



# Independent Stock Idea

November 5, 2008

rating: buy  
s&p 500: 953

## XTO Energy (XTO) Personal Debt-Free Pledge

<i>Symbol</i>	XTO	<i>Ebitda Next Twelve Months ending 9/30/09 (US\$mm)</i>	4,980
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	74
<i>Price (US\$/sh)</i>	36.38	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/5/08	<i>Adjusted Reserves/Production NTM</i>	11.4
<i>Shares (mm)</i>	552	<i>EV/Ebitda</i>	6.4
<i>Market Capitalization (US\$mm)</i>	20,100	<i>PV/Ebitda</i>	9.0
<i>Debt (US\$mm)</i>	11,800	<i>Undeveloped Reserves (%)</i>	36
<i>Enterprise Value (EV) (US\$mm)</i>	31,900	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	31.42
<i>Present Value (PV) (US\$mm)</i>	44,900	<i>Present Value Proven Reserves(US\$/boe)</i>	20.36
<i>Net Present Value (US\$/share)</i>	60	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.39
<i>Debt/Present Value</i>	0.26	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.80
<i>McDep Ratio - EV/PV</i>	0.71	<i>Price/Earnings Next Twelve Months</i>	13
<i>Dividend Yield (%/year)</i>	1.3	<i>Indicated Annual Dividend (US\$/sh)</i>	0.48
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, \$10 a million btu.			
For historical analysis of XTO since 2002 see <a href="http://www.mcdep.com/4xto.htm">www.mcdep.com/4xto.htm</a>			

### Summary and Recommendation

Buy-recommended **XTO Energy (XTO)** offers 41% unlevered appreciation potential to estimated net present value (NPV) of \$60 a share. On October 28, we reset NPV from \$88 a share on the basis of a long-term oil price assumption of \$75 a barrel, down from \$100. Patience may be necessary as XTO stock price remains below the 200-day average of \$55. Released today, third quarter results displayed strength in unlevered cash flow (Ebitda) driven by crude oil and natural gas prices. Futures prices now look lower for the next four quarters (see table [Next Twelve Months Operating and Financial Estimates](#)). Projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) supports NPV (see table [Functional Cash Flow and Present Value](#)). As XTO stock was plunging in recent months, we were disturbed to learn that top officers of the company were selling after having just placed 50 million new shares with investors in 2008. Chief Executive Bob Simpson explained on the quarterly call that he and his two colleagues feared that their personal balance sheets had too much debt and made the sales to retire their debt. Mr. Simpson then pledged that the XTO officers, including Chief Financial Officer Louis Baldwin, would keep their personal balance sheets debt free. Knowing all of us make mistakes, we appreciate the confession and commitment to do better.

Kurt H. Wulff, CFA



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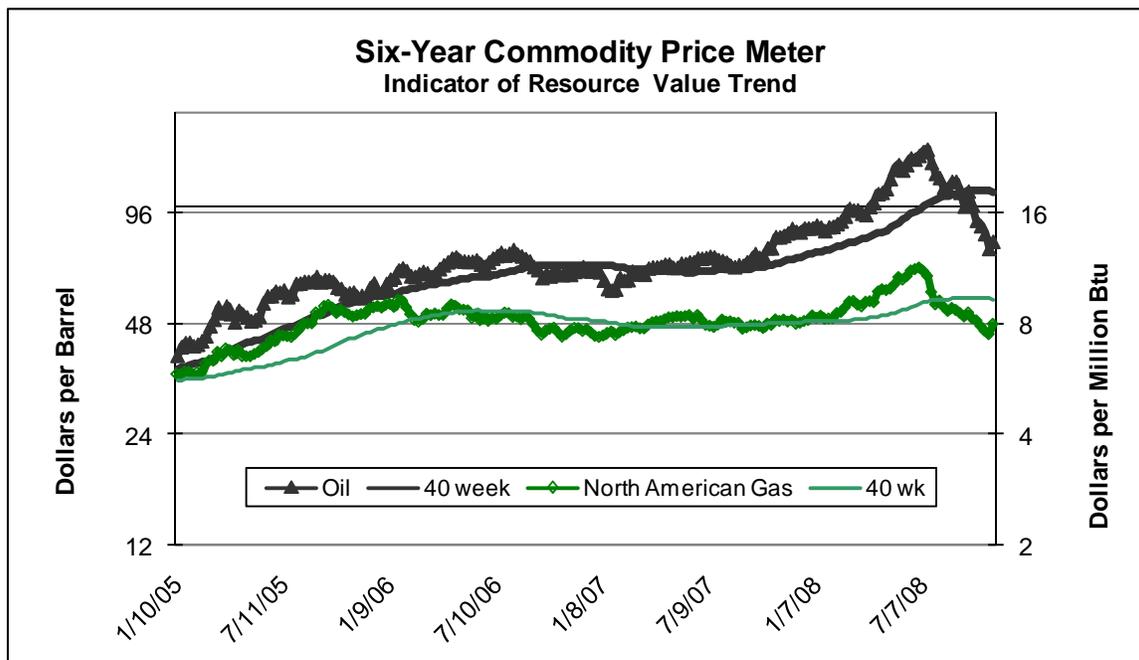
XTO Energy Inc.									
Next Twelve Months Operating and Financial Estimates									
									<i>Next</i>
	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Twelve</i>
	<i>9/30/07</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008E</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>Months</i>
									<i>9/30/09</i>
<b>Volume</b>									
Natural Gas (mmcf)	1,561	1,795	1,949	2,100	<b>1,889</b>	2,100	2,100	2,100	<b>2,100</b>
Days	92	91	92	92	<b>366</b>	90	91	92	<b>365</b>
Oil (mmb)	6	6	7	8	<b>27</b>	8	8	8	<b>31</b>
Oil (mbd)	61	67	73	84	<b>73</b>	84	84	84	<b>84</b>
Total gas & oil (bcf)	177	200	220	240	<b>851</b>	234	237	240	<b>950</b>
Total gas & oil (mmcf)	1,929	2,196	2,388	2,604	<b>2,326</b>	2,604	2,604	2,604	<b>2,604</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.16	10.93	10.25	6.93	<b>9.03</b>	7.11	7.10	7.39	<b>7.13</b>
Company (\$/mcf)	5.66	10.20	9.56	6.46	<b>8.40</b>	6.63	6.63	6.90	<b>6.66</b>
Oil (\$/bbl)									
WTI Cushing	75.48	123.97	117.99	68.14	<b>102.01</b>	65.30	67.42	69.39	<b>67.57</b>
Company (\$/bbl)	64.19	108.44	103.20	59.60	<b>87.73</b>	57.12	58.97	60.69	<b>59.11</b>
Total gas & oil (\$/mcf)	6.62	11.64	10.96	7.14	<b>9.57</b>	7.19	7.25	7.52	<b>7.27</b>
<b>Revenue (\$mm)</b>									
Natural Gas	813	1,666	1,714	1,249	<b>5,809</b>	1,253	1,266	1,333	<b>5,101</b>
Oil	362	660	694	461	<b>2,341</b>	432	451	469	<b>1,812</b>
Other									
Total	1,175	2,326	2,408	1,710	<b>8,150</b>	1,685	1,717	1,802	<b>6,913</b>
<b>Expense</b>									
Production	310	409	493	396	<b>1,644</b>	389	398	422	<b>1,604</b>
Overhead	48	89	83	83	<b>344</b>	83	83	83	<b>332</b>
<b>Ebitda (\$mm)</b>	817	1,828	1,832	1,231	<b>6,162</b>	1,213	1,236	1,297	<b>4,978</b>
Exploration	22	14	30	30	<b>92</b>	30	30	30	<b>120</b>
Deprec., Deplet., & Amort.	331	413	505	575	<b>1,882</b>	575	575	551	<b>2,276</b>
Hedging and other	(237)	448	324	(102)	<b>738</b>	(58)	(92)	(69)	<b>(321)</b>
<b>Ebit</b>	702	953	973	728	<b>3,450</b>	666	723	786	<b>2,903</b>
Interest	64	102	132	132	<b>457</b>	132	132	132	<b>528</b>
<b>Ebt</b>	638	851	841	596	<b>2,993</b>	534	591	654	<b>2,375</b>
Income Tax	223	298	294	209	<b>1,048</b>	187	207	229	<b>831</b>
<b>Net Income (\$mm)</b>	414	553	546	387	<b>1,946</b>	347	384	425	<b>1,544</b>
<b>Shares (millions)</b>	489	517	552	552	<b>530</b>	552	552	552	<b>552</b>
Per share (\$)	0.85	1.07	0.99	0.70	<b>3.67</b>	0.63	0.70	0.77	<b>2.80</b>
Ebitda Margin - O&G	70%	79%	76%	72%	<b>76%</b>	72%	72%	72%	<b>72%</b>
Tax Rate	35%	35%	35%	35%	<b>35%</b>	35%	35%	35%	<b>35%</b>



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XTO Energy 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	3,670	11.4	9.4	34,400	77%
Oil	1,310	11.4	8.0	10,500	23%
	4,980	11.4	9.0	44,900	100%
Debt (US\$mm)					11,800
Net Present Value (US\$mm)					33,100
Shares (mm)					552
Net Present Value - Standard Estimate (US\$/sh)					60
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					66





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