McDep LLC
Meter Reader
A Weekly Analysis of Large Cap Oil and Gas Stocks
June 25, 2013

Reduce Long-Term Oil Price to $90 a Barrel
Buy Recommendations Unchanged, McDep Ratios Low

Summary and Recommendation

Large cap oil and gas stocks remain attractively priced at McDep Ratios near 0.7 despite 10-15% lower oil present value along with our reduction in expected long-term oil price to $90 a barrel from $100. Moreover, a whiff of fear spreading in markets in recent weeks sets up rebalancing opportunities for long-term investors to take advantage of lower stock prices to restore portfolio allocations. Our general guidance is more allocation to equities outside of energy and less to energy in the decade of the 2010s than in the decade of the 2000s. Advancing oil price in the past decade contributed to advancing oil supply for the current decade. Because most of that new supply is coming from North America, oil stocks domiciled in North America look more interesting than oil stocks domiciled outside North America. Natural gas trends accentuate the advantages of North American producers and North American equities outside of energy. Our long-term natural gas price expectation of $6 a million btu is unchanged.

Transactions and Futures Trigger Oil Price Revision

A second deal involving small cap stocks in our companion weekly coverage appears to be priced below a McDep Ratio of 0.8. On February 21, Linn Energy agreed to acquire Berry Petroleum for a McDep Ratio of 0.77. On June 24, Whiting Petroleum agreed to sell the Postle oil field for cash at a McDep Ratio that may be similar to the Linn/Berry transaction. That deal is for a specific property that represents less than 10% of the value of all the seller's properties. At the same time, futures for oil to be delivered over the next six years trade currently at $84.60 a barrel, which is less than the 40-week average of $87.90 (see chart Six-Year and One-Year Natural Gas and Oil Futures on page 7). Six-year oil price appears to be in a gradual downtrend, or at best in a trading range between $84 and $90. In contrast, the near-month oil future at $95 is above the 200-day average of $92, suggesting an uptrend. Whether the long-term price is $90 or $100, it looks like a profitable business for oil producers.

Buy Recommendations Offer Opportunity by Geography and Business Segment

Five Buys claim North America as headquarters – **ExxonMobil (XOM)**, **Marathon Oil (MRO)**, **Devon Energy (DVN)**, **Imperial Oil (IMO)** and **Suncor (SU)** (see Table 1 on page 2). **Lukoil (LUKOY)** is our representative buy outside North America. MRO offers rapid growth in shale oil production, IMO and SU are growing in oil sands, and DVN offers the most natural gas among the six buys. XOM, IMO, and SU have North American refineries earning high profits from oil discounted in price because of transportation bottlenecks. MRO has positive momentum with stock price above the 200-day average while the other five are Contrarian Buys (see Table 4 on page 5).

Kurt H. Wulff, CFA

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Table 1

McDep Large Cap Energy Stocks

Enterprise Value, Business Segments and McDep Ratio

						Present Value by Segment (%)				
			Price			*North*	*Rest*			
			(US$/sh)	*EV/*	*Enterprise*	*Amer.*	*of World*			
	Symbol/Rating		*24-Jun*	*Market*	*Value*	*Natural*	*Natural*	*Oil*	*Down-*	*McDep*
B = Buy, CB (see below)			*2013*	*Cap*	*($mm)*	*Gas*	*Gas*	*Prod'n*	*stream*	*Ratio*
Global Integrated										
Exxon Mobil Corporation	XOM	CB	88.48	1.20	477,000	7	19	54	20	0.89
Chevron Corporation	CVX	H	116.82	1.15	261,000	4	11	72	13	0.80
PetroChina Company Ltd (14%)	PTR	H	101.55	1.62	42,100		13	79	8	0.75
Petrobras	PBR	H	13.32	2.21	192,000		7	80	13	0.72
Royal Dutch Shell plc	RDS-A	H	63.43	1.35	271,000	4	22	55	19	0.70
Total S.A.	TOT	H	47.13	1.41	151,000		22	61	17	0.67
Gazprom (50%)	OGZPY	H	6.56	1.52	57,000		14	19	66	0.43
Lukoil Oil Company	LUKOY	CB	55.00	1.07	45,600			75	25	0.42
Total or Median				*1.38*	*1,497,000*			*67*	*18*	*0.71*
U.S. Independent										
Occidental Petroleum Corp.	OXY	H	88.63	1.14	81,400	8	1	80	11	0.84
EOG Resources, Inc.	EOG	H	127.41	1.18	41,000	22	3	75	-	0.82
Marathon Oil Corporation	MRO	B	33.71	1.44	34,600	9	4	87	-	0.75
ConocoPhillips	COP	H	59.35	1.48	107,000	14	12	74	-	0.68
Devon Energy Corporation	DVN	CB	52.03	1.50	31,600	52		48	-	0.66
Total or Median				*1.44*	*296,000*	*14*		*75*		*0.75*
Canada/Norway/Australia										
Woodside Petroleum Ltd.	WOPEY	H	31.73	1.21	31,000		63	37	-	0.82
Imperial Oil Limited (30%)	IMO	CB	37.58	1.29	12,400	2		79	19	0.77
Cenovus Energy Inc.	CVE	H	27.74	1.35	28,400	13		67	20	0.72
EnCana Corporation	ECA	H	16.91	1.74	21,600	84		16	-	0.69
Statoil ASA (33%)	STO	H	20.14	1.60	33,800		33	67	-	0.64
Canadian Oil Sands Limited	COSWF	H	18.34	1.26	11,200			100	-	0.60
Suncor Energy	SU	CB	28.98	1.33	58,700	2		77	21	0.59
Total or Median				*1.33*	*197,000*			*67*		*0.69*

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

Estimated present value presumes a long-term price for oil of US$100 a barrel and natural gas, $6 a million btu.

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

Table 2

McDep Large Cap Energy Stocks

Net Present Value and McDep Ratio

	Symbol/Rating		*Price (US$/sh) 24-Jun 2013*	*Shares (mm)*	*Market Cap (US$mm)*	*Net Present Value (US$/sh)*	*Debt/ Present Value*	*McDep Ratio*
	B = Buy, CB (see below)							
Global Integrated								
Exxon Mobil Corporation	XOM	CB	88.48	4,485	397,000	102.00	0.15	0.89
Chevron Corporation	CVX	H	116.82	1,944	227,000	150.00	0.11	0.80
PetroChina Company Ltd (14%)	PTR	H	101.55	256	26,000	155.00	0.29	0.75
Petrobras	PBR	H	13.32	6,522	86,900	25.00	0.39	0.72
Royal Dutch Shell plc	RDS-A	H	63.43	3,157	200,000	100.00	0.18	0.70
Total S.A.	TOT	H	47.13	2,269	107,000	80.00	0.19	0.67
Gazprom (50%)	OGZPY	H	6.56	5,735	37,600	20.00	0.15	0.43
Lukoil Oil Company	LUKOY	CB	55.00	776	42,700	135.00	0.03	0.42
Total or Median					*1,124,000*		*0.17*	*0.71*
U.S. Independent								
Occidental Petroleum Corp.	OXY	H	88.63	805	71,400	108.00	0.10	0.84
EOG Resources, Inc.	EOG	H	127.41	272	34,700	160.00	0.13	0.82
Marathon Oil Corporation	MRO	B	33.71	712	24,000	50.00	0.23	0.75
ConocoPhillips	COP	H	59.35	1,214	72,000	100.00	0.22	0.68
Devon Energy Corporation	DVN	CB	52.03	406	21,100	92.00	0.22	0.66
Total or Median					*223,200*		*0.22*	*0.75*
Canada/Norway/Australia								
Woodside Petroleum Ltd.	WOPEY	H	31.73	820	26,000	40.00	0.14	0.82
Imperial Oil Limited (30%)	IMO	CB	37.58	255	9,600	52.00	0.17	0.77
Cenovus Energy Inc.	CVE	H	27.74	758	21,000	42.00	0.19	0.72
EnCana Corporation	ECA	H	16.91	736	12,400	30.00	0.29	0.69
Statoil ASA (33%)	STO	H	20.14	1,050	21,100	38.00	0.24	0.64
Canadian Oil Sands Limited	COSWF	H	18.34	485	8,900	34.00	0.12	0.60
Suncor Energy	SU	CB	28.98	1,521	44,100	56.00	0.15	0.59
Total or Median					*143,000*		*0.17*	*0.69*

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

Estimated present value presumes a long-term price for oil of US$100 a barrel and natural gas, $6 a million btu.

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

Table 3

McDep Large Cap Energy Stocks
Value Multiples and Dividend Yield

			Price (US$/sh) 24-Jun 2013	*Adjustd Resrvs/ Prod NTM*	*PV/ Ebitda NTM*	*EV/ Ebitda NTM*	*P/E NTM*	*Dividend NTM (%)*
	Symbol/Rating B = Buy, CB (see below)							
Global Integrated								
Exxon Mobil Corporation	XOM	CB	88.48	13.3	7.3	6.5	11	2.8
PetroChina Company Ltd (14%)	PTR	H	101.55	12.5	6.9	5.2	10	4.5
Chevron Corporation	CVX	H	116.82	9.1	6.2	5.0	9	2.6
Petrobras	PBR	H	13.32	11.1	6.9	5.0	5	3.6
Royal Dutch Shell plc	RDS-A	H	63.43	9.6	6.4	4.5	8	5.7
Total S.A.	TOT	H	47.13	9.4	6.1	4.1	7	6.6
Lukoil Oil Company	LUKOY	CB	55.00	15.9	5.7	2.4	4	5.0
Gazprom (50%)	OGZPY	H	6.56	31.0	4.4	1.9	2	5.6
Median				*11.8*	*6.3*	*4.7*	*7*	*4.8*
U.S. Independent								
Devon Energy Corporation	DVN	CB	52.03	10.2	10.1	6.7	15	1.3
Occidental Petroleum Corp.	OXY	H	88.63	10.3	7.3	6.1	14	2.9
EOG Resources, Inc.	EOG	H	127.41	8.0	6.9	5.7	18	0.6
ConocoPhillips	COP	H	59.35	11.7	8.0	5.5	10	4.4
Marathon Oil Corporation	MRO	B	33.71	9.1	6.8	5.1	13	2.0
Median				*10.2*	*7.3*	*5.7*	*14*	*2.0*
Canada/Norway/Australia								
Imperial Oil Limited (30%)	IMO	CB	37.58	21.8	10.3	8.0	10	1.2
EnCana Corporation	ECA	H	16.91	6.7	11.3	7.8		4.7
Woodside Petroleum Ltd.	WOPEY	H	31.73	9.6	8.4	6.9	15	4.1
Cenovus Energy Inc.	CVE	H	27.74	13.4	8.8	6.4	16	3.3
Canadian Oil Sands Limited	COSWF	H	18.34	19.9	10.5	6.2	10	7.3
Suncor Energy	SU	CB	28.98	15.8	8.1	4.8	8	2.0
Statoil ASA (33%)	STO	H	20.14	6.2	5.8	3.7	6	5.5
Median				*13.4*	*8.8*	*6.4*	*10*	*4.1*

CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average. H = Hold
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2014; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

Table 4

McDep Large Cap Energy Stocks

Total Return and Enterprise Value Momentum

				Equity					
			Price	*Total*					
			($/sh)	*Return*	*Enterprise Value/*				
	Symbol		*24-Jun*	*YTD*	*52Wk*	*52Wk*	*50 Day*	*200 Day*	*McDep*
		Rating	*2013*	*(%)*	*High*	*Low*	*Avg.*	*Avg.*	*Ratio*
Global Integrated									
Chevron Corporation	CVX	H	116.82	11	0.93	1.16	0.97	1.01	0.80
Exxon Mobil Corporation	XOM	CB	88.48	5	0.95	1.09	0.98	0.99	0.89
Royal Dutch Shell plc	RDS-A	H	63.43	(5)	0.89	1.01	0.96	0.95	0.70
Total S.A.	TOT	H	47.13	(6)	0.89	1.09	0.96	0.95	0.67
Lukoil Oil Company	LUKOY	CB	55.00	(19)	0.82	1.07	0.90	0.88	0.42
PetroChina Company Ltd (14%)	PTR	H	101.55	(28)	0.78	1.01	0.90	0.85	0.75
Petrobras	PBR	H	13.32	(30)	0.72	1.01	0.88	0.84	0.72
Gazprom (50%)	OGZPY	H	6.56	(33)	0.68	1.01	0.90	0.81	0.43
Median				*(12)*	*0.86*	*1.04*	*0.93*	*0.91*	*0.71*
U.S. Independent									
Occidental Petroleum Corp.	OXY	H	88.63	18	0.94	1.19	0.99	1.05	0.84
EOG Resources, Inc.	EOG	H	127.41	7	0.93	1.43	0.99	1.03	0.82
Marathon Oil Corporation	MRO	B	33.71	12	0.94	1.27	1.00	1.03	0.75
ConocoPhillips	COP	H	59.35	5	0.94	1.09	0.98	1.01	0.68
Devon Energy Corporation	DVN	CB	52.03	1	0.87	1.02	0.95	0.95	0.66
Median				*7*	*0.94*	*1.19*	*0.99*	*1.03*	*0.75*
Canada/Norway/Australia									
Suncor Energy	SU	CB	28.98	(11)	0.85	1.06	0.97	0.93	0.59
Canadian Oil Sands Limited	COSWF	H	18.33	(7)	0.83	1.03	0.95	0.92	0.60
Imperial Oil Limited (30%)	IMO	CB	37.58	(11)	0.80	1.01	0.97	0.90	0.77
Woodside Petroleum Ltd.	WOPEY	H	31.73	(9)	0.83	1.05	0.90	0.90	0.82
EnCana Corporation	ECA	H	16.91	(12)	0.80	1.01	0.94	0.90	0.69
Cenovus Energy Inc.	CVE	H	27.74	(15)	0.80	1.01	0.95	0.89	0.72
Statoil ASA (33%)	STO	H	20.14	(15)	0.82	1.00	0.92	0.88	0.64
Median				*(11)*	*0.82*	*1.01*	*0.95*	*0.90*	*0.69*

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Index of Recent Research

Stock Ideas			
Date	*Symbol*	*Subject*	*Theme*
21-Jun	RRC	Range Resources	Superlatives (Income and Small Cap Weekly)
18-Jun	SU	Suncor Energy	Conservative Growth and Income (Meter Reader)
14-Jun	SJT	San Juan Basin Royalty Trust	First Mancos Frac Flows 30% Oil (Income and Small Cap Weekly)
11-Jun	XOM	Exxon Mobil	5% a Year Growth per Share (Meter Reader)
7-Jun	XEC	Cimarex Energy	Uncovering Culberson Value (Income and Small Cap Weekly)
4-Jun	DVN	Devon Energy	Natural Gas Strength, Oil Growth (Meter Reader)
31-May	HGT	Hugoton Royalty Trust	Beating the Bear (Income and Small Cap Weekly)
28-May	LUKOY	Lukoil	20% Dividend Increase (Meter Reader)
24-May	BIREF	Birchcliff Energy	Small Cap North American Natural Gas (Income and Small Cap Weekly)
21-May	IMO	Imperial Oil	Timely on Bitumen Price (Meter Reader)
17-May	DMLP	Dorchester Minerals, L.P.	U.S. Oil Ascending (Income and Small Cap Weekly)
14-May	EOG	EOG Resources	Raise NPV to $180 on More Big Wells (Meter Reader)
10-May	CLR	Continental Resources	Raise NPV to $110 from $100 on Oil Growth (ISCW)
7-May	RDSA	Royal Dutch Shell plc	Raise NPV to $110 a Share from $102 (Meter Reader)
3-May	NDRO	Enduro Royalty Trust	RTF Stock for Permian Oil (Income and Small Cap Weekly)
30-Apr	TOT	Total	Recovery Potential (Meter Reader)
26-Apr	WLL	Whiting Petroleum	Synergistic Fracker (Income and Small Cap Weekly)
23-Apr	COSWF	Canadian Oil Sands Limited	Long-Term Oil Investment (Meter Reader)
19-Apr	HK	Halcón Resources	Fourth Core Area - El Halcón ("The Hawk") (Inc. and Small Cap Wkly)
16-Apr	CVX	Chevron	Deflation Resistance (Meter Reader)
12-Apr	MTR	Mesa Royalty Trust	RTF Stealth Play on Long-Life Natural Gas (Income and Small Cap Wkly
9-Apr	MRO	Marathon Oil	Oil Shale and Global Exploration (Meter Reader)
5-Apr	SBR	Sabine Royalty Trust	Accelerating Volume Growth (Income and Small Cap Weekly)
2-Apr	OXY	Occidental Petroleum	Six-Year Oil Price Returns to Uptrend (Meter Reader)
28-Mar	PEYUF	Peyto Exploration and Developmen	Raise NPV to $32 for Fracking Winner (Income and Small Cap Weekly)
15-Mar	CRT	Cross Timbers Royalty Trust	San Juan Basin Gem (Income and Small Cap Weekly)
1-Mar	ERF	Enerplus Corporation	Back on Track, Discontinue Buy (Income and Small Cap Weekly)
21-Feb	BRY	Berry Petroleum	Linn Energy to Acquire Berry for McDep Ratio of 0.77
19-Feb	ECA	Encana Corporation	Survived the Downside, Ready for the Upside (Meter Reader)
5-Feb	COP	ConocoPhillips	Raise NPV to $105 from $96 on Performance (Meter Reader)
22-Jan	WOPEY	Woodside Petroleum, Ltd.	Politically-Secure, Clean Fuel Supplier (Meter Reader)
11-Jan	PDCE	PDC Energy	Mancos (Niobrara) Winner (Income and Small Cap Weekly)
28-Dec	FRHLF	Freehold Royalties Ltd.	Advantaged Ride on North American Oil Growth (ISCW)
18-Dec	STO	Statoil	Profitable Reinvestment (Meter Reader)
11-Dec	CVE	Cenovus	Canada Approves CNOOC and Petronas Deals (Meter Reader)
	For historical research by stock, go to mcdep.com, click on Stock Ideas, click on stock by name.		
Meter Reader			
18-Jun	SU	Suncor Energy	Conservative Growth and Income
11-Jun	XOM	Exxon Mobil	5% a Year Growth per Share
4-Jun	DVN	Devon Energy	Natural Gas Strength, Oil Growth
28-May	LUKOY	Lukoil	20% Dividend Increase
	For earlier editions, go to mcdep.com, click on Meter Reader.		
Income and Small Cap Weekly			
21-Jun	RRC	Range Resources	Superlatives
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31-May	HGT	Hugoton Royalty Trust	Beating the Bear
	For earlier editions, go to mcdep.com, click on Energy Income.		

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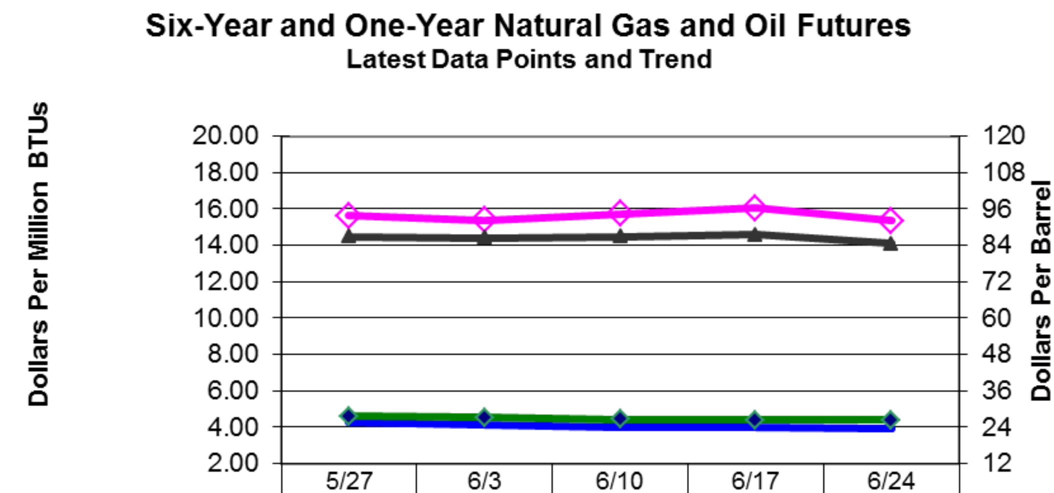

	5/27	6/3	6/10	6/17	6/24
12 Mo Natural Gas	4.31	4.12	3.97	4.03	3.92
72 Mo Natural Gas	4.61	4.54	4.43	4.40	4.39
12 Month Oil Strip	93.71	92.30	94.34	96.29	92.17
72 Month Oil Strip	86.92	86.37	86.88	87.49	84.63

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 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.