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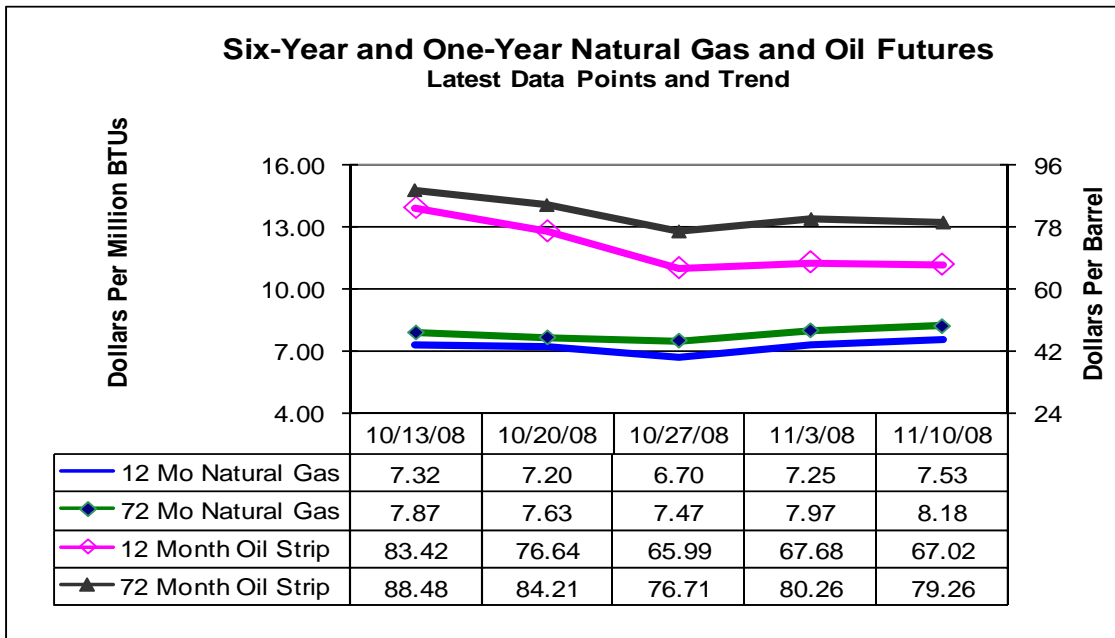
A Weekly Analysis of Energy Stocks Using the McDep Ratio
November 11, 2008

U.S. Integrated Oil Leaders - COP, CVX and XOM

Summary and Recommendation

Buy-recommended **ConocoPhillips (COP)** and two hold-rated U.S Integrated peers, **ExxonMobil (XOM)** and **Chevron (CVX)**, have striking stock price potential along with other oil and gas stocks after steep declines. At McDep Ratios of 0.58 to 0.83 the stocks are valued at oil prices well below \$75 a barrel that a McDep Ratio of 1.0 would signify. Six-year futures, after touching a low of \$77 a barrel in our weekly tabulation on the last Monday in October, are currently at \$79 (see chart [Six-Year and One-Year Oil and Natural Gas Futures](#), below). Faced with frequently asked questions about sensitivity, we create scatter plots for actual earnings and cash flow at different oil prices for historical twelve months periods since 2001-2002 for the three stocks (see charts [Cash Flow and Oil Price](#), pages 2-3). Oil price determines cash flow and earnings directly for the oil production segment in which CVX and COP are more dominant. More of the price potential lies ahead in the natural gas segment where XOM is more dominant when Rest of the World is included. COP is more dominant in North American Natural Gas where the relative price registered a reversal of a long downtrend (see chart [Oil/Natural Gas Futures Ratio](#), page 4). Along with oil price and McDep Ratio, concentration on business segments is a key differentiating factor in characterizing future performance (see table [McDep Energy Portfolio](#), page 4). We like low McDep Ratio stocks with concentration on oil and especially natural gas.

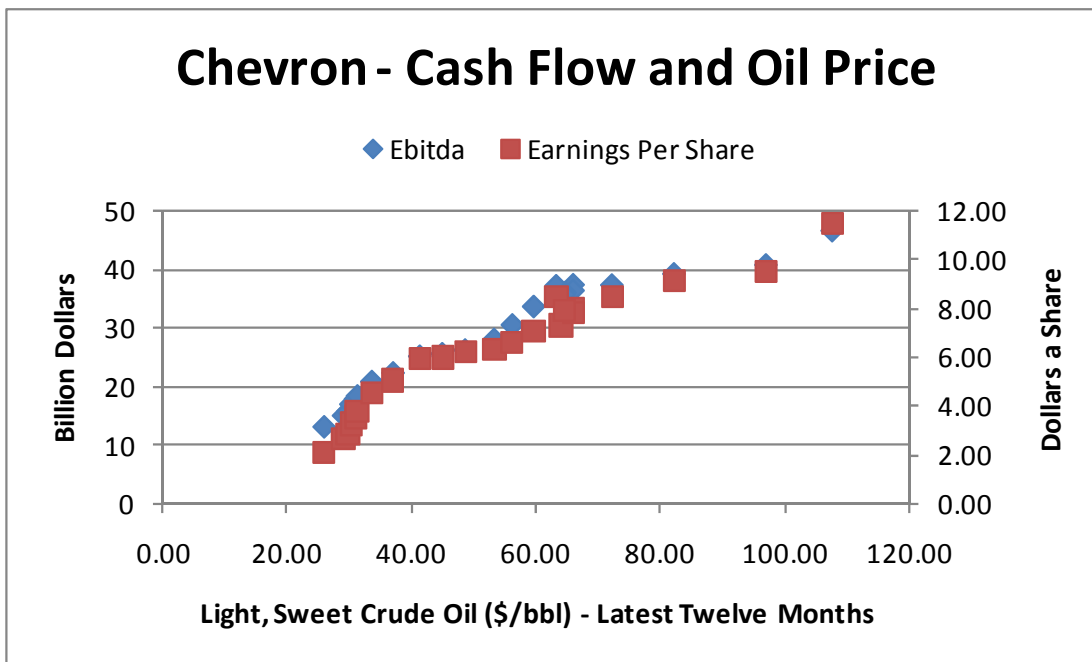
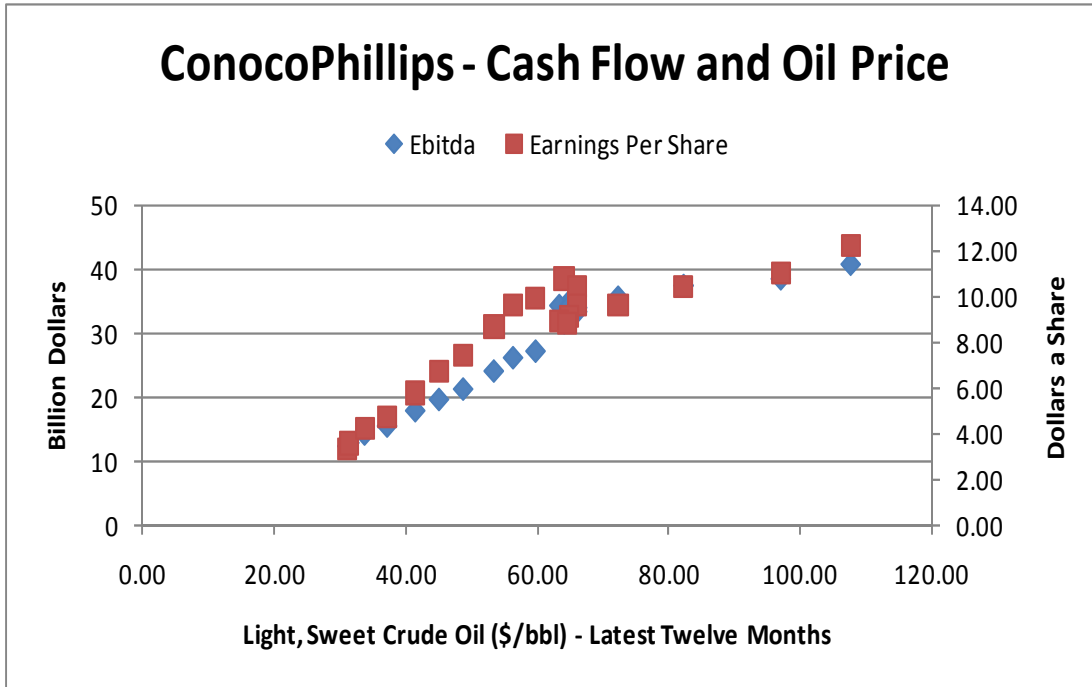
Kurt H. Wulff, CFA





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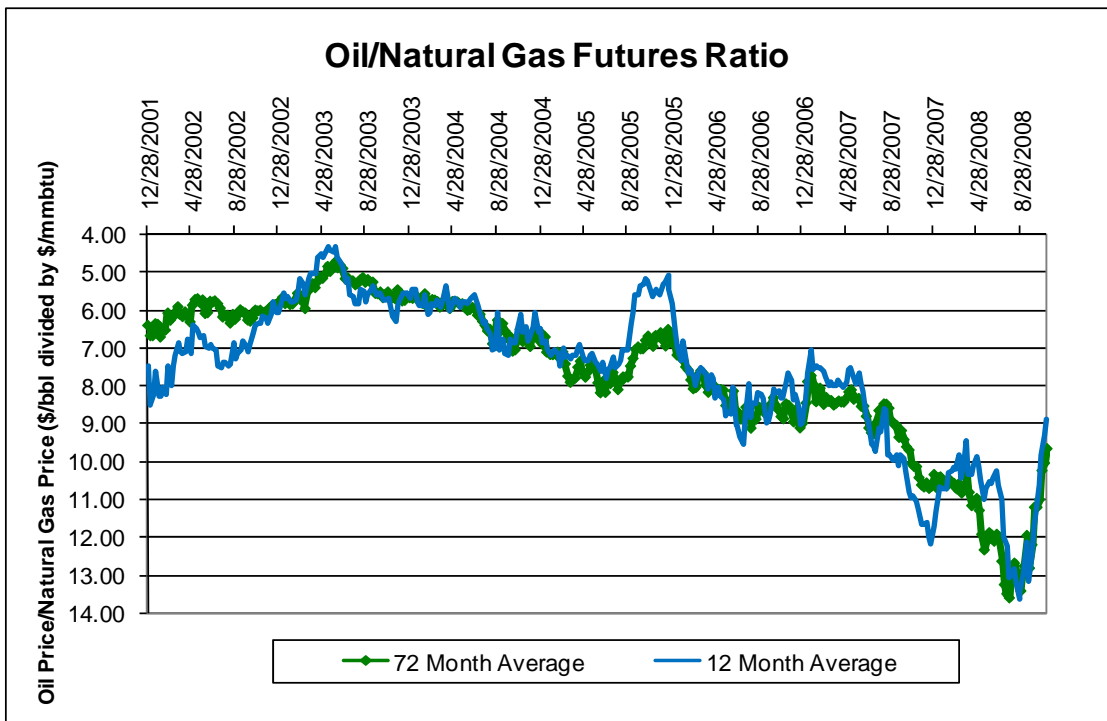
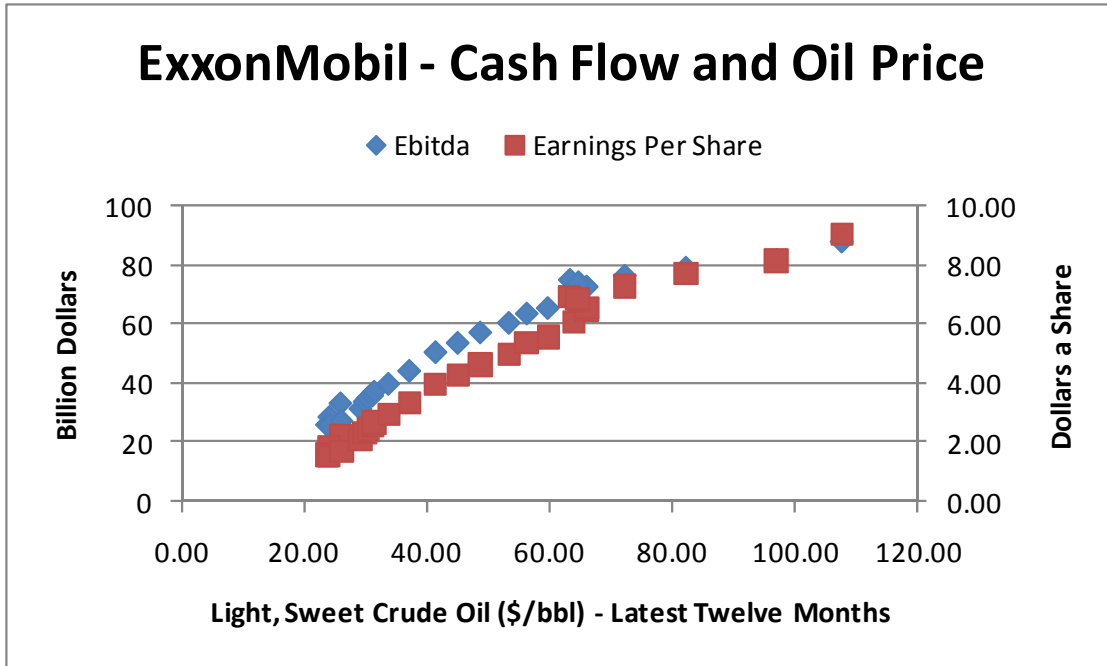
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McDep Energy Portfolio - Geographic Domicile and Business Segments											
						Present Value by Segment (%)					
	Symbol/Rating		Price (US\$/sh)	EV/ Market	Enterprise Value (\$mm)	North Amer. Natural Gas	Rest of World Natural Gas	Oil Prod'n	Down- stream	McDep Ratio	
	B = Buy H = Hold		10-Nov 2008	Cap							
U.S. Integrated											
Exxon Mobil Corporation	XOM	H	74.02	1.08	412,000	6	23	46	25	0.83	
Chevron Corporation	CVX	H	74.34	1.17	191,000	5	12	67	16	0.79	
Marathon Oil Corporation	MRO	H	28.51	1.58	32,000	7	7	60	26	0.70	
ConocoPhillips	COP	B	50.93	1.60	124,000	14	9	57	20	0.58	
<i>Total or Median *</i>	<i>36%</i>	<i>11%</i>	<i>9%</i>		<i>759,000</i>					<i>0.74</i>	
Europe											
BG Group	BRGXF		15.60	1.12	59,100		29	46	26	0.84	
BP plc	BP	H	48.77	1.45	221,000	8	14	62	15	0.74	
Royal Dutch Shell plc	RDS-A	H	52.94	1.26	206,000	3	23	44	31	0.63	
Total S.A.	TOT	B	53.91	1.14	137,000		25	52	23	0.63	
StatoilHydro ASA (29%)	STO	B	19.37	1.32	23,700		43	57		0.62	
<i>Total or Median *</i>	<i>31%</i>	<i>14%</i>	<i>18%</i>		<i>647,000</i>					<i>0.63</i>	
Brazil/China/Russia											
CNOOC Limited (34%)	CEO	H	82.36	1.00	12,500		12	88		0.61	
Petrobras	PBR		27.21	1.29	154,000		12	73	15	0.61	
PetroChina Company Ltd (14%)	PTR	B	77.69	1.13	22,500		14	69	17	0.55	
Gazprom (50%)	OGZPY	B	20.00	1.34	83,000		80	20		0.38	
Lukoil Oil Company	LUKOY	H	40.35	1.12	37,900			61	39	0.32	
<i>Total or Median *</i>	<i>15%</i>	<i>14%</i>	<i>18%</i>		<i>310,000</i>					<i>0.55</i>	
U.S. Independent											
San Juan Basin Royalty Trust	SJT	H	36.09	1.00	1,680	100				1.06	
Hugoton Royalty Trust	HGT	B	24.42	1.00	980	100				0.82	
EOG Resources	EOG	H	81.10	1.11	22,500	71	7	22		0.80	
Anadarko Petroleum Corp.	APC	H	38.15	1.92	34,300	54		42	4	0.74	
Encore Acquisition Company	EAC	H	28.11	1.96	2,930	18		83		0.73	
XTO Energy Inc.	XTO	B	36.11	1.59	31,700	77		23		0.71	
Devon Energy Corporation	DVN	B	77.80	1.17	40,700	64		36		0.70	
Berry Petroleum Company	BRY	H	19.13	2.59	2,250	42		58		0.70	
Chesapeake Energy Corp.	CHK		23.67	2.20	28,700	90		10		0.70	
Energy Partners Ltd.	EPL		3.64	5.88	710	38		62		0.68	
Occidental Petroleum Corp.	OXY	H	52.99	1.11	48,300	12	1	79	8	0.62	
Cimarex Energy Company	XEC	B	32.89	1.21	3,370	65		35		0.52	
<i>Total or Median *</i>	<i>10%</i>	<i>33%</i>	<i>36%</i>		<i>218,000</i>					<i>0.71</i>	
Canada											
Pengrowth Energy Trust	PGH		10.38	1.74	4,480	34		66		0.76	
Penn West Energy Trust	PWE	H	16.92	1.74	11,200	31		69		0.74	
Encana Corporation	ECA	B	49.30	1.37	50,800	68		29	4	0.72	
Imperial Oil Limited (30%)	IMO	H	33.90	1.07	9,700	5		80	16	0.72	
Canadian Natural Resources	CNQ	H	47.98	1.44	37,300	26		74		0.65	
Canadian Oil Sands Trust	COSWF	B	25.08	1.08	13,000			100		0.62	
Enerplus Resources Fund	ERF		24.42	1.20	4,840	55		45		0.60	
Birchcliff Energy Ltd. (US\$)	BIR.TO		5.00	1.27	750	70		30		0.56	
Suncor Energy	SU	H	22.61	1.29	27,800	3		92	5	0.47	
Petro-Canada	PCZ	H	21.99	1.42	15,100	11	3	70	16	0.41	
<i>Total or Median *</i>	<i>8%</i>	<i>28%</i>	<i>18%</i>		<i>175,000</i>					<i>0.63</i>	
Composite											
<i>Enterprise Value Weighting</i>	<i>100%</i>				<i>2,109,000</i>	<i>12</i>	<i>17</i>	<i>53</i>	<i>17</i>	<i>0.66</i>	
<i>Equal Weighting</i>		<i>100%</i>				<i>30</i>	<i>9</i>	<i>53</i>	<i>9</i>	<i>0.66</i>	
<i>Equal Weighted Buys</i>			<i>100%</i>			<i>35</i>	<i>16</i>	<i>43</i>	<i>6</i>	<i>0.62</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	10-Nov			(US\$mm)	(US\$/sh)		
	H = Hold	2008		(mm)				
U.S. Integrated								
Exxon Mobil Corporation	XOM	H	74.02	5,160	382,000	90.00	0.06	0.83
Chevron Corporation	CVX	H	74.34	2,206	164,000	98.00	0.11	0.79
Marathon Oil Corporation	MRO	H	28.51	711	20,270	48.00	0.26	0.70
ConocoPhillips	COP	B	50.93	1,528	78,000	109.00	0.22	0.58
<i>Total or Median</i>					644,000		0.17	0.74
Europe								
BG Group plc	BRGXF		15.60	3,384	52,790	19.00	0.09	0.84
BP plc	BP	H	48.77	3,124	152,000	74.00	0.23	0.74
Royal Dutch Shell plc	RDS-A	H	52.94	3,080	163,000	92.00	0.13	0.63
Total S.A.	TOT	B	53.91	2,244	121,000	90.00	0.08	0.63
StatoilHydro ASA (29%)	STO	B	19.37	924	17,900	35.00	0.15	0.62
<i>Total or Median</i>					507,000		0.13	0.63
Brazil/China/Russia								
CNOOC Limited (34%)	CEO	H	82.36	152	12,540	135.00	-	0.61
Petrobras	PBR		27.21	4,387	119,370	50.00	0.14	0.61
PetroChina Company Ltd (14%)	PTR	B	77.69	256	19,900	150.00	0.06	0.55
Gazprom (50%)	OGZPY	B	20.00	3,080	61,600	64.00	0.10	0.38
Lukoil Oil Company	LUKOY	H	40.35	839	34,000	135.00	0.03	0.32
<i>Total or Median</i>					247,000		0.06	0.55
U.S. Independent								
San Juan Basin Royalty Trust	SJT	H	36.09	47	1,680	34.00	-	1.06
Hugoton Royalty Trust	HGT	B	24.42	40	980	30.00	-	0.82
EOG Resources	EOG	H	81.10	251	20,400	104.00	0.08	0.80
Anadarko Petroleum Corp.	APC	H	38.15	468	17,900	64.00	0.35	0.74
Encore Acquisition Company	EAC	H	28.11	54	1,500	48.00	0.36	0.73
XTO Energy Inc.	XTO	B	36.11	552	19,930	60.00	0.26	0.71
Devon Energy Corporation	DVN	B	77.80	446	34,700	116.00	0.10	0.70
Berry Petroleum Company	BRY	H	19.13	46	870	40.00	0.43	0.70
Chesapeake Energy Corp.	CHK		23.67	550	13,020	46.00	0.38	0.70
Energy Partners Ltd.	EPL		3.64	32	120	14.00	0.57	0.68
Occidental Petroleum Corp.	OXY	H	52.99	818	43,300	89.00	0.06	0.62
Cimarex Energy Company	XEC	B	32.89	85	2,780	70.00	0.09	0.52
<i>Total or Median</i>					157,200		0.18	0.71
Canada								
Pengrowth Energy Trust	PGH		10.38	249	2,580	16.00	0.32	0.76
Penn West Energy Trust	PWE	H	16.92	380	6,430	27.00	0.32	0.74
Encana Corporation	ECA	B	49.30	751	37,000	75.00	0.20	0.72
Imperial Oil Limited (30%)	IMO	H	33.90	265	8,990	48.00	0.05	0.72
Canadian Natural Resources	CNQ	H	47.98	541	26,000	85.00	0.20	0.65
Canadian Oil Sands Trust	COSWF	B	25.08	482	12,090	42.00	0.05	0.62
Enerplus Resources Fund	ERF		24.42	165	4,030	44.00	0.10	0.60
Birchcliff Energy Ltd. (US\$)	BIR.TO		5.00	117	590	10.00	0.12	0.56
Suncor Energy	SU	H	22.61	953	21,550	55.00	0.11	0.47
Petro-Canada	PCZ	H	21.99	484	10,640	67.00	0.12	0.41
<i>Total or Median</i>					130,000		0.12	0.63
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	10-Nov	Prod	Ebitda	Ebitda	P/E	NTM	
	H = Hold	2008	NTM	NTM	NTM	NTM	(%)	
U.S. Integrated								
Exxon Mobil Corporation	XOM	H	74.02	12.9	7.5	6.3	12	2.2
Chevron Corporation	CVX	H	74.34	9.6	7.3	5.7	10	3.5
ConocoPhillips	COP	B	50.93	11.0	7.7	4.5	7	3.7
Marathon Oil Corporation	MRO	H	28.51	8.5	6.4	4.5	7	3.4
	<i>Total or Median</i>			<i>10.3</i>	<i>7.4</i>	<i>5.1</i>	<i>9</i>	<i>3.4</i>
Europe								
BG Group plc	BRGXF		15.60	7.5	8.8	7.3	14	1.0
BP plc	BP	H	48.77	9.9	7.2	5.3	8	6.9
StatoilHydro ASA (29%)	STO	B	19.37	8.0	7.4	4.6	12	6.4
Total S.A.	TOT	B	53.91	9.4	7.2	4.5	8	5.2
Royal Dutch Shell plc	RDS-A	H	52.94	7.9	6.5	4.1	7	6.0
	<i>Total or Median</i>			<i>8.0</i>	<i>7.2</i>	<i>4.6</i>	<i>8</i>	<i>6.0</i>
Brazil/China/Russia								
Petrobras	PBR		27.21	10.4	9.5	5.8	13	3.2
CNOOC Limited (34%)	CEO	H	82.36	8.8	7.7	4.7	9	5.8
PetroChina Company Ltd (14%)	PTR	B	77.69	14.3	8.0	4.4	11	5.4
Gazprom (50%)	OGZPY	B	20.00	24.6	8.3	3.2	4	2.0
Lukoil Oil Company	LUKOY	H	40.35	18.6	7.1	2.3	4	3.5
	<i>Total or Median</i>			<i>14.3</i>	<i>8.0</i>	<i>4.4</i>	<i>9</i>	<i>3.5</i>
U.S. Independent								
San Juan Basin Royalty Trust	SJT	H	36.09	10.8	11.5	12.2	15	6.7
Hugoton Royalty Trust	HGT	B	24.42	13.0	10.0	8.2	12	8.7
Encore Acquisition Company	EAC	H	28.11	13.4	9.6	7.0	20	-
Chesapeake Energy Corp.	CHK		23.67	11.1	9.4	6.6	11	1.3
XTO Energy Inc.	XTO	B	36.11	11.4	9.0	6.4	13	1.3
EOG Resources	EOG	H	81.10	9.1	7.8	6.2	17	0.7
Anadarko Petroleum Corp.	APC	H	38.15	10.1	8.1	6.0	32	1.9
Berry Petroleum Company	BRY	H	19.13	9.6	8.4	5.9	7	1.6
Devon Energy Corporation	DVN	B	77.80	9.4	8.0	5.7	16	0.8
Energy Partners Ltd.	EPL		3.64	9.8	8.0	5.4	-	-
Occidental Petroleum Corp.	OXY	H	52.99	11.9	8.5	5.3	11	2.4
Cimarex Energy Company	XEC	B	32.89	7.4	6.8	3.5	12	0.7
	<i>Total or Median</i>			<i>10.4</i>	<i>8.4</i>	<i>6.1</i>	<i>13</i>	<i>1.3</i>
Canada								
Canadian Oil Sands Trust	COSWF	B	25.08	21.6	14.4	8.9	13	10.1
Birchcliff Energy Ltd. (US\$)	BIR.TO		5.00	7.1	12.5	7.1	-	-
Imperial Oil Limited (30%)	IMO	H	33.90	14.4	9.8	7.1	12	1.0
Canadian Natural Resources	CNQ	H	47.98	9.0	10.3	6.7	12	0.7
Pengrowth Energy Trust	PGH		10.38	9.1	8.2	6.2	-	21.9
Suncor Energy	SU	H	22.61	24.0	13.0	6.2	10	0.7
Penn West Energy Trust	PWE	H	16.92	7.5	7.7	5.7	9	20.3
Encana Corporation	ECA	B	49.30	8.4	7.0	5.1	11	3.2
Enerplus Resources Fund	ERF		24.42	10.0	8.2	4.9	14	15.7
Petro-Canada	PCZ	H	21.99	6.9	6.9	2.8	5	3.1
	<i>Total or Median</i>			<i>9.0</i>	<i>9.0</i>	<i>6.2</i>	<i>12</i>	<i>3.2</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>
6-Nov	CNQ	Canadian Natural Resources	Hidden Value in Heavy Oil
5-Nov	DVN	Devon Energy Corporation	Outperforming in Tough Times
5-Nov	XTO	XTO Energy Inc.	Personal Debt-Free Pledge
5-Nov	TOT	Total S.A.	Geographic Appeal
4-Nov	XEC	Cimarex Energy Company	Capital Discipline
4-Nov	APC	Anadarko Petroleum Corporation	Acquisition Value
4-Nov	EOG	EOG Resources Inc.	The Hat Trick
3-Nov	STO	StatoilHydro ASA	Financially Strong Dividend Payer
31-Oct	CVX	Chevron Corporation	Oil in the Stock Market at \$59 a Barrel
30-Oct	IMO	Imperial Oil Limited	Favorable Pricing for Heavy Oil
30-Oct	MRO	Marathon Oil Corporation	Gasoline and Diesel Demand Rebounding
30-Oct	XOM	Exxon Mobil Corporation	Building Value with Stock Repurchase
30-Oct	RDSA	Royal Dutch Shell plc	Secure Dividend 5.7%
29-Oct	COSWF	Canadian Oil Sands Trust	Quarterly Distribution C\$0.75 a Unit
29-Oct	BRY	Berry Petroleum	Adjusting Spending to Cash Flow
29-Oct	EAC	Encore Acquisition Company	Success with ExxonMobil in West Texas
29-Oct	SU	Suncor Energy	Coping with Volatile Oil Price
29-Oct	PTR	PetroChina Company Limited	Chinese Major Oil Company
28-Oct	OXY	Occidental Petroleum Corporation	Low Debt, High Margin
28-Oct	BP	BP p.l.c.	Dividend Yield 7.2%
28-Oct	CEO	CNOOC Ltd	Oil & Gas Growth Offshore China
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)
7-Oct	* HGT	Hugoton Royalty Trust	Buy amid Financial Panic (Meter Reader)
16-Sep	* BRGXF	BG Group	Deep Water Brazil (Meter Reader)
16-Sep	* PBR	Petrobras	Deep Water Brazil (Meter Reader)
5-Sep	* LUKOY	Lukoil Oil Company	Suspend Buy Recommendation (Flash)

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11-Nov	Weekly	
4-Nov	Weekly	Election Day
28-Oct	Weekly	Oil in the Stock Market for \$40 a Barrel
21-Oct	Weekly	Look Ahead

Oil and Gas Income Stocks

7-Nov	Weekly	Tentative Recovery in Gasoline Demand
31-Oct	Weekly	Reset for Recovery
24-Oct	Weekly	Median Distribution Yield 10.5%
17-Oct	Weekly	Low Long-Term Risk

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

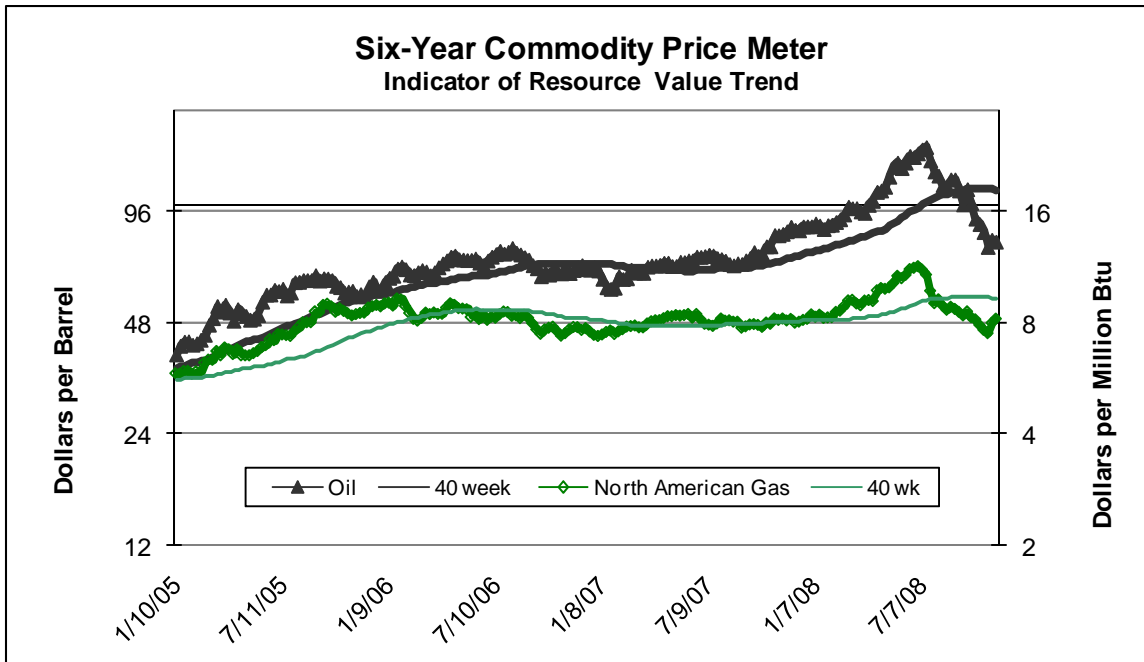
Please see disclosures on the final page.

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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.