



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

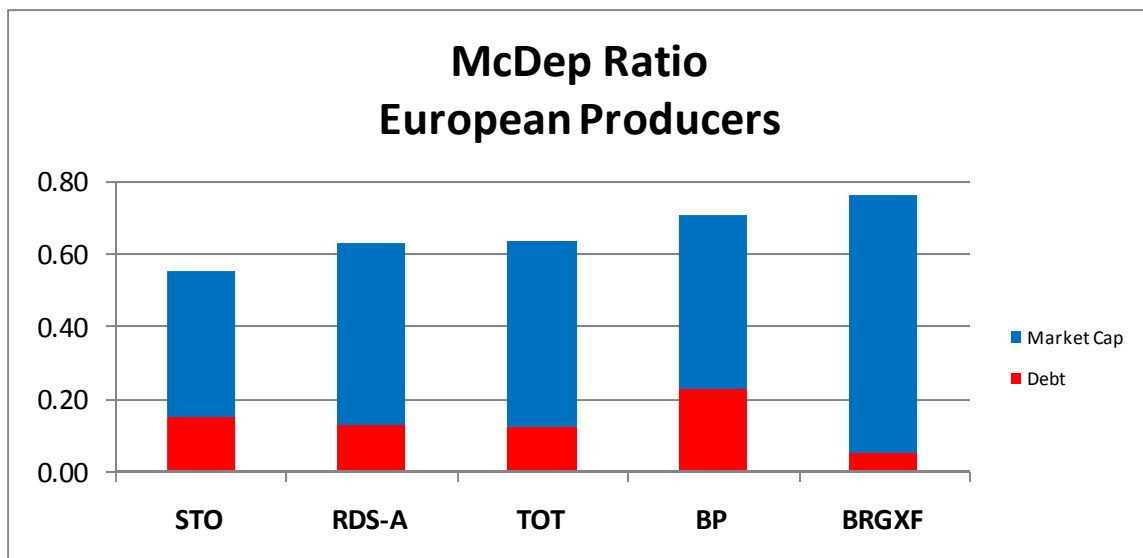
January 13, 2009

Buy STO and TOT among European Producers

Summary and Recommendation

European Producers offer attractive investment value, in our opinion, as stock prices are up from the lows after declining in anticipation of the depressed economic conditions now unfolding. Buy-recommended **StatoilHydro (STO)** has the lowest McDep Ratio, implying the most appreciation potential (see chart [McDep Ratio](#)). Buy-recommended **Total S.A. (TOT)** and hold-rated **Royal Dutch Shell plc (RDS)** have similarly low McDep Ratios. We limit our number of buy recommendations until stock price breaks through the 200-day average to the upside or something surprising happens. STO has greater concentration on natural gas, the fuel with the stronger growth prospects (see chart [Natural Gas and Oil Segments](#)). Reflecting commodity price expectations as well as operating trends, the three companies traced a similar quarterly trend in estimated Net Present Value (NPV), while hold-rated **BP plc (BP)** appeared to lose value in 2007 after operating problems took a toll (see chart [NPV](#)). Prospects for future cash flow from oil and gas production depend on commodity price where the latest quotes are also above the recent lows (see chart [Six-Year and One-Year Natural Gas and Oil Futures](#)). Judging by the trend for the past few years, we can expect that actual cash flow from refining in 2009 will be more volatile than we project (see chart [Downstream Cash Flow](#)). European Producers make up one of six industry sub sectors that might each be equally weighted in the McDep Energy Portfolio, we suggest.

Kurt H. Wulff, CFA

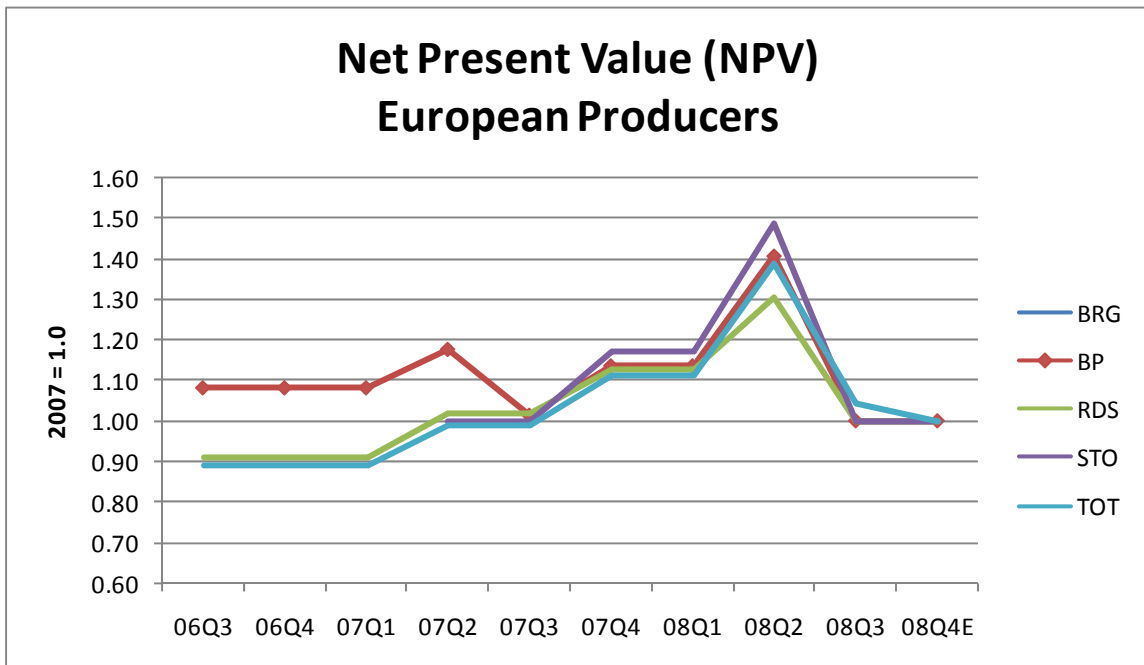
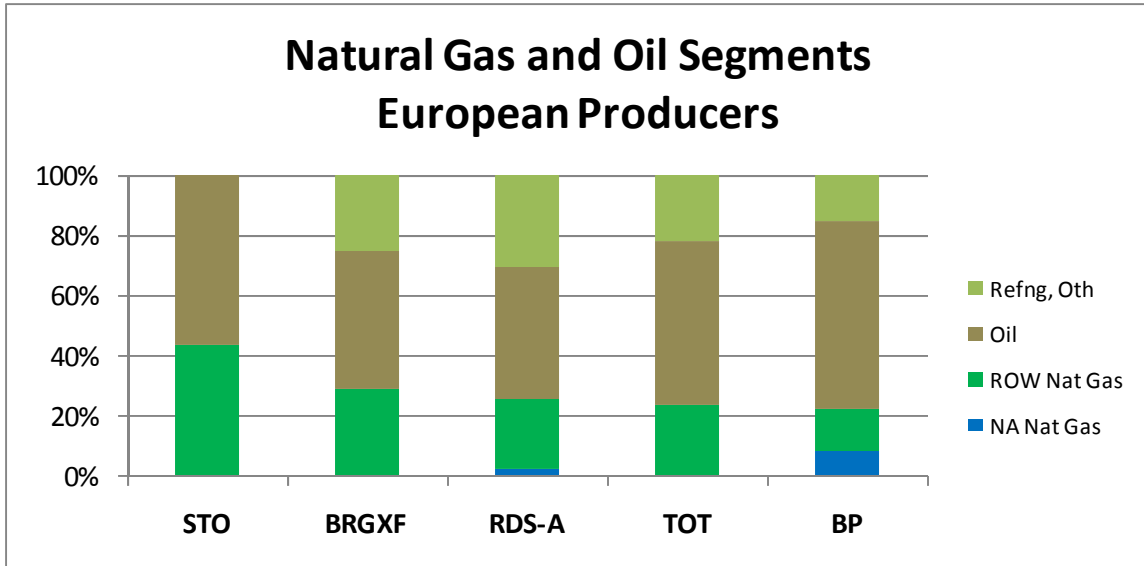




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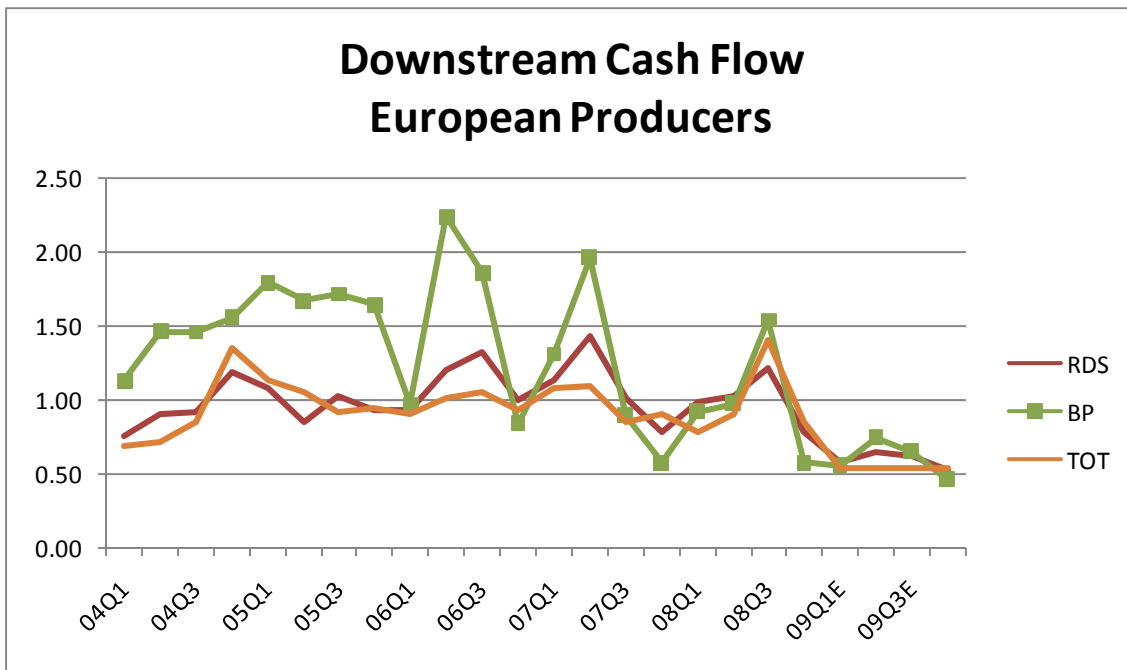
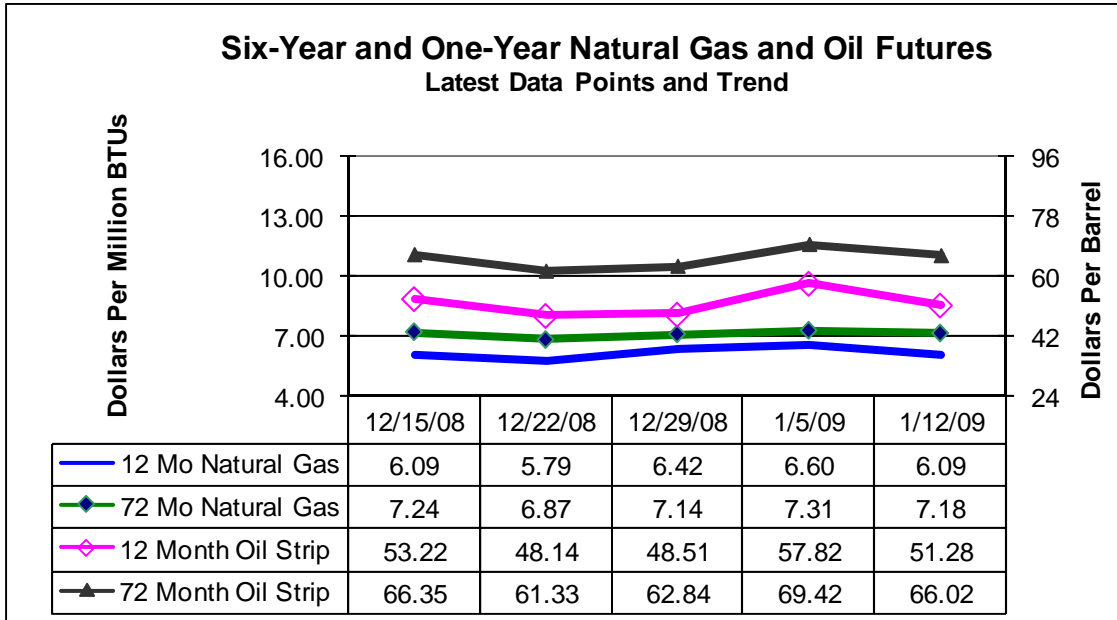




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Table 1										
McDep Large Cap Energy Portfolio										
Geographic Domicile and Business Segments										
						Present Value by Segment (%)				
	Symbol/Rating	Price (US\$/sh)	EV/ Market Cap	Enterprise Value (\$mm)	North Amer. Natural Gas	Rest of World Natural Gas	Oil Prod'n	Down- stream	McDep Ratio	
	B = Buy H = Hold	12-Jan 2009								
U.S. Integrated										
Exxon Mobil Corporation	XOM	B	76.54	1.08	425,000	6	23	46	25	0.86
Chevron Corporation	CVX	H	70.82	1.18	184,000	5	12	67	16	0.75
Marathon Oil Corporation	MRO	H	27.76	1.59	31,500	7	7	60	26	0.69
ConocoPhillips	COP	B	50.47	1.60	124,000	14	9	57	20	0.58
<i>Total or Median *</i>	<i>38%</i>	<i>15%</i>	<i>20%</i>		<i>765,000</i>					<i>0.72</i>
Europe										
BG Group	BRGXF		14.18	1.08	51,800		29	46	25	0.76
BP plc	BP	H	45.70	1.48	212,000	8	14	62	15	0.71
Total S.A.	TOT	B	52.73	1.24	147,000		24	55	22	0.64
Royal Dutch Shell plc	RDS-A	H	52.81	1.26	206,000	3	23	44	31	0.63
StatoilHydro ASA (29%)	STO	B	16.56	1.38	21,000		43	57	-	0.55
<i>Total or Median *</i>	<i>32%</i>	<i>19%</i>	<i>20%</i>		<i>638,000</i>					<i>0.64</i>
Brazil/China/Russia										
CNOOC Limited (34%)	CEO	H	89.03	1.00	13,600		12	88	-	0.66
PetroChina Company Ltd (14%)	PTR	B	84.68	1.12	24,300		14	69	17	0.59
Petrobras	PBR		24.75	1.34	145,000		13	77	10	0.57
Gazprom (50%)	OGZPY	B	14.62	1.27	55,000		88	12	-	0.27
Lukoil Oil Company	LUKOY	H	34.03	1.07	30,800			61	39	0.26
<i>Total or Median *</i>	<i>13%</i>	<i>19%</i>	<i>20%</i>		<i>269,000</i>					<i>0.57</i>
U.S. Independent										
XTO Energy Inc.	XTO	B	35.86	1.60	31,600	77		23	-	0.70
Anadarko Petroleum Corp.	APC	H	38.73	1.91	34,500	51		45	4	0.70
EOG Resources	EOG	H	63.57	1.13	18,100	71	7	22	-	0.64
Occidental Petroleum Corp.	OXY	H	54.37	1.11	49,400	12	1	79	8	0.64
Devon Energy Corporation	DVN	B	63.15	1.21	34,200	64		36	-	0.59
Chesapeake Energy Corp.	CHK		16.05	2.58	24,300	91		9	-	0.58
<i>Total or Median *</i>	<i>10%</i>	<i>23%</i>	<i>20%</i>		<i>192,000</i>	<i>68</i>				<i>0.64</i>
Canada										
Imperial Oil Limited (30%)	IMO	H	32.13	1.08	9,200	5		80	16	0.69
Encana Corporation	ECA	B	45.20	1.41	47,700	68		29	4	0.68
Canadian Natural Resources	CNQ	H	39.51	1.52	32,400	26		74	-	0.57
Suncor Energy	SU	H	21.84	1.29	26,900	3		92	5	0.46
Petro-Canada	PCZ	H	24.06	1.37	16,000	11	3	70	16	0.44
Canadian Oil Sands Trust	COSWF	B	16.68	1.12	9,000			100	-	0.42
<i>Total or Median *</i>	<i>7%</i>	<i>23%</i>	<i>20%</i>		<i>141,000</i>					<i>0.51</i>
Composite										
<i>Enterprise Value Weighting</i>	<i>100%</i>				<i>2,005,000</i>	<i>11</i>	<i>17</i>	<i>54</i>	<i>18</i>	<i>0.64</i>
<i>Equal Weighting</i>		<i>100%</i>				<i>23</i>	<i>12</i>	<i>56</i>	<i>11</i>	<i>0.60</i>
<i>Equal Weighted Buys</i>			<i>100%</i>			<i>23</i>	<i>20</i>	<i>48</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	12-Jan	Shares	Cap	Value	Present	McDep	
	H = Hold	2009	(mm)	(US\$mm)	(US\$/sh)	Value	Ratio	
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	76.54	5,160	395,000	90.00	0.06	0.86
Chevron Corporation	CVX	H	70.82	2,206	156,000	98.00	0.11	0.75
Marathon Oil Corporation	MRO	H	27.76	711	19,740	48.00	0.26	0.69
ConocoPhillips	COP	B	50.47	1,528	77,000	109.00	0.22	0.58
<i>Total or Median</i>					648,000		0.17	0.72
Europe								
BG Group plc	BRGXF		14.18	3,382	47,940	19.00	0.06	0.76
BP plc	BP	H	45.70	3,124	143,000	74.00	0.23	0.71
Total S.A.	TOT	B	52.73	2,244	118,000	90.00	0.12	0.64
Royal Dutch Shell plc	RDS-A	H	52.81	3,080	163,000	92.00	0.13	0.63
StatoilHydro ASA (29%)	STO	B	16.56	924	15,300	35.00	0.15	0.55
<i>Total or Median</i>					487,000		0.13	0.64
Brazil/China/Russia								
CNOOC Limited (34%)	CEO	H	89.03	152	13,560	135.00	-	0.66
PetroChina Company Ltd (14%)	PTR	B	84.68	256	21,700	150.00	0.06	0.59
Petrobras	PBR		24.75	4,387	108,580	50.00	0.14	0.57
Gazprom (50%)	OGZPY	B	14.62	2,940	43,000	64.00	0.06	0.27
Lukoil Oil Company	LUKOY	H	34.03	848	29,000	135.00	0.02	0.26
<i>Total or Median</i>					216,000		0.06	0.57
U.S. Independent								
XTO Energy Inc.	XTO	B	35.86	552	19,790	60.00	0.26	0.70
Anadarko Petroleum Corp.	APC	H	38.73	468	18,100	70.00	0.33	0.70
EOG Resources	EOG	H	63.57	251	16,000	104.00	0.08	0.64
Occidental Petroleum Corp.	OXY	H	54.37	818	44,500	89.00	0.06	0.64
Devon Energy Corporation	DVN	B	63.15	446	28,200	116.00	0.10	0.59
Chesapeake Energy Corp.	CHK		16.05	588	9,440	46.00	0.36	0.58
<i>Total or Median</i>					136,000		0.18	0.64
Canada								
Imperial Oil Limited (30%)	IMO	H	32.13	265	8,520	48.00	0.05	0.69
Encana Corporation	ECA	B	45.20	751	33,900	75.00	0.20	0.68
Canadian Natural Resources	CNQ	H	39.51	541	21,400	85.00	0.19	0.57
Suncor Energy	SU	H	21.84	953	20,810	55.00	0.10	0.46
Petro-Canada	PCZ	H	24.06	484	11,650	67.00	0.12	0.44
Canadian Oil Sands Trust	COSWF	B	16.68	482	8,040	42.00	0.04	0.42
<i>Total or Median</i>					104,000		0.11	0.51
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		12-Jan	Prod	Ebitda	Ebitda	P/E	
	H = Hold		2009	NTM	NTM	NTM	NTM	
							(%)	
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	76.54	12.9	10.1	8.6	18	2.1
Chevron Corporation	CVX	H	70.82	9.6	9.8	7.4	16	3.7
Marathon Oil Corporation	MRO	H	27.76	8.5	9.0	6.2	13	3.5
ConocoPhillips	COP	B	50.47	11.0	10.1	5.9	12	3.7
	<i>Total or Median</i>			<i>10.3</i>	<i>9.9</i>	<i>6.8</i>	<i>15</i>	<i>3.6</i>
Europe								
BG Group plc	BRGXF		14.18	7.6	10.3	7.8	16	1.1
BP plc	BP	H	45.70	9.9	9.5	6.7	12	7.4
Total S.A.	TOT	B	52.73	9.4	9.8	6.2	12	5.7
Royal Dutch Shell plc	RDS-A	H	52.81	7.9	8.9	5.6	12	6.1
StatoilHydro ASA (29%)	STO	B	16.56	8.0	8.9	4.9	15	6.5
	<i>Total or Median</i>			<i>8.0</i>	<i>9.5</i>	<i>6.2</i>	<i>12</i>	<i>6.1</i>
Brazil/China/Russia								
Petrobras	PBR		24.75	10.2	12.8	7.3	16	3.5
CNOOC Limited (34%)	CEO	H	89.03	8.8	10.2	6.7	14	5.4
PetroChina Company Ltd (14%)	PTR	B	84.68	14.3	9.9	5.9	18	5.0
Lukoil Oil Company	LUKOY	H	34.03	18.2	7.1	1.9	3	3.6
Gazprom (50%)	OGZPY	B	14.62	24.6	6.1	1.7	2	2.3
	<i>Total or Median</i>			<i>14.3</i>	<i>9.9</i>	<i>5.9</i>	<i>14</i>	<i>3.6</i>
U.S. Independent								
XTO Energy Inc.	XTO	B	35.86	11.4	11.4	8.0	18	1.3
Occidental Petroleum Corp.	OXY	H	54.37	11.8	11.1	7.1	19	2.4
Anadarko Petroleum Corp.	APC	H	38.73	10.1	9.9	6.9		1.9
Chesapeake Energy Corp.	CHK		16.05	11.1	12.0	6.9	12	1.9
EOG Resources	EOG	H	63.57	9.1	9.5	6.1	21	0.8
Devon Energy Corporation	DVN	B	63.15	9.4	10.2	6.0	23	1.0
	<i>Total or Median</i>			<i>10.6</i>	<i>10.6</i>	<i>6.9</i>	<i>19</i>	<i>1.6</i>
Canada								
Canadian Oil Sands Trust	COSWF	B	16.68	23.3	26.3	11.1	31	4.9
Imperial Oil Limited (30%)	IMO	H	32.13	14.5	14.5	9.9	18	1.0
Suncor Energy	SU	H	21.84	22.5	16.6	7.6	14	0.8
Canadian Natural Resources	CNQ	H	39.51	8.8	13.2	7.5	16	0.8
Encana Corporation	ECA	B	45.20	8.4	8.6	5.8	16	3.5
Petro-Canada	PCZ	H	24.06	6.9	9.4	4.1	10	2.7
	<i>Total or Median</i>			<i>11.6</i>	<i>13.8</i>	<i>7.6</i>	<i>16</i>	<i>1.9</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>
9-Jan	SJT	San Juan Basin Royalty Trust	Clean Fuel Pure Play (Income and Small Cap Weekly)
31-Dec	OGZPY	Gazprom	Underrated Investment
30-Dec	BRY	Berry Petroleum	Customer Bankruptcy Manageable
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
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	* 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	* COP	ConocoPhillips	Australian Natural Gas Deal
16-Sep	* BRGXF	BG Group	Deep Water Brazil (Meter Reader)
16-Sep	* PBR	Petrobras	Deep Water Brazil (Meter Reader)

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6-Jan		Weekly	Buy COP and XOM among U.S. Integrated Producers
30-Dec		Weekly	Own Independent Producers for Natural Gas
23-Dec	*	Weekly	Small Cap, Large Price Change
16-Dec	*	Weekly	Transition Phase

Income and Small Cap Weekly

9-Jan		Weekly	SJT - A Clean Fuel Pure Play
2-Jan		Weekly	Exceptional Deflation Resistance in Dorchester Minerals
26-Dec		Weekly	Hugoton Royalty Trust under Year-End Price Pressure
19-Dec	*	Weekly	Near-Term Income below Long-Term Potential

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

Please see disclosures on the final page.



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