

Rating: Buy
S&P 500: 1215

Devon Energy Corporation **No Hedges in 2006**

<i>Symbol</i>	DVN	<i>Ebitda Next Twelve Months ending 9/30/06 (US\$m)</i>	10,200
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	67
<i>Price (\$/sh)</i>	59.75	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/2/05	<i>Adjusted Reserves/Production NTM</i>	7.8
<i>Shares (mm)</i>	454	<i>EV/Ebitda</i>	3.4
<i>Market Capitalization (\$mm)</i>	27,100	<i>PV/Ebitda</i>	4.5
<i>Debt (\$mm)</i>	7,000	<i>Undeveloped Reserves (%)</i>	17
<i>Enterprise Value (EV) (\$mm)</i>	34,200	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	46.70
<i>Present Value (PV) (\$mm)</i>	46,100	<i>Present Value Proven Reserves(\$/boe)</i>	24.70
<i>Net Present Value (\$/share)</i>	86	<i>Present Value Proven Reserves(\$/mcf)</i>	4.10
<i>Debt/Present Value</i>	0.15	<i>Earnings Next Twelve Months (US\$/sh)</i>	10.51
<i>McDep Ratio - EV/PV</i>	0.74	<i>Price/Earnings Next Twelve Months</i>	6
<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

Buy-recommended **Devon Energy (DVN)** offers 44% appreciation potential to estimated net present value of \$86 a share. Taking account of latest quarterly results, our correlation of 30 companies indicates net present value about \$3 a share higher than our official estimate. Opportunity loss approaching a billion dollars in 2005 as a result of commodity price hedging ends in a few weeks because the company apparently has no price hedges for next year. Concentrated 64% or more 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 main risk in independent producer stocks is commodity price, the flip side of the opportunity.

Cash Flow and Reserve Life Point to Present Value

McDep analysis presumes that fundamental value is measured by the projection of cash flows far into the future and discounting them to the present at a rate of return, currently 7% a year before inflation. Next Twelve Months (NTM) cash flow represents the volumes and costs that form the base for future projections. Reserve life index tells how long cash flow will last. NTM cash flow and reserve life are the two main variables in our correlation by function for about 30 companies. Net present value indicated by the current combined correlation is about \$3 a share higher than our ongoing standard estimate for the company (see table Functional Cash Flow and Present Value).

Please see disclosures on the final page.

Devon Energy
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	6,840	7.6	4.3	29,500	64%
Oil	3,350	8.3	4.9	16,500	36%
	10,190	7.8	4.5	46,000	100%
Debt (US\$mm)					7,000
Net Present Value (US\$mm)					39,000
Shares (mm)					454
Net Present Value (US\$/sh)					86
Over (-)/ Under (+) Correlation (US\$/sh)					3

Cash Flow by Quarter Depends on Latest Results and Futures Prices

Cash flow for the next year is projected from a base through the latest reported quarter (see table Next Twelve Months Operating and Financial Estimates). Company disclosures provide the clues for future volumes and costs as well as geographic and quality differences in price. Futures prices from the New York Mercantile Exchange determine industry benchmarks for the next year.

Industry Conditions Support Long-Term Price Expectation

Present value estimates that form the denominator of the McDep Ratio and change only occasionally for all companies, most recently in early August, are tied to expected constant real long-term prices. Recent futures price for oil delivered over the next six years at \$58 a barrel exceeds our long-term expectation of \$50. One-year futures for natural gas exceed our long-term expectation while six-year futures for natural gas also have appreciation potential, in our opinion.

Oil and Gas Commodity and Stock Price
Wednesday, November 02, 2005

	<i>Units</i>	<i>Futures Price</i>		<i>McDep Ratio</i>
		<i>Six-Year</i>	<i>One-Year</i>	<i>Denominator</i>
Crude Oil	\$/barrel	57.99	61.24	50
Natural Gas	\$/million btu	8.46	10.71	10
	<i>Stocks</i>			<i>Median</i>
	Independent Producer - Large Cap			0.80
	DVN			0.74

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

Devon Energy
Next Twelve Months Operating and Financial Results

	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</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>9/30/06</i>	<i>9/30/06</i>
Volume											
Natural Gas (mmcf)											
U.S.	1,620	1,647	1,610	1,534	1,485	1,485	1,528	1,485	1,485	1,485	1,485
Canada	768	764	735	735	725	725	730	725	725	725	725
Overseas	33	28	30	27	27	27	28	27	27	27	27
Total	2,420	2,439	2,375	2,295	2,237	2,237	2,286	2,237	2,237	2,237	2,237
Oil (mbd)	269	279	265	258	225	225	243	225	225	225	225
Total gas & oil (bcf)	371	1,503	357	350	330	330	1,366	323	326	330	1,309
Price											
Natural gas (\$/mcf)											
Henry Hub (\$/mmbtu)	7.10	6.15	6.27	6.76	8.56	12.79	8.59	12.53	10.32	10.33	11.49
U.S.	6.07	5.47	5.45	6.19	7.30	11.71	7.62	11.47	9.13	9.46	10.44
Canada	5.65	5.30	5.84	6.16	7.19	11.69	7.72	11.45	9.27	9.44	10.46
Overseas	3.23	3.33	4.81	5.47	6.52	10.86	6.87	10.60	8.37	8.38	9.55
Total	5.90	5.39	5.56	6.17	7.26	11.69	7.65	11.45	9.17	9.44	10.44
Oil (\$/bbl)											
WTI Cushing	48.31	41.44	49.65	53.05	62.52	60.65	56.47	60.72	61.21	61.27	60.96
Worldwide	37.08	32.94	37.86	40.85	49.60	49.47	44.10	49.41	48.53	48.82	49.06
Total gas & oil (\$/mcf)	6.01	5.43	5.86	6.43	7.64	10.40	7.53	10.24	8.76	8.95	9.59
Revenue (\$mm)											
Natural Gas											
U.S.	904	3,287	789	864	998	1,600	4,251	1,533	1,234	1,292	5,658
Canada	399	1,479	387	412	480	780	2,058	747	612	630	2,768
Overseas	10	34	13	13	16	27	70	26	21	21	94
Total	1,313	4,800	1,189	1,289	1,494	2,406	6,378	2,306	1,866	1,942	8,520
Oil	919	3,365	901	959	1,027	1,024	3,912	1,001	994	1,011	4,029
Total	2,232	8,167	2,091	2,249	2,520	3,430	10,291	3,307	2,860	2,953	12,549
Expense (\$mm)											
Fixed	105	664	184	199	174	300	856	300	300	300	1,200
Variable	105	664	184	199	174	340	897	328	254	235	1,157
Ebitda (\$mm)	2,023	6,628	1,723	1,852	2,173	2,790	8,538	2,679	2,306	2,418	10,192
Deprec., Deplet., & Amort.	604	2,300	579	535	533	533	2,180	533	533	533	2,132
Hedging	266	469	156	171	221	266	814				266
Ebit	1,152	3,859	988	1,146	1,419	1,991	5,544	2,146	1,773	1,885	7,794
Interest	114	475	118	146	113	113	490	113	113	113	452
Ebt	1,038	3,384	870	1,000	1,306	1,878	5,054	2,033	1,660	1,772	7,342
Income Tax	363	1,184	304	350	457	657	1,769	711	581	620	2,570
Net Income (\$mm)	675	2,199	565	650	849	1,221	3,285	1,321	1,079	1,152	4,772
Shares (millions)	500	1,992	496	471	454	454	1,875	454	454	454	454
Per Share (\$)	1.35	4.42	1.14	1.38	1.87	2.69	7.08	2.91	2.38	2.54	10.51
Ebitda Margin	91%	81%	82%	82%	86%	81%	83%	81%	81%	82%	81%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%

Buy Independent Natural Gas and Oil Producers

Energy is necessary for world economic growth and clean energy provides a better quality of life. Independent natural gas and oil producers are among the leading global suppliers of clean energy. Headquartered in China, Canada and the U.S., buy recommendations also offer political diversification. McDep Ratios that compare Enterprise Value with Present Value of energy and other businesses imply that the stock market undervalues the fundamental prospects. Stocks are ranked in descending order of McDep Ratio connoting “buy low, sell high” (see table Rank by McDep Ratio).

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>2-Nov</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	47.98	876	42,000	51.00	0.20	0.95
XTO Energy Inc.	XTO	B	43.90	370	16,240	48.00	0.20	0.93
Burlington Resources	BR	B	73.46	381	28,000	86.00	0.09	0.87
CNOOC Limited (29%)	CEO	B	67.30	119	8,030	84.00	0.01	0.80
Devon Energy Corporation	DVN	B	59.75	454	27,100	86.00	0.15	0.74
Occidental Petroleum Corp.	OXY	B	79.49	404	32,100	120.00	0.11	0.70
Anadarko Petroleum Corp.	APC	B	90.90	238	21,600	140.00	0.12	0.69
			<i>Total or Median</i>		<i>175,000</i>		<i>0.12</i>	<i>0.80</i>

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