

European Oil for Contrarians

Summary and Recommendation

We classify buy recommendations **Royal Dutch Shell, plc (RDS-A)**, **Statoil ASA (STO)**, and **Total S.A. (TOT)** as Contrarian Buys to acknowledge that the current stock price trend is down in comparison to the 200-day average. By a similar measure, oil price may have begun a downtrend measured by six-year futures at \$83 a barrel settling below the 40-week average of \$86 (see charts on page 2, <u>Six-Year Commodity Price Meter</u> and <u>Six-Year and One-Year Natural</u> <u>Gas and Oil Futures</u>). The Contrarian Buys are attractive on a value basis with McDep Ratios at 0.75, 0.71 and 0.60 respectively (see Tables 1-2 on pages 6-7). Income is strong with dividend yields indicated at 6.2%, 4.3% and 5.9% (see Table 3 on page 8). The abrupt change in price trend in currency markets may have contributed to the greater stock price decline for TOT, the only large cap in our coverage headquartered in a country that uses the euro. The currency effect may be temporary as oil price tends to adjust to a global level in real terms. The oil price decline does not cause us much concern as our long-term assumption for calculating McDep Ratios is \$75 a barrel adjusted for inflation. At the same time, we are optimistic that natural gas price may be near an upturn before next winter.

Analyzing each company by business segment, we see TOT most concentrated on oil at 58% (see tables on pages 3-4, <u>Functional Cash Flow and Present Value</u>).. STO is the leader in natural gas with concentration of Net Present Value (NPV) at 49%. Traditionally having a high downstream concentration, RDS apparently intends to reduce its 26% concentration further. During the past few weeks it may have been an advantage to have more downstream for a natural hedge on crude oil price.

The main determinants of present value can be captured by initial cash flow and the time it lasts. Along those lines for oil reserves, TOT, RDS and STO have adjusted life indices of 8.5, 6.8 and 4.1. In the same order of reserve life, the three companies have present value multiples of unlevered cash flow (PV/Ebitda) for oil of 6.7, 5.6 and 4.5.

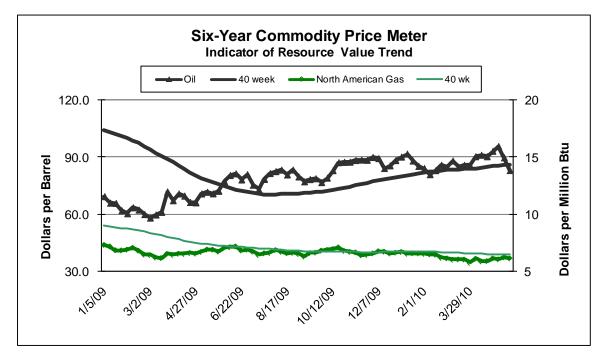
Cash flow margin for upstream production may have stabilized somewhat after fluctuating wildly in the three quarters after the global financial panic in September 2008 (see chart on page 5, <u>Upstream Cash Flow</u>). Behind the fluctuations in downstream cash flow there may be a broad trend that bottomed in late 2009 (see chart on page 5, <u>Downstream Cash Flow</u>).

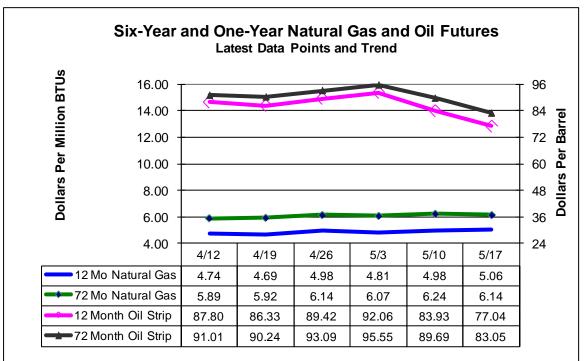
We like systematic accumulation of low McDep Ratio stocks of strongly financed companies with valuable oil and gas resources. McDep Ratios have declined further while investors may be concerned about the debt of lesser European countries among other factors. Meanwhile, Total, Statoil and Royal Dutch Shell are engines of economic growth, which is much of the solution to current problems.

Kurt H. Wulff, CFA

Please see disclosures on the final page.









Ro	yal Dutch She	ll plc			
Functional (Cash Flow and	Present Va	lue		
				Present	
	NTM Ebitda	Adjusted	PV/	Value	
	<u>(US\$mm)</u>	<u>R/P</u>	<u>Ebitda</u>	<u>(US\$mm)</u>	
North American Natural Gas	1,130	4.5	8.0	9,000	3%
Rest of World Natural Gas	8,020	11.8	8.9	71,000	23%
Oil	26,030	6.8	5.6	147,000	48%
Downstream	10,500		7.4	78,000	26%
	45,680	8.7	6.7	305,000	100%
Debt (US\$mm)					63,000
Net Present Value (US\$mm)					242,000
Shares (mm)					3,066
Net Present Value - Standard Estimate (US\$/sl	h)				79
NPV Approximation by Cash Flow Multiple D	epending on R	eserve Life	(US\$/sh)		78

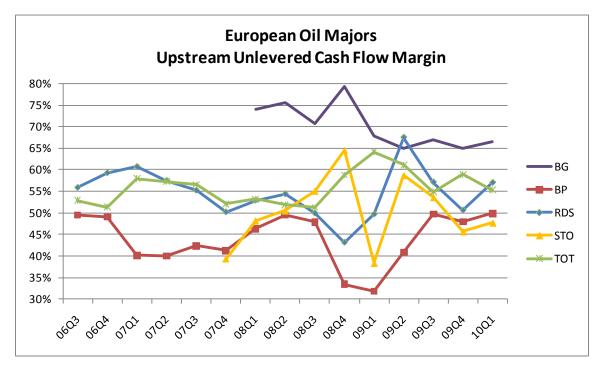
	Statoil ASA				
Functional Ca	sh Flow and Pr	esent Value			
				Present	
	NTM Ebitda	Adjusted	PV/	Value	
	<u>(US\$mm)</u>	<u>R/P</u>	<u>Ebitda</u>	<u>(US\$mm)</u>	
Natural Gas	7,604	9.9	9.2	70,000	49%
Oil	15,835	4.1	4.5	71,800	51%
	23,439	6.4	6.0	141,800	100%
Debt (US\$mm)					30,400
Net Present Value (US\$mm)					111,400
Shares (mm)					3,183
Net Present Value - Standard Estimate (US\$/sh)					35
NPV Approximation by Cash Flow Multiple Dependence	ling on Reserve	e Life (US\$/s	sh)		31

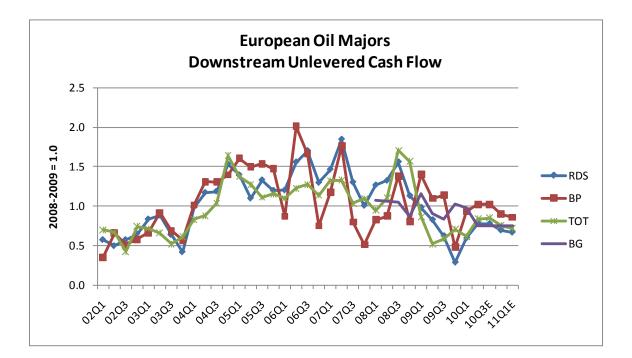


	Total				
Functional Ca	sh Flow and P	resent Valu	e		
				Present	
	NTM Ebitda	Adjusted	PV/	Value	
	<u>(US\$mm)</u>	<u>R/P</u>	<u>Ebitda</u>	<u>(US\$mm)</u>	
Rest of World Natural Gas	5,250	11.5	8.6	45,000	19%
Oil	20,300	8.5	6.7	136,000	58%
Downstream	5,550		9.4	52,000	22%
	31,100	9.6	7.5	233,000	100%
Debt (US\$mm)					31,000
Net Present Value (US\$mm)					202,000
Shares (mm)					2,243
Net Present Value - Standard Estimate (US\$/sh)					90
NPV Approximation by Cash Flow Multiple Depe	nding on Rese	erve Life (US	\$\$/sh)		85
Note: Downstream includes about \$5 billion pres	ent value for t	he company	's 6% owr	nership	
of pharmaceutical company Sanofi-Aventi	s.				

	BP plc				
Function	nal Cash Flow ar	nd Presen	t Value		
				Present	
	NTM Ebitda	Adjusted	PV/	Value	
	<u>(US\$mm)</u>	<u>R/P</u>	<u>Ebitda</u>	<u>(US\$mm)</u>	
North American Natural Gas	1,440	15.3	13.2	19,000	6%
Rest of World Natural Gas	4,360	9.5	8.7	38,000	12%
Oil	31,960	8.9	6.3	201,000	61%
Downstream	9,300		7.5	70,000	21%
	47,060	9.7	7.0	328,000	100%
Debt (US\$mm)					58,300
Net Present Value (US\$mm)					269,200
Shares (mm)					3,167
Net Present Value - Standard Estimate	(US\$/sh)				85
NPV Approximation by Cash Flow Mu	Itiple Depending or	n Reserve Li	fe (US\$/sh)	88









		T	10Dor	Fnores	Dortfol	•				
			-	0.	y Portfoli					
	Geogr	aphio	e Domio	cile and	l Busines	s Segn	nents			
							it Value by	Segmen	t (%)	
			Price			North	Rest			
			(US\$/sh)	EV/	Enterprise	Amer.	of World			
	Symbol/		17-May	Market	Value	Natural	Natural		Down-	McDep
	y, CB (see	below)	2010	Сар	(\$mm)	Gas	Gas	Prod'n	stream	Ratio
U.S. Integrated										
Exxon Mobil Corporation	XOM	CB	63.27	1.19	392,000	10	17	56	17	0.74
Chevron Corporation	CVX	В	77.73	1.18	184,000	4	10	71	14	0.74
ConocoPhillips	COP	В	55.19	1.63	136,000	13	9	64	14	0.69
Marathon Oil Corporation	MRO	В	31.61	1.51	34,000	7	3	64	26	0.69
Total or Median *	32%	8%	15%		746,000					0.72
Енгоре										
Royal Dutch Shell plc	RDS-A	CB	54.06	1.38	229,000	3	23	48	26	0.75
BG Group	BRGXF		14.85	1.18	59,500		27	48	25	0.71
Statoil ASA (33%)	STO	CB	22.08	1.43	33,200		49	51	-	0.71
BP plc	BP		46.57	1.40	206,000	6	12	61	21	0.63
Total S.A.	TOT	CB	48.15	1.29	139,000		19	58	22	0.60
Total or Median *	28%	10%	12%		667,000					0.71
Australia/Brazil/China/Russi	ia									
CNOOC Limited (34%)	CEO	В	160.98	1.02	25,100		11	89	-	1.11
Woodside Petroleum Ltd.	WOPEY	CB	37.80	1.17	36,000		74	26	-	0.91
PetroChina Company Ltd (14%	PTR	CB	109.26	1.24	34,800		14	72	14	0.77
Petrobras	PBR		37.05	1.37	222,000		4	81	15	0.71
Lukoil Oil Company	LUKOY	CB	51.35	1.15	50,000			68	32	0.41
Gazprom (50%)	OGZPY	CB	21.05	1.35	83,000		77	23	-	0.40
Total or Median *	19%	12%	19%		451,000					0.74
U.S. Independent										
Southwestern Energy Compan	SWN		38.46	1.08	14,500	100			-	1.18
EOG Resources	EOG	В	103.23	1.13	29,400	68	5	28	-	1.11
Anadarko Petroleum Corp.	APC		57.18	1.50	42,700	46		50	4	0.93
Occidental Petroleum Corp.	OXY	В	80.53	1.08	70,600	10	1	82	7	0.86
Chesapeake Energy Corp.	CHK		22.29	1.99	27,900	89		11	-	0.79
Devon Energy Corporation	DVN	CB	65.37	1.05	30,700	57		43	-	0.68
Total or Median *	9%	12%	12%		216,000					0.89
Canada					.,					
Cenovus Energy Inc.	CVE	В	25.91	1.36	26,500	23		70	7	0.97
Imperial Oil Limited (30%)	IMO	В	39.84	1.08	11,100	3		82	15	0.84
Canadian Natural Resources	CNQ	В	69.13	1.30	48,900	13		87	-	0.81
EnCana Corporation	ECA	В	31.44	1.37	32,300	95		5	-	0.80
Canadian Oil Sands Trust	COSWF	CB	26.72	1.11	14,300			100	-	0.72
Suncor Energy	SU	CB	30.21	1.38	65,300	5		84	11	0.70
Total or Median *	8%	12%	23%	1.00	198,000			0.		0.81
Income and Small Cap (see set					1,0,000					0.01
Leone una shain cup (see se	3%	45%	19%		79,100	56		44		0.97
Composite	570	7370	1770		79,100	50		77		0.97
Enterprise Value Weighting	100%				2,357,000	12	15	59	14	0.72
Equal Weighting	10070	100%			2,337,000	36	7	51	6	0.87
Equal Weighted Buys		100%	100%			28	12	53	8	0.87
			100/0			20	14		0	0.70

* Percentages in Price column refer to equal weighted buys.



			Table 2	2				
	Mo	Dep	Energy	v Portfo	olio			
N	et Pres	ent [•]	Value ar	nd McD	ep Ratio	1		
					-			
			Price			Net		
			(US\$/sh)		Market	Present	Debt/	
	Symbol/R	ating	17-May	Shares	Cap	Value	Present	McDep
B = Buy	, CB (see b	elow)	2010	(mm)	(US\$mm)	(US\$/sh)	Value	Ratio
U.S. Integnated								
U.S. Integrated Exxon Mobil Corporation	VOM	CD	62.07	5 015	220,000	80.00	0.12	0.74
	XOM	CB	63.27	5,215	330,000	89.00	0.12	0.74
Chevron Corporation	CVX	B	77.73	2,004	156,000	110.00	0.11	0.74
ConocoPhillips	COP	B	55.19	1,504	83,000	95.00	0.27	0.69
Marathon Oil Corporation	MRO	В	31.61	711	22,470	53.00	0.23	0.69
Total or Median					591,000		0.18	0.72
Europe								
Royal Dutch Shell plc	RDS-A	CB	54.06	3,066	166,000	79.00	0.21	0.75
BG Group plc	BRGXF		14.85	3,400	50,500	22.00	0.11	0.71
Statoil ASA (33%)	STO	CB	22.08	1,050	23,200	35.00	0.21	0.71
BP plc	BP		46.57	3,167	148,000	85.00	0.18	0.63
Total S.A.	TOT	CB	48.15	2,243	108,000	90.00	0.13	0.60
Total or Median					496,000		0.18	0.71
Australia/Dussil/China/Dussia								
Australia/Brazil/China/Russia CNOOC Limited (34%)	CEO	В	160.98	152	24,500	145.00	0.03	1.11
Woodside Petroleum Ltd.	WOPEY	CB	37.80	794	31,100	44.00	0.03	0.91
PetroChina Company Ltd (14%)	PTR	CB	109.26	256	28,000	150.00	0.15	0.77
Petrobras	PBR	CD	37.05	4,387	162,500	58.00	0.19	0.77
Lukoil Oil Company	LUKOY	СВ	51.35	4,387 847	43,500	135.00	0.05	0.71
	OGZPY	CB			,			0.41
Gazprom (50%) Total or Median	UGZP I	СБ	21.05	2,915	61,400 <i>351,000</i>	64.00	0.10	0.40
Total of Mealan					351,000		0.12	0.74
U.S. Independent								
Southwestern Energy Company	SWN		38.46	349	13,400	32.00	0.09	1.18
EOG Resources	EOG	В	103.23	251	25,900	92.00	0.13	1.11
Anadarko Petroleum Corp.	APC		57.18	496	28,400	64.00	0.31	0.93
Occidental Petroleum Corp.	OXY	В	80.53	814	65,500	95.00	0.06	0.86
Chesapeake Energy Corp.	CHK		22.29	628	14,000	34.00	0.39	0.79
Devon Energy Corporation	DVN	CB	65.37	448	29,300	98.00	0.03	0.68
Total or Median					176,500		0.11	0.89
Canada		-			10 700			
Cenovus Energy Inc.	CVE	B	25.91	752	19,500	27.00	0.26	0.97
Imperial Oil Limited (30%)	IMO	В	39.84	256	10,200	48.00	0.06	0.84
Canadian Natural Resources	CNQ	В	69.13	542	37,500	90.00	0.19	0.81
EnCana Corporation	ECA	В	31.44	749	23,500	42.00	0.22	0.80
Canadian Oil Sands Trust	COSWF	CB	26.72	484	12,900	38.00	0.07	0.72
Suncor Energy	SU	CB	30.21	1,572	47,500	48.00	0.19	0.70
Total or Median					151,000		0.19	0.81
CB=Contrarian Buy, Stock Price may	in downt	rend co	ompared to	200-day av	erage.			

Estimated present value presumes a long-term price for oil of US\$75 a barrel and natural gas, \$8 a million btu.



			Table 3					
	McDe	ep l	Energy	Portfoli	io			
Value	Multi	ples	and Di	istributi	on Yield	l		
			Price	Adjustd				Divd or
			(US\$/sh)	Resrvs/	PV/	EV/		Distrib
S	ymbol/Rat	ing	17-May	Prod	Ebitda	Ebitda	P/E	NTM
B = Buy, C	<i>,</i>	0	2010	NTM	NTM	NTM	NTM	(%)
U.S. Integrated								
Exxon Mobil Corporation	XOM	СВ	63.27	13.5	8.9	6.6	12	2.7
Marathon Oil Corporation	MRO	B	31.61	9.4	7.9	5.5	12	3.2
ConocoPhillips	COP	B	55.19	10.4	7.6	5.3	9	4.0
Chevron Corporation	CVX	B	77.73	9.1	6.8	5.1	10	3.5
Total or Median	CVA	D	11.15	9.9	7.7	5.4	11	3.3
Europe BG Group plc	BRGXF		14.85	8.3	9.2	6.5	12	0.8
Royal Dutch Shell plc	RDS-A	CB	54.06	8.7	6.7	5.0	8	6.2
Total S.A.	TOT	CB	48.15	9.6	7.5	4.5	8	5.9
BP plc	BP	CD	46.57	9.7	7.0	4.4	7	7.2
Statoil ASA (33%)	STO	CB	22.08	6.4	6.1	4.3	9	4.3
Total or Median	510			8.7	7.0	4.5	8	5.9
Australia/Brazil/China/Russia	WODEW	CD	27.00	17.0	12.1	11.0	20	0.0
Woodside Petroleum Ltd.	WOPEY	CB	37.80	17.8	13.1	11.9	20	2.6
Petrobras	PBR	CD	37.05	9.1	9.8	6.9	12	3.6
PetroChina Company Ltd (14%)	PTR	CB	109.26	13.8	7.9	6.1	13	3.7
CNOOC Limited (34%)	CEO	B	160.98	6.8	5.2	5.8	11	3.2
Gazprom (50%)	OGZPY	CB	21.05	24.6	9.9	4.0	5	0.2
Lukoil Oil Company	LUKOY	CB	51.35	15.8	9.0	3.7	7	3.2
Total or Median				14.8	9.4	5.9	11	3.2
U.S. Independent								
Southwestern Energy Company	SWN		38.46	6.7	8.9	10.5	21	-
EOG Resources	EOG	В	103.23	9.8	8.7	9.6	41	0.6
Chesapeake Energy Corp.	CHK		22.29	11.8	11.9	9.4	19	1.3
Occidental Petroleum Corp.	OXY	B	80.53	10.5	7.8	6.7	16	1.7
Anadarko Petroleum Corp.	APC	<i>a</i> n	57.18	8.4	7.0	6.5		0.6
Devon Energy Corporation	DVN	CB	65.37	10.0	8.3	5.6	13	1.0
Total or Median				9.9	8.5	8.0	19	0.8
Canada								
Imperial Oil Limited (30%)	IMO	В	39.84	20.3	11.7	9.9	20	1.0
Canadian Oil Sands Trust	COSWF	CB	26.72	31.4	13.4	9.7	16	7.2
Canadian Natural Resources	CNQ	В	69.13	15.6	11.6	9.4	15	0.8
EnCana Corporation	ECA	В	31.44	7.7	11.1	8.9	28	2.5
Suncor Energy	SU	CB	30.21	16.9	11.7	8.2	20	1.3
Cenovus Energy Inc.	CVE	В	25.91	9.4	8.3	8.1	14	3.1
Total or Median				16.3	11.6	9.1	18	1.9
CB=Contrarian Buy, Stock Price may be i								
EV = Enterprise Value = Market Cap and								
and amortization; NTM = Next Twelve M				11; P/E = St	tock Price to			
Earnings; PV = Present Value of oil and g	as and oth	ier b	usinesses					D 0



			Index of Recent	Research
Stock I	[de	eas		
<u>Date</u>		<u>Symbol</u>	<u>Subject</u>	Theme_
18-May		RDSA, STO,	ТОТ	European Oil for Contrarians
13-May		BIREF	Birchcliff Energy Ltd.	New Buy for Small Cap Natural Gas Growth
11-May		XOM, CVX, O		U.S. Integrated Oil in New Trend (Meter Reader)
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 (Meter Reader)
30-Apr		WLL	Whiting Petroleum Corporation	Raise NPV to \$95 a Share on Onshore Oil Drilling (ISCW)
30-Apr		PBR, BG, APG	C 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	Attractrive for 9% Distribution Yield (ISCW)
13-Apr	*	COP,COSWF	ConocoPhillips, Canadian Oil Sands Trust	Syncrude Priced at a McDep Ratio of 0.96 (Meter Reader)
9-Apr		UPL, RRC, an		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
5-Mar	*	CNO	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
15-Feb	*	CVE	Cenovus Energy Inc.	Quadruple Bitumen by 2017
15-Feb	-	EOG	EOG Resources Inc.	Proven Reserves Increase 24%
5-Feb	*	BRGXF	BG Group	Natural Gas Growth in Australia
3-Feb	*	IMO	Imperial Oil Limited	Horn River Shale Gas Explorer
Meter	R	eader		•
18-May		RDSA, STO,	ТОТ	European Oil for Contrarians
11-May		XOM, CVX, O		U.S. Integrated Oil in New Trend
4-May		BP	BP p.l.c.	Oil Spill and BP Stock Spill
27-Apr	*	COP, LUKOY	*	Undervalued Income Stocks
	a	nd Small Ca	ap Weekly	
14-May	Г		Weekly	Euroworries and the Appeal of Income and Small Cap
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
Industr				,,
30-Apr	J	PBR, BG, APG	and BP	Remove Buys - Accident May Delay Deep Water Oil
50-Apr	\vdash	I DK, DO, APO		Remove buys - Accident way Delay Deep water Oll



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.

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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. Hold recommendations are expected to deliver a total return less than inflation.