

Rating: Buy
S&P 500: 1199

Burlington Resources, Inc. **Clean Fuel Supplier**

<i>Symbol</i>	BR	<i>Ebitda Next Twelve Months ending 6/30/06 (US\$m)</i>	4,900
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	62
<i>Price (\$/sh)</i>	51.43	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	5/27/05	<i>Adjusted Reserves/Production NTM</i>	9.9
<i>Shares (mm)</i>	389	<i>EV/Ebitda</i>	4.8
<i>Market Capitalization (\$mm)</i>	20,000	<i>PV/Ebitda</i>	6.0
<i>Debt (\$mm)</i>	3,400	<i>Undeveloped Reserves (%)</i>	26
<i>Enterprise Value (EV) (\$mm)</i>	23,400	<i>Natural Gas and Oil Ebitda (\$/mcfe)</i>	4.60
<i>Present Value (PV) (\$mm)</i>	29,500	<i>Present Value Proven Reserves(\$/boe)</i>	14.70
<i>Net Present Value (\$/share)</i>	67	<i>Present Value Proven Reserves(\$/mcfe)</i>	2.50
<i>Debt/Present Value</i>	0.12	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.87
<i>McDep Ratio - EV/PV</i>	0.79	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	0.7	<i>Indicated Annual Dividend (US\$/sh)</i>	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

Among buy-recommended large independent natural gas producers, **Burlington Resources (BR)** offers distinctive concentration on the valuable natural gas resources of the San Juan Basin of New Mexico and the Deep Basin in Canada. After a pullback from recent stock price highs, natural gas producers appear timely as the clean commodity has lagged oil price for two years. A hot summer or recent action in European natural gas markets could spark a change to more realistic commodity price. We see potential appreciation of 30% to our estimate of net present value subject to normal risk.

Present Value Low Relative to Cash Flow

Estimated originally on a discounted cash flow basis assuming \$40 oil, present value looks low relative to next twelve months cash flow (see table [Functional Cash Flow and Present Value](#)). The company's cash flow multiple for North American Natural Gas is lower than that indicated by our current correlation with adjusted reserve life index for thirty producers by about 0.4. The company's cash flow multiple for the Oil segment is lower than that indicated by our current correlation with adjusted reserve life index for thirty producers by about 0.4.

Cash Flow Rising with Commodity Price

A dynamic measure, projected cash flow is updated frequently with latest futures quotes (see table [Next Twelve Months Operating and Financial Estimates](#)). Recent quarterly results also influence projections. Volume changes are muted if reserves do not change.

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Burlington Resources
Functional Cash Flow and Present Value

	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	3,040	10.0	6.6	20,000	68%
Overseas Natural Gas	220	9.9	5.9	1,300	4%
Oil	1,640	9.7	5.0	8,200	28%
	4,900	9.9	6.0	29,500	100%
Debt (US\$mm)					3,400
Net Present Value (US\$mm)					26,100
Shares (mm)					389
Net Present Value (US\$/sh)					67

Commodity Price Discount Spells Opportunity

Oil price has increased to more than 7 times natural gas price. We expect the ratio for the next decade to average 5 times as was signaled briefly two years ago (see chart Oil/Natural Gas Futures).

Rising futures prices for natural gas in Europe dramatize unrecognized value in the natural gas resources of buy-recommended producers. Futures prices at the U.K. National Balancing Point are setting new records exceeding \$12 a million btu for first quarter 2006, 58% more than for the U.S. We believe that level would be more realistic for the U.S. as well, and we note that Atlantic gas markets are newly linked through liquefied natural gas trading.

Despite not keeping up with oil, U.S. natural gas has been rising on a well-defined trend underway for at least the past 4½ years (see chart Natural Gas Six-Year Futures Strip and 40-Week Average). Whether the trend continues at the same rate or it quickens, buy-recommended natural gas producers are likely to continue their favorable stock price trend as well.

Buy Oil and Gas Producers at Mid Decade

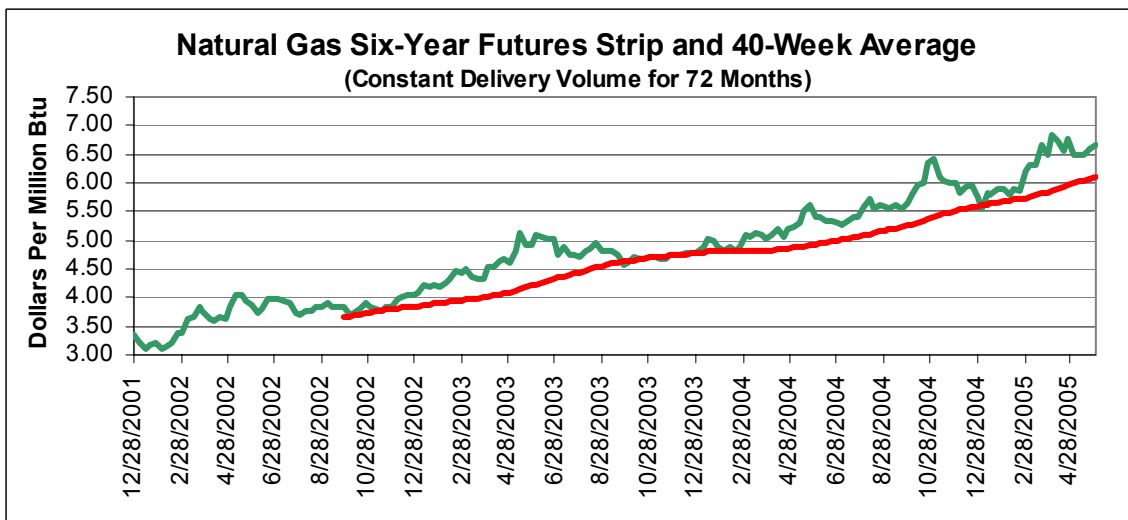
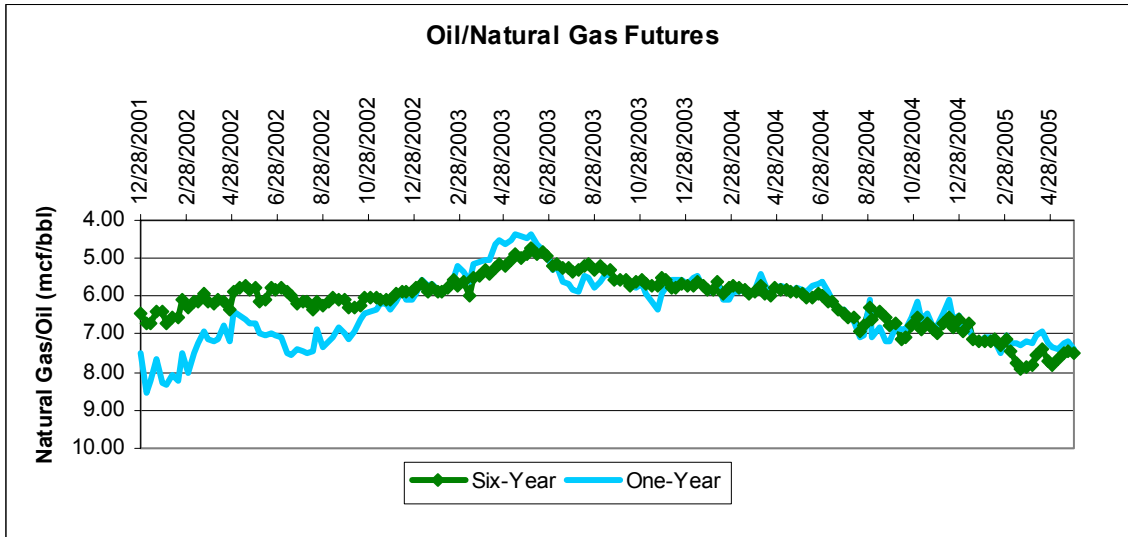
Multi-fold gain potential for oil and gas price over the years ahead justifies investment in recommended oil and gas producers, in our opinion. A McDep Ratio of 1.0 implies that a stock would be priced at present value assuming a constant real oil price of US\$40 (see table Rank by McDep Ratio).

Kurt H. Wulff, CFA

Burlington Resources Inc.
Next Twelve Months Operating and Financial Results

	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Next</i>
	<i>12/31/04</i>	<i>2004</i>	<i>3/31/05</i>	<i>6/30/05</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005E</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>Twelve</i>
										<i>Months</i>
										<i>6/30/06</i>
Volume										
Natural Gas (mmcf)										
U.S.	916	912	906	970	970	970	954	970	970	970
Canada	800	821	809	809	800	800	804	800	800	800
Overseas	184	187	181	130	130	250	173	181	130	173
Total	1,900	1,920	1,896	1,909	1,900	2,020	1,932	1,951	1,900	1,943
Oil (mb)	14	55	14	14	15	15	58	14	14	58
Oil (mbd)	158	150	158	158	158	158	158	158	158	158
Total gas & oil (bcf)	262	1,031	256	260	262	273	1,052	261	259	1,056
Price										
Natural gas (\$/mcf)										
Henry Hub (\$/mmbtu)	7.10	6.15	6.27	6.83	6.43	7.11	6.66	7.94	6.84	7.08
U.S.	5.95	5.57	5.60	6.11	5.75	6.36	5.96	7.10	6.12	6.33
Canada	6.46	5.85	6.21	6.77	6.37	6.36	6.43	7.10	6.12	6.49
Overseas	4.26	3.64	5.26	4.64	4.69	4.79	4.86	4.80	4.77	4.77
Total	6.00	5.50	5.83	6.29	5.94	6.16	6.06	6.89	6.03	6.25
Oil (\$/bbl)										
WTI Cushing	48.31	41.44	49.65	51.05	51.57	52.68	51.24	52.78	52.47	52.38
Worldwide	35.59	31.97	36.57	37.61	37.99	38.81	37.75	38.88	38.65	38.58
Total gas & oil (\$/mcf)	5.95	5.44	6.15	6.28	6.07	6.26	6.19	6.76	6.16	6.31
Revenue (\$mm)										
Natural Gas										
U.S.	501	1,852	457	539	513	567	2,077	620	540	2,241
Canada	475	1,754	452	499	469	468	1,888	511	445	1,894
Overseas	72	249	86	55	56	110	307	78	56	301
Total	1,049	3,855	995	1,093	1,039	1,145	4,271	1,210	1,042	4,435
Oil	516	1,760	521	542	553	565	2,181	554	557	2,229
Other	(7)	(5)	60				60			-
Total	1,558	5,610	1,576	1,635	1,592	1,710	6,513	1,764	1,599	6,665
Expense										
Production taxes	72	260	74	80	78	83	315	86	78	325
Cash costs	383	1,321	329	353	344	368	1,393	378	345	1,436
Ebitda (\$mm)	1,103	4,029	1,173	1,202	1,170	1,259	4,805	1,299	1,175	4,904
Exploration	81	258	51	80	80	80	291	80	80	320
Deprec., Deplet., & Amort.	306	1,137	328	338	341	355	1,362	339	337	1,373
Other Non Operating			11	5			16		11	16
Ebit	716	2,634	794	773	744	824	3,135	880	747	3,195
Interest	71	282	70	70	70	70	280	70	70	280
Ebt	645	2,352	724	703	674	754	2,855	810	677	2,915
Income Tax	188	774	253	246	236	264	999	283	237	1,020
Net Income (\$mm)	457	1,578	471	457	438	490	1,856	526	440	1,895
Shares (millions)	391	395	389	389	389	389	389	389	389	389
Per Share (\$)	1.17	4.00	1.21	1.17	1.13	1.26	4.77	1.35	1.13	4.87
Ebitda Margin	71%	72%	74%	74%	74%	74%	74%	74%	74%	74%
Tax Rate	29%	33%	35%	35%	35%	35%	35%	35%	35%	35%

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

	<i>Symbol/</i>	<i>Rating</i>	<i>Price</i> <i>(\$/sh)</i> <i>27-May</i> <i>2005</i>	<i>Shares</i> <i>(mm)</i>	<i>Market</i> <i>Cap</i> <i>(\$mm)</i>	<i>Net</i> <i>Present</i> <i>Value</i> <i>(\$/sh)</i>	<i>Debt/</i> <i>Present</i> <i>Value</i>	<i>McDep</i> <i>Ratio</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap								
Encana Corporation	ECA	B	35.43	909	32,200	38.50	0.19	0.94
Unocal Corporation	UCL	B	57.56	273	15,700	65.00	0.19	0.91
XTO Energy Inc.	XTO	B	30.94	366	11,330	36.00	0.19	0.89
Occidental Petroleum Corp.	OXY	B	73.52	406	29,900	87.00	0.14	0.87
CNOOC Limited (19%)	CEO	B	54.29	78	4,240	67.00	-	0.81
Burlington Resources	BR	B	51.43	389	20,000	67.00	0.12	0.79
Devon Energy Corporation	DVN	B	46.55	496	23,100	63.00	0.16	0.78
Anadarko Petroleum Corp.	APC	B	76.09	239	18,200	113.00	0.14	0.72
<i>Total or Median</i>					<i>155,000</i>		<i>0.15</i>	<i>0.84</i>

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