

Rating: Buy
S&P 500: 1377

XTO Energy

CEO May Be Winning Billion Dollar Bet

<i>Symbol</i>	XTO	<i>Ebitda Next Twelve Months ending 9/30/07 (US\$mm)</i>	2,960
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	72
<i>Price (US\$/sh)</i>	45.90	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	10/24/06	<i>Adjusted Reserves/Production NTM</i>	11.3
<i>Shares (mm)</i>	371	<i>EV/Ebitda</i>	7.2
<i>Market Capitalization (US\$mm)</i>	17,000	<i>PV/Ebitda</i>	8.0
<i>Debt (US\$mm)</i>	4,200	<i>Undeveloped Reserves (%)</i>	31
<i>Enterprise Value (EV) (US\$mm)</i>	21,300	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	31.22
<i>Present Value (PV) (US\$mm)</i>	23,500	<i>Present Value Proven Reserves(US\$/boe)</i>	18.50
<i>Net Present Value (US\$/share)</i>	52	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.08
<i>Debt/Present Value</i>	0.18	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.14
<i>McDep Ratio - EV/PV</i>	0.90	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	0.4	<i>Indicated Annual Dividend (US\$/sh)</i>	0.20

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.

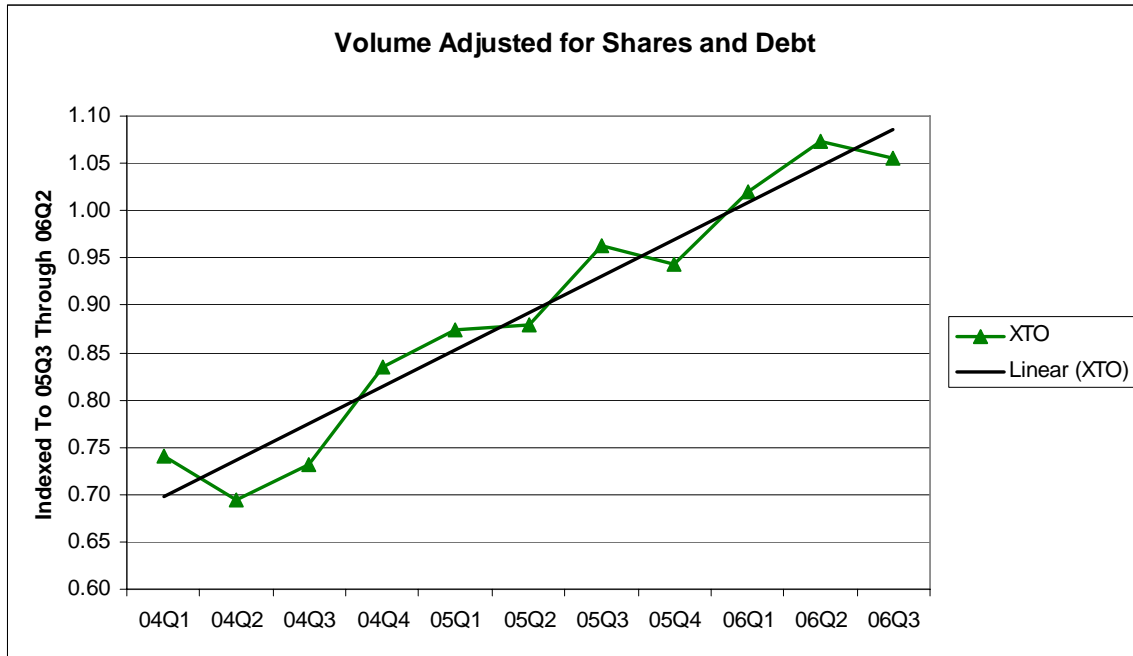
Estimated present value presumes a long-term price for oil of US\$60 a barrel and natural gas, \$10 a million btu.

Summary and Recommendation

Buy-recommended **XTO Energy (XTO)** at a McDep Ratio of 0.90 offers unlevered appreciation potential of 11% to estimated present value. That likely understates the investment appeal of a company that has compiled an unparalleled growth record among oil and gas producers. Fundamental results for the third quarter reported on October 24 continue an uptrend in volume adjusted for debt and shares at 20% a year (see chart). Correlating the rate of production relative to reserves with present value as a multiple of cash flow makes our estimate for XTO look low again compared to that for some thirty natural gas and oil producers (see table on page 2). A recent rebound in stock price above the 200-day average suggests XTO may be returning to favor with investors. Unlike so many companies that bet a billion dollars and lost on hedging, it looks like the CEO of XTO has bet a billion and won (see quarterly model on page 3). We favor XTO stock at a full weighting in the illustrative McDep Energy Portfolio concentrated on real assets that promise a high return providing clean energy to support global growth.

Kurt H. Wulff, CFA

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XTO Energy 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	2,130	11.4	8.4	17,900	76%
Oil	830	11.1	6.7	5,600	24%
	2,960	11.3	7.9	23,500	100%
Debt (US\$mm)				4,200	
Net Present Value (US\$mm)				19,300	
Shares (mm)				371	
Net Present Value - Standard Estimate (US\$/sh)				52	
Net Present Value - Approximation by Correlation (US\$/sh)				58	

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XTO Energy Inc.
Next Twelve Months Operating and Financial Estimates

	<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>Next Twelve Months</i>
	<i>9/30/05</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>9/30/07</i>	<i>9/30/07</i>
Volume									
Natural Gas (mmcf)	1,087	1,175	1,213	1,213	1,182	1,213	1,213	1,213	1,213
Oil (mbd)	52	57	57	57	56	57	57	57	57
Total gas & oil (bcf)	129	138	143	143	557	141	141	143	568
Total gas & oil (mmcf)	1,397	1,516	1,553	1,553	1,521	1,553	1,553	1,553	1,553
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	8.56	6.81	6.58	6.30	7.17	8.19	7.61	7.81	7.48
Company (\$/mcf)	7.04	6.10	5.90	5.65	6.22	7.34	6.81	6.99	6.70
Oil (\$/bbl)									
WTI Cushing	62.52	70.47	70.42	58.64	65.71	61.56	63.85	65.29	62.34
Company (\$/bbl)	49.10	59.90	57.91	55.43	56.47	58.19	54.02	55.47	55.78
Total gas & oil (\$/mcf)	7.29	6.97	6.72	6.43	6.93	7.85	7.29	7.49	7.26
Revenue (\$mm)									
Natural Gas	704	652	658	630	2,690	810	752	781	2,973
Oil	234	310	302	289	1,167	300	278	289	1,155
Other									
Total	938	962	960	919	3,856	1,110	1,030	1,069	4,128
Expense									
Production	192	215	224	213	880	263	242	253	971
Overhead	34	75	39	50	204	50	50	50	200
Ebitda (\$mm)	713	672	697	655	2,772	797	738	767	2,957
Exploration	13	3	9	9	27	9	9	9	36
Deprec., Deplet., & Amort.	182	211	233	233	873	233	233	233	932
Hedging and other	(10)	(81)	(135)	(228)	(657)	(104)	(119)	(108)	(559)
Ebit	528	540	589	642	2,529	659	615	632	2,548
Interest	44	46	47	47	181	47	46	46	186
Ebt	484	494	542	595	2,348	612	569	586	2,362
Income Tax	169	173	190	208	822	214	199	205	827
Net Income (\$mm)	315	321	352	387	1,526	397	370	381	1,535
Shares (millions)	370	369	371	371	370	371	371	371	371
Per share (\$)	0.85	0.87	0.95	1.04	4.12	1.07	1.00	1.03	4.14
Ebitda Margin - O&G	76%	70%	73%	71%	72%	72%	72%	72%	72%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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