



# Meter Reader

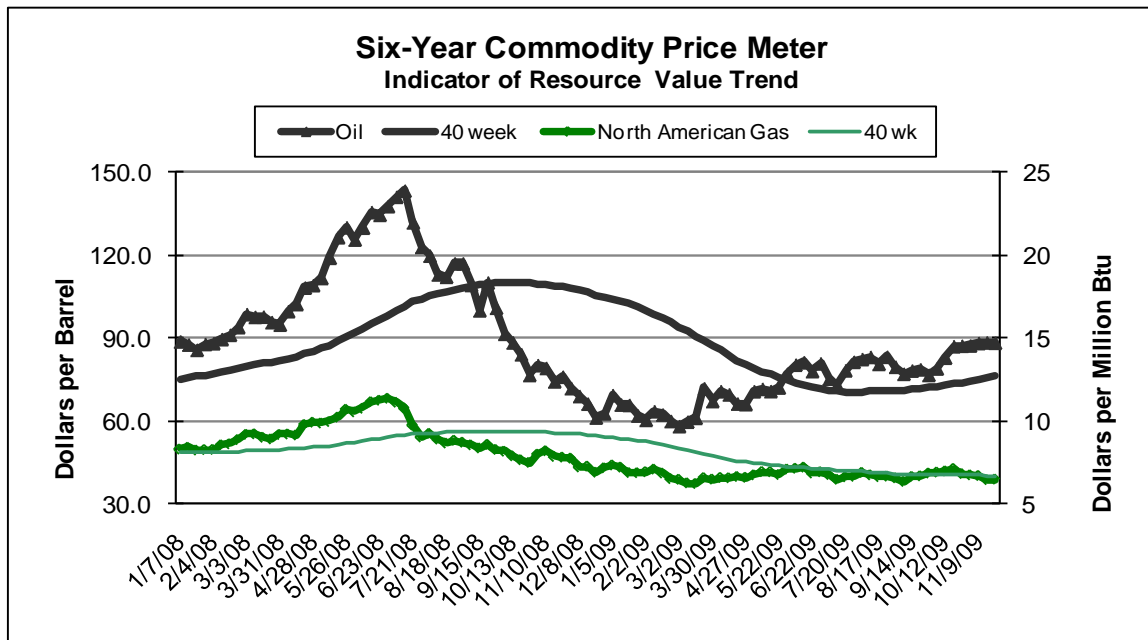
A Weekly Analysis of Large Cap Oil and Gas Stocks  
November 24, 2009

## Natural Gas Price Trend Signals More Patience

### Summary and Recommendation

Our buy recommendations imply about a one-third weighting of energy investments in natural gas where more patience may be required for future appreciation. We had hoped that six weeks of the average natural gas price for the next six years trading above its 40-week average would be a new uptrend. Instead, six-year natural gas has now been trading below its 40-week average for two weeks. As a result, at the current quote of \$6.45 a million btu, the long-term price appears to be forming a long base above \$6 (see chart [Six-Year Commodity Price Meter](#) below and chart [Six-Year and One-Year Natural Gas and Oil Futures](#) on page 6). We expect a new uptrend from such a base either in the winter of 2009-2010 or in the winter of 2010-2011. Our disappointment is a favorable surprise to energy users who can commit new investment with greater confidence in long-term supply of clean, cheap and abundant natural gas. Calpine, the merchant generator of electricity from natural gas and now coming back from bankruptcy, had the right idea, but it was ten years too early. Despite current low natural gas price, producers with long-life existing reserves can make money from low-cost production and in efficient development of new supply. Consistent with that positive outlook, stock prices are in an uptrend with current quotes above the 200-day average. An equal weighting of buy recommendations would result in natural gas concentration of 25% in North America and 10% in Rest of World (see Table 1). Using only large cap stocks the weightings would be 16% and 12%.

Kurt H. Wulff, CFA





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Table 1										
McDep Energy Portfolio										
Geographic Domicile and Business Segments										
								Present Value by Segment (%)		
				Price	EV/	Enterprise	North	Rest		
		Symbol/Rating	23-Nov	Market	Value	Natural	Natural	Oil	Down-	McDep
		B = Buy	2009	Cap	(\$mm)	Gas	Gas	Prod'n	stream	Ratio
<b>U.S. Integrated</b>										
Exxon Mobil Corporation	XOM	B	75.70	1.14	414,000	5	22	54	19	0.87
Chevron Corporation	CVX	B	78.74	1.19	188,000	4	10	71	14	0.80
Marathon Oil Corporation	MRO	B	33.09	1.48	34,900	8	5	61	26	0.71
ConocoPhillips	COP	B	52.37	1.67	131,000	12	11	64	13	0.62
<i>Total or Median *</i>		30%	9%	14%	768,000					0.76
<b>Europe</b>										
BG Group	BRGXF	B	18.87	1.14	73,300		21	48	31	0.87
Royal Dutch Shell plc	RDS-A	B	61.84	1.31	249,000	3	27	49	22	0.83
Statoil ASA (33%)	STO	B	26.07	1.38	37,800		49	51	-	0.80
BP plc	BP	B	58.64	1.33	246,000	6	9	63	22	0.79
Total S.A.	TOT	B	63.43	1.26	178,000		19	59	22	0.75
<i>Total or Median *</i>		31%	12%	17%	784,000					0.80
<b>Brazil/China/Russia</b>										
CNOOC Limited (34%)	CEO	B	162.10	1.01	24,900		11	89	-	1.20
Petrobras	PBR	B	51.13	1.20	269,000		7	77	16	0.90
PetroChina Company Ltd (14%)	PTR	B	128.63	1.08	35,600		15	69	15	0.87
Lukoil Oil Company	LUKOY	B	60.50	1.13	58,000			67	33	0.48
Gazprom (50%)	OGZPY	B	24.61	1.28	93,000		76	24	-	0.44
<i>Total or Median *</i>		19%	12%	17%	481,000					0.87
<b>U.S. Independent</b>										
Anadarko Petroleum Corp.	APC	B	62.08	1.45	44,700	48		47	5	1.04
EOG Resources	EOG	B	88.18	1.16	25,600	68	5	28	-	0.96
XTO Energy Inc.	XTO	B	41.61	1.46	35,100	73		27	-	0.92
Occidental Petroleum Corp.	OXY	B	82.14	1.08	71,900	10	1	82	7	0.87
Chesapeake Energy Corp.	CHK		23.20	1.89	27,400	88		12	-	0.80
Devon Energy Corporation	DVN	B	67.93	1.30	39,800	61		39	-	0.75
<i>Total or Median *</i>		10%	14%	17%	245,000					0.90
<b>Canada</b>										
EnCana Corporation	ECA	B	52.95	1.41	56,300	63		32	5	0.89
Canadian Natural Resources	CNQ	B	67.25	1.34	48,800	20		80	-	0.88
Imperial Oil Limited (30%)	IMO	B	38.75	1.09	10,800	5		79	16	0.82
Suncor Energy	SU	B	36.67	1.31	75,500	5		85	10	0.76
Canadian Oil Sands Trust	COSWF	B	28.50	1.10	15,200			100	-	0.70
<i>Total or Median *</i>		8%	12%	17%	207,000					0.82
<b>Income and Small Cap (see separate weekly analysis)</b>										
		2%	42%	17%	43,900	39		61		0.93
<b>Composite</b>										
<i>Enterprise Value Weighting</i>		100%			2,528,900	10	15	59	15	0.80
<i>Equal Weighting</i>			100%			32	7	55	6	0.85
<i>Equal Weighted Buys</i>				100%		25	10	55	10	0.81
* 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								
			Price			Net		
	Symbol/Rating		(US\$/sh)	Shares	Market	Present	Debt/	McDep
	B = Buy	23-Nov	2009	(mm)	Cap	Value	Present	Ratio
					(US\$mm)	(US\$/sh)	Value	
<b>U.S. Integrated</b>								
Exxon Mobil Corporation	XOM	B	75.70	4,803	364,000	89.00	0.11	0.87
Chevron Corporation	CVX	B	78.74	2,001	158,000	102.00	0.13	0.80
Marathon Oil Corporation	MRO	B	33.09	711	23,530	53.00	0.23	0.71
ConocoPhillips	COP	B	52.37	1,498	79,000	105.00	0.25	0.62
<i>Total or Median</i>					625,000		0.18	0.76
<b>Europe</b>								
BG Group plc	BRGXF	B	18.87	3,390	63,980	22.00	0.11	0.87
Royal Dutch Shell plc	RDS-A	B	61.84	3,066	190,000	79.00	0.20	0.83
Statoil ASA (33%)	STO	B	26.07	1,051	27,390	35.00	0.22	0.80
BP plc	BP	B	58.64	3,156	185,000	80.00	0.20	0.79
Total S.A.	TOT	B	63.43	2,237	142,000	90.00	0.15	0.75
<i>Total or Median</i>					608,000		0.20	0.80
<b>Brazil/China/Russia</b>								
CNOOC Limited (34%)	CEO	B	162.10	152	24,660	135.00	0.01	1.20
Petrobras	PBR	B	51.13	4,387	224,310	58.00	0.15	0.90
PetroChina Company Ltd (14%)	PTR	B	128.63	256	32,960	150.00	0.06	0.87
Lukoil Oil Company	LUKOY	B	60.50	847	51,000	135.00	0.06	0.48
Gazprom (50%)	OGZPY	B	24.61	2,965	73,000	64.00	0.10	0.44
<i>Total or Median</i>					406,000		0.06	0.87
<b>U.S. Independent</b>								
Anadarko Petroleum Corp.	APC	B	62.08	494	30,700	59.00	0.32	1.04
EOG Resources	EOG	B	88.18	251	22,200	92.00	0.13	0.96
XTO Energy Inc.	XTO	B	41.61	580	24,130	47.00	0.29	0.92
Occidental Petroleum Corp.	OXY	B	82.14	814	66,900	95.00	0.06	0.87
Chesapeake Energy Corp.	CHK		23.20	626	14,520	34.00	0.38	0.80
Devon Energy Corporation	DVN	B	67.93	450	30,600	98.00	0.17	0.75
<i>Total or Median</i>					189,100		0.23	0.90
<b>Canada</b>								
EnCana Corporation	ECA	B	52.95	751	39,800	62.00	0.26	0.89
Canadian Natural Resources	CNQ	B	67.25	542	36,400	80.00	0.22	0.88
Imperial Oil Limited (30%)	IMO	B	38.75	256	9,940	48.00	0.07	0.82
Suncor Energy	SU	B	36.67	1,572	57,650	52.00	0.18	0.76
Canadian Oil Sands Trust	COSWF	B	28.50	484	13,800	42.00	0.06	0.70
<i>Total or Median</i>					158,000		0.18	0.82

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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			<i>Price</i>	<i>Adjustd</i>				
			<i>(US\$/sh)</i>	<i>Resrvs/</i>	<i>PV/</i>	<i>EV/</i>		<i>Divd or</i>
	<i>Symbol/Rating</i>		<i>23-Nov</i>	<i>Prod</i>	<i>Ebitda</i>	<i>Ebitda</i>	<i>P/E</i>	<i>NTM</i>
	<i>B = Buy</i>		<i>2009</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>(%)</i>
<b>U.S. Integrated</b>								
Exxon Mobil Corporation	XOM	B	75.70	12.4	8.9	7.7	14	2.2
Chevron Corporation	CVX	B	78.74	9.7	6.9	5.5	12	3.5
ConocoPhillips	COP	B	52.37	11.1	8.5	5.3	10	3.8
Marathon Oil Corporation	MRO	B	33.09	9.3	7.2	5.1	10	2.9
	<i>Total or Median</i>			<i>10.4</i>	<i>7.8</i>	<i>5.4</i>	<i>11</i>	<i>3.2</i>
<b>Europe</b>								
BG Group plc	BRGXF	B	18.87	8.1	8.9	7.8	15	1.2
Royal Dutch Shell plc	RDS-A	B	61.84	7.9	7.0	5.8	13	5.4
Total S.A.	TOT	B	63.43	9.4	7.4	5.6	10	5.3
BP plc	BP	B	58.64	9.6	6.9	5.4	9	5.7
Statoil ASA (33%)	STO	B	26.07	7.6	6.5	5.2	23	4.9
	<i>Total or Median</i>			<i>8.1</i>	<i>7.0</i>	<i>5.6</i>	<i>13</i>	<i>5.3</i>
<b>Brazil/China/Russia</b>								
Petrobras	PBR	B	51.13	9.2	10.0	9.0	16	2.6
CNOOC Limited (34%)	CEO	B	162.10	6.9	5.7	6.8	12	3.2
PetroChina Company Ltd (14%)	PTR	B	128.63	13.9	7.5	6.5	16	3.1
Lukoil Oil Company	LUKOY	B	60.50	16.3	8.7	4.2	8	2.2
Gazprom (50%)	OGZPY	B	24.61	24.6	8.2	3.6	5	0.2
	<i>Total or Median</i>			<i>13.9</i>	<i>8.2</i>	<i>6.5</i>	<i>12</i>	<i>2.6</i>
<b>U.S. Independent</b>								
Chesapeake Energy Corp.	CHK		23.20	11.1	11.1	8.9	15	1.3
XTO Energy Inc.	XTO	B	41.61	10.7	10.0	9.1	15	1.2
EOG Resources	EOG	B	88.18	9.8	9.4	9.1	25	0.7
Anadarko Petroleum Corp.	APC	B	62.08	8.9	7.5	7.8		0.6
Occidental Petroleum Corp.	OXY	B	82.14	11.2	7.9	6.9	15	1.6
Devon Energy Corporation	DVN	B	67.93	8.9	8.3	6.2	12	0.9
	<i>Total or Median</i>			<i>10.3</i>	<i>8.9</i>	<i>8.4</i>	<i>15</i>	<i>1.1</i>
<b>Canada</b>								
Imperial Oil Limited (30%)	IMO	B	38.75	18.3	11.9	9.7	18	1.0
Canadian Oil Sands Trust	COSWF	B	28.50	22.7	12.8	8.9	13	5.6
EnCana Corporation	ECA	B	52.95	9.2	9.9	8.8	20	0.8
Suncor Energy	SU	B	36.67	13.9	10.6	8.0	28	1.0
Canadian Natural Resources	CNQ	B	67.25	7.7	8.8	7.7	14	0.6
	<i>Total or Median</i>			<i>13.9</i>	<i>10.6</i>	<i>8.8</i>	<i>18</i>	<i>1.0</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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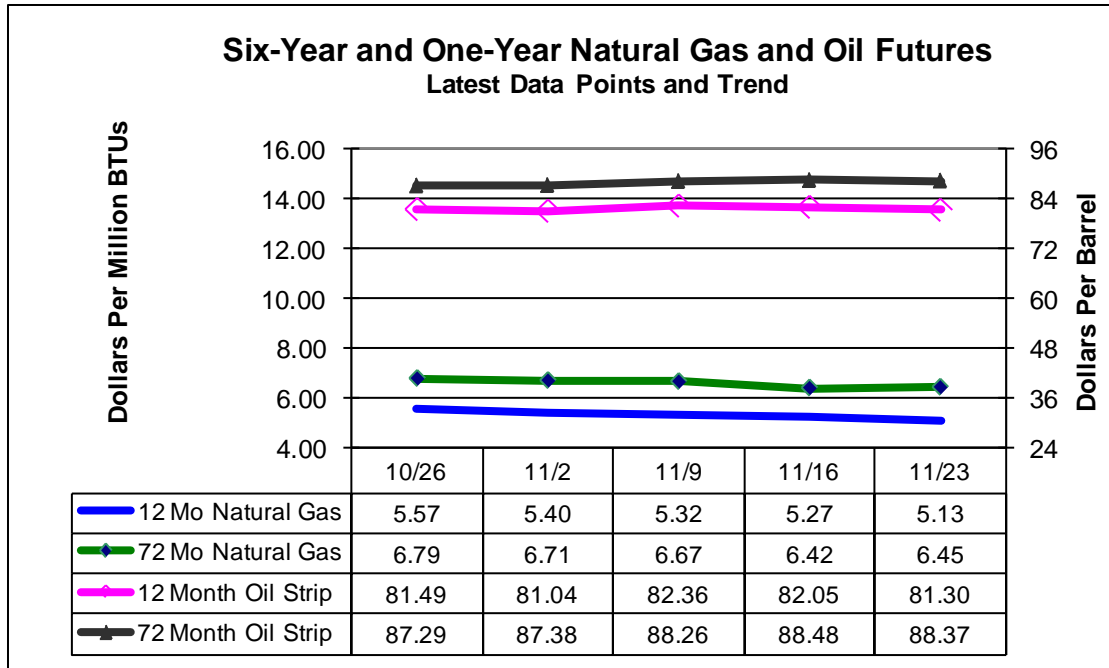
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<b>Index of Recent Research</b>			
<b>Stock Ideas</b>			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
17-Nov	BRGXF	BG Group	Oil Price Trend Validates Offshore Brazil
13-Nov	ECA	EnCana Corporation	Approaching November 30 Split into Two Companies
9-Nov	OGZPY	Gazprom	Sharp Recovery from Sharp Dip
6-Nov	SU	Suncor Energy	Expects to Keep 12% Syncrude
6-Nov	EOG	EOG Resources Inc.	Accenting Oil
6-Nov	DMLP	Dorchester Minerals, L.P.	More Drilling on DMLP Land
6-Nov	HGT	Hugoton Royalty Trust	Distribution Trend Up (Income and Small Cap Weekly)
6-Nov	MRO	Marathon Oil Corporation	Refinery Expansion Nearly Complete
6-Nov	APC	Anadarko Petroleum Corporation	McDep Ratio above 1.0
5-Nov	CNQ	Canadian Natural Resources	Oil Sands Mining Challenge
5-Nov	TOT	Total S.A.	New Projects for Growth
5-Nov	STO	Statoil ASA	Oil Price Leading Natural Gas Price
4-Nov	XTO	XTO Energy Inc.	Remarkable Business Model
4-Nov	DVN	Devon Energy Corporation	Progress in Shale Gas
4-Nov	XEC	Cimarex Energy Company	Raise Net Present Value to \$50 a Share from \$46
3-Nov	CEO	CNOOC Ltd	Buy China Oil and Gas (Meter Reader)
3-Nov	PTR	PetroChina Company Limited	Buy China Oil and Gas (Meter Reader)
2-Nov	IMO	Imperial Oil Limited	<i>In Situ</i> Oil Production Cumulates Past a Billion Barrels
2-Nov	EAC	Encore Acquisition Company	Denbury Resources Offers \$50 a Share to Acquire Encore
2-Nov	CVX	Chevron Corporation	Raise Net Present Value to \$102 a Share from \$97
29-Oct	* COSWF	Canadian Oil Sands Trust	Operating at Capacity
29-Oct	XOM	Exxon Mobil Corporation	Cash Flow Rising after Decline
29-Oct	RDSA	Royal Dutch Shell plc	Shedding Downstream Image
28-Oct	COP	ConocoPhillips	Downsizing to Revitalize
28-Oct	EAC	Encore Acquisition Company	Raise Net Present Value to \$50 a Share from \$44
27-Oct	* BP	BP p.l.c.	Raise Net Present Value to \$80 a Share from \$72
23-Oct	* OXY	Occidental Petroleum Corporation	Raise Net Present Value to \$95 a Share from \$87
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
30-Aug	* LUKOY	Lukoil Oil Company	Contributing to Russia's Oil Future
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
5-Aug	* BRY	Berry Petroleum	Back on Track
<b>Meter Reader</b>			
24-Nov			
17-Nov		BG Group	Oil Price Trend Validates Offshore Brazil
10-Nov		Weekly	Political Pressure on Natural Gas Price
3-Nov	*	Weekly	Buy China Oil and Gas
<b>Income and Small Cap Weekly</b>			
20-Nov		Freehold Royalty Trust	Highest Distribution Rate Unhedged
13-Nov		Peyto Energy Trust	Deep Basin Drilling "Going to Explode"
6-Nov		Hugoton Royalty Trust	Distribution Trend Up
30-Oct	*	Canadian Oil Sands Trust	COSWF Priced for Deal
<b>Industry Ideas</b>			
2-Apr	*	Presentation	Making Money in Oil and Gas Stocks
	*	Archived on <a href="http://www.mcdep.com">www.mcdep.com</a>	



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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.