



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

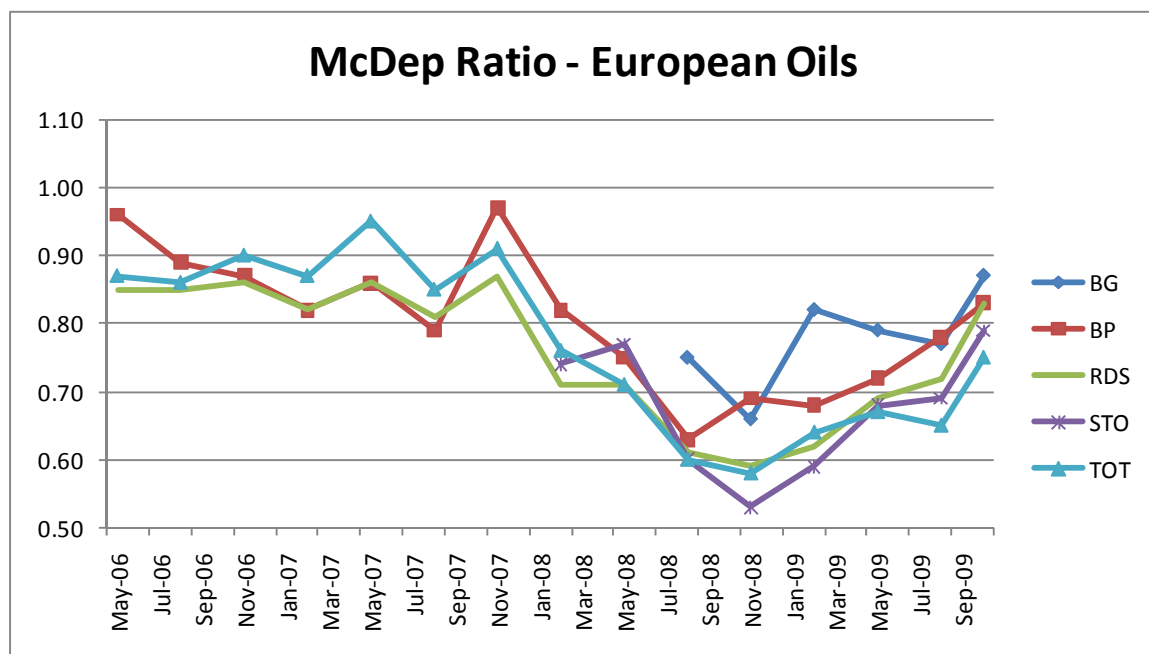
October 20, 2009

European Oil Stock Bargains

Summary and Recommendation

Stocks of the European Oil group, made up of five buy-recommendations, **Total (TOT)**, **StatoilHydro (STO)**, **Royal Dutch Shell (RDS)**, **BP plc (BP)** and **BG Group (BRGXF)**, have low McDep Ratios that fall within the tightest range (0.75-0.87) of the six industry groups in our coverage (see Table 1-2). McDep Ratios for the European stocks have reversed a three-year slump (see chart below). In the context that lower McDep Ratio stocks should return more than higher McDep stocks, BP has underperformed modestly over three years. Otherwise occasional extremes appear to get reduced in a pattern of reversion to the mean. Among the three majors, BP and TOT have the traditional oil concentration near 60%, while RD has a traditionally greater concentration on downstream and natural gas. STO has the highest concentration on natural gas production. BG profits from a dominant natural gas trading position and is the largest partner of Petrobras in deep offshore Brazil oil discoveries. Fundamental trends for the five stocks are favorable with futures prices for oil and natural gas for the next six years trading above 40-week averages (see charts [Six-Year Commodity Price Meter](#) and [Six-Year and One-Year Natural Gas and Oil Futures](#) on page 6). The five stocks are also bargains at median cash flow multiple (EV/Ebitda) of 5.9 and pay high dividends at the median rate of 5.3% a year (see Table 3).

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Table 1										
McDep Energy Portfolio										
Geographic Domicile and Business Segments										
						Present Value by Segment (%)				
	Symbol/Rating	Price (US\$/sh)	EV/Market	Enterprise Value (\$mm)	North Amer.	Rest of World				
	B = Buy H = Hold	19-Oct 2009	Cap		Natural Gas	Natural Gas	Oil Prod'n	Down-stream	McDep Ratio	
U.S. Integrated										
Exxon Mobil Corporation	XOM	B	73.62	1.13	405,000	5	25	48	22	0.84
Chevron Corporation	CVX	B	77.66	1.21	187,000	4	10	70	16	0.83
Marathon Oil Corporation	MRO	B	35.27	1.46	36,600	8	5	61	26	0.74
ConocoPhillips	COP	B	53.08	1.66	131,000	12	9	64	14	0.63
<i>Total or Median *</i>	<i>30%</i>	<i>9%</i>	<i>14%</i>		<i>760,000</i>					<i>0.79</i>
Europe										
BG Group	BRGXF	B	18.90	1.11	71,300		23	45	32	0.87
BP plc	BP	B	56.40	1.36	243,000	7	9	60	24	0.83
Royal Dutch Shell plc	RDS-A	B	62.37	1.29	247,000	2	22	43	32	0.83
StatoilHydro ASA (33%)	STO	B	25.45	1.40	37,400		51	49	-	0.79
Total S.A.	TOT	B	63.79	1.25	178,000		19	59	22	0.75
<i>Total or Median *</i>	<i>30%</i>	<i>12%</i>	<i>17%</i>		<i>777,000</i>					<i>0.83</i>
Brazil/China/Russia										
CNOOC Limited (34%)	CEO	B	162.34	1.01	24,900		11	89	-	1.20
Petrobras	PBR	B	51.41	1.16	262,000		7	77	16	0.90
PetroChina Company Ltd (14%)	PTR	B	133.65	1.08	36,900		15	69	15	0.90
Lukoil Oil Company	LUKOY	B	66.85	1.12	63,400			67	33	0.52
Gazprom (50%)	OGZPY	B	26.93	1.24	104,000		79	21	-	0.47
<i>Total or Median *</i>	<i>19%</i>	<i>12%</i>	<i>17%</i>		<i>491,000</i>					<i>0.90</i>
U.S. Independent										
Anadarko Petroleum Corp.	APC	B	67.40	1.44	48,100	47		48	5	1.10
EOG Resources	EOG	B	94.35	1.11	26,200	72	4	24	-	1.02
XTO Energy Inc.	XTO	B	45.90	1.42	37,800	75		25	-	0.98
Occidental Petroleum Corp.	OXY	B	82.61	1.08	72,900	9	1	80	9	0.95
Chesapeake Energy Corp.	CHK		28.97	1.82	32,100	85		15	-	0.91
Devon Energy Corporation	DVN	B	71.91	1.29	41,700	61		39	-	0.78
<i>Total or Median *</i>	<i>10%</i>	<i>14%</i>	<i>17%</i>		<i>259,000</i>					<i>0.97</i>
Canada										
EnCana Corporation	ECA	B	62.46	1.27	59,600	65		30	5	1.01
Canadian Natural Resources	CNQ	B	76.10	1.31	54,100	20		80	-	0.96
Imperial Oil Limited (30%)	IMO	B	42.95	1.08	11,900	5		80	16	0.90
Suncor Energy	SU	B	39.09	1.29	79,400	5		85	10	0.80
Canadian Oil Sands Trust	COSWF	B	31.92	1.10	17,000			100	-	0.78
<i>Total or Median *</i>	<i>9%</i>	<i>12%</i>	<i>17%</i>		<i>222,000</i>					<i>0.90</i>
Income and Small Cap (see separate weekly analysis)										
	<i>2%</i>	<i>42%</i>	<i>17%</i>		<i>44,500</i>	<i>41</i>		<i>59</i>		<i>0.93</i>
Composite										
Enterprise Value Weighting	<i>100%</i>				<i>2,553,500</i>	<i>11</i>	<i>15</i>	<i>57</i>	<i>17</i>	<i>0.81</i>
Equal Weighting		<i>100%</i>				<i>32</i>	<i>7</i>	<i>54</i>	<i>7</i>	<i>0.88</i>
Equal Weighted Buys			<i>100%</i>			<i>25</i>	<i>10</i>	<i>54</i>	<i>10</i>	<i>0.85</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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Table 2								
McDep Energy Portfolio								
Net Present Value and McDep Ratio								
	Symbol/Rating		Price (US\$/sh)	Shares	Market Cap (US\$mm)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
	B = Buy	19-Oct						
	H = Hold	2009		(mm)				
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	73.62	4,871	359,000	89.00	0.10	0.84
Chevron Corporation	CVX	B	77.66	1,992	155,000	97.00	0.14	0.83
Marathon Oil Corporation	MRO	B	35.27	711	25,080	53.00	0.23	0.74
ConocoPhillips	COP	B	53.08	1,496	79,000	105.00	0.25	0.63
<i>Total or Median</i>					618,000		0.19	0.79
Europe								
BG Group plc	BRGXF	B	18.90	3,388	64,020	22.00	0.09	0.87
BP plc	BP	B	56.40	3,155	178,000	72.00	0.22	0.83
Royal Dutch Shell plc	RDS-A	B	62.37	3,065	191,000	79.00	0.19	0.83
StatoilHydro ASA (33%)	STO	B	25.45	1,051	26,740	35.00	0.22	0.79
Total S.A.	TOT	B	63.79	2,236	143,000	90.00	0.15	0.75
<i>Total or Median</i>					603,000		0.19	0.83
Brazil/China/Russia								
CNOOC Limited (34%)	CEO	B	162.34	152	24,700	135.00	0.01	1.20
Petrobras	PBR	B	51.41	4,387	225,540	58.00	0.13	0.90
PetroChina Company Ltd (14%)	PTR	B	133.65	256	34,240	150.00	0.06	0.90
Lukoil Oil Company	LUKOY	B	66.85	847	57,000	135.00	0.06	0.52
Gazprom (50%)	OGZPY	B	26.93	3,130	84,300	64.00	0.09	0.47
<i>Total or Median</i>					426,000		0.06	0.90
U.S. Independent								
Anadarko Petroleum Corp.	APC	B	67.40	495	33,400	59.00	0.33	1.10
EOG Resources	EOG	B	94.35	250	23,600	92.00	0.10	1.02
XTO Energy Inc.	XTO	B	45.90	579	26,580	47.00	0.29	0.98
Occidental Petroleum Corp.	OXY	B	82.61	814	67,200	87.00	0.07	0.95
Chesapeake Energy Corp.	CHK		28.97	610	17,670	34.00	0.41	0.91
Devon Energy Corporation	DVN	B	71.91	450	32,400	98.00	0.17	0.78
<i>Total or Median</i>					200,900		0.23	0.97
Canada								
EnCana Corporation	ECA	B	62.46	751	46,900	62.00	0.21	1.01
Canadian Natural Resources	CNQ	B	76.10	542	41,200	80.00	0.23	0.96
Imperial Oil Limited (30%)	IMO	B	42.95	256	11,020	48.00	0.07	0.90
Suncor Energy	SU	B	39.09	1,572	61,450	52.00	0.18	0.80
Canadian Oil Sands Trust	COSWF	B	31.92	484	15,450	42.00	0.07	0.78
<i>Total or Median</i>					176,000		0.18	0.90
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, \$8 a million btu.								

Please see disclosures on the final page.

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Table 3								
McDep Energy Portfolio								
Value Multiples and Distribution Yield								
			Price	Adjustd				Divd or
	Symbol/Rating		(US\$/sh)	Resrvs/	PV/	EV/		Distrib
	B = Buy		19-Oct	Prod	Ebitda	Ebitda	P/E	NTM
	H = Hold		2009	NTM	NTM	NTM	NTM	(%)
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	73.62	12.4	7.8	6.6	12	2.3
Chevron Corporation	CVX	B	77.66	9.8	7.0	5.8	13	3.5
ConocoPhillips	COP	B	53.08	10.6	7.9	5.0	8	3.8
Marathon Oil Corporation	MRO	B	35.27	8.3	6.4	4.7	9	2.7
<i>Total or Median</i>				<i>10.2</i>	<i>7.4</i>	<i>5.4</i>	<i>11</i>	<i>3.1</i>
Europe								
BG Group plc	BRGXF	B	18.90	8.8	8.6	7.5	15	1.1
Royal Dutch Shell plc	RDS-A	B	62.37	7.9	7.1	5.9	12	5.4
BP plc	BP	B	56.40	9.6	7.1	5.9	11	6.0
Total S.A.	TOT	B	63.79	9.7	7.6	5.7	11	5.3
StatoilHydro ASA (33%)	STO	B	25.45	7.5	6.5	5.1	15	5.1
<i>Total or Median</i>				<i>8.8</i>	<i>7.1</i>	<i>5.9</i>	<i>12</i>	<i>5.3</i>
Brazil/China/Russia								
Petrobras	PBR	B	51.41	9.2	9.6	8.7	16	2.6
PetroChina Company Ltd (14%)	PTR	B	133.65	14.0	8.1	7.2	19	3.0
CNOOC Limited (34%)	CEO	B	162.34	7.2	6.0	7.1	13	3.2
Lukoil Oil Company	LUKOY	B	66.85	16.3	8.6	4.5	9	1.9
Gazprom (50%)	OGZPY	B	26.93	24.6	8.3	3.9	5	0.2
<i>Total or Median</i>				<i>14.0</i>	<i>8.3</i>	<i>7.1</i>	<i>13</i>	<i>2.6</i>
U.S. Independent								
Chesapeake Energy Corp.	CHK		28.97	11.3	9.9	9.0	13	1.0
EOG Resources	EOG	B	94.35	10.1	8.5	8.7	23	0.6
XTO Energy Inc.	XTO	B	45.90	11.0	8.7	8.6	22	1.3
Anadarko Petroleum Corp.	APC	B	67.40	9.2	7.8	8.5		0.5
Occidental Petroleum Corp.	OXY	B	82.61	11.0	7.1	6.7	14	1.6
Devon Energy Corporation	DVN	B	71.91	8.4	7.2	5.6	11	0.9
<i>Total or Median</i>				<i>10.5</i>	<i>8.1</i>	<i>8.5</i>	<i>14</i>	<i>1.0</i>
Canada								
Imperial Oil Limited (30%)	IMO	B	42.95	18.4	13.1	11.8	24	0.9
Canadian Oil Sands Trust	COSWF	B	31.92	21.8	11.8	9.2	14	7.0
EnCana Corporation	ECA	B	62.46	9.1	8.5	8.6	22	0.6
Canadian Natural Resources	CNQ	B	76.10	7.6	8.4	8.1	16	0.5
Suncor Energy	SU	B	39.09	13.6	9.6	7.6	24	0.5
<i>Total or Median</i>				<i>13.6</i>	<i>9.6</i>	<i>8.6</i>	<i>22</i>	<i>0.6</i>
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2010; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



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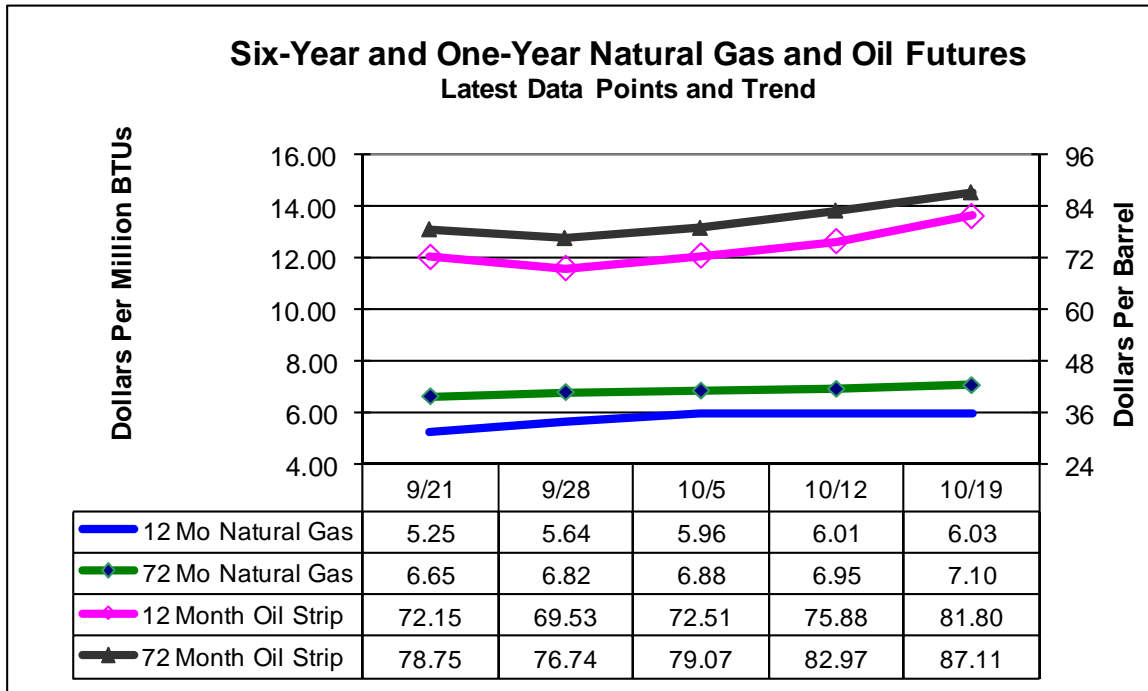
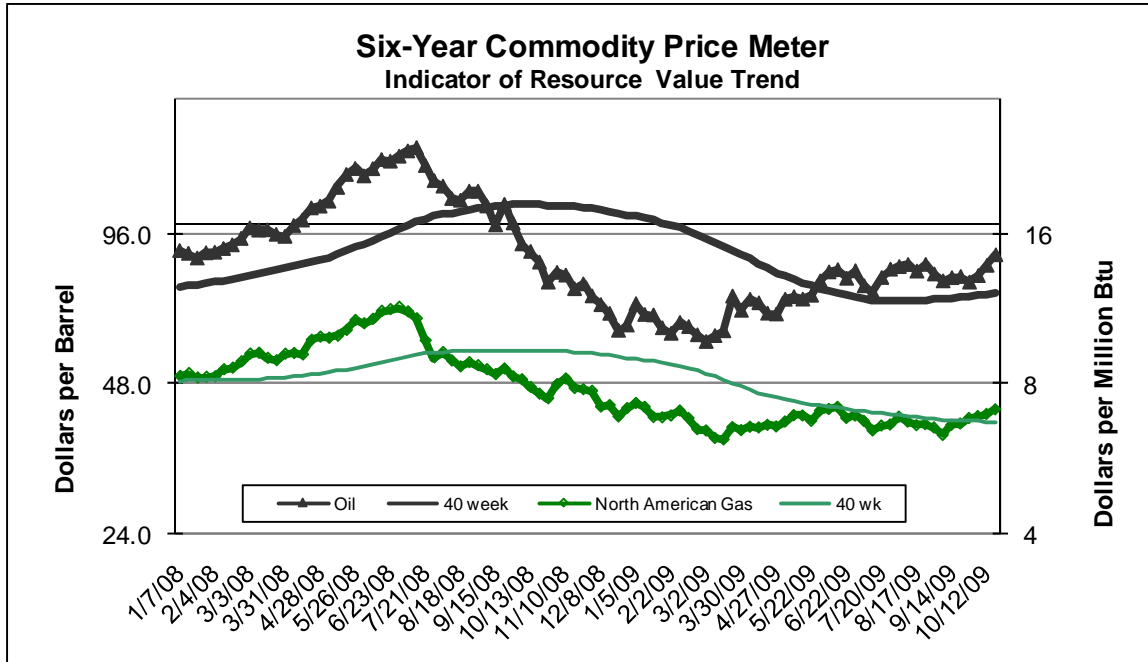
Index of Recent Research			
Stock Ideas			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
6-Oct	SU	Suncor Energy	Evaluating Strategy for Acquired Assets (Meter Reader)
2-Oct	XEC	Cimarex Energy Company	Drilling Picking Up (Income and Small Cap Weekly)
17-Sep	COSWF	Canadian Oil Sands Trust	McDep Value (Income and Small Cap Weekly)
16-Sep	* APC	Anadarko Petroleum Corporation	Rebalance on New Basin Discovery
15-Sep	* ECA	EnCana Corporation	Creating Oil Sands Prize (Meter Reader)
4-Sep	* SJT	San Juan Basin Royalty Trust	Upgrade to Buy (Income and Small Cap Weekly)
3-Sep	* PBR	Petrobras	New Regulatory Model Points to Stock Issue
1-Sep	* XOM	Exxon Mobil Corporation	Stock May Be Timely (Meter Reader)
30-Aug	* LUKOY	Lukoil Oil Company	Contributing to Russia's Oil Future
30-Aug	* PTR	PetroChina Company Limited	Growing Giant in Clean Energy
26-Aug	* CEO	CNOOC Ltd	Full Current Valuation, Promising Prospects
26-Aug	* OGZPY	Gazprom	Natural Gas Giant Reemerging
14-Aug	* BIR.TO	Birchcliff Energy Ltd.	Spirited Small Cap Canadian Nat Gas Producer (ISCW)
12-Aug	* PWE	Penn West Energy Trust	Reduce NPV on Volume Trend
11-Aug	* DMLP	Dorchester Minerals, L.P.	Income Competitive with Growth
7-Aug	* EOG	EOG Resources Inc.	Low-Debt Natural Gas Growth
6-Aug	* CNQ	Canadian Natural Resources	First Cash from Horizon
5-Aug	* BRY	Berry Petroleum	Back on Track
5-Aug	* XTO	XTO Energy Inc.	Cutting Edge Natural Gas Producer
5-Aug	* DVN	Devon Energy Corporation	Stock Price Moves to Uptrend
4-Aug	* STO	StatoilHydro ASA	Natural Gas Growth with Dividends
3-Aug	* MRO	Marathon Oil Corporation	Favorable Trends for Future Profit
31-Jul	* CVX	Chevron Corporation	Strength in Tough Times
31-Jul	* TOT	Total S.A.	Real Return and Secure Income
30-Jul	* IMO	Imperial Oil Limited	Downstream Hiccup
30-Jul	* PCZ	Petro-Canada	Good Bye Petro-Canada, Hello Suncor
30-Jul	* RDSA	Royal Dutch Shell plc	Gaining Efficiency in Exploration and Production
29-Jul	* BRGXF	BG Group	Progressing in Pre-Salt Brazil
29-Jul	* EAC	Encore Acquisition Company	Tertiary Recovery Project Announced
29-Jul	* COP	ConocoPhillips	Positioned for Recovery
28-Jul	* BP	BP p.l.c.	Trending Up
23-Jul	* OXY	Occidental Petroleum Corporation	California Discovery May Be Worth \$2 a Share
10-Jul	* HGT	Hugoton Royalty Trust	Rounding the Bend (Income and Small Cap Weekly)
Meter Reader			
20-Oct		Weekly	
13-Oct		Weekly	Bargains in U.S. Integrated Oil Stocks
6-Oct		Suncor Energy	Evaluating Strategy for Acquired Assets
29-Sep	*	Weekly	My Visit to Russia
Income and Small Cap Weekly			
16-Oct		Weekly	Canada Trusts on Real Growth Trend
9-Oct		Weekly	Friendly Trends
2-Oct		Cimarex Energy Company	Drilling Picking Up
25-Sep	*	Mesa Royalty Trust (MTR)	Pure Natural Gas Income
Industry Ideas			
2-Apr	*	Presentation	Making Money in Oil and Gas Stocks
	*	Archived on www.mcdep.com	



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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.