



Independent Stock Idea

November 6, 2009

rating: buy
s&p 500: 1067

EOG Resources (EOG) Accenting Oil

<i>Symbol</i>	EOG	<i>Ebitda Next Twelve Months ending 9/30/10 (US\$mm)</i>	2,900
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	54
<i>Price (\$/sh)</i>	88.03	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/5/09	<i>Adjusted Reserves/Production NTM</i>	9.8
<i>Shares (mm)</i>	251	<i>EV/Ebitda</i>	8.8
<i>Market Capitalization (\$mm)</i>	22,100	<i>PV/Ebitda</i>	9.1
<i>Debt (\$mm)</i>	3,400	<i>Undeveloped Reserves (%)</i>	24
<i>Enterprise Value (EV) (\$mm)</i>	25,600	<i>Natural Gas and Oil Ebitda (\$/mcf)</i>	3.80
<i>Present Value (PV) (\$mm)</i>	26,600	<i>Present Value Proven Reserves(\$/boe)</i>	18.40
<i>Net Present Value (\$/share)</i>	92	<i>Present Value Proven Reserves(\$/mcf)</i>	3.10
<i>Debt/Present Value</i>	0.13	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.70
<i>McDep Ratio - EV/PV</i>	0.96	<i>Price/Earnings Next Twelve Months</i>	24
<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

Analyzing third quarter results released after the market close on November 5, we reaffirm estimated Net Present Value (NPV) of \$92 a share for buy-recommended **EOG Resources (EOG)**. On that basis, unlevered appreciation potential is 4% to a McDep Ratio of 1.0 where stock price would equal NPV. Unlevered cash flow (Ebitda) approached our expectations in the latest quarter. After the second quarter low point, the latest quarter looks like the start of a rising trend (see table [Next Twelve Months Operating and Financial Estimates](#)). Concentration on oil increases to 28% of NPV from 24% three months ago (see table [Functional Cash Flow and Present Value](#)). Oil volume increased 17% in the third quarter over the second quarter and Chairman Mark Papa targets a 50% increase in 2010. EOG has been acting on the uptrend for oil price traced by futures for the next six years staying above the 40-week average (see chart [Six-Year Commodity Price Meter](#)). New liquid volumes are coming from the Texas Barnett Shale and North Dakota Bakken Shale using horizontal drilling with multi-stage fracturing. In natural gas, EOG reports favorable well results with new technology in the Texas Haynesville Shale and British Columbia Horn River Shale. The new wells are the ultimate in flush production that must be followed up with continued drilling to sustain volume.

Kurt H. Wulff, CFA



Independent Stock Idea

November 6, 2009

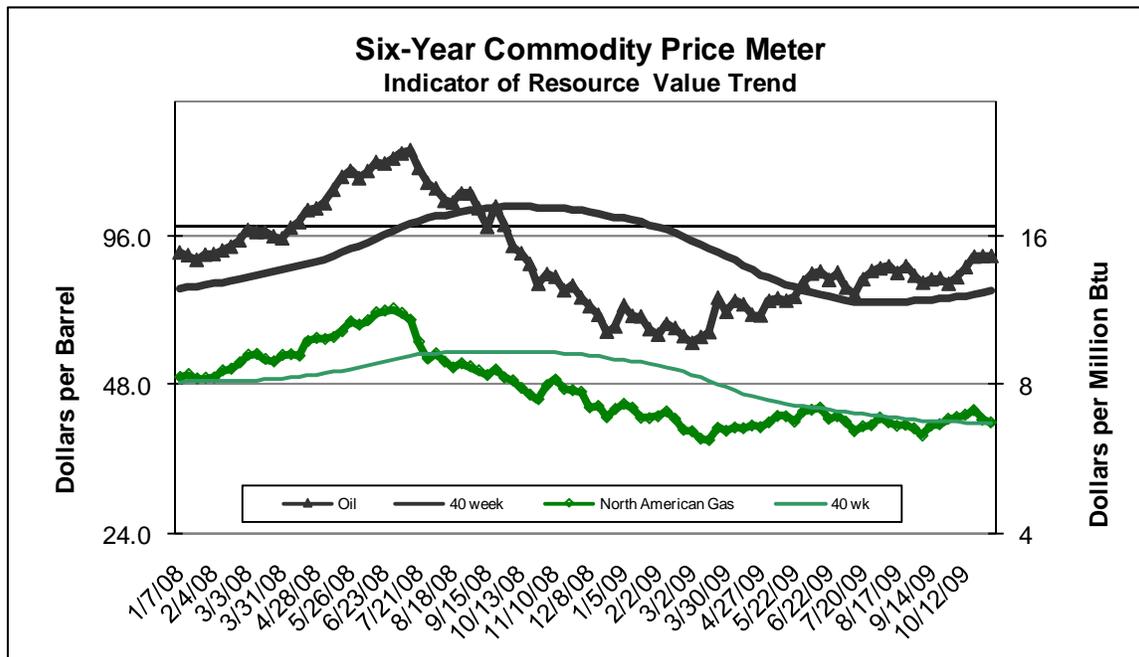
EOG Resources Inc.									
Operating and Financial Results									
									<i>Next Twelve Months</i>
	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	
	<i>9/30/08</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>2009E</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>9/30/10</i>	<i>9/30/10</i>
Volume									
Natural Gas (mmcf)									
U.S.	1,196	1,139	1,128	1,128	1,147	1,128	1,128	1,128	1,128
Canada	224	225	219	219	223	219	219	219	219
Overseas	259	281	281	281	281	281	281	281	281
Total	1,679	1,645	1,628	1,628	1,650	1,628	1,628	1,628	1,628
Days	92	91	92	92	365	90	91	92	365
Oil (mbd)	63	72	84	84	78	84	84	84	84
Total gas & oil (bcf)	189	189	196	196	774	192	194	196	777
Total gas & oil (mmcf)	2,055	2,077	2,130	2,130	2,121	2,130	2,130	2,130	2,130
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	10.25	3.50	3.39	4.28	4.02	5.20	5.28	5.54	5.07
U.S.	8.99	3.37	3.27	4.13	3.71	4.68	4.75	4.99	4.64
Canada	8.15	3.40	3.15	4.13	3.78	4.16	4.22	4.43	4.24
Overseas	4.27	1.59	1.86	1.86	1.73	1.86	1.86	1.86	1.86
Total	8.15	3.07	3.01	3.73	3.38	4.12	4.18	4.37	4.10
Oil (\$/bbl)									
WTI Cushing	117.99	59.52	68.22	77.22	61.98	79.30	81.15	82.28	79.99
Worldwide	100.68	42.37	48.57	54.97	44.68	56.46	57.77	58.57	56.94
Total gas & oil (\$/mcf)	9.73	3.90	4.21	5.01	4.28	5.37	5.46	5.64	5.37
Revenue (\$mm)									
Natural Gas									
U.S.	989	349	339	428	1,553	475	488	518	1,908
Canada	168	70	63	83	308	82	84	89	339
Overseas	102	41	48	48	177	47	47	48	190
Total	1,259	460	451	559	2,038	604	619	655	2,438
Oil	580	278	374	423	1,278	425	439	450	1,738
Total	1,839	737	824	982	3,316	1,029	1,059	1,106	4,175
Expense (\$mm)									
Expense	495	283	292	308	1,161	312	315	320	1,255
Ebitda (\$mm)	1,344	454	515	674	2,138	716	743	786	2,920
Exploration	83	115	117	117	467	90	90	90	387
Deprec., Deplet., & Amort.	346	376	385	385	1,535	385	385	385	1,540
Hedging and other	-	(340)	(331)	(277)	(1,183)	(100)	(100)	(82)	(559)
Ebit	915	304	344	449	1,319	341	368	393	1,552
Interest	12	25	30	30	103	30	30	30	120
Ebt	903	279	314	419	1,216	311	338	363	1,432
Income Tax	316	97	110	147	426	109	118	127	501
Net Income (\$mm)	587	181	204	273	790	202	220	236	931
Shares (millions)									
Per Share (\$)	2.34	0.73	0.81	1.08	3.15	0.80	0.87	0.94	3.70
Ebitda Margin	73%	62%	62%	69%	64%	70%	70%	71%	70%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



Independent Stock Idea

November 6, 2009

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	1,560	11.0	11.5	18,000	68%
Rest of World Natural Gas	130	10.3	9.2	1,200	5%
Oil	1,210	6.5	6.0	7,300	28%
	2,900	9.8	9.1	26,500	100%
Debt (US\$mm)					3,400
Net Present Value (US\$mm)					23,100
Shares (mm)					251
Net Present Value - Standard Estimate (US\$/sh)					92
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					88





Independent Stock Idea

November 6, 2009

Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC. 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 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 LLC 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.