

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

December 27, 2005

The New Mega Cap

Summary and Recommendation

The pro forma combination of buy-recommended **ConocoPhillips (COP)** and buy-recommended **Burlington Resources (BR)** would create a new company with a stock market capitalization of \$100 billion thereby qualifying as the sixth mega cap energy company in our coverage. The new COP at a McDep Ratio of 0.71 would rank most undervalued among peers, about tie with buy-recommended **Chevron (CVX)**. In its limbo state, BR has a McDep Ratio of 0.75 presuming that each share of BR now represents 0.7214 share of COP plus \$46.50 to be received in cash. COP shareholders appear to give up net present value of \$5 a share while BR shareholders gain NPV of about \$29 a share. CEO Jim Mulva's past acquisitions of Alaskan reserves and U.S. refining assets have proved to be well-timed and more rewarding than initially perceived. Revised to the pro forma basis, the regular valuation tables point to investment opportunity while the commodity prospects remain supportive of stock buy recommendations.

Kurt H. Wulff, CFA

Oil and Gas Commodity and Stock Price

Monday, December 26, 2005

	<u>Units</u>	<u>Futures Price</u>		<u>McDep Ratio</u>
		<u>Six-Year</u>	<u>One-Year</u>	<u>Denominator</u>
Crude Oil	\$/barrel	58.60	60.24	50
Natural Gas	\$/million btu	8.84	11.04	10
Oil Refining	\$/barrel		10.84	10

<u>Stocks</u>	<u>Median</u>
	<u>McDep Ratio</u>
Mega Cap	0.77
Producer/Refiner	0.94
Independent - Large	0.78
Independent - Small	0.71
Income	1.15

Source: McDep Associates, Bloomberg, New York Mercantile Exchange, Yahoo and company disclosures

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Oil and Gas Producers Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/ Rating		Price (\$/sh) 23-Dec 2005	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
BP plc	BP	B	64.80	3,501	227,000	77.00	0.11	0.86
Total S.A.	TOT	B	127.84	1,176	150,000	160.00	0.12	0.82
Exxon Mobil Corporation	XOM	B	57.10	6,303	360,000	74.00	0.04	0.78
Royal Dutch Shell plc	RDS-A	B	61.88	3,352	207,000	84.00	0.10	0.76
Chevron Corporation	CVX	B	57.13	2,256	129,000	85.00	0.13	0.71
ConocoPhillips	COP	B	59.15	1,693	100,000	95.00	0.22	0.71
<i>Total or Median</i>					<i>1,173,000</i>		<i>0.11</i>	<i>0.77</i>
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	93.09	135	12,600	33.00	0.71	1.52
Imperial Oil Limited (30%)	IMO	B	99.61	102	10,180	84.00	0.10	1.17
Marathon Oil Corporation	MRO	B	62.16	368	22,860	65.00	0.27	0.97
Petro-Canada	PCZ	B	40.20	525	21,120	42.00	0.19	0.97
Suncor Energy	SU	B	63.06	461	29,080	68.00	0.11	0.94
Lukoil Oil Company	LUKOY	B	60.45	830	50,000	65.00	0.03	0.93
Norsk Hydro ASA	NHY	B	102.27	251	25,660	130.00	0.11	0.81
PetroChina Company Ltd (10%)	PTR	B	82.20	176	14,450	120.00	0.01	0.69
Gazprom (50%)	OGZPF	B	75.25	1,013	76,200	120.00	0.03	0.64
<i>Total or Median</i>					<i>262,000</i>		<i>0.11</i>	<i>0.94</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	46.07	370	17,050	48.00	0.20	0.97
Encana Corporation	ECA	B	45.67	876	40,000	51.00	0.20	0.92
CNOOC Limited (29%)	CEO	B	68.75	119	8,200	84.00	0.00	0.82
Devon Energy Corporation	DVN	B	63.86	454	29,000	86.00	0.15	0.78
Burlington Resources	BR	B	86.50	381	33,000	115.00	-	0.75
Occidental Petroleum Corp.	OXY	B	82.46	404	33,300	120.00	0.11	0.72
Anadarko Petroleum Corp.	APC	B	94.65	238	22,500	140.00	0.12	0.71
<i>Total or Median</i>					<i>183,000</i>		<i>0.12</i>	<i>0.78</i>
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	57.71	23	1,300	65.00	0.11	0.90
Encore Acquisition Company	EAC	B	32.67	50	1,620	50.00	0.21	0.73
Cimarex Energy Company	XEC	B	41.41	85	3,520	64.00	0.11	0.69
Energy Partners Ltd.	EPL	B	22.46	41	920	38.00	0.19	0.67
<i>Total or Median</i>					<i>7,400</i>		<i>0.15</i>	<i>0.71</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	48.48	160	7,760	15.00	0.55	2.00
Kinder Morgan Management, LLC	KMR	S3	45.32	57	2,570	15.00	0.55	1.91
Pengrowth Energy Trust	PGH		23.83	159	3,790	20.00	0.16	1.16
Enerplus Resources Fund	ERF		49.15	110	5,410	42.00	0.14	1.15
Penn West Energy Trust	PWTFF	B	32.41	179	5,810	28.00	0.15	1.13
San Juan Basin Royalty Trust	SJT		44.24	47	2,060	40.00	-	1.10
Canadian Oil Sands Trust (US\$)	COSWF	B	107.67	93	10,020	136.00	0.11	0.82
<i>Total or Median</i>					<i>37,400</i>		<i>0.15</i>	<i>1.15</i>

B = Buy, S2 = Short half unlevered position, S3 = Short quarter unlevered position

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

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Oil and Gas Producers

Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	Symbol/ Rating		Price (\$/sh) 23-Dec 2005	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Mega Cap								
BP plc	BP	B	64.80	9.4	6.4	5.5	9	3.3
Exxon Mobil Corporation	XOM	B	57.10	11.7	6.9	5.4	9	2.0
Total S.A.	TOT	B	127.84	9.2	6.4	5.2	9	2.8
Royal Dutch Shell plc	RDS-A	B	61.88	7.5	5.6	4.3	8	3.5
Chevron Corporation	CVX	B	57.13	9.6	5.9	4.2	7	3.2
ConocoPhillips	COP	B	59.15	11.0	5.5	3.9	6	2.1
		<i>Median</i>		9.5	6.1	4.8	8	3.0
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	93.09		8.5	12.9	19	3.2
Suncor Energy	SU	B	63.06	17.6	9.5	8.9	19	0.3
Imperial Oil Limited (30%)	IMO	B	99.61	11.5	7.2	8.4	14	0.8
Gazprom (50%)	OGZPF	B	75.25	20.0	11.0	7.0	12	0.5
Petro-Canada	PCZ	B	40.20	5.7	5.2	5.0	9	0.7
Marathon Oil Corporation	MRO	B	62.16	7.4	5.1	4.9	7	2.1
Lukoil Oil Company	LUKOY	B	60.45	19.8	4.9	4.6	7	1.6
PetroChina Company Ltd (10%)	PTR	B	82.20	13.8	6.4	4.4	9	4.6
Norsk Hydro ASA	NHY	B	102.27	8.0	5.3	4.3	9	2.9
		<i>Median</i>		12.7	6.4	5.0	9	1.6
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	46.07	10.8	6.1	5.9	10	0.4
Encana Corporation	ECA	B	45.67	7.1	5.2	4.7	9	0.7
Occidental Petroleum Corp.	OXY	B	82.46	11.0	6.4	4.6	8	1.7
Anadarko Petroleum Corp.	APC	B	94.65	12.5	6.2	4.5	8	0.8
CNOOC Limited (29%)	CEO	B	68.75	9.2	5.4	4.4	8	3.4
Devon Energy Corporation	DVN	B	63.86	7.8	4.7	3.7	6	0.5
Burlington Resources	BR	B	86.50	-	-	-	-	-
		<i>Median</i>		9.2	5.4	4.5	8	0.7
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	57.71	10.1	5.9	5.3	10	1.1
Encore Acquisition Company	EAC	B	32.67	14.3	6.5	4.7	10	-
Cimarex Energy Company	XEC	B	41.41	7.4	4.4	3.0	6	-
Energy Partners Ltd.	EPL	B	22.46	5.7	4.1	2.7	7	-
		<i>Median</i>		8.8	5.2	3.9	9	-
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	48.48		7.9	15.9	22	6.5
Kinder Morgan Management, LLC	KMR	S3	45.32		7.9	15.1	21	7.0
Canadian Oil Sands Trust (US\$)	COSWF	B	107.67	20.0	12.2	10.0	12	3.2
San Juan Basin Royalty Trust	SJT		44.24	12.1	7.7	8.5	9	11.0
Pengrowth Energy Trust	PGH		23.83	7.6	5.4	6.2	9	10.8
Enerplus Resources Fund	ERF		49.15	8.6	5.4	6.2	9	8.8
Penn West Energy Trust	PWTFF	B	32.41	8.0	4.7	5.3	8	9.8
		<i>Median</i>		8.6	7.7	8.5	9	8.8

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2006; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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Oil and Gas Producers Home Country and Business Segments

	Symbol/ Rating	Domicile	North Amer.		Oil Prod'n (%)	Down- stream (%)	Total Present Value (US\$m)	
			U.S. Gas (%)	Rest of World Gas (%)				
Mega Cap								
Exxon Mobil Corporation	XOM	B		10	19	38	33	487,000
Royal Dutch Shell plc	RDS-A	B	UK	4	19	33	45	313,000
BP plc	BP	B	UK	10	12	42	36	302,000
Chevron Corporation	CVX	B		9	9	52	29	221,000
Total S.A.	TOT	B	France	-	28	37	35	214,000
ConocoPhillips	COP	B		23	7	43	28	207,000
	<i>Total or Median</i>			9	15	40	34	1,744,000
Producer/Refiners - Large Cap and Mid Cap								
Gazprom	OGZPF	B	Russia		100			251,000
PetroChina Company Ltd.	PTR	B	China	-	9	71	20	213,000
Lukoil Oil Company	LUKOY	B	Russia	-	-	62	38	55,700
Norsk Hydro ASA	NHY	B	Norway	-	27	37	35	36,700
Suncor Energy	SU	B	Canada	5	-	89	7	35,200
Marathon Oil Corporation	MRO	B		14	8	33	46	32,900
Imperial Oil Limited	IMO	B	Canada	13	-	62	25	31,800
Petro-Canada	PCZ	B	Canada	23	4	53	20	27,200
	<i>Median</i>			5	6	62	25	684,000
Independent Natural Gas and Oil - Large Cap and Mid Cap								
Encana Corporation	ECA	B	Canada	83	-	17	-	55,600
Occidental Petroleum Corp.	OXY	B		15	1	73	11	54,700
Devon Energy Corporation	DVN	B		64	-	36	-	46,000
Anadarko Petroleum Corp.	APC	B		60	-	40	-	37,700
Burlington Resources	BR	B						
CNOOC Limited	CEO	B	China	-	12	88	-	34,600
XTO Energy Inc.	XTO	B		83	-	17	-	22,100
	<i>Median</i>			62	-	38	-	251,000
Independent Natural Gas and Oil - Small Cap								
Cimarex Energy Company	XEC	B		71	-	29	-	6,080
Encore Acquisition Company	EAC	B		25	-	75	-	3,150
Berry Petroleum Company	BRY	B		15	-	85	-	1,950
Energy Partners Ltd.	EPL	B		54	-	46	-	1,930
	<i>Median</i>			40	-	60	-	13,110
Income								
Canadian Oil Sands Trust (US\$)	COSWF	B	Canada	-	-	100	-	14,300
Penn West Energy Trust	PWTFF	B	Canada	42	-	58	-	5,900
Enerplus Resources Fund	ERF		Canada	58	-	42	-	5,350
Pengrowth Energy Trust	PGH		Canada	42	-	58	-	3,790
San Juan Basin Royalty Trust	SJT			100	-	-	-	1,860
	<i>Median</i>			42	-	58	-	31,200

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Index of Recent Research

Stock Ideas

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
14-Dec	OGZPF	Gazprom	Natural Gas Price Accelerates
13-Dec	BR	Burlington Resources, Inc.	Buy Offer from ConocoPhillips
13-Dec	COP	ConocoPhillips	Offers to Buy Burlington Resources
1-Dec	KMx	Kinder Morgan	Canada Deal Closed
28-Nov	OGZPF	Gazprom	Raise Net Present Value to \$120 a Share
14-Nov	PTR	PetroChina Company Limited	Diversify Political Risk
11-Nov	SJT	San Juan Basin Royalty Trust	Record Distributions Ahead
11-Nov	EPL	Energy Partners, Ltd.	Denali Partners
10-Nov	PWTFF	Penn West Energy Trust	Quality Income Stock
7-Nov	* TOT	Total S.A.	Global Clean Fuel Supplier
4-Nov	* BRY	Berry Petroleum	Expanding on Multiple Fronts
4-Nov	* XEC	Cimarex Energy Company	Doubling Done
3-Nov	* DVN	Devon Energy Corporation	No Hedges in 2006
1-Nov	* CEO	CNOOC Ltd	Low Price for Natural Gas
1-Nov	* OXY	Occidental Petroleum Corporation	Vintage Pending
31-Oct	* CVX	Chevron Corporation	Lower Net Present Value to \$85 a Share
31-Oct	* APC	Anadarko Petroleum Corporation	Long Life for Free
28-Oct	* XOM	Exxon Mobil Corporation	Momentum Challenge
28-Oct	* RDSA	Royal Dutch Shell plc	Downstream Gains
28-Oct	* SU	Suncor Energy Inc.	Up and Running Again
28-Oct	* MRO	Marathon Oil Corporation	Downstream Gains
28-Oct	* PCZ	Petro-Canada	Oil Sands Producer
27-Oct	* ECA	EnCana Corporation	Natural Gas Leader
27-Oct	* EAC	Encore Acquisition Company	Long Life Oil Value
26-Oct	* BP	BP p.l.c.	Lower Net Present Value to \$77 a Share
26-Oct	* NHY	Norsk Hydro ASA	Record Results
26-Oct	* COSWF	Canadian Oil Sands Trust	Distribution Doubled and Unit Split Proposed
21-Oct	* IMO	Imperial Oil Limited	The Unpromoters
21-Oct	* XTO	XTO Energy Inc.	Ready for Winter
14-Oct	* OXY	Occidental Petroleum Corporation	Buy Despite Momentum Signal
26-Sep	* LUKOY	Lukoil Oil Company	Adapting to New Russia

Meter Reader - A Weekly Analysis

27-Dec		The New Mega Cap
20-Dec	*	Natural Gas Person of the Year: Vladimir Putin
13-Dec	*	ConocoPhillips/Burlington Resources
5-Dec	*	Energy Vision and Reality

Natural Gas and Oil Royalty Trusts - A Weekly Analysis

23-Dec		Record Distributions
16-Dec	*	Declaration Day
9-Dec	*	Fiscal Follies
2-Dec	*	Calpine Farewell

Industry Ideas

26-Dec	*	Interview by Sandra Ward in Barron's	Bullish and Fully Fueled
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* Archived on www.mcdep.com

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