

U.S. Integrated Oil in New Trend

Summary and Recommendation

Buy recommendations **ExxonMobil (XOM)**, **Chevron (CVX)**, **ConocoPhillips (COP)** and **Marathon Oil (MRO)** at McDep Ratios of 0.76, 0.76, 0.71 and 0.69 are attractive investments, we believe, in the upswing of a new cycle of industry and economic growth. The largest profits flow from upstream oil production where global demand pushes up long-term oil price measured by six-year futures currently at \$90 a barrel and above the 40-week average of \$86 (see charts on page 2, [Six-Year Commodity Price Meter](#) and [Six-Year and One-Year Natural Gas and Oil Futures](#)). More rapidly growing natural gas, the next largest source of future profits, may enter a price uptrend in the next few months should abundant supply find more demand in summer heat, winter cold and/or growing commercial and industrial activity. Though the downstream refining and chemicals businesses are diminishing in share of long-term profits, they are recovering from decade lows and may be on the way to decade highs.

Analyzing each company by business segment we see CVX most concentrated on oil at 71%. XOM including its pending acquisition of XTO Energy and COP are the leaders in natural gas with concentrations of Net Present Value (NPV) at 27% and 22%. MRO's NPV is concentrated 26% on its niche in downstream refining (see tables on pages 3-4, [Functional Cash Flow and Present Value](#)).

The essence of an estimate of present value can be captured by initial cash flow and the time it lasts. Along those lines for oil reserves, XOM, MRO, COP and CVX have adjusted life indices of 11.0, 10.5, 10.2 and 8.3. In the same order of reserve life, the four companies have present value multiples of unlevered cash flow (PV/Ebitda) for oil of 7.9, 7.4, 6.6 and 6.1.

Estimates of initial cash flow for upstream production often do not vary much by company because price for each follows latest futures prices for the next twelve months and volume is usually close to flat (see chart on page 5, [Upstream Cash Flow](#)). In an exception, sharply higher volume of new low cost production gave an extra boost to CVX cash flow in 2009. Similarly, the addition of cash flow from the XTO acquisition would boost XOM cash flow in future quarters. Present value of downstream tends to be near the same multiple of cash flow for each company. Some investors may think XOM's downstream is worth a higher multiple because it is less volatile, and conversely for MRO (see chart on page 5, [Downstream Cash Flow](#)).

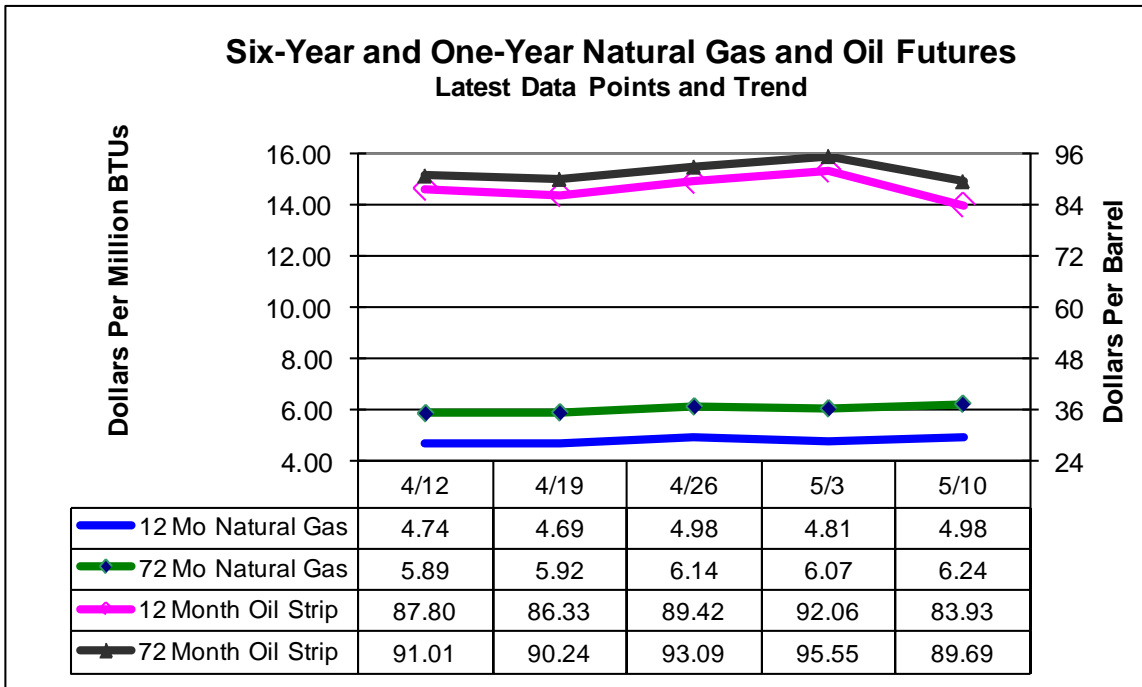
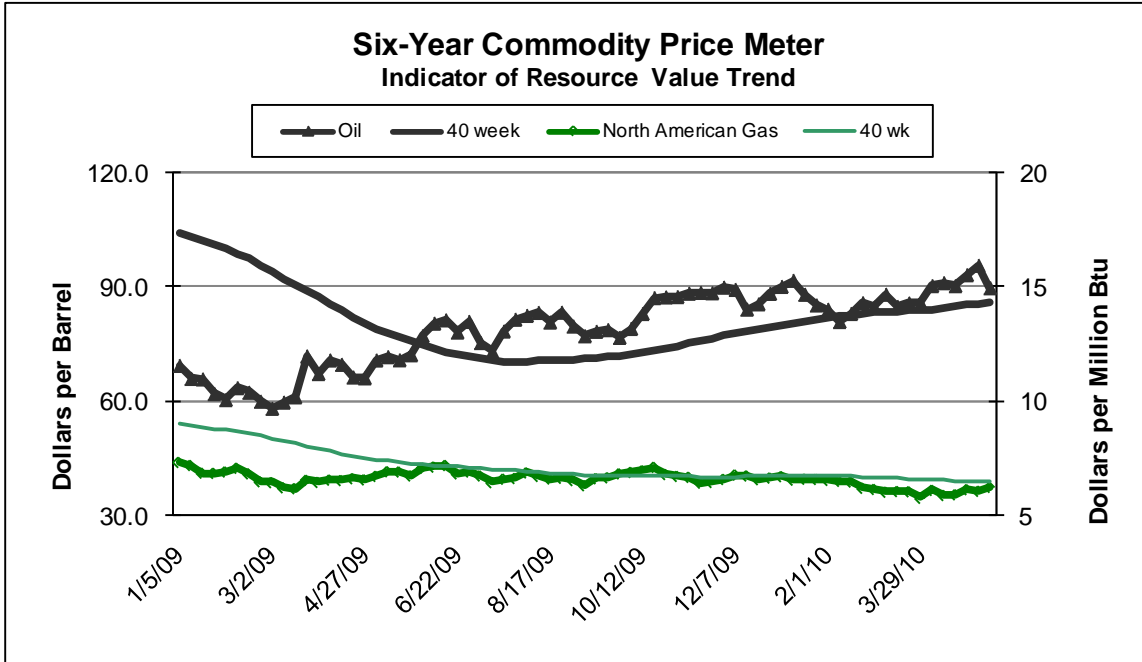
If we are right about being early in a new cycle, there is more money to be made in U.S. integrated oil producers. COP and CVX stocks trend up with price above the 200-day average. Perhaps XOM will join after the XTO merger closes by June 30 as planned.

Kurt H. Wulff, CFA



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A Weekly Analysis of Large Cap Oil and Gas Stocks
 May 11, 2010





Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

May 11, 2010

Exxon Mobil Corporation Pro-Forma Including XTO Energy					
Functional Cash Flow and Present Value					
	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<u><i>Ebitda</i></u>	<u><i>R/P</i></u>	<u><i>Ebitda</i></u>	<u><i>Value</i></u>	
North American Natural Gas	4,020	11.6	12.9	52,000	10%
Rest of World Natural Gas	8,580	16.8	10.5	90,000	17%
Oil	37,200	11.0	7.9	294,000	56%
Downstream	12,000		7.5	90,000	17%
	61,800	13.5	8.5	526,000	100%
Debt					62,000
Net Present Value (\$mm)					464,000
Shares					5,215
Net Present Value - Standard Estimate (US\$/sh)					89
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					83

Chevron Corporation					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<u><i>(US\$mm)</i></u>	<u><i>R/P</i></u>	<u><i>Ebitda</i></u>	<u><i>Value</i></u>	
				<u><i>(US\$mm)</i></u>	
North American Natural Gas	1,280	5.0	8.6	11,000	4%
Rest of World Natural Gas	3,430	13.0	7.6	26,000	10%
Oil	28,970	8.3	6.1	178,000	71%
Downstream	5,000		6.8	34,000	14%
	38,680	9.1	6.4	249,000	100%
Debt (US\$mm)					29,000
Net Present Value (US\$mm)					220,000
Shares (mm)					2,004
Net Present Value - Standard Estimate (US\$/sh)					110
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					110



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A Weekly Analysis of Large Cap Oil and Gas Stocks

May 11, 2010

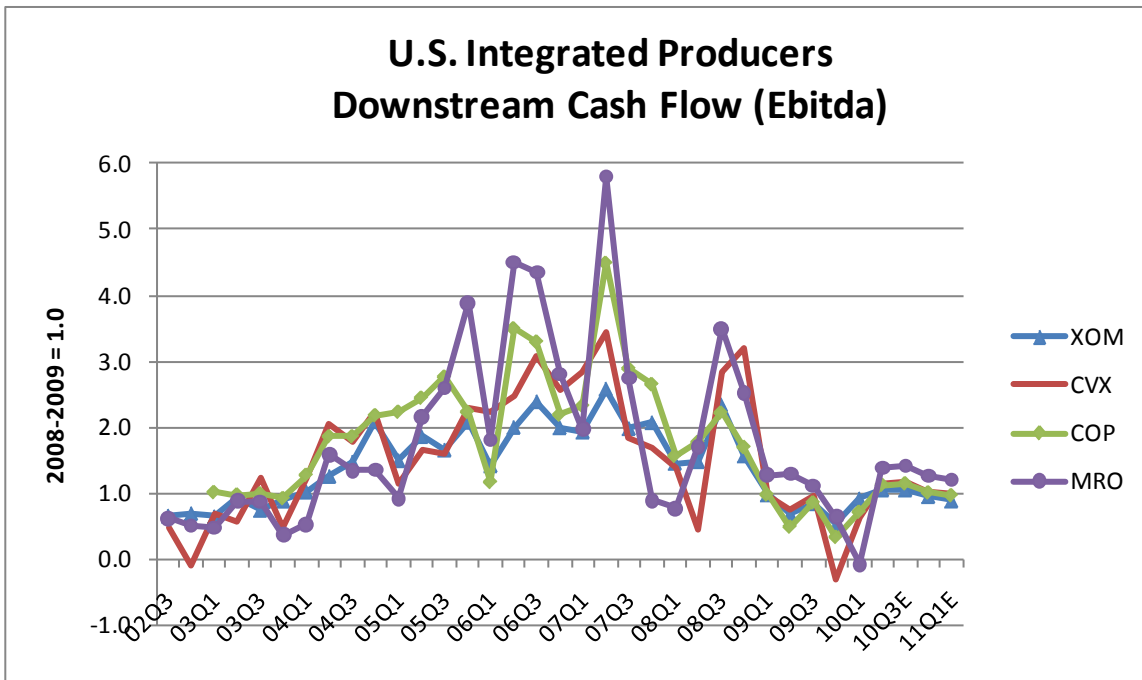
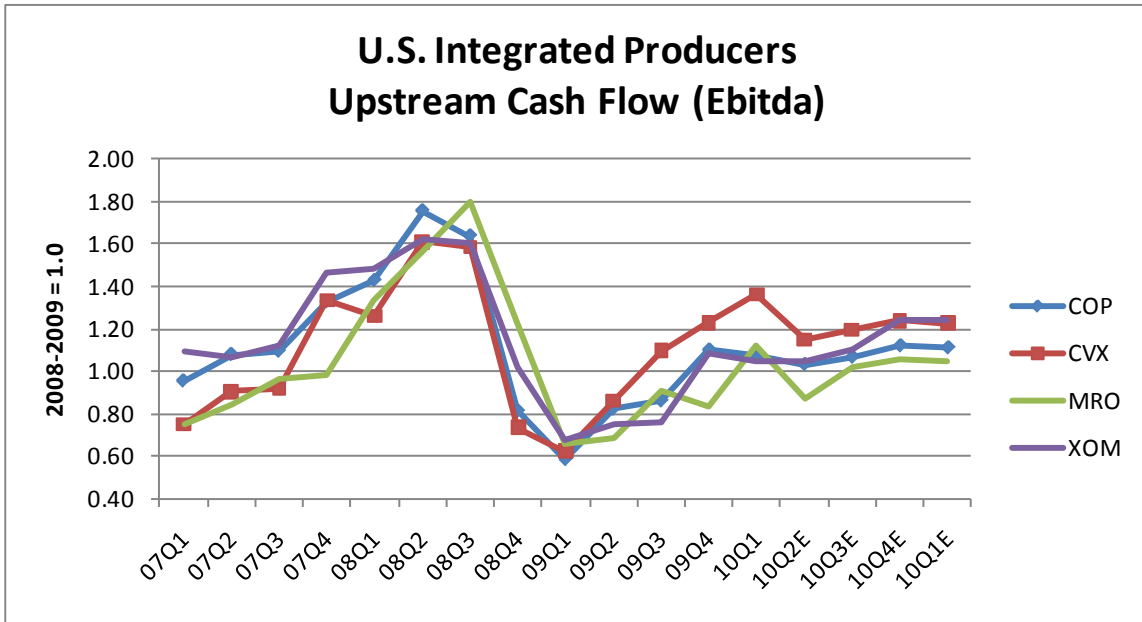
ConocoPhillips					
Functional Cash Flow and Present Value					
				<i>Present</i>	
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Value</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>(US\$mm)</i>	
North American Natural Gas	2,280	10.1	11.0	25,000	13%
Rest of World Natural Gas	1,820	11.7	9.3	17,000	9%
Oil	19,040	10.2	6.6	126,000	64%
Downstream	4,000		7.0	28,000	14%
	27,140	10.4	7.2	196,000	100%
Debt (US\$mm)					53,000
Net Present Value (US\$mm)					143,000
Shares (mm)					1,504
Net Present Value - Standard Estimate (US\$/sh)					95
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					98

Marathon Oil Corporation					
Functional Cash Flow and Present Value					
				<i>Present</i>	
	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Value</i>	
	<i>Ebitda</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
North American Natural Gas	360	5.5	9.4	3,400	7%
Rest of World Natural Gas	170	8.6	8.8	1,500	3%
Oil	4,290	10.5	7.4	31,800	64%
Downstream	1,710		7.6	13,000	26%
	6,530	9.4	7.6	49,700	100%
Debt					12,000
Net Present Value (\$mm)					37,700
Shares					711
Net Present Value - Standard Estimate (US\$/sh)					53
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					49



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A Weekly Analysis of Large Cap Oil and Gas Stocks
 May 11, 2010



	Symbol	Rating	Price (US\$/sh)	EV/ Market	Enterprise Value (\$mm)	Present Value by Segment (%)						
						10-May 2010	Cap	Natural Gas	Natural Gas	Oil Prod'n	Down- stream	McDep Ratio
U.S. Integrated												
Exxon Mobil Corporation	XOM	CB	65.23	1.18	402,000	10	17	56	17	0.76		
Chevron Corporation	CVX	B	79.89	1.18	189,000	4	10	71	14	0.76		
ConocoPhillips	COP	B	56.67	1.62	138,000	13	9	64	14	0.71		
Marathon Oil Corporation	MRO	B	31.58	1.51	34,000	7	3	64	26	0.69		
<i>Total or Median *</i>	<i>31%</i>	<i>8%</i>	<i>16%</i>		<i>763,000</i>					<i>0.73</i>		
Europe												
Royal Dutch Shell plc	RDS-A	CB	56.53	1.36	236,000	3	23	48	26	0.77		
BG Group	BRGXF		15.77	1.17	62,700		21	48	31	0.75		
Statoil ASA (33%)	STO	CB	22.59	1.42	33,800		49	51	-	0.72		
BP plc	BP		48.75	1.38	213,000	6	12	61	21	0.65		
Total S.A.	TOT	CB	51.46	1.28	148,000		19	59	22	0.63		
<i>Total or Median *</i>	<i>29%</i>	<i>10%</i>	<i>12%</i>		<i>694,000</i>					<i>0.72</i>		
Australia/Brazil/China/Russia												
CNOOC Limited (34%)	CEO	B	168.48	1.02	26,200		11	89	-	1.16		
Woodside Petroleum Ltd.	WOPEY	CB	39.64	1.18	35,000		74	26	-	0.88		
PetroChina Company Ltd (14%)	PTR	CB	115.46	1.23	36,400		14	72	14	0.80		
Petrobras	PBR		38.67	1.35	229,000		4	81	15	0.73		
Lukoil Oil Company	LUKOY	CB	54.25	1.14	52,500			68	32	0.43		
Gazprom (50%)	OGZPY	CB	21.90	1.34	85,000		77	23	-	0.41		
<i>Total or Median *</i>	<i>19%</i>	<i>12%</i>	<i>20%</i>		<i>464,000</i>					<i>0.77</i>		
U.S. Independent												
Southwestern Energy Compan	SWN		39.25	1.08	14,800	100			-	1.21		
EOG Resources	EOG	B	106.49	1.13	30,200	68	5	28	-	1.14		
Anadarko Petroleum Corp.	APC		57.63	1.50	42,900	46		50	4	0.93		
Occidental Petroleum Corp.	OXY	B	84.16	1.07	73,500	10	1	82	7	0.89		
Chesapeake Energy Corp.	CHK		23.10	1.95	28,400	89		11	-	0.81		
Devon Energy Corporation	DVN	B	67.82	1.04	31,800	57		43	-	0.70		
<i>Total or Median *</i>	<i>9%</i>	<i>12%</i>	<i>12%</i>		<i>222,000</i>					<i>0.91</i>		
Canada												
Cenovus Energy Inc.	CVE	B	27.94	1.33	28,000	23		70	7	1.03		
Imperial Oil Limited (30%)	IMO	B	40.32	1.08	11,200	3		82	15	0.85		
Canadian Natural Resources	CNQ	B	72.28	1.29	50,500	13		87	-	0.84		
EnCana Corporation	ECA	B	31.43	1.37	32,300	95		5	-	0.80		
Canadian Oil Sands Trust	COSWF	B	28.22	1.10	15,000			100	-	0.76		
Suncor Energy	SU	CB	31.84	1.35	67,700	5		84	11	0.73		
<i>Total or Median *</i>	<i>8%</i>	<i>12%</i>	<i>24%</i>		<i>205,000</i>					<i>0.82</i>		
Income and Small Cap (see separate weekly analysis)												
	<i>3%</i>	<i>45%</i>	<i>16%</i>		<i>76,500</i>	<i>55</i>		<i>45</i>		<i>0.97</i>		
Composite												
<i>Enterprise Value Weighting</i>	<i>100%</i>				<i>2,425,000</i>	<i>12</i>	<i>14</i>	<i>59</i>	<i>15</i>	<i>0.74</i>		
<i>Equal Weighting</i>		<i>100%</i>				<i>36</i>	<i>7</i>	<i>51</i>	<i>6</i>	<i>0.88</i>		
<i>Equal Weighted Buys</i>			<i>100%</i>			<i>26</i>	<i>13</i>	<i>53</i>	<i>8</i>	<i>0.78</i>		

CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average.

* 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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A Weekly Analysis of Large Cap Oil and Gas Stocks

May 11, 2010

Table 2								
McDep Energy Portfolio								
Net Present Value and McDep Ratio								
			Price (US\$/sh)			Net Present Value	Debt/ Present Value	McDep Ratio
	Symbol/Rating		10-May 2010	Shares (mm)	Market Cap (US\$mm)	(US\$/sh)	Value	
B = Buy, CB (see below)								
U.S. Integrated								
Exxon Mobil Corporation	XOM	CB	65.23	5,215	340,000	89.00	0.12	0.76
Chevron Corporation	CVX	B	79.89	2,004	160,000	110.00	0.11	0.76
ConocoPhillips	COP	B	56.67	1,504	85,000	95.00	0.27	0.71
Marathon Oil Corporation	MRO	B	31.58	711	22,450	53.00	0.23	0.69
<i>Total or Median</i>					607,000		0.18	0.73
Europe								
Royal Dutch Shell plc	RDS-A	CB	56.53	3,066	173,000	79.00	0.21	0.77
BG Group plc	BRGXF		15.77	3,400	53,600	22.00	0.11	0.75
Statoil ASA (33%)	STO	CB	22.59	1,050	23,700	35.00	0.21	0.72
BP plc	BP		48.75	3,167	154,000	85.00	0.18	0.65
Total S.A.	TOT	CB	51.46	2,243	115,000	90.00	0.14	0.63
<i>Total or Median</i>					519,000		0.18	0.72
Australia/Brazil/China/Russia								
CNOOC Limited (34%)	CEO	B	168.48	152	25,700	145.00	0.03	1.16
Woodside Petroleum Ltd.	WOPEY	CB	39.64	793	29,900	44.00	0.13	0.88
PetroChina Company Ltd (14%)	PTR	CB	115.46	256	29,600	150.00	0.15	0.80
Petrobras	PBR		38.67	4,387	169,700	58.00	0.19	0.73
Lukoil Oil Company	LUKOY	CB	54.25	847	46,000	135.00	0.05	0.43
Gazprom (50%)	OGZPY	CB	21.90	2,915	63,800	64.00	0.10	0.41
<i>Total or Median</i>					365,000		0.12	0.77
U.S. Independent								
Southwestern Energy Company	SWN		39.25	349	13,700	32.00	0.09	1.21
EOG Resources	EOG	B	106.49	251	26,700	92.00	0.13	1.14
Anadarko Petroleum Corp.	APC		57.63	496	28,600	64.00	0.31	0.93
Occidental Petroleum Corp.	OXY	B	84.16	814	68,500	95.00	0.06	0.89
Chesapeake Energy Corp.	CHK		23.10	628	14,500	34.00	0.39	0.81
Devon Energy Corporation	DVN	B	67.82	448	30,400	98.00	0.03	0.70
<i>Total or Median</i>					182,400		0.11	0.91
Canada								
Cenovus Energy Inc.	CVE	B	27.94	752	21,000	27.00	0.26	1.03
Imperial Oil Limited (30%)	IMO	B	40.32	256	10,300	48.00	0.06	0.85
Canadian Natural Resources	CNQ	B	72.28	542	39,200	90.00	0.19	0.84
EnCana Corporation	ECA	B	31.43	749	23,500	42.00	0.22	0.80
Canadian Oil Sands Trust	COSWF	B	28.22	484	13,700	38.00	0.07	0.76
Suncor Energy	SU	CB	31.84	1,572	50,100	48.00	0.19	0.73
<i>Total or Median</i>					158,000		0.19	0.82

CB=Contrarian Buy, Stock Price may in downtrend compared to 200-day average.

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.



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

May 11, 2010

Table 3								
McDep Energy Portfolio								
Value Multiples and Distribution Yield								
			Price (US\$/sh)	Adjustd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	P/E	Divd or Distrib NTM
Symbol/Rating			10-May 2010	NTM	NTM	NTM	NTM	(%)
B = Buy, CB (see below)								
U.S. Integrated								
Exxon Mobil Corporation	XOM	CB	65.23	13.5	8.5	6.5	12	2.6
Marathon Oil Corporation	MRO	B	31.58	9.4	7.5	5.2	11	3.2
ConocoPhillips	COP	B	56.67	10.4	7.2	5.1	9	3.9
Chevron Corporation	CVX	B	79.89	9.1	6.4	4.9	10	3.4
<i>Total or Median</i>				9.9	7.4	5.1	10	3.3
Europe								
BG Group plc	BRGXF		15.77	8.3	8.6	6.5	12	0.8
Royal Dutch Shell plc	RDS-A	CB	56.53	8.7	6.4	5.0	8	5.9
Total S.A.	TOT	CB	51.46	9.6	7.1	4.5	8	5.6
BP plc	BP		48.75	9.7	6.6	4.3	7	6.9
Statoil ASA (33%)	STO	CB	22.59	6.4	5.7	4.1	8	4.3
<i>Total or Median</i>				8.7	6.6	4.5	8	5.6
Australia/Brazil/China/Russia								
Woodside Petroleum Ltd.	WOPEY	CB	39.64	17.8	12.9	11.3	20	2.5
Petrobras	PBR		38.67	9.1	9.2	6.7	11	3.5
PetroChina Company Ltd (14%)	PTR	CB	115.46	13.8	7.4	6.0	13	3.5
CNOOC Limited (34%)	CEO	B	168.48	6.8	4.8	5.6	10	3.1
Gazprom (50%)	OGZPY	CB	21.90	24.6	10.0	4.1	5	0.2
Lukoil Oil Company	LUKOY	CB	54.25	15.8	8.6	3.7	7	3.0
<i>Total or Median</i>				14.8	8.9	5.8	11	3.0
U.S. Independent								
Southwestern Energy Company	SWN		39.25	6.7	9.1	11.0	23	-
Chesapeake Energy Corp.	CHK		23.10	11.8	11.9	9.6	20	1.3
EOG Resources	EOG	B	106.49	9.8	8.4	9.6	38	0.6
Occidental Petroleum Corp.	OXY	B	84.16	10.5	7.3	6.5	15	1.7
Anadarko Petroleum Corp.	APC		57.63	8.4	6.7	6.2		0.6
Devon Energy Corporation	DVN	B	67.82	10.0	8.1	5.7	13	0.9
<i>Total or Median</i>				9.9	8.3	8.1	20	0.8
Canada								
Imperial Oil Limited (30%)	IMO	B	40.32	20.3	11.1	9.4	18	1.0
Canadian Natural Resources	CNQ	B	72.28	15.6	10.9	9.1	16	0.8
EnCana Corporation	ECA	B	31.43	7.7	11.2	9.0	27	2.5
Canadian Oil Sands Trust	COSWF	B	28.22	31.4	11.6	8.8	13	6.8
Cenovus Energy Inc.	CVE	B	27.94	9.4	8.0	8.2	14	2.9
Suncor Energy	SU	CB	31.84	16.9	11.0	8.0	18	1.2
<i>Total or Median</i>				16.3	11.1	8.9	17	1.9
CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average.								
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2011; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

May 11, 2010

Index of Recent Research			
Stock Ideas			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
10-May	XEC	Cimarex Energy Company	Raise NPV Again on More Production
5-May	DVN	Devon Energy Corporation	Stock Repurchase Compelling
4-May	BP	BP p.l.c.	Oil Spill and BP Stock Spill
30-Apr	WLL	Whiting Petroleum Corporation	Raise NPV to \$95 a Share on Onshore Oil Drilling (ISCW)
30-Apr	PBR, BG, APC and BP		Remove Buys - Accident May Delay Deep Water Oil
30-Apr	COSWF	Canadian Oil Sands Trust	Distribution Raised 43% to C\$0.50 a Quarter
27-Apr	BP	BP p.l.c.	Raise Net Present Value to \$85 a Share from \$80
23-Apr	LGCY, LINE	Legacy Reserves L.P., Linn Energy	Oily Cash Payers - Add Legacy, Raise Linn NPV (ISCW)
21-Apr	ECA	EnCana Corporation	New Natural Gas Company Performs Well
20-Apr	* SWN	Southwestern Energy	Shale Gas Slowdown (Meter Reader)
16-Apr	* ERF	Enerplus Resources Fund	Attractive for 9% Distribution Yield (ISCW)
13-Apr	* COP, COSWF	ConocoPhillips, Canadian Oil Sands Trust	Syn crude Priced at a McDep Ratio of 0.96 (Meter Reader)
9-Apr	* UPL, RRC, and HK		Add Ultra, Range, Petrohawk to Coverage (ISCW)
2-Apr	* SJT	San Juan Basin Royalty Trust	Low Cost Natural Gas (Income and Small Cap Weekly)
31-Mar	* CEO	CNOOC Ltd	Raise NPV to \$145 from \$135 a Share on Reserves
31-Mar	* LUKOY	Lukoil Oil Company	Shares Available
26-Mar	* PEYUF	Peyto Energy Trust	Raise NPV to US\$15 from \$13 (ISC Weekly)
26-Mar	* PTR	PetroChina Company Limited	Gas Growth - Natural Gas and Gasoline
22-Mar	* HGT	Hugoton Royalty Trust	Monthly Volume Distortion
16-Mar	* XOM	ExxonMobil Corporation	Upstream Growth (Meter Reader)
16-Mar	* CVX	Chevron Corporation	Upstream Growth (Meter Reader)
5-Mar	* CNQ	Canadian Natural Resources	Raise NPV to US\$90 a Share from \$80
26-Feb	* DMLP	Dorchester Minerals, L.P.	Replaces Reserves and Pays 8% Income (ISCW)
25-Feb	* WOPEY	Woodside Petroleum	Financing in Place for 2010
19-Feb	* BIREF	Birchcliff Energy Ltd.	Raise NPV to US\$11 a Share from US\$9
15-Feb	* CVE	Cenovus Energy Inc.	Quadruple Bitumen by 2017
15-Feb	* STO	Statoil ASA	Reposition Dividend for Growth
15-Feb	* EOG	EOG Resources Inc.	Proven Reserves Increase 24%
12-Feb	* TOT	Total S.A.	Secure Income at 5.5%
5-Feb	* BRGXF	BG Group	Natural Gas Growth in Australia
4-Feb	* RDSA	Royal Dutch Shell plc	Cautious Outlook, Nice Dividend
3-Feb	* IMO	Imperial Oil Limited	Horn River Shale Gas Explorer
3-Feb	* MRO	Marathon Oil Corporation	Ready for Recovery in Demand for Diesel Fuel
Meter Reader			
11-May		Weekly	
4-May	BP	BP p.l.c.	Oil Spill and BP Stock Spill
27-Apr	COP, LUKOY, MRO, TOT		Undervalued Income Stocks
20-Apr	* SWN	Southwestern Energy	Shale Gas Slowdown
Income and Small Cap Weekly			
7-May	ENP	Encore Energy Partners	Mini-Panic and Encore Energy Partners
30-Apr	WLL	Whiting Petroleum Corporation	Raise NPV to \$95 a Share on Onshore Oil Drilling
23-Apr	LGCY, LINE	Legacy Reserves L.P., Linn Energy	Oily Cash Payers - Add Legacy, Raise Linn NPV
16-Apr	* ERF	Enerplus Resources Fund	Attractive for 9% Distribution Yield
Industry Ideas			
30-Apr	PBR, BG, APC and BP		Remove Buys - Accident May Delay Deep Water Oil
			* Archived on www.mcdep.com



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

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