Rating: Buy
S&P 500: 1122

Burlington Resources, Inc.
Long-Life Natural Gas

Symbol	BR	*Ebitda Next Twelve Months ending 3/31/05 ($mm)*	3,930
Rating	B	*North American Natural Gas/Ebitda (%)*	69
Price ($/sh)	67.10	*Natural Gas and Oil Production/Ebitda (%)*	100
Pricing Date	4/28/04	*Natural Gas and Oil Ebitda ($/mcfe)*	3.83
Shares (mm)	198	*Undeveloped Reserves (%)*	26
Market Capitalization ($mm)	13,300	*Adjusted Reserves/Production NTM*	10.0
Debt ($mm)	4,100	*EV/Ebitda*	4.4
Enterprise Value (EV) ($mm)	17,400	*PV/Ebitda*	6.8
Net Present Value ($/share)	115	*Price/Earnings Next Twelve Months*	9
Present Value (PV) ($mm)	26,900	*Dividend Yield (%)*	0.9
McDep Ratio - EV/PV	0.65		

Summary and Recommendation

We continue to rate the common shares of Burlington Resources as Buy for concentration on North American natural gas. Commodity price as measured by six-year futures is in a steady uptrend that is likely to justify our anticipatory value. A ten-year adjusted reserve life index supports a higher multiple of cash flow than that reflected by current stock price. Long-life resources from the San Juan Basin of New Mexico to the Deep Basin of Canada promise positive rewards. We believe the stock can appreciate some 70% to reach our estimated net present value of $115 a share in the next several years. The main risk is commodity price.

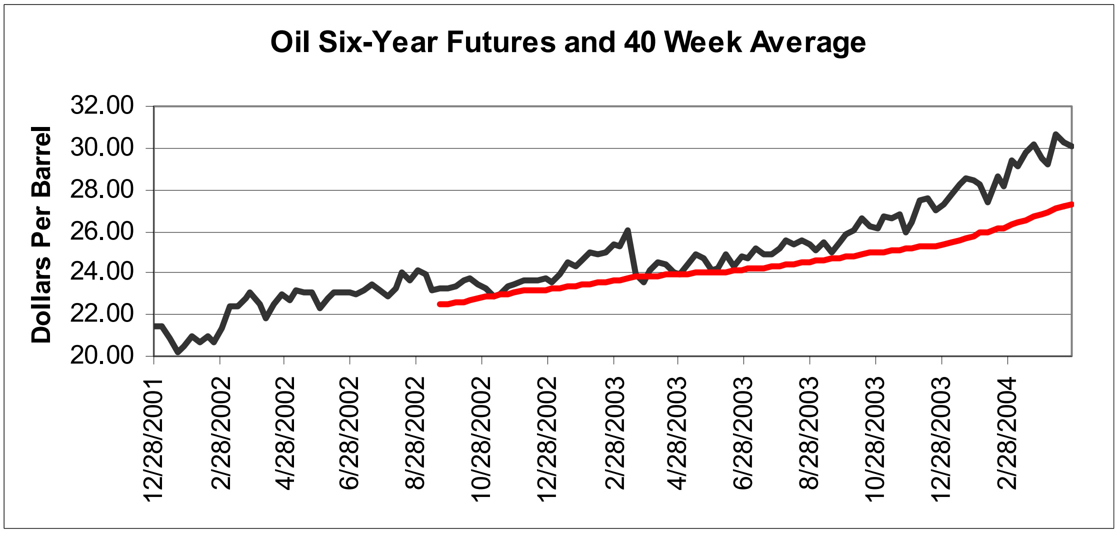
Natural Gas Concentration with Large Market Cap

Natural gas and oil production is practically all of the value in BR and some 67% of that value is in North American natural gas. Energy production is likely to continue to be an attractive area for investment in this decade following two decades of declining real price for oil. Independent producers are likely to be better investments than integrated companies that combine refining/marketing with production. BR is among the few independents with market capitalization more than $10 billion. Investors with large amounts of capital can deploy a relevant amount in BR without moving the stock price unduly.

Six-Year Futures Point to Higher Commodity Price

The value of BR is sensitive to the value of future natural gas and oil production that in turn is related closely to futures prices in the commodity markets. Thirty years ago when we last had a decade long major move in oil there was no meaningful futures market. Today futures prices for natural gas are quoted every trading day for each of 72 months for the next six years. Similarly futures prices for oil are quoted for the same period, but not for every month in the out years because there is less seasonality in crude oil price. We average the quotes for 72 months, interpolating where necessary for oil.

The plot of weekly results for oil shows a strong uptrend with the 40-week moving average rising at the rate of 12% a year (see Chart). At that rate the price in 2010 would be three times the price in 2000. The comparable rate of gain from 1970 to 1980 was about ten times.



Natural gas prices are advancing faster than oil. The ratio of natural gas to oil on a heating content basis advanced from 0.2 times oil in 1970 to 1.0 times oil today. That trend points to a ratio of perhaps 1.3 in 2010. We find that easy to believe in part because the ratio exceeded that for one-year futures for most of the spring of 2003. As the cleanest fuel, natural gas should continue to advance in price relative to oil as the world increasingly desires a cleaner environment.

Fundamental factors support the price trends. Oil demand is strong with world economic growth paced by developing countries, especially China. Supply is tight as the Middle East is showing maturity with the workhorse giant fields on the verge of peaking.

Interest rates below inflation encourage investment in assets like oil that can increase in price more than inflation. Nor is the increase in oil price close to the rate that would induce a recession in economic activity and energy demand.

Anticipate Future Stock Value

Recently Encana (ECA), the largest independent producer, bought Tom Brown, Inc. (TBI), a small cap independent natural gas producer, for a premium of 24% to stock price immediately before the deal was announced. That may be the start of a trend where knowledgeable industry insiders anticipate rising natural gas values ahead of stock market investors.

BR is an attractive takeover candidate, too, in our opinion. It is not clear who the buyer would be. We thought the takeover was likely long ago. Fortunately, there need not be a takeover because we believe that eventually stock prices are likely to reflect the resource values we identify.

The important variables in the valuation of future production are captured in a base year cash flow and a multiple of that cash flow that depends on reserve life. Indeed investors do differentiate on that basis as reflected in a high correlation of unlevered cash flow multiple with adjusted reserve life. We convert the market relationship to a formula that produces an anticipatory value with somewhat more sensitivity to reserve life.

Our process of estimating resource value begins with an estimate of next twelve months cash flow. Then we calculate the adjusted reserve life that we use in assessing present value as a multiple of cash flow.

Volume Growth, Favorable Price and Control of Costs Equals Attractive Cash Flow

Our projections lead to more than $3.9 billion of unlevered cash flow, also known as Ebitda, short for earnings before interest, tax, depreciation and amortization (see table on next page). We choose the next twelve months ending March 31, 2005 as the relevant time period. The rationale is that if one is buying a stock today, previously reported cash flow is relevant only for the information it may give about future cash flow.

While management projects modest volume growth we hold volume mostly flat at the most recent historical level. That builds some growth into the projection over the previous year because international oil volume advanced sharply in the quarter just ended that serves as a base for the next twelve months. We recognize seasonality in overseas natural gas.

We take the futures market at face value in projecting price for the next twelve months. Because futures are constantly changing, our projection is adjusted accordingly. As a result, the specific amounts we project today may not be the amounts realized when the company next reports.

Long Reserve Life Implies Higher Cash Flow Multiple

Reported reserves at year end 2003 imply an adjusted life index of 10.0 years. The index is the sum of developed and half undeveloped reserves divided by next twelve months production. That could justify a multiple of perhaps 7.3 in our current framework, about 10% higher than the 6.8 implied by estimated present value of $115 a share. Favorable first quarter results and current commodity prices appear to support our value estimate with some cushion.

Realistically a market cash flow multiple, EV/Ebitda, of only 4.4 times is unusually low. It can be justified only if natural gas price were to tumble by perhaps a half or more. Even if that happened it probably would not be sustained unless the economy was to be in such an unpleasant state that few would want to contemplate. Thus, while we may try to refine our estimates, the buy conclusion can be justified by a wide range of likely outcomes.

Opportunity in the Rockies

Most of BR's natural gas production is in the U.S. and Canada. Most of that, in turn, is in producing basins that line up along the Rocky Mountains from New Mexico in the south to Alberta and British Columbia in the north.

Burlington Resources Inc.
Next Twelve Months Operating and Financial Results

	Q1 3/31/04	*Q2E 6/30/04*	*Q3E 9/30/04*	*Q4E 12/31/04*	***Year 2004E***	*Q1E 3/31/05*	***Next Twelve Months 3/31/05***
Volume							
Natural Gas (mmcfd)							
U.S.	880	880	880	880	**880**	880	**880**
Canada	846	846	846	846	**846**	846	**846**
Overseas	227	160	160	220	**192**	227	**192**
Total	1,953	1,886	1,886	1,946	**1,918**	1,953	**1,918**
Oil (mb)	13	14	14	14	**54**	13	**54**
Oil (mbd)	149	149	149	149	**149**	149	**149**
Total gas & oil (bcf)	256	253	256	261	**1,027**	256	**1,027**
Price							
Natural gas ($/mcf)							
Henry Hub ($/mmbtu)	5.64	5.77	5.95	6.14	**5.87**	6.32	**6.04**
U.S.	5.49	5.62	5.80	5.98	**5.72**	6.15	**5.88**
Canada	5.53	5.65	5.83	5.98	**5.75**	6.15	**5.90**
Overseas	3.69	3.35	3.29	3.18	**3.39**	3.07	**3.21**
Total	5.30	5.44	5.60	5.66	**5.50**	5.79	**5.62**
Oil ($/bbl)							
WTI Cushing	35.23	36.86	36.19	34.96	**35.81**	33.75	**35.44**
Worldwide	26.39	27.61	27.11	26.19	**26.83**	25.29	**26.55**
Total gas & oil ($/mcf)	5.10	5.17	5.25	5.25	**5.19**	5.30	**5.24**
Revenue ($mm)							
Natural Gas							
U.S.	435	450	469	484	**1,838**	487	**1,890**
Canada	421	435	454	465	**1,776**	468	**1,823**
Overseas	75	49	48	64	**237**	63	**224**
Total	932	934	972	1,013	**3,851**	1,018	**3,937**
Oil	355	375	372	360	**1,462**	340	**1,447**
Other	22				**22**		**-**
Total	1,308	1,309	1,344	1,373	**5,334**	1,358	**5,384**
Expense							
Production taxes	59	60	62	63	**244**	62	**247**
Cash costs	296	298	301	304	**1,199**	303	**1,206**
Ebitda ($mm)	953	951	981	1,006	**3,892**	993	**3,931**
Exploration	60	60	60	60	**240**	60	**240**
Deprec., Deplet., & Amort.	277	277	277	277	**1,108**	277	**1,108**
Ebit	616	614	644	669	**2,544**	656	**2,583**
Interest	71	71	71	71	**284**	71	**284**
Ebt	545	543	573	598	**2,260**	585	**2,299**
Income Tax	193	192	203	212	**800**	205	**811**
Net Income ($mm)	352	351	370	386	**1,460**	380	**1,488**
Shares (millions)	198	198	198	198	**198**	198	**198**
Per Share ($)	1.78	1.77	1.87	1.95	**7.37**	1.92	**7.51**
Ebitda Margin	73%	73%	73%	73%	**73%**	73%	**73%**
Tax Rate	35%	35%	35%	35%	**35%**	35%	**35%**
Cash costs ($/mcfe)	1.15	1.18	1.18	1.16	**1.17**	1.18	**1.17**
D.D.&A. ($/(mcfe)	1.08	1.09	1.08	1.06	**1.08**	1.08	**1.08**

For a while in the early 1990s the San Juan Basin of New Mexico was the main asset of BR. A publicly traded stock, San Juan Basin Royalty Trust (SJT), is nearly equivalent to a 12% representation in BR's San Juan properties. SJT stock has delivered a favorable total return that points to further potential for BR.

BR appears to have a similar opportunity in the Deep Basin of Canada, a position gained in the acquisition of Canadian Hunter in late 2001. At an earlier stage of development, the Deep Basin is producing less than half its potential rate. Eventually BR's producing rate in the Deep Basin may equal its producing rate in the San Juan Basin. Already, BR's Canadian natural gas production almost equals its U.S. natural gas production.

The San Juan Basin and Canada's Deep Basin are among BR's valuable properties that should generate an attractive return in the years ahead. We are confident that the company's operating and financial management can reinvest or distribute the cash to shareholders in a tax-efficient manner.

Kurt H. Wulff, CFA

Research Methodology: McDep Associates ("the Firm") applies the thirty plus 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 becomes the denominator of the McDep Ratio while market capitalization and debt are the numerator. Stocks with low McDep Ratios tend to outperform stocks with high McDep Ratios on an unlevered basis. The firm emphasizes quantitative tools in deriving estimates while applying a final qualitative refinement.

Ratings Description: Stocks are rated by expected risk-adjusted return over one to three years compared to Treasury Inflation Protected Securities. Buy, Hold and Sell ratings imply expectations better than, equal to and inferior to those of TIPS. The McDep Ratio for a Buy may range up to 1.2; for a Hold, 1.0 to 1.4; and for a Sell, above 1.2.