

Rating: Buy
S&P 500: 1271

EOG Resources Inc.

Add Natural Gas to Your Portfolio

<i>Symbol</i>	EOG	<i>Ebitda Next Twelve Months ending 6/30/07 (US\$mm)</i>	3,300
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	72
<i>Price (\$/sh)</i>	71.43	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/1/06	<i>Adjusted Reserves/Production NTM</i>	9.7
<i>Shares (mm)</i>	246	<i>EV/Ebitda</i>	5.8
<i>Market Capitalization (\$mm)</i>	17,600	<i>PV/Ebitda</i>	7.4
<i>Debt (\$mm)</i>	1,800	<i>Undeveloped Reserves (%)</i>	28
<i>Enterprise Value (EV) (\$mm)</i>	19,400	<i>Natural Gas and Oil Ebitda (\$/mcf)</i>	6.00
<i>Present Value (PV) (\$mm)</i>	24,400	<i>Present Value Proven Reserves(\$/boe)</i>	23.60
<i>Net Present Value (\$/share)</i>	92	<i>Present Value Proven Reserves(\$/mcf)</i>	3.90
<i>Debt/Present Value</i>	0.07	<i>Earnings Next Twelve Months (US\$/sh)</i>	5.97
<i>McDep Ratio - EV/PV</i>	0.79	<i>Price/Earnings Next Twelve Months</i>	12
<i>Dividend Yield (%/year)</i>	0.3	<i>Indicated Annual Dividend (US\$/sh)</i>	0.24

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.

Summary and Recommendation

Buy-recommended **EOG Resources (EOG)** offers 29% stock price appreciation potential to estimated net present value (NPV) of \$92 a share that presumes a long-term natural gas price of \$10 a million btu and oil price of \$60 a barrel. NPV increased to \$92 from \$90 when we raised our price from \$50 a barrel on June 6. With NPV depending 78% on natural gas, EOG stock offers an efficient means to boost portfolio exposure to the clean fuel whose price has sharply lagged that of oil. Meanwhile quarterly results discussed in a conference call on August 1 indicate the company continues to do well creating value in the Fort Worth Barnett Shale, the second largest natural gas field in the U.S. With conservatively reported reserves, low debt and a favorable long-term record, EOG is a high-quality, large cap investment in natural gas drilling and production.

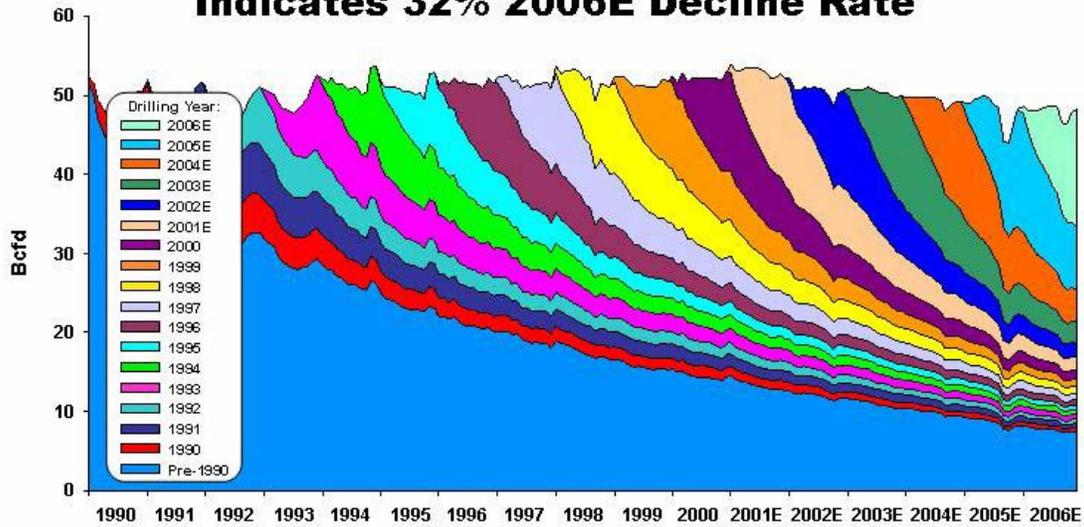
The EOG National Decline Curve

The chart that inspired a company illustrates the increasing rate at which production is declining for U.S. natural gas supply (see page 2). Almost two decades ago EOG embarked on the continuous analysis of daily production rate from every well in the country. Today, the message is the same, but intensifying. When wells are classified by year of initial production it becomes graphically clear that the most recently drilled wells decline the fastest. As a result, more capacity needs to be added each year to keep the total production trend flat. With the knowledge that the need for new supply is growing faster than total supply, EOG has confidently pursued its goal to provide an increasing share of new supply each year.

Kurt H. Wulff, CFA

Please see disclosures on the final page.

US Natural Gas Production History Indicates 32% 2006E Decline Rate



Production Decline Rate of Base:

17% 17% 16% 18% 19% 19% 20% 21% 23% 23% 25% 24% 27% 28% 29% 30% 32%

Utilizes Data Supplied by IHS Energy; Copyright IHS Energy
 Chart Prepared by and Property of EOG Resources, Inc.; Copyright 2006



EOG Resources Inc. Functional Cash Flow and Present Value

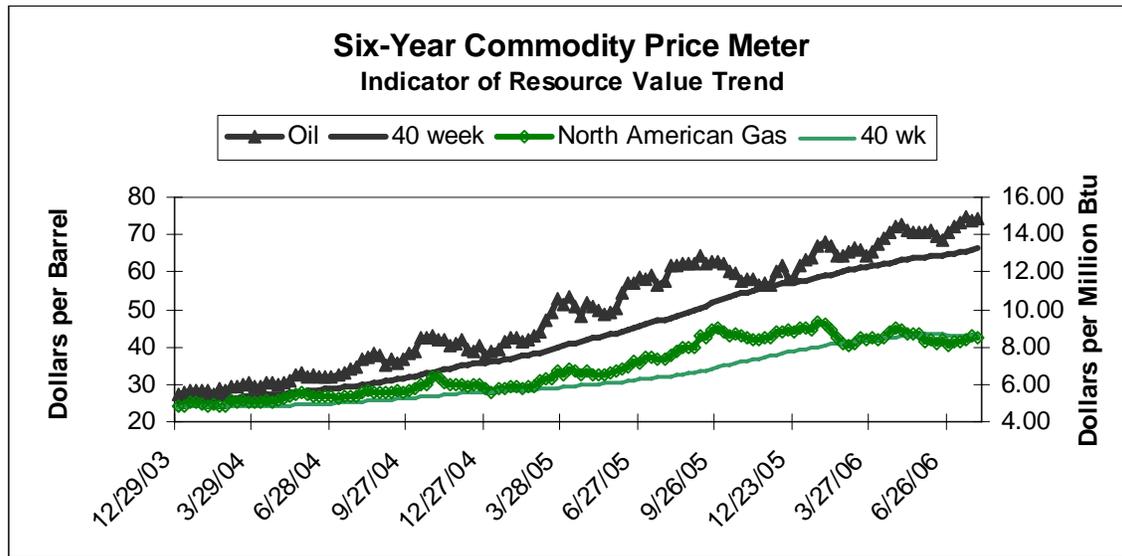
	<i>NTM Ebitda</i> <i>(US\$mm)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$mm)</i>	
North American Natural Gas	2,370	10.3	8.0	19,000	78%
Rest of World Natural Gas	210	9.5	8.1	1,700	7%
Oil	720	7.0	5.1	3,700	15%
	3,300	9.7	7.4	24,400	100%
Debt (US\$mm)				1,800	
Net Present Value (US\$mm)				22,600	
Shares (mm)				246	
Net Present Value - Standard Estimate (US\$/sh)				92	
Net Present Value - Approximation by Correlation (US\$/sh)				77	

Please see disclosures on the final page.

EOG Resources Inc.
Operating and Financial Results

	<i>Q2</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Next Twelve Months</i>
	<i>6/30/05</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>6/30/07</i>
Volume									
Natural Gas (mmcf)									
U.S.	706	758	776	776	776	772	776	776	776
Canada	228	229	225	225	225	226	225	225	225
Overseas	248	317	290	290	290	297	290	290	290
Total	1,182	1,304	1,291	1,291	1,291	1,294	1,291	1,291	1,291
Oil (mbd)									
Total gas & oil (bcf)	128	138	137	139	139	553	136	137	551
Total gas & oil (mmcf)	1,408	1,528	1,509	1,509	1,509	1,514	1,509	1,509	1,509
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.76	8.97	6.81	7.44	9.79	8.25	11.62	8.75	9.40
U.S.	6.64	7.77	6.33	6.91	9.10	7.53	10.46	7.88	8.58
Canada	6.02	7.87	6.28	6.86	9.10	7.53	9.29	7.00	8.06
Overseas	-	3.38	2.54	2.54	2.54	2.76	2.54	2.54	2.54
Total	5.82	6.72	5.47	5.92	7.63	6.44	8.48	6.53	7.13
Oil (\$/bbl)									
WTI Cushing	53.05	63.33	70.47	74.40	76.40	71.15	77.82	78.36	76.74
Worldwide	45.99	58.34	64.91	68.54	70.38	65.54	71.69	72.19	70.69
Total gas & oil (\$/mcf)	6.12	7.89	6.69	6.72	8.22	7.38	8.98	7.32	7.80
Revenue (\$mm)									
Natural Gas									
U.S.	501	530	447	494	650	2,120	730	556	2,430
Canada	125	162	129	142	188	621	188	143	662
Overseas	-	96	67	68	68	299	66	67	269
Total	626	789	643	703	906	3,040	985	767	3,361
Oil	157	196	215	230	236	876	235	239	939
Other	1	100	61			162			-
Total	784	1,085	919	933	1,142	4,078	1,220	1,006	4,300
Expense									
Cash costs	159	242	202	221	273	939	273	220	987
Ebitda (\$mm)	625	843	717	712	868	3,140	946	786	3,313
Exploration	75	73	73	73	73	292	73	73	292
Deprec., Deplet., & Amort.	160	178	193	181	181	732	177	179	716
Ebit	391	592	451	458	615	2,116	697	535	2,305
Interest	15	13	12	12	12	49	12	12	48
Ebt	376	579	439	446	603	2,067	685	523	2,257
Income Tax	137	203	154	156	211	723	240	183	790
Net Income (\$mm)	239	376	285	290	392	1,344	445	340	1,467
Shares (millions)	243	246	246	246	246	246	246	246	246
Per Share (\$)	0.98	1.53	1.16	1.18	1.59	5.46	1.81	1.38	5.97
Ebitda Margin	80%	78%	78%	76%	76%	77%	78%	78%	77%
Tax Rate	36%	35%	35%	35%	35%	35%	35%	35%	35%

Please see disclosures on the final page.



Disclaimer: This analysis was prepared by Kurt Wulff doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

McDep does no investment banking business. McDep is not paid by covered companies including revenue from advertising, trading, consulting, subscriptions or research service. McDep shall not own more than 1% of outstanding stock in a covered company. No one at McDep is on the Board of Directors at a covered company nor is anyone at a covered company on the Board of Directors of McDep.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

Certification: I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

Research Methodology/Ratings Description: McDep Associates is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.

Please see disclosures on the final page.