

Buys for 2016 and Beyond

Summary and Recommendation

After a disappointing 2015, we believe that oil and gas stocks offer valuable participation in a diversified long-term investment portfolio in 2016 and thereafter. Attractive stocks range from ExxonMobil (XOM), the largest in our coverage, to Cross Timbers Royalty Trust (CRT), the smallest (see Tables 1-4 on pages 2-5). The two stocks with lowest McDep Ratios in each of five groups get our added buy emphasis. Low McDep Ratios appear to offer the most appreciation to a value tied to higher oil and gas price. As often as not in the declining price environment of the past year, low McDep Ratios stocks went down more because the same sensitivity to higher oil price works to disadvantage with lower oil price. That risk can be handled in a portfolio context with less volatile large stocks balancing more volatile smaller stocks and a significant cash position dampening general market volatility. As for the ever important oil price, we believe current low levels will prove temporary. We are holding out for \$70 a barrel by the end of 2016 while recognizing we cannot control that variable. For natural gas, a warm winter so far is hurting price for producers. Otherwise, like oil, supply is slowing and weatheradjusted demand is growing.

Kurt H. Wulff, CFA



				Tal	ble 1						
			Mcl	Dep En	ergy Stoc	eks					
En	terprise	e V		_	ts, Yield a		Dep R	atio			
						Prasar	ıt Value b	v Saamai	at (%)		
			Price			North	Rest of	segmer	11 (70)	Dist.	
			(US\$/sh)	EV/	Enterprise	Amer.	World			Yield	
Sv	mbol/Ratii	na	14-Dec	Market	Value	Natural		Oil	Down-	NTM	McDe
Sy	moot/Rain	15	2015	Cap	(\$mm)	Gas			stream	(%)	Ratio
Global Integrated			2013	Сир	(ψπιπ)	Gus	Gus	Troun	stream	(70)	Ranc
Exxon Mobil Corporation	XOM		76.03	1.26	403,000	7	11	57	25	3.8	0.86
Chevron Corporation	CVX		89.33	1.34	224,000	3	8	64	25	4.8	0.85
Royal Dutch Shell (BG pro forma		В		1.72	299,000	3	15	52	30	8.6	0.76
Total S.A.	TOT	В		1.55	162,000		14	58	28	5.9	0.73
Total or Median		_		1.45	1,088,000			58	26	5.4	0.80
Large Independent											
EOG Resources, Inc.	EOG		76.86	1.16	49,000	16	3	81		0.9	0.97
Occidental Petroleum Corp.	OXY		66.65	1.17	59,700	5	1	78	17	4.5	0.90
ConocoPhillips	COP		49.53	1.61	99,000	16	11	73		6.0	0.81
Devon Energy Corporation	DVN	В	31.54	2.00	26,000	28		56	16	3.0	0.65
Marathon Oil Corporation	MRO	В		1.98	18,700	9	1	90		1.4	0.58
Total or Median				1.61	252,000	16		78		3.0	0.81
Small Independent											
Cimarex Energy Company	XEC		102.19	1.12	10,600	41		59		0.6	0.95
California Resources	CRC		2.52	8.08	7,800	13		87		-	0.73
Range Resources	RRC		21.86	2.14	7,800	80		20		0.7	0.62
Continental Resources (32%)	CLR	В	26.66	1.73	5,500	20		80		-	0.60
Whiting Petroleum Corporation	WLL	В	10.92	3.47	7,700	7		93		-	0.48
Total or Median				2.14	39,000	20		80		-	0.62
Income											
Sabine Royalty Trust	SBR		27.45	1.00	400	53		48		7.5	0.50
Permian Basin RT	PBT		5.21	1.00	240	23		77		5.0	0.43
Cross Timbers Royalty Trust	CRT		12.88	1.00	80	62		38		7.0	0.41
Dorchester Minerals, L.P.	DMLP	В		1.00	300	40		60		8.2	0.35
San Juan Basin Royalty Trust	SJT	В	4.03	1.00	190	100		-		5.1	0.34
Total or Median				1.00	1,200	53		48		7.0	0.41
Canada											
Imperial Oil Limited (30%)	IMO		29.73	1.35	10,300	1		69	30	1.4	0.80
EnCana Corporation	ECA		5.54	2.83	13,300	56		44		5.1	0.68
Cenovus Energy Inc.	CVE		12.55	1.35	14,100	12		74	13	3.7	0.62
Canadian Oil Sands Limited	COSWF	В		2.01	5,700			100		2.5	0.54
Birchcliff Energy Ltd.	BIREF	В	2.63	2.32	1,000	77		23			0.40
Total or Median				2.01	44,000			69		2.5	0.62
Estimated present value presumes	1 +			:1 of 11007	70 o hound	 	0 0 4 5 0 -		h411		
							15, 94.JU a	minon	otu.		
McDep Ratio = Market cap and D	reut to pres	sen	i varue of o	m ana gas	and other bus	messes					



			Table 2					
	Mcl	Dep	Energy	Stocks				
Net	Presen	t Va	lue and	McDen	Ratio			
			Price			Net		
			(US\$/sh)		Market	Present	Debt/	
	Symbol/Ra	iting	14-Dec	Shares	Cap	Value	Present	McDe
	B =	Buy	2015	(mm)	(US\$mm)	(US\$/sh)	Value	Rati
Global Integrated								
Exxon Mobil Corporation	XOM		76.03	4,190	319,000	92.00	0.18	0.86
Chevron Corporation	CVX		89.33	1,872	167,000	111.00	0.22	0.85
Royal Dutch Shell (BG pro forma)	RDS-A	В	43.95	3,965	174,000	68.00	0.32	0.7ϵ
Total S.A.	TOT	В	45.26	2,312	105,000	71.00	0.26	0.73
Total or Median					765,000		0.24	0.80
Large Independent								
EOG Resources, Inc.	EOG		76.86	549	42,200	80.00	0.13	0.9
Occidental Petroleum Corp.	OXY		66.65	763	50,900	75.00	0.13	0.90
ConocoPhillips	COP		49.53	1,242	62,000	68.00	0.31	0.8
Devon Energy Corporation	DVN	В	31.54	411	13,000	65.00	0.33	0.65
Marathon Oil Corporation	MRO	В	13.96	677	9,450	34.00	0.29	0.58
Total or Median					177,600		0.29	0.8
Small Independent					·			
Cimarex Energy Company	XEC		102.19	93	9,500	108.00	0.10	0.95
California Resources	CRC		2.52	382	1,000	10.00	0.64	0.73
Range Resources	RRC		21.86	167	3,700	50.00	0.33	0.62
Continental Resources (32%)	CLR	В	26.66	118	3,200	58.00	0.25	0.60
Whiting Petroleum Corporation	WLL	В	10.92	204	2,200	52.00	0.34	0.48
Total or Median	,,,		10.72		20,000	02.00	0.33	0.6
Income					20,000		0.00	0.07
Sabine Royalty Trust	SBR		27.45	15	400	55.00	-	0.50
Permian Basin RT	PBT		5.21	47	240	12.00	-	0.43
Cross Timbers Royalty Trust	CRT		12.88	6	80	31.00	-	0.4
Dorchester Minerals, L.P.	DMLP	В	9.88	31	300	28.00	-	0.3
San Juan Basin Royalty Trust	SJT	В	4.03	47	190	12.00	_	0.34
Total or Median	53 1	ь	4.03	47	1,200	12.00	-	0.3
Canada					1,200		-	0.4
Imperial Oil Limited (30%)	IMO		29.73	255	7,600	40.00	0.21	0.80
EnCana Corporation	ECA		5.54	843	4,700	13.00	0.21	0.68
Encana Corporation Cenovus Energy Inc.	CVE		12.55	843	10,400	23.00	0.44	0.62
		D						0.62
Canadian Oil Sands Limited	COSWF	B B	5.83	485	2,800	16.00	0.27	
Birchcliff Energy Ltd.	BIREF	В	2.63	154	400	12.00	0.23	0.40
Total or Median					26,000		0.23	0.6
Estimated present value presumes a long-t								



			Table 3					
	Mcl	Dep	Energy	Stocks				
•		_	iples and		ıd			
			by EV/I					
			Price	Adjustd				
			(US\$/sh)	Resrvs/	PV/	EV/		Dividena
S	ymbol/Rat	ing	14-Dec	Prod	Ebitda	Ebitda	P/E	NTM
~.	B =		2015	NTM	NTM	NTM	NTM	(\$/sh
Global Integrated								(,,,,,,
Exxon Mobil Corporation	XOM		76.03	14.4	10.7	9.1	20	2.92
Chevron Corporation	CVX		89.33	9.3	9.7	8.2	31	4.28
Royal Dutch Shell (BG pro forma)	RDS-A	В	43.95	9.9	8.6	6.5	16	3.76
Total S.A.	TOT	В	45.26	9.9	8.2	6.0	11	2.68
Median				9.9	9.2	7.4	18	
Large Independent								
EOG Resources, Inc.	EOG		76.86	9.0	16.2	15.7		0.67
Occidental Petroleum Corp.	OXY		66.65	8.9	14.5	13.1		3.00
ConocoPhillips	COP		49.53	11.4	14.9	12.1		2.96
Devon Energy Corporation	DVN	В	31.54	10.2	16.4	10.8	60	0.96
Marathon Oil Corporation	MRO	В	13.96	11.8	16.0	9.3	- 00	0.20
Median	1,1110		10.50	10.2	16.0	12.1	60	0.20
Small Independent				10.2	10.0	12.1	- 00	
California Resources	CRC		2.52	12.7	34.0	24.9		_
Range Resources	RRC		21.86	13.8	37.9	23.6		0.16
Cimarex Energy Company	XEC		102.19	7.7	19.6	18.7		0.64
Continental Resources (32%)	CLR	В	26.66	11.4	20.8	12.4		-
Whiting Petroleum Corporation	WLL	В	10.92	11.4	20.4	9.8		_
Median	WLL	ь	10.72	11.4	20.4	18.7		
Income				11.4	20.0	10.7		
San Juan Basin Royalty Trust	SJT	В	4.03	8.6	40.1	13.5	20	0.20
Sabine Royalty Trust	SBR	ъ	27.45	8.0	26.6	13.3	13	2.07
Cross Timbers Royalty Trust	CRT		12.88	12.4	26.5	11.0	14	0.90
Permian Basin RT	PBT		5.21	9.7	23.1	10.1	20	0.90
Dorchester Minerals, L.P.	DMLP	В	9.88	7.1	22.7	8.0	16	0.20
Median	DIVILI	ь	9.00	8.6	26.5	11.0	16	0.61
Canada				0.0	20.5	11.0	10	
EnCana Corporation	ECA		5.54	6.5	28.8	10.6	72	0.28
Canadian Oil Sands Limited	COSWF	D	5.83	18.0	29.8	19.6 15.9	12	0.28
Cenovus Energy Inc.	CVE	В			19.6			
23			12.55	15.0 23.4		12.1	17	0.47
Imperial Oil Limited (30%)	IMO BIREF	D	29.73		13.4	10.7 7.9	1 /	0.41
Birchcliff Energy Ltd.		В	2.63	12.5	19.8		44	-
Median				15.0	19.8	12.1	44	
Grand Median				11	20	12		
EV = Enterprise Value = Market Cap and D	ebt; Ebitda	ı = Ea	rnings befor	e interest, ta	x, depreciat	ion		
and amortization; NTM = Next Twelve Mor	nths Ended	Dece	ember 31, 20	16; P/E = S	tock Price to)		
	nths Ended	Dece	ember 31, 20	e interest, ta	ıx, depreciat	ion		



			Tab							
]	Мc	Dep Ene	ergy Sto	ocks					
	Total	Re	turn Ye	ar-to-D	ate 201	15				
	Ranke	d b	y Unleve	red To	tal Ret	urn				
			Price	Price			Equity	Un	levered	
			(\$/sh)	(\$/sh)	Price	Cash	Total		Total	
	Symbol/I	Rati	14-Dec	29-Dec	Change	Distrib.	Return	Debt	Return	McDep
			2015	2014	(%)	(%)	(%)	(\$/sh)	(%)	Ratio
Global Integrated										
Total S.A.	TOT	В	45.26	52.74	(14)	4	(10)	25	(7)	0.73
Exxon Mobil Corporation	XOM		76.03	93.07	(18)	3	(15)	20	(13)	0.86
Chevron Corporation	CVX		89.33	113.32	(21)	4	(17)	31	(14)	0.85
Royal Dutch Shell (BG pro forma)	RDS-A	В	43.95	68.31	(36)	6	(30)	32	(21)	0.76
Median					(20)		(16)		(13)	0.80
Large Independent		Ш								
Occidental Petroleum Corp.	OXY		66.65	81.71	(18)	3	(16)	12	(14)	0.90
EOG Resources, Inc.	EOG		76.86	94.33	(19)	0	(18)	12	(16)	0.97
ConocoPhillips	COP		49.53	70.11	(29)	4	(25)	30	(18)	0.81
Devon Energy Corporation	DVN	В	31.54	61.15	(48)	1	(47)	32	(31)	0.65
Marathon Oil Corporation	MRO	В	13.96	28.58	(51)	2	(49)	14	(33)	0.58
Median					(29)		(25)		(18)	0.81
Small Independent										
Cimarex Energy Company	XEC		102.19	110.27	(7)	0	(7)	12	(6)	0.95
California Resources	CRC		2.52	5.77	(56)	1	(56)	18	(14)	0.73
Continental Resources (32%)	CLR	В	26.66	38.26	(30)	-	(30)	19	(20)	0.60
Whiting Petroleum Corporation	WLL	В	10.92	34.09	(68)	-	(68)	27	(38)	0.48
Range Resources	RRC		21.86	56.00	(61)	0	(61)	25	(42)	0.62
Median					(56)		(56)		(20)	0.62
Income										
Sabine Royalty Trust	SBR		27.45	36.68	(25)	8	(17)	-	(17)	0.50
Cross Timbers Royalty Trust	CRT		12.88	18.07	(29)	7	(22)	-	(22)	0.41
Permian Basin RT	PBT		5.21	9.12	(43)	4	(39)	-	(39)	0.43
Dorchester Minerals, L.P.	DMLP	В	9.88	25.16	(61)	5	(56)	-	(56)	0.35
San Juan Basin Royalty Trust	SJT	В	4.03	13.97	(71)	2	(69)	-	(69)	0.34
Median					(43)		(39)		(39)	0.41
Canada										
Canadian Oil Sands Limited	COSWF	В	5.83	9.20	(37)	2	(35)	6	(21)	0.54
Imperial Oil Limited (30%)	IMO		29.73	43.49	(32)	1	(31)	10	(25)	0.80
Cenovus Energy Inc.	CVE		12.55	20.95	(40)	3	(37)	4	(31)	0.62
EnCana Corporation	ECA		5.54	13.94	(60)	2	(59)	10	(34)	0.68
Birchcliff Energy Ltd.	BIREF	В	2.63	6.75	(61)	-	(61)	4	(40)	0.40
Median					(40)		(37)		(31)	0.62
Grand Median		\vdash			(36)		(33)		(21)	0.64
Natural Gas (\$/mmbtu)		\vdash	1.89	3.19	(41)		(33)		(21)	0.04
Oil -West Texas Intermediate (\$/bbl)		\vdash	36.31	53.69	(32)					
S&P 500		\vdash	2,022	2,091	(32)					
DOX 1 300		\vdash	2,022	۷,091	(3)					



	1		Index of 2015 l	Research
<u>Date</u>	Series	Symbol	<u>Subject</u>	<u>Theme</u>
8-Dec	ISI	RDS	Royal Dutch Shell plc	Buy on Acquisition Pro Forma
23-Nov	ISI	SJT	San Juan Basin Royalty Trust	Steep Price Decline Triggers Buy
18-Nov	П	MRO, DVN,	COP, OXY, EOG	Large Cap Independent Producers for Upside
12-Nov	ISI	BIREF	Birchcliff Energy	Encouraging Volume, Uncertain Price
10-Nov	MR	CLR, XEC,	WLL, RRC, CRC	Small Cap Producers for the Upcycle
6-Nov	ISI	DMLP	Dorchester Minerals, L.P.	25% Volume Beat
2-Nov	ISI	XOM	Exxon Mobil	Potential Gain with Minimal Pain
27-Oct		COSWF	Canadian Oil Sands Ltd.	Deal Likely at Higher Price
	ISI	SJT	San Juan Basin Royalty Trust	Southwest Bank Potential Successor Trustee
13-Oct	MR	551	San saan Basin Royarty Trast	Hedge Mideast Political Risk
5-Oct	ISI	COSWF	Canadian Oil Sands Ltd.	Suncor Makes Tender Offer at 0.57 McDep Ratio
1-Oct	ISI	SJT	San Juan Basin Royalty Trust	Trust Officer Resigns
29-Sep	II		REF, IMO, CVE, ECA	High-Torque Canadian Producers
		CRT		Low Risk 7.5% Income
22-Sep		CKI	Cross Timbers Royalty Trust	
15-Sep	MR	DMID	Danahastan Minanala I. D	Endless Discussion
10-Sep	ISI	DMLP	Dorchester Minerals, L.P.	Raise Distribution to 6.3% Cash Yield
1-Sep	П		COP, OXY, EOG	Resilient Large Cap Independent Producers
25-Aug		CLR, XEC,	WLL, RRC, CRC	Small Cap Producer Survivors
11-Aug				Bottom May Be Near
3-Aug	II	XOM, RDS,		Global Energy Stalwarts
27-Jul	ISI	ECA	Encana Corporation	Depressed Stock Price
22-Jul	II	SBR, CRT, S		Use Volatility to Advantage
17-Jul	ISI	DMLP	Dorchester Minerals, L.P.	Top Line Distribution Support
14-Jul	MR			Lower Long-Term Oil to \$70 from \$90
7-Jul	ISI	PBT	Permian Basin Royalty Trust	Buy Underestimated Future Oil & Gas Production
22-Jun	II	DMLP, SBR	, CRT, SJT, PBT	Understated Reserves, June Distributions Up
16-Jun	MR	RDS, MRO,	EOG, CLR, DMLP	Oil and Gas Strengthen U.S. Security
28-May	II	DMLP, SBR	, CRT, SJT, PBT	Distributions Rise on Roll Forward
12-May	MR	MRO	Marathon Oil	New Buy on Independent Shale Oil
1-May	ISI		CVX, XOM, RDS, TOT	Raise NPV for XOM and TOT on Cash Flow Margin
30-Apr	ISI	SJT	San Juan Basin Royalty Trust	New Buy on Depressed Natural Gas
29-Apr	ISI	CVE	Cenovus Energy	New Buy on Operating Leverage
28-Apr		TOT	Total	Operating Strength Reinforces New Buy
14-Apr	MR	RDS	Royal Dutch Shell plc	Shell to Acquire BG - Catalyst for Confidence
1-Apr	II		r	Recommitting to Oil and Gas Stocks
10-Mar	MR	DMLP, SBR	CRT. SIT	RTF Income Tracks Oil Price
9-Mar	ISI	XOM	Exxon Mobil	Safe at Any Likely Oil Price
27-Feb	ISI	EOG	EOG Resources	Top Value Creator
10-Feb	MR	CRT, CRC,C		Oil Price Cycle Advances
	_			Syncrude Lowers Breakeven to \$US32 a Barrel
30-Jan	ISI	COSWF	Canadian Oil Sands Ltd.	•
13-Jan	MR	SBK, XEC,	COSWF, DVN, XOM	Oil and Gas Stocks on Sale
			published monthly on second or t	hird Tuesday)
		dependent Sto	ck Idea	
	II = Indu	ıstry Idea		



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.