The Offshore Oil and Gas Industry

Market Response – Part One

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INTRODUCTION

This report reviews the market response to the Deepwater Horizon oil spill in April. The review includes answers to the following questions:

a) What were the share prices before and after the accident?
b) What are major factors driving share prices?
c) How do these factors impact share prices in terms of timeline?

The remaining questions, identified below, will be addressed in a subsequent submission:

d) What can we say about the impact on the price for end-users?
e) Can we make comparisons to other regulated industries?
f) What pressures do financial markets impose on companies that may incentivize them to self-regulate?

KEY FINDINGS

- Stock value of petroleum companies is often more dependent upon the movement of a macro variables such as the commodity price of oil and growth in the underlying economy than it is on firm specific characteristics. More important, the value of an oil company is inextricably linked to the price of oil.

- The Deepwater Horizon oil spill impacted the stock price of all petroleum companies that produce oil in the Gulf of Mexico (GOM). Since April, other events besides the oil spill have impacted stock prices of companies producing in the GOM. For example, the slump in the global economy has reduced the overall demand for oil and thus has impacted share prices.

- As viewed by investors, the petroleum industry's fundamentals are sound and the companies producing oil in the GOM are financially sound. As an example, collectively, their cash flow is adequate and stable, they possess reasonable liquidity, and have adequate equity capital. As a result, analysts report that the stock price of most companies in the Gulf is expected to rise in the near long term (2 to 4 years out from the current quarter).

- Stock prices of the major oil companies trended in the same direction both before and after the BP Horizon disaster; however, as expected BP's price drop was more severe than its peers. Given the explosion date of April 20th, BP's stock value declined over 25% between April 1st and June 1st, while Exxon-Mobil's (XOM) stock was down 10% and ConocoPhillips (COP) remained unchanged for the two month period.

- A fair financial comparison across companies is challenging for several reasons. For one, the companies differ from one another in that each possesses a different product portfolio mix. Some companies have diversified their revenue stream in order to mitigate commodity price risks and help smooth out earnings. Also, although most of the companies operate globally, each might not operate in all the same geographical markets. Further, the companies vary in size as well as roles each play in petroleum industry. Certain companies are more vertically integrated than others while some companies might focus more on one aspect in the petroleum's industry value chain.

Q: WHAT WERE THE SHARE PRICES BEFORE AND AFTER THE OIL SPILL ACCIDENT?

Industry Profile

Companies engaged in oil and gas exploration activities are most often divisions or subsidiaries of major oil companies, although the industry includes a significant number of independent companies. Many are integrated companies covering the entire oil and gas industry, from exploration to refining to distribution. As such, the exploration branch of the industry is affected by trends in the field as a whole. There are five companies, known as "the majors," that produce 62% of the oil in the GOM. The companies, listed in descending order of highest producers, are BP Oil, Shell, Chevron, Exxon Mobile and Conoco Philips. There are also 20 smaller companies that produce 32% of the oil in the GOM. The majors are large, international players that produce and market oil around the globe. As such the companies' financial statements and stock prices reflect diversified operations that are spread across several international markets.

In the United States, more than half of the undiscovered conventional natural gas is in the Gulf Coast. Unconventional[1] gas is concentrated in the Colorado Plateau and Basin and Range Region and the Eastern Region.

Partly because the United States is considered a mature oil region, the major U.S. companies--ExxonMobil and Chevron (which, along with European giants BP and Royal Dutch/Shell, control the U.S. market) focus their exploration efforts

[1] When referring to natural gas, "conventional" and "unconventional" are industry terms used to describe the difficulty of distracting natural gas deposits. Conventional deposits are relatively easy to access with existing technology. Unconventional deposits, in the broadest sense, are "unconventional natural gas is gas that is more difficult or less economical to extract, usually because the technology to reach it has not been developed fully, or is too expensive." Source: http://www.naturalgas.org/overview/unconvent_ng_resource.asp

elsewhere. The Energy Information Administration (EIA) reported that the increases in the U.S. majors' exploration and development expenditures were mostly directed toward the North Sea and Southeast Asia.

As of 2004, North Sea oil production stood at 21 percent of the world's supply. However, by 2015 that region's production is predicted to fall to 11 percent. At that time, the focus is expected to turn to the Middle East with large reserves, as well as Africa and Latin America in search of deep waters. The Middle East is anticipated to represent 21 percent of oil exploration and production, Africa 19 percent, and Latin America 18 percent.

In the current state of the industry, exploration is expected to be driven by new technology that will allow deeper wells, and in offshore locations, in deeper waters. While natural gas exploration and drilling will be focused inland, petroleum exploration is shifting toward more offshore locations.

The World Oil & Gas Forecast study, published by industry analysts Douglas-Westwood Ltd. and compiled from information gathered from the Energyfiles database, released its findings of the long-term projection for the offshore oil and gas industry. Offshore oil and gas production is forecasted to grow to 55 billion barrels per day by 2015.

Also from the study, nearly 25 percent of offshore oil produced will come from deep water areas in 2015, compared to only 10 percent in 2004. Most important, following 2010 all global offshore oil production growth will come from deep waters, compensating for declining output from shallow waters. Dr. Michael R. Smith, technical director of the Energyfiles database, noted that "in recent years offshore oil and gas production growth has been constant and rapid." Therefore, offshore production is expected to climb to 27 million barrels of oil per day, up to

33 million barrels per day by 2015.

Players in the Petroleum industry are known to the investment community as "commodity companies" who share a common key feature. Generally, their value is often more dependent on the movement of a macro variables (the commodity price of oil and growth in the underlying economy) than it is on firm specific characteristics.[2] Thus, the value of an oil company is inextricably linked to the price of oil just as the value of a cyclical company is tied to how well the economy is doing. Since commodity prices and economies move in cycles, the biggest problem that institutional investors face in valuing a company's stock price is that the earnings and cash flows reported in the most recent year are a function of where we are in the cycle. Extrapolating these values into the future can result in serious mis-valuations. For example, oil prices were notoriously volatile in the early 2000s, with 2005 marking new record prices in many global benchmarks, and that trend continued through 2007 with the price of oil approaching $100 per barrel. As a result, stock prices of petroleum companies moved in parallel with the price of oil.

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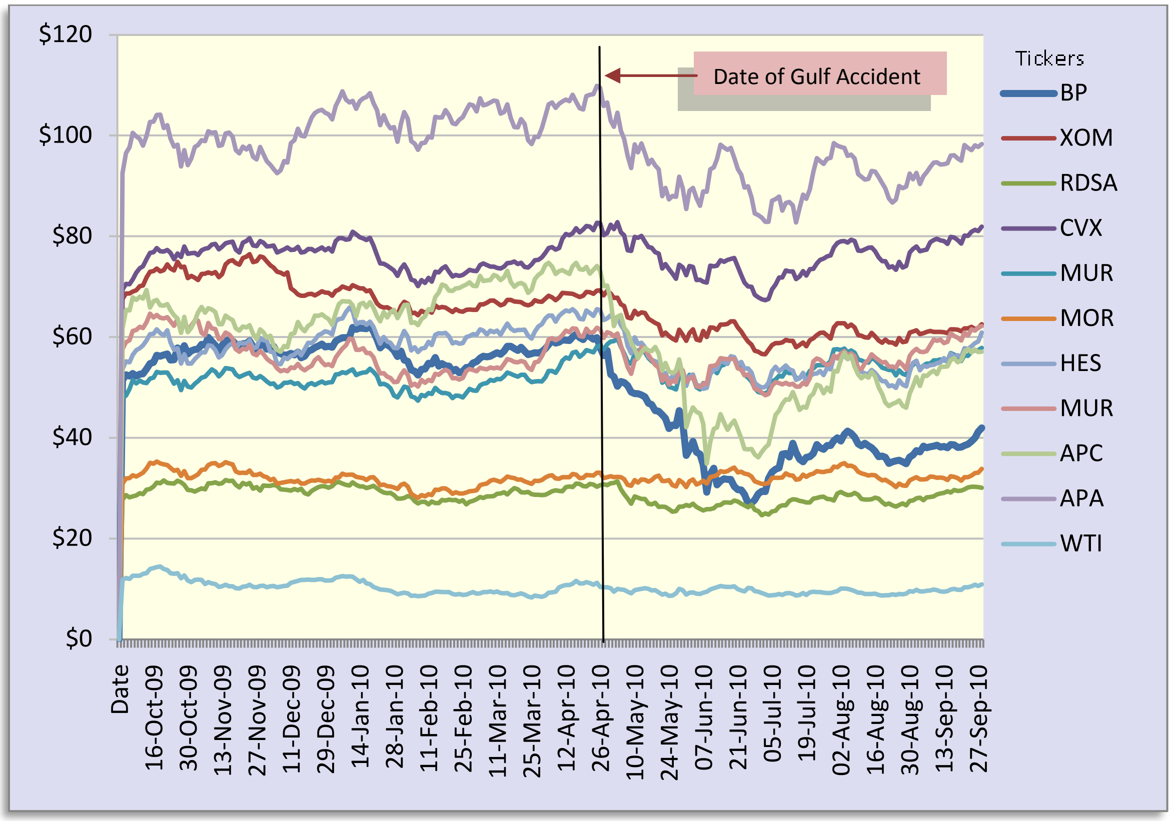
[2] Damodaran, Aswath. Ups and Downs: Valuing Cyclical and Commodity Companies. Stern School of Busniess, September 2009.

Figure 1: Stock Price Movements of Major Petroleum Companies



Data Source: Capital IQ and FINRA

There are other factors or events that can impact a stock price, which will be explained in further detail later in the paper. However, the explosion of the Deepwater Horizon oil platform had impact on the petroleum industry as a whole. We consider the added complexities of the accident to BP's stock value later in the paper. Figure 1, above, shows that stock prices of the major oil companies all trended in the same direction both before and after the BP Horizon disaster however, BP's price drop was more severe than its peers. Given the explosion date of April 20th, BP's stock value declined over 25% between April 1st and June 1st, while Exxon-Mobil's (XOM) stock was down 10% and ConocoPhillips (COP) remained unchanged for the two month period. If one considers the broader energy sector as a point of reference: ETF – XLE was down just over 9% from April 1st, a drop mirrored by XOM and reflective of the industry value with the non-recurring event - the April spill - factored out. An interesting note however, is that the market had a delayed reaction to the April 20th explosion and for a time after the accident BP traded in line with the S&P 500, peaking just under $60.00 per share. Investors held on for nine days before BP's stock closed down by 8% on April 29th.

Q: WHAT ARE THE MAJOR FACTORS DRIVING SHARE PRICES?[3]

Company profiles of the top ten oil producing companies in the Gulf of Mexico are discussed in some detail below, as well as operational highlights. The source of this information is the U.S. Securities and Exchange Commission. A fair financial comparison is challenging for several reasons. For one, the companies differ from one another in that each possesses a different product portfolio mix. Some companies have diversified their revenue stream in order to mitigate commodity price risks and to help smooth out earnings. Also, although most of the companies operate globally, each might not operate in all the same geographical markets. Further, the companies vary in size as well as in the roles each plays in the petroleum industry. For example, some companies are more vertically integrated than others while some companies might focus more on one aspect in the petroleum's industry value chain.

Past and projected stock performances are also covered below taking note of the different roles and markets that each company serves. Generally, companies discussed below are financially sound as demonstrated by sufficient and stable net cash inflows, adequate liquidity, and solid capital position. Despite the recent fall in stock prices due to the global economic downturn and reduction in oil

[3] All company data analyzed for this section is publicly available from the U.S. Securities and Exchange Commission. URL: http://www.sec.gov/

demand, prices are expected to rebound for most companies 2 to 3 years out as a result of the industry's sound fundamentals.

BP Oil

Industry Rank based on Production in Gulf of Mexico: 1

Figure 2: BP's Stock Price Performance

Data Source: The RediNews Network

Symbol	Last	Open	Change	% Change	Year High	Year Low	Last Trade
BP	**41.56**	41.46	-0.39	-0.93%	62.38	26.75	2010-10-04@09:43:52 ET

Data Source: FINRA

Pricing/Earnings*	
Recent Price	41.17
P/E Ratio	NMF
P/E (Trailing)	NMF
P/E (Median)	13
Rel. P/E Ratio	NMF

Ratings*	
Financial Strength	B
Stock's Price Stability	80
Price Growth Persistence	60
Earnings Predictability	25

% Annualized Return*			
	This Stock	VL Index	Arith.
1 yr	-19.031	16.536	
3 yrs	-11.163	1.927	
5 yrs	-5.962	5.913	

*Provide by Value Line

BP is one of the world's largest integrated oil companies and the largest oil producer in the Gulf of Mexico. The company’s daily production in 2009 (including equity interests) for oil and natural gas was 2,535,000 barrels and 8.5 billion cubic feet respectively. BP’s 2009 refinery throughput was 2.2 mill. Bbls while it had refining availability of 93.6% that same year. In 2009, the company averaged $56.26 per barrel of oil compared with $90.20 in 2008. In the same year the company averaged $3.25 per thousand cubic ft. of natural gas compared to $6.00 in 2008. At December 31, 2009 BP had proved oil and gas reserves of 5.7 bill. barrels and 40.4 tcf, respectively. The company noted that it has estimated pretax present value of oil reserves of $118 bill. It also had oil and natural gas equity interests of 4.9 bill. barrels and 4.7 tcf respectively. BP has 80,300 employees worldwide led by Chairman Carl-Henric Svanberg and Chief Executive Robert Dudley (effective October 1).

BP's stock price has come off its lows in the wake of the April oil spill. The ADRs[4] fell in June where it hit a low of around $27. The issue began to come back once it appeared the company was getting close to capping the well. The current price is not much different than it was three months earlier hovering around $41 per share at September 30, 2010.

Management suspended the dividend in the meantime. Although the company has the means to pay dividends, making payments to shareholders with recovery still in progress and liabilities mounting was deemed to be politically unacceptable. BP plans to review the disbursement in early 2011, when full-year results are in. It's quite possible a dividend will be declared at that time, but it's not clear if the payout would be restored in full, or only partially, if at all.

[4] ADR stands for American Depository Receipt. An ADR is a “receipt for the shares of a foreign-based corporation held in the vault of a U.S. bank and entitling the shareholder to all dividends and capital gains.” Source: http://www.allbusiness.com/glossaries/american-depositary-receipt-adr/4943458-1.html

The company is still reeling from the calamity**.** Robert Dudley took over as CEO on October 1st. He became the first United States citizen to run the British oil giant. Mr. Dudley has a tough task ahead as he needs to steer BP past the incident in decent financial shape, rekindling its growth prospects, and restoring the company's reputation.

3 to 5 Year Projections*			
	Price	Gain	Return
High	85	115%	27.0%
Low	50	25%	12.0%

*Provided by Value

The damage assessment is fraught with unknowns. BP is funding a $20 billion escrow account that it hopes will cover direct costs related to the spill. Any leftover funds will revert to the company. But federal fines and penalties could be substantial as well, with potentially another $20 billion liability. The state of Alabama is also pursuing litigation. Other states could possibly follow.

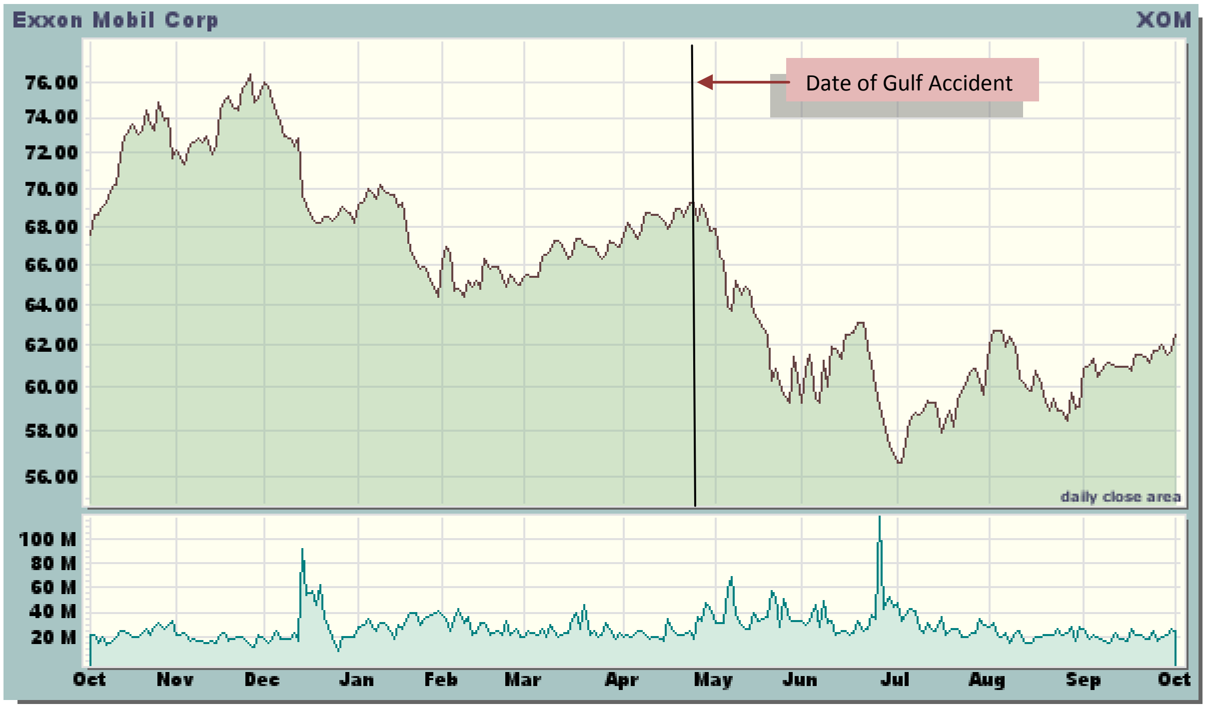
Asset sales have dialed back oil and natural gas volume**.** BP sold assets to raise cash during the crisis. Those actions were called for, but it may take several years for volume to get back to amounts being pumped prior to the spill. There are also some concerns as to whether BP will be temporarily banned from drilling in this country or others.

The uncertainty surrounding this issue likely will be resolved only over a number of years**.** Any bad news on the legal front will likely hinder the stock. But there could be rallies during quiet times, especially when oil prices are rising.

EXXON MOBIL CORP

Industry Rank based on Production in Gulf of Mexico: 4

Figure 3: Exxon Mobile's Stock Price Performance



Data Source: The RediNews Network

Symbol	Last	Open	Change	% Change	Year High	Year Low	Last Trade
XOM	**62.54**	NA	+0.75	+1.21%	76.54	55.94	2010-10-01 – Closed

Data Source: FINRA

Pricing/Earnings*		Ratings*		% Annualized Return*		
					This Stock	Arith. Index
Recent Price	61.79	Financial Strength	A++	1 yr	-7.539	16.536
P/E Ratio	10.264	Stock's Price Stability	100	3 yrs	-10.637	1.927
P/E (Trailing)	11.929	Price Growth Persistence	90	5 yrs	1.529	5.913
P/E (Median)	14	Earnings Predictability	65			
Rel. P/E Ratio	0.694					

*Provided by Value Line

Exxon Mobil Corp. is the largest publicly traded oil company and fourth largest oil producer in the Gulf of Mexico. The company owns 69.6% of Imperial Oil (Canada). Exxon Mobil had daily production in 2009 of: crude oil, 2.4 mil. barrels (flat vs. '08); natural gas, 9.3 bill. cubic feet (+3% vs. '08). The average realized 2009 prices (U.S.) for oil and natural gas was $55.54 per barrel and $3.85 per mill. cubic ft, respectively. The company's reserves as of 12/31/09 for oil were 23.3 billion barrels of oil. Reserve life at current production rates: 15.7 years. 10-year average reserve replacement rate: 112%. Exxon's daily refinery runs in 2009 were 5.4 million barrels which was flat compared to 2008. Product sales were 6.4 million barrels, which was down by 5% compared to 2008. Chemical sales were 25.0 million tons. The company employs 79,900 globally and is led by Chairman and CEO Rex Tillerson.

The company's much improved earnings have failed to ignite Exxon Mobil shares**.** In fact, the shares were trading higher a year ago when earnings were a lot lower. Investor psychology was better in 2009, when the stock market was rallying on expectations of a strong business recovery and higher corporate profits. Now, the economic resurgence has stalled and prospects are for flattish quarterly earnings in the second half of 2010, versus the first half.

There are still enough positives to be optimistic about a rise in profits in 2011. Oil and gas production is trending up, and Exxon's broad presence overseas, where certain economies are doing better, are pluses. Global Insight predicts that oil prices will move up moderately on higher demand, too.[5] Refining margins may also improve as industry capacity is reduced further.

All indications are that Exxon will continue to be a powerhouse in the years to come**.** Corporate finances are in great shape, Exxon has a deep bench of resources waiting to be developed, and has the market inroads around the world to be successful. One venture in particular illustrates its broad reach. The company has a leading position in a project to pump natural gas from the highlands of Papua New Guinea south, through jungles, to the coast. From there, the gas will be processed for shipment to Taiwan. Such an endeavor, once unthinkable, is now on its way to becoming a commercial success.

[5] Forecasts obtained from IHS Global Insight subscription forecasts. URL: http://www.ihsglobalinsight.com/

3 to 5 Year Projections*			
	Price	Gain	Ann'l Return
High	125	100%	22.0%
Low	100	60%	16.0%
*Provide by Value			

Institutional investors will see shares as untimely for the months ahead given current economic conditions, but the company's stock should stand the test of time given its current strong financial position and performance. Institutional investors might see substantial promise here for capital gains and dividends over the long term. The key assumption is that energy demand rises steadily at a 1.0%-1.5% annual rate. If that occurs, this top-quality stock is likely to shine in the years ahead.

CHEVRON CORP

Industry Rank based on Production in Gulf of Mexico: 3

Figure 4: Chevron's Stock Price Performance

Data Source: The RediNews Network

Symbol	Last	Open	Change	% Change	Year High	Year Low	Last Trade
CVX	**81.68**	81.89	-0.27	-0.33%	83.41	66.83	2010-10-04@09:54:14 ET

Data Source: FINRA

Pricing/Earnings*	
Recent Price	81.05
P/E Ratio	8.33
P/E (Trailing)	9.626
P/E (Median)	10
Rel. P/E Ratio	0.56

Ratings*	
Financial Strength	A++
Stock's Price Stability	95
Price Growth Persistence	85
Earnings Predictability	60

% Annualized Return*	This Stock	VL Arith. Index
1 yr	19.366	16.536
3 yrs	-1.358	1.927
5 yrs	8.092	5.913

*Provided by Value Line

Chevron Corp. is the world's fourth largest oil company based on proven reserves and third largest oil producer in the Gulf of Mexico. The company had daily gross crude oil and natural gas production of 1.846 mill. barrels and 4.989 bill. cubic feet in 2009, respectively. At December 31, 2009, Chevron had net proved oil and natural gas reserves 8.589 bill. bbls. and 22.480 trill. cu. ft., respectively. The company’s average 5-yr. finding costs was $5.43 a barrel compared with an industry average $5.22. Also, its 5-yr. reserve replacement rate was 97% versus an industry average of 112%. The company has noted that the present value of reserves is estimated at $167.2 billion Chevron’s product sales in the same year were 4.4 million barrels per day. The company owns/leases 4,132 stations, mainly in the U.S. Chevron employs 125,000 people that are led by Chairman and CEO John S. Watson.

Chevron reported huge second-quarter numbers. Profits more than tripled from the year-ago figure, primarily driven by higher oil prices and surging refining margins. The energy giant is more weighted toward oil production than its supermajor peers. Thus, higher prices (the company's average price per barrel of oil rose to $71, compared to $50 a year ago), in conjunction with a 3% rise in daily production volume to 2.75 million barrels of oil equivalent per day (mmboe/d), drove upstream profits up 174%, to $4.54 billion. In addition, with the onset of the summer driving season, and a firmer economy in the second quarter, the downstream (Refining & Marketing) arm generated a 644% hike in profits, to $975 million. It is expected that the company's second-half profits will likely taper off a bit. The global economy appears to have a hit a speed bump. In addition, a large part of CVX's oil production stems from the Gulf of Mexico, where Chevron's production could be compromised. Still, Global Insight forecasts the average price of a barrel of oil to be in the $70-$80 range for the whole of 2010,[6] with oil production rising to 2.75 mmboe/d, compared to earlier estimates of 2.73 mmboe/d, thanks to better-than-expected production from other fields.

Ironically, the moratorium could aid Chevron's profits next year. Should the ban be extended into 2011, and the global economy picks up a bit, oil prices would probably rise. And, as mentioned, CVX is better weighted toward oil than its peers. Too, if the U.S. government raises the cap on the liability companies have for an oil or gas spill, this could put a few of the smaller entities out of business, thus reducing competition for larger companies like Chevron, which can absorb the higher liability costs.

3 to 5 Year Projections*

	Price	Gain	Ann'l Return
High	145	80%	21.0%
Low	115	40%	14.0%

*Provided by Value Line

Institutional investors view Chevron as a high-quality stock that has good long-term total return potential**.** The dividend is generous, growing, and very well covered. Also, Chevron's move toward acquiring U.S. west coast and Asian-based refineries should benefit it over the long haul, once natural gas prices start to rise, and therefore refining margins improve.

[6] Forecasts obtained from IHS Global Insight subscription forecasts. URL: http://www.ihsglobalinsight.com/

CONOCOPHILLIPS

Industry Rank based on Production in Gulf of Mexico: 5

Figure 5: ConocoPhillips' Stock Price Performance

Provided by The RediNews Network

Symbol	Last	Open	Change	% Change	Year High	Year Low	Last Trade
COP	**57.64**	57.57	-0.22	-0.38%	60.53	46.63	2010-10-04@09:58:19 ET

Data Source: FINRA

Pricing/Earnings	
Recent Price	57.43
P/E Ratio	8.932
P/E (Trailing)	11.602
P/E (Median)	7.5
Rel. P/E Ratio	0.675

Ratings*	
Financial Strength	A++
Stock's Price Stability	80
Price Growth Persistence	90
Earnings Predictability	50

% Annualized Return	This Stock	Arith. Index
1 yr	32.493	16.536
3 yrs	-10.106	1.927
5 yrs	-0.941	5.913

*Provided by Value Line

ConocoPhillips was formed on Aug. 30, 2002, when Phillips Petroleum acquired Conoco. It is an integrated oil and petrochemicals company with assets across the globe. The company is the fifth largest oil producer in the Gulf of Mexico. ConocoPhillips' primary operating segments include **1)** Exploration & Production (25% of '09 sales) **2)** Midstream (3%), **3)** Refining & Marketing (71%), **4)** Chemicals/Emerging Bus./Other (1%). The company also has 20% ownership stake in LUKOIL. In 2009 ConocPhillips had crude oil, and natural gas production of 968,000 mbd and 4.9 mill. cubic ft/d, respectively. The company has 10.3 billion of proved reserves and employs 33,800 people. James J. Mulva leads the company serving as Chairman/CEO.

ConocoPhillips has been rebuilding its momentum. The integrated energy company posted solid second-quarter results. Revenues jumped 29%, and earnings soared almost 92% thanks to higher realized prices and other market impacts. It is possible that top- and bottom-line growth will be robust this year. Several analysts feel that the company will record double-digit gains in 2011, as well. As a note, management plans to divest $10 billion in assets this year and next. Most of these sales include North American properties and upstream assets. Thus far, ConocoPhillips has raised $5.8 billion from the Syncrude and CFJ divestitures. Even though new development projects should offset some of the volume lost, oil and gas production may well drop to 2008 levels due to the asset dispositions. However, efforts to prune its portfolio will help pay off debt coming due. Conoco is also selling part of its interest in its LUKOIL subsidiary. It should earn roughly $300 million from the first block up for sale. As noted the company is also using resources to strengthen its capital position**.** It reduced long-term obligations by $2.7 billion during the second quarter, and proposed that it would continue to alleviate its debt burden. As a result, it appears that management's goal to use free cash flow to raise quarterly distributions and to buy back shares could help bolster its appeal to shareholders.

The company's capital investment program could pave the way for long-term growth**.** Conoco has earmarked $11 billion-$12 billion for its 2010 budget, and will likely maintain a capital-intensive plan for the coming years. Maintenance spending, endeavors to increase productivity, and cash for project expansions account for most of its near-term outlay. The difference now is that expansion will take place from a smaller base.

3 to 5 Year Projections*

	Price	Gain	Ann'l Return
High	110	95%	23.0%
Low	90	60%	17.0%

*Provided by Value Line

Mostly income-oriented instructional investors have been attracted to this stock due to the company's attractive dividend yield. Since there is some uncertainty on the company's ability to execute its strategy, the company's stock price has the potential to offer capital gains further down the road in 2013-2015 after the results from restructuring are known.

BHP Billiton Petroleum (GOM) Inc.

Figure 6: Bhp Billiton's Stock Price Performance

Data Source: The RediNews Network

Symbol	Last	Open	Change	% Change	Year High	Year Low	Last Trade
BHP	**76.38**	77.17	-1.31	-1.69%	83.20	58.38	2010-10-04@16:00:07 ET

Data Source: FINRA

Pricing/Earnings		Ratings*		% Annualized Return			
					This Stock	VL Index	Arith.
Recent Price	76.32	Financial Strength	A	1 yr	18.398	16.536	
P/E Ratio	17.749	Stock's Price Stability	50	3 yrs	1.688	1.927	
P/E (Trailing)	22.647	Price Growth Persistence	100	5 yrs	20.164	5.913	
P/E (Median)	18	Earnings Predictability	NMF				
Rel. P/E Ratio	1.317						

*Provided by Value Line

BHP Billiton Ltd. (Formerly BHP. Merger with Billiton Plc. completed 6-29-01) produces a variety of commodities, including crude oil, natural gas, iron ore, nickel, copper, diamonds, coal, minerals, and steel. The company operates in Australia and the Americas, as well as several other countries, including Chile, South Africa, and the United Kingdom. BHP is the sixth largest oil producer in the Gulf of Mexico. The company has a more diversified portfolio of product offerings than other companies in the top ten list discussed in this paper. In additional to exploring for crude petroleum oil and liquefied natural gas, the company also mines bauxite, refines bauxite into alumina, and smelts alumina into aluminum metal; mines various base metals, including copper, silver, lead, zinc, and uranium; explores and produces diamonds, titanium minerals, and potash. BHP also supplies nickel to the stainless steel industry; and explores iron, manganese, metallurgical coal, and thermal or steaming coal. BHP Billiton Limited has a joint venture with PT Adaro Energy Tbk to run the operation of the Maruwai coal concession in Kalimantan. In 2009 the company had oil, natural gas and copper production of 66.3 million barrels, 364.9 bcf and 1,207,000 tons of copper, respectively. As of June 30, 2009 BHP Billiton had oil and natural gas reserves totaling 585.5 million barrels and 4747.4 bill. cubic ft, respectively. The company has approximately 41,000 employees worldwide who are led by Jac Nasser, Chairman and Marius Kloppers, CEO.

BHP Billiton reports semiannually, and is not scheduled to release results for fiscal 2010 until late year end. Nonetheless, based on production and exploration reports, BHP Billiton appears to have made steady progress. Its total petroleum production rose about 17% during the first nine months of fiscal 2010, versus the year-ago period. Most of the increase was from the company's higher-margined crude oil and natural gas liquids businesses. The startup of projects in Australia and the Gulf of Mexico has helped. The company has also been logging production advances in its metals segments. Iron ore production rose about 7% during the first nine months of 2010, helped by the completion of expansion projects. Output was also robust for nickel, alumina, and zinc.

BHP Billiton's development projects are progressing as scheduled. The company currently has 11 projects in various stages of planning and development. Two projects are slated for completion in calendar 2010, with the remainder beginning production in 2011. These projects are evenly split between the petroleum and minerals segments, and should be immediately accretive to bottom-line results.

BHP Billiton has done a good job of managing its diversified commodities portfolio. Its decision to concentrate on petroleum production and expansion projects makes sense, given the favorable margins in this business. Demand for oil could strengthen in the year ahead, if the global economy picks up, and higher prices result. Much of the demand will likely come from expansion in China, Brazil, and India, as well as from the recovery in the U.S.

3 to 5 Year Projections*

	Price	Gain	Ann'l Return
High	160	110%	27.0%
Low	105	35%	15.0%

*Provided by Value Line

The company’s shares have lost some ground since April. This likely reflects the weaker equity markets and concerns about the company's business in the Gulf of Mexico. The company’s stock would be attractive to institutional investors looking for longer term appreciation potential in the next 3 to 5 years.

ANADARKO PETROLEUM CORPORATION

Figure 7: Anadako's Stock Price Performance

Data Source: The RediNews Network

Symbol	Last	Open	Change	% Change	Year High	Year Low	Last Trade
APC	**56.97**	56.95	-0.09	-0.15%	75.07	34.54	2010-10-04@10:13:52 ET

Data Source: FINRA

Pricing/Earnings*	
Recent Price	57.05
P/E Ratio	16.441
P/E (Trailing)	25.814
P/E (Median)	9.5
Rel. P/E Ratio	1.501

Ratings*	
Financial Strength	A
Stock's Price Stability	55
Price Growth Persistence	75
Earnings Predictability	30

% Annualized Return*	This Stock	VL Arith. Index
1 yr	-8.458	16.536
3 yrs	2.721	1.927
5 yrs	4.321	5.913

*Provided by Value Line

Anadarko Petroleum Corp. explores for and produces oil and natural gas in the U.S. It also has an active international exploration and development program. The company's operations include gas gathering and processing. It is the seventh largest oil producer in the Gulf of Mexico. As of December 31, 2009, Anadarko had proved liquid and natural gas reserves totaling 2.41 billion bls and 8.78 Tcf, respectively. The company's 5-year average worldwide finding cost was $8.23/bbl. compared to the industry average: $8.08/bbl. Anadarko had a 5-year average reserve replacement ratio of 642%. Daily liquid and natural gas production in 2009 reached 117.5 mbbls and 1.356 bcf, respectively. The company has approximately 3,820 employees who are led by R.J. Allison Jr., Chairman and Jim Hackett, President & CEO.

It appears that Anadarko's stock has come under pressure as a result of the company's exposure to potential Macondo liabilities. Anadarko had a 25% working interest in the BP-operated Macondo oil well. BP has sent APC a bill for what it believes is its share of liabilities arising from the huge spill, saying that its 25% investment in the well turned sour and it has to shoulder some of the burden. Anadarko, meanwhile, says its interest was purely financial and that it had no say over the day-to-day operating procedures at the well, which BP was solely responsible for. At this time it is not possible to speculate as to the outcome of what may become a multiyear legal battle but institutional investors appear to have factored in APC having to undertake some financial responsibility. The stock is also being hampered by the on again/off again moratorium on deepwater drilling in the GOM, which is impeding production. The cost of additional safety devices and checks on all drilling equipment has also hurt the stock price.

Still, given APC's long-term operating potential, its stock looks cheap to many institutional investors, provided the company's oil spill liability is relatively small.

The stock price has fallen 18% since May. Based on Value Line's 3- to 5-year earnings projection of $8.70 per share, and applying a reasonable P/E multiple of 11.5, the target price range would be $120-$80. Even if APC's after tax share of the oil spill damages is in the $7 billion range, this is unlikely to have to be paid for several years. During that time, profits from domestic production (70% of which is natural gas) should be more than adequate to cover the liability, as well as fund requisite capital expenditures. In any case, APC has ample liquidity ($3.4 billion in cash), and plenty of high-quality assets to divest as an exit strategy if necessary.

At this time it appears that only risk-tolerant institutional investors with a long-term view are holding this stock. Over the next few years, it is possible that APC is well positioned to take advantage of increasing demand for natural gas in the U.S. as the economy gradually recovers and overcapacity diminishes.

3 to 5 Year Projections*

	Price	Gain	Ann'l Return
High	120	110%	23.0%
Low	80	40%	11.0%

*Provided by Value Line

APACHE CORP

Figure 8: Apache's Stock Price Performance

Data Source: The RediNews Network

Symbol	Last	Open	Change	% Change	Year High	Year Low	Last Trade
APA	**97.68**	97.59	-0.60	-0.61%	111.00	81.94	2010-10-04@10:16:12 ET

Data Source: FINRA

Pricing/Earnings*		Ratings*		% Annualized Return*		
					This Stock	Arith. Index
Recent Price	97.76	Financial Strength	A	1 yr	7.091	16.536
P/E Ratio	9.391	Stock's Price Stability	65	3 yrs	3.448	1.927
P/E (Trailing)	12.099	Price Growth Persistence	90	5 yrs	6.096	5.913
P/E (Median)	9	Earnings Predictability	55			
Rel. P/E Ratio	0.703					

*Provided by Value Line

Apache Corporation explores and produces natural gas, crude oil, and natural gas liquids in the United States, Canada, Australia, Argentina, Egypt, and the North Sea. The company is the eighth largest oil producer in the Gulf of Mexico. Apache's production levels in 2009 for oil and natural gas of 212.9 million barrels of oil and 641,967 million cubic feet (Mmcf), respectively. The company's oil, natural gas, and gas liquids accounted for 71%, 28%, and 1% of total revenue in 2009. Apache's December 31, 2009 10K stated proved oil and natural reserves of 1,081 million barrels; natural gas, 7.9 The company reported employee head count at 3,450 that included the President, CEO & Chairman: G. Steven Farris.

Apache Corporation has been adding to its property portfolio. Prior to the release of its second-quarter earnings result in its 10Q, the company announced that it had agreed to purchase some of British Petroleum's fields in Canada, Egypt, and the Permian Basin region. The deal, which is valued at over $7 billion, came about as BP has moved to sell off some noncore properties to help raise capital to defray some of the costs associated with the blowout at the Deepwater Horizon rig.. APA noted in the filing that it is planning to fund the acquisition through a combination of cash, common stock, and debt financing. Although the properties are considered mature by BP, Apache's technical expertise in the field could help the company realize good production yields from the newly acquired locations.

This comes on the heels of the company's purchase of Mariner Energy and Devon Energy's Gulf of Mexico assets. Once fully integrated, the new properties from these deals should help to increase yearly production by more than 15% during 2011. Although the current uncertainty regarding potential deepwater drilling regulation has lessened the value of the offshore fields somewhat, Apache's diversified operating locations should help it weather the near-term challenges. The higher volumes should aid in fueling a more-than-30% year-to-year earnings increase in 2011.

Apache's international operations remain a strong suit. The company's management announced that daily production from the Egyptian fields is now over 330,000 barrels of oil equivalent (boe). The lower-risk nature of these reserves, which total over 3.7 billion boe, that could help to bolster operating profits from within this region.

3 to 5 Year Projections*

	Price	Gain	Ann'l Return
High	270	180%	29.0%
Low	180	85%	17.0%

*Provided by Value Line

Institutional investors interested in possible longer-term appreciation might favor view the company's stock . Although the troubles in the Gulf of Mexico are likely to weigh on Apache's stock price during the short term, the company's ability to generate good drilling returns from mature oil and gas fields augurs well for its share-net growth prospects over the pull to 2013-2015. Thus it is possible that the appreciation potential of APA could be slightly above the median of the broader market.

MURPHY OIL CORP

Figure 9: Murphy Oil's Stock Price Performance

Provided by The RediNews Network

Symbol	Last	Open	Change	% Change	Year High	Year Low	Last Trade
MUR	**61.75**	62.10	-0.39	-0.63%	65.12	48.14	2010-10-04@10:10:02 ET

Data Source: FINRA

Pricing/Earnings*		Ratings*		% Annualized Return*			
					This Stock	VL Index	Arith.
Recent Price	61.92	Financial Strength	A+	1 yr	9.542	16.536	
P/E Ratio	11.954	Stock's Price Stability	65	3 yrs	-2.377	1.927	
P/E (Trailing)	12.873	Price Growth Persistence	90	5 yrs	5.907	5.913	
P/E (Median)	14	Earnings Predictability	50				
Rel. P/E Ratio	0.748						

*Provided by Value Line

Murphy Oil Corporation is a worldwide oil and natural gas exploration and production company with refining and marketing operations predominantly in North America and the United Kingdom. The company is the ninth largest oil producer in the Gulf of Mexico. It owns 1,048 retail outlets, and 121 branded wholesale SPUR stations. The company's December 31, 2009 10K state that it has proven crude oil and natural gas reserves totaling 150.3 million barrels of crude oil and 401.6 bill. cubic ft. of natural gas. The company also reported that 14% of its proved oil reserves and 47% of proved natural gas reserves are undeveloped. Murphy Oil employees 8,369 people that are led by William C. Nolan, Jr. President and David M. Wood., CEO.

The integrated energy company's performance strengthened during the June period that should help the company stock rebound. Revenues jumped 23%, and profits soared almost 70%, year over year. Exploration & Production (E&P) totals fueled much of its recent success. Management's continual efforts (more below) and a gradual recovery in the market should bolster results in the next few months. Repercussions from the BP spill could temporarily overshadow some of its operations in the Gulf of Mexico, and a slower buildup elsewhere could impact total volume in the next couple of months. Even so, it is possible that the company could have top- and bottom-line gains of 20% and 25%, respectively, this year.

The company announced plans to divest its downstream business. Murphy intends to leave the refining business in the U.S. and sell its refining and marketing assets in the U.K. It has enlisted the help of Goldman Sachs, and although it plans to push these assets in a single transaction, may decide to sell them separately. This move will enable the company to focus on its upstream assets and on its retail gasoline business. Management noted in public filings that portfolio transformation should to be completed by the first quarter of 2011. Management will probably invest the proceeds from the sale in its current business, to help bolster production, or to reduce its debt burden. Given the cash that it will have after the asset spin off, it is possible that it may eye accretive acquisitions, too, to help augment its E&P reserves. All told, this is a shift in its business in a way that better paves the way for long-term gains. The move could also command from institutional investors a higher P/E ratio for the stock.

Murphy's biofuel segment should help diversify its remaining assets. The company plans to continue to build its ethanol subsidiary, to aid in bolstering its retail supply business. To this end, Murphy inked an intent to purchase a Texas-based ethanol plant.

3 to 5 Year Projections*

	Price	Gain	Ann'l Return
High	125	105%	24.0%
Low	90	45%	15.0%

*Provided by Value Line

Institutional investors might view the company stock as potentially offering solid capital appreciation potential out to 2013-2015**.** However, it is probable that the stock will perform in line with the broader market averages in the year ahead. Also as a note, though the board raised the third-quarter dividend, the current yield is enough to get additional income oriented institutional investors interested in acquiring this stock.

HESS CORP

Figure 10: Hess's Stock Price Performance

Provided by The RediNews Network

Symbol	Last	Open	Change	% Change	Year High	Year Low	Last Trade
HES	**60.14**	60.62	-0.78	-1.28%	66.49	48.70	2010-10-04@10:06:43 ET

Data Source: FINRA

Pricing/Earnings*		**Ratings***		**% Annualized Return***		
Recent Price	59.12	Financial Strength	A		This Stock	Arith. Index
P/E Ratio	12.552	Stock's Price Stability	50	1 yr	11.371	16.536
P/E (Trailing)	12.824	Price Growth Persistence	70	3 yrs	-3.276	1.927
P/E (Median)	9	Earnings Predictability	45	5 yrs	5.953	5.913
Rel. P/E Ratio	0.746					

*Provided by Value Line

Hess Corporation is a major integrated international oil company and is the tenth largest oil producer in the Gulf of Mexico. In 2009 the company had proved cured oil and liquid gas reserves of 967 million barrels and 2.82 trillion cubic feet, respectively. The company's average daily production in 2009 was 408,000 barrels of oil equivalent. The standardized measure of discounted future net cash flows from proved oil and gas reserves at the end of 2009 was $11.40 billion. Hess operates 1,357 Hess gasoline stations, primarily in the Northeastern U.S. The company owns 88% of those sites. The company is led by Chairman & CEO: J.B. Hess and President John J. O'Connor.

Hess' share net bounced back sharply in the first half of 2010, versus the year-ago tally. That was attributable primarily to the Exploration and Production unit, which benefited, in part, from a considerable rise in average selling prices for crude oil and natural gas. Moreover, output here increased 5.3%, made possible by the Shenzi, Llano, and Conger fields in the Gulf of Mexico. A pending acquisition could help as well. Meanwhile, results for the Marketing and Refining unit were constrained, to a certain degree, by turnarounds at the HOVENSA and Port Reading facilities. But with these turnarounds completed, gradually improving business conditions in the refining sector, and assuming further strength in the marketing segment, it might be possible to see a better showing for that division during the second half.

It has been noted in SEC filings that the company intends to acquire American Oil & Gas, operating primarily in the Rocky Mountain region. Under the terms of the transaction, Hess would issue .1373 of a share of its common stock for each share of American Oil common stock (equivalent to some 8.6 million HES shares). This move would boost the company's already solid acreage position in the Bakken oil play in North Dakota (now accounting for about 4% of output). Closing on the deal is expected to occur during the fourth quarter of 2010. The company also has a promising agreement was formed with Toreador Resources, whereby Hess would become a co-owner of Toreador's awarded and pending exploration permits in the Paris Basin in France (totaling over one million gross acres). In addition, Hess would make a $15 million upfront payment and invest up to $120 million for a two-phase work program. An initial six-well program is expected to commence during this year's fourth quarter.

Institutional investors looking for possible stock appreciation would potentially be interested in Hess's stock a few months down the road because it offers good price-recovery potential**.** The bottom line for this year, as a whole, stands to jump to $4.75 a share. Share net may well climb to $5.80 in 2011, assuming additional expansion of operating margins.

3 to 5 Year Projections*

	Price	Gain	Ann'l Return
High	120	105%	25.0%
Low	80	35%	13.0%

*Provided by Value Line