

Rating: Buy
S&P 500: 1490
Intraday

Devon Energy Corporation Oil Strength, Natural Gas Potential

<i>Symbol</i>	DVN	<i>Ebitda Next Twelve Months ending 9/30/08 (US\$m)</i>	9,500
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	52
<i>Price (\$/sh)</i>	91.30	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/7/07	<i>Adjusted Reserves/Production NTM</i>	8.9
<i>Shares (mm)</i>	450	<i>EV/Ebitda</i>	5.4
<i>Market Capitalization (\$mm)</i>	41,100	<i>PV/Ebitda</i>	7.2
<i>Debt (\$mm)</i>	10,000	<i>Undeveloped Reserves (%)</i>	30
<i>Enterprise Value (EV) (\$mm)</i>	51,100	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	41.90
<i>Present Value (PV) (\$mm)</i>	68,100	<i>Present Value Proven Reserves(\$/boe)</i>	28.70
<i>Net Present Value (\$/share)</i>	129	<i>Present Value Proven Reserves(\$/mcf)</i>	4.80
<i>Debt/Present Value</i>	0.15	<i>Earnings Next Twelve Months (US\$/sh)</i>	8.59
<i>McDep Ratio - EV/PV</i>	0.75	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	0.6	<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 33% to estimated net present value (NPV) of \$129 a share. Third quarter results reported today told of advancing production volume driving unlevered cash flow (Ebitda) (see table Next Twelve Months Operating and Financial Estimates). NPV has become almost entirely supported by projected cash flow for the next twelve months capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) (see table Functional Cash Flow and Present Value). Previously we had estimated that future production from the company's deep water Gulf of Mexico leases could add \$13 a share to NPV beyond the value implied by current cash flow. Meanwhile, current results are beginning to reflect a renewed rise in oil price. Six-year futures may reach another double as was the case from the end of 2004 to mid 2006, subject to short declines from time to time (see chart Six-Year Commodity Price Meter). Devon's NPV is concentrated 56% on natural gas that is at an unexpectedly low level relative to oil price (see chart Oil/Natural Gas Futures Ratio).

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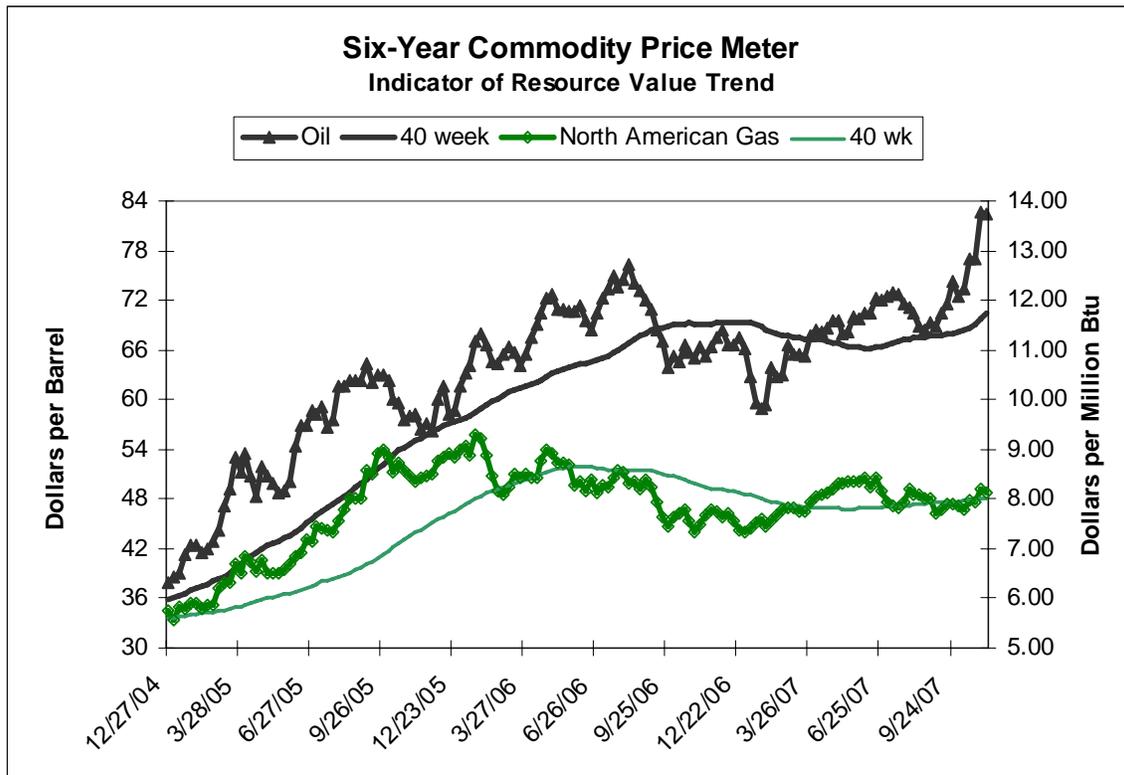
Devon Energy
Next Twelve Months Operating and Financial Results

	<i>Q3</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>9/30/06</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>2007E</i>	<i>3/31/08</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>9/30/08</i>
Volume									
Natural Gas (mmcf)									
U.S.	1,624	1,701	1,783	1,783	1,724	1,783	1,783	1,783	1,783
Canada	662	626	630	630	625	630	630	630	630
Overseas	20	6	5	5	5	5	5	5	5
Total	2,306	2,333	2,418	2,418	2,354	2,418	2,418	2,418	2,418
Oil (mbd)	217	229	215	215	218	215	215	215	215
Total gas & oil (bcf)	332	337	341	341	1,337	337	337	341	1,357
Total gas & oil (mmb)	55	56	57	57	223	56	56	57	226
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.58	7.56	6.16	7.24	6.94	8.38	7.97	8.15	7.93
U.S.	5.70	6.36	5.23	6.15	5.95	7.12	6.78	6.92	6.74
Canada	5.53	6.86	5.52	6.48	6.37	7.51	7.14	7.30	7.11
Overseas	5.71	6.19	6.61	7.76	6.26	8.99	8.56	8.74	8.51
Total	5.65	6.50	5.31	6.24	6.06	7.22	6.88	7.02	6.84
Oil (\$/bbl)									
WTI Cushing	70.42	64.91	75.48	91.29	72.44	92.23	89.70	87.47	90.17
Worldwide	55.55	52.31	58.02	70.70	56.52	72.52	69.50	67.19	69.97
Total gas & oil (\$/mcf)	6.95	7.32	6.83	8.17	7.26	8.92	8.51	8.48	8.52
Revenue (\$mm)									
Natural Gas									
U.S.	852	985	859	1,009	3,742	1,155	1,099	1,136	4,399
Canada	337	391	320	376	1,455	430	410	423	1,639
Overseas	11	3	3	4	11	4	4	4	16
Total	1,199	1,379	1,182	1,388	5,207	1,590	1,513	1,563	6,053
Oil	1,110	1,089	1,148	1,399	4,504	1,419	1,360	1,330	5,509
Total	2,309	2,468	2,330	2,787	9,711	3,009	2,873	2,892	11,562
Expense	407	355	374	502	1,616	542	517	521	2,081
Ebitda (\$mm)	1,902	2,114	1,956	2,286	8,095	2,467	2,356	2,372	9,481
Deprec., Deplet., & Amort.	648	712	775	775	2,895	775	775	775	3,100
Hedging and other					-				-
Ebit	1,254	1,402	1,181	1,511	5,200	1,692	1,581	1,597	6,381
Interest	112	107	108	108	433	108	108	108	432
Ebt	1,142	1,295	1,073	1,403	4,767	1,584	1,473	1,489	5,949
Income Tax	400	453	376	491	1,669	555	516	521	2,082
Net Income (\$mm)	742	842	698	912	3,099	1,030	958	968	3,867
Shares (millions)	447	450	450	450	1,800	450	450	450	450
Per Share (\$)	1.66	1.87	1.55	2.03	6.89	2.29	2.13	2.15	8.59
Ebitda Margin	82%	86%	84%	82%	83%	82%	82%	82%	82%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

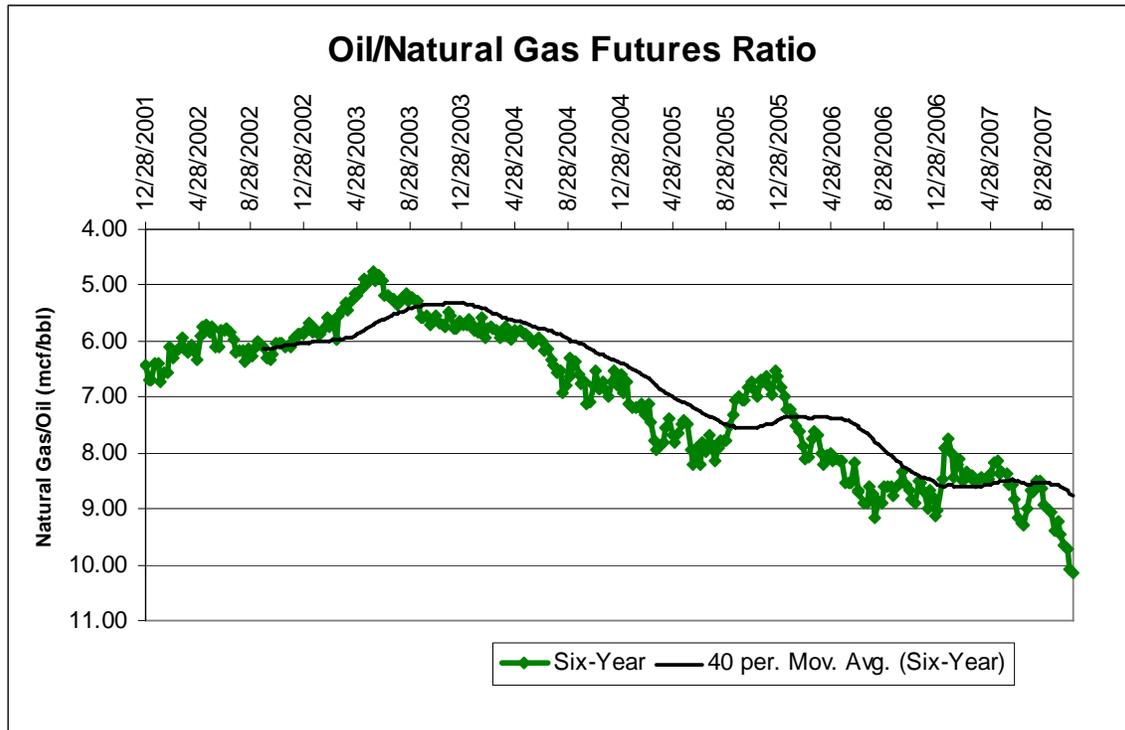
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Devon Energy
Functional Cash Flow and Present Value

	<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	4,950	8.4	7.7	38,000	56%
Oil	4,530	10.0	6.6	30,100	44%
	9,480	8.9	7.2	68,100	100%
Debt (US\$mm)					10,000
Net Present Value (US\$mm)					58,100
Shares (mm)					450
Net Present Value - Standard Estimate (US\$/sh)					129
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					126



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