



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks
December 30, 2008

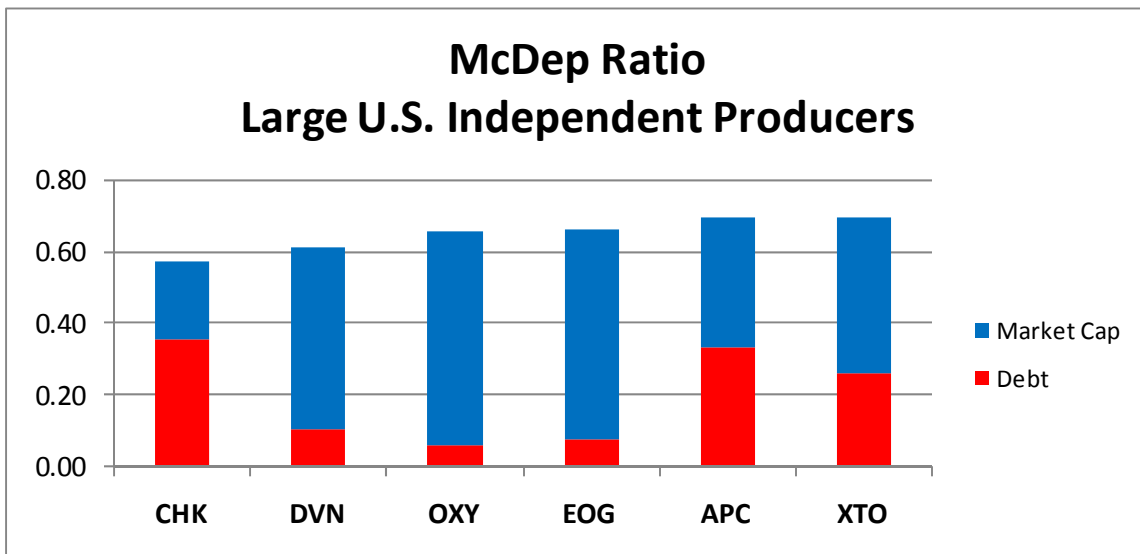
Own Independent Producers for Natural Gas

Summary and Recommendation

U.S. Independent Producers offer attractive investment value, in our opinion, at stock prices corresponding to about \$50 a barrel for the long-term value of Light, Sweet Crude Oil. Opportunistically, we recommend current purchase of **Devon Energy (DVN)** and **XTO Energy (XTO)**. At the same time there is always the risk that stock prices may go lower and a sustained recovery in stock price remains unconfirmed for a year. Cautiously, we recommend holding investments in **EOG Resources (EOG)**, **Occidental Petroleum (OXY)** and **Anadarko Petroleum (APC)**. Valuation differences among the five stocks are slight though DVN, EOG and OXY are blue chip in financial quality because of their low debt in a perilous time for borrowers as well as lenders (see chart McDep Ratio). Just as we are attracted to low McDep Ratios, we are attracted to stocks concentrated on natural gas in order to be strongly represented in the most promising fuel in the McDep Energy Portfolio (see chart Natural Gas and Oil Segments). Finally, we reorient *Meter Reader* exclusively to large cap stocks in five approximately equal groups (see Tables 1-3). We suggest roughly an equal portfolio weighting by Enterprise Value in each group drawn from the two buy recommendations in each group or from peer stocks. A sixth portion of the McDep Energy Portfolio is covered in our companion analysis, *Income and Small Cap Weekly*.

Devon for Sure, XTO or EOG Interchangeable

A small valuation difference favors Devon among the five rated stocks, and lower debt is probably an advantage over APC and XTO. We also have the most confidence in Devon



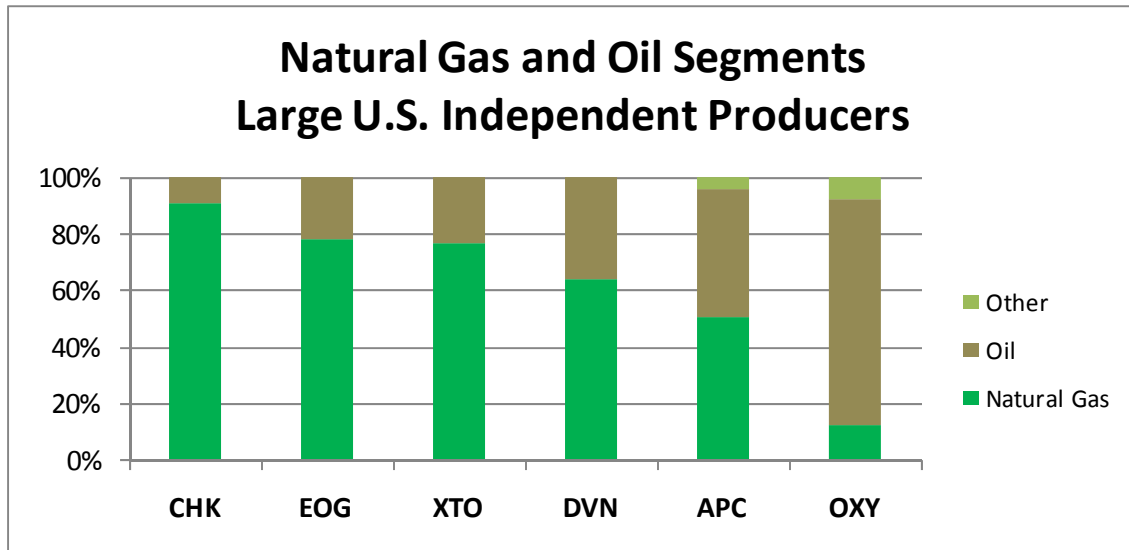


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management because chief executive Larry Nichols has the longest record of leading his company successfully.



XTO offers more concentration on natural gas which is helpful in building a greater concentration on natural gas in the McDep Energy Portfolio than available on average. Yet, hold-rated EOG offers as much concentration on natural gas as XTO and has a conservative balance sheet. On latest stock price there is no noticeable valuation difference. We could just as well allocate our buy recommendation to EOG instead of XTO. For now we will wait until we are comfortable increasing the number of buy recommendations.

The producer concentrated mostly on oil, OXY, is a hold rather than a buy because we are limiting the number of buys and we have oil exposure elsewhere. Otherwise value is competitive and the balance sheet is superior.

APC has higher debt though it appears to be manageable. Resources are balanced between oil and gas. We raise our estimate of NPV to \$70 a share from \$64 a share to bring the multiple of present value to cash flow more in line with reserve life and latest cash flow projections. After large transactions, operations seem to be settling into a pattern that justifies the new NPV.

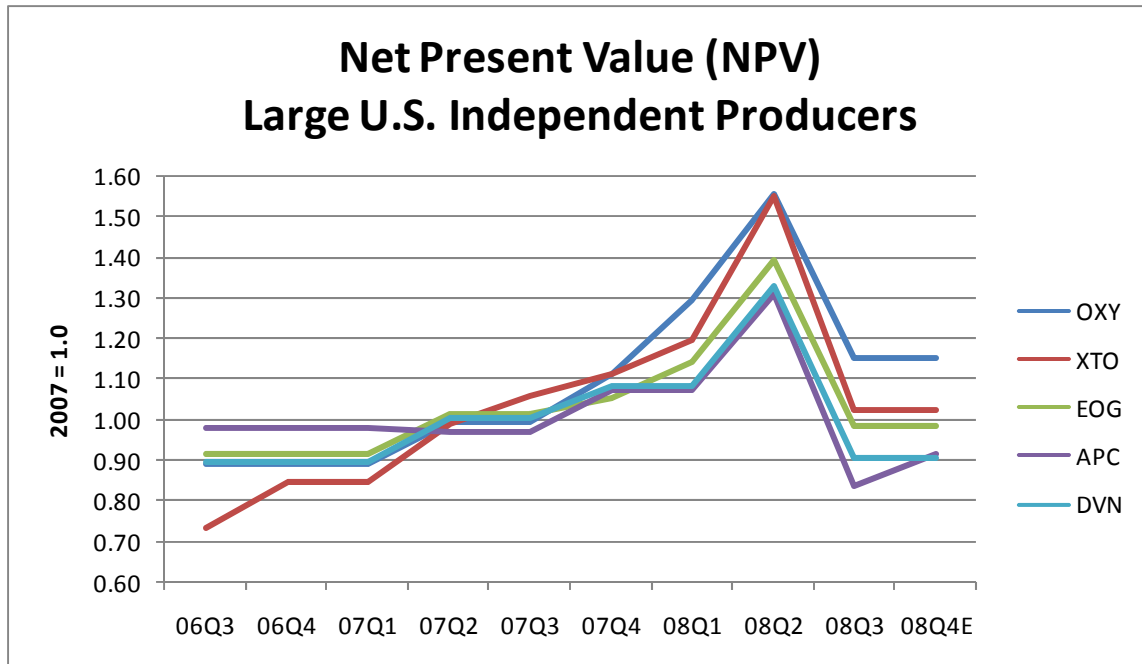
Growth in NPV is the ultimate differentiator of management performance, but it depends on complex estimates (see chart [Net Present Value \(NPV\)](#)). The next most complete indicator might be debt-adjusted volume growth per share, but that leaves out possible changes in resources or reserves behind the volume. Moreover past performance doesn't assure future results. Thus, we make our estimates of NPV presuming that each company will earn the same return on cash flow reinvested.



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Aside from needing to see the chart in color to track individual companies, there are further interpretations that might be pointed out. OXY's trend is stronger in the first half of 2008 likely because oil values were up more than natural gas values. XTO's trend looked like the strongest until high debt had a disproportionately negative impact. DVN's two year trend would be better if we added back as much as 10% of NPV for Deep Tertiary potential in the Gulf of Mexico that was in our earlier estimates. Similarly APC has Gulf of Mexico resource potential not much reflected in NPV. Finally, EOG has had an impressive volume trend that might justify more NPV, but we are wary that rapid growth by drilling can turn to rapid decline until volume stabilizes after drilling is slowed as now may be happening.

Six-Year and One-Year Natural Gas and Oil Futures that have often appeared in a table on page 1 of Meter Reader can be found on page 8.

Kurt H. Wulff, CFA



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Table 1											
McDep Large Cap Energy Portfolio											
Geographic Domicile and Business Segments											
						Present Value by Segment (%)					
	Symbol/Rating	Price (US\$/sh)	EV/ Market Cap	Enterprise Value (\$mm)	North Amer. Natural Gas	Rest of World Natural Gas	Oil Prod'n	Down- stream	McDep Ratio		
	B = Buy H = Hold	29-Dec 2008									
U.S. Integrated											
Exxon Mobil Corporation	XOM	B	78.02	1.08	433,000	6	23	46	25	0.88	
Chevron Corporation	CVX	H	71.55	1.17	185,000	5	12	67	16	0.76	
Marathon Oil Corporation	MRO	H	25.92	1.64	30,200	7	7	60	26	0.66	
ConocoPhillips	COP	B	49.00	1.62	121,000	14	9	57	20	0.57	
<i>Total or Median *</i>	<i>39%</i>	<i>15%</i>	<i>20%</i>		<i>769,000</i>					<i>0.71</i>	
Europe											
BG Group	BRGXF		13.61	1.08	49,800		29	46	25	0.73	
BP plc	BP	H	45.32	1.49	210,000	8	14	62	15	0.70	
Total S.A.	TOT	B	54.07	1.15	139,000		25	52	23	0.63	
Royal Dutch Shell plc	RDS-A	H	51.34	1.27	201,000	3	23	44	31	0.62	
StatoilHydro ASA (29%)	STO	B	16.06	1.38	20,500		44	56	-	0.54	
<i>Total or Median *</i>	<i>31%</i>	<i>19%</i>	<i>20%</i>		<i>620,000</i>					<i>0.63</i>	
Brazil/China/Russia											
CNOOC Limited (34%)	CEO	H	90.10	1.00	13,700		12	88	-	0.67	
PetroChina Company Ltd (14%)	PTR	B	84.85	1.12	24,400		14	69	17	0.59	
Petrobras	PBR		22.40	1.37	135,000		13	77	10	0.53	
Gazprom (50%)	OGZPY	B	14.10	1.45	63,000		81	19	-	0.29	
Lukoil Oil Company	LUKOY	H	33.90	1.07	30,700			61	39	0.26	
<i>Total or Median *</i>	<i>13%</i>	<i>19%</i>	<i>20%</i>		<i>267,000</i>					<i>0.53</i>	
U.S. Independent											
Anadarko Petroleum Corp.	APC	H	37.89	1.93	34,100	51		45	4	0.69	
XTO Energy Inc.	XTO	B	35.00	1.61	31,100	77		23	-	0.69	
EOG Resources	EOG	H	66.14	1.13	18,700	71	7	22	-	0.66	
Occidental Petroleum Corp.	OXY	H	56.36	1.11	51,000	12	1	79	8	0.66	
Devon Energy Corporation	DVN	B	65.55	1.21	35,200	64		36	-	0.61	
Chesapeake Energy Corp.	CHK		15.60	2.62	24,100	91		9	-	0.57	
<i>Total or Median *</i>	<i>10%</i>	<i>23%</i>	<i>20%</i>		<i>194,000</i>	<i>68</i>				<i>0.66</i>	
Canada											
Imperial Oil Limited (30%)	IMO	H	32.90	1.08	9,400	5		80	16	0.70	
Encana Corporation	ECA	B	44.39	1.41	47,100	68		29	4	0.67	
Canadian Natural Resources	CNQ	H	37.54	1.54	31,400	26		74	-	0.55	
Canadian Oil Sands Trust	COSWF	B	16.63	1.12	9,000			100	-	0.42	
Suncor Energy	SU	H	18.77	1.34	24,000	3		92	5	0.41	
Petro-Canada	PCZ	H	22.12	1.41	15,100	11	3	70	16	0.41	
<i>Total or Median *</i>	<i>7%</i>	<i>23%</i>	<i>20%</i>		<i>136,000</i>					<i>0.49</i>	
Composite											
<i>Enterprise Value Weighting</i>	<i>100%</i>				<i>1,986,000</i>	<i>11</i>	<i>17</i>	<i>54</i>	<i>18</i>	<i>0.63</i>	
<i>Equal Weighting</i>		<i>100%</i>				<i>23</i>	<i>12</i>	<i>56</i>	<i>12</i>	<i>0.60</i>	
<i>Equal Weighted Buys</i>			<i>100%</i>			<i>23</i>	<i>20</i>	<i>49</i>	<i>9</i>	<i>0.59</i>	
* Percentages in Symbol column refer to current market Enterprise Value weightings; Rating column, equal weightings.											
* Percentages in Price column refer to equal weighted buys.											



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Table 2								
McDep Large Cap Energy Portfolio								
Net Present Value and McDep Ratio								
			Price			Net		
	Symbol/Rating		(US\$/sh)		Market	Present	Debt/	
	B = Buy	29-Dec	Shares	Cap	Value	Present	McDep	
	H = Hold	2008	(mm)	(US\$mm)	(US\$/sh)	Value	Ratio	
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	78.02	5,160	403,000	90.00	0.06	0.88
Chevron Corporation	CVX	H	71.55	2,206	158,000	98.00	0.11	0.76
Marathon Oil Corporation	MRO	H	25.92	711	18,430	48.00	0.26	0.66
ConocoPhillips	COP	B	49.00	1,528	75,000	109.00	0.22	0.57
<i>Total or Median</i>					654,000		0.17	0.71
Europe								
BG Group plc	BRGXF		13.61	3,382	46,030	19.00	0.06	0.73
BP plc	BP	H	45.32	3,124	142,000	74.00	0.23	0.70
Total S.A.	TOT	B	54.07	2,244	121,000	90.00	0.08	0.63
Royal Dutch Shell plc	RDS-A	H	51.34	3,080	158,000	92.00	0.13	0.62
StatoilHydro ASA (29%)	STO	B	16.06	924	14,840	35.00	0.15	0.54
<i>Total or Median</i>					482,000		0.13	0.63
Brazil/China/Russia								
CNOOC Limited (34%)	CEO	H	90.10	152	13,720	135.00	-	0.67
PetroChina Company Ltd (14%)	PTR	B	84.85	256	21,740	150.00	0.06	0.59
Petrobras	PBR		22.40	4,387	98,270	50.00	0.14	0.53
Gazprom (50%)	OGZPY	B	14.10	3,080	43,400	64.00	0.09	0.29
Lukoil Oil Company	LUKOY	H	33.90	848	29,000	135.00	0.02	0.26
<i>Total or Median</i>					206,000		0.06	0.53
U.S. Independent								
Anadarko Petroleum Corp.	APC	H	37.89	468	17,700	70.00	0.33	0.69
XTO Energy Inc.	XTO	B	35.00	552	19,320	60.00	0.26	0.69
EOG Resources	EOG	H	66.14	251	16,600	104.00	0.08	0.66
Occidental Petroleum Corp.	OXY	H	56.36	818	46,100	89.00	0.06	0.66
Devon Energy Corporation	DVN	B	65.55	446	29,200	116.00	0.10	0.61
Chesapeake Energy Corp.	CHK		15.60	588	9,170	46.00	0.36	0.57
<i>Total or Median</i>					138,100		0.18	0.66
Canada								
Imperial Oil Limited (30%)	IMO	H	32.90	265	8,730	48.00	0.05	0.70
Encana Corporation	ECA	B	44.39	751	33,300	75.00	0.20	0.67
Canadian Natural Resources	CNQ	H	37.54	541	20,300	85.00	0.19	0.55
Canadian Oil Sands Trust	COSWF	B	16.63	482	8,020	42.00	0.04	0.42
Suncor Energy	SU	H	18.77	953	17,890	55.00	0.10	0.41
Petro-Canada	PCZ	H	22.12	484	10,710	67.00	0.12	0.41
<i>Total or Median</i>					99,000		0.11	0.49
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
Estimated present value presumes a long-term price for oil of US\$75 a barrel and natural gas, \$10 a million btu.								



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Table 3								
McDep Large Cap Energy Portfolio								
Value Multiples and Distribution Yield								
			Price	Adjustd			Divd or	
	Symbol/Rating		(US\$/sh)	Resrvs/	PV/	EV/	Distrib	
	B = Buy	29-Dec	Prod	Ebitda	Ebitda	P/E	NTM	
	H = Hold	2008	NTM	NTM	NTM	NTM	(%)	
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	78.02	12.9	9.4	8.2	16	2.1
Chevron Corporation	CVX	H	71.55	9.6	9.4	7.2	15	3.6
ConocoPhillips	COP	B	49.00	11.0	10.0	5.7	12	3.8
Marathon Oil Corporation	MRO	H	25.92	8.5	8.4	5.5	11	3.7
	<i>Total or Median</i>			<i>10.3</i>	<i>9.4</i>	<i>6.4</i>	<i>13</i>	<i>3.7</i>
Europe								
BG Group plc	BRGXF		13.61	7.6	10.6	7.7	16	1.1
BP plc	BP	H	45.32	9.9	9.2	6.5	11	7.4
Total S.A.	TOT	B	54.07	9.4	8.9	5.6	12	5.7
Royal Dutch Shell plc	RDS-A	H	51.34	7.9	8.2	5.0	10	6.2
StatoilHydro ASA (29%)	STO	B	16.06	8.0	9.2	4.9	15	7.5
	<i>Total or Median</i>			<i>8.0</i>	<i>9.2</i>	<i>5.6</i>	<i>12</i>	<i>6.2</i>
Brazil/China/Russia								
CNOOC Limited (34%)	CEO	H	90.10	8.8	10.7	7.1	15	5.3
Petrobras	PBR		22.40	10.2	13.3	7.0	16	3.8
PetroChina Company Ltd (14%)	PTR	B	84.85	14.3	10.1	6.0	19	5.0
Gazprom (50%)	OGZPY	B	14.10	24.6	8.4	2.4	3	2.6
Lukoil Oil Company	LUKOY	H	33.90	18.2	7.2	1.9	3	3.8
	<i>Total or Median</i>			<i>14.3</i>	<i>10.1</i>	<i>6.0</i>	<i>15</i>	<i>3.8</i>
U.S. Independent								
XTO Energy Inc.	XTO	B	35.00	11.4	10.9	7.5	17	1.4
Occidental Petroleum Corp.	OXY	H	56.36	11.8	11.4	7.5	21	2.3
Anadarko Petroleum Corp.	APC	H	37.89	10.1	9.8	6.8		1.9
Chesapeake Energy Corp.	CHK		15.60	11.1	11.3	6.5	10	1.9
EOG Resources	EOG	H	66.14	9.1	9.1	6.1	20	0.8
Devon Energy Corporation	DVN	B	65.55	9.4	9.9	6.0	21	1.0
	<i>Total or Median</i>			<i>10.6</i>	<i>10.4</i>	<i>6.6</i>	<i>20</i>	<i>1.6</i>
Canada								
Canadian Oil Sands Trust	COSWF	B	16.63	23.3	29.7	12.5	47	4.9
Imperial Oil Limited (30%)	IMO	H	32.90	14.5	13.8	9.7	17	1.0
Canadian Natural Resources	CNQ	H	37.54	8.8	13.3	7.3	15	0.9
Suncor Energy	SU	H	18.77	22.5	16.3	6.7	12	0.9
Encana Corporation	ECA	B	44.39	8.4	8.3	5.5	15	3.6
Petro-Canada	PCZ	H	22.12	6.9	9.1	3.7	9	3.0
	<i>Total or Median</i>			<i>11.6</i>	<i>13.5</i>	<i>7.0</i>	<i>15</i>	<i>2.0</i>
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 30, 2009; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



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Index of Recent Research

Stock Ideas

<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
26-Dec	HGT	Hugoton Royalty Trust	Under Year-End Price Pressure (Income Weekly)
17-Dec	XOM	Exxon Mobil Corporation	Upgrade to Buy on Stock Price Change Trend
16-Dec	LUKOY	Lukoil Oil Company	Credible Russian Champion
10-Dec	COSWF	Canadian Oil Sands Trust	Budget Quarterly Distribution of C\$0.25 a Unit
20-Nov	* COSWF	Canadian Oil Sands Trust	Alberta Reduces Royalties
12-Nov	* PWE	Penn West Energy Trust	Distribution Yield 20%
6-Nov	* CNQ	Canadian Natural Resources	Hidden Value in Heavy Oil
5-Nov	* DVN	Devon Energy Corporation	Outperforming in Tough Times
5-Nov	* XTO	XTO Energy Inc.	Personal Debt-Free Pledge
5-Nov	* TOT	Total S.A.	Geographic Appeal
4-Nov	* XEC	Cimarex Energy Company	Capital Discipline
4-Nov	* APC	Anadarko Petroleum Corporation	Acquisition Value
4-Nov	* EOG	EOG Resources Inc.	The Hat Trick
3-Nov	* STO	StatoilHydro ASA	Financially Strong Dividend Payer
31-Oct	* CVX	Chevron Corporation	Oil in the Stock Market at \$59 a Barrel
30-Oct	* IMO	Imperial Oil Limited	Favorable Pricing for Heavy Oil
30-Oct	* MRO	Marathon Oil Corporation	Gasoline and Diesel Demand Rebounding
30-Oct	* RDSA	Royal Dutch Shell plc	Secure Dividend 5.7%
29-Oct	* BRY	Berry Petroleum	Adjusting Spending to Cash Flow
29-Oct	* EAC	Encore Acquisition Company	Success with ExxonMobil in West Texas
29-Oct	* SU	Suncor Energy	Coping with Volatile Oil Price
29-Oct	* PTR	PetroChina Company Limited	Chinese Major Oil Company
28-Oct	* OXY	Occidental Petroleum Corporation	Low Debt, High Margin
28-Oct	* BP	BP p.l.c.	Dividend Yield 7.2%
28-Oct	* CEO	CNOOC Ltd	Oil & Gas Growth Offshore China
24-Oct	* ECA	EnCana Corporation	High-Performance Clean Energy Producer
24-Oct	* PCZ	Petro-Canada	Pacing Fort Hills
23-Oct	* OGZPY	Gazprom	Cheap Stock, Political Risk
23-Oct	* COP	ConocoPhillips	Australian Natural Gas Deal
22-Oct	* XEC	Cimarex Energy Company	Woodford Shale Leader
17-Oct	* SJT	San Juan Basin Royalty Trust	Hold Rating (Income Weekly)
16-Sep	* BRGXF	BG Group	Deep Water Brazil (Meter Reader)
16-Sep	* PBR	Petrobras	Deep Water Brazil (Meter Reader)

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30-Dec		Weekly	
23-Dec		Weekly	Small Cap, Large Price Change
16-Dec		Weekly	Transition Phase
9-Dec	*	Weekly	China/Russia Oil and Gas for Growth
2-Dec	*	Weekly	European Oils for Dividends

Oil and Gas Income Stocks

26-Dec		Weekly	Hugoton Royalty Trust under Year-End Price Pressure
19-Dec		Weekly	Near-Term Income below Long-Term Potential
12-Dec		Weekly	Favorites at Favorable Prices
5-Dec	*	Weekly	High Income, Low Stock Price

Industry Ideas

9-Oct	*	Presentation	Oil and Gas Strategy in Treacherous Times
24-Sep	*	Presentation	Energy Investment amid Financial Turmoil
16-Sep	*	Flash	Reinstate Five Buy Recommendations
5-Sep	*	Flash	Suspend Buy Recommendations

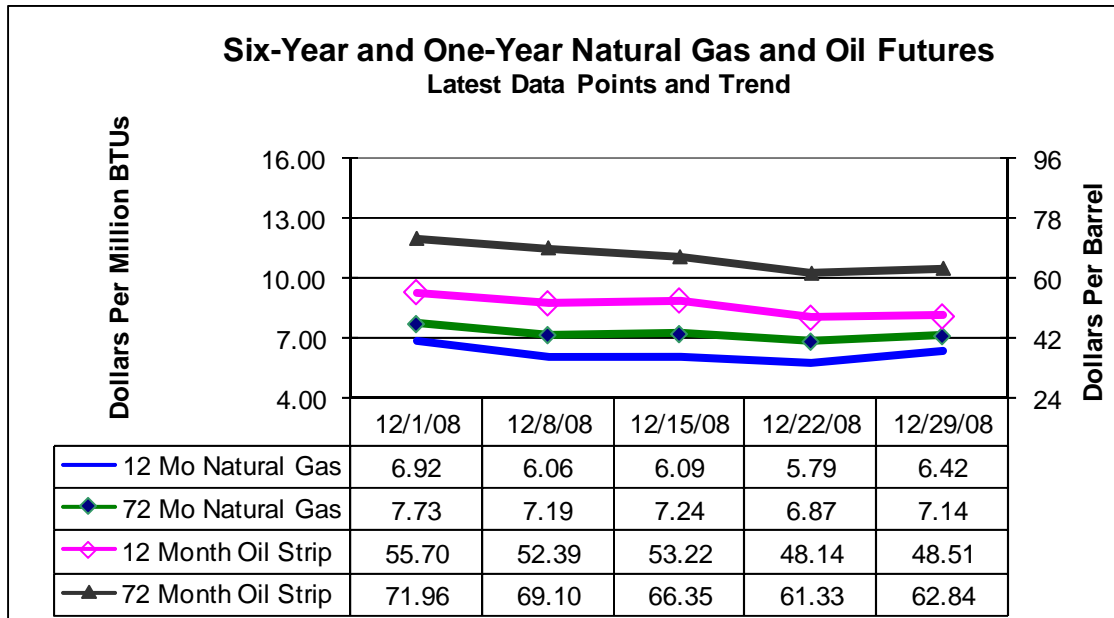
* Archived on www.mcdep.com



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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.