

High Quality Energy Investment

Summary and Recommendation

Through the second quarter, six global energy companies with combined Enterprise Value of \$1.3 trillion are producing more oil and gas, participating in recovering oil price and positioned for improving margins downstream. Their stocks are attractively priced at McDep Ratios ranging from 0.57 to 0.81 (see Table 1, page 2). A McDep Ratio of 1.0 corresponds to an unlevered return of 7% a year after inflation. The estimated return presumes a long-term real price of \$75 a barrel for oil that trades currently at an average \$82 a barrel for the next six years in the futures market. Financial risk is low with debt ranging from 0.09 ("AAA" quality) to 0.25 ("A" quality) times present value (see Table 2, page 3). Investors appear increasingly attracted to the stocks as five of the six are priced above their 200-day average, implying an upward trend by that measure. All buy recommended, the six are, in order of increasing McDep Ratio, **ConocoPhillips (COP)**, **Total S.A (TOT), Royal Dutch Shell (RDS), Chevron (CVX), BP plc (BP) and ExxonMobil (XOM)**.

A challenge of oil and gas investment is to balance the natural volume decline of oil and gas fields with the resulting tendency to a rising commodity price over time. The largest companies are succeeding from a financial point of view in growing overall volume (see charts <u>Volume Per</u> <u>Share, Adjusted for Debt and Dividends</u>, page 5). The share adjustment gives credit for share repurchase done primarily by U.S. companies. The debt adjustment neutralizes the appearance of growth from running up debt which none of the six companies do inordinately. The dividend adjustment, added since the quarterly disclosures, gives credit to the European companies that pay high dividends, currently about 6% a year (see Table 3, page 4). Although not all production generates the same cash flow, the trends track the same factors, primarily commodity price (see charts <u>Upstream Cash Flow Per Barrel</u>, page 6). Cash flow from refining/marketing, chemicals, power and other businesses, if any, appears close to a cyclical low along with global economic growth (see charts <u>Downstream Cash Flow</u>, page 7).

In oil and gas prices, what comes down goes up again. It looks like it is happening once more. Latest settlement prices for the average of futures for the next six years are \$82 a barrel and \$6.86 a million btu (see chart <u>Six-Year and One-Year Natural Gas and Oil Futures</u>, page 9). Oil is trading above the 40-week average of \$70 while natural gas is just under the 40-week average of \$6.93.

Kurt H. Wulff, CFA



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	Geogr	aphic	e Domi	cile and	d Busines	s Segn	nents			
						Drasar	ıt Value by	Sagman	t (9%)	
			Price			North	Rest	Segment	(/ 0)	
	Symbol	Ratina	(US\$/sh)	EV/	Enterprise	Amer.	of World			
		B = Buy	· /	Market	Value		Natural	Oil	Down-	McDe
		I = Hold	U	Сар	(\$mm)	Gas	Gas	Prod'n	stream	Ratio
			2009	Cup	(¢nint)	Gus	Ous	1100.11	stream	ram
U.S. Integrated										
Exxon Mobil Corporation	XOM	В	70.65	1.12	386,000	5	25	47	23	0.8
Chevron Corporation	CVX	B	70.40	1.23	173,000	4	10	70	16	0.76
Marathon Oil Corporation	MRO	B	32.64	1.49	34,500	8	5	60	27	0.70
ConocoPhillips	COP	B	44.99	1.77	119,000	12	9	64	14	0.57
Total or Median *	31%	9%	14%		713,000			0.		0.73
Total of meanin	0170	270	11/0		,10,000					0170
Europe										
BGGroup	BRGXF	В	17.45	1.13	66,600		23	45	32	0.8
BP plc	BP	В	52.05	1.40	229,000	7	9	60	24	0.7
Royal Dutch Shell plc	RDS-A	В	53.26	1.34	219,000	2	22	43	32	0.74
StatoilHydro ASA (33%)	STO	B	22.07	1.38	32,000		53	47	-	0.70
Total S.A.	TOT	B	55.82	1.27	159,000		19	59	22	0.6
Total or Median *	31%	12%	18%		706,000					0.74
					,					
Brazil/China/Russia										
CNOOC Limited (34%)	CEO	В	142.30	1.00	21,700		12	88	-	1.0
PetroChina Company Ltd (14%	PTR	В	122.34	1.13	35,500		13	74	13	0.8
Petrobras	PBR	В	43.25	1.19	227,000		7	77	16	0.78
Lukoil Oil Company	LUKOY	В	52.15	1.14	50,500			62	38	0.42
Gazprom (50%)	OGZPY	В	21.99	1.25	81,000		79	21	-	0.40
Total or Median *	18%	12%	18%		416,000					0.78
U.S. Independent										
XTO Energy Inc.	XTO	В	42.18	1.45	35,500	75		25	-	0.93
Anadarko Petroleum Corp.	APC	В	49.64	1.68	38,300	49		46	5	0.90
EOG Resources	EOG	В	76.65	1.12	21,500	73	4	23	-	0.85
Occidental Petroleum Corp.	OXY	В	72.39	1.09	64,400	9	1	80	9	0.84
Chesapeake Energy Corp.	CHK		22.36	2.05	27,400	87		13	-	0.80
Devon Energy Corporation	DVN	В	60.43	1.34	35,900	62		38	-	0.6
Total or Median *	10%	14%	18%		223,000					0.85
Canada										
Encana Corporation	ECA	В	55.19	1.31	54,100	65		30	5	0.9
Imperial Oil Limited (30%)	IMO	В	40.47	1.08	11,300	-		83	17	0.8
Canadian Natural Resources	CNQ	В	64.39	1.38	48,100	19		81	-	0.8
Suncor Energy	SU	В	34.65	1.32	72,100	6		86	7	0.7
Canadian Oil Sands Trust	COSWF	В	25.43	1.12	13,800			100	-	0.6
Total or Median *	9%	12%	18%		199,000					0.85
					-					
Income and Small Cap (see se	parate wee	kly ana	lysis)							
• • • • • •	2%	42%	14%		38,800	41		59		0.7
Composite										
Enterprise Value Weighting	100%				2,295,800	10	15	57	18	0.74
Equal Weighting		100%			, ,	32	7	53	7	0.72
Equal Weighted Buys		220,0	100%			23	10	56	11	0.76
1						-				

* Percentages in Symbol column refer to current market Enterprise Value weightings; Rating column, equal weightings.
* Percentages in Price column refer to equal weighted buys.



			Table 2					
	McD)ep l	Energy	Portfol	io			
Net	Prese	nt Va	alue and	l McDe	ep Ratio			
			Price			Net		
	Symbol/R		(US\$/sh)	~	Market	Present	Debt/	14.5
		= Buy	3-Aug	Shares	Cap	Value	Present	McDep
	H =	Hold	2009	(mm)	(US\$mm)	(US\$/sh)	Value	Ratic
U.S. Integrated								
Exxon Mobil Corporation	XOM	В	70.65	4,871	344,000	89.00	0.09	0.81
Chevron Corporation	CVX	B	70.40	1,992	140,000	97.00	0.14	0.76
Marathon Oil Corporation	MRO	B	32.64	711	23,210	53.00	0.23	0.70
ConocoPhillips	COP	B	44.99	1,496	67,000	105.00	0.25	0.57
Total or Median		B	+1.77	1,490	574,000	105.00	0.19	0.73
					,			
Europe								
BG Group plc	BRGXF	В	17.45	3,388	59,120	22.00	0.09	0.81
BP plc	BP	В	52.05	3,155	164,000	72.00	0.22	0.78
Royal Dutch Shell plc	RDS-A	В	53.26	3,065	163,000	79.00	0.19	0.74
StatoilHydro ASA (33%)	STO	В	22.07	1,051	23,200	35.00	0.19	0.70
Total S.A.	TOT	В	55.82	2,236	125,000	90.00	0.14	0.67
Total or Median					534,000		0.19	0.74
Brazil/China/Russia								
	CEO	В	142.30	152	21 670	135.00		1.05
CNOOC Limited (34%)		B	142.30	256	21,670		-	0.83
PetroChina Company Ltd (14%)	PTR				31,340	150.00	0.10	
Petrobras	PBR	B	43.25	4,387	189,740	58.00	0.13	0.78
Lukoil Oil Company	LUKOY	B	52.15	847	44,000	135.00	0.05	0.42
Gazprom (50%)	OGZPY	В	21.99	2,925	64,300	64.00	0.08	0.40
Total or Median					351,000		0.08	0.78
U.S. Independent								
XTO Energy Inc.	XTO	В	42.18	578	24,380	47.00	0.29	0.93
Anadarko Petroleum Corp.	APC	В	49.64	460	22,800	59.00	0.36	0.90
EOG Resources	EOG	B	76.65	250	19,200	92.00	0.09	0.85
Occidental Petroleum Corp.	OXY	В	72.39	814	58,900	87.00	0.07	0.84
Chesapeake Energy Corp.	СНК	_	22.36	597	13,350	34.00	0.41	0.80
Devon Energy Corporation	DVN	В	60.43	444	26,800	98.00	0.17	0.68
Total or Median			00110		165,400	, 0.00	0.23	0.85
Canada								
Encana Corporation	ECA	В	55.19	751	41,400	62.00	0.21	0.91
Imperial Oil Limited (30%)	IMO	В	40.47	256	10,380	48.00	0.07	0.85
Canadian Natural Resources	CNQ	В	64.39	541	34,800	80.00	0.23	0.85
Suncor Energy	SU	В	34.65	1,572	54,460	52.00	0.18	0.73
Canadian Oil Sands Trust	COSWF	В	25.43	484	12,310	42.00	0.07	0.63
					153,000			

McDep Ratio = Market cap and **De**bt 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, \$8 a million btu.

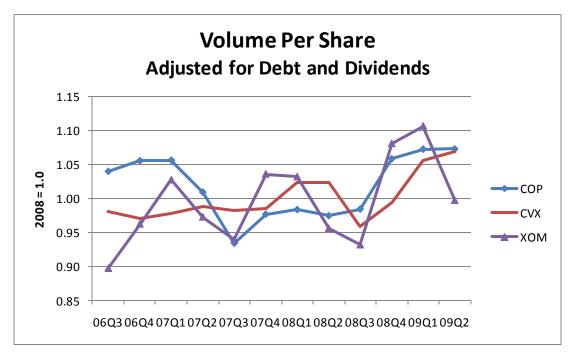


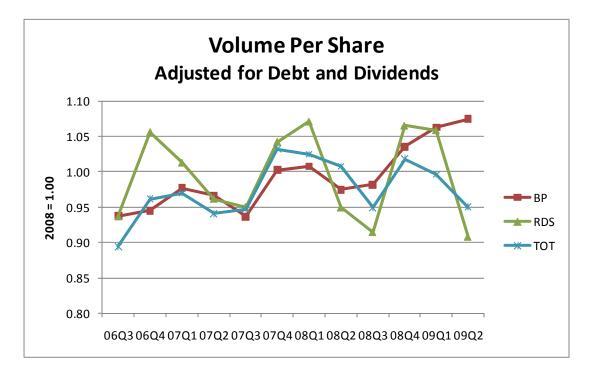
			Table 3					
	McDe	ep l	Energy 1	Portfol	io			
Value	Multip	bles	and Di	stribut	ion Yiel	d		
			Price	Adjustd				Divd or
S	ymbol/Rat		(US\$/sh)	Resrvs/	PV/	EV/		Distrib
	B = 2	Buy	3-Aug	Prod	Ebitda	Ebitda	P/E	NTM
	H = H	łold	2009	NTM	NTM	NTM	NTM	(%)
U.S. Integrated								
Exxon Mobil Corporation	XOM	В	70.65	12.4	8.2	6.7	12	2.4
Chevron Corporation	CVX	В	70.40	9.8	7.5	5.8	14	3.9
ConocoPhillips	COP	В	44.99	10.6	8.6	4.9	8	4.2
Marathon Oil Corporation	MRO	В	32.64	8.3	6.7	4.8	10	2.9
Total or Median				10.2	7.9	5.3	11	3.4
E								
Europe BG Group plc	BRGXF	В	17.45	8.8	8.6	7.0	14	1.2
BP plc	BROAF	B	52.05	0.0 9.6	7.6	6.0	14	6.5
Royal Dutch Shell plc	RDS-A	B	53.26	7.9	7.5	5.5	11	6.3
Total S.A.	TOT	B	55.82	9.7	8.1	5.5	11	5.9
StatoilHydro ASA (33%)	STO	B	22.07	9.7 7.4	5.7	4.0	8	5.4
Total or Median	310	Б	22.07	8.8	7.6	5.5	0	5.9
Total of Median				0.0	7.0	5.5	11	5.9
Brazil/China/Russia								
Petrobras	PBR	В	43.25	9.4	11.0	8.6	15	3.8
PetroChina Company Ltd (14%)	PTR	В	122.34	14.3	9.6	8.0	26	3.4
CNOOC Limited (34%)	CEO	В	142.30	7.5	6.5	6.9	13	3.6
Gazprom (50%)	OGZPY	В	21.99	24.6	11.4	4.5	6	1.6
Lukoil Oil Company	LUKOY	В	52.15	16.4	10.6	4.4	9	2.4
Total or Median				14.3	10.6	6.9	13	3.4
U.S. Independent								
XTO Energy Inc.	ХТО	В	42.18	11.5	10.6	9.8	18	1.2
Chesapeake Energy Corp.	CHK	2	22.36	11.5	11.4	9.1	22	1.2
EOG Resources	EOG	В	76.65	9.8	10.0	8.5	60	0.8
Anadarko Petroleum Corp.	APC	B	49.64	9.2	8.1	7.3	00	1.5
Occidental Petroleum Corp.	OXY	B	72.39	11.0	7.6	6.5	14	1.3
Devon Energy Corporation	DVN	B	60.43	8.8	8.5	5.8	13	1.0
Total or Median	DVIN	D	00.45	10.4	9.3	7.9	18	1.1
Canada		-						
Imperial Oil Limited (30%)	IMO	В	40.47	18.4	14.1	12.0	24	0.9
Encana Corporation	ECA	В	55.19	9.1	9.4	8.6	18	2.9
Canadian Natural Resources	CNQ	В	64.39	7.9	9.9	8.5	18	0.6
Canadian Oil Sands Trust	COSWF	В	25.43	22.1	13.3	8.4	13	7.2
Suncor Energy	SU	В	34.65	-	10.1	7.3	70	0.5
Total or Median				9.1	10.1	8.5	18	0.9
EV - Enterprise Value - Market Car and	Dobt Fb	itda	- Fornings 1	notoro inte	root toy do	provintion		
EV = Enterprise Value = Market Cap and and amortization: NTM = Navt Twolvo N								

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2010; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

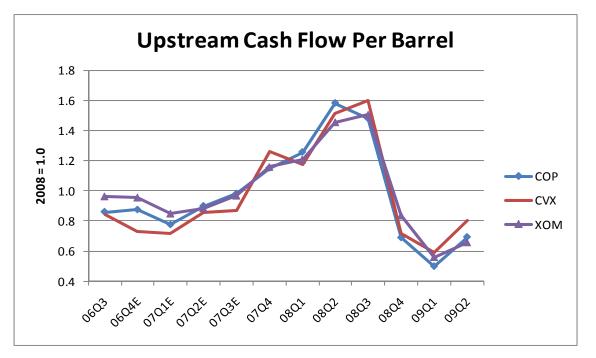
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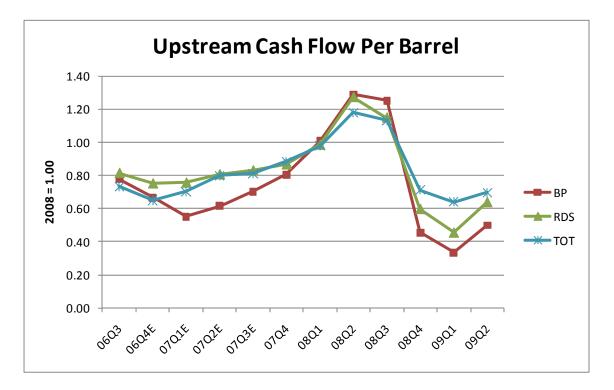




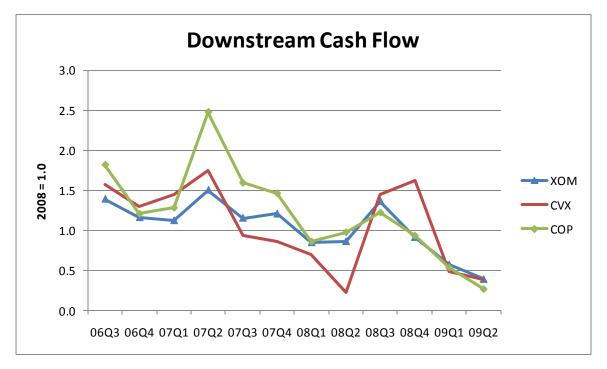


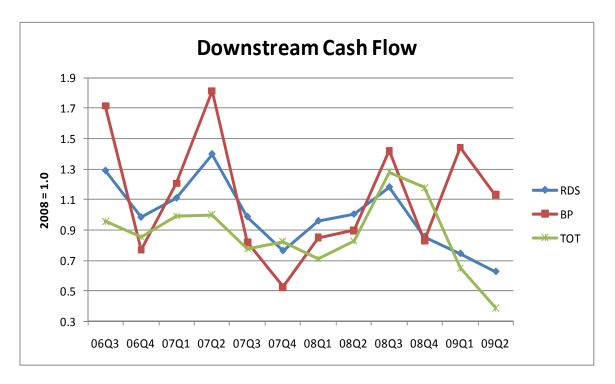










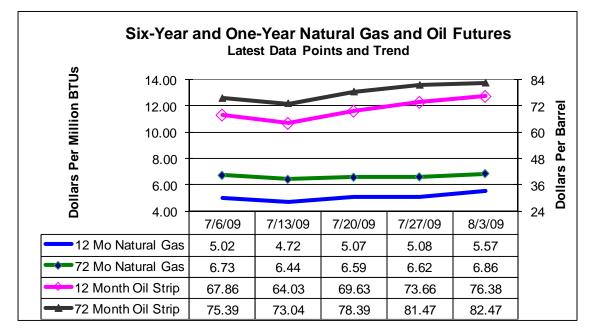




	_	1	Index of Reco	ent Research
	-			
Stock 1	[de	eas		
Date		Symbol	<u>Subject</u>	<u>Theme</u>
3-Aug		MRO	Marathon Oil Corporation	Favorable Trends for Future Profit
31-Jul		CVX	Chevron Corporation	Strength in Tough Times
31-Jul		TOT	Total S.A.	Real Return and Secure Income
31-Jul		IMO	Imperial Oil Limited	Downstream Hiccup
30-Jul		PCZ	Petro-Canada	Good Bye Petro-Canada, Hello Suncor
30-Jul		XOM	Exxon Mobil Corporation	Upstream Volume Growing
30-Jul	T	RDSA	Royal Dutch Shell plc	Gaining Efficiency in Exploration and Production
29-Jul		BRGXF	BGGroup	Progressing in Pre-Salt Brazil
29-Jul	t	EAC	Encore Acquisition Company	Tertiary Recovery Project Announced
29-Jul	t	COP	ConocoPhillips	Positioned for Recovery
28-Jul	t	BP	BP p.l.c.	Trending Up
27-Jul		COSWF	Canadian Oil Sands Trust	Quarterly Distribution Raised to C\$0.25 a Unit
23-Jul		OXY	Occidental Petroleum Corporation	California Discovery May Be Worth \$2 a Share
23-Jul	\vdash	ECA	EnCana Corporation	Hedges Helping in 2009
22-Jul	1	SU	Suncor Energy	Merger with Petro-Canada to be Effective August 1
21-Jul	t	CEO	CNOOC Ltd	China Buying Oil and Gas (Meter Reader)
21-Jul		PTR	PetroChina Company Limited	China Buying Oil and Gas (Meter Reader)
10-Jul	-	SJT	San Juan Basin Royalty Trust	Rounding the Bend (Income and Small Cap Weekly)
10-Jul	+	HGT	Hugoton Royalty Trust	Rounding the Bend (Income and Small Cap Weekly)
19-Jun	*	PWE	Penn West Energy Trust	Play It by Income in Canadian Light Oil (ISC Weekly)
5-Jun	-	DMLP	Dorchester Minerals, L.P.	New Buy on Shale Formation Backlog (ISC Weekly)
12-May	-	LUKOY	Lukoil Oil Company	Restore Buy (Meter Reader)
12-141ay 11-May		STO	StatoilHydro ASA	Alternative Energy Practical Idealist
8-May	-	CNQ	Canadian Natural Resources	Restore Buy on New Price Trend
7-May	_	APC	Anadarko Petroleum Corporation	Restore Buy on New Price Trend
6-May	-	XTO	XTO Energy Inc.	Restore Buy on New Price Trend
6-May	-	DVN	Devon Energy Corporation	Efficient Producer
	-	XEC	Cimarex Energy Company	Ready to Drill Shale
5-May	_	EOG	EOG Resources Inc.	
5-May	_	PBR	Petrobras	Ready to Develop More Oil and Gas
5-May	-	BRY		New Buy on Oil Growth
1-May	-	OGZPY	Berry Petroleum	Getting through Tough Times
29-Apr	-	BIR.TO	Gazprom	Expect Modest Results for 2009
4-Mar Meter	_		Birchcliff Energy Ltd.	Alberta Reduces Royalties (Taxes) on New Wells
	1/	cauci	Weekly	
4-Aug	⊢		Weekly Chauran Corporation (CVX)	Postor Duy
28-Jul	⊢		CEO and PTP	Restore Buy China Buying Oil and Gas
21-Jul 14-Jul	*		CEO and PTR Weekly	Reduce PV of North American Natural Gas 20%
			Cap Weekly	Reduce P v of North American Natural Gas 20%
	i d	nu omali	MTR	Deducing the Trand at Mass Devictor Transf
31-Jul	-			Deducing the Trend at Mesa Royalty Trust
24-Jul	-		Weekly	Trend Setters
17-Jul	*		Weekly	Stocks Undervalued on \$6.60 Six-Year Natural Gas
10-Jul			HGT and SJT	Rounding the Bend
Indust	r y	Ideas		
2-Apr	*		Presentation	Making Money in Oil and Gas Stocks
	*	Archived	on www.mcdep.com	

Please see disclosures on the final page.





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 are expected to deliver a total return less than inflation.