



Independent Stock Idea

February 11, 2009

rating: hold
s&p 500: 827

Encore Acquisition Company (EAC) Lower NPV to \$44 a Share

<i>Symbol</i>	EAC	<i>Ebitda Next Twelve Months ending 12/31/09 (US\$m)</i>	304
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	25
<i>Price (\$/sh)</i>	29.05	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/10/09	<i>Adjusted Reserves/Production NTM</i>	11.4
<i>Shares (mm)</i>	53	<i>EV/Ebitda</i>	9.4
<i>Market Capitalization (\$mm)</i>	1,530	<i>PV/Ebitda</i>	12.0
<i>Debt (\$mm)</i>	1,330	<i>Undeveloped Reserves (%)</i>	20
<i>Enterprise Value (EV) (\$mm)</i>	2,860	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	20.70
<i>Present Value (PV) (\$mm)</i>	3,650	<i>Present Value Proven Reserves(\$/boe)</i>	19.60
<i>Net Present Value (\$/share)</i>	44	<i>Oil and Gas Ebitda Margin (%)</i>	53
<i>Debt/Present Value</i>	0.37	<i>Earnings Next Twelve Months (US\$/sh)</i>	
<i>McDep Ratio - EV/PV</i>	0.78	<i>Price/Earnings Next Twelve Months</i>	
<i>Dividend Yield (%/year)</i>	0.0	<i>Indicated Annual Dividend (US\$/sh)</i>	0.00
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.			
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 bu.			
For historical research on Encore since 2003 see http://www.mcdep.com/4eac.htm			

Summary and Recommendation

Estimated Net Present Value (NPV) of \$44 a share is about 50% higher than stock price for hold-rated **Encore Acquisition Company (EAC)**. Released last night, fourth quarter results displayed lower unlevered cash flow (Ebitda) driven by crude oil and natural gas prices (see table Next Twelve Months Operating and Financial Estimates). In a sign of the times, once promising reserves expected to be recovered by an innovative High Pressure Air Injection (HPAI) technique were written down as uneconomic at year-end oil price. Management now looks to tried and true water flooding and potential carbon dioxide injection for its recovery of large unproven volumes in its largest oil field, the Cedar Creek Anticline. Lower proven reserves contribute to lower NPV in our valuation that capitalizes cash flow at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) for natural gas and oil. At the same time, we exclude price insurance from our estimates except that we apply recent favorable results of hedging to reduce debt. Latest calculations result in NPV concentrated 25% on natural gas and 75% on oil (see table Functional Cash Flow and Present Value). Pointing to expected oil price recovery, futures prices for the next six years averaged US\$63 a barrel recently (see charts Six-Year Commodity Price Meter and Six-Year and One-Year Natural Gas and Oil Futures).

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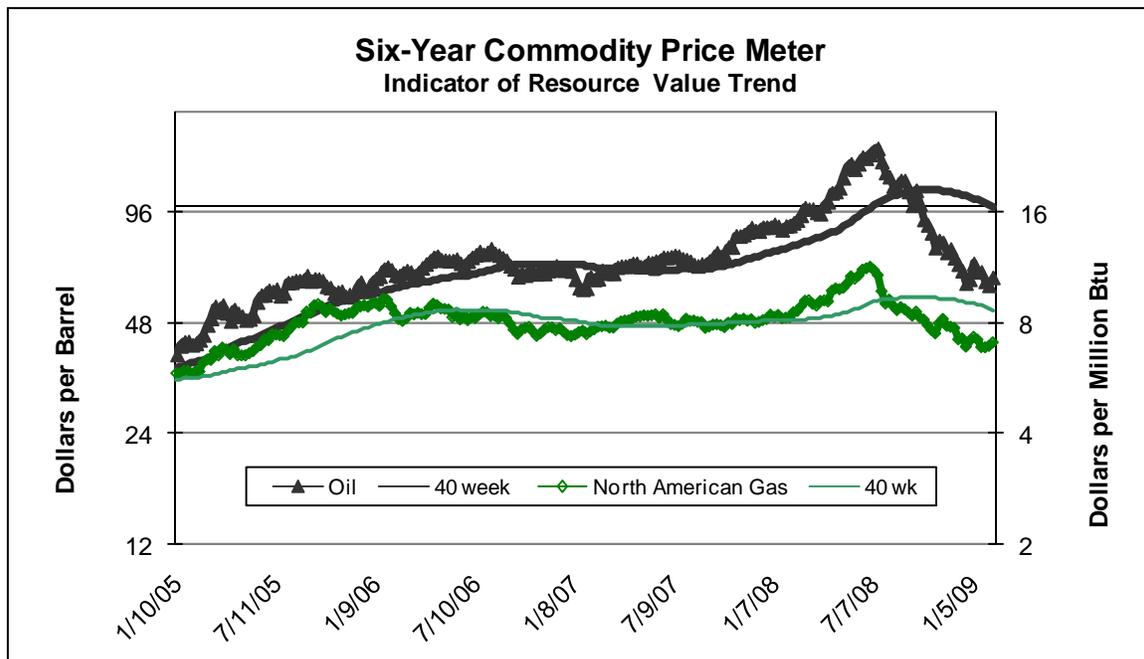
Encore Acquisition Company									
Next Twelve Months Operating and Financial Estimates									
									<i>Next</i>
	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Months</i>
	<i>12/31/07</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>12/31/09</i>
Volume									
Natural Gas (mmcf)	60.9	75.8	81.1	72.1	77.9	77.9	77.9	77.9	77.9
Days	92	92	92	366	90	91	92	92	365
Oil (mbd)	27.4	27.0	28.3	27.46	27.2	27.2	27.2	27.2	27.17
Total (mb)	3,455	3,645	3,847	14,445	3,613	3,653	3,693	3,693	14,653
Total (mbd)	37.6	39.6	41.8	39.5	40.1	40.1	40.1	40.1	40.1
Price									
Henry Hub (\$/mmbtu)	6.97	10.25	6.95	9.04	5.14	4.96	5.28	5.95	5.33
Differential (\$/mmbtu)	0.08	0.68	0.98	0.41	0.23	0.23	0.24	0.27	0.24
EAC (\$/mcf)	6.90	9.57	5.97	8.63	4.91	4.73	5.04	5.68	5.09
WTI Cushing (\$/bbl)	90.67	117.99	58.45	99.59	40.80	48.26	52.41	54.67	49.03
Differential	14.41	9.78	11.82	10.02	8.16	4.83	5.24	5.47	5.87
EAC (\$/bbl)	76.26	108.21	46.63	89.56	32.64	43.43	47.17	49.20	43.17
Total (\$/bbl)	66.83	92.00	43.14	78.06	31.61	38.58	41.70	44.31	39.09
Revenue (\$mm)									
Natural Gas	39	67	45	227	34	34	36	41	145
Oil	192	269	121	900	80	107	118	123	428
Total	231	335	166	1,128	114	141	154	164	573
Expense									
	92	126	72	459	54	66	72	77	269
Ebitda									
	139	210	94	668	61	75	82	87	304
Exploration	4	13	9	39	9	9	9	9	36
Deprec., Deplet., & Amort.	48	58	69	228	58	58	59	59	234
Partnership, hedging, other	14	26	(61)	(33)					-
Ebit									
	72	113	76	434	3	16	23	28	69
Interest	21	18	19	72	19	19	19	19	76
Ebt									
	51	95	57	362	(16)	(3)	4	9	(7)
Income Tax	13	33	20	119	(6)	(1)	1	3	(2)
Net Income (\$mm)									
	38	62	37	243	(11)	(2)	2	6	(4)
Per Share (\$)	0.70	1.15	0.71	4.59	(0.20)	(0.03)	0.04	0.11	(0.08)
Shares (millions)									
	54	54	53	53	53	53	53	53	53
Ebitda Margin	60%	63%	57%	59%	53%	53%	53%	53%	53%
Tax rate	25%	35%	35%	33%	35%	35%	35%	35%	35%



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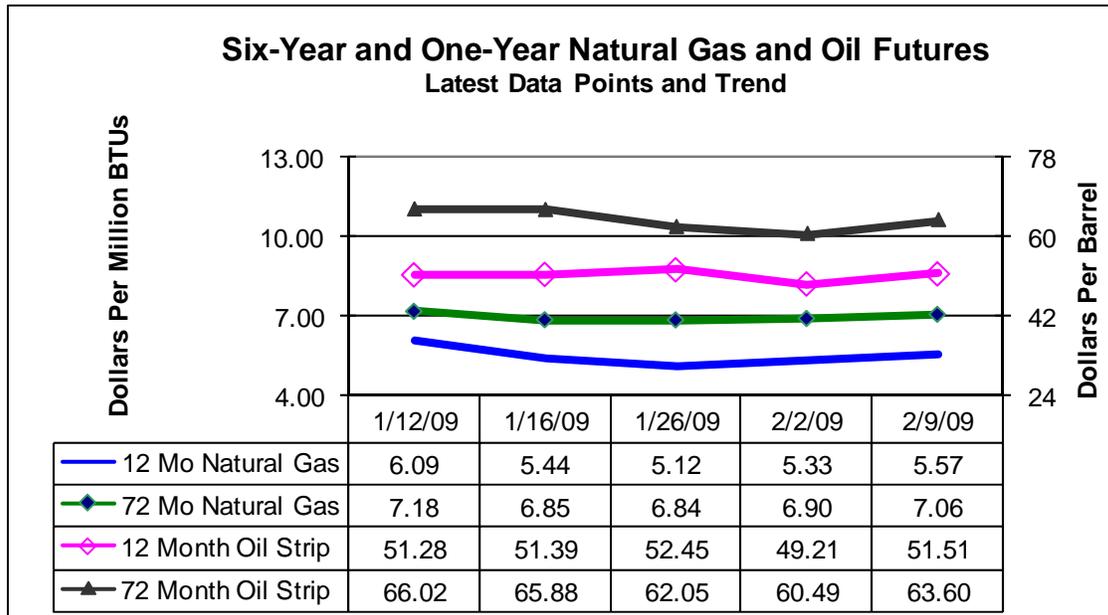
Encore Acquisition Company					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	77	9.7	11.7	900	25%
Oil	227	12.3	12.1	2,740	75%
	304	11.4	12.0	3,640	100%
Debt (US\$mm)					1,330
Net Present Value (US\$mm)					2,310
Shares (mm)					53
Net Present Value - Standard Estimate (US\$/sh)					44
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					45





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