McDep LLC

Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

September 20, 2011

20% More Oil for the Buck

Summary and Recommendation

The long-term investment appeal of oil and gas stocks in a growing global economy is better today than five months ago when measured by the future physical volume of oil and gas for a dollar of enterprise value. The volume of oil has not changed much, while both stock prices and oil prices are down by comparable percentages. Stock prices as measured on an unlevered basis using enterprise value are down 18% from five months ago, near the 52-week highs. Oil price measured by futures prices for crude to be delivered over the next six years has declined 16% to $89.93 a barrel from $107.07 in late April. Reflecting stock price and oil price, the composite McDep Ratio for large cap companies is also down 16% to 0.62 from 0.74. Inversely, a 17% decline in price implies a 20% gain to get back to the previous measure. For investors making new commitments, a lower price helps to compensate for the courage it may take to act in contrarian fashion. Among buy recommendations the five which declined the most in enterprise value, in order of decreasing decline, are **Gazprom (OGZPY)**, **Canadian Oil Sands Ltd. (COSWF)**, **Suncor Energy (SU)**, **Petrobras (PBR)** and **Imperial Oil (IMO)**. The five which declined the least in order of decreasing decline are **ExxonMobil (XOM)**, **ConocoPhillips (COP)**, **Royal Dutch Shell (RDS)**, **Cenovus Energy (CVE)** and **Chevron (CVX)**.

All buy recommended stocks score high appreciation potential measured by low McDep Ratios and low cash flow multiples (see Tables 1-3 on pages 2-4). All buys are trading below 200-day averages (see Table 4 on page 5). Oil price for the next six years holds at a profitable $90 a barrel compared to the 40-week average of $98 (see chart Six-Year and One-Year Natural Gas and Oil Futures on page 7).

Kurt H. Wulff, CFA

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Table 1

McDep Large Cap Energy Stocks

Geographic Domicile and Business Segments

						Present Value by Segment (%)				
			Price			*North*	*Rest*			
			(US$/sh)	*EV/*	*Enterprise*	*Amer.*	*of World*			
	Symbol/Rating		*19-Sep*	*Market*	*Value*	*Natural*	*Natural*	*Oil*	*Down-*	*McDep*
	B = Buy, CB (see below)		*2011*	*Cap*	*($mm)*	*Gas*	*Gas*	*Prod'n*	*stream*	*Ratio*
U.S. Integrated										
Exxon Mobil Corporation	XOM	CB	73.70	1.20	433,000	9	19	56	16	0.70
ConocoPhillips	COP	CB	66.77	1.45	134,000	14	11	59	17	0.65
Chevron Corporation	CVX	CB	98.71	1.14	226,000	3	10	78	9	0.61
Total or Median					*793,000*			*59*		*0.65*
Europe										
BG Group	BRGXF		20.03	1.21	83,000		34	45	21	0.83
Royal Dutch Shell plc	RDS-A	CB	65.38	1.31	267,000	3	22	54	21	0.74
Statoil ASA (33%)	STO	CB	22.37	1.51	35,400		34	66	-	0.61
BP plc	BP		38.61	1.71	210,000	4	8	65	23	0.55
Total S.A.	TOT	CB	44.34	1.43	143,000		20	67	13	0.53
Total or Median					*738,000*			*65*		*0.61*
Brazil/Russia/Australia/China										
Woodside Petroleum Ltd.	WOPEY		34.19	1.24	33,000		72	28	-	0.80
CNOOC Limited (36%)	CEO		169.98	1.01	27,700		9	91	-	0.68
PetroChina Company Ltd (14%)	PTR	CB	122.41	1.32	41,300		14	69	16	0.65
Petrobras	PBR	CB	25.99	1.36	230,000		2	83	15	0.50
Gazprom (50%)	OGZPY	CB	10.56	1.24	75,000		84	16	-	0.43
Lukoil Oil Company	LUKOY	CB	56.20	1.10	49,400			72	28	0.40
Total or Median					*456,000*			*72*		*0.57*
U.S. Independent										
Chesapeake Energy Corp.	CHK		31.06	1.66	38,700	73		27	-	0.96
Southwestern Energy Company	SWN		39.66	1.11	15,400	100			-	0.95
Anadarko Petroleum Corp.	APC		74.23	1.57	58,100	36		61	3	0.88
EOG Resources, Inc.	EOG	CB	87.76	1.23	27,000	43	4	53	-	0.72
Occidental Petroleum Corp.	OXY	CB	82.46	1.11	74,200	10	1	79	9	0.69
Devon Energy Corporation	DVN	CB	64.55	1.20	32,700	55		45	-	0.62
Marathon Oil Corporation	MRO	CB	25.17	1.28	23,100	7	4	89	-	0.53
Total or Median					*269,000*			*61*		*0.72*
Canada										
Cenovus Energy Inc.	CVE	CB	33.17	1.27	31,900	16		74	9	0.73
Penn West Exploration	PWE		17.86	1.48	12,300	16		84	-	0.67
Imperial Oil Limited (30%)	IMO	CB	37.72	1.16	11,200	3		86	11	0.64
EnCana Corporation	ECA	CB	22.95	1.65	28,000	90		10	-	0.58
Suncor Energy	SU	CB	29.68	1.29	60,600	3		81	17	0.53
Canadian Oil Sands Limited	COSWF	CB	22.15	1.13	12,200			100	-	0.46
Total or Median					*156,000*			*83*		*0.61*
Composite					*2,412,000*	*9*	*15*	*62*	*14*	*0.62*

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

Table 2

McDep Large Cap Energy Stocks
Net Present Value and McDep Ratio

			Price (US$/sh)			*Net*		
	Symbol/Rating		*19-Sep*	*Shares*	*Market Cap*	*Present Value*	*Debt/ Present*	*McDep*
B = Buy, CB (see below)			*2011*	*(mm)*	*(US$mm)*	*(US$/sh)*	*Value*	*Ratio*
U.S. Integrated								
Exxon Mobil Corporation	XOM	CB	73.70	4,912	362,000	112.00	0.11	0.70
ConocoPhillips	COP	CB	66.77	1,380	92,000	119.00	0.20	0.65
Chevron Corporation	CVX	CB	98.71	2,009	198,000	170.00	0.07	0.61
Total or Median					*652,000*		*0.11*	*0.65*
Europe								
BG Group plc	BRGXF		20.03	3,410	68,300	25.00	0.15	0.83
Royal Dutch Shell plc	RDS-A	CB	65.38	3,114	204,000	96.00	0.18	0.74
Statoil ASA (33%)	STO	CB	22.37	1,050	23,500	44.00	0.21	0.61
BP plc	BP		38.61	3,186	123,000	93.00	0.23	0.55
Total S.A.	TOT	CB	44.34	2,256	100,000	100.00	0.16	0.53
Total or Median					*519,000*		*0.18*	*0.61*
Brazil/Russia/Australia/China								
Woodside Petroleum Ltd.	WOPEY		34.19	787	26,900	45.00	0.16	0.80
CNOOC Limited (36%)	CEO		169.98	162	27,500	250.00	0.01	0.68
PetroChina Company Ltd (14%)	PTR	CB	122.41	256	31,400	210.00	0.16	0.65
Petrobras	PBR	CB	25.99	6,513	169,300	62.00	0.13	0.50
Gazprom (50%)	OGZPY	CB	10.56	5,750	60,700	28.00	0.08	0.43
Lukoil Oil Company	LUKOY	CB	56.20	802	45,100	150.00	0.03	0.40
Total or Median					*361,000*		*0.11*	*0.57*
U.S. Independent								
Chesapeake Energy Corp.	CHK		31.06	751	23,300	33.00	0.38	0.96
Southwestern Energy Company	SWN		39.66	350	13,900	42.00	0.09	0.95
Anadarko Petroleum Corp.	APC		74.23	500	37,100	90.00	0.32	0.88
EOG Resources, Inc.	EOG	CB	87.76	250	21,900	130.00	0.13	0.72
Occidental Petroleum Corp.	OXY	CB	82.46	813	67,000	123.00	0.07	0.69
Devon Energy Corporation	DVN	CB	64.55	423	27,300	112.00	0.10	0.62
Marathon Oil Corporation	MRO	CB	25.17	717	18,050	54.00	0.12	0.53
Total or Median					*208,600*		*0.12*	*0.72*
Canada								
Cenovus Energy Inc.	CVE	CB	33.17	758	25,100	49.00	0.15	0.73
Penn West Exploration	PWE		17.86	467	8,300	31.00	0.22	0.67
Imperial Oil Limited (30%)	IMO	CB	37.72	256	9,700	62.00	0.09	0.64
EnCana Corporation	ECA	CB	22.95	739	17,000	51.00	0.23	0.58
Suncor Energy	SU	CB	29.68	1,587	47,100	64.00	0.12	0.53
Canadian Oil Sands Limited	COSWF	CB	22.15	485	10,700	52.00	0.05	0.46
Total or Median					*118,000*		*0.14*	*0.61*

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

McDep Ratio = **M**arket **c**ap and **De**bt to **p**resent value of oil and gas and other businesses

Estimated present value presumes a long-term price for oil of US$100 a barrel and natural gas, $8 a million btu.

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Table 3

McDep Large Cap Energy Stocks

Value Multiples and Distribution Yield

			Price (US$/sh) 19-Sep 2011	*Adjustd Resrvs/ Prod NTM*	*PV/ Ebitda NTM*	*EV/ Ebitda NTM*	*P/E NTM*	*Divd or Distrib NTM (%)*
Symbol/Rating B = Buy, CB (see below)								
U.S. Integrated								
Exxon Mobil Corporation	XOM	CB	73.70	14.1	7.9	5.5	9	2.6
ConocoPhillips	COP	CB	66.77	12.0	8.0	5.2	9	4.0
Chevron Corporation	CVX	CB	98.71	8.5	7.1	4.4	8	3.2
Total or Median				*12.0*	*7.9*	*5.2*	*9*	*3.2*
Europe								
BG Group plc	BRGXF		20.03	17.1	10.2	8.4	16	1.1
Royal Dutch Shell plc	RDS-A	CB	65.38	9.0	7.0	5.2	9	5.1
BP plc	BP		38.61	11.1	8.5	4.7	6	4.4
Statoil ASA (33%)	STO	CB	22.37	6.8	7.2	4.4	9	4.9
Total S.A.	TOT	CB	44.34	9.9	7.8	4.1	6	7.0
Total or Median				*9.9*	*7.8*	*4.7*	*9*	*4.9*
Brazil/Russia/Australia/China								
Woodside Petroleum Ltd.	WOPEY		34.19	20.3	10.5	8.3	14	3.2
Petrobras	PBR	CB	25.99	13.5	11.6	5.8	8	4.9
PetroChina Company Ltd (14%)	PTR	CB	122.41	13.1	7.2	4.7	10	4.4
CNOOC Limited (36%)	CEO		169.98	6.9	5.8	4.0	7	3.8
Lukoil Oil Company	LUKOY	CB	56.20	16.4	6.6	2.6	4	3.4
Gazprom (50%)	OGZPY	CB	10.56	30.2	5.4	2.3	3	2.9
Total or Median				*14.9*	*6.9*	*4.3*	*8*	*3.6*
U.S. Independent								
Southwestern Energy Company	SWN		39.66	7.5	11.2	10.6	23	-
Chesapeake Energy Corp.	CHK		31.06	10.5	10.9	10.5	10	1.1
Anadarko Petroleum Corp.	APC		74.23	7.2	8.3	7.3		0.5
Occidental Petroleum Corp.	OXY	CB	82.46	11.5	8.7	6.0	12	2.2
Devon Energy Corporation	DVN	CB	64.55	10.2	9.5	5.9	11	1.1
EOG Resources, Inc.	EOG	CB	87.76	9.2	7.9	5.7	21	0.7
Marathon Oil Corporation	MRO	CB	25.17	10.3	7.1	3.7	9	2.4
Total or Median				*10.2*	*8.7*	*6.0*	*12*	*1.1*
Canada								
Cenovus Energy Inc.	CVE	CB	33.17	22.3	11.8	8.6	20	2.4
Imperial Oil Limited (30%)	IMO	CB	37.72	43.1	12.7	8.2	12	1.2
EnCana Corporation	ECA	CB	22.95	11.9	13.2	7.6	77	3.5
Penn West Exploration	PWE		17.86	8.5	10.9	7.2	13	6.1
Canadian Oil Sands Limited	COSWF	CB	22.15	26.1	12.3	5.6	9	5.5
Suncor Energy	SU	CB	29.68	25.2	9.9	5.2	13	1.5
Total or Median				*23.8*	*12.0*	*7.4*	*13*	*3.0*

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 September 30, 2012; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

Table 4

McDep Large Cap Energy Stocks

Rank by Enterprise Value to 200 Day Average

	Symbol	Rating	*Price ($/sh) 19-Sep 2011*	*Enterprise Value/ 52Wk High*	*52Wk Low*	*50 Day Avg.*	*200 Day Avg.*	*McDep Ratio*
U.S. Integrated								
Chevron Corporation	CVX	CB	98.71	0.91	1.22	0.99	0.99	0.61
ConocoPhillips	COP	CB	66.77	0.87	1.14	0.98	0.95	0.65
Exxon Mobil Corporation	XOM	CB	73.70	0.86	1.17	0.97	0.94	0.70
Median				*0.87*	*1.17*	*0.98*	*0.95*	*0.65*
Europe								
Royal Dutch Shell plc	RDS-A	CB	65.38	0.87	1.09	0.97	0.96	0.74
Statoil ASA (33%)	STO	CB	22.37	0.82	1.08	0.97	0.93	0.61
BP plc	BP		38.61	0.86	1.06	0.96	0.92	0.55
BG Group plc	BRGXF		100.17	0.80	1.13	0.94	0.91	0.83
Total S.A.	TOT	CB	44.34	0.76	1.02	0.92	0.85	0.53
Median				*0.84*	*1.08*	*0.97*	*0.93*	*0.63*
Brazil/Russia/Australia/China								
PetroChina Company Ltd (14%)	PTR	CB	122.41	0.82	1.08	0.94	0.92	0.65
Lukoil Oil Company	LUKOY	CB	56.20	0.76	1.06	0.93	0.89	0.40
Woodside Petroleum Ltd.	WOPEY		34.19	0.70	1.03	0.90	0.82	0.80
Petrobras	PBR	CB	25.99	0.68	1.04	0.90	0.80	0.50
Gazprom (50%)	OGZPY	CB	10.56	0.65	1.03	0.86	0.79	0.43
CNOOC Limited (36%)	CEO		169.98	0.63	1.01	0.84	0.75	0.68
Median				*0.69*	*1.04*	*0.90*	*0.81*	*0.57*
U.S. Independent								
Chesapeake Energy Corp.	CHK		31.06	0.91	1.25	0.99	1.01	0.96
Southwestern Energy Company	SWN		35.33	0.82	1.25	0.98	0.99	0.95
Anadarko Petroleum Corp.	APC		74.23	0.91	1.21	1.00	0.99	0.88
EOG Resources, Inc.	EOG	CB	87.76	0.76	1.04	0.94	0.88	0.72
Occidental Petroleum Corp.	OXY	CB	82.46	0.72	1.10	0.91	0.85	0.69
Devon Energy Corporation	DVN	CB	64.55	0.73	1.05	0.92	0.83	0.62
Marathon Oil Corporation	MRO	CB	25.17					0.53
Median				*0.79*	*1.16*	*0.96*	*0.93*	*0.72*
Canada								
Cenovus Energy Inc.	CVE	CB	33.17	0.85	1.18	0.94	0.95	0.73
Imperial Oil Limited (30%)	IMO	CB	37.72	0.71	1.04	0.91	0.85	0.64
EnCana Corporation	ECA	CB	22.95	0.76	1.02	0.91	0.84	0.58
Penn West Exploration	PWE		17.86	0.70	1.03	0.93	0.81	0.67
Canadian Oil Sands Limited	COSWF	CB	22.07	0.65	1.06	0.90	0.80	0.46
Suncor Energy	SU	CB	29.68	0.67	1.04	0.89	0.80	0.53
Median				*0.71*	*1.04*	*0.91*	*0.84*	*0.64*

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

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Index of Recent Research

Stock Ideas			
Date	*Symbol*	*Subject*	*Theme*
16-Sep	FRHLF, PBT, SBR, DMLP, CRT		Volume Upside in Top Line Cash Payers (Income and Small Cap
13-Sep	EOG	EOG Resources	Horizontal Leads Renewed U.S. Oil Growth (Meter Reader)
6-Sep	LUKOY	Lukoil	Capitalist Success with Upside (Meter Reader)
2-Sep	XEC	Cimarex Energy	Solid Company, Bouncy Stock (Income and Small Cap Weekly)
30-Aug	PTR	PetroChina	China Growth at Low Stock Market Value (Meter Reader)
23-Aug	PBR	Petrobras	Product Price Controls Delay Cash Growth (Meter Reader)
19-Aug	DMLP	Dorchester Minerals, L.P.	Preferred Risk 7% Income with Oil and Gas Upside (ISCW)
16-Aug	COSWF	Canadian Oil Sands Limited	Undervalued Laggard (Meter Reader)
9-Aug	HK	Petrohawk	Discontinue on Pending Acquisition at NPV Premium (ISCW)
9-Aug	RRC	Range Resources	Raise NPV to $70 from $60 a Share (Income and Small Cap)
2-Aug	CVX	Chevron	Raise NPV to $170 from $154 on Cash Flow Margin
2-Aug	TOT	Total	Lower NPV to $100 from $111 on Cash Flow Margin (MReade
29-Jul	WLL	Whiting Petroleum	Appreciation Potential after Stock Price Decline (ISCW)
27-Jul	APC	Anadarko Petroleum	Raise NPV to $90 from $78 on Oil Growth
26-Jul	ECA	Encana	High Margin at Low Natural Gas Price (Meter Reader)
19-Jul	COP	ConocoPhillips	Downstream Spinoff Promises to Unlock Value (Meter Reader)
5-Jul	DVN	Devon Energy	Thermal Oil Growth in Canada (Meter Reader)
28-Jun	MRO	Marathon Oil	Buy New U.S. Independent Producer (Meter Reader)
24-Jun	HGT, SJT, MTR	Hugoton, San Juan, Mesa RTrust	Income Enhancers (ISC Weekly)
21-Jun	WOPEY	Woodside Petroleum	Remove Buy on Costs and Delay (Meter Reader)
17-Jun	PEYUF	Peyto Exploration	Update Growth (Income and Small Cap)
14-Jun	CVE	Cenovus Energy	Accelerating Deep Oil Sands (Meter Reader)
7-Jun	IMO	Imperial Oil	Double Oil Production by 2020 (Meter Reader)
31-May	OXY	Occidental Petroleum	Triple California Oil Production by 2020 (Meter Reader)
24-May	STO	Statoil	Nordic Oil and Gas Stalwart (Meter Reader)
29-Apr	BIREF	Birchcliff Energy	Independent Engineer Confirms Natural Gas Upside (ISCW)
22-Apr	ERF	Enerplus Corporation	New Buy - Bakken and Marcelllus with 7% Income (ISCW)
29-Mar	XOM	Exxon Mobil	Natural Gas Enhanced by Nuclear (Meter Reader)
22-Feb	OGZPY	Gazprom	Nearer Accord on Natural Gas to China (Meter Reader)
	For historical research by stock, go to mcdep.com, click on Stock Ideas, click on stock by name.		
Meter Reader			
13-Sep	EOG	EOG Resources	Horizontal Leads Renewed U.S. Oil Growth
6-Sep	LUKOY	Lukoil	Capitalist Success with Upside
30-Aug	PTR	PetroChina	China Growth at Low Stock Market Value
23-Aug	PBR	Petrobras	Product Price Controls Delay Cash Growth
	For earlier editions, go to mcdep.com, click on Meter Reader.		
Income and Small Cap Weekly			
16-Sep	FRHLF, PBT, SBR, DMLP, CRT		Volume Upside in Top Line Cash Payers
9-Sep			A Dime a Gallon
2-Sep	XEC	Cimarex Energy	Solid Company, Bouncy Stock
26-Aug	RRC, PEYUF, BIREF, CRT, MTR		Invest in Natural Gas
	For earlier editions, go to mcdep.com, click on Energy Income.		

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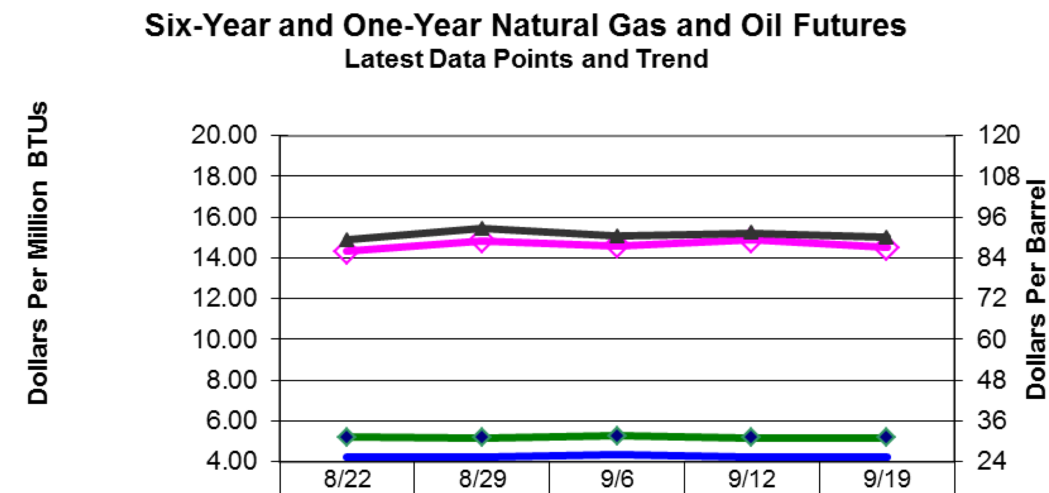

	8/22	8/29	9/6	9/12	9/19
12 Mo Natural Gas	4.21	4.23	4.33	4.25	4.25
72 Mo Natural Gas	5.20	5.17	5.27	5.17	5.16
12 Month Oil Strip	86.00	89.11	87.66	89.18	86.96
72 Month Oil Strip	89.31	92.54	90.29	91.29	89.93

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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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. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.