



# Independent Stock Idea

February 18, 2010

rating: buy  
s&p 500: 1100, intraday

## Devon Energy (DVN) Proven Reserves Increase 19%

<i>Symbol</i>	DVN	<i>Ebitda Next Twelve Months ending 12/31/10 (US\$mm)</i>	6,300
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	51
<i>Price (\$/sh)</i>	69.90	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/18/10	<i>Adjusted Reserves/Production NTM</i>	10.3
<i>Shares (mm)</i>	450	<i>EV/Ebitda</i>	6.3
<i>Market Capitalization (\$mm)</i>	31,500	<i>PV/Ebitda</i>	8.3
<i>Debt (\$mm)</i>	8,300	<i>Undeveloped Reserves (%)</i>	30
<i>Enterprise Value (EV) (\$mm)</i>	39,700	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	27.10
<i>Present Value (PV) (\$mm)</i>	52,400	<i>Present Value Proven Reserves(\$/boe)</i>	18.40
<i>Net Present Value (\$/share)</i>	98	<i>Present Value Proven Reserves(\$/mcf)</i>	3.10
<i>Debt/Present Value</i>	0.16	<i>Earnings Next Twelve Months (US\$/sh)</i>	5.69
<i>McDep Ratio - EV/PV</i>	0.76	<i>Price/Earnings Next Twelve Months</i>	12
<i>Dividend Yield (%/year)</i>	0.9	<i>Indicated Annual Dividend (US\$/sh)</i>	0.64
Note: Estimated cash flow and earnings tied to one-year futures prices for natural gas and oil.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$75 a barrel and natural gas, \$8 a million btu.			
For historical research on Devon since 2004 see <a href="http://www.mcdep.com/3dvn.htm">http://www.mcdep.com/3dvn.htm</a>			

### Summary and Recommendation

Buy-recommended **Devon Energy (DVN)** offers unlevered appreciation potential of 32% to a McDep Ratio of 1.0 where stock price would equal NPV. Fourth quarter results released on February 17 matched our expectations from three months ago for total unlevered cash flow (Ebitda) (see table [Next Twelve Months Operating and Financial Estimates](#)). The Jackfish project in Canada accounted most of a 19% increase in proven reserves after production replacement in 2009. At Jackfish, Devon injects steam into oil sands deposits to produce heavy crude. More recognition of the potential of the project takes weighted reserves of Canadian oil to about 15% of oil-equivalent total (see table, [Production and Reserves, 2009](#)). The increase in reserves also boosts oil to 47% of NPV (see table [Functional Cash Flow and Present Value](#)). Meanwhile, the industry backdrop is helped by the positive trend of six-year oil trading at \$85 a barrel compared to the 40-week average of \$83 (see chart [Six-Year Commodity Price Meter](#)). Devon stock also trades above its 200-day average of \$65 a share. We believe DVN has the most unlevered appreciation potential among large cap U.S. independent oil and gas producers.

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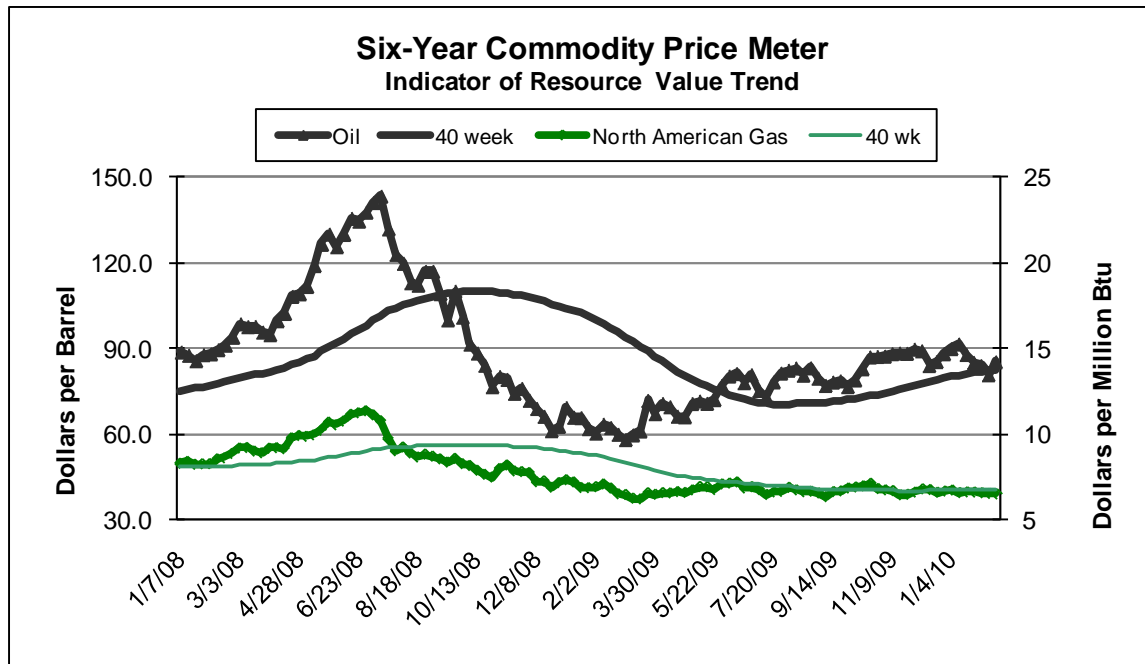
Devon Energy									
Next Twelve Months Operating and Financial Results									
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Next Twelve Months
	12/31/08	9/30/09	12/31/09	2009	3/31/10	6/30/10	9/30/10	12/31/10	12/31/10
<b>Volume</b>									
Natural Gas (mmcf)									
U.S.	2,106	1,999	2,037	<b>2,074</b>	1,900	1,900	1,900	1,900	<b>1,900</b>
Canada	583	636	611	<b>623</b>	570	570	570	570	<b>570</b>
Overseas	8	4	5	<b>4</b>					
Total	2,697	2,639	2,653	<b>2,700</b>	2,470	2,470	2,470	2,470	<b>2,470</b>
Days	92	92	92	<b>365</b>	90	91	92	92	<b>365</b>
Oil (mbd)	230	233	242	<b>240</b>	228	228	228	228	<b>228</b>
Total gas & oil (bcf)	375	371	378	<b>1,511</b>	345	349	353	353	<b>1,401</b>
Total gas & oil (mmb)	63	62	63	<b>252</b>	58	58	59	59	<b>233</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.95	3.39	4.16	<b>3.99</b>	5.54	5.50	5.69	6.12	<b>5.71</b>
U.S.	5.11	2.82	3.70	<b>3.21</b>	4.92	4.44	4.59	4.94	<b>4.72</b>
Canada	6.02	2.91	4.13	<b>3.66</b>	5.50	5.46	5.64	6.07	<b>5.67</b>
Overseas	4.90	5.90	5.90	<b>5.11</b>					
Total	5.31	2.85	3.80	<b>3.32</b>	5.05	4.67	4.83	5.20	<b>4.94</b>
Oil (\$/bbl)									
WTI Cushing	58.45	68.22	76.09	<b>61.70</b>	76.00	74.80	76.25	77.71	<b>76.19</b>
Worldwide	34.96	48.58	50.52	<b>42.64</b>	50.46	49.67	50.63	51.60	<b>50.59</b>
Total gas & oil (\$/mcf)	5.48	4.66	5.44	<b>4.64</b>	6.25	5.96	6.12	6.41	<b>6.18</b>
<b>Revenue (\$mm)</b>									
Natural Gas									
U.S.	990	519	693	<b>2,433</b>	841	767	802	863	<b>3,273</b>
Canada	323	170	232	<b>833</b>	282	283	296	318	<b>1,179</b>
Overseas	4	2	3	<b>7</b>					
Total	1,317	691	928	<b>3,274</b>	1,123	1,050	1,098	1,181	<b>4,452</b>
Oil	740	1,040	1,125	<b>3,733</b>	1,035	1,031	1,062	1,082	<b>4,210</b>
Total	2,056	1,731	2,053	<b>7,006</b>	2,159	2,080	2,160	2,264	<b>8,663</b>
<b>Expense</b>	468	309	598	<b>1,755</b>	583	562	583	611	<b>2,339</b>
<b>Ebitda (\$mm)</b>	1,589	1,422	1,455	<b>5,252</b>	1,576	1,519	1,577	1,653	<b>6,324</b>
Deprec., Deplet., & Amort.	1,063	570	509	<b>2,364</b>	509	509	509	509	<b>2,036</b>
Hedging and other			(170)	<b>(170)</b>					<b>-</b>
<b>Ebit</b>	526	852	1,116	<b>3,057</b>	1,067	1,010	1,068	1,144	<b>4,288</b>
Interest	68	90	86	<b>349</b>	86	86	86	86	<b>344</b>
<b>Ebt</b>	458	762	1,030	<b>2,708</b>	981	924	982	1,058	<b>3,944</b>
Income Tax	160	267	309	<b>897</b>	343	323	344	370	<b>1,380</b>
<b>Net Income (\$mm)</b>	297	495	721	<b>1,812</b>	638	600	638	687	<b>2,563</b>
<b>Shares (millions)</b>	444	450	450	<b>1,795</b>	450	450	450	450	<b>450</b>
Per Share (\$)	0.67	1.10	1.60	<b>4.03</b>	1.42	1.33	1.42	1.53	<b>5.69</b>
Ebitda Margin	77%	82%	71%	<b>75%</b>	73%	73%	73%	73%	<b>73%</b>
Tax Rate	35%	35%	30%	<b>33%</b>	35%	35%	35%	35%	<b>35%</b>





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