



Independent Stock Idea

May 6, 2009

rating: buy
s&p 500: 913 intraday

Devon Energy (DVN) Efficient Producer

| | | | |
|---|--------|--|-------|
| <i>Symbol</i> | DVN | <i>Ebitda Next Twelve Months ending 3/31/10 (US\$mm)</i> | 5,200 |
| <i>Rating</i> | Buy | <i>North American Natural Gas/Ebitda (%)</i> | 55 |
| <i>Price (\$/sh)</i> | 59.56 | <i>Natural Gas and Oil Production/Ebitda (%)</i> | 100 |
| <i>Pricing Date</i> | 5/6/09 | <i>Adjusted Reserves/Production NTM</i> | 8.8 |
| <i>Shares (mm)</i> | 444 | <i>EV/Ebitda</i> | 6.9 |
| <i>Market Capitalization (\$mm)</i> | 26,400 | <i>PV/Ebitda</i> | 11.7 |
| <i>Debt (\$mm)</i> | 9,100 | <i>Undeveloped Reserves (%)</i> | 20 |
| <i>Enterprise Value (EV) (\$mm)</i> | 35,500 | <i>Natural Gas and Oil Ebitda (\$/boe)</i> | 20.80 |
| <i>Present Value (PV) (\$mm)</i> | 60,600 | <i>Present Value Proven Reserves(\$/boe)</i> | 25.00 |
| <i>Net Present Value (\$/share)</i> | 116 | <i>Present Value Proven Reserves(\$/mcf)</i> | 4.20 |
| <i>Debt/Present Value</i> | 0.15 | <i>Earnings Next Twelve Months (US\$/sh)</i> | 3.02 |
| <i>McDep Ratio - EV/PV</i> | 0.59 | <i>Price/Earnings Next Twelve Months</i> | 20 |
| <i>Dividend Yield (%/year)</i> | 1.1 | <i>Indicated Annual Dividend (US\$/sh)</i> | 0.64 |
| 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\$75 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)** offers unlevered appreciation potential of 71% to a McDep Ratio of 1.0 and levered appreciation potential of 95% to Net Present Value (NPV) of \$116 a share. During the first quarter, according to results released today, the company generated cash from oil and gas production of about \$18 a barrel of oil equivalent as the difference between price of about \$24 and cash operating costs of about \$6. Though unlevered cash flow (Ebitda) was less than our expectations from three months ago, operating costs are among the lowest. We project gradual increases in Ebitda in the second half of 2009 (see table [Next Twelve Months Operating and Financial Estimates](#)). By latest disclosures, oil and gas reserves, weighted by development, are concentrated 69% in natural gas and 31% in oil by heating value (see table [Production and Reserves, 2008](#)). Our valuation capitalizes cash flow at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) for natural gas and oil (see table [Functional Cash Flow and Present Value](#)). Pointing to expected oil price recovery, futures prices for the next six years averaged near \$71 a barrel recently (see chart [Six-Year Commodity Price Meter](#)). Performing well, considering the current state of natural gas, Devon is positioned to prosper as the clean fuel regains market values.

Kurt H. Wulff, CFA



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| Devon Energy | | | | | | | | | |
|--|----------------|-----------------|---------------|----------------|----------------|----------------|-----------------|--------------|----------------|
| Next Twelve Months Operating and Financial Results | | | | | | | | | |
| | | | | | | | | | <i>Next</i> |
| | <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>Twelve</i> |
| | <i>3/31/08</i> | <i>12/31/08</i> | <i>2008</i> | <i>3/31/09</i> | <i>6/30/09</i> | <i>9/30/09</i> | <i>12/31/09</i> | <i>2009E</i> | <i>Months</i> |
| | <i>3/31/08</i> | <i>12/31/08</i> | <i>2008</i> | <i>3/31/09</i> | <i>6/30/09</i> | <i>9/30/09</i> | <i>12/31/09</i> | <i>2009E</i> | <i>3/31/10</i> |
| Volume | | | | | | | | | |
| Natural Gas (mmcf) | | | | | | | | | |
| U.S. | 1,877 | 2,106 | 1,988 | 2,131 | 2,106 | 2,106 | 2,106 | 2,112 | 2,106 |
| Canada | 567 | 583 | 581 | 585 | 583 | 583 | 583 | 583 | 583 |
| Overseas | 6 | 8 | 6 | 3 | 8 | 8 | 8 | 7 | 8 |
| Total | 2,450 | 2,697 | 2,575 | 2,719 | 2,697 | 2,697 | 2,697 | 2,702 | 2,697 |
| Days | 91 | 92 | 366 | 90 | 91 | 92 | 92 | 365 | 365 |
| Oil (mbd) | 231 | 230 | 222 | 232 | 230 | 230 | 230 | 231 | 230 |
| Total gas & oil (bcf) | 349 | 375 | 1,427 | 370 | 371 | 375 | 375 | 1,491 | 1,489 |
| Total gas & oil (mmb) | 58 | 63 | 238 | 61 | 62 | 63 | 63 | 248 | 248 |
| Price | | | | | | | | | |
| Natural gas (\$/mcf) | | | | | | | | | |
| Henry Hub (\$/mmbtu) | 8.02 | 6.95 | 9.04 | 4.90 | 3.56 | 3.96 | 4.84 | 4.31 | 4.54 |
| U.S. | 7.24 | 5.11 | 7.67 | 3.53 | 3.13 | 3.49 | 4.26 | 3.60 | 3.99 |
| Canada | 7.53 | 6.02 | 8.12 | 4.48 | 3.13 | 3.49 | 4.26 | 3.84 | 3.99 |
| Overseas | 8.41 | 4.90 | 8.15 | 3.47 | 3.47 | 3.47 | 3.47 | 3.47 | 3.47 |
| Total | 7.31 | 5.31 | 7.77 | 3.73 | 3.13 | 3.49 | 4.26 | 3.65 | 3.99 |
| Oil (\$/bbl) | | | | | | | | | |
| WTI Cushing | 97.94 | 58.45 | 99.59 | 42.96 | 52.92 | 57.55 | 60.64 | 53.52 | 58.51 |
| Worldwide | 74.80 | 34.96 | 70.70 | 28.35 | 34.93 | 37.98 | 40.03 | 35.35 | 38.61 |
| Total gas & oil (\$/mcf) | 9.17 | 5.48 | 9.14 | 4.07 | 4.04 | 4.45 | 5.07 | 4.41 | 4.82 |
| Revenue (\$mm) | | | | | | | | | |
| Natural Gas | | | | | | | | | |
| U.S. | 1,237 | 990 | 5,565 | 677 | 600 | 675 | 825 | 2,778 | 3,070 |
| Canada | 389 | 323 | 1,721 | 236 | 166 | 187 | 228 | 817 | 849 |
| Overseas | 5 | 4 | 18 | 1 | 3 | 3 | 3 | 9 | 10 |
| Total | 1,630 | 1,317 | 7,304 | 914 | 769 | 865 | 1,056 | 3,603 | 3,930 |
| Oil | 1,573 | 740 | 5,736 | 591 | 732 | 805 | 848 | 2,976 | 3,246 |
| Total | 3,203 | 2,056 | 13,040 | 1,505 | 1,501 | 1,670 | 1,904 | 6,579 | 7,175 |
| Expense | 446 | 468 | 2,508 | 401 | 420 | 468 | 533 | 1,822 | 2,009 |
| Ebitda (\$mm) | 2,756 | 1,589 | 10,533 | 1,104 | 1,080 | 1,202 | 1,371 | 4,757 | 5,166 |
| Deprec., Deplet., & Amort. | 816 | 1,063 | 3,595 | 693 | 693 | 693 | 693 | 2,772 | 2,772 |
| Hedging and other | | | - | | | | | - | - |
| Ebit | 1,940 | 526 | 6,938 | 411 | 387 | 509 | 678 | 1,985 | 2,394 |
| Interest | 102 | 68 | 329 | 83 | 83 | 83 | 83 | 332 | 332 |
| Ebt | 1,838 | 458 | 6,609 | 328 | 304 | 426 | 595 | 1,653 | 2,062 |
| Income Tax | 608 | 160 | 2,177 | 115 | 107 | 149 | 208 | 579 | 722 |
| Net Income (\$mm) | 1,230 | 297 | 4,431 | 213 | 198 | 277 | 387 | 1,075 | 1,340 |
| Shares (millions) | 449 | 444 | 1,789 | 444 | 444 | 444 | 444 | 1,776 | 444 |
| Per Share (\$) | 2.74 | 0.67 | 9.89 | 0.48 | 0.45 | 0.62 | 0.87 | 2.42 | 3.02 |
| Ebitda Margin | 86% | 77% | 81% | 73% | 72% | 72% | 72% | 72% | 72% |
| Tax Rate | 33% | 35% | 33% | 35% | 35% | 35% | 35% | 35% | 35% |



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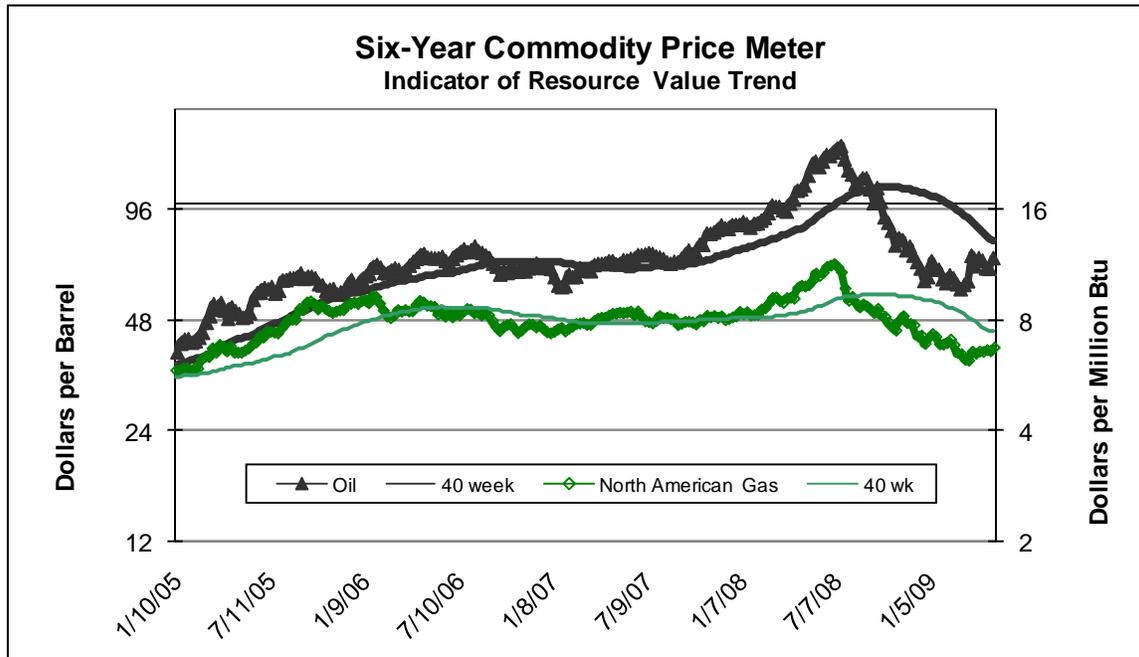
| Devon Energy | | | | | | | | |
|-------------------------------|----------------------|-----------------|----------|----------------------------|--------------|--------------|------------|----------|
| Production and Reserves, 2008 | | | | | | | | |
| | | | | 12/31/2008 Proven Reserves | | | Weighted | NTM |
| | | 2008 Production | | Developed | Undeveloped | Weighted | Life Index | Adjusted |
| | | (daily) | (annual) | (bcf or mmb) | (bcf or mmb) | (bcf or mmb) | (years) | R/P |
| | | | | | | | | (years) |
| North American Natural Gas | | | | | | | | |
| | U.S. Onshore | 1,833 | 669 | 6,469 | 1,510 | 7,224 | 10.8 | |
| | U.S. Offshore | 156 | 57 | 212 | 178 | 301 | 5.3 | |
| | Canada | 581 | 212 | 1,357 | 153 | 1,434 | 6.8 | |
| | Other | 5 | 2 | 6 | | 6 | 3.0 | |
| | Total | 2,575 | 940 | 8,044 | 1,841 | 8,965 | 9.5 | 9.1 |
| Oil | | | | | | | | |
| | U.S. Onshore | 96 | 35 | 371 | 77 | 410 | 11.7 | |
| | U.S. Offshore | 16 | 6 | 23 | 13 | 30 | 4.9 | |
| | Canada | 71 | 26 | 141 | 28 | 155 | 6.0 | |
| | Overseas | 38 | 14 | 58 | 70 | 93 | 6.6 | |
| | | 222 | 81 | 593 | 188 | 687 | 8.5 | 8.2 |
| | Total Oil Equivalent | 651 | 238 | 1,934 | 495 | 2,181 | 9.2 | 8.8 |

| Devon Energy | | | | | |
|---|------------|----------|--------|----------|--------|
| Functional Cash Flow and Present Value | | | | | |
| | | | | Present | |
| | NTM Ebitda | Adjusted | PV/ | Value | |
| | (US\$mm) | R/P | Ebitda | (US\$mm) | |
| | | | | | |
| North American Natural Gas | 2,820 | 9.1 | 14.4 | 40,500 | 67% |
| Oil | 2,350 | 8.2 | 8.6 | 20,100 | 33% |
| | 5,170 | 8.8 | 11.7 | 60,600 | 100% |
| Debt (US\$mm) | | | | | 9,100 |
| Net Present Value (US\$mm) | | | | | 51,500 |
| Shares (mm) | | | | | 444 |
| Net Present Value - Standard Estimate (US\$/sh) | | | | | 116 |
| NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh) | | | | | 117 |



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