



Independent Stock Idea

Intraday February 3, 2017

Royal Dutch Shell (RDS) BG Paying Off

<i>Symbol</i>	RDS-A	<i>Ebitda Next Twelve Months ending 12/31/17 (US\$m)</i>	52,900
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	2
<i>Price (US\$/sh)</i>	55.00	<i>Natural Gas and Oil Production/Ebitda (%)</i>	67
<i>Pricing Date</i>	2/3/17	<i>Adjusted Reserves/Production NTM</i>	9.2
<i>Shares (mm)</i>	3965	<i>EV/Ebitda</i>	6.7
<i>Market Capitalization (US\$m)</i>	218,000	<i>PV/Ebitda</i>	8.5
<i>Debt (US\$m)</i>	134,000	<i>Undeveloped Reserves (%)</i>	34
<i>Enterprise Value (EV) (US\$m)</i>	352,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	26.30
<i>Present Value (PV) (US\$m)</i>	451,000	<i>Present Value Proven Reserves(US\$/boe)</i>	20.10
<i>Net Present Value (US\$/share)</i>	80	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.35
<i>Debt/Present Value</i>	0.30	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.64
<i>McDep Ratio - EV/PV</i>	0.78	<i>Price/Earnings Next Twelve Months</i>	15
<i>Dividend Yield (%/year)</i>	6.8	<i>Indicated Annual Dividend (US\$/sh)</i>	3.76
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.00 a million btu.			
For historical analysis of RDS since 2001 see www.mcdep.com/1rd.htm			

Summary and Recommendation

Latest results disclosed on February 2 for buy-recommended **Royal Dutch Shell (RDS)** displayed surprising strength in oil volume and Rest of World natural gas price that lend credence to our targeted Net Present Value (NPV) of \$80 a share (see tables [Operating and Financial Estimates](#) and [Present Value](#) on pages 2-3). Oil volumes are growing rapidly in deep water offshore Brazil and profits are percolating in liquefied natural gas (LNG) with the arrival of cold weather in China and Europe. Brazil and LNG were the two main attractions in Shell's near \$80 billion acquisition of BG Group. A large debt as a result of that acquisition dropped by some \$7 billion, or 6%, in the quarter just ended. Shrinking debt boosts investor confidence in the viability of the company's dividend yield near 7%, highest among 19 operating companies in our coverage. With assets sales underway to reduce debt further, the volumes sold are likely to be more than matched by a million barrels daily of new projects reaching completion (see slide [New Projects](#) on page 3). Historical trends for RDS and Global Integrated peers track industry economics in the 2010s (see charts [Oil and Gas Production Per Share](#), [Production Ebitda](#), [Operating Leverage](#), and [Downstream](#) on pages 4-5). Distinctions by McDep Ratio have narrowed (see [Tables 1-4](#) on pages 6-9). Continued reduction of financial risk along with favorable results may help RDS stock deliver the incremental performance implied by lower McDep Ratio than U.S. peers.

Kurt H. Wulff, CFA



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Royal Dutch/Shell										
Next Twelve Months Operating and Financial Estimates										
(includes BG Group in 2016)										
	Q4	Year	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Next Twelve Months
	12/31/15	2015	9/30/16	12/31/16	2016	3/31/17	6/30/17	9/30/17	12/31/17	12/31/17
Volume										
Natural Gas (mmcf)										
Americas	1,399	1,400	1,509	1,523	1,538	1,523	1,523	1,523	1,523	1,523
Rest of World	7,342	6,979	8,495	9,792	9,075	9,312	8,699	8,495	9,792	9,074
Total	8,741	8,380	10,004	11,315	10,613	10,835	10,222	10,018	11,315	10,597
Days	92	365	92	92	366	90	91	92	92	365
Oil (mmb)	141	551	172	180	673	176	178	180	180	713
Oil (mbd)	1.532	1,509	1,870	1,954	1,838	1,954	1,954	1,954	1,954	1,954
Total gas & oil (mmb)	275	1,060	325	353	1,320	338	333	333	353	1,358
Total gas & oil (mbd)	2,989	2,905	3,537	3,840	3,607	3,760	3,658	3,624	3,840	3,720
Price										
Natural gas (\$/mcf)										
Henry Hub (\$/mmbtu)	2.28	2.67	2.81	2.98	2.46	3.56	3.41	3.48	3.54	3.50
Americas	2.04	2.35	2.17	2.58	2.01	2.90	2.78	2.84	2.88	2.85
Rest of World	4.65	5.34	3.64	4.26	3.93	4.26	4.26	4.26	4.26	4.26
Total	4.23	4.84	3.42	4.03	3.65	4.07	4.04	4.04	4.07	4.05
Oil (\$/bbl)										
WTI Cushing	42.21	48.79	44.91	49.21	43.31	53.00	54.22	55.13	55.43	54.45
Worldwide	38.81	46.39	40.43	44.30	38.63	47.71	48.82	49.64	49.90	49.03
Total gas & oil (\$/bbl)	32.26	38.05	31.05	34.42	30.44	36.51	37.36	37.93	37.39	37.30
Revenue (\$mm)										
Natural Gas										
Americas	263	1,200	301	361	1,129	398	385	397	404	1,584
Rest of World	3,139	13,601	2,846	3,834	13,062	3,566	3,369	3,326	3,834	14,095
Total	3,402	14,801	3,148	4,195	14,190	3,965	3,754	3,723	4,238	15,679
Oil	5,470	25,544	6,956	7,964	25,986	8,391	8,681	8,923	8,971	34,965
Other	49,274	224,614	49,141	49,141	187,338	51,400	51,400	51,400	51,400	205,600
Total	58,146	264,960	61,855	64,767	233,591	63,755	63,834	64,046	64,608	256,244
Expense	49,023	224,075	49,927	53,761	192,223	50,822	50,761	50,767	50,986	203,337
Ebitda (\$mm)										
Exploration and Production	5,822	21,798	7,617	7,849	26,071	8,633	8,773	8,979	9,322	35,708
Other	3,301	19,086	4,311	3,157	15,297	4,300	4,300	4,300	4,300	17,200
Total Ebitda	9,123	40,885	11,928	11,006	41,368	12,933	13,073	13,279	13,622	52,908
Exploration	549	3,313	548	568	2,108	568	568	568	568	2,272
Deprec., Deplet., & Amort.	5,281	19,258	6,191	6,558	24,993	6,558	6,500	6,500	6,500	26,058
Other non cash		-			-					-
Ebit	3,293	18,314	5,189	3,880	14,267	5,807	6,005	6,211	6,554	24,578
Interest	430	1,799	948	1,115	3,203	600	600	600	600	2,400
Ebt	2,863	16,515	4,241	2,765	11,064	5,207	5,405	5,611	5,954	22,178
Income Tax	1,002	5,780	1,484	968	3,872	1,823	1,892	1,964	2,084	7,762
Net Income (\$mm)										
Exploration and Production	493		935	961	996					
Other	1,524		2,078	1,339	7,243					
Unallocated	(156)		(256)	(503)	(1,047)					
Total	1,861	10,734	2,757	1,797	7,192	3,385	3,513	3,647	3,870	14,416
Shares (millions)	3,208	3,195	4,054	4,085	3,951	3,965	3,965	3,965	3,965	3,965
Per share (\$)	0.58	3.36	0.68	0.44	1.82	0.85	0.89	0.92	0.98	3.64
Ebitda Margin (E&P)	66%	54%	75%	65%	65%	70%	71%	71%	71%	71%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%

Royal Dutch Shell plc					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	1,120	2.7	8.0	9,000	2%
Rest of World Natural Gas	9,940	9.4	8.5	84,000	19%
Oil	24,650	7.9	10.1	248,000	55%
Downstream	17,200		6.4	110,000	24%
	52,910	9.2	8.5	451,000	100%
Debt (US\$mm)					134,000
Net Present Value (US\$mm)					317,000
Shares (mm)					3,965
Net Present Value - Standard Estimate (US\$/sh)					80
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					90

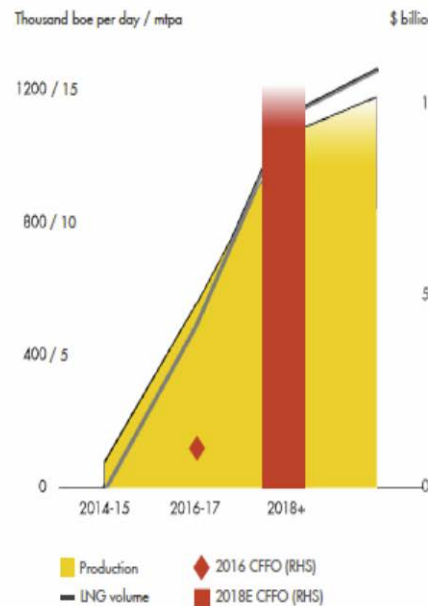
Manage down-cycle
**Deliver new projects:
 ~\$10 billion
 by 2018**

- ~\$10 billion CFFO
- > 1 million boe/day
- Cash operating cost <\$15/boe
- Tax rate ~35%



Start-up

Shell projects start-ups 2014+

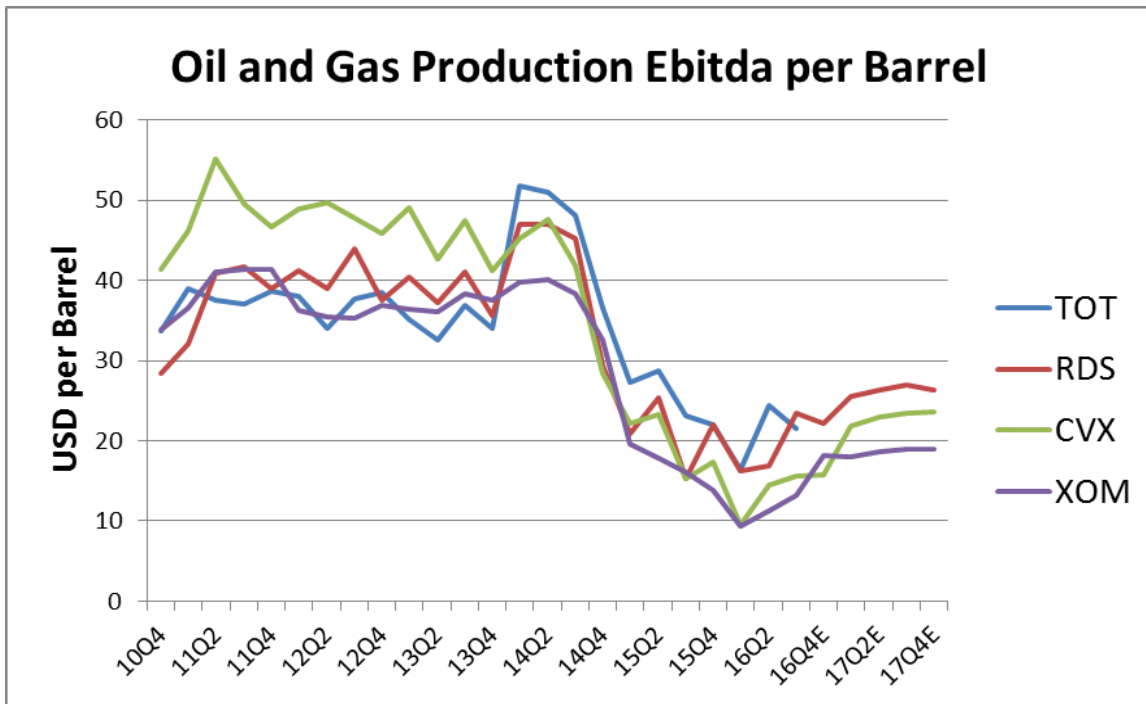
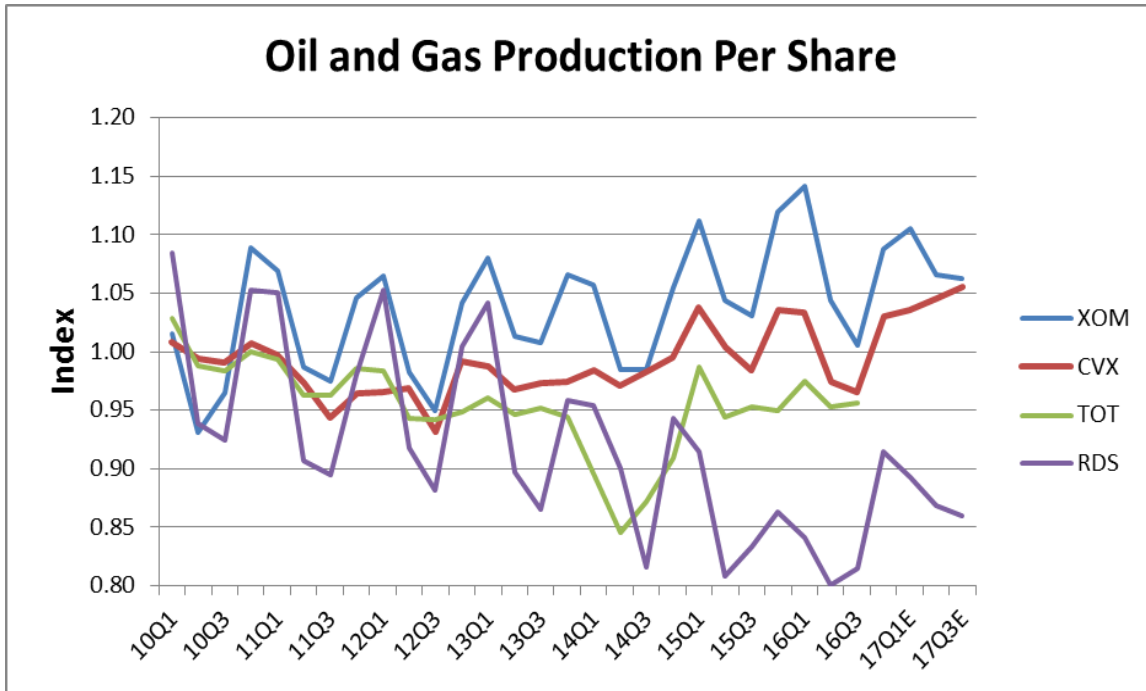


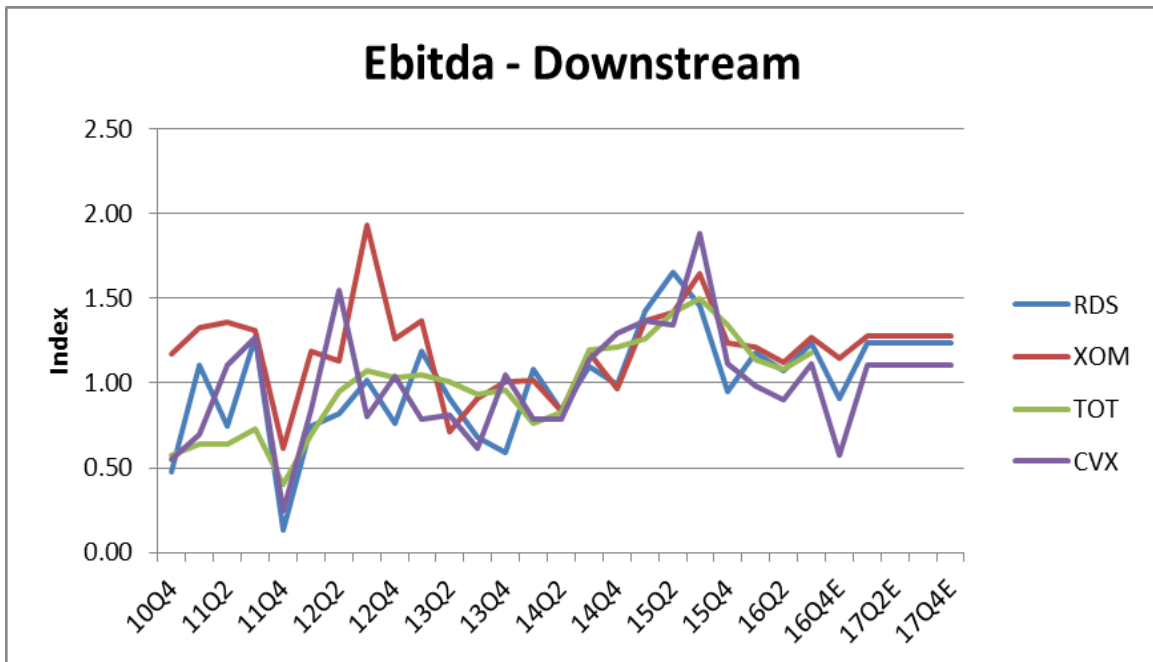
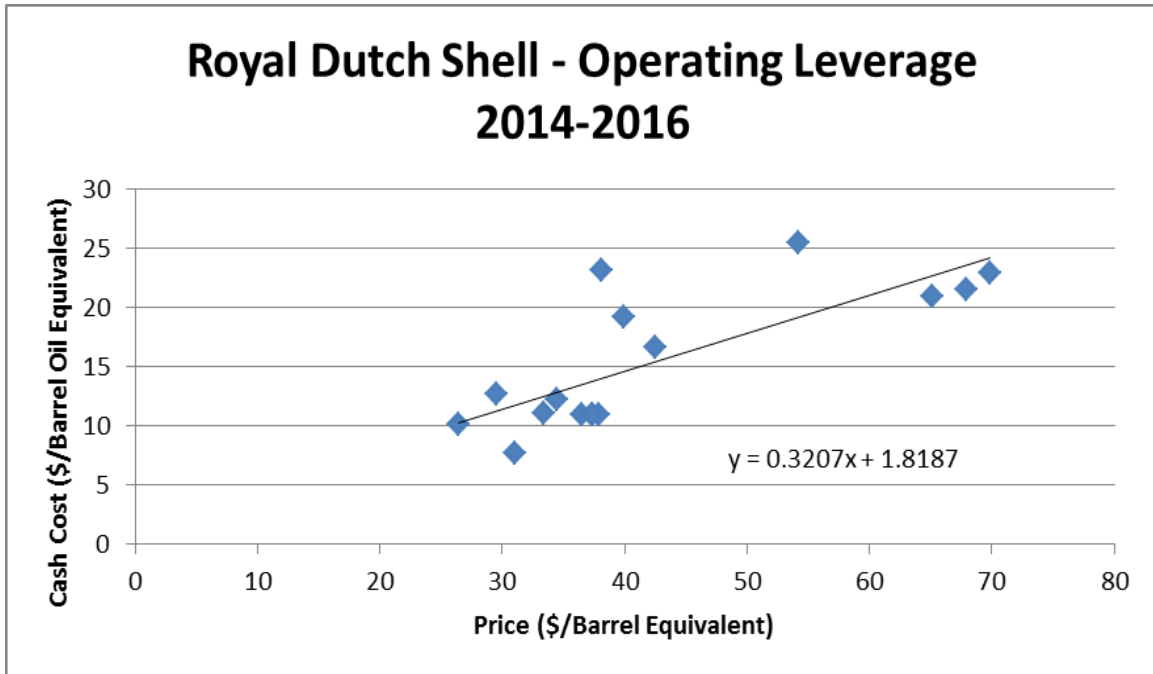
BG organic growth from 1.1.2016; LNG volume includes offshore; 2016 RT \$60 oil price scenario 2018



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Table 1
McDep Energy Stocks
Ranked by McDep Ratio

		Price (US\$/sh)	Market Cap (US\$m)	Enterprise Value (\$mm)	EV/ Market Cap	EV/ Ebitda NTM	PV/ Ebitda NTM	Oil Prod'n/ PV (%)	Dist. Yield NTM (%)	McDep Ratio (EV/PV)	
	Symbol/Rating	3-Feb 2017									
Global Integrated											
	Chevron Corporation	CVX	113.67	215,000	284,000	1.32	8.9	10.2	64	3.8	0.88
	Exxon Mobil Corporation	XOM	83.45	349,000	444,000	1.27	9.7	11.2	49	3.6	0.87
	Royal Dutch Shell	RDS-A B	55.00	218,000	352,000	1.61	6.7	8.5	55	6.8	0.78
	Total S.A.	TOT B	50.85	122,000	185,000	1.51	6.2	9.3	57	5.2	0.66
	<i>Total or Median</i>			904,000	1,265,000	1.42	7.8	9.8	56	4.5	0.82
Large Independent											
	EOG Resources, Inc.	EOG	101.28	55,500	62,700	1.13	14.2	13.8	86	0.7	1.17
	Devon Energy Corporation	DVN	46.63	24,600	35,500	1.44	13.1	11.2	60	0.5	1.03
	Occidental Petroleum Corp.	OXY	69.25	52,900	63,400	1.20	11.3	12.1	84	4.4	0.94
	Marathon Oil Corporation	MRO B	17.19	14,560	22,700	1.56	10.9	12.1	88	1.2	0.91
	ConocoPhillips	COP B	50.31	63,000	102,000	1.63	9.3	11.6	72	2.1	0.81
	<i>Total or Median</i>			210,600	286,000	1.44	11.3	12.1	84	1.2	0.94
Small Independent											
	Cimarex Energy Company	XEC	134.42	12,500	13,800	1.10	11.7	13.0	62	0.2	1.11
	Continental Resources (32%)	CLR B	48.35	5,700	7,900	1.38	12.7	11.5	71	-	0.90
	California Resources	CRC	21.78	900	7,100	7.81	10.6	15.3	87	-	0.86
	Whiting Petroleum Corporation	WLL	11.22	4,000	7,600	1.89	8.0	10.6	91	-	0.76
	Range Resources	RRC B	33.31	8,100	12,400	1.53	8.2	9.5	24	0.2	0.69
	<i>Total or Median</i>			31,000	49,000	1.53	10.6	11.5	71	-	0.86
Income											
	San Juan Basin Royalty Trust	SJT	7.80	360	360	1.00	13.6	20.6	-	9.2	0.98
	Permian Basin RT	PBT	8.99	420	420	1.00	10.1	16.2	77	7.9	0.82
	Dorchester Minerals, L.P.	DMLP B	16.55	510	510	1.00	11.4	16.5	72	8.0	0.69
	Sabine Royalty Trust	SBR B	39.50	580	580	1.00	10.4	10.7	56	7.4	0.66
	Cross Timbers Royalty Trust	CRT	18.03	110	110	1.00	11.8	14.5	29	9.0	0.62
	<i>Total or Median</i>			2,000	2,000	1.00	11.4	16.2	56	8.0	0.69
Canada											
	EnCana Corporation	ECA	12.61	12,300	18,900	1.54	12.0	10.4	59	0.5	1.16
	Imperial Oil Limited (30%)	IMO	33.25	8,500	10,900	1.29	8.5	9.4	62	1.4	0.90
	Suncor Energy	SU B	31.55	52,600	71,100	1.35	7.9	10.3	86	2.8	0.77
	Cenovus Energy Inc.	CVE	13.72	11,400	15,600	1.36	7.4	9.9	81	1.1	0.75
	Birchcliff Energy Ltd.	BIREF B	6.07	1,600	2,200	1.39	8.1	11.9	26	1.3	0.68
	<i>Total or Median</i>			86,000	119,000	1.36	8.1	10.3	62	1.3	0.77

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation, amort.
 Estimated Ebitda (cash flow) tied to NTM futures prices for oil and natural gas. NTM = Next Twelve Months ending 12/31/17.
 Estimated Present Value (PV) presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.00 a million btu.
 McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses. For historical research see www.mcdep.com



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Table 2										
McDep Energy Stocks										
Production Operating Leverage										
Ranked by McDep Ratio										
		Price (US\$/sh)	Volume	Oil Equiv. Price (\$/boe)	Operating Expense Fixed Var. (\$/boe) (%)	Ebitda NTM (\$/boe)	Ebitda NTM (\$mm)	Oper Lev Ebitda chg/ Price chg	McDep Ratio	
Symbol/Rating	3-Feb	2017	(mmboe)							
B = Buy										
Global Integrated (excl. Downstream)										
Chevron Corporation	CVX	113.67	884	39.67	8 22	22.90	20,249	1.35	0.88	
Exxon Mobil Corporation	XOM	83.45	1,503	39.46	7 35	18.60	27,958	1.38	0.87	
Royal Dutch Shell	RDS-A B	55.00	1,358	37.30	2 24	26.30	35,708	1.08	0.78	
Total S.A.	TOT B	50.85	853	38.80	0 39	23.80	20,304	1.00	0.66	
<i>Total or Median</i>								1.21	0.82	
Large Independent										
EOG Resources, Inc.	EOG	101.28	210	34.53	10 5	22.80	4,782	1.44	1.17	
Devon Energy Corporation	DVN	46.63	153	25.63	9 1	16.30	2,499	1.55	1.03	
Occidental Petroleum Corp.	OXY	69.25	257	36.03	6 23	21.80	5,611	1.28	0.94	
Marathon Oil Corporation	MRO B	17.19	138	31.14	13 10	15.10	2,083	1.86	0.91	
ConocoPhillips	COP B	50.31	569	33.03	6 24	19.20	10,923	1.31	0.81	
<i>Total or Median</i>								1.44	0.94	
Small Independent										
Cimarex Energy Company	XEC	134.42	63	27.45	6 15	17.30	1,085	1.35	1.11	
Continental Resources (32%)	CLR B	48.35	26	33.31	3 14	25.80	675	1.12	0.90	
California Resources	CRC	21.78	47	40.68	21 3	18.60	871	2.13	0.86	
Whiting Petroleum Corporation	WLL	11.22	42	37.32	9 15	22.70	945	1.40	0.76	
Range Resources	RRC B	33.31	122	18.33	8 4	9.60	1,171	1.83	0.69	
<i>Total or Median</i>								1.40	0.86	
Income										
San Juan Basin Royalty Trust	SJT	7.80	3	17.65	5 14	10.15	35	1.49	0.98	
Permian Basin RT	PBT	8.99	2	35.40	10 9	22.32	35	1.45	0.82	
Dorchester Minerals, L.P.	DMLP B	16.55	2	34.32	7 11	23.66	45	1.30	0.69	
Sabine Royalty Trust	SBR B	39.50	2	31.73	2 9	26.74	42	1.07	0.66	
Cross Timbers Royalty Trust	CRT	18.03	0	36.54	8 14	23.43	11	1.34	0.62	
<i>Total or Median</i>								1.34	0.69	
Canada (excl. Downstream)										
EnCana Corporation	ECA	12.61	109	25.87	11 2	14.37	1,572	1.77	1.16	
Imperial Oil Limited (30%)	IMO	33.25	72	36.12	14 12	17.90	1,290	1.78	0.90	
Suncor Energy	SU B	31.55	344	48.77	16 14	25.97	8,946	1.62	0.77	
Cenovus Energy Inc.	CVE	13.72	113	30.65	11 4	18.53	2,090	1.59	0.75	
Birchcliff Energy Ltd.	BIREF B	6.07	21	20.22	4 14	13.30	274	1.30	0.68	
<i>Total or Median</i>								1.62	0.77	
For historical research see www.mcdep.com										



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Table 3											
McDep Energy Stocks											
Net Present Value Per Share											
Ranked by Reserve Life (Adjustd Resrvs/Prod NTM)											
			Price (US\$/sh)			Dividend		Down- stream/ PV	Proven Undev. Resrvs	Adjustd Resrvs/ Prod NTM	Net Present Value (US\$/sh)
	Symbol/Rating	3-Feb 2017	Shares (mm)	Debt (\$mm)	NTM (\$/sh)	P/E NTM	(%)	(%)			
	B = Buy										
Global Integrated											
	Exxon Mobil Corporation	XOM	83.45	4,176	95,027	3.00	21	25	27	14.2	100.00
	Total S.A.	TOT B	50.85	2,404	62,452	2.63	12	24	47	9.9	90.00
	Royal Dutch Shell	RDS-A B	55.00	3,965	133,961	3.76	15	24	34	9.2	80.00
	Chevron Corporation	CVX	113.67	1,890	68,829	4.32	26	19	38	9.1	135.00
	<i>Median</i>									9.6	
Large Independent											
	Marathon Oil Corporation	MRO B	17.19	847	8,158	0.20		-	27	12.6	20.00
	ConocoPhillips	COP B	50.31	1,246	39,395	1.06		-	37	11.0	70.00
	Occidental Petroleum Corp.	OXY	69.25	764	10,500	3.04	77	9	21	8.9	75.00
	Devon Energy Corporation	DVN	46.63	548	7,151	0.24	98	10	18	8.4	45.00
	EOG Resources, Inc.	EOG	101.28	527	10,895	0.67	155	-	30	7.5	85.00
	<i>Median</i>									8.9	
Small Independent											
	Range Resources	RRC B	33.31	42	6,200	0.08	61	-	44	12.9	56.00
	California Resources	CRC	21.78	244	4,290	-		-	25	12.0	50.00
	Continental Resources (32%)	CLR B	48.35	93	1,287	-		-	57	11.4	56.00
	Whiting Petroleum Corporation	WLL	11.22	358	3,560	-		-	67	9.3	18.00
	Cimarex Energy Company	XEC	134.42	118	2,178	0.32	35	-	25	6.8	120.00
	<i>Median</i>									11.4	
Income											
	Sabine Royalty Trust	SBR B	39.50	47	-	2.91	14	-	5	10.1	60.00
	San Juan Basin Royalty Trust	SJT	7.80	15	-	0.72	11	-	-	9.8	8.00
	Permian Basin RT	PBT	8.99	6	-	0.71	13	-	-	8.6	11.00
	Dorchester Minerals, L.P.	DMLP B	16.55	31	-	1.32	15	-	-	7.4	24.00
	Cross Timbers Royalty Trust	CRT	18.03	47	-	1.63	11	-	-	7.1	29.00
	<i>Median</i>									8.6	
Canada											
	Imperial Oil Limited (30%)	IMO	33.25	255	2,467	0.46	13	37	12	32.7	38.00
	Suncor Energy	SU B	31.55	1,665	18,554	0.88	19	14	46	20.7	44.00
	Cenovus Energy Inc.	CVE	13.72	833	4,128	0.15		9	30	16.2	20.00
	Birchcliff Energy Ltd.	BIREF B	6.07	263	628	0.08	26	-	64	12.1	10.00
	EnCana Corporation	ECA	12.61	973	6,603	0.06		-	33	6.1	10.00
	<i>Median</i>									16.2	
P/E = Stock Price to Earnings. For historical research see www.mcdep.com .											



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Table 4										
McDep Energy Stocks										
Total Return Year-to-Date 2017										
Ranked by Unlevered Total Return										
			Price	Price			Equity	Unlevered		
	Symbol/Rati		(\$/sh)	(\$/sh)	Price	Cash	Total	Debt	Return	McDep
			3-Feb	30-Dec	Change	Distrib.	Return	Return	Return	Ratio
			2017	2016	(%)	(%)	(%)	(\$/sh)	(%)	
Global Integrated										
	Royal Dutch Shell	RDS-A B	55.00	54.38	1	-	1	34	1	0.78
	Total S.A.	TOT B	50.85	50.97	(0)	-	(0)	26	(0)	0.66
	Chevron Corporation	CVX	113.67	117.70	(3)	-	(3)	36	(3)	0.88
	Exxon Mobil Corporation	XOM	83.45	90.26	(8)	-	(8)	23	(6)	0.87
	<i>Median</i>				(2)		(2)		(1)	0.82
Large Independent										
	Devon Energy Corporation	DVN	46.63	45.67	2	-	2	21	1	1.03
	EOG Resources, Inc.	EOG	101.28	101.10	0	0.2	0	13	0	1.17
	ConocoPhillips	COP B	50.31	50.14	0	-	0	32	0	0.81
	Marathon Oil Corporation	MRO B	17.19	17.31	(1)	-	(1)	10	(0)	0.91
	Occidental Petroleum Corp.	OXY	69.25	71.23	(3)	-	(3)	14	(2)	0.94
	<i>Median</i>				0		0		0	0.94
Small Independent										
	California Resources	CRC	21.78	21.29	2	-	2	148	0	0.86
	Cimarex Energy Company	XEC	134.42	135.90	(1)	-	(1)	14	(1)	1.11
	Range Resources	RRC B	33.31	34.36	(3)	-	(3)	18	(2)	0.69
	Whiting Petroleum Corporation	WLL	11.22	12.02	(7)	-	(7)	10	(4)	0.76
	Continental Resources (32%)	CLR B	48.35	51.54	(6)	-	(6)	18	(5)	0.90
	<i>Median</i>				(3)		(3)		(2)	0.86
Income										
	San Juan Basin Royalty Trust	SJT	7.80	6.62	18	0.9	19	-	19	0.98
	Permian Basin RT	PBT	8.99	7.71	17	0.8	17	-	17	0.82
	Sabine Royalty Trust	SBR B	39.50	35.15	12	0.4	13	-	13	0.66
	Cross Timbers Royalty Trust	CRT	18.03	17.97	0	0.5	1	-	1	0.62
	Dorchester Minerals, L.P.	DMLP B	16.55	17.55	(6)	1.4	(4)	-	(4)	0.69
	<i>Median</i>				12		13		13	0.69
Canada										
	EnCana Corporation	ECA	12.61	11.74	7	-	7	7	5	1.16
	Suncor Energy	SU B	31.55	32.69	(3)	-	(3)	11	(3)	0.77
	Imperial Oil Limited (30%)	IMO	33.25	34.76	(4)	-	(4)	10	(3)	0.90
	Cenovus Energy Inc.	CVE	13.72	15.13	(9)	-	(9)	5	(7)	0.75
	Birchcliff Energy Ltd.	BIREF B	6.07	7.01	(13)	-	(13)	2	(10)	0.68
	<i>Median</i>				(4)		(4)		(3)	0.77
	<i>Grand Median</i>				(1)		(1)		(1)	0.84
	Natural Gas (\$/mmbtu)		3.07	3.74	(18)					
	Oil - West Texas Intermediate (\$/bbl)		53.80	53.72	0					
	Total Stock Market - U.S.	VII	118.39	115.32	3					
	Developed Markets - ex US	VEA	38.25	36.54	5					
	Emerging Markets	VWO	38.32	35.78	7					

Source: McDep LLC, Yahoo, CME Group, Bloomberg

For historical research see www.mcdep.com



Independent Stock Idea

Intraday February 3, 2017

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