



# Independent Stock Idea

November 4, 2010

rating: contrarian buy  
s&p 500: 1197

## EOG Resources (EOG) Buy on Stock Price Drop

<i>Symbol</i>	EOG	<i>Ebitda Next Twelve Months ending 9/30/11 (US\$mm)</i>	3,500
<i>Rating</i>	Contrarian Buy	<i>North American Natural Gas/Ebitda (%)</i>	34
<i>Price (\$/sh)</i>	88.64	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/3/10	<i>Adjusted Reserves/Production NTM</i>	8.9
<i>Shares (mm)</i>	251	<i>EV/Ebitda</i>	7.7
<i>Market Capitalization (\$mm)</i>	22,200	<i>PV/Ebitda</i>	10.0
<i>Debt (\$mm)</i>	4,900	<i>Undeveloped Reserves (%)</i>	46
<i>Enterprise Value (EV) (\$mm)</i>	27,100	<i>Natural Gas and Oil Ebitda (\$/mcf)</i>	3.80
<i>Present Value (PV) (\$mm)</i>	35,000	<i>Present Value Proven Reserves(\$/boe)</i>	19.50
<i>Net Present Value (\$/share)</i>	120	<i>Present Value Proven Reserves(\$/mcf)</i>	3.20
<i>Debt/Present Value</i>	0.14	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.60
<i>McDep Ratio - EV/PV</i>	0.78	<i>Price/Earnings Next Twelve Months</i>	55
<i>Dividend Yield (%/year)</i>	0.7	<i>Indicated Annual Dividend (US\$/sh)</i>	0.62
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 EOG since 2006 see <a href="http://www.mcdep.com/3eog.htm">http://www.mcdep.com/3eog.htm</a>			

### Summary and Recommendation

A one-day drop in stock price of 9% presents opportunity, we believe, in Contrarian Buy-recommended **EOG Resources (EOG)** at a McDep Ratio of 0.78. Reduced natural gas drilling and delays in oil well completions caused the company to lower its growth forecast. The new forecast matches the more cautious projection we had been using (see table Next Twelve Months Operating and Financial Estimates on page 2). Moreover, third quarter results released late November 2 matched our expectations from four months ago for total unlevered cash flow (Ebitda). More importantly, delays for the next year do not cause us to change our NPV of \$120 a share (see table Functional Cash Flow and Present Value on page 3). A shortage of fracturing service that has intensified in the past quarter accelerates an industry shift to higher profit oil drilling from lower profit natural gas drilling. Well-positioned for that transition, EOG is a large cap leader in new horizontal oil plays including the South Texas Eagle Ford and the North Dakota Bakken. Those two areas offer a combined 1.3 billion barrels of unproven resource potential much of which management expects to prove in the next several years (see slides on pages 3-4). The main risk may be timing with EOG stock in an apparent downtrend as it trades below its 200-day average of \$99. Yet, low financial risk, signaled by a 0.14 ratio of debt to present value, combined with low McDep Ratio and capable management overcome short-term stock price concern in our opinion.

Kurt H. Wulff, CFA



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EOG Resources Inc.									
Next Twelve Months Operating and Financial Estimates									
									<i>Next Twelve Months</i>
	<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>9/30/11</i>
	<i>9/30/09</i>	<i>6/30/10</i>	<i>9/30/10</i>	<i>12/31/10</i>	<i>2010E</i>	<i>3/31/11</i>	<i>6/30/11</i>	<i>9/30/11</i>	<i>9/30/11</i>
<b>Volume</b>									
Natural Gas (mmcf)									
U.S.	1,128	1,069	1,175	1,240	<b>1,132</b>	1,240	1,240	1,240	<b>1,240</b>
Canada	219	204	200	180	<b>199</b>	180	180	180	<b>180</b>
Overseas	281	356	347	300	<b>342</b>	300	300	300	<b>300</b>
Total	1,628	1,629	1,722	1,720	<b>1,673</b>	1,720	1,720	1,720	<b>1,720</b>
Days	92	91	92	92	<b>365</b>	90	91	92	<b>365</b>
Oil (mbd)	84	98	109	120	<b>104</b>	132	145	160	<b>140</b>
Total gas & oil (bcf)	196	202	219	225	<b>839</b>	226	236	247	<b>933</b>
Total gas & oil (mmcf)	2,130	2,218	2,378	2,441	<b>2,298</b>	2,514	2,593	2,680	<b>2,557</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	3.39	4.09	4.38	3.66	<b>4.36</b>	4.13	4.10	4.26	<b>4.04</b>
U.S.	3.27	4.12	4.21	3.36	<b>4.19</b>	3.80	3.77	3.92	<b>3.71</b>
Canada	3.15	3.60	3.42	3.36	<b>3.92</b>	3.80	3.77	3.92	<b>3.71</b>
Overseas	1.86	2.63	2.63	2.63	<b>2.62</b>	2.63	2.63	2.63	<b>2.63</b>
Total	3.01	3.73	3.80	3.24	<b>3.84</b>	3.59	3.57	3.69	<b>3.52</b>
Oil (\$/bbl)									
WTI Cushing	68.22	77.85	76.08	82.20	<b>78.70</b>	83.79	84.87	85.71	<b>84.14</b>
Worldwide	52.14	63.34	60.95	65.85	<b>63.90</b>	67.12	67.99	68.67	<b>67.52</b>
Total gas & oil (\$/mcf)	4.35	5.54	5.55	5.52	<b>5.69</b>	5.99	6.18	6.47	<b>6.05</b>
<b>Revenue (\$mm)</b>									
Natural Gas									
U.S.	339	401	455	384	<b>1,731</b>	424	425	447	<b>1,680</b>
Canada	63	67	63	56	<b>285</b>	62	62	65	<b>244</b>
Overseas	48	85	84	73	<b>328</b>	71	72	73	<b>288</b>
Total	451	553	602	512	<b>2,344</b>	556	559	585	<b>2,212</b>
Oil	401	565	613	728	<b>2,428</b>	799	900	1,011	<b>3,438</b>
Total	852	1,118	1,215	1,240	<b>4,772</b>	1,355	1,459	1,596	<b>5,650</b>
<b>Expense</b>	337	411	454	471	<b>1,752</b>	515	554	606	<b>2,147</b>
<b>Ebitda (\$mm)</b>	515	707	761	769	<b>3,020</b>	840	905	989	<b>3,503</b>
Exploration	117	149	50	160	<b>503</b>	160	160	160	<b>640</b>
Deprec., Deplet., & Amort.	385	465	501	501	<b>1,899</b>	501	501	501	<b>2,004</b>
Hedging and other	(331)	(8)	107	50	<b>152</b>	20	20	20	<b>110</b>
<b>Ebit</b>	344	101	103	58	<b>466</b>	159	224	308	<b>749</b>
Interest	30	30	33	33	<b>121</b>	33	33	33	<b>132</b>
<b>Ebt</b>	314	71	70	25	<b>345</b>	126	191	275	<b>617</b>
Income Tax	110	25	24	9	<b>121</b>	44	67	96	<b>216</b>
<b>Net Income (\$mm)</b>	204	46	45	16	<b>224</b>	82	124	179	<b>401</b>
<b>Shares (millions)</b>	252	255	251	251	<b>253</b>	251	251	250	<b>251</b>
Per Share (\$)	0.81	0.18	0.18	0.06	<b>0.88</b>	0.33	0.49	0.72	<b>1.60</b>
Ebitda Margin	60%	63%	63%	62%	<b>63%</b>	62%	62%	62%	<b>62%</b>



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EOG Resources Inc.					
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	1,190	11.5	15.1	18,000	51%
Rest of World Natural Gas	180	7.4	7.8	1,400	4%
Oil	2,130	5.1	7.3	15,600	45%
	3,500	8.9	10.0	35,000	100%
Debt (US\$mm)					4,900
Net Present Value (US\$mm)					30,100
Shares (mm)					251
Net Present Value - Standard Estimate (US\$/sh)					120
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					101

## EOG Resources Outstanding Horizontal Liquids Inventory

	<b>Net After Royalty (NAR) Estimate</b>	<b>Net Acres (000's)</b>
	<b>Total Estimated Resource Potential*</b>	
South Texas Eagle Ford	900 MMboe	505
Bakken/Three Forks	420 MMboe	580
Barnett Combo Core	370 MMboe	160
Leonard Shale	>65 MMboe	49 of 120
DJ Basin Niobrara	<u>Too Soon</u>	<u>400</u>
	1.8 Bnboe**	1,694

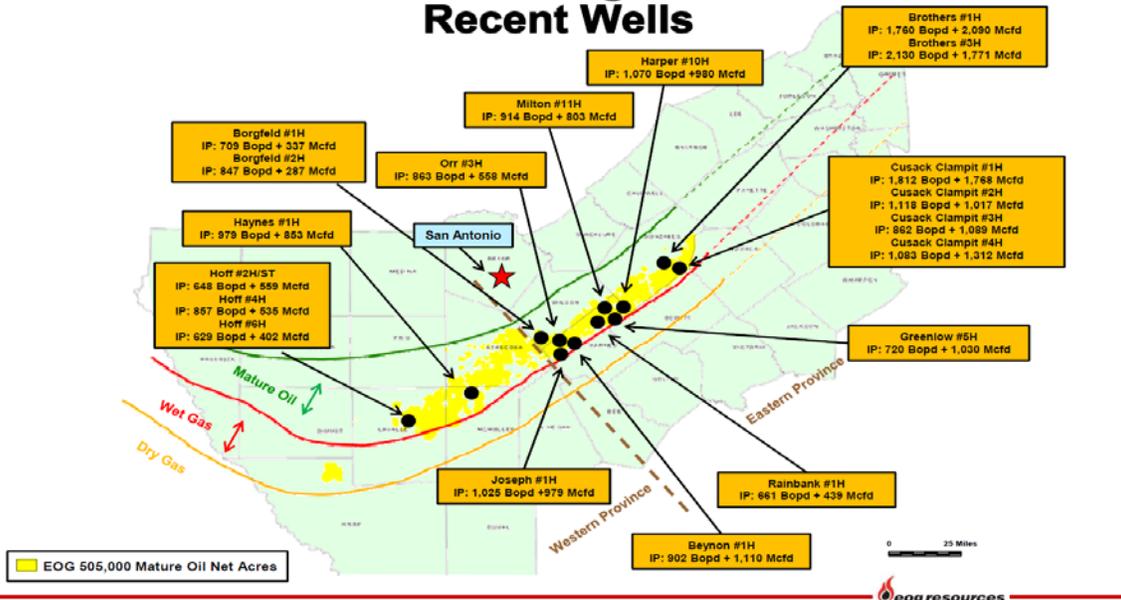
**1.2 Oil + 0.3 NGLs + 0.3 Gas = 1.8 Bnboe  
Oil Priced at WTI**

\* Potential, not proved reserves.

\*\* Includes 143 MMboe proved reserves booked at December 31, 2009.

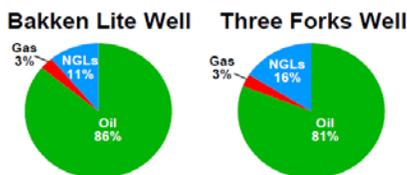
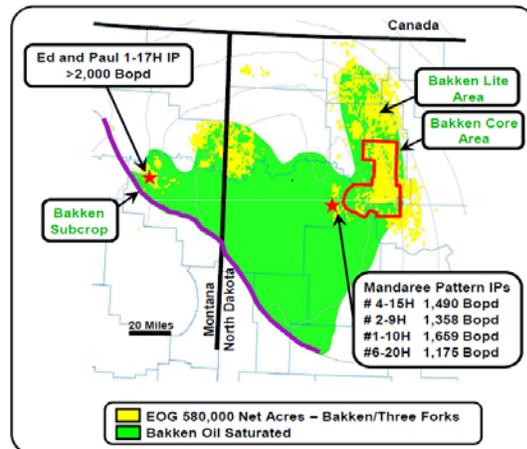


## EOG Resources South Texas Eagle Ford Oil Recent Wells



## EOG Resources Bakken/Three Forks Oil

- 580,000 Total Net Acres
  - Early, Premier Position
- 2010 Individual Well Results Consistent with Expectations
  - 10-Rig Development Program
- Drilling Initial Stepouts on 640-Acre Spacing
  - Confirming Improved Economics of Longer Laterals in Bakken Lite and Three Forks
- New Southern Extension Mandaree Area
  - Good Three Forks Potential
- Stateline Area
  - Western Edge May Need Longer Laterals





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