

Rating: Buy
S&P 500: 1466

Devon Energy Corporation

Volume Advances

<i>Symbol</i>	DVN	<i>Ebitda Next Twelve Months ending 6/30/08 (US\$mm)</i>	8,500
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	54
<i>Price (\$/sh)</i>	78.42	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/1/07	<i>Adjusted Reserves/Production NTM</i>	9.0
<i>Shares (mm)</i>	450	<i>EV/Ebitda</i>	5.3
<i>Market Capitalization (\$mm)</i>	35,300	<i>PV/Ebitda</i>	8.0
<i>Debt (\$mm)</i>	9,900	<i>Undeveloped Reserves (%)</i>	30
<i>Enterprise Value (EV) (\$mm)</i>	45,200	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	37.90
<i>Present Value (PV) (\$mm)</i>	67,900	<i>Present Value Proven Reserves(\$/boe)</i>	28.60
<i>Net Present Value (\$/share)</i>	129	<i>Present Value Proven Reserves(\$/mcfe)</i>	4.80
<i>Debt/Present Value</i>	0.15	<i>Earnings Next Twelve Months (US\$/sh)</i>	7.60
<i>McDep Ratio - EV/PV</i>	0.66	<i>Price/Earnings Next Twelve Months</i>	10
<i>Dividend Yield (%/year)</i>	0.7	<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\$66 a barrel and natural gas, \$11 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)** offers unlevered appreciation potential of 52% to estimated net present value (NPV) of \$129 a share revised up from \$115 a share on May 29 when we raised long-term oil price to \$66 a barrel from \$60. Second quarter results reported on August 1 disclosed higher than expected unlevered cash flow (Ebitda) driven by advancing production volume (see table Next Twelve Months Operating and Financial Estimates). Our lowest McDep Ratio large cap independent producer recommendation, Devon is concentrated 56% on natural gas by value (see table Functional Cash Flow and Present Value). Oil concentration of 44% includes resource value in deep Gulf of Mexico discoveries featured in disclosures in September 2006. Currently above \$8 a million btu and at \$72 a barrel, long-term natural gas and oil price appear to be in uptrends despite volatility of short-term quotes (see chart Six-Year Commodity Price Meter). Finally, DVN stock also has positive momentum as it trades above its 200-day average.

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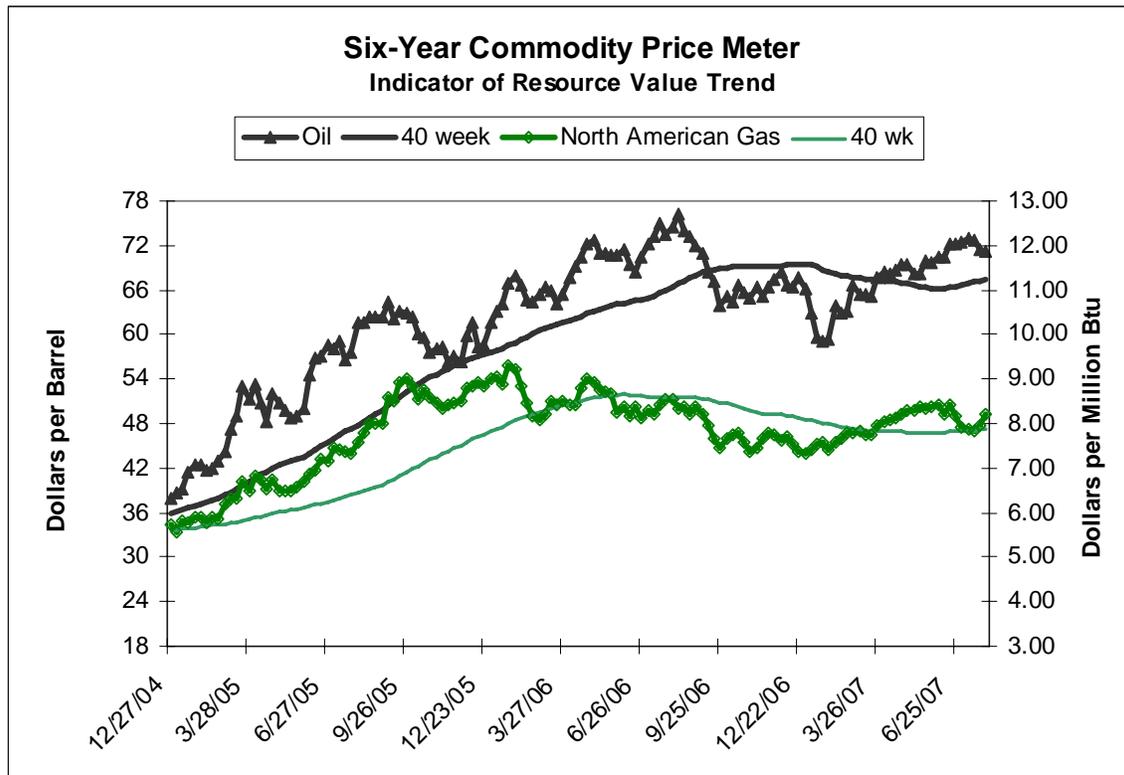
Devon Energy
Next Twelve Months Operating and Financial Results

	<i>Q2</i>	<i>Q3</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Next</i>
	<i>6/30/06</i>	<i>9/30/06</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>6/30/08</i>
Volume									
Natural Gas (mmcf)									
U.S.	1,493	1,624	1,551	1,625	1,701	1,701	1,701	1,682	1,701
Canada	689	662	659	615	626	626	626	623	626
Overseas	24	20	22	3	6	6	6	5	6
Total	2,206	2,306	2,232	2,243	2,333	2,333	2,333	2,311	2,333
Oil (mbd)	211	217	218	214	229	229	229	225	229
Total gas & oil (bcf)	316	332	1,293	318	337	341	341	1,337	1,353
Total gas & oil (mmb)	53	55	215	53	56	57	57	223	225
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.81	6.58	7.23	6.81	7.56	6.64	7.64	7.16	7.83
U.S.	5.91	5.70	6.02	6.08	6.36	5.60	6.44	6.12	6.59
Canada	5.70	5.53	6.13	6.65	6.86	6.04	6.94	6.62	7.11
Overseas	4.65	5.71	4.77	3.21	6.19	5.45	6.26	5.55	6.42
Total	5.83	5.65	6.04	6.23	6.50	5.72	6.57	6.25	6.73
Oil (\$/bbl)									
WTI Cushing	70.47	70.42	66.05	58.08	64.91	75.91	75.47	68.59	74.50
Worldwide	54.34	55.55	50.55	44.97	52.31	59.65	59.69	54.36	59.13
Total gas & oil (\$/mcf)	7.01	6.95	6.92	6.69	7.32	7.28	7.82	7.29	7.89
Revenue (\$mm)									
Natural Gas									
U.S.	802	852	3,409	889	985	876	1,008	3,758	4,095
Canada	357	337	1,473	368	391	348	400	1,507	1,625
Overseas	10	11	38	1	3	3	3	10	13
Total	1,170	1,199	4,920	1,258	1,379	1,227	1,411	5,275	5,733
Oil	1,044	1,110	4,029	868	1,089	1,256	1,256	4,469	4,938
Total	2,214	2,309	8,950	2,126	2,468	2,482	2,667	9,744	10,671
Expense	422	407	1,759	386	355	496	533	1,771	2,134
Ebitda (\$mm)	1,791	1,902	7,191	1,740	2,114	1,986	2,134	7,973	8,537
Deprec., Deplet., & Amort.	612	648	2,443	633	712	712	712	2,769	2,848
Hedging and other			93					-	-
Ebit	1,179	1,254	4,655	1,107	1,402	1,274	1,422	5,204	5,689
Interest	102	112	421	110	107	107	107	431	428
Ebt	1,077	1,142	4,234	997	1,295	1,167	1,315	4,773	5,261
Income Tax	377	400	1,482	349	453	408	460	1,671	1,841
Net Income (\$mm)	700	742	2,752	648	842	759	855	3,103	3,420
Shares (millions)	446	447	1,790	450	450	450	450	1,800	450
Per Share (\$)	1.57	1.66	6.15	1.44	1.87	1.69	1.90	6.89	7.60
Ebitda Margin	81%	82%	80%	82%	86%	80%	80%	82%	80%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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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	4,580	8.7	8.3	38,000	56%
Oil	3,960	9.4	7.6	30,000	44%
	8,540	9.0	8.0	68,000	100%
Debt (US\$mm)					9,900
Net Present Value (US\$mm)					58,100
Shares (mm)					450
Net Present Value - Standard Estimate (US\$/sh)					129
Net Present Value - Approximation by Correlation (US\$/sh)					122



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