Rating: Buy
S&P 500: 1181

Burlington Resources, Inc.
San Juan Basin Value Expanding

Symbol	BR	*Ebitda Next Twelve Months ending 3/31/06 (US$mm)*	5,000
Rating	Buy	*North American Natural Gas/Ebitda (%)*	60
Price ($/sh)	49.13	*Natural Gas and Oil Production/Ebitda (%)*	100
Pricing Date	3/30/05	*Adjusted Reserves/Production NTM*	9.8
Shares (mm)	391	*EV/Ebitda*	4.5
Market Capitalization ($mm)	19,200	*PV/Ebitda*	5.9
Debt ($mm)	3,400	*Undeveloped Reserves (%)*	26
Enterprise Value (EV) ($mm)	22,600	*Natural Gas and Oil Ebitda ($/mcfe)*	4.70
Present Value (PV) ($mm)	29,600	*Present Value Proven Reserves($/boe)*	14.80
Net Present Value ($/share)	67	*Present Value Proven Reserves($/mcfe)*	2.50
Debt/Present Value	0.12	*Earnings Next Twelve Months (US$/sh)*	4.94
McDep Ratio - EV/PV	0.76	*Price/Earnings Next Twelve Months*	10
Dividend Yield (%/year)	0.7	*Indicated Annual Dividend (US$/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 (BR)** for its concentration on the rising value of North American natural gas anchored by a leading position in the San Juan Basin. The current stock price seems to reflect the value of resources as though the long-term price of oil were $31 a barrel, up from $26 in early 2005. Our current standard assumption of $40 a barrel implies that the stock could appreciate 36% to $67 a share. That is attractive enough for now though the oil price trend continues to be upward and the ultimate long term level may be higher. The current price in the futures market for oil to be delivered over the next six years is about $51 a barrel.

San Juan Showcase

Presenting to analysts on March 2, BR Executive Vice President Steve Shapiro pointed to an inventory of future projects in the San Juan Basin greater than currently producing reserves. The EVP and Chief Financial Officer declared that BR can hold natural gas production in the San Juan Basin stable for the rest of the decade at 750 million cubic feet per day (mmcfd) by spending $200 million a year. Since production from existing reserves normally declines, a stable trend can imply expanding reserves and value. BR currently has an inventory of new projects in the San Juan Basin of 2.9 trillion cubic feet (tcf) of which about 1.3 tcf are counted as proven undeveloped reserves.

Mr. Shapiro further states that the inventory of supply enhancement projects in that area has increased every year for the past 15 years. That suggests that the end is not in sight for expanding reserves.

The rate of development spending would be about an eighth of current cash flow generation. That contrasts to the quarter that we had been assuming when cash flow was at lower levels. As a dominant operator, BR has been able to contain drilling cost increases in the San Juan Basin to 3.0% a year for the past ten years compared to industry experience of 6.7% a year. Permitting and accessibility limit the rate of development.

Without new spending, conventional tight gas production would decline about 10% a year while coal seam gas production would decline about 15% a year. That suggests that the reserves associated with current production of 750 mmcfd are about 2.5 tcf presuming a 9-year life index. Thus, BR's San Juan reserves are 2.5 tcf proven producing, 1.3 proven undeveloped and 1.6 unbooked for a total of 5.4 tcf.

San Juan Basin Royalty Trust (SJT) net production, almost all operated by BR, is equivalent to about 12% of BR's production in the basin. Since SJT represents a pure slice of BR's most important asset, it behooves BR, in our opinion, to do everything it can to help investors in SJT appreciate the prospects for future production. Mr. Shapiro cited legal restraints that keep BR from regular disclosure of information relevant to SJT.

The BR CFO speaks of the "arbitrage" value of SJT for BR. On our current estimates SJT has 5% of the Present Value of BR while the stock market implies that SJT has 7% of the Enterprise Value of BR. In other words, BR stock could be perhaps 50% higher to be valued like SJT.

Mr. Shapiro's reservations include a concern that the appeal of royalty trusts might change with interest rates. He also questions the size of the market for any new royalty trust that BR may form.

Perhaps BR management can do a superior job in creating value in the next several years. We hope so. If not, there is a proven alternative readily available in the form of the royalty trust.

Projected Cash Flow and Profits Sensitive to Futures Price

Commodity price is the volatile input to our projection of unlevered cash flow (Ebitda) for the Next Twelve Months ending March 31, 2006 (see table Next Twelve Months Operating and Financial Results). The current projection of $5.0 billion is up from $4.3 billion three months ago.

While we take next twelve months price from the futures market and adjust near-term cash flow projections accordingly, we change long-term value estimates only occasionally. We last changed our estimate of net present value on January 26, 2005 when we revised our estimate of long-term oil price to $40 a barrel constant real from $35. We make present value estimates on an absolute basis by projecting cash flow and discounting it to the present. We continually test the estimates on a relative basis by comparing adjusted reserve life to cash flow multiple.

Discounted Cash Flow Illustrates Absolute Value

The value of an oil and gas producer lies in its existing inventory of energy resources and in the ability of management to reinvest cash flow at a reasonable return. Our quantitative work emphasizes the value of resources while the discount rate for calculating present value presumes that management will earn a normal return on reinvested cash flow. A low McDep Ratio stock like Burlington Resources implies that the company's market cap and debt are low relative to the value of resources. If management reinvests cash flow at average success, the stock should outperform. If management cannot perform up to average expectations, a royalty trust could be created to return cash flow to investors who can then make their own reinvestment decision.

Burlington Resources Inc.
Next Twelve Months Operating and Financial Results

	Q3	*Q4*	***Year***	*Q1E*	*Q2E*	*Q3E*	*Q4E*	***Year***	*Q1E*	***Next Twelve Months***
	9/30/04	*12/31/04*	***2004***	*3/31/05*	*6/30/05*	*9/30/05*	*12/31/05*	***2005E***	*3/31/06*	***3/31/06***
Volume										
Natural Gas (mmcfd)										
U.S.	935	916	**912**	916	920	940	950	**932**	950	**940**
Canada	796	800	**821**	800	800	800	800	**800**	800	**800**
Overseas	175	184	**187**	190	230	250	250	**230**	190	**230**
Total	1,906	1,900	**1,920**	1,906	1,950	1,990	2,000	**1,962**	1,940	**1,970**
Days	92	92	**366**	90	91	92	92	**365**	90	**365**
Oil (mb)	14	14	**55**	14	14	14	14	**58**	14	**58**
Oil (mbd)	152	158	**150**	158	158	158	158	**158**	158	**158**
Total gas & oil (bcf)	259	262	**1,031**	257	263	270	271	**1,061**	260	**1,064**
Price										
Natural gas ($/mcf)										
Henry Hub ($/mmbtu)	5.75	7.10	**6.15**	6.27	7.17	7.36	7.75	**7.14**	8.25	**7.63**
U.S.	5.27	5.95	**5.57**	5.25	6.01	6.17	6.50	**5.99**	6.91	**6.40**
Canada	5.68	6.46	**5.85**	5.70	6.52	6.70	6.50	**6.36**	6.91	**6.66**
Overseas	3.40	4.26	**3.64**	4.49	4.95	5.05	5.02	**4.90**	4.96	**5.00**
Total	5.27	6.00	**5.50**	5.37	6.09	6.24	6.31	**6.01**	6.72	**6.34**
Oil ($/bbl)										
WTI Cushing	43.89	48.30	**41.44**	49.42	54.42	55.55	55.25	**53.66**	54.59	**54.95**
Worldwide	34.89	35.59	**31.97**	36.42	40.10	40.93	40.71	**39.55**	40.23	**40.49**
Total gas & oil ($/mcf)	5.45	5.95	**5.44**	5.60	6.29	6.43	6.47	**6.20**	6.71	**6.47**
Revenue ($mm)										
Natural Gas										
U.S.	453	501	**1,852**	433	503	534	568	**2,037**	591	**2,195**
Canada	416	475	**1,754**	411	475	493	478	**1,857**	498	**1,944**
Overseas	55	72	**249**	77	104	116	116	**412**	85	**420**
Total	924	1,049	**3,855**	921	1,081	1,143	1,162	**4,307**	1,173	**4,559**
Oil	487	516	**1,760**	517	575	593	590	**2,275**	571	**2,329**
Other	0	(7)	**(5)**					**-**		**-**
Total	1,411	1,558	**5,610**	1,437	1,656	1,737	1,752	**6,582**	1,744	**6,889**
Expense										
Production taxes	67	72	**260**	66	76	80	81	**303**	80	**317**
Cash costs	315	383	**1,321**	370	392	400	401	**1,562**	400	**1,593**
Ebitda ($mm)	1,029	1,103	**4,029**	1,001	1,188	1,257	1,270	**4,717**	1,263	**4,979**
Exploration	55	81	**258**	81	81	81	80	**323**	80	**322**
Deprec., Deplet., & Amort.	284	306	**1,137**	334	343	351	352	**1,380**	338	**1,384**
Other Non Operating				9	12	7		**28**		**19**
Ebit	690	716	**2,634**	578	753	818	838	**2,986**	846	**3,254**
Interest	71	71	**282**	71	71	71	71	**284**	71	**284**
Ebt	619	645	**2,352**	507	682	747	767	**2,702**	775	**2,970**
Income Tax	232	188	**774**	177	239	261	268	**946**	271	**1,040**
Net Income ($mm)	387	457	**1,578**	329	443	486	498	**1,757**	503	**1,931**
Shares (millions)	395	391	**395**	391	391	391	391	**391**	391	**391**
Per Share ($)	0.98	1.17	**4.00**	0.84	1.13	1.24	1.27	**4.49**	1.29	**4.94**
Ebitda Margin	73%	71%	**72%**	70%	72%	72%	72%	**72%**	72%	**72%**
Tax Rate	37%	29%	**33%**	35%	35%	35%	35%	**35%**	35%	**35%**

In the most recent present value calculation we separately project volume and price for oil and natural gas (see table Present Value). The calculation illustrates how present value of $29.6 billion could unfold. The model brings together many elements that could each be discussed in great detail.

Burlington Resources
Present Value

Oil Volume Decline (%/yr):	16	Oil Price Post 2006 (2003$/bbl)	40
Nat Gas Volume Decline (%/yr):	13	Real Discount Rate (%/yr):	7.0
Volume/Reserves - Oil:	1.00	PV/Volume ($/mcf):	2.46
Volume/Reserves - Nat Gas:	1.00	PV/EBITDA 2005:	5.9
Variable Cost (%):	15	Capex/Cash Flow (%):	13

	Volume					Fixed	Var.	Cap	Cash		Present
	Oil	Nat Gas	Price		Revenue	Cost	Cost	Ex	Flow	Disc	Value
Year	(mmb)	(bcf)	($/bbl)	($/mcf)	($mm)	($mm)	($mm)	($mm)	($mm)	Factor	($mm)
Total 2006 through 2020; years ending on 3/31											
	630	8267	30.48	6.23	70735	13151	10610	3866	43108	0.69	29600
2006	58	719	40.49	6.34	6889	877	1033	600	4379	0.97	4233
2007	58	719	29.48	5.65	5758	877	864	522	3495	0.90	3158
2008	58	719	29.48	5.76	5838	877	876	531	3554	0.84	3001
2009	58	719	29.48	5.87	5917	877	888	540	3613	0.79	2851
2010	58	719	29.48	5.98	5997	877	900	549	3672	0.74	2708
2011	58	719	29.48	6.09	6077	877	911	557	3731	0.69	2572
2012	58	719	29.48	6.20	6156	877	923	566	3790	0.64	2441
2013	48	626	29.48	6.31	5374	877	806		3691	0.60	2222
2014	41	544	29.48	6.42	4693	877	704		3112	0.56	1751
2015	34	474	29.48	6.54	4100	877	615		2608	0.53	1371
2016	29	412	29.48	6.65	3582	877	537		2168	0.49	1066
2017	24	358	29.48	6.76	3131	877	470		1785	0.46	820
2018	20	312	29.48	6.87	2737	877	411		1450	0.43	622
2019	17	271	29.48	6.98	2393	877	359		1158	0.40	464
2020	14	236	29.48	7.09	2093	877	314		903	0.37	338

The variable getting the most attention these days is future price. Stock market investors seem to have little confidence that current price will last while futures market investors see an entirely different world. Both markets cannot be right. As a result, even an agnostic investor with no opinion of which market is right might profit in an arbitrage sense. A conservative investor might split the difference as our $40 a barrel long-term price assumption seems to do today. An aggressive investor might mark present value to a level that the futures market may be trending toward.

Regardless of the validity of a price level, the model can illustrate the implications. The current oil price assumption is in the upper right hand corner. Much of BR's oil is natural gas liquids that get a lower price per barrel making the projected oil price for BR less than $40. Most of BR's value is in natural gas where we project a continuing increase in price relative to oil. As a result after a decline in 2007 to the equivalent of $40 a barrel, natural gas price increases while oil remains constant. That assumption is not borne out in today's long-term futures market. The current ratio of natural gas price to oil price in the futures market seems unsustainably low. We believe our assumption is more valid in this case, but can run the calculation with any assumption.

Let us do two quick tests. First we change the oil price assumption to $60 a barrel, a bit ahead of the current futures market. Present value then becomes $37.7 billion, or about $108 a share. That is how the stock could double again. It is a rather implausible immediate outcome, but more likely with the passage of enough time.

Alternatively we change the oil price assumption to $31 a barrel and present value becomes $49 a share. That is a way to estimate the oil price that may correspond to current stock price.

Cash Flow Multiple Tests Relative Value

The first line of the present value calculation draws from the projections of volume, price, revenue, costs and cash flow for the next twelve months. Those relationships go a long way to representing the main characteristics of a resource position except how long it will last.

At the same time future cash flows are discounted to determine present value. How much oil and gas is to be produced in the future as opposed to the next twelve months is captured in adjusted reserve life. The adjustment counts undeveloped reserves at half of developed reserves to allow for the cost of converting undeveloped reserves to a producing state.

The two variables, next twelve months cash flow and adjusted reserve life, are the most important in comparing present value of one company versus another. We use them to test the validity of present value estimates on a relative basis. We make the comparison separately for North American natural gas, overseas natural gas and Global oil (see table <u>Functional Cash Flow and Present Value</u>).

Burlington Resources
Functional Cash Flow and Present Value

	NTM Ebitda (US\$mm)	*Adjusted R/P*	*PV/ Ebitda*	*Present Value (US\$mm)*	
North American Natural Gas	3,000	10.2	6.7	20,000	68%
Overseas Natural Gas	300	7.5	4.3	1,300	4%
Oil	1,700	9.7	4.9	8,300	28%
	5,000	9.8	5.9	29,600	100%
Debt (US$mm)					3,400
Net Present Value (US$mm)					26,200
Shares (mm)					391
Net Present Value (US$/sh)					67

BR has few peers with the combination of stock market size and concentration on a premium energy resource. Here is how the company's present value of natural gas compares with other stocks (see table North American Natural Gas Cash Flow and Present Value).

North American Natural Gas Cash Flow and Present Value

	Ebitda NTM ($mm)	*Adjstd Resrvs/ Prod NTM*	*PV/ Ebitda NTM*	*Present Value* ($mm)
Exxon Mobil Corporation	4,900	11.9	8.2	40,000
Encana Corporation	6,780	7.1	5.2	35,000
BP plc	3,340	12.9	8.1	27,000
Devon Energy Corporation	4,480	7.7	5.2	23,500
Burlington Resources	3,000	10.2	6.7	20,000
Anadarko Petroleum Corp.	2,820	11.9	6.4	18,000
ConocoPhillips	2,310	12.6	6.9	16,000
XTO Energy Inc.	1,800	11.7	6.7	12,000
ChevronTexaco Corporation	2,490	5.3	4.4	11,000
Royal Dutch/Shell	2,270	4.9	4.0	9,000
Unocal Corporation	1,030	8.0	5.8	6,000
Occidental Petroleum Corp.	911	9.5	6.3	5,700
Petro-Canada	805	8.9	6.2	5,000
Marathon Oil Corporation	790	5.9	4.7	3,700
Cimarex Energy Company	740	6.7	4.6	3,400
Imperial Oil Limited	719	5.2	4.4	3,200
San Juan Basin Royalty Trust	168	12.5	8.3	1,400
Suncor Energy	220	7.6	5.5	1,200
Energy Partners Ltd.	202	4.7	3.9	780
Encore Acquisition Company	92	11.9	7.1	650

Buy Oil and Gas Producers at Mid Decade

Three to five-fold gain potential for oil and gas price over the next 5 to 13 years justifies investment in recommended oil and gas producers, in our opinion. Supporting improving prospects, the average futures price of oil for continuous delivery over the next six years is in a multi-year uptrend as defined by the current quotes above the 40-week average. The current benchmark oil average futures price for the next six years is about $51 a barrel. That is higher than our estimate that current stock price of BR reflects a constant real oil price of perhaps $31 a barrel.

Oil and Gas Producers
Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/	Rating	Price ($/sh) 30-Mar 2005	Shares (mm)	Market Cap ($mm)	Net Present Value ($/sh)	Debt/ Present Value	McDep Ratio
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	32.04	349	11,200	33.80	0.17	0.96
Unocal Corporation	UCL	B	61.21	271	16,600	65.00	0.21	0.95
Encana Corporation	ECA	B	67.59	471	31,800	77.00	0.16	0.90
Occidental Petroleum Corp.	OXY	B	69.50	406	28,200	87.00	0.15	0.83
CNOOC Limited (19%)	CEO	B	53.95	78	4,220	67.00	0.02	0.81
Devon Energy Corporation	DVN	B	46.03	500	23,000	63.00	0.16	0.77
Burlington Resources	BR	B	49.13	391	19,200	67.00	0.12	0.76
Anadarko Petroleum Corp.	APC	B	74.11	246	18,200	113.00	0.14	0.70
Total or Median					*152,000*		*0.15*	*0.82*

Kurt H. Wulff, CFA

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