

Rating: Buy
 S&P 500: 1245

Devon Energy Corporation

Raise Net Present Value to \$86 a Share

<i>Symbol</i>	DVN	<i>Ebitda Next Twelve Months ending 6/30/06 (US\$m)</i>	10,000
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	58
<i>Price (\$/sh)</i>	57.95	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/3/05	<i>Adjusted Reserves/Production NTM</i>	7.3
<i>Shares (mm)</i>	471	<i>EV/Ebitda</i>	3.4
<i>Market Capitalization (\$mm)</i>	27,300	<i>PV/Ebitda</i>	4.8
<i>Debt (\$mm)</i>	7,000	<i>Undeveloped Reserves (%)</i>	17
<i>Enterprise Value (EV) (\$mm)</i>	34,300	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	42.60
<i>Present Value (PV) (\$mm)</i>	47,500	<i>Present Value Proven Reserves(\$/boe)</i>	25.40
<i>Net Present Value (\$/share)</i>	86	<i>Present Value Proven Reserves(\$/mcf)</i>	4.20
<i>Debt/Present Value</i>	0.15	<i>Earnings Next Twelve Months (US\$/sh)</i>	8.67
<i>McDep Ratio - EV/PV</i>	0.72	<i>Price/Earnings Next Twelve Months</i>	7
<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 \$86 a share following the disclosure of latest results. On August 2 we raised NPV to \$82 from \$63 on the basis of expected long-term real price for oil of \$50 a barrel for Light Sweet Crude and to \$10 a million BTU for natural gas. Concentrated 58% on natural gas, Devon is an attractive stock for boosting portfolio representation in the clean fuel. Rare among peers, Devon has the same capable person, Chairman Larry Nichols, running the company today who was most responsible for building the success over more than two decades. The stock has 48% 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>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$m)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$m)</i>	
North American Natural Gas	5,760	7.4	5.1	29,500	62%
Oil	4,190	7.2	4.3	18,000	38%
	9,950	7.3	4.8	47,500	100%
Debt (US\$m)				7,000	
Net Present Value (US\$m)				40,500	
Shares (mm)				471	
Net Present Value (US\$/sh)				86	

Please see disclosures on the final page.

Devon Energy
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>Next Twelve Months</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>6/30/06</i>
Volume										
Natural Gas (mmcf)										
U.S.	1,620	1,647	1,610	1,534	1,534	1,534	1,552	1,534	1,534	1,534
Canada	768	764	735	735	735	735	735	735	735	735
Overseas	33	28	30	27	27	27	28	27	27	27
Total	2,420	2,439	2,375	2,295	2,295	2,295	2,315	2,295	2,295	2,295
Oil (mbd)	269	279	265	258	258	258	260	258	258	258
Total gas & oil (bcf)	371	1,503	357	350	354	354	1,414	346	350	1,403
Price										
Natural gas (\$/mcf)										
Henry Hub (\$/mmbtu)	7.10	6.15	6.27	6.76	7.60	8.69	7.33	9.44	8.04	8.44
U.S.	6.07	5.47	5.45	6.19	6.58	7.98	6.55	8.67	7.18	7.60
Canada	5.65	5.30	5.84	6.16	7.07	7.94	6.76	8.62	7.42	7.76
Overseas	3.23	3.33	4.81	5.47	6.15	7.18	5.88	7.90	6.52	6.93
Total	5.90	5.39	5.56	6.17	6.73	7.96	6.61	8.65	7.25	7.64
Oil (\$/bbl)										
WTI Cushing	48.31	41.44	49.65	53.05	60.62	63.32	56.66	64.52	63.88	63.09
Worldwide	37.08	32.94	37.86	40.85	45.35	48.93	43.25	50.14	48.50	48.22
Total gas & oil (\$/mcf)	6.01	5.43	5.86	6.43	7.07	8.04	6.85	8.53	7.58	7.80
Revenue (\$mm)										
Natural Gas										
U.S.	904	3,287	789	864	929	1,126	3,709	1,197	1,002	4,253
Canada	399	1,479	387	412	478	537	1,813	570	496	2,081
Overseas	10	34	13	13	15	18	59	19	16	68
Total	1,313	4,800	1,189	1,289	1,422	1,681	5,581	1,786	1,514	6,402
Oil	919	3,365	901	959	1,077	1,162	4,099	1,165	1,139	4,542
Total	2,232	8,167	2,091	2,249	2,499	2,842	9,682	2,951	2,653	10,944
Expense										
Fixed	105	664	166	42	100	100	408	100	100	400
Variable	105	664	166	42	138	157	504	163	132	591
Ebitda (\$mm)	2,023	6,628	1,759	2,166	2,260	2,585	8,770	2,687	2,421	9,953
Deprec., Deplet., & Amort.	604	2,300	579	535	535	535	2,184	535	479	2,084
Hedging	266	469	156	171	232	256	815	263	253	1,004
Ebit	1,152	3,859	988	1,146	1,493	1,794	5,421	1,889	1,689	6,866
Interest	114	475	118	146	146	146	556	146	146	584
Ebt	1,038	3,384	870	1,000	1,347	1,648	4,865	1,743	1,543	6,282
Income Tax	363	1,184	304	350	472	577	1,703	610	540	2,199
Net Income (\$mm)	675	2,199	565	650	876	1,071	3,163	1,133	1,003	4,083
Shares (millions)	500	1,992	496	471	471	471	1,909	471	471	471
Per Share (\$)	1.35	4.42	1.14	1.38	1.86	2.27	6.65	2.41	2.13	8.67
Ebitda Margin	91%	81%	84%	96%	90%	91%	91%	91%	91%	91%
Tax Rate	35%	35%	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>3-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	42.49	892	37,900	51.00	0.16	0.86
CNOOC Limited (29%)	CEO	B	72.05	119	8,590	84.00	0.01	0.86
Unocal Corporation	UCL	B	65.06	275	17,900	85.00	0.15	0.80
XTO Energy Inc.	XTO	B	36.78	370	13,600	48.00	0.17	0.81
Burlington Resources	BR	B	65.90	385	25,400	86.00	0.09	0.79
Occidental Petroleum Corp.	OXY	B	83.32	406	33,800	120.00	0.11	0.73
Devon Energy Corporation	DVN	B	57.95	471	27,300	86.00	0.15	0.72
Anadarko Petroleum Corp.	APC	B	87.77	238	20,900	140.00	0.11	0.67
			<i>Total or Median</i>		<i>185,000</i>		<i>0.13</i>	<i>0.79</i>

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