

Rating: Buy  
S&P 500: 1447  
Intraday

## Devon Energy Corporation Current Favorite Large Cap Independent

<i>Symbol</i>	DVN	<i>Ebitda Next Twelve Months ending 12/31/07 (US\$mm)</i>	7,700
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	58
<i>Price (\$/sh)</i>	68.93	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/7/07	<i>Adjusted Reserves/Production NTM</i>	9.1
<i>Shares (mm)</i>	448	<i>EV/Ebitda</i>	5.1
<i>Market Capitalization (\$mm)</i>	30,900	<i>PV/Ebitda</i>	7.8
<i>Debt (\$mm)</i>	8,300	<i>Undeveloped Reserves (%)</i>	30
<i>Enterprise Value (EV) (\$mm)</i>	39,200	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	34.50
<i>Present Value (PV) (\$mm)</i>	59,800	<i>Present Value Proven Reserves(\$/boe)</i>	25.20
<i>Net Present Value (\$/share)</i>	115	<i>Present Value Proven Reserves(\$/mcfe)</i>	4.20
<i>Debt/Present Value</i>	0.14	<i>Earnings Next Twelve Months (US\$/sh)</i>	6.89
<i>McDep Ratio - EV/PV</i>	0.65	<i>Price/Earnings Next Twelve Months</i>	10
<i>Dividend Yield (%/year)</i>	0.7	<i>Indicated Annual Dividend (US\$/sh)</i>	0.45

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\$60 a barrel and natural gas, \$10 a million btu.

For historical research on Devon since 2004 see <http://www.mcdep.com/3dvn.htm>

### Summary and Recommendation

Estimated net present value (NPV) of \$115 a share for buy-recommended **Devon Energy (DVN)** implies the most appreciation potential among large cap independent producer peers. On February 7, Devon disclosed 2006 year end reserves that lengthen our adjusted life index to 9.1 years (see table, Production and Reserves, 2006). Combined with projected cash flow for the next twelve months, the longer reserve life narrows the difference between estimated NPV and that indicated by a correlation with reserve life and cash flow for some thirty companies (see table, Functional Cash Flow and Present Value). The correlation overlooks reserves yet to be booked in Devon's leading resource position in the deep water Gulf of Mexico worth perhaps \$13 a share in present value. Prospects could become more appealing if natural gas for delivery over the next six years, priced currently at \$7.63 a million Btu, resumes an uptrend by crossing above the 40-week average in the next few months (see chart, Six-Year Commodity Price Meter). Above the 200-day average price signifying positive momentum, Devon stock has a double weighting in our illustrative energy portfolio concentrated on real assets that promise a high return providing clean fuel for global growth.

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**Devon Energy**  
**Production and Reserves, 2006**

	<u>2006 Production</u> <u>(daily)</u>	<u>(annual)</u>	<u>12/31/2006 Proven Reserves</u>			<u>Weighted</u> <u>Life Index</u> <u>(years)</u>	<u>2007</u> <u>Adjusted</u> <u>R/P</u> <u>(years)</u>
			<u>Developed</u> <u>(bcf or mmb)</u>	<u>Undeveloped</u> <u>(bcf or mmb)</u>	<u>Weighted</u> <u>(bcf or mmb)</u>		
North American Natural Gas							
U.S. Onshore	1,334	487	4,672	1,307	5,326	10.9	
U.S. Offshore	216	79	244	132	310	3.9	
Canada	660	241	1,560	336	1,728	7.2	
Overseas	22	8	42	63	74	9.2	
Total	2,233	815	6,518	1,838	7,437	9.1	8.9
Oil							
U.S. Onshore	79	29	310	47	334	11.5	
U.S. Offshore	25	9	33	13	40	4.4	
Canada	47	17	145	226	258	15.2	
Overseas	63	23	99	110	154	6.7	
Total	214	78	587	396	785	10.1	9.3
Total Oil Equivalent	586	214	1,673	702	2,025	9.5	9.1

**Devon Energy**  
**Functional Cash Flow and Present Value**

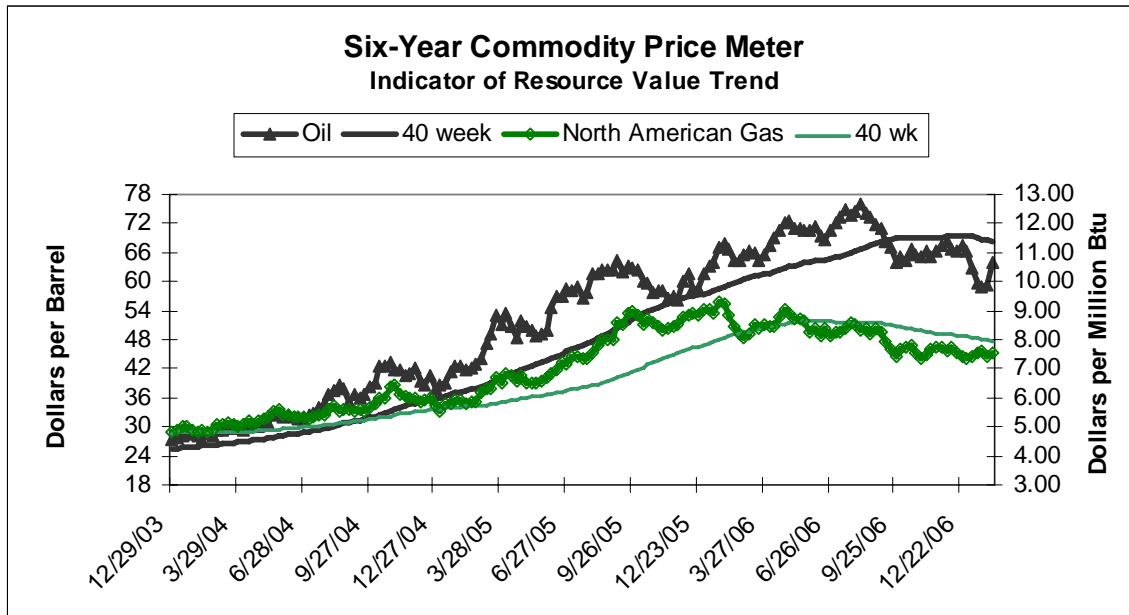
	<u>NTM Ebitda</u> <u>(US\$mm)</u>	<u>Adjusted</u> <u>R/P</u>	<u>PV/</u> <u>Ebitda</u>	<u>Present</u> <u>Value</u> <u>(US\$mm)</u>	
North American Natural Gas	4,500	8.9	7.3	33,000	55%
Oil	3,210	9.3	8.3	26,800	45%
	7,710	9.1	7.8	59,800	100%
Debt (US\$mm)					8,300
Net Present Value (US\$mm)					51,500
Shares (mm)					448
Net Present Value - Standard Estimate (US\$/sh)					115
Net Present Value - Approximation by Correlation (US\$/sh)					111

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**Devon Energy**  
**Next Twelve Months Operating and Financial Results**

	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Next Twelve Months</i>
	<i>12/31/05</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>12/31/07</i>
<b>Volume</b>									
Natural Gas (mmcf)									
U.S.	1,458	1,624	1,640	<b>1,551</b>	1,640	1,640	1,640	1,640	<b>1,640</b>
Canada	666	662	628	<b>659</b>	628	628	628	628	<b>628</b>
Overseas	34	20	20	<b>22</b>	20	20	20	20	<b>20</b>
Total	2,158	2,306	2,288	<b>2,232</b>	2,288	2,288	2,288	2,288	<b>2,288</b>
Oil (mbd)									
Total gas & oil (bcf)	320	332	338	<b>1,293</b>	331	334	338	338	<b>1,342</b>
Total gas & oil (mmb)	53	55	56	<b>215</b>	55	56	56	56	<b>224</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	13.00	6.58	6.57	<b>7.23</b>	6.84	7.69	7.92	8.55	<b>7.75</b>
U.S.	9.80	5.70	5.54	<b>6.02</b>	5.78	6.93	7.13	7.70	<b>6.89</b>
Canada	9.74	5.53	5.95	<b>6.13</b>	6.20	6.98	7.18	7.75	<b>7.03</b>
Overseas	3.08	5.71	4.66	<b>4.77</b>	4.86	5.46	5.62	6.07	<b>5.51</b>
Total	9.68	5.65	5.65	<b>6.04</b>	5.89	6.93	7.13	7.70	<b>6.92</b>
Oil (\$/bbl)									
WTI Cushing	60.02	70.42	59.99	<b>66.05</b>	57.21	60.15	61.91	63.14	<b>60.60</b>
Worldwide	45.81	55.55	46.29	<b>50.55</b>	44.37	47.65	49.16	50.30	<b>47.89</b>
Total gas & oil (\$/mcf)	8.90	6.95	6.43	<b>6.92</b>	6.46	7.31	7.53	7.96	<b>7.32</b>
<b>Revenue (\$mm)</b>									
Natural Gas									
U.S.	1,315	852	837	<b>3,409</b>	853	1,034	1,076	1,162	<b>4,126</b>
Canada	597	337	344	<b>1,473</b>	350	399	415	448	<b>1,612</b>
Overseas	10	11	8	<b>38</b>	9	10	10	11	<b>39</b>
Total	1,921	1,199	1,189	<b>4,920</b>	1,212	1,443	1,501	1,621	<b>5,777</b>
Oil									
Total	929	1,110	985	<b>4,029</b>	924	1,003	1,046	1,070	<b>4,043</b>
Total	2,850	2,309	2,174	<b>8,950</b>	2,136	2,446	2,547	2,691	<b>9,820</b>
<b>Expense</b>									
Fixed	146	204	248	<b>880</b>	248	248	248	248	<b>993</b>
Variable	146	204	248	<b>880</b>	244	279	291	307	<b>1,121</b>
<b>Ebitda (\$mm)</b>	2,558	1,902	1,677	<b>7,191</b>	1,644	1,918	2,008	2,135	<b>7,706</b>
Deprec., Deplet., & Amort.	553	648	634	<b>2,443</b>	634	634	634	634	<b>2,536</b>
Hedging and other	284			<b>93</b>					<b>-</b>
<b>Ebit</b>	1,722	1,254	1,043	<b>4,655</b>	1,010	1,284	1,374	1,501	<b>5,170</b>
Interest	105	112	106	<b>421</b>	106	106	106	106	<b>424</b>
<b>Ebt</b>	1,617	1,142	937	<b>4,234</b>	904	1,178	1,268	1,395	<b>4,746</b>
Income Tax	566	400	328	<b>1,482</b>	316	412	444	488	<b>1,661</b>
<b>Net Income (\$mm)</b>	1,051	742	609	<b>2,752</b>	588	766	824	907	<b>3,085</b>
<b>Shares (millions)</b>	451	447	448	<b>1,790</b>	448	448	448	448	<b>448</b>
Per Share (\$)	2.33	1.66	1.36	<b>6.15</b>	1.31	1.71	1.84	2.02	<b>6.89</b>
Ebitda Margin	90%	82%	77%	<b>80%</b>	77%	78%	79%	79%	<b>78%</b>
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	<b>35%</b>

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