

Rating: Buy  
S&P 500: 1227

## **Burlington Resources Inc.** **Natural Gas Beneficiary**

<i>Symbol</i>	BR	<i>Ebitda Next Twelve Months ending 9/30/06 (US\$m)</i>	8,000
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	70
<i>Price (\$/sh)</i>	82.75	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	10/3/05	<i>Adjusted Reserves/Production NTM</i>	9.9
<i>Shares (mm)</i>	385	<i>EV/Ebitda</i>	4.4
<i>Market Capitalization (\$mm)</i>	31,900	<i>PV/Ebitda</i>	4.6
<i>Debt (\$mm)</i>	3,200	<i>Undeveloped Reserves (%)</i>	26
<i>Enterprise Value (EV) (\$mm)</i>	35,000	<i>Natural Gas and Oil Ebitda (\$/mcf)</i>	7.50
<i>Present Value (PV) (\$mm)</i>	36,300	<i>Present Value Proven Reserves(\$/boe)</i>	18.10
<i>Net Present Value (\$/share)</i>	86	<i>Present Value Proven Reserves(\$/mcf)</i>	3.00
<i>Debt/Present Value</i>	0.09	<i>Earnings Next Twelve Months (US\$/sh)</i>	9.37
<i>McDep Ratio - EV/PV</i>	0.97	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	0.5	<i>Indicated Annual Dividend (US\$/sh)</i>	0.40

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**

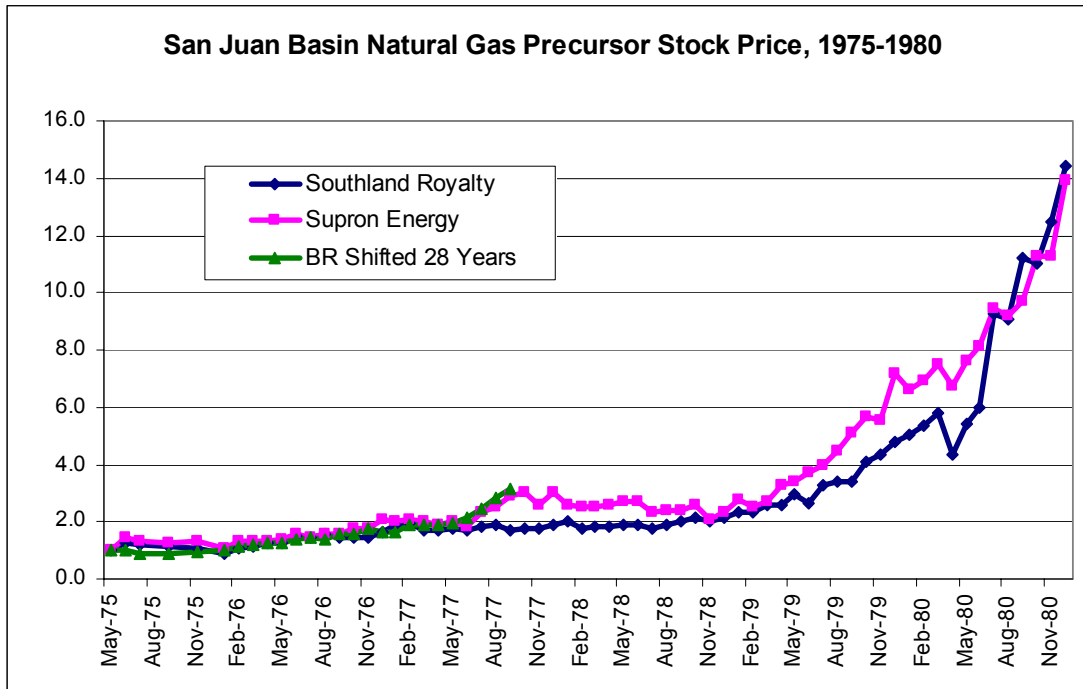
Buy-recommended **Burlington Resources (BR)** offers 70% concentration on North American natural gas production at a critical time when the commodity is in high demand. Favorable performance has carried stock price close to estimated net present value. Yet, there may be further appreciation by analogy with past resource plays. In the natural gas price adjustment of 28 years ago we saw leading producers appreciate 14-fold in stock price in five and a half years. Illustrating the risk, there were pauses in the rise and ultimately a fall back from a peak.

### **Natural Gas Stock Precursors from the San Juan Basin**

Burlington's traditional strength has been its position as one of the two dominant producers in the San Juan Basin of New Mexico, the mother lode of natural gas in our experience. Thanks in part to BR's technological innovation, the area produces practically as much gas today as it did 28 years ago. San Juan Basin stocks were great performers at a critical time in the past analogous to the present. To refresh our perspective we check our old DLJ research. Southland Royalty owned the properties that became San Juan Basin Royalty Trust in November 1980. Supron Energy was essentially a pure play on San Juan Basin natural gas. From May 1975 to December 1980 the stocks appreciated 14 times (see chart [San Juan Basin Natural Gas Precursor Stock Price, 1975-1980](#)).

Superimposed on the chart we add the indexed price of BR from May 2003 to September 2005. We plot the BR price as though May 2003 was May 1975. The 28 year time difference matches the period from the stock market low of 1974 to the stock market low of 2002. Thus, by the pattern of past price advances for two premier resource plays, BR stock may have a several fold gain ahead.

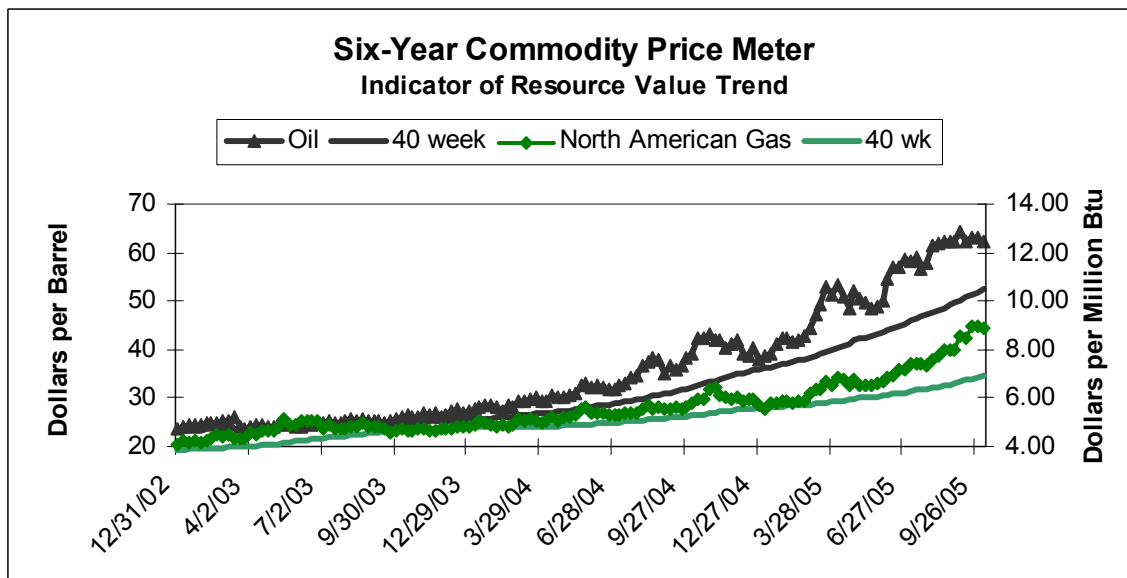
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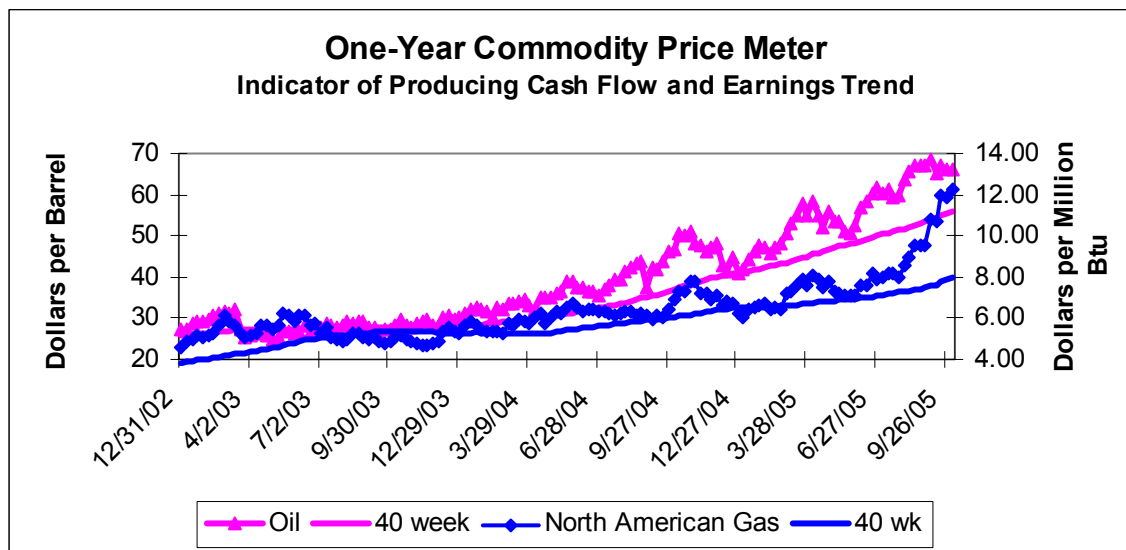
No one can promise a repeat of history. Moreover if BR stock continues to appreciate, other natural gas producers are likely to do so as well.

**Present Value Presumes \$10 a Million Btu Constant Real**

As BR stock price approaches estimated net present value we reconsider what that means. The long-term price of natural gas in our calculations is about a dollar more than the current six-year futures price and about two dollars less than the current one-year futures price (see charts [Six-Year Commodity Price Meter](#) and [One-Year Commodity Price Meter](#)).



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Compared to oil and almost any other fuel, natural gas is undervalued in our opinion. For the time being we believe that a reasonable equivalence is oil price divided by 5. That is the approximate heating equivalent of refined oil that is accepted for home heating and electrical generation in most areas. We see that oil trades well above the \$10 equivalent for natural gas whether it is on a six-year basis or a one-year basis.

### Next Twelve Months Cash Flow Zooms with Futures Prices

Hurricanes DeRitratrina – Dennis, Rita and Katrina – this year following Ivan last year have shaken up engineering assumptions of what constitutes reliable producing and processing equipment. We are not as smart as we think we are in assuring energy supply. Accordingly the futures market has bid up the price of the most valuable fuel, natural gas, following the latest storms. It automatically follows that the output of producers like Burlington Resources should generate more cash flow than estimated only a month or more ago (see table Next Twelve Months Operating and Financial Results). As a result, cash flow multiples look especially low signalling potentially greater value (see table Functional Cash Flow and Present Value).

#### Burlington Resources Functional Cash Flow and Present Value

	<i>NTM Ebitda</i> <i>(US\$mm)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$mm)</i>	
North American Natural Gas	5,580	10.2	4.5	25,000	69%
Rest of World Natural Gas	280	9.9	6.1	1,700	5%
Oil	2,140	9.5	4.5	9,600	26%
	8,000	9.9	4.5	36,300	100%
Debt (US\$mm)				3,200	
Net Present Value (US\$mm)				33,100	
Shares (mm)				385	
Net Present Value (US\$/sh)				86	

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**Burlington Resources Inc.**  
**Next Twelve Months Operating and Financial Results**

	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</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>9/30/06</i>	<i>Twelve</i>
											<i>Months</i>
											<i>9/30/06</i>
<b>Volume</b>											
Natural Gas (mmcf)											
U.S.	916	<b>912</b>	906	950	950	950	<b>939</b>	950	950	950	<b>950</b>
Canada	800	<b>821</b>	809	830	800	800	<b>810</b>	800	800	800	<b>800</b>
Overseas	184	<b>187</b>	181	129	129	250	<b>172</b>	181	130	130	<b>173</b>
Total	1,900	<b>1,920</b>	1,896	1,909	1,879	2,000	<b>1,921</b>	1,931	1,880	1,880	<b>1,923</b>
Oil (mb)	14	<b>55</b>	14	15	15	15	<b>59</b>	15	15	15	<b>59</b>
Oil (mbd)	158	<b>150</b>	158	162	162	162	<b>161</b>	162	162	162	<b>162</b>
Total gas & oil (bcf)	262	<b>1,031</b>	256	262	262	273	<b>1,054</b>	261	259	262	<b>1,056</b>
<b>Price</b>											
Natural gas (\$/mcf)											
Henry Hub (\$/mmbtu)	7.10	<b>6.15</b>	6.27	6.76	8.56	14.14	<b>8.93</b>	14.44	10.74	10.62	<b>12.48</b>
U.S.	5.95	<b>5.57</b>	5.60	6.42	8.14	13.44	<b>8.45</b>	13.73	10.21	10.09	<b>11.86</b>
Canada	6.46	<b>5.85</b>	6.21	6.47	8.20	13.44	<b>8.57</b>	13.73	10.21	10.09	<b>11.86</b>
Overseas	4.26	<b>3.64</b>	5.26	4.45	5.68	5.95	<b>5.44</b>	5.99	6.02	6.00	<b>5.98</b>
Total	6.00	<b>5.50</b>	5.83	6.31	8.00	12.50	<b>8.23</b>	13.00	9.92	9.81	<b>11.33</b>
Oil (\$/bbl)											
WTI Cushing	48.31	<b>41.44</b>	49.65	53.05	62.49	65.41	<b>57.65</b>	65.94	66.22	66.00	<b>65.89</b>
Worldwide	35.59	<b>31.97</b>	39.41	39.81	46.88	49.08	<b>43.85</b>	49.48	49.68	49.52	<b>49.44</b>
Total gas & oil (\$/mcf)	5.95	<b>5.44</b>	6.15	6.43	7.93	11.09	<b>7.95</b>	11.41	9.36	9.28	<b>10.30</b>
<b>Revenue (\$mm)</b>											
Natural Gas											
U.S.	501	<b>1,852</b>	457	555	711	1,174	<b>2,898</b>	1,174	883	882	<b>4,113</b>
Canada	475	<b>1,754</b>	452	489	604	989	<b>2,533</b>	988	743	743	<b>3,463</b>
Overseas	72	<b>249</b>	86	52	67	137	<b>342</b>	98	71	72	<b>377</b>
Total	1,049	<b>3,855</b>	995	1,096	1,382	2,300	<b>5,774</b>	2,260	1,697	1,696	<b>7,954</b>
Oil	516	<b>1,760</b>	561	586	697	730	<b>2,575</b>	720	731	737	<b>2,918</b>
Other	(7)	<b>(5)</b>	20	4			<b>24</b>				<b>-</b>
Total	1,558	<b>5,610</b>	1,576	1,686	2,080	3,030	<b>8,372</b>	2,980	2,428	2,433	<b>10,871</b>
<b>Expense</b>											
Production taxes	72	<b>260</b>	74	82	101	148	<b>405</b>	145	118	119	<b>530</b>
Cash costs	383	<b>1,321</b>	329	338	437	675	<b>1,779</b>	662	525	526	<b>2,388</b>
<b>Ebitda (\$mm)</b>	1,103	<b>4,029</b>	1,173	1,266	1,541	2,207	<b>6,188</b>	2,172	1,785	1,789	<b>7,953</b>
Exploration	81	<b>258</b>	51	67	67	67	<b>252</b>	67	80	80	<b>294</b>
Deprec., Deplet., & Amort.	306	<b>1,137</b>	328	322	341	355	<b>1,346</b>	339	337	341	<b>1,373</b>
Hedging and other					59	260	<b>320</b>	182	12	5	<b>459</b>
<b>Ebit</b>	716	<b>2,634</b>	794	877	1,074	1,525	<b>4,270</b>	1,584	1,357	1,363	<b>5,828</b>
Interest	71	<b>282</b>	70	70	70	70	<b>280</b>	70	70	70	<b>280</b>
<b>Ebt</b>	645	<b>2,352</b>	724	807	1,004	1,455	<b>3,990</b>	1,514	1,287	1,293	<b>5,548</b>
Income Tax	188	<b>774</b>	253	268	351	509	<b>1,382</b>	530	450	452	<b>1,942</b>
<b>Net Income (\$mm)</b>	457	<b>1,578</b>	471	539	652	946	<b>2,608</b>	984	836	840	<b>3,606</b>
<b>Shares (millions)</b>	391	<b>395</b>	389	385	385	385	<b>386</b>	385	385	385	<b>385</b>
Per Share (\$)	1.17	<b>4.00</b>	1.21	1.40	1.69	2.46	<b>6.76</b>	2.56	2.17	2.18	<b>9.37</b>
Ebitda Margin	71%	<b>72%</b>	74%	75%	74%	73%	<b>74%</b>	73%	74%	74%	<b>73%</b>
Tax Rate	29%	<b>33%</b>	35%	33%	35%	35%	<b>35%</b>	35%	35%	35%	<b>35%</b>
Cash costs (\$/mcf)	1.46	<b>1.28</b>	1.28	1.29	1.67	2.47	<b>1.69</b>	2.54	2.02	2.01	<b>2.26</b>
D.D.&A. (\$/(mcf))	1.17	<b>1.10</b>	1.28	1.23	1.30	1.30	<b>1.28</b>	1.30	1.30	1.30	<b>1.30</b>

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**Buy Independent Producers**

Current stock prices for natural gas and oil producers approximate a median McDep Ratio of 0.88 (see table Rank by McDep Ratio). A McDep Ratio of 1.0 presumes a 7% per year real return on constant real prices for oil of \$50 a barrel, and natural gas of \$10 a million btu.

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

	<i>Symbol/</i>	<i>Rating</i>	<i>Price</i> <i>(\$/sh)</i> <i>3-Oct</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>
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>								
Encana Corporation	ECA	B	59.64	892	53,200	51.00	0.16	1.14
XTO Energy Inc.	XTO	B	46.15	367	16,940	48.00	0.17	0.97
Burlington Resources	BR	B	82.75	385	31,900	86.00	0.09	0.97
CNOOC Limited (29%)	CEO	B	71.41	119	8,520	84.00	0.01	0.85
Devon Energy Corporation	DVN	B	69.15	471	32,600	86.00	0.15	0.83
Occidental Petroleum Corp.	OXY	B	85.40	406	34,700	120.00	0.11	0.74
Anadarko Petroleum Corp.	APC	B	96.04	238	22,900	140.00	0.11	0.72
<i>Total or Median</i>					<i>558,000</i>		<i>0.11</i>	<i>0.88</i>

Kurt H. Wulff, CFA

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