	<i>Total or Median</i>			<i>14.3</i>	<i>8.3</i>	<i>2.9</i>	<i>6</i>	<i>5.8</i>
<b>U.S. Independent</b>								
San Juan Basin Royalty Trust	SJT	H	35.02	10.5	12.2	12.6	15	6.5
Hugoton Royalty Trust	HGT	B	20.87	13.1	11.1	7.7	11	9.2
Berry Petroleum Company	BRY	H	17.23	9.7	9.3	6.8	177	1.7
Encore Acquisition Company	EAC	H	23.45	13.9	9.7	6.6	22	-
XTO Energy Inc.	XTO	B	30.02	11.4	10.1	6.5	13	1.6
Chesapeake Energy Corp.	CHK		17.65	11.1	10.2	6.3	10	1.7
EOG Resources	EOG	H	62.99	9.8	8.6	5.7	16	0.9
Devon Energy Corporation	DVN	B	64.47	9.3	9.1	5.6	15	1.0
Anadarko Petroleum Corp.	APC	H	27.17	9.7	8.5	5.4	27	2.6
Energy Partners Ltd.	EPL		3.50	8.5	7.8	5.3		-
Occidental Petroleum Corp.	OXY	H	42.08	11.8	8.8	4.5	9	3.0
Cimarex Energy Company	XEC	B	31.90	7.4	6.8	3.4	9	0.8
	<i>Total or Median</i>			<i>10.2</i>	<i>9.2</i>	<i>6.0</i>	<i>15</i>	<i>1.6</i>
<b>Canada</b>								
Canadian Oil Sands Trust	COSWF	B	19.76	21.6	14.6	7.2	9	14.0
Imperial Oil Limited (30%)	IMO	H	28.20	14.2	11.0	6.6	11	1.0
Birchcliff Energy Ltd. (US\$)	BIR.TO		4.11	7.1	13.1	6.2		-
Canadian Natural Resources	CNQ	H	35.87	9.0	10.9	5.9	14	0.9
Pengrowth Energy Trust	PGH		9.85	9.1	7.6	5.6		21.3
Penn West Energy Trust	PWE	H	14.79	7.5	7.8	5.3	7	21.4
Enerplus Resources Fund	ERF		20.67	9.6	8.6	4.7	29	21.2
Encana Corporation	ECA	B	39.51	8.4	7.5	4.6	10	4.0
Suncor Energy	SU	H	18.08	21.7	11.7	4.6	7	0.9
Petro-Canada	PCZ	H	19.08	6.9	7.0	2.6	5	3.3
	<i>Total or Median</i>			<i>9.1</i>	<i>9.7</i>	<i>5.5</i>	<i>10</i>	<i>3.7</i>
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 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>
24-Oct	ECA	EnCana Corporation	High-Performance Clean Energy Producer
24-Oct	PCZ	Petro-Canada	Pacing Fort Hills
23-Oct	OGZPY	Gazprom	Cheap Stock, Political Risk
23-Oct	COP	ConocoPhillips	Australian Natural Gas Deal
22-Oct	XEC	Cimarex Energy Company	Woodford Shale Leader
17-Oct	PWE	Penn West Energy Trust	Hold Rating (Income Weekly)
17-Oct	SJT	San Juan Basin Royalty Trust	Hold Rating (Income Weekly)
14-Oct	TOT	Total S.A.	Restore Buy Recommendation (Meter Reader)
14-Oct	XTO	XTO Energy Inc.	Restore Buy Recommendation (Meter Reader)
7-Oct	* HGT	Hugoton Royalty Trust	Buy amid Financial Panic (Meter Reader)
16-Sep	* COSWF	Canadian Oil Sands Trust	Reinstate Buy Recommendation (Flash)
16-Sep	* DVN	Devon Energy Corporation	Reinstate Buy Recommendation (Flash)
16-Sep	* PTR	PetroChina Company Limited	Reinstate Buy Recommendation (Flash)
16-Sep	* STO	StatoilHydro ASA	Reinstate Buy Recommendation (Flash)
16-Sep	* BRGXF	BG Group	Deep Water Brazil (Meter Reader)
16-Sep	* PBR	Petrobras	Deep Water Brazil (Meter Reader)
5-Sep	* APC	Anadarko Petroleum Corporation	Suspend Buy Recommendation (Flash)
5-Sep	* BP	BP p.l.c.	Suspend Buy Recommendation (Flash)
5-Sep	* BRY	Berry Petroleum	Suspend Buy Recommendation (Flash)
5-Sep	* CEO	CNOOC Ltd	Suspend Buy Recommendation (Flash)
5-Sep	* CNQ	Canadian Natural Resources	Suspend Buy Recommendation (Flash)
5-Sep	* CVX	Chevron Corporation	Suspend Buy Recommendation (Flash)
5-Sep	* EAC	Encore Acquisition Company	Suspend Buy Recommendation (Flash)
5-Sep	* EOG	EOG Resources Inc.	Suspend Buy Recommendation (Flash)
5-Sep	* IMO	Imperial Oil Limited	Suspend Buy Recommendation (Flash)
5-Sep	* LUKOY	Lukoil Oil Company	Suspend Buy Recommendation (Flash)
5-Sep	* MRO	Marathon Oil Corporation	Suspend Buy Recommendation (Flash)
5-Sep	* OXY	Occidental Petroleum Corporation	Suspend Buy Recommendation (Flash)
5-Sep	* RDSA	Royal Dutch Shell plc	Suspend Buy Recommendation (Flash)
5-Sep	* SU	Suncor Energy	Suspend Buy Recommendation (Flash)
5-Sep	* XOM	Exxon Mobil Corporation	Suspend Buy Recommendation (Flash)

### Meter Reader

28-Oct		Weekly	
21-Oct		Weekly	Look Ahead
14-Oct		Weekly	Restore Four Buy Recommendations
7-Oct	*	Hugoton Royalty Trust	Buy Hugoton Royalty Trust amid Financial Panic

### Oil and Gas Income Stocks

24-Oct		Weekly	Median Distribution Yield 10.5%
17-Oct		Weekly	Low Long-Term Risk
10-Oct		Weekly	Rebound Candidates
3-Oct	*	Weekly	Seasonal Swing

### Industry Ideas

9-Oct	*	Presentation	Oil and Gas Strategy in Treacherous Times
24-Sep	*	Presentation	Energy Investment amid Financial Turmoil
16-Sep	*	Flash	Reinstate Five Buy Recommendations
5-Sep	*	Flash	Suspend Buy Recommendations

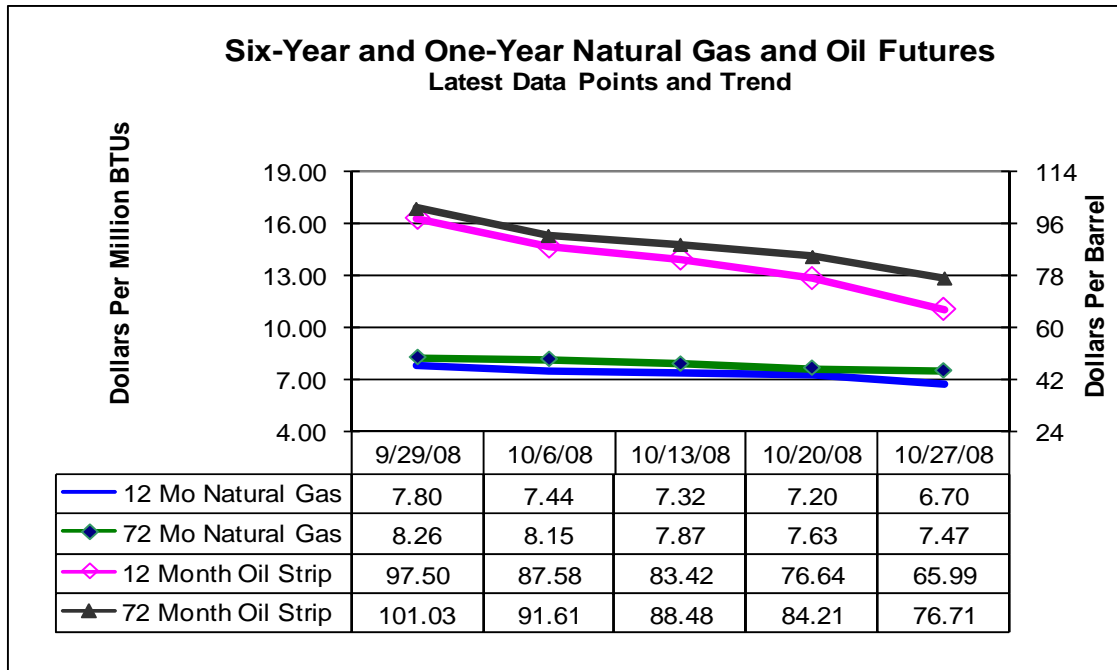
\* Archived on [www.mcdep.com](http://www.mcdep.com)

*Please see disclosures on the final page.*



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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.