



# Independent Stock Idea

November 2, 2009

rating: none  
s&p 500: 1050 intraday

## Encore Acquisition Company (EAC) Denbury Resources Offers \$50 a Share to Acquire Encore

<i>Symbol</i>	EAC	<i>Ebitda Next Twelve Months ending 9/30/10 (US\$m)</i>	539
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	21
<i>Price (\$/sh)</i>	45.30	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/2/09	<i>Adjusted Reserves/Production NTM</i>	11.7
<i>Shares (mm)</i>	52	<i>EV/Ebitda</i>	7.5
<i>Market Capitalization (\$mm)</i>	2,370	<i>PV/Ebitda</i>	8.0
<i>Debt (\$mm)</i>	1,700	<i>Undeveloped Reserves (%)</i>	18
<i>Enterprise Value (EV) (\$mm)</i>	4,070	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	32.90
<i>Present Value (PV) (\$mm)</i>	4,310	<i>Present Value Proven Reserves(\$/boe)</i>	20.40
<i>Net Present Value (\$/share)</i>	50	<i>Oil and Gas Ebitda Margin (%)</i>	60
<i>Debt/Present Value</i>	0.39	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.76
<i>McDep Ratio - EV/PV</i>	0.94	<i>Price/Earnings Next Twelve Months</i>	60
<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, \$8 a million btu.			
For historical research on Encore since 2003 see <a href="http://www.mcdep.com/4eac.htm">http://www.mcdep.com/4eac.htm</a>			

### Summary and Recommendation

Denbury Resources (DNR) offers \$15 a share in cash and \$35 in Denbury stock for each share of **Encore Acquisition Company (EAC)**. The exact exchange ratio for the shares would be in the range of 2.1 to 2.6 depending on the price of Denbury stock prior to closing. On the basis of DNR at \$15.10 a share, its 200-day average of a week ago, the deemed price of \$50 an Encore share exactly matches our Net Present Value (NPV) of \$50 a share and translates to a McDep Ratio of 1.00. As a result we remove our buy recommendation on Encore stock. We congratulate Chairman Jon Brumley, who extends his long record of making money for investors, in this case with the help of his son, Chief Executive Jonny Brumley and the people of Encore. Investors earned about 22% a year in EAC stock as it appreciated to 3.6 times from July 1, 2003 to November 2, 2009. Normalized to a conservative financial structure, the debt-adjusted total return might be about 18% a year.

Kurt H. Wulff, CFA



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