



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

September 27, 2013

WPX Energy Inc. San Juan Basin Innovator

<i>Symbol</i>	WPX	<i>Ebitda Next Twelve Months ending 9/30/14 (US\$m)</i>	802
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	59
<i>Price (\$/sh)</i>	19.26	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	9/26/13	<i>Adjusted Reserves/Production NTM</i>	8.0
<i>Shares (mm)</i>	204	<i>EV/Ebitda</i>	7.7
<i>Market Capitalization (\$mm)</i>	3,930	<i>PV/Ebitda</i>	9.4
<i>Debt (\$mm)</i>	2,300	<i>Undeveloped Reserves (%)</i>	40
<i>Enterprise Value (EV) (\$mm)</i>	6,200	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	10.70
<i>Present Value (PV) (\$mm)</i>	7,570	<i>Present Value Proven Reserves(\$/boe)</i>	10.11
<i>Net Present Value (\$/share)</i>	26	<i>Oil and Gas Ebitda Margin (%)</i>	40
<i>Debt/Present Value</i>	0.30	<i>Earnings Next Twelve Months (US\$/sh)</i>	-1.42
<i>McDep Ratio - EV/PV</i>	0.82	<i>Price/Earnings Next Twelve Months</i>	-14
<i>Dividend Yield (%/year)</i>	0.0	<i>Indicated Annual Dividend (US\$/sh)</i>	0.00
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$90 a barrel and natural gas, \$6 a million btu.			

Summary and Recommendation

We add **WPX Energy (WPX)** to our research coverage at a preliminary Net Present Value (NPV) of \$26 and a McDep Ratio of 0.82 because we are impressed with the company's discoveries in the San Juan Basin. WPX appears to have the best fracking results in the oil window of the Mancos formation (see slides on page 2). Technically, the wells produce from a Gallup sandstone formation, which is usually encased within the Mancos shale. WPX has now proven high volume oil production in the southern part of the basin after having earlier proven high-volume natural gas production in the northern part. The company's leading innovation may be showing the way for more broadly successful fracking in the whole basin by WPX and other companies in our coverage. Among the remaining challenges, oil production needs to deal with low reservoir pressure while natural gas drilling is not needed at today's low natural gas price. Ultimately, the liquids-rich window may offer the best combination of longer-lasting flow and blended product price for the San Juan Basin. The company is pursuing liquids-rich drilling in the Piceance Basin of Western Colorado, oil drilling on the Fort Berthold reservation in North Dakota and dry gas production in the Marcellus of Pennsylvania. Like other traditional natural gas producers, WPX see its immediate opportunities in boosting its oil concentration, beyond the 32% of NPV it registers today (see table Present Value on page 3). With success on its ambitious capital program, oil growth next year ought to be higher than our cautious initial projection (see table Operating and Financial Estimates on page 2). Finally, as WPX has distinguished itself in the San Juan Basin, the stock appears to offer competitive value among peers and we look forward to learning more about the company and its management (see Tables ISC-1 to ISC-4 on pages 4-7).

Kurt H. Wulff, CFA

Exploration Activities Result in San Juan Oil Discovery

Commencing commercial operations

2013 one rig program

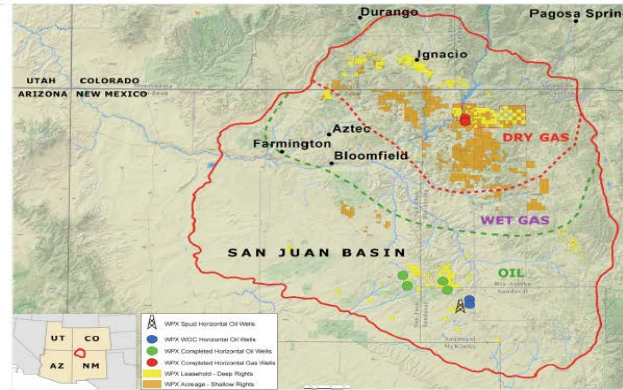
- ▶ Plan to drill a total of 12-14 wells in 2013
- ▶ 4 exploratory wells drilled
 - ▶ Included science and testing in pilot holes
 - ▶ All four wells currently producing
- ▶ Next phase, 8-10 development wells
- ▶ 2013 expected exit rate of 3,400 Boepd
- ▶ Approximately 66 Mmboe of resource potential

31,040 net acres in oil window

- ▶ 83.7% NRI
- ▶ Targeting additional acreage

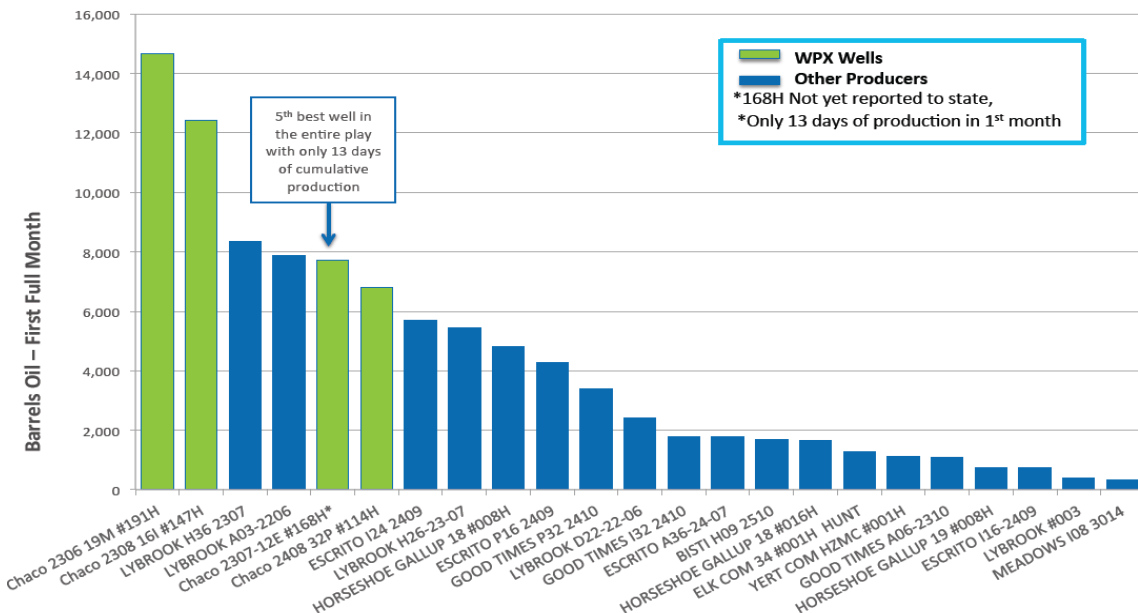
Target metrics

- ▶ D&C < \$5.0MM
- ▶ EUR's > 500 Mboe
- ▶ Lateral length: 5,000 feet



Well Name	Spud Date	Lateral Length	# of Stages	IP (BOE)	30 Day IP (BOe)
Chaco 2408-32P #114H	1/4/2013	4,425	18	488	346
Chaco 2308-16I #147H	2/20/2013	4,114	18	623	481
Chaco 2306-19M #191H	3/20/2013	4,331	18	1,004	731
Chaco 2307-12E #168H	5/9/2013	4,307	18	800	540
Chaco 2206-02P #228H	6/15/2013	4,208	14	1,029	700- 3 wk avg.
Chaco 2206-02H #225H	7/6/2013	4,234	14	970	580 - 2 wk avg.

San Juan Mancos Gallup – First Full Month of Production Reported to State



Note: Well data is from the New Mexico state website



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WPX Energy Inc.					
Functional Cash Flow and Present Value					
	NTM Ebitda (US\$m)	Adjusted R/P	PV/ Ebitda	Present Value (US\$m)	
North American Natural Gas	474	7.6	11.0	5,200	68%
Oil	327	9.6	7.3	2,400	32%
	802	8.0	9.5	7,600	100%
Debt (US\$m)					2,300
Net Present Value (US\$m)					5,300
Shares (mm)					204
Net Present Value - Standard Estimate (US\$/sh)					26
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					30

WPX Energy Inc.										
Next Twelve Months Operating and Financial Estimates										
	Q2	Q3	Q4	Year	Q1	Q2	Q3E	Q4E	Year	Next Twelve Months
	6/30/12	9/30/12	12/31/12	2012	3/31/13	6/30/13	9/30/13	12/31/13	2013E	9/30/14
Volume										
Natural Gas (mmcf)	1,123	1,058	1,051	1,086	1,004	989	1,000	1,000	998	1,000
Oil (mbd)	43	40	38	40	35	36	37	38	36	39
Total (mb)	20.9	19.9	19.6	81.0	18.2	18.3	18.7	18.8	74.0	75
Total (mbd)	230	216	213	221	202	201	203	204	203	206
Price										
Henry Hub (\$/mmbtu)	2.21	2.80	3.40	2.79	3.34	4.10	3.58	3.71	3.68	3.86
Differential (\$/mmbtu)	0.47	0.54	0.50	0.47	0.49	0.65	0.56	0.59	0.57	0.61
Company (\$/mcf)	1.74	2.26	2.90	2.32	2.85	3.45	3.01	3.12	3.11	3.25
WTI Cushing (\$/bbl)	93.32	92.22	88.18	94.16	94.41	94.22	105.90	103.31	99.46	99.20
Differential	49.44	51.89	39.98	49.31	41.92	39.83	44.77	43.68	42.43	41.99
Company (\$/bbl)	43.88	40.32	48.19	44.85	52.49	54.39	61.13	59.63	57.03	57.21
Total (\$/bbl)	16.67	18.52	22.90	19.56	23.22	26.73	25.86	26.29	25.53	26.67
Revenue (\$mm)										
Natural Gas	178	220	280	922	258	311	277	287	1,133	1,186
Oil	171	149	169	663	165	178	207	207	757	818
Total	349	369	449	1,585	423	488	484	494	1,890	2,004
Expense										
Lease operating	187	192	208	789	182	184				
Production taxes	25	23	33	111	35	36				
General and administrative	71	67	81	287	72	74				
Total	283	282	322	1,187	289	294	290	297	1,170	1,202
Ebitda	66	87	127	398	134	194	194	198	720	802
Exploration	19	22	23	83	19	20	20	20	79	80
Deprec., Deplet., & Amort.	248	243	247	966	231	227	227	227	912	908
Other	(178)	(131)	(106)	(555)	(64)	(11)	27	34	(14)	151
Ebit	(23)	(47)	(37)	(96)	(52)	(42)	(81)	(83)	(257)	(338)
Interest	23	23	24	94	25	27	27	27	106	108
Ebt	(46)	(70)	(61)	(190)	(77)	(69)	(108)	(110)	(363)	(446)
Income Tax	(16)	(25)	(21)	(66)	(27)	(24)	(38)	(38)	(127)	(156)
Net Income (\$mm)	(30)	(46)	(40)	(123)	(50)	(45)	(70)	(71)	(236)	(290)
Per Share (\$)	(0.15)	(0.23)	(0.20)	(0.62)	(0.25)	(0.22)	(0.34)	(0.35)	(1.16)	(1.42)
Shares (millions)	199	199	199	199	200	204	204	204	203	204
Ebitda Margin	19%	24%	28%	25%	32%	40%	40%	40%	38%	40%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%



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Table ISC-1											
McDep Income and Small Cap Energy Portfolio											
Debt, Segments, Cash Flow, Income and McDep Ratio											
			Price								
Symbol/Rating	(US\$/sh)	EV/	Enterprise	PV(%)	EV/	Dist.	Dist.				
B = Buy	26-Sep	Market	Value	Nat	Ebitda	NTM	Yield	McDep			
CB (see below)	2013	Cap	(\$mm)	Gas	Oil	NTM	(\$/un)	(%)	Ratio		
Small Cap Independent Producers											
PDC Energy	PDCE		61.80	1.41	2,710	32	68	12.6	-	-	1.24
Continental Resources (32%)	CLR	B	107.36	1.23	7,800	16	84	7.5	-	-	0.91
Range Resources	RRC	B	78.10	1.28	16,060	74	26	13.5	0.16	0.2	0.89
Cimarex Energy Company	XEC	B	95.79	1.17	9,690	43	57	6.3	0.56	0.6	0.89
Peyto Exploration and Development Corp	PEYUF		29.11	1.18	5,130	80	20	9.8	0.76	2.6	0.88
Denbury Resources Inc.	DNR		18.43	1.49	10,250	5	95	6.3	-	-	0.86
Berry Petroleum Company	BRY		43.31	1.76	4,230	14	86	6.6	0.32	0.7	0.84
Whiting Petroleum Corporation	WLL	B	59.82	1.32	9,390	8	92	4.1	-	-	0.84
Halcón Resources	HK		4.64	2.52	5,160	8	92	5.4	-	-	0.83
WPX Energy Inc.	WPX		19.26	1.58	6,200	68	32	7.7	-	-	0.82
Birchcliff Energy Ltd.	BIREF	CB	6.73	1.44	1,620	69	31	8.5	-	-	0.65
<i>Total or Median</i>				<i>1.41</i>	<i>78,200</i>	<i>32</i>	<i>68</i>	<i>7.5</i>			<i>0.86</i>
Leveraged Cash Payers											
Vanguard Natural Resources, LLC	VNR		28.07	1.48	3,120	41	59	10.3	2.46	8.8	1.08
Legacy Reserves L.P.	LGCY		27.27	1.64	2,570	24	76	9.7	2.32	8.5	1.05
Linn Energy, LLC	LINE		26.32	2.03	12,480	47	53	9.8	2.90	11.0	1.01
Enerplus Corporation	ERF		17.03	1.49	5,000	34	66	6.3	1.05	6.2	0.96
<i>Total or Median</i>				<i>1.57</i>	<i>23,200</i>	<i>38</i>	<i>62</i>	<i>9.8</i>		<i>8.6</i>	<i>1.03</i>
RIF Cash Payers											
Freehold Royalties Ltd.	FRHLF		23.10	TL	1,620	16	84	11.9	1.64	7.1	1.09
Dorchester Minerals, L.P.	DMLP	B	23.91	TL	730	54	46	10.5	1.86	7.8	0.92
Enduro Royalty Trust (40%)	NDRO		13.82	BL	180	48	52	7.9	1.61	11.7	0.81
Sabine Royalty Trust	SBR		51.54	TL	750	52	48	12.7	4.05	7.9	0.80
Permian Basin RT	PBT		14.24	TL	660	19	81	7.7	1.21	8.5	0.79
Mesa Royalty Trust	MTR		23.45	BL	44	75	25	9.8	1.97	8.4	0.79
San Juan Basin Royalty Trust	SJT	B	16.26	BL	760	100	-	13.3	0.88	5.4	0.77
Cross Timbers Royalty Trust	CRT		29.99	TL	180	70	30	10.1	2.72	9.1	0.71
Hugoton Royalty Trust	HGT		7.71	BL	310	90	10	8.2	0.79	10.3	0.64
<i>Total or Median</i>					<i>5,200</i>	<i>54</i>	<i>46</i>	<i>10.1</i>		<i>8.4</i>	<i>0.79</i>

CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.
 McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses
 Present Value (PV) presumes long-term prices of \$90 a barrel for oil and \$6 a million btu for natural gas.
 Dist. = Income distribution. NTM = Next Twelve Months Ended September 30, 2014. Enterprise Value = Market Cap and Debt.
 TL = Top Line income sources, BL = Bottom Line income sources



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Table ISC-3

McDep Income and Small Cap Energy Portfolio

Value Multiples - Rank by EV/Ebitda

			Price (\$/sh)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda
	Symbol/ Rating		26-Sep 2013	Royalty (%)	Equity Ebitda	NTM	NTM	NTM
Small Cap Independent Producers								
Range Resources	RRC	B	78.10		-	13.1	15.1	13.5
PDC Energy	PDCE		61.80		-	15.3	10.1	12.6
Peyto Exploration and Development Corp	PEYUF		29.11		0.25	8.9	11.2	9.8
Birchcliff Energy Ltd.	BIREF	CB	6.73		-	18.6	13.1	8.5
WPX Energy Inc.	WPX		19.26		-	8.0	9.4	7.7
Continental Resources (32%)	CLR	B	107.36		-	11.4	8.2	7.5
Berry Petroleum Company	BRY		43.31		-	12.2	7.9	6.6
Denbury Resources Inc.	DNR		18.43		-	13.6	7.3	6.3
Cimarex Energy Company	XEC	B	95.79		-	7.4	7.1	6.3
Halcón Resources	HK		4.64		-	4.2	6.5	5.4
Whiting Petroleum Corporation	WLL	B	59.82		-	8.5	4.9	4.1
	<i>Median</i>					11.4	8.2	7.5
Leveraged Cash Payers								
Vanguard Natural Resources, LLC	VNR		28.07		0.94	9.9	9.5	10.3
Linn Energy, LLC	LINE		26.32		1.09	13.5	9.8	9.8
Legacy Reserves L.P.	LGCY		27.27		0.86	11.1	9.2	9.7
Enerplus Corporation	ERF		17.03		0.38	6.6	6.5	6.3
	<i>Median</i>					10.5	9.4	9.8
RTF Cash Payers								
San Juan Basin Royalty Trust	SJT	B	16.26		0.72	9.8	17.2	13.3
Sabine Royalty Trust	SBR		51.54	100	1.00	10.1	15.8	12.7
Freehold Royalties Ltd.	FRHLF		23.10	86	0.84	4.8	10.8	11.9
Dorchester Minerals, L.P.	DMLP	B	23.91	75	0.82	7.3	11.5	10.5
Cross Timbers Royalty Trust	CRT		29.99	90	0.92	12.3	14.1	10.1
Mesa RoyaltyTrust	MTR		23.45		0.82	5.0	12.4	9.8
Hugoton RoyaltyTrust	HGT		7.71		0.85	12.8	12.8	8.2
Enduro Royalty Trust (40%)	NDRO		13.82		0.93	6.0	9.8	7.9
Permian Basin RT	PBT		14.24	69	0.65	12.7	9.7	7.7
	<i>Median</i>					9.8	12.4	10.1
B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.								
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2014; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								
Top Line Cash Payers defined as those having Revenue Royalty (see fifth column from right).								



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Table ISC-4										
McDep Income and Small Cap Energy Portfolio										
Total Return and Enterprise Value Momentum										
			Price (\$/sh)	Equity Total	Enterprise Value/					
	Symbol/		26-Sep	Return	52Wk	52Wk	50 Day	200 Day	McDep	
	Rating	2013	YTD (%)	High	Low	Avg.	Avg.	Ratio		
Small Cap Independent Producers										
	Cimarex Energy Company	XEC	B	95.79	66	1.00	1.56	1.13	1.28	0.89
	Continental Resources (32%)	CLR	B	107.36	46	0.99	1.46	1.09	1.19	0.91
	PDC Energy	PDCE		61.80	87	0.96	1.70	1.07	1.19	1.24
	Whiting Petroleum Corporation	WLL	B	59.82	38	1.00	1.33	1.11	1.17	0.84
	WPX Energy Inc.	WPX		19.26	27	0.94	1.26	1.00	1.07	0.82
	Peyto Exploration and Development C	PEYUF		29.11	30	0.93	1.26	1.03	1.07	0.88
	Range Resources	RRC	B	78.10	23	0.93	1.21	1.00	1.03	0.89
	Denbury Resources Inc.	DNR		18.43	13	0.96	1.18	1.03	1.03	0.86
	Berry Petroleum Company	BRY		43.31	30	0.93	1.21	1.02	1.02	0.84
	Birchcliff Energy Ltd.	BIREF	CB	6.73	(11)	0.82	1.03	0.96	0.91	0.65
	Halcón Resources	HK		4.64	(32)	0.76	1.28	0.96	0.87	0.83
	<i>Median</i>				30	0.94	1.26	1.03	1.07	0.86
Leveraged Cash Payers										
	Enerplus Corporation	ERF		17.03	39	0.98	1.28	1.01	1.10	0.96
	Legacy Reserves L.P.	LGCY		27.27	22	0.94	1.12	1.00	1.02	1.05
	Vanguard Natural Resources, LLC	VNR		28.07	15	0.95	1.10	1.01	1.01	1.08
	Linn Energy, LLC	LINE		26.32	(19)	0.77	1.13	1.01	0.88	1.01
	<i>Median</i>				18	0.95	1.13	1.01	1.01	1.03
RTF Cash Payers										
	Permian Basin RT	PBT		14.24	22	0.92	1.19	1.05	1.08	0.79
	Cross Timbers Royalty Trust	CRT		29.99	18	0.93	1.27	1.06	1.06	0.71
	Sabine Royalty Trust	SBR		51.54	37	0.94	1.33	0.99	1.05	0.80
	San Juan Basin Royalty Trust	SJT	B	16.26	23	0.91	1.32	0.98	1.04	0.77
	Mesa Royalty Trust	MTR		23.45	27	0.86	1.26	1.05	1.03	0.79
	Dorchester Minerals, L.P.	DMLP	B	23.91	25	0.93	1.20	0.99	1.02	0.92
	Freehold Royalties Ltd.	FRHLF		23.10	10	0.95	1.15	1.01	1.01	1.09
	Hugoton Royalty Trust	HGT		7.71	14	0.77	1.24	0.93	0.91	0.64
	Enduro Royalty Trust (40%)	NDRO		13.82	(9)	0.71	0.98	0.90	0.86	0.81
	<i>Median</i>				22	0.92	1.24	0.99	1.03	0.79
CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.										
Source: Bloomberg, Yahoo, McDep LLC										

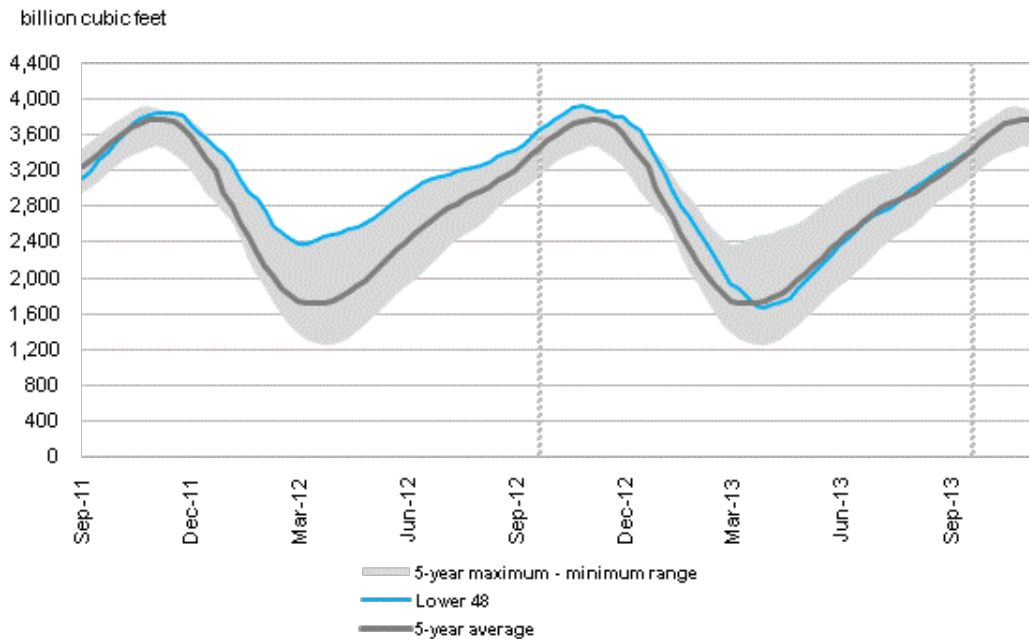


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Working gas in underground storage compared with the 5-year maximum and minimum



Source: U.S. Energy Information Administration

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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