

Rating: Buy
 S&P 500: 1235

Devon Energy Corporation

Raise Net Present Value to \$82 a Share

<i>Symbol</i>	DVN	<i>Ebitda Next Twelve Months ending 6/30/06 (US\$m)</i>	8,600
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	59
<i>Price (\$/sh)</i>	56.63	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/1/05	<i>Adjusted Reserves/Production NTM</i>	7.8
<i>Shares (mm)</i>	496	<i>EV/Ebitda</i>	4.0
<i>Market Capitalization (\$mm)</i>	28,100	<i>PV/Ebitda</i>	5.4
<i>Debt (\$mm)</i>	5,900	<i>Undeveloped Reserves (%)</i>	17
<i>Enterprise Value (EV) (\$mm)</i>	34,000	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	39.20
<i>Present Value (PV) (\$mm)</i>	46,600	<i>Present Value Proven Reserves(\$/boe)</i>	24.90
<i>Net Present Value (\$/share)</i>	82	<i>Present Value Proven Reserves(\$/mcf)</i>	4.20
<i>Debt/Present Value</i>	0.13	<i>Earnings Next Twelve Months (US\$/sh)</i>	6.63
<i>McDep Ratio - EV/PV</i>	0.73	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	0.5	<i>Indicated Annual Dividend (US\$/sh)</i>	0.30

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.

Summary and Recommendation

We raise our estimated net present value of buy-recommended **Devon Energy (DVN)** to \$82 a share from \$63 on the basis of an expected long-term real price for oil of \$50 a barrel up from \$40 for Light Sweet Crude. We also raise our long-term real price for natural gas to \$10 a million BTU, up from \$8 for the Henry Hub location. The stock has 45% appreciation potential to net present value. The main risk in independent producer stocks is commodity price, the flip side of the opportunity.

Kurt H. Wulff, CFA

Devon Energy Functional Cash Flow and Present Value

	<i>NTM Ebitda</i> <i>(US\$m)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$m)</i>	
North American Natural Gas	5,070	7.7	5.8	29,500	63%
Oil	3,490	8.1	4.9	17,100	37%
	8,560	7.8	5.4	46,600	100%
Debt (US\$m)				5,900	
Net Present Value (US\$m)				40,700	
Shares (mm)				496	
Net Present Value (US\$/sh)				82	

Please see disclosures on the final page.

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>1-Aug</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	41.86	892	37,300	51.00	0.16	0.85
CNOOC Limited (29%)	CEO	B	69.33	119	8,270	84.00	0.01	0.83
Unocal Corporation	UCL	B	64.39	275	17,700	85.00	0.15	0.79
XTO Energy Inc.	XTO	B	35.58	370	13,150	48.00	0.17	0.79
Burlington Resources	BR	B	65.03	385	25,000	86.00	0.09	0.78
Devon Energy Corporation	DVN	B	56.63	496	28,100	82.00	0.13	0.73
Occidental Petroleum Corp.	OXY	B	82.78	406	33,600	120.00	0.11	0.72
Anadarko Petroleum Corp.	APC	B	88.72	238	21,100	140.00	0.11	0.67
	<i>Total or Median</i>				<i>184,000</i>		<i>0.12</i>	<i>0.78</i>

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