Analysis of Energy Stocks Using the McDep Ratio September 16, 2008 Intraday

## **Reinstate Five Buy Recommendations**

## **Summary and Recommendation**

Believing that Other People's Problems (OPP) spell Opportunity for long-term investors, we reinstate five oil and gas buy recommendations including ConocoPhillips (COP), StatoilHydro (STO), PetroChina (PTR), Devon Energy (DVN) and Canadian Oil Sands Trust (COSWF). Over-leveraged, weakly capitalized investors must sell in a declining market. Strongly capitalized investors can take advantage of those pressures. Strength includes the ability and temperament to withstand further declines. Yet, the bankruptcy of Lehman and the acquisition of Merrill Lynch by Bank of America are events as dramatic as any to make the risks of further turmoil obvious to all. The five recommendations are financially strong, geographically diverse and well-represented in North American Natural Gas, Rest of World Natural Gas, Oil Production and Downstream (see table McDep Energy Portfolio).

Kurt H. Wulff, CFA

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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.



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	~				y Portfolio					
	Geog	grap	hic Dom	nicile and	l Business S	egments				
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			D			North	nt Value by Rest	Segmeni	(%)	
			Price (US\$/sh)	EV/	Enterprise	Amer.	of World			
							,	0:1	Davis	MaDan
	Comba 1/D		16-Sep 2008	Market	Value	Natural	Natural Gas	Oil Prod'n	Down-	McDep
U.S. Integrated	Symbol/Re	uing	2008	Сар	(\$mm)	Gas	Gas	Proan	stream	Ratio
Marathon Oil Corporation	MRO		39.60	1.46	41,300	8	6	66	20	0.66
Exxon Mobil Corporation	XOM		73.10	1.40	418.000	7	17	57	20	0.64
Chevron Corporation	CVX		78.42	1.16	201,000	5	8	75	12	0.64
ConocoPhillips	COP	В	69.39	1.10	156,000	15	7	59	19	0.62
Total or Median *	13%	ь	33%	1.44	816,000	13	/	39	19	0.53
Europe	1370		3370		810,000					0.03
BG Group	BRGXF		18.31	1.12	69,200		23	58	20	0.68
BP plc	BP		50.78	1.12	228,000	9	10	70	11	0.58
	RDS-A		57.08	1.43	224,000	3	16	55	26	0.54
Royal Dutch Shell plc Total S.A.	TOT		59.76	1.21	162,000	3	17	68	15	0.54
StatoilHydro ASA (29%)	STO	В	22.56	1.32	27,600		38	62	13	0.52
Total or Median *	11%	ע	22.30	1.34	711,000		30	02		0.54
Brazil/China/Russia	11/0		23/0		711,000					0.54
CNOOC Limited (34%)	CEO		110.14	1.00	16,800		9	91		0.61
Petrobras	PBR		39.77	1.20	210,000		, ,	85	8	0.51
PetroChina Company Ltd (14%)	PTR	В	103.54	1.10	29,300		9	80	12	0.49
Gazprom (50%)	OGZPY	ь	25.75	1.33	98,000		82	18	12	0.35
Lukoil Oil Company	LUKOY		54.60	1.09	49.800		02	66	34	0.34
Total or Median *	18%		17%	1.07	404,000			00	34	0.49
U.S. Independent	1070		1770		70 7,000					0.17
San Juan Basin Royalty Trust	SJT		36.26	1.00	1.690	100				0.76
Encore Acquisition Company	EAC		42.27	1.68	3,710	17		83		0.68
Berry Petroleum Company	BRY		31.77	2.21	3,210	38		62		0.68
Anadarko Petroleum Corp.	APC		49.42	1.75	40,700	51		46	3	0.63
XTO Energy Inc.	XTO		46.65	1.44	39,000	74		26		0.62
EOG Resources	EOG		82.17	1.12	23,100	69	5	26		0.61
Hugoton Royalty Trust	HGT		25.63	1.00	1,030	100				0.61
Chesapeake Energy Corporation	CHK		36.22	1.79	35,600	84		16		0.60
Occidental Petroleum Corp.	OXY		66.29	1.11	60,500	12	1	81	6	0.58
Energy Partners Ltd.	EPL		8.89	3.11	900	38		62		0.57
Devon Energy Corporation	DVN	В	87.50	1.22	48,000	55		45		0.56
Cimarex Energy Company	XEC		45.51	1.15	4,490	63		37		0.49
Total or Median *	41%		11%		262,000					0.61
Canada										
Pengrowth Energy Trust	PGH		15.01	1.57	5,850	33		67		0.72
Encana Corporation	ECA		63.53	1.36	65,000	69		25	6	0.70
Penn West Energy Trust	PWE		23.33	1.60	14,200	31		69		0.69
Imperial Oil Limited (30%)	IMO		42.71	1.08	12,400	6		81	13	0.67
Canadian Oil Sands Trust	COSWF	В	37.46	1.07	19,200			100		0.67
Canadian Natural Resources	CNQ		70.71	1.39	53,200	27		73		0.65
Birchcliff Energy Ltd. (US\$)	BIR.TO		8.52	1.18	1,180	69		31		0.65
Enerplus Resources Fund	ERF		34.19	1.27	7,150	48		52		0.60
Suncor Energy	SU		41.40	1.17	46,000	3		93	4	0.59
Petro-Canada	PCZ		36.44	1.31	23,100	11	3	73	13	0.47
Total or Median *	17%		10%		247,000					0.66
Composite					·					
Present Value Weighting	100%		100%		2,440,000	11	14	61	13	0.57
Equal Weighting					•	29	7	57	7	0.60
Former Recommended Wtg.						31	11	51	7	
* Percentages in Symbol column r	efer to fori	ner re	ecommme	nded weigh	ntings. Percen	tages in Pr	ice column	refer to		
current market Enterprise Value				U						