

Rating: Buy
S&P 500: 1497
Intraday

Devon Energy Corporation Low McDep Ratio Natural Gas

<i>Symbol</i>	DVN	<i>Ebitda Next Twelve Months ending 3/31/08 (US\$m)</i>	8,500
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	61
<i>Price (\$/sh)</i>	74.16	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	5/2/07	<i>Adjusted Reserves/Production NTM</i>	9.4
<i>Shares (mm)</i>	450	<i>EV/Ebitda</i>	5.1
<i>Market Capitalization (\$mm)</i>	33,400	<i>PV/Ebitda</i>	7.2
<i>Debt (\$mm)</i>	9,900	<i>Undeveloped Reserves (%)</i>	30
<i>Enterprise Value (EV) (\$mm)</i>	43,200	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	39.70
<i>Present Value (PV) (\$mm)</i>	61,600	<i>Present Value Proven Reserves(\$/boe)</i>	25.90
<i>Net Present Value (\$/share)</i>	115	<i>Present Value Proven Reserves(\$/mcfe)</i>	4.30
<i>Debt/Present Value</i>	0.16	<i>Earnings Next Twelve Months (US\$/sh)</i>	8.02
<i>McDep Ratio - EV/PV</i>	0.70	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	0.8	<i>Indicated Annual Dividend (US\$/sh)</i>	0.56

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

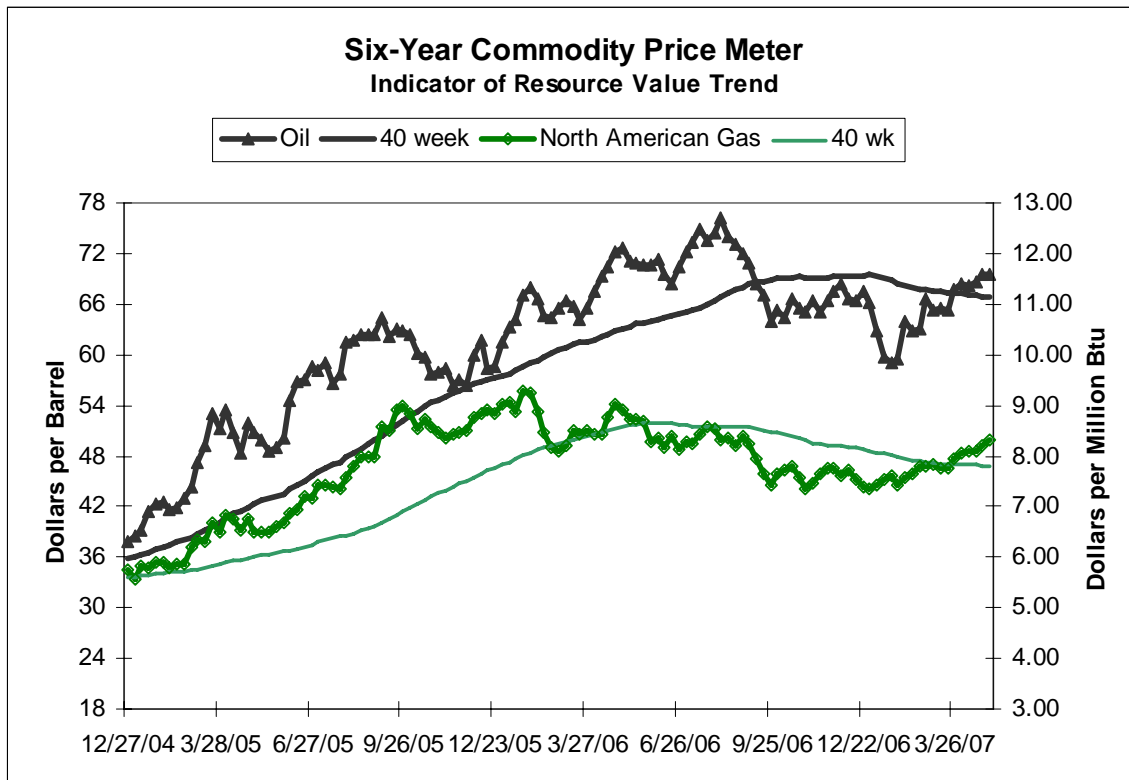
Buy-recommended **Devon Energy (DVN)**'s first quarter 2007 results reported on May 2 affirm our estimate of Net Present Value (NPV) of \$115 a share. NPV includes some \$13 a share for the company's leading resource position in the Deep Tertiary Trend in the Gulf of Mexico, an amount that justifies a difference in NPV compared to that indicated by a correlation with reserve life and cash flow for some thirty companies (see table, Functional Cash Flow and Present Value). Taking account of debt and considering the current stock price we compute an unlevered McDep Ratio that is the lowest of large cap independent natural gas and oil producers in our coverage. The low McDep Ratio enhances Devon's appeal as a participation in a renewed uptrend in long-term oil and natural gas commodity price (see chart, Six-Year Commodity Price Meter). Devon's NPV is concentrated 53% on natural gas, the commodity that could appreciate 70% relative to oil in a strong demand situation (see chart Oil/Natural Gas Futures Ratio). Not least, we like to repeat that Devon's co founder and chairman, Mr. Larry Nichols, has a long, distinguished record of making money for investors. We favor the stock at a double weighting in our illustrative energy portfolio concentrated on real assets that promise a high return providing clean energy for global growth.

Kurt H. Wulff, CFA

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	5,220	9.1	6.3	33,000	53%
Oil	3,300	10.0	8.7	28,700	47%
	8,520	9.4	7.2	61,700	100%
Debt (US\$mm)					9,900
Net Present Value (US\$mm)					51,800
Shares (mm)					450
Net Present Value - Standard Estimate (US\$/sh)					115
Net Present Value - Approximation by Correlation (US\$/sh)					111

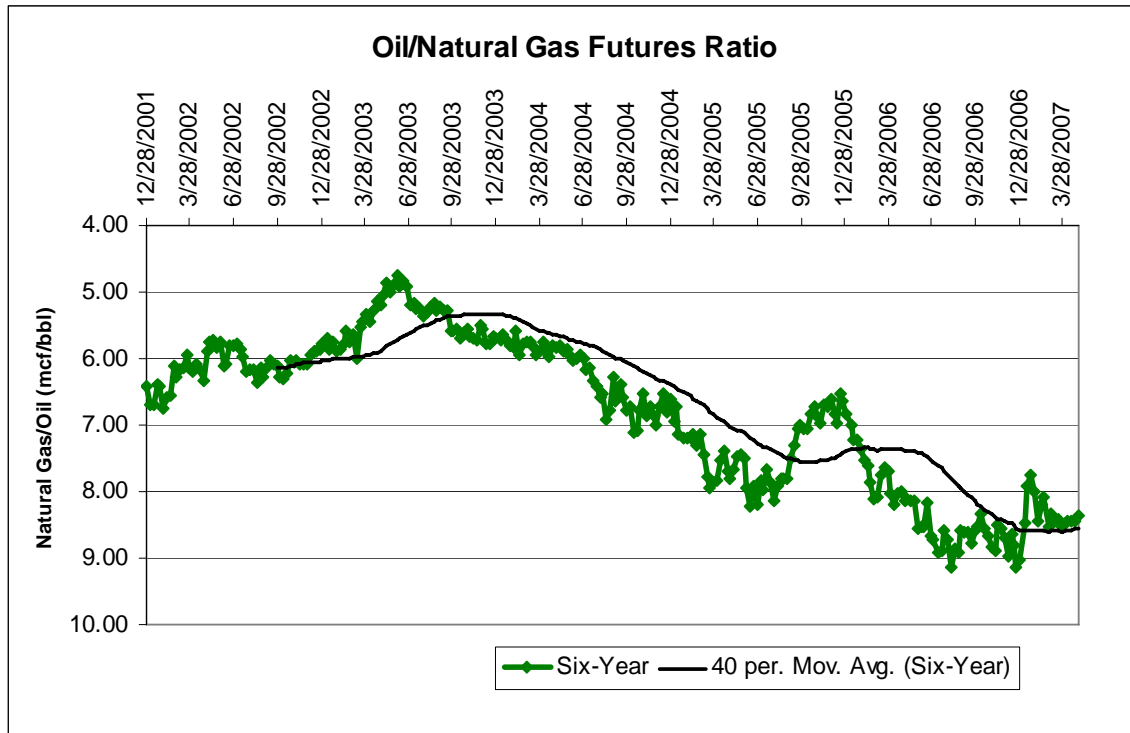


Please see disclosures on the final page.

Devon Energy
Next Twelve Months Operating and Financial Results

	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Next</i>
	<i>3/31/06</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>2007E</i>	<i>Twelve</i>
									<i>Months</i>
									<i>3/31/08</i>
Volume									
Natural Gas (mmcf)									
U.S.	1,444	1,640	1,551	1,625	1,625	1,625	1,625	1,625	1,625
Canada	656	628	659	615	615	615	615	615	615
Overseas	25	20	22	3	3	3	3	3	3
Total	2,125	2,288	2,232	2,243	2,243	2,243	2,243	2,243	2,243
Oil (mbd)									
Total gas & oil (bcf)	307	338	1,293	318	321	325	325	1,288	1,288
Total gas & oil (mmb)	51	56	215	53	54	54	54	215	215
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	8.97	6.57	7.23	6.81	7.66	8.11	8.98	7.89	8.66
U.S.	7.06	5.54	6.02	6.08	6.88	7.29	8.07	7.09	7.78
Canada	7.37	5.95	6.13	6.65	7.53	7.97	8.82	7.75	8.51
Overseas	4.21	4.66	4.77	3.21	3.63	3.85	4.26	3.74	4.11
Total	7.12	5.65	6.04	6.23	7.05	7.47	8.27	7.26	7.97
Oil (\$/bbl)									
WTI Cushing	63.33	59.99	66.05	58.08	65.13	68.03	69.72	65.24	68.39
Worldwide	46.31	46.29	50.55	44.97	50.29	52.25	53.50	50.28	52.69
Total gas & oil (\$/mcf)	7.35	6.43	6.92	6.69	7.54	7.92	8.51	7.67	8.27
Revenue (\$mm)									
Natural Gas									
U.S.	918	837	3,409	889	1,018	1,090	1,206	4,203	4,614
Canada	435	344	1,473	368	421	451	499	1,739	1,910
Overseas	9	8	38	1	1	1	1	4	4
Total	1,363	1,189	4,920	1,258	1,440	1,542	1,706	5,946	6,528
Oil									
Total	891	985	4,029	868	981	1,031	1,055	3,935	4,124
Total	2,254	2,174	8,950	2,126	2,421	2,572	2,762	9,881	10,652
Expense	433	496	1,759	386	484	514	552	1,937	2,130
Ebitda (\$mm)	1,821	1,677	7,191	1,740	1,937	2,058	2,209	7,944	8,521
Deprec., Deplet., & Amort.	549	634	2,443	633	633	633	633	2,532	2,532
Hedging and other	93		93					-	-
Ebit	1,179	1,043	4,655	1,107	1,304	1,425	1,576	5,412	5,989
Interest	101	106	421	110	110	110	110	440	440
Ebt	1,078	937	4,234	997	1,194	1,315	1,466	4,972	5,549
Income Tax	377	328	1,482	349	418	460	513	1,740	1,942
Net Income (\$mm)	700	609	2,752	648	776	855	953	3,232	3,607
Shares (millions)	449	448	1,790	450	450	450	450	1,800	450
Per Share (\$)	1.56	1.36	6.15	1.44	1.72	1.90	2.12	7.18	8.02
Ebitda Margin	81%	77%	80%	82%	80%	80%	80%	80%	80%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

Please see disclosures on the final page.



Disclaimer: This analysis was prepared by Kurt Wulff doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

McDep does no investment banking business. McDep is not paid by covered companies including revenue from advertising, trading, consulting, subscriptions or research service. McDep shall not own more than 1% of outstanding stock in a covered company. No one at McDep is on the Board of Directors at a covered company nor is anyone at a covered company on the Board of Directors of McDep.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

Certification: I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

Research Methodology/Ratings Description: McDep Associates is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.

Please see disclosures on the final page.