



Independent Stock Idea

August 7, 2009

rating: buy
s&p 500: 997

EOG Resources (EOG) Low-Debt Natural Gas Growth

<i>Symbol</i>	EOG	<i>Ebitda Next Twelve Months ending 6/30/10 (US\$mm)</i>	2,700
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	60
<i>Price (\$/sh)</i>	78.22	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/6/09	<i>Adjusted Reserves/Production NTM</i>	10.1
<i>Shares (mm)</i>	250	<i>EV/Ebitda</i>	8.3
<i>Market Capitalization (\$mm)</i>	19,600	<i>PV/Ebitda</i>	9.5
<i>Debt (\$mm)</i>	2,600	<i>Undeveloped Reserves (%)</i>	24
<i>Enterprise Value (EV) (\$mm)</i>	22,200	<i>Natural Gas and Oil Ebitda (\$/mcf)</i>	3.50
<i>Present Value (PV) (\$mm)</i>	25,600	<i>Present Value Proven Reserves(\$/boe)</i>	17.70
<i>Net Present Value (\$/share)</i>	92	<i>Present Value Proven Reserves(\$/mcf)</i>	2.90
<i>Debt/Present Value</i>	0.10	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.74
<i>McDep Ratio - EV/PV</i>	0.87	<i>Price/Earnings Next Twelve Months</i>	21
<i>Dividend Yield (%/year)</i>	0.7	<i>Indicated Annual Dividend (US\$/sh)</i>	0.58
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 http://www.mcdep.com/3eog.htm			

Summary and Recommendation

Buy-recommended **EOG Resources (EOG)** offers unlevered appreciation potential of 16% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$92 a share. On July 14 we reduced NPV from \$110 when we reduced estimated Present Value of North American Natural Gas by 20%. During the second quarter, according to results released after market hours on August 6, the company generated unlevered cash flow (Ebitda) that matched our expectations from three months ago. Hedging accounted for more than all of net income (see table Operating and Financial Results). Low debt provides comfort while the natural gas business is under pressure. Prospects for the clean fuel drive 76% of NPV in our valuation, which capitalizes cash flow at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) (see table Functional Cash Flow and Present Value). Pointing to gains, oil futures prices for the next six years crossed the 40-week average into an uptrend at the end of May (see charts Six-Year Commodity Price Meter and Six-Year and One-Year Natural Gas and Oil Futures). Natural gas, most important to EOG, may follow oil into an uptrend as the unbalanced short-term demand and supply situation gets resolved.

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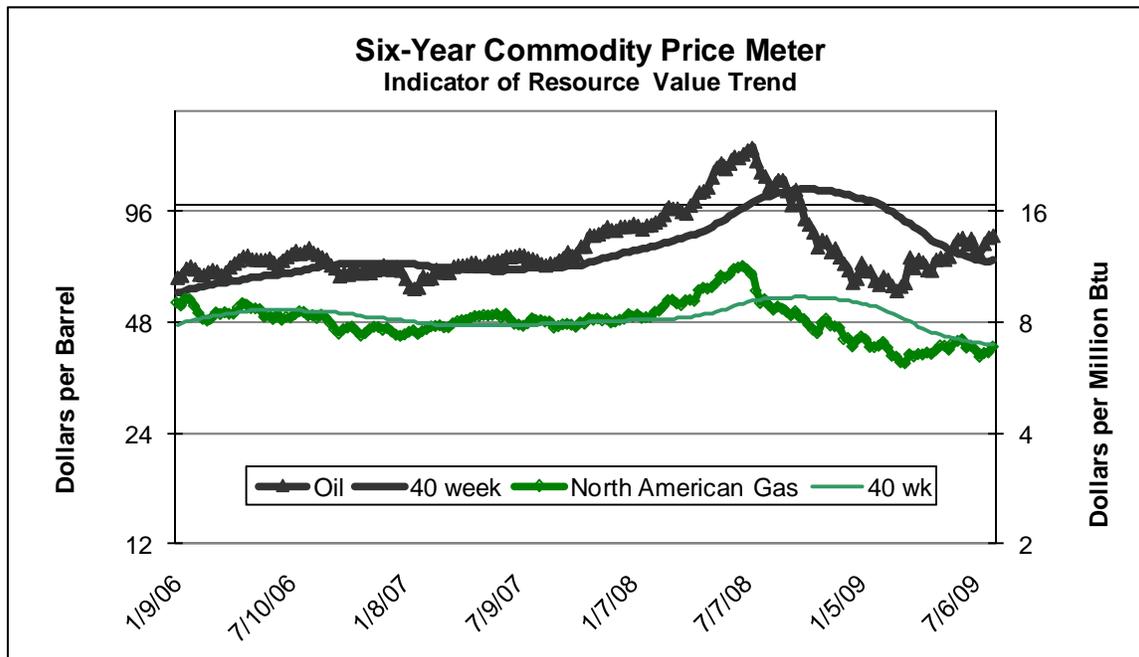
EOG Resources Inc.									
Operating and Financial Results									
									<i>Next Twelve Months</i>
	<i>Q2</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	
	<i>6/30/08</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>2009E</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>6/30/10</i>
Volume									
Natural Gas (mmcf)									
U.S.	1,139	1,193	1,139	1,139	1,139	1,152	1,139	1,139	1,139
Canada	215	230	225	225	225	226	225	225	225
Overseas	229	279	281	281	281	281	281	281	281
Total	1,583	1,702	1,645	1,645	1,645	1,659	1,645	1,645	1,645
Days	91	90	91	92	92	365	90	91	365
Oil (mbd)	56	74	72	72	72	72	72	72	72
Total gas & oil (bcf)	175	193	189	191	191	764	187	189	758
Total gas & oil (mmcf)	1,921	2,146	2,077	2,077	2,077	2,094	2,080	2,077	2,078
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	10.93	4.90	3.50	3.79	5.00	4.30	5.95	5.89	5.16
U.S.	10.36	4.06	3.37	3.65	4.82	3.98	5.36	5.30	4.78
Canada	9.42	4.43	3.40	3.69	4.82	4.09	4.76	4.71	4.49
Overseas	3.98	1.62	1.59	1.59	1.59	1.60	1.59	1.59	1.59
Total	9.31	3.71	3.07	3.31	4.27	3.59	4.63	4.58	4.19
Oil (\$/bbl)									
WTI Cushing	123.97	42.96	59.52	69.09	74.17	61.44	76.50	78.25	74.50
Worldwide	102.68	30.58	42.37	49.19	52.80	43.72	54.46	55.70	53.03
Total gas & oil (\$/mcf)	10.68	4.00	3.90	4.32	5.21	4.36	5.56	5.56	5.16
Revenue (\$mm)									
Natural Gas									
U.S.	1,074	436	349	383	505	1,673	549	549	1,986
Canada	184	92	70	76	100	337	96	96	369
Overseas	83	41	41	41	41	164	40	41	163
Total	1,341	568	460	500	646	2,174	686	686	2,518
Oil	526	204	278	326	350	1,157	355	365	1,396
Total	1,867	772	737	826	995	3,331	1,041	1,051	3,913
Expense	455	278	283	292	309	1,162	314	315	1,229
Ebitda (\$mm)	1,413	494	454	534	686	2,168	727	736	2,684
Exploration	115	118	115	115	115	463	90	90	410
Deprec., Deplet., & Amort.	315	389	376	376	376	1,517	376	376	1,504
Hedging and other	-	(235)	(340)	(320)	(247)	(1,143)	(100)	(100)	(767)
Ebit	982	222	304	363	443	1,332	361	370	1,538
Interest	9	18	25	25	25	93	25	25	100
Ebt	973	204	279	338	418	1,239	336	345	1,438
Income Tax	341	71	97	118	146	434	118	121	503
Net Income (\$mm)	633	133	181	220	272	805	219	225	935
Shares (millions)	251	250	248	250	250	250	250	250	250
Per Share (\$)	2.52	0.53	0.73	0.88	1.09	3.23	0.87	0.90	3.74
Ebitda Margin	76%	64%	62%	65%	69%	65%	70%	70%	69%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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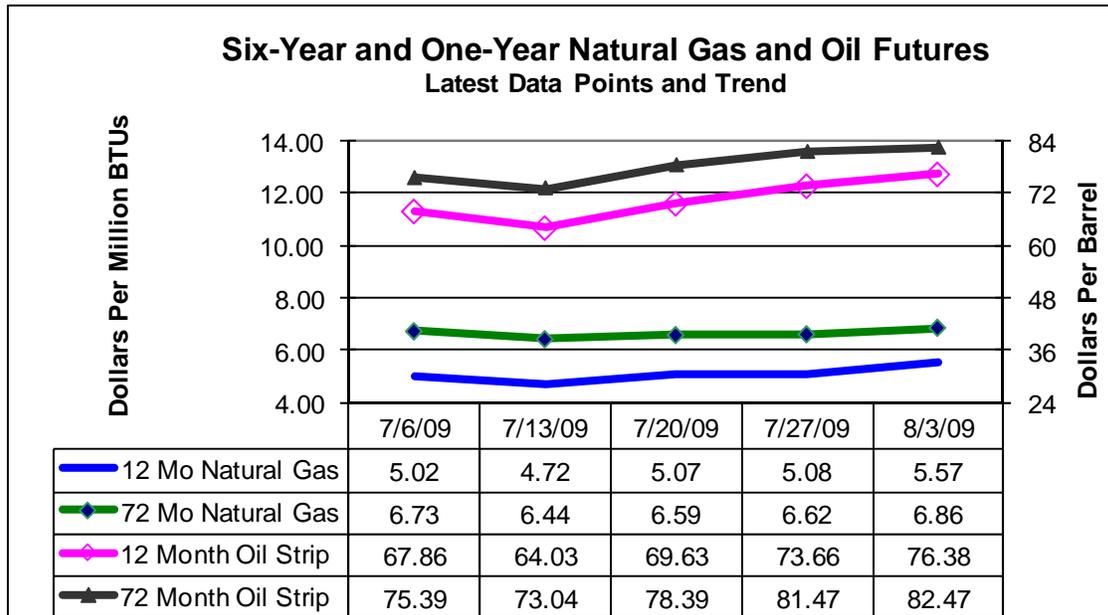
EOG Resources Inc.					
Functional Cash Flow and Present Value					
				<i>Present</i>	
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Value</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>(US\$mm)</i>	
North American Natural Gas	1,620	10.8	11.4	18,400	72%
Rest of World Natural Gas	110	10.3	9.1	1,000	4%
Oil	970	7.6	6.4	6,200	24%
	2,700	10.1	9.5	25,600	100%
Debt (US\$mm)					2,600
Net Present Value (US\$mm)					23,000
Shares (mm)					250
Net Present Value - Standard Estimate (US\$/sh)					92
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					90





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