



# Meter Reader

A Monthly Analysis of Oil and Gas Stocks

May 9, 2017

## Positive Progress

	Symbol/Rating	Price (US\$/sh) 8-May 2017	Market Cap (US\$m)	Enterprise Value (\$mm)	EV/ Market Cap	EV/ Ebitda NTM	PV/ Ebitda NTM	Oil	Dist.	McDep Ratio (EV/PV)	
								Prod'n/ PV	Yield NTM		
								(%)	(%)		
Royal Dutch Shell	RDS-A	B	54.48	222,000	353,000	1.59	7.3	9.5	51	6.9	0.77
Total S.A.	TOT	B	52.44	129,000	184,000	1.43	6.4	9.6	53	5.2	0.67
Marathon Oil Corporation	MRO	B	14.59	12,390	20,200	1.63	11.3	13.9	90	1.4	0.81
ConocoPhillips	COP	B	47.13	59,000	94,000	1.59	10.0	13.0	73	2.2	0.77
Continental Resources (32%)	CLR	B	42.11	5,000	7,100	1.42	12.1	11.9	74	-	0.81
Range Resources	RRC	B	25.82	6,300	10,700	1.69	12.7	15.7	31	0.3	0.59
Sabine Royalty Trust	SBR	B	38.00	550	550	1.00	10.2	11.3	59	6.8	0.63
Cross Timbers Royalty Trust	CRT	B	15.22	90	90	1.00	13.2	15.2	28	9.4	0.52
Suncor Energy	SU	B	31.57	52,600	68,900	1.31	9.2	12.0	84	3.0	0.77
Birchcliff Energy Ltd.	BIREF	B	5.00	1,300	1,900	1.42	7.0	12.1	32	1.1	0.58

## Summary and Recommendation

Quarterly results reported for 21 of 25 McDep stocks confirm performance supporting our estimates of Net Present Value (NPV). In the Global Integrated group we saw strong stock price performance from buy- recommended **Total (TOT)** along with developed markets outside U.S. (VEA) all coincident with the run up to the French presidential election held on May 7. Among Large Cap Independent Producers, buy-recommended **ConocoPhillips (COP)** has both low McDep Ratio and positive momentum with stock price in an upward trend above the 200 day average (see charts on page 3). Among Small Cap Independents, buy-recommend **Continental Resources (CLR)** delivers consistent oil results within the context of volatile price. Buy-recommended **Cross Timbers Royalty Trust (CRT)** disclosed that an unrelated adjustment for past production contributed to lower reported recent volumes. In the one case where latest results affected our estimate of value, we raise NPV for **Encana (ECA)** to \$12 a share from \$10 on lower costs that boost our cash flow (Ebitda) expectation disproportionately. Meanwhile, for most of our stocks, operations are proceeding smoothly and oil and gas prices have room to increase, we believe. Latest estimates demonstrate the attractive outlook (see [Tables 1-4](#) and [Index of Research](#) on pages 4-8).

## Europe/U.S. Differentiation in Global Integrated

Buy-recommended Dutch/English **Royal Dutch Shell (RDS)** and French TOT have outperformed in 2017 shareholder return their U.S. counterparts **ExxonMobil (XOM)** and **Chevron (CVX)** (Table 4). Political, economic and currency factors may be contributing, while lower McDep Ratios may also support investor interest. Though our buy designation signals our recommended new purchase action, we also believe that XOM is a suitable core holding. Similarly, we have confidence in CVX as a high quality long-term investment.



# Meter Reader

A Monthly Analysis of Oil and Gas Stocks

May 9, 2017

## Add Pioneer Resources to Large Independents

**Pioneer Natural Resources (PXD)** presents an outlook so strong that we feel our coverage is more complete by including the long-time Midland Basin producer. Our initial analysis highlights the company's prospects (see *Stock Idea, Pioneer*, April 21, 2017).

## Risk and Reward in Small Cap Independents

Downside risk is the dominant feature of performance of small cap producers in 2017. Median unlevered total return for the group is -14% since the beginning of the year. At the same time, natural gas price and oil price are also off -15% and -14%. We featured buy-recommended **Range Resources (RRC)** in a recent analysis for its natural gas concentration and volume growth acceleration in the second half of the year (see *Stock Idea, RRC*, May 2, 2017). Rebounding natural gas demand and improving transportation would help the company.

## Advantage: Income Payers

A median 7.5% annual distribution yield and no debt are two favorable attributes of Income Payers that scored a median unlevered return of 11% for the past five months. There were no surprises in quarterly reports for **Permian Basin Royalty Trust (PBT)**, **San Juan Basin Royalty Trust (SJT)** and buy-recommended **Sabine Royalty Trust (SBR)** compared to the sum of monthly disclosures in our immediately prior analysis (see *Industry Idea, Income Payers*, April 24, 2017). Since that analysis, **Dorchester Minerals (DMLP)** reported stronger than estimated oil and gas royalty volumes in its first quarter details released on May 4. Not until its quarterly release on May 5, did CRT confirm that low first quarter natural gas volumes were affected by payments for over reporting of some past volumes. To the extent that current stock price tends to be influenced by most recent distributions, we see potential extra appreciation in CRT should the higher future distributions we estimate materialize.

## Ownership Change in Canada

Investors appear to be joining RDS, COP and MRO in selling out of Canada resulting in a median unlevered return of -14% in 2017 for the five Canadian stocks in our coverage. On a value basis, we see unusual opportunity in **Cenovus (CVE)** at a McDep Ratio of 0.55. At its current price of \$US9.62, CVE stock is down 26% from US\$13.06 at the time it announced its deal to acquire the Canadian properties of COP (see *Stock Idea CVE*, March 30, 2017). CVE stock price may have overreacted to temporarily high financial risk until it can sell non-core properties to pay down debt financing to a normal level. Meanwhile, we would like to see more signs that government leaders are supportive of their oil and gas industry. In any case, we believe we will make money in our buy-recommendations of **Birchcliff (BIREF)** and **Suncor (SU)**.

Kurt H. Wulff, CFA



# Meter Reader

A Monthly Analysis of Oil and Gas Stocks  
May 9, 2017





# Meter Reader

A Monthly Analysis of Oil and Gas Stocks

May 9, 2017

**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		8-May 2017								
<b>Global Integrated</b>											
	XOM		82.89	350,000	443,000	1.27	10.3	12.0	49	3.7	0.86
	CVX		106.68	202,000	271,000	1.34	9.4	11.3	60	4.0	0.83
	RDS-A	B	54.48	222,000	353,000	1.59	7.3	9.5	51	6.9	0.77
	TOT	B	52.44	129,000	184,000	1.43	6.4	9.6	53	5.2	0.67
	<i>Total or Median</i>			903,000	1,251,000	1.38	8.4	10.5	52	4.6	0.80
<b>Large Independent</b>											
	PXD		172.46	29,300	30,900	1.05	14.0	12.2	87	0.0	1.14
	EOG		91.69	52,000	59,100	1.14	12.4	14.0	87	0.7	1.07
	DVN		38.16	20,100	28,100	1.40	13.5	12.7	62	0.6	0.88
	OXY		60.60	46,400	59,600	1.28	10.3	12.2	81	5.0	0.84
	MRO	B	14.59	12,390	20,200	1.63	11.3	13.9	90	1.4	0.81
	COP	B	47.13	59,000	94,000	1.59	10.0	13.0	73	2.2	0.77
	<i>Total or Median</i>			219,200	292,000	1.34	11.9	12.8	84	1.1	0.86
<b>Small Independent</b>											
	XEC		121.91	11,600	12,900	1.11	11.2	13.9	63	0.3	1.01
	CLR	B	42.11	5,000	7,100	1.42	12.1	11.9	74	-	0.81
	CRC		13.27	600	6,600	11.53	8.1	13.7	89	-	0.81
	WLL		8.62	3,100	6,600	2.12	8.0	12.1	92	-	0.66
	RRC	B	25.82	6,300	10,700	1.69	12.7	15.7	31	0.3	0.59
	<i>Total or Median</i>			27,000	44,000	1.69	11.2	13.7	74	-	0.81
<b>Income</b>											
	SJT		7.23	340	340	1.00	14.6	23.1	-	9.6	0.90
	PBT		9.58	450	450	1.00	8.6	16.5	78	7.2	0.87
	DMLP		16.55	510	510	1.00	13.1	19.0	76	7.5	0.69
	SBR	B	38.00	550	550	1.00	10.2	11.3	59	6.8	0.63
	CRT	B	15.22	90	90	1.00	13.2	15.2	28	9.4	0.52
	<i>Total or Median</i>			1,900	1,900	1.00	13.1	16.5	59	7.5	0.69
<b>Canada</b>											
	ECA		11.14	10,800	17,300	1.60	10.2	10.7	56	0.5	0.95
	IMO		28.85	7,400	9,200	1.25	8.2	10.3	65	1.5	0.80
	SU	B	31.57	52,600	68,900	1.31	9.2	12.0	84	3.0	0.77
	BIREF	B	5.00	1,300	1,900	1.42	7.0	12.1	32	1.1	0.58
	CVE		9.62	8,000	10,600	1.33	6.2	11.2	83	1.5	0.55
	<i>Total or Median</i>			80,000	108,000	1.33	8.2	11.2	65	1.5	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 3/31/18.

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](http://www.mcdep.com)



# Meter Reader

A Monthly Analysis of Oil and Gas Stocks

May 9, 2017

Table 2											
McDep Energy Stocks											
Production Operating Leverage											
Ranked by McDep Ratio											
			Price (US\$/sh)		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		8-May	Volume (mmboe)							
	B = Buy		2017								
<b>Global Integrated (excl. Downstream)</b>											
Exxon Mobil Corporation	XOM		82.89	1,485	37.27	7 35	17.20	25,545		1.41	0.86
Chevron Corporation	CVX		106.68	850	36.19	8 22	20.20	17,166		1.40	0.83
Royal Dutch Shell	RDS-A	B	54.48	1,324	34.40	2 26	23.40	30,972		1.09	0.77
Total S.A.	TOT	B	52.44	924	35.68	0 42	20.70	19,134		1.00	0.67
	<i>Total or Median</i>									<i>1.24</i>	<i>0.80</i>
<b>Large Independent</b>											
Pioneer Natural Resources	PXD		172.46	105	33.83	9 11	21.00	2,215		1.43	1.14
EOG Resources, Inc.	EOG		91.69	214	32.23	10 6	20.40	4,367		1.49	1.07
Devon Energy Corporation	DVN		38.16	159	24.38	9 4	14.30	2,268		1.63	0.88
Occidental Petroleum Corp.	OXY		60.60	285	34.01	8 17	20.20	5,767		1.40	0.84
Marathon Oil Corporation	MRO	B	14.59	131	26.47	13 -1	13.60	1,782		1.96	0.81
ConocoPhillips	COP	B	47.13	544	31.14	6 25	17.30	9,403		1.35	0.77
	<i>Total or Median</i>									<i>1.46</i>	<i>0.86</i>
<b>Small Independent</b>											
Cimarex Energy Company	XEC		121.91	67	26.03	6 16	15.90	1,071		1.38	1.01
Continental Resources (32%)	CLR	B	42.11	27	30.56	3 14	23.20	634		1.13	0.81
California Resources	CRC		13.27	45	38.02	15 30	11.50	517		2.30	0.81
Whiting Petroleum Corporation	WLL		8.62	47	31.78	9 16	17.60	832		1.51	0.66
Range Resources	RRC	B	25.82	131	18.03	8 0	10.00	1,315		1.80	0.59
	<i>Total or Median</i>									<i>1.51</i>	<i>0.81</i>
<b>Income</b>											
San Juan Basin Royalty Trust	SJT		7.23	3	17.81	5 13	10.41	33		1.48	0.90
Permian Basin RT	PBT		9.58	1	33.20	10 2	22.52	34		1.44	0.87
Dorchester Minerals, L.P.	DMLP		16.55	2	30.29	7 11	20.04	39		1.35	0.69
Sabine Royalty Trust	SBR	B	38.00	1	30.56	2 9	25.79	38		1.08	0.63
Cross Timbers Royalty Trust	CRT	B	15.22	0	34.66	8 10	23.30	11		1.34	0.52
	<i>Total or Median</i>									<i>1.35</i>	<i>0.69</i>
<b>Canada (excl. Downstream)</b>											
EnCana Corporation	ECA		11.14	120	27.15	11 7	14.15	1,698		1.78	0.95
Imperial Oil Limited (30%)	IMO		28.85	71	33.23	14 11	15.60	1,115		1.90	0.80
Suncor Energy	SU	B	31.57	349	43.35	18 9	21.37	7,467		1.84	0.77
Birchcliff Energy Ltd.	BIREF	B	5.00	22	19.03	1 31	12.20	270		1.08	0.58
Cenovus Energy Inc.	CVE		9.62	116	26.34	11 2	14.91	1,728		1.74	0.55
	<i>Total or Median</i>									<i>1.78</i>	<i>0.77</i>

For historical research see [www.mcdep.com](http://www.mcdep.com)



# Meter Reader

A Monthly Analysis of Oil and Gas Stocks

May 9, 2017

			<i>Price</i>					<i>Down-</i>	<i>Proven</i>	<i>Adjustd</i>	<i>Net</i>
	<i>Symbol/Rating</i>		<i>(US\$/sh)</i>	<i>8-May</i>	<i>Shares</i>	<i>Debt</i>	<i>Dividend</i>	<i>stream/</i>	<i>Undev.</i>	<i>Resrvs/</i>	<i>Present</i>
	B = Buy			2017	(mm)	(\$mm)	NTM	PV	(%)	NTM	(US\$/sh)
<b>Global Integrated</b>											
Exxon Mobil Corporation	XOM		82.89	4,223	93,323	3.08	23	27	31	11.4	100.00
Chevron Corporation	CVX		106.68	1,895	68,305	4.32	29	19	32	9.3	135.00
Total S.A.	TOT	B	52.44	2,457	55,616	2.73	12	23	42	9.3	90.00
Royal Dutch Shell	RDS-A	B	54.48	4,070	131,054	3.76	21	24	25	8.6	80.00
	<i>Median</i>									9.3	
<b>Large Independent</b>											
Marathon Oil Corporation	MRO	B	14.59	849	7,788	0.20		-	24	13.7	20.00
ConocoPhillips	COP	B	47.13	1,249	34,753	1.06		-	25	9.7	70.00
Occidental Petroleum Corp.	OXY		60.60	765	13,200	3.04	57	13	23	9.4	75.00
Devon Energy Corporation	DVN		38.16	528	8,002	0.24	82	9	20	9.2	45.00
EOG Resources, Inc.	EOG		91.69	567	7,107	0.67		-	30	7.5	85.00
Pioneer Natural Resources	PXD		172.46	170	1,600	0.08	68	-	7	6.6	150.00
	<i>Median</i>									9.3	
<b>Small Independent</b>											
Range Resources	RRC	B	25.82	245	4,345	0.08	22	-	44	11.9	56.00
Continental Resources (32%)	CLR	B	42.11	119	2,095	-		-	59	11.4	56.00
California Resources	CRC		13.27	43	6,000	-		-	29	10.8	50.00
Whiting Petroleum Corporation	WLL		8.62	363	3,517	-		-	53	9.6	18.00
Cimarex Energy Company	XEC		121.91	95	1,321	0.32	36	-	21	6.4	120.00
	<i>Median</i>									10.8	
<b>Income</b>											
Sabine Royalty Trust	SBR	B	38.00	15	-	2.60	15	-	4	11.3	60.00
San Juan Basin Royalty Trust	SJT		7.23	47	-	0.69	10	-	-	9.9	8.00
Permian Basin RT	PBT		9.58	47	-	0.69	14	-	13	9.4	11.00
Cross Timbers Royalty Trust	CRT	B	15.22	6	-	1.43	11	-	-	7.5	29.00
Dorchester Minerals, L.P.	DMLP		16.55	31	-	1.24	17	-	-	7.2	24.00
	<i>Median</i>									9.4	
<b>Canada</b>											
Suncor Energy	SU	B	31.57	1,667	16,242	0.94	26	16	44	15.2	44.00
Cenovus Energy Inc.	CVE		9.62	833	2,623	0.15		8	76	15.1	20.00
Birchcliff Energy Ltd.	BIREF	B	5.00	269	561	0.05	20	-	69	13.1	10.00
Imperial Oil Limited (30%)	IMO		28.85	255	1,832	0.44	13	34	23	9.8	38.00
EnCana Corporation	ECA		11.14	973	6,461	0.06		-	43	5.2	12.00
	<i>Median</i>									13.1	
P/E = Stock Price to Earnings. For historical research see <a href="http://www.mcdep.com">www.mcdep.com</a> .											



# Meter Reader

A Monthly Analysis of Oil and Gas Stocks  
May 9, 2017

Table 4										
McDep Energy Stocks										
Total Return Year-to-Date 2017										
Ranked by Unlevered Total Return										
			Price (\$/sh)	Price (\$/sh)	Price Change (%)	Cash Distrib. (%)	Equity Total Return (%)	Unlevered Debt Return (\$/sh)	Unlevered Return (%)	McDep Ratio
	Symbol/Ratio		8-May 2017	30-Dec 2016						
<b>Global Integrated</b>										
Total S.A.	TOT	B	52.44	50.97	3	1	4	23	3	0.67
Royal Dutch Shell	RDS-A	B	54.48	54.38	0	2	2	32	1	0.77
Exxon Mobil Corporation	XOM		82.89	90.26	(8)	1	(7)	22	(6)	0.86
Chevron Corporation	CVX		106.68	117.70	(9)	1	(8)	36	(6)	0.83
	<i>Median</i>				(4)		(3)		(2)	0.80
<b>Large Independent</b>										
ConocoPhillips	COP	B	47.13	50.14	(6)	1	(5)	28	(4)	0.77
Pioneer Natural Resources	PXD		172.46	180.00	(4)	0	(4)	9	(4)	1.14
EOG Resources, Inc.	EOG		91.69	101.10	(9)	0.3	(9)	13	(8)	1.07
Marathon Oil Corporation	MRO	B	14.59	17.31	(16)	0	(15)	9	(10)	0.81
Occidental Petroleum Corp.	OXY		60.60	71.23	(15)	1	(14)	17	(11)	0.84
Devon Energy Corporation	DVN		38.16	45.67	(16)	0	(16)	15	(12)	0.88
	<i>Median</i>				(12)		(11)		(9)	0.86
<b>Small Independent</b>										
California Resources	CRC		13.27	21.29	(38)	-	(38)	141	(5)	0.81
Cimarex Energy Company	XEC		121.91	135.90	(10)	0	(10)	14	(9)	1.01
Continental Resources (32%)	CLR	B	42.11	51.54	(18)	-	(18)	18	(14)	0.81
Whiting Petroleum Corporation	WLL		8.62	12.02	(28)	-	(28)	10	(16)	0.66
Range Resources	RRC	B	25.82	34.36	(25)	0	(25)	18	(16)	0.59
	<i>Median</i>				(25)		(25)		(14)	0.81
<b>Income</b>										
Permian Basin RT	PBT		9.58	7.71	24	4.2	28	-	28	0.87
San Juan Basin Royalty Trust	SJT		7.23	6.62	9	4.2	13	-	13	0.90
Sabine Royalty Trust	SBR	B	38.00	35.15	8	2.9	11	-	11	0.63
Dorchester Minerals, L.P.	DMLP		16.55	17.55	(6)	3.1	(3)	-	(3)	0.69
Cross Timbers Royalty Trust	CRT	B	15.22	17.97	(15)	2.3	(13)	-	(13)	0.52
	<i>Median</i>				8		11		11	0.69
<b>Canada</b>										
Suncor Energy	SU	B	31.57	32.69	(3)	1	(3)	10	(2)	0.77
EnCana Corporation	ECA		11.14	11.74	(5)	0	(5)	7	(3)	0.95
Imperial Oil Limited (30%)	IMO		28.85	34.76	(17)	0	(17)	7	(14)	0.80
Birchcliff Energy Ltd.	BIREF	B	5.00	7.01	(29)	0	(28)	2	(22)	0.58
Cenovus Energy Inc.	CVE		9.62	15.13	(36)	0	(36)	3	(30)	0.55
	<i>Median</i>				(17)		(17)		(14)	0.77
	<i>Grand Median</i>				(9)		(9)		(6)	0.81
<b>Natural Gas (\$/mmbtu)</b>			3.18	3.74	(15)					
<b>Oil - West Texas Intermediate (\$/bbl)</b>			46.46	53.72	(14)					
Total Stock Market - U.S.	VTI		123.16	115.32	7					
Developed Markets - ex US	VEA		40.91	36.54	12					
Emerging Markets	VWO		39.97	35.78	12					
Source: McDep LLC, Yahoo, CME Group, Bloomberg			For historical research see www.mcdep.com							







# Meter Reader

A Monthly Analysis of Oil and Gas Stocks

May 9, 2017

**Disclaimer:** This analysis was prepared by Kurt Wulff, Manager of McDep LLC. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

**Certification:** I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

**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.