



Independent Stock Idea

October 3, 2018

Birchcliff Energy Ltd. (BIREF) Canada Energy Game Changer

<i>Symbol</i>	BIREF	<i>Ebitda Next Twelve Months ending 9/30/19 (US\$mm)</i>	337
<i>Rating</i>		<i>Natural Gas/Ebitda (%)</i>	52
<i>Price (US\$/sh)</i>	3.82	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	10/2/18	<i>Developed Reserves/Production NTM</i>	7.2
<i>Shares (mm)</i>	268	<i>EV/Ebitda</i>	4.9
<i>Market Capitalization (US\$mm)</i>	1,020	<i>PV/Ebitda</i>	9.1
<i>Debt (US\$mm)</i>	640	<i>Undeveloped Reserves (%)</i>	70
<i>Enterprise Value (EV) (US\$mm)</i>	1,660	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	14.90
<i>Present Value (PV) (US\$mm)</i>	3,050	<i>Downstream Uplift (US\$/boe)</i>	0
<i>Net Present Value (US\$/share)</i>	9	<i>Oil and Gas Ebitda Margin (%)</i>	64
<i>Ebitda/Market Cap</i>	1.63	<i>Top Line/Ebitda (%)</i>	0
<i>McDep Ratio - EV/PV</i>	0.54	<i>Price/Earnings Next Twelve Months</i>	13
<i>Dividend Yield (%/year)</i>	2.0	<i>Indicated Annual Dividend (US\$/sh)</i>	0.08
Note: Estimated cash flow and earnings tied to one-year prices of US\$70 a barrel and \$3 a million btu			
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 Birchcliff since 2008 see www.mcdep.com/5bir.htm			

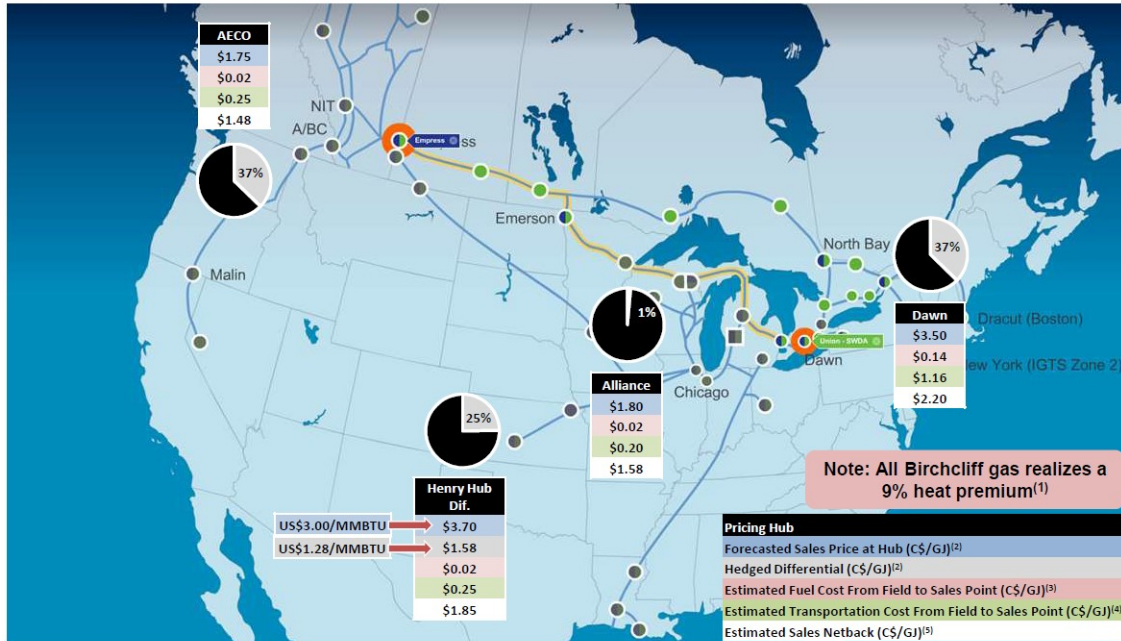
Summary and Recommendation

The upside of our Net Present Value (NPV) of US\$9 a share for small cap Canadian natural gas producer **Birchcliff Energy (BIREF)** appears a giant step more credible with a long-awaited Final Investment Decision (FID) announced on October 2 by **Royal Dutch Shell (RDS)**. RDS along with partners has committed to construction of a large liquefied natural gas (LNG) export project in Kitimat, British Columbia. The sorely needed market outlet would relink the pricing of natural gas to oil at the heating equivalent of international oil price less a discount for natural gas liquefaction and transportation. When construction is completed in a few years, the plant capacity of 2 billion cubic feet daily (bcfd) would expand Canada's export market by perhaps 40%. Follow-on continued construction would double capacity. It would be no surprise to see the partners in the plant attempt to secure more long-term supply ahead of project completion. The quickest and most secure way to do that is to acquire a resource-rich producer like BIREF before the market strengthens.

Meanwhile, BIREF has further protected the downside of volatile pricing at the Alberta AECO hub with a five-year hedge that locks in a fixed differential with the U.S. Henry Hub. The contracts reduce dependence on AECO price to 37% in 2019 from 59% in 2018 (see slide [2019 Marketing](#) on page 2). On our current estimates, BIREF would generate Ebitda of C\$430 million in the next twelve months (see table [Operating and Financial Performance](#) on page 3). Exceeding capital expenditures of about C\$255 million in 2018, the company would be harvesting net cash flow. We are optimistic for the future of BIREF and other stocks in our coverage (see [Tables 1-4](#) on pages 4-7).

Kurt H. Wulff, CFA

2019 NATURAL GAS MARKETING



(1) Birchcliff receives premium pricing for its natural gas production due to its high heat content. The conversion from Btu to GJ is approximately 1.055 for Birchcliff compared to the standard 1.055.
 (2) Volume assumptions based on 2018 guidance. Pricing based on internal forecasts and 1.30 USD/CAD FX. Realized wellhead price = realized sales price - fuel + extraction income.
 (3) Recorded net of extraction income.
 (4) Recorded as transportation expense for AECO & Dawn service. May be recorded net of realized wellhead price for Alliance service.
 (5) Approximate sales netback = realized sales price net of transportation back to wellhead, fuel and income sources.
 *Pie charts indicate % of volumes forecast to be sold at the respective hub/contract based on mid-point 2018E production guidance.



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Birchcliff Energy Ltd.										
Next Twelve Months Operating and Financial Estimates										
(Canadian Dollars)										
	Q3	Year	Q2	Q3E	Q4E	Year	Q1E	Q2E	Q3E	Next Twelve Months
	9/30/17	2017	6/30/18	9/30/18	12/31/18	2018	3/31/19	6/30/19	9/30/19	9/30/19
Volume (before royalty)										
Natural Gas (bcf)	28.4	117.1	33.2	33.5	33.5	134.1	33.5	33.9	34.2	135.1
Natural Gas (mmcf)	309	321	364	364	364	368	372	372	372	370
Days	92	365	91	92	92	365	90	91	92	365
Oil (mmb)	1.27	5.28	1.42	1.43	1.43	5.49	1.40	1.42	1.43	5.68
Oil (mbd)	13.8	14.5	15.6	15.6	15.6	15.0	15.6	15.6	15.6	15.6
Total (mmb)	6.00	24.8	6.94	7.02	7.02	27.8	6.98	7.06	7.14	28.2
Total (mboed)	65.3	68.0	76.3	76.3	76.3	76.3	77.6	77.6	77.6	77.3
Price										
Henry Hub (US\$/mmbtu)	2.99	3.11	2.80	2.87	3.00	2.92	3.00	3.00	3.00	3.00
Currency (US\$/C\$)	0.80	0.77	0.78	0.77	0.78	0.78	0.78	0.78	0.78	0.78
Henry Hub (C\$/mmbtu)	3.74	4.02	3.61	3.72	3.85	3.74	3.85	3.85	3.85	3.85
Differential (C\$/mmbtu)	1.63	1.30	1.60	1.66	0.90	1.31	0.90	1.23	1.23	1.06
Company (C\$/mcf)	2.11	2.72	2.01	2.06	2.95	2.44	2.95	2.63	2.63	2.79
WTI Cushing (US\$/bbl)	48.20	50.94	67.86	69.54	70.00	67.57	70.00	70.00	70.00	70.00
WTI Cushing (C\$/bbl)	60.25	66.00	87.54	90.31	89.87	86.68	89.87	89.87	89.87	89.87
Differential (C\$/bbl)	19.81	20.98	28.32	29.21	29.07	27.39	29.07	29.07	29.07	29.07
Company (C\$/bbl)	40.44	45.02	59.23	61.10	60.80	59.29	60.80	60.80	60.80	60.80
Total (\$/bbl)	18.54	22.43	21.68	22.31	26.49	23.43	26.35	24.80	24.80	25.60
Revenue (\$mm)										
Natural Gas	60	318	67	69	99	327	99	89	90	376
Oil	51	238	84	88	87	325	85	86	87	346
Royalties	(4)	(29)	(11)	(11)	(13)	(45)	(13)	(12)	(12)	(50)
Total	107	528	140	146	173	608	171	163	165	672
Expense (\$mm)										
Expense	46	208	55	60	60	230	59	60	61	240
Ebitda (\$mm)	61	320	85	86	113	377	112	103	104	432
Deprec., Deplet., & Amort.	42	186	53	53	53	210	53	53	53	212
Other non-cash	178	140	15	15	15	61	15	15	15	62
Interest	8	33	8	8	8	31	8	8	8	31
Ebt	(167)	(40)	9	10	37	75	36	27	28	127
Income tax	(44)	14	4	2	8	19	7	6	6	27
Net Income (\$mm)	(123)	(54)	5	8	29	55	28	21	22	101
Per share (\$)	(0.46)	(0.20)	0.02	0.03	0.11	0.21	0.11	0.08	0.08	0.38
Shares (millions)										
Ebitda margin (after royalty)	268	61%	268	268	268	62%	268	268	268	268
Tax rate	57%	-35%	61%	59%	65%	62%	65%	63%	63%	64%
Dividend	26%	0.03	40%	21%	21%	26%	21%	21%	21%	21%
	0.03		0.03	0.03	0.03		0.03	0.03	0.03	0.10



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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/ Ebitda (%)	Dist. Yield NTM (%)	McDep Ratio (EV/PV)	
	Symbol/Rating	2-Oct 2018									
Integrated											
	Exxon Mobil Corporation	XOM	86.46	369,000	459,000	1.24	8.0	8.3	51	3.8	0.97
	Chevron Corporation	CVX	124.74	239,000	300,000	1.25	6.9	8.0	64	3.6	0.86
	Suncor Energy	SU	39.31	65,000	84,000	1.30	6.6	8.0	78	2.8	0.83
	Royal Dutch Shell	RDS-B	71.21	298,000	415,000	1.39	7.1	9.2	49	5.3	0.77
	<i>Total or Median</i>			<i>971,000</i>	<i>1,258,000</i>	<i>1.28</i>	<i>7.0</i>	<i>8.2</i>	<i>57</i>	<i>3.7</i>	<i>0.84</i>
Large Independent											
	Occidental Petroleum Corp.	OXY	82.87	63,600	77,300	1.22	8.1	7.5	71	3.8	1.08
	EOG Resources, Inc.	EOG	130.00	75,400	82,500	1.09	8.0	8.0	90	0.3	1.00
	ConocoPhillips	COP	78.28	92,000	114,000	1.24	7.3	7.4	78	1.5	0.98
	Pioneer Natural Resources	PXD	178.19	30,500	33,100	1.09	7.4	8.2	94	0.2	0.90
	<i>Total or Median</i>			<i>261,500</i>	<i>306,900</i>	<i>1.15</i>	<i>7.7</i>	<i>7.8</i>	<i>84</i>	<i>0.9</i>	<i>0.99</i>
Mid-Size Independent											
	Hess Corporation	HES	73.36	21,800	29,200	1.34	11.1	9.0	89	1.4	1.23
	Continental Resources	CLR	70.43	26,400	32,700	1.24	7.9	7.8	83	-	1.00
	Cimarex Energy Company	XEC	96.23	9,200	10,800	1.17	6.5	9.1	85	0.7	0.72
	Devon Energy Corporation	DVN	39.86	20,900	25,600	1.23	6.6	9.4	88	0.8	0.71
	Marathon Oil Corporation	MRO	23.51	19,980	26,700	1.34	6.3	9.6	89	0.9	0.66
	<i>Total or Median</i>			<i>98,300</i>	<i>125,000</i>	<i>1.24</i>	<i>6.6</i>	<i>9.1</i>	<i>88</i>	<i>0.8</i>	<i>0.72</i>
Small Independent											
	California Resources	CRC	48.62	2,100	8,900	4.3	6.2	7.7	93	-	0.80
	Whiting Petroleum Corporation	WLL	53.14	4,900	8,100	1.65	5.1	7.9	97	-	0.65
	Range Resources	RRC	17.29	4,300	8,900	2.10	5.3	8.7	45	0.5	0.61
	Birchcliff Energy Ltd.	BIREF	3.82	1,000	1,700	1.63	4.9	9.1	48	2.0	0.54
	<i>Total or Median</i>			<i>12,300</i>	<i>27,600</i>	<i>1.87</i>	<i>5.2</i>	<i>8.3</i>	<i>70</i>	<i>0.2</i>	<i>0.63</i>
Income											
	Sabine Royalty Trust	SBR	42.43	620	620	1.00	11.7	13.8	72	8.5	0.85
	Dorchester Minerals, L.P.	DMLP	19.56	630	630	1.00	8.8	10.8	86	9.9	0.82
	Permian Basin RT	PBT	7.99	370	370	1.00	12.4	15.5	80	8.0	0.80
	San Juan Basin Royalty Trust	SJT	5.16	240	240	1.00	11.1	17.2	-	5.5	0.65
	Cross Timbers Royalty Trust	CRT	14.96	90	90	1.00	8.2	13.6	38	10.0	0.60
	<i>Total or Median</i>			<i>2,000</i>	<i>2,000</i>	<i>1.00</i>	<i>11.1</i>	<i>13.8</i>	<i>72</i>	<i>8.5</i>	<i>0.80</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation, amort.
 Estimated Ebitda (cash flow) tied to one-year prices of US\$70 a barrel and \$3 a million btu. NTM = Next Twelve Months ending 9/30/19.
 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										
Unlevered Cash Flow (Ebitda)										
Ranked by Total Ebitda										
Symbol/Rating	Price (US\$/sh)	Upstream NTM				Down- stream Uplift (\$/boe)	Total Ebitda NTM (\$mm)	Distrib./ Ebitda (%)	Distrib. NTM (\$/sh)	
		2-Oct 2018	Volume (mmboe)	Equiv. Price (\$/boe)	Ebitda Margin (%)					Ebitda (\$/boe)
Integrated										
Royal Dutch Shell	RDS-B	71.21	1355	48.22	65	31.20	11.81	42,264	27	3.76
Exxon Mobil Corporation	XOM	86.46	1426	53.66	52	27.70	12.34	39,497	25	3.28
Chevron Corporation	CVX	124.74	1081	52.83	62	32.80	7.40	35,468	20	4.48
Suncor Energy	SU	39.31	288	61.58	56	34.27	9.47	9,881	14	1.09
<i>Total or Median</i>			<i>4150</i>	<i>53.24</i>	<i>59</i>	<i>32.00</i>	<i>10.64</i>	<i>127,109</i>	<i>22</i>	
Large Independent										
ConocoPhillips	COP	78.28	490	52.09	62	32.10	0.00	15,738	9	1.14
EOG Resources, Inc.	EOG	130.00	288	48.13	74	35.63	0.00	10,271	2	0.37
Occidental Petroleum Corp.	OXY	82.87	258	47.60	58	27.60	9.29	7,131	25	3.12
Pioneer Natural Resources	PXD	178.19	134	45.99	72	33.30	0.00	4,475	1	0.32
<i>Total or Median</i>			<i>1171</i>	<i>47.87</i>	<i>67</i>	<i>32.70</i>	<i>0.00</i>	<i>37,616</i>	<i>5</i>	
Mid-Size Independent										
Marathon Oil Corporation	MRO	23.51	148	41.65	69	28.60	0.00	4,236	4	0.20
Continental Resources	CLR	70.43	117	43.98	81	35.70	0.00	4,160	-	-
Devon Energy Corporation	DVN	39.86	199	34.04	57	19.40	0.00	3,863	4	0.32
Hess Corporation	HES	73.36	101	46.17	57	26.20	0.00	2,639	11	1.00
Cimarex Energy Company	XEC	96.23	85	29.37	66	19.40	0.00	1,643	4	0.72
<i>Total or Median</i>			<i>649</i>	<i>41.65</i>	<i>66</i>	<i>26.20</i>	<i>0.00</i>	<i>16,542</i>	<i>4</i>	
Small Independent										
Range Resources	RRC	17.29	144	20.67	56	11.60	0.00	1,666	1	0.08
Whiting Petroleum Corporation	WLL	53.14	49	47.86	67	32.10	0.00	1,566	-	-
California Resources	CRC	48.62	49	55.73	52	29.20	0.00	1,429	-	-
Birchcliff Energy Ltd.	BIREF	3.82	23	19.94	75	14.90	0.00	337	6	0.08
<i>Total or Median</i>			<i>264</i>	<i>34.27</i>	<i>62</i>	<i>22.05</i>	<i>0.00</i>	<i>4,997</i>	<i>1</i>	
Income										
Dorchester Minerals, L.P.	DMLP	19.56	2.38	40.41	75	30.15	0.00	72	88	1.94
Sabine Royalty Trust	SBR	42.43	1.79	35.50	83	29.55	0.00	53	100	3.62
Permian Basin RT	PBT	7.99	1.16	43.23	60	25.90	0.00	30	99	0.64
San Juan Basin Royalty Trust	SJT	5.16	3.94	12.33	44	5.48	0.00	22	61	0.28
Cross Timbers Royalty Trust	CRT	14.96	0.39	43.64	64	27.84	0.00	11	82	1.50
<i>Total or Median</i>			<i>10</i>	<i>40.41</i>	<i>64</i>	<i>27.84</i>	<i>0.00</i>	<i>187</i>	<i>88</i>	

For historical research see www.mcdep.com



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Table 3
McDep Energy Stocks
Net Present Value Per Share

		<i>Price</i> <i>(US\$/sh)</i>					<i>Devel.</i> <i>Resrvs/</i>	<i>Undev/</i> <i>Devel.</i>	<i>Nat</i> <i>Gas/</i>	<i>Top</i> <i>Line/</i>	<i>Net</i> <i>Present</i>
	<i>Symbol/Rating</i>	<i>2-Oct</i> <i>2018</i>	<i>Shares</i> <i>(mm)</i>	<i>Debt</i> <i>(\$mm)</i>	<i>P/E</i> <i>NTM</i>	<i>Prod</i> <i>NTM</i>	<i>Resrvs</i> <i>(%)</i>	<i>Ebitda</i> <i>(%)</i>	<i>Ebitda</i> <i>(%)</i>	<i>Ebitda</i> <i>(%)</i>	<i>Value</i> <i>(US\$/sh)</i>
Integrated											
	Chevron Corporation	CVX	124.74	1,919	60,359	15	7.0	57	22		150.00
	Royal Dutch Shell	RDS-B	71.21	4,188	116,710	12	7.3	22	32		100.00
	Exxon Mobil Corporation	XOM	86.46	4,271	90,130	13	9.8	52	27		90.00
	Suncor Energy	SU	39.31	1,641	19,254	11	8.8	87			50.00
	<i>Median</i>						<i>8.1</i>	<i>55</i>			
Large Independent											
	Pioneer Natural Resources	PXD	178.19	171	2,600	21	6.7	9	6		200.00
	EOG Resources, Inc.	EOG	130.00	580	7,071	18	4.7	43	10		130.00
	ConocoPhillips	COP	78.28	1,181	22,036	14	7.1	31	22		80.00
	Occidental Petroleum Corp.	OXY	82.87	767	13,700	15	7.5	35	4		75.00
	<i>Median</i>						<i>6.9</i>	<i>33</i>			
Mid-Size Independent											
	Cimarex Energy Company	XEC	96.23	95	1,579	12	4.9	35	15		140.00
	Continental Resources	CLR	70.43	375	6,333	20	5.2	121	17		70.00
	Devon Energy Corporation	DVN	39.86	525	4,720	14	8.8	24	12		60.00
	Hess Corporation	HES	73.36	298	7,397		7.2	59	11		55.00
	Marathon Oil Corporation	MRO	23.51	850	6,712	19	6.1	60	11		40.00
	<i>Median</i>						<i>6.1</i>	<i>59</i>			
Small Independent											
	Whiting Petroleum Corporation	WLL	53.14	92	3,170	30	6.9	84	3		100.00
	California Resources	CRC	48.62	43	6,800		9.0	41	7		100.00
	Range Resources	RRC	17.29	246	4,657	9	9.7	83	55		40.00
	Birchcliff Energy Ltd.	BIREF	3.82	268	641	13	7.2	228	52		9.00
	<i>Median</i>						<i>8.1</i>	<i>83</i>			
Income											
	Sabine Royalty Trust	SBR	42.43	15	-	12	9.9	3	33	100	50.00
	Cross Timbers Royalty Trust	CRT	14.96	6	-	10	12.6	-	69	82	25.00
	Dorchester Minerals, L.P.	DMLP	19.56	32	-	13	6.8	-	17	79	24.00
	Permian Basin RT	PBT	7.99	47	-	12	6.8	-	17	50	10.00
	San Juan Basin Royalty Trust	SJT	5.16	47	-	18	10.5	-	100	-	8.00
	<i>Median</i>						<i>9.9</i>				
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 2018									
Ranked by Unlevered Total Return									
		Price	Price	Price	Cash	Equity	Unlevered		
	Symbol/Rati	(\$/sh)	(\$/sh)	Change	Distrib.	Total	Debt	Return	McDep
		2-Oct	29-Dec	(%)	(%)	(%)	(\$/sh)	(%)	Ratio
		2018	2017						
Integrated									
Suncor Energy	SU	39.31	36.72	7	2	9	12	7	0.83
Royal Dutch Shell	RDS-B	71.21	68.29	4	4	8	28	6	0.77
Exxon Mobil Corporation	XOM	86.46	83.64	3	3	6	21	5	0.97
Chevron Corporation	CVX	124.74	125.19	(0)	3	2	31	2	0.86
	<i>Median</i>			4		7		5	0.84
Large Independent									
ConocoPhillips	COP	78.28	54.89	43	2	44	19	33	0.98
EOG Resources, Inc.	EOG	130.00	107.91	20	0	21	12	19	1.00
Occidental Petroleum Corp.	OXY	82.87	73.66	13	2	15	18	12	1.08
Pioneer Natural Resources	PXD	178.19	172.85	3	0	3	15	3	0.90
	<i>Median</i>			16		18		15	0.99
Mid-Size Independent									
Hess Corporation	HES	73.36	47.47	55	1	56	25	36	1.23
Marathon Oil Corporation	MRO	23.51	16.93	39	1	40	8	27	0.66
Continental Resources	CLR	70.43	52.97	33	-	33	17	25	1.00
Devon Energy Corporation	DVN	39.86	41.40	(4)	0	(3)	9	(3)	0.71
Cimarex Energy Company	XEC	96.23	122.01	(21)	0	(21)	17	(18)	0.72
	<i>Median</i>			33		33		25	0.72
Small Independent									
Whiting Petroleum Corporation	WLL	53.14	26.48	101	-	101	34	44	0.65
California Resources	CRC	48.62	19.44	150	-	150	160	16	0.80
Birchcliff Energy Ltd.	BIREF	3.82	3.50	9	1	10	2	6	0.54
Range Resources	RRC	17.29	17.06	1	0	2	19	1	0.61
	<i>Median</i>			55		55		11	0.63
Income									
Dorchester Minerals, L.P.	DMLP	19.56	15.20	29	9	38	-	38	0.82
Cross Timbers Royalty Trust	CRT	14.96	14.69	2	6	8	-	8	0.60
Sabine Royalty Trust	SBR	42.43	44.60	(5)	4	(0)	-	(0)	0.85
Permian Basin RT	PBT	7.99	8.87	(10)	4	(6)	-	(6)	0.80
San Juan Basin Royalty Trust	SJT	5.16	8.24	(37)	3	(34)	-	(34)	0.65
	<i>Median</i>			(5)		(0)		(0)	0.80
	<i>Grand Median</i>			6		8		6	0.81
Natural Gas (\$/mmbtu)		3.16	2.95	7					
Oil -West Texas Intermediate (\$/bbl)		75.13	60.09	25					
Total Stock Market - U.S.	VTI	149.67	137.25	9	1	10			
Developed Markets - ex US	VEA	43.09	44.86	(4)	2	(2)			
Emerging Markets	VWO	40.65	45.91	(11)	1	(11)			
Total Stock Market - World	VT	75.71	74.26	2	1	3			

Source: McDep LLC, Yahoo, CME Group, Bloomberg

For historical research see www.mcdep.com



Independent Stock Idea

October 3, 2018

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