

Rating: Buy
 S&P 500: 1260

Burlington Resources **Buy Offer from ConocoPhillips**

<i>Symbol</i>	COP	BR	COP+BR	
<i>Rating</i>	Buy	Buy		
<i>Price (US\$/sh)</i>	61.25	82.50		61.25
<i>Pricing Date</i>	12/12/05	12/12/05		
<i>Shares (mm)</i>	1418	381	-106	1693
<i>Market Capitalization (US\$m)</i>	86,900	31,400		103,700
<i>Debt (US\$m)</i>	25,000	3,200	17,700	45,900
<i>Enterprise Value (EV) (US\$m)</i>	111,900	34,600		149,600
<i>Present Value (PV) (US\$m)</i>	166,800	36,000		202,800
<i>Net Present Value (US\$/share)</i>	100	86		93
<i>Debt/Present Value</i>	0.15	0.09		0.23
<i>McDep Ratio - EV/PV</i>	0.67	0.96		0.74
<i>Dividend Yield (%/year)</i>	2.0	0.5		2.0
<i>Ebitda Next Twelve Months ending 12/31/06 (US\$m)</i>	30,300	7,900		38,200
<i>North American Natural Gas/Ebitda (%)</i>	13	69		25
<i>Natural Gas and Oil Production/Ebitda (%)</i>	66	100		73
<i>Adjusted Reserves/Production NTM</i>	11.2	10.0		
<i>EV/Ebitda</i>	3.7	4.4		3.9
<i>PV/Ebitda</i>	5.5	4.6		5.3
<i>Undeveloped Reserves (%)</i>	29	26		
<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	30.70	45.00		
<i>Present Value Proven Reserves(US\$/boe)</i>	12.91	18.00		
<i>Present Value Proven Reserves(US\$/mcf)</i>	2.15	3.00		
<i>Earnings Next Twelve Months (US\$/sh)</i>	11.49	9.71		
<i>Price/Earnings Next Twelve Months</i>	5	8		
<i>Indicated Annual Dividend (US\$/sh)</i>	1.24	0.40		1.24

Summary and Recommendation

An offer from buy-recommended **ConocoPhillips (COP)** to acquire buy-recommended **Burlington Resources (BR)** attests to confidence in the future of North American natural gas. BR's 70% concentration of cash flow on natural gas in the U.S. and Canada would boost COP's 14% concentration to some 25%. The proposed terms of \$46.50 a share in cash and .7214 share of COP stock for each share of BR imply a McDep Ratio of 1.05 for the purchase. The continuing combination would have a low McDep Ratio of 0.74. Consummation of the deal may "elevate" ConocoPhillips to mega cap status in our rankings.

Please see disclosures on the final page.

Continue Buy Recommendation

The indicated price of the deal is about \$90.70 a BR share. In our framework, COP would be paying a McDep Ratio of 1.05. That would be a 5% premium to the going rate as we calculate it for oil and gas properties that would earn an unlevered return of 7% per year before inflation assuming a long-term oil price of \$50 a barrel and natural gas price of \$10 a million btu.

BR shareholders can take the cash from the transaction and recycle it into another low McDep Ratio buy recommendation. The COP stock that BR shareholders receive would also have a low McDep Ratio. Because of the likely arbitrage spread, buyers of BR can effectively obtain COP at a discount.

COP shareholders suffer some present value dilution unavoidably as already reflected in an immediate decline in stock price. Some of that dilution can be offset by operating efficiency.

The Best Companies Elevate

Remember the globe trotting cat in the popular Conoco ads several years ago? While we miss the cat, the latest ads have a theme that stresses the word “elevate”. Coincidentally, the company may be elevated to mega cap size in our classification when market cap exceeds \$100 billion. On latest closing stock price and assuming the deal was completed on the proposed terms, COP would have a market cap of about \$104 billion.

Mega caps have lower McDep Ratios today than has usually been the case. The perceived advantages of size that seemed evident several years ago have disappeared. Meanwhile the mega caps provide a readily available means for giant pools of long-term capital to earn a higher return. For individual investors, the mega caps offer low risk to offset hesitation about the timing of new commitments.

Oil Price Potential Positive

Our vision is an oil price in 2010 of \$150 a barrel. Crude oil price multiplied some ten times in the decade of the 1970s. Tripling in the first half of the 2000s, the price would be up nine times after another tripling in a half decade. Yet we recall with hindsight that oil price was too high for a few years after 1980. Instead we think that if oil price went up just 7.5 times in the 2000s, \$20 to \$150, the ending level could be better sustained.

Meanwhile the current relationships as we see them are reflected in latest prices for futures and stocks (see table [Oil and Gas Commodity and Stock Price](#)). All five of the futures prices are in an uptrend as measured by current price above the 40-week average.

Natural Gas Price Gap waiting to be Closed

COP appears to be making a multi-billion dollar bet on whether natural gas is cheap in BR stock. In recent months one-year natural gas has closed much of the gap with one-year oil. Crude oil price divided by 5 is our definition of energy parity until environmental restrictions add further value to clean-burning natural gas. A wide gap for six-year futures remains between oil at more than \$60 and natural gas at \$9 rather than \$12 (60 divided by 5).

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Oil and Gas Commodity and Stock Price
Monday, December 12, 2005

	<u>Units</u>	<u>Futures Price</u>		<u>McDep Ratio</u>
		<u>Six-Year</u>	<u>One-Year</u>	<u>Denominator</u>
Crude Oil	\$/barrel	61.72	63.52	50
Natural Gas	\$/million btu	8.85	12.06	10
Oil Refining	\$/barrel		11.29	10

<u>Stocks</u>	<u>Median</u>
	<u>McDep Ratio</u>
Mega Cap	0.80
Producer/Refiner	0.94
Independent - Large	0.86
Independent - Small	0.74
Income	1.16

Source: McDep Associates, Bloomberg, New York Mercantile Exchange,
 Yahoo and company disclosures

Burlington Resources
Functional Cash Flow and Present Value

	<u>NTM Ebitda</u>	<u>Adjusted</u>	<u>PV/</u>	<u>Present</u>	
	<u>(US\$mm)</u>	<u>R/P</u>	<u>Ebitda</u>	<u>Value</u>	
				<u>(US\$mm)</u>	
North American Natural Gas	5,460	10.0	4.6	25,000	69%
Rest of World Natural Gas	240	11.5	7.1	1,700	5%
Oil	2,200	9.6	4.2	9,300	26%
	7,900	10.0	4.6	36,000	100%
Debt (US\$mm)				3,200	
Net Present Value (US\$mm)				32,800	
Shares (mm)				381	
Net Present Value (US\$/sh)				86	
Over (-)/ Under (+) Correlation (US\$/sh)				20	

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Burlington Resources Inc.
Next Twelve Months Operating and Financial Results

	<i>Q4</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Next Twelve Months</i>
	<i>12/31/04</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>12/31/06</i>	<i>12/31/06</i>
Volume									
Natural Gas (mmcf)									
U.S.	916	952	970	945	970	970	970	970	970
Canada	800	799	799	809	799	799	800	800	800
Overseas	184	137	155	150	181	130	130	155	149
Total	1,900	1,888	1,924	1,904	1,950	1,899	1,900	1,925	1,918
Oil (mbd)	158	159	159	160	159	159	159	159	159
Total gas & oil (bcf)	262	262	265	1,044	261	260	263	265	1,049
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	7.10	8.56	13.00	8.65	14.85	11.01	10.95	11.43	12.06
U.S.	5.95	7.76	11.79	7.96	13.47	9.98	9.92	10.36	10.92
Canada	6.46	7.47	11.79	7.98	13.47	9.98	9.92	10.36	10.92
Overseas	4.26	4.19	5.49	4.90	5.65	5.77	5.82	5.86	5.77
Total	6.00	7.38	11.28	7.73	12.74	9.69	9.64	10.00	10.52
Oil (\$/bbl)									
WTI Cushing	48.31	62.52	60.36	56.40	62.14	63.47	64.07	64.42	63.52
Worldwide	35.59	48.11	46.45	43.47	47.82	48.84	49.31	49.57	48.89
Total gas & oil (\$/mcf)	5.95	7.47	10.11	7.56	11.17	9.17	9.17	9.42	9.73
Revenue (\$mm)									
Natural Gas									
U.S.	501	680	1,052	2,744	1,176	881	886	925	3,867
Canada	475	549	867	2,357	968	726	730	763	3,187
Overseas	72	53	78	269	92	68	70	84	313
Total	1,049	1,282	1,997	5,370	2,236	1,675	1,686	1,771	7,367
Oil	516	704	680	2,531	685	707	722	726	2,839
Other	(7)	(33)		(9)					-
Total	1,558	1,953	2,677	7,892	2,921	2,382	2,407	2,496	10,206
Expense									
Production taxes	72	94	127	377	138	113	114	118	483
Cash costs	383	319	491	1,477	552	418	424	446	1,840
Ebitda (\$mm)	1,103	1,540	2,059	6,038	2,230	1,852	1,869	1,932	7,883
Exploration	81	100	100	318	100	80	80	80	340
Deprec., Deplet., & Amort.	306	325	344	1,319	340	338	341	344	1,363
Hedging and other			212	212	186	11	6	7	210
Ebit	716	1,115	1,402	4,189	1,604	1,423	1,442	1,501	5,970
Interest	71	70	70	280	70	70	70	70	280
Ebt	645	1,045	1,332	3,909	1,534	1,353	1,372	1,431	5,690
Income Tax	188	371	466	1,359	537	474	480	501	1,992
Net Income (\$mm)	457	674	866	2,550	997	879	892	930	3,699
Shares (millions)	391	381	381	383	381	381	381	381	381
Per Share (\$)	1.17	1.77	2.27	6.65	2.62	2.31	2.34	2.44	9.71
Ebitda Margin	71%	79%	77%	77%	76%	78%	78%	77%	77%
Tax Rate	29%	35%	35%	35%	35%	35%	35%	35%	35%

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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>Shares</i>	<i>Market</i>	<i>Net</i>	<i>Debt/</i>	<i>McDep</i>
			<i>12-Dec</i>	<i>(mm)</i>	<i>Cap</i>	<i>Present</i>	<i>Present</i>	<i>Ratio</i>
			<i>2005</i>		<i>(\$mm)</i>	<i>Value</i>	<i>Value</i>	
Independent Natural Gas and Oil - Large Cap and Mid Cap								
Encana Corporation	ECA	B	51.24	876	44,900	51.00	0.20	1.00
Burlington Resources	BR	B	82.50	381	31,400	86.00	0.09	0.96
XTO Energy Inc.	XTO	B	45.59	370	16,870	48.00	0.20	0.96
CNOOC Limited (29%)	CEO	B	71.95	119	8,580	84.00	0.00	0.86
Devon Energy Corporation	DVN	B	66.39	454	30,100	86.00	0.15	0.81
Anadarko Petroleum Corp.	APC	B	98.77	238	23,500	140.00	0.12	0.74
Occidental Petroleum Corp.	OXY	B	82.64	404	33,400	120.00	0.11	0.72
	<i>Total or Median</i>				<i>189,000</i>		<i>0.12</i>	<i>0.86</i>

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