Rating: Buy
S&P 500: 1097

Burlington Resources, Inc.
Large Cap, Long-Life, Low-Debt Natural Gas

Symbol	BR	*Ebitda Next Twelve Months ending 6/30/05 ($mm)*	3,900
Rating	Buy	*North American Natural Gas/Ebitda (%)*	65
Price ($/sh)	37.35	*Natural Gas and Oil Production/Ebitda (%)*	100
Pricing Date	7/22/04	*Adjusted Reserves/Production NTM*	10.2
Shares (mm)	397	*EV/Ebitda*	4.8
Market Capitalization ($mm)	14,800	*PV/Ebitda*	6.9
Debt ($mm)	3,700	*Undeveloped Reserves (%)*	26
Enterprise Value (EV) ($mm)	18,500	*Natural Gas and Oil Ebitda ($/mcfe)*	3.80
Present Value (PV) ($mm)	26,700	*Present Value Proven Reserves($/boe)*	13.60
Net Present Value ($/share)	58	*Present Value Proven Reserves($/mcfe)*	2.30
Debt/Present Value	0.14	*Earnings Next Twelve Months (US$/sh)*	3.69
McDep Ratio - EV/PV	0.69	*Price/Earnings Next Twelve Months*	10
Dividend Yield (%/year)	0.9	*Indicated Annual Dividend (US$/sh)*	0.34

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.

Summary and Recommendation

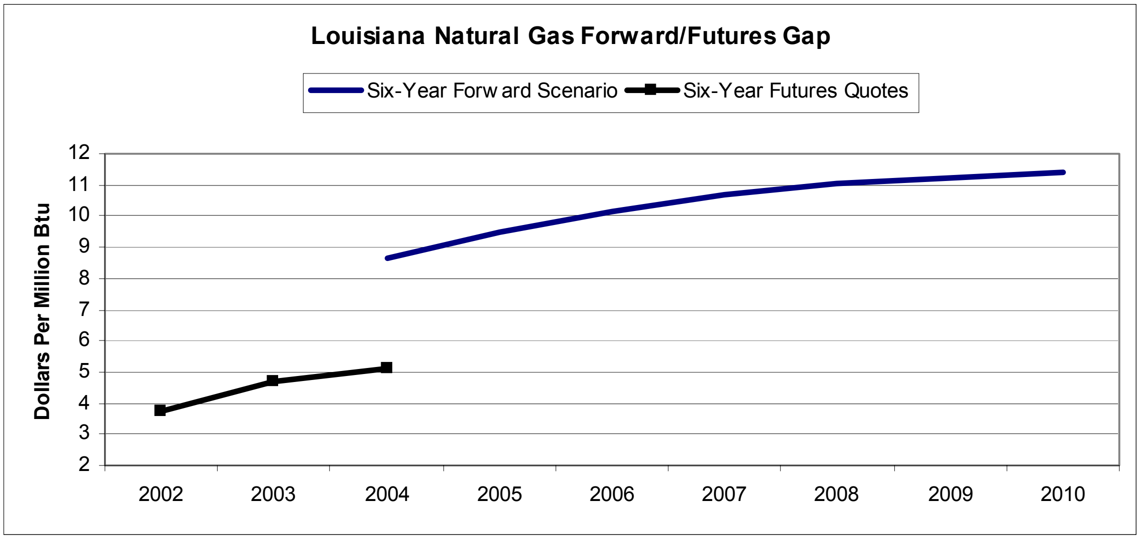
We continue to recommend current purchase of **Burlington Resources, Inc. (BR)** for large cap, long-life, low risk North American natural gas concentration. Natural gas along with oil appears to be in a decade long upward revaluation. Large cap producers are the most readily available opportunity for investors to participate. With lower decline from existing long-life production and lower debt, BR may have lower risk than peers. We see 55% appreciation potential to net present value of US$58 a share with further potential gains should there be further commodity price strength. Surprise temporary weakness in commodity price is always possible.

Natural Gas Price Gaining with Oil Price

The value of the company depends most on natural gas that accounts for 65% of next twelve months production revenue. Natural gas price depends on oil price in a fashion that reflects an increasing premium for environmental advantage. Our scenario for natural gas is our scenario for oil plus a 2% per year adjustment that raises the premium 20% in ten years.

Publicly traded in the commodity markets, futures contracts for delivery over the next six years continue in a steep uptrend. Whether the trend will slow for awhile we cannot know. Six-year futures for oil have moved from the low $20s and are now in the low $30s. At the same time, six-year futures for natural gas have moved from under $4 to over $5.

In our "moderate" scenario, oil would peak at $50 in 2003 dollars in the year 2014. Converting oil to natural gas at an increasing premium, adjusting for inflation of 3% annually and cumulating six-year periods gives a six-year "forward" scenario. If the scenario were to materialize we would expect six-year futures to approach the six-year forward curve. As a result we see further upside for six-year futures and consequently present value estimates and ultimately stock prices (see chart).



Economics 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.

Monetary factors favor oil and gas investment as interest rates below inflation drive investors to real assets for protection against currency debasement. Oil price is likely to rise more than the official U.S. government determined inflation measure.

Environmental factors favor higher oil and gas price. Coal is still a quarter of world primary energy supply. As long as large quantities of coal are burned, oil and gas must be undervalued because of the potential to displace environmentally disadvantageous coal.

Political factors favor higher oil price as conditions in leading producing countries evolve in different directions. Now Saudi Arabia appears vulnerable to a change in control.

Nor can the U.S. military enforce an artificially low oil price for long. During the Arab oil embargo in 1973 some consumers advocated sending the troops. Thirty years later we have sent the troops only to see security deteriorate further, it seems.

At some point oil price could be too strong and economic activity would be adversely affected. Six times in the past thirty years the annual gain in monthly price exceeded 70% briefly. September futures near $40 a barrel for Light, Sweet Crude Oil would have to exceed $48 a barrel to trigger a 70% warning.

Volumes Steady, Cash Flow Rising

Our process of estimating company-specific present value begins with an estimate of next twelve months cash flow (see table). We concentrate on unlevered cash flow, also known as Ebitda, short for earnings before interest, tax, depreciation and amortization.

Burlington Resources Inc.
Next Twelve Months Operating and Financial Results

	Q1 3/31/04	*Q2 6/30/04*	*Q3E 9/30/04*	*Q4E 12/31/04*	***Year 2004E***	*Q1E 3/31/05*	*Q2E 6/30/05*	***Next Twelve Months 6/30/05***
Volume								
Natural Gas (mmcfd)								
U.S.	880	905	905	905	**899**	905	905	**905**
Canada	846	834	800	800	**820**	800	800	**800**
Overseas	227	160	190	220	**199**	227	160	**199**
Total	1,953	1,899	1,895	1,925	**1,918**	1,932	1,865	**1,904**
Oil (mb)	13	13	13	13	**53**	13	13	**52**
Oil (mbd)	149	143	143	143	**145**	143	143	**143**
Total gas & oil (bcf)	256	251	253	256	**1,017**	251	248	**1,009**
Price								
Natural gas ($/mcf)								
Henry Hub ($/mmbtu)	5.64	6.10	5.87	6.25	**5.97**	6.67	5.90	**6.17**
U.S.	5.49	5.56	5.35	5.69	**5.52**	6.08	5.38	**5.62**
Canada	5.53	5.76	5.55	5.69	**5.63**	6.08	5.38	**5.67**
Overseas	3.69	3.12	3.74	3.67	**3.58**	3.54	3.43	**3.60**
Total	5.30	5.44	5.27	5.46	**5.37**	5.78	5.21	**5.43**
Oil ($/bbl)								
WTI Cushing	35.23	38.34	41.12	40.37	**38.76**	38.97	37.78	**39.56**
Worldwide	26.39	30.62	32.84	32.24	**30.50**	31.12	30.17	**31.60**
Total gas & oil ($/mcf)	5.10	5.31	5.33	5.43	**5.29**	5.60	5.15	**5.38**
Revenue ($mm)								
Natural Gas								
U.S.	435	458	445	474	**1,812**	495	443	**1,857**
Canada	421	437	408	419	**1,685**	438	391	**1,656**
Overseas	75	45	65	74	**260**	72	50	**262**
Total	932	940	919	967	**3,758**	1,005	884	**3,775**
Oil	355	399	433	425	**1,611**	401	393	**1,652**
Other	22	(6)			**16**			**-**
Total	1,308	1,333	1,352	1,392	**5,385**	1,406	1,277	**5,427**
Expense								
Production taxes	59	62	63	64	**248**	65	59	**251**
Cash costs	296	328	329	333	**1,286**	335	322	**1,319**
Ebitda ($mm)	953	943	960	994	**3,851**	1,007	896	**3,857**
Exploration	60	62	62	62	**246**	62	62	**248**
Deprec., Deplet., & Amort.	277	270	270	270	**1,087**	270	270	**1,080**
Ebit	616	611	628	662	**2,518**	675	564	**2,529**
Interest	71	69	69	69	**278**	69	69	**276**
Ebt	545	542	559	593	**2,240**	606	495	**2,253**
Income Tax	193	161	196	208	**757**	212	173	**789**
Net Income ($mm)	352	381	363	386	**1,482**	394	322	**1,464**
Shares (millions)	396	397	397	397	**397**	397	397	**397**
Per Share ($)	0.89	0.96	0.92	0.97	**3.74**	0.99	0.81	**3.69**
Ebitda Margin	73%	71%	71%	71%	**72%**	72%	70%	**71%**
Tax Rate	35%	30%	35%	35%	**34%**	35%	35%	**35%**
Cash costs ($/mcfe)	1.15	1.31	1.30	1.30	**1.26**	1.33	1.30	**1.31**
D.D.&A. ($/(mcfe)	1.08	1.08	1.07	1.05	**1.07**	1.07	1.09	**1.07**

While management projects modest volume growth over time we hold volume mostly flat at the most recent historical level. That is sufficient for our valuation purposes. We recognize seasonality in overseas natural gas.

We take the futures market at face value in projecting price for the next twelve months. Light Sweet Crude quotes guide our projections of oil revenue and for overseas natural gas. Projections of revenue from U.S. natural gas depend on futures quotes for the Henry Hub in Louisiana.

Present Value Multiple Related to Reserve Life

Investors appear to differentiate among producers by a cash flow multiple that depends on reserve life. To refine that relationship we calculate an adjusted reserve life index that is the sum of developed and half undeveloped reserves divided by next twelve months production. Then we estimate present value as cash flow times cash flow multiple. Our current present value estimates appear roughly consistent with a constant commodity price about $35 a barrel for crude oil.

We hold the present value estimate steady for months usually, but the cash flow multiple is continually changing as we update the cash flow estimate for latest futures prices. On current relationships BR's present value corresponds to an unlevered cash flow multiple (PV/Ebitda) of 6.9 times while adjusted reserve life is 10.2 years. BR's market multiple (EV/Ebitda) is a median 4.8 times. As a result, BR appears to be an undervalued stock in the industry context we envision.

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. 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.

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.

Management Performing Well in the 2000s

Chief Operating Officer Randy Limbacher has helped redirect the growth of BR toward replicating the combination of high quality assets and continuous exploitation that has built so much value in the San Juan Basin. Chief Financial Officer Steven Shapiro applies a conservative discipline of steady capital spending and returning cash to shareholders through stock repurchase and growing dividends.

Our investment approach that readily identifies undervalued assets also requires effective reinvestment of the cash flow from those assets in order that an investment is most successful over time. By comparing the performance of BR stock with that of unmanaged San Juan Basin Royalty Trust we can compare the effectiveness of managed reinvestment with unmanaged immediate distribution of cash. BR has been losing that race until recently. We are optimistic that BR stock with Mr. Limbacher in charge of operations and Mr. Shapiro in charge of finances can make up for lost ground.

Kurt H. Wulff, CFA