



Independent Stock Idea

November 4, 2009

rating: buy
s&p 500: 1047

XTO Energy (XTO) Remarkable Business Model

<i>Symbol</i>	XTO	<i>Ebitda Next Twelve Months ending 9/30/10 (US\$mm)</i>	4,090
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	65
<i>Price (US\$/sh)</i>	42.07	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/4/09	<i>Adjusted Reserves/Production NTM</i>	10.7
<i>Shares (mm)</i>	580	<i>EV/Ebitda</i>	8.7
<i>Market Capitalization (US\$mm)</i>	24,400	<i>PV/Ebitda</i>	9.4
<i>Debt (US\$mm)</i>	11,000	<i>Undeveloped Reserves (%)</i>	34
<i>Enterprise Value (EV) (US\$mm)</i>	35,400	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	22.80
<i>Present Value (PV) (US\$mm)</i>	38,300	<i>Present Value Proven Reserves(US\$/boe)</i>	16.58
<i>Net Present Value (US\$/share)</i>	47	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.76
<i>Debt/Present Value</i>	0.29	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.96
<i>McDep Ratio - EV/PV</i>	0.93	<i>Price/Earnings Next Twelve Months</i>	14
<i>Dividend Yield (%/year)</i>	1.2	<i>Indicated Annual Dividend (US\$/sh)</i>	0.50
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 analysis of XTO since 2002 see www.mcdep.com/4xto.htm			

Summary and Recommendation

Analyzing third quarter results released today, we reaffirm estimated Net Present Value (NPV) of \$47 a share for buy-recommended **XTO Energy (XTO)**. On that basis unlevered appreciation potential is 8% to a McDep Ratio of 1.0 where stock price would equal NPV. Unlevered cash flow (Ebitda), earnings and oil and gas volume exceeded expectations in the latest quarter. Nor does our cash flow include another billion dollars of hedging gains (see table [Next Twelve Months Operating and Financial Estimates](#)). In contrast, our valuation implies a higher multiple for the cash flow without hedging (see table [Functional Cash Flow and Present Value](#)). On the quarterly call, Chairman Bob Simpson described his latest version of XTO's business model as requiring one third of cash flow to keep production flat and one third to generate 10% a year volume growth leaving the remaining third for dividends, debt repayment and stock repurchase and other uses. Mr. Simpson's models have been so profitable that no peer company has come close to the 16-year record of 25% a year return notched by XTO. Still there have been setbacks from time to time though there appear to be no strongly negative signs now. The industry backdrop helps currently with a positive trend indicated by six-year oil trading above the 40-week average (see chart [Six-Year Commodity Price Meter](#)).

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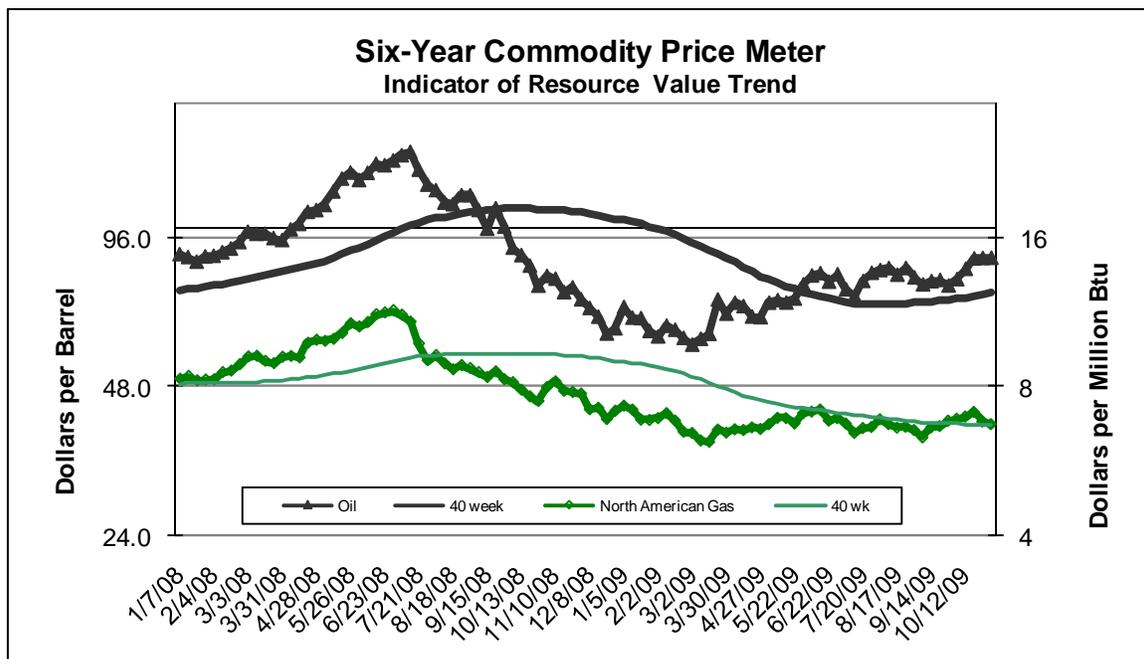
XTO Energy Inc.									
Next Twelve Months Operating and Financial Estimates									
	Q3	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	Next Twelve Months
	9/30/08	6/30/09	9/30/09	12/31/09	2009E	3/31/10	6/30/10	9/30/10	9/30/10
Volume									
Natural Gas (mmcf)	1,949	2,352	2,421	2,421	2,356	2,421	2,421	2,421	2,421
Days	92	91	92	92	365	90	91	92	365
Oil (mmb)	6.7	7.5	8.1	8.1	31	7.9	8.0	8.1	32
Oil (mbd)	73	83	88	88	86	88	88	88	88
Total gas & oil (bcf)	220	259	271	271	1,048	265	268	271	1,076
Total gas & oil (mmcf)	2,388	2,849	2,948	2,948	2,870	2,948	2,948	2,948	2,948
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
Company (\$/mcf)	9.31	3.24	3.20	3.85	3.60	4.68	4.75	4.77	4.51
Oil (\$/bbl)									
WTI Cushing	117.99	59.52	68.22	77.22	61.98	79.30	81.15	82.28	79.99
Company (\$/bbl)	101.94	53.47	61.28	69.36	54.81	63.44	64.92	65.82	65.90
Total gas & oil (\$/mcf)	10.72	4.23	4.45	5.23	4.59	5.73	5.83	5.88	5.67
Revenue (\$mm)									
Natural Gas	1,669	693	713	858	3,096	1,019	1,046	1,062	3,985
Oil	686	403	495	560	1,713	501	519	532	2,112
Other									
Total	2,355	1,097	1,208	1,418	4,809	1,521	1,565	1,593	6,097
Expense									
Production	493	414	422	422	1,675	422	422	422	1,688
Overhead	83	98	80	80	355	80	80	80	320
Ebitda (\$mm)	1,779	585	706	916	2,779	1,019	1,063	1,091	4,089
Exploration	30	20	10	10	74	10	10	10	40
Deprec., Deplet., & Amort.	505	793	821	821	3,144	821	821	821	3,284
Hedging and other	271	(1,129)	(1,038)	(698)	(3,971)	(573)	(570)	(574)	(2,416)
Ebit	973	901	912	783	3,532	761	802	834	3,181
Interest	132	126	136	136	524	136	136	136	544
Ebt	841	775	776	647	3,008	625	666	698	2,637
Income Tax	294	271	272	227	1,053	219	233	244	923
Net Income (\$mm)	546	504	505	421	1,955	406	433	454	1,714
Shares (millions)	552	579	580	580	579	580	580	580	580
Per share (\$)	0.99	0.87	0.87	0.73	3.38	0.70	0.75	0.78	2.96
Ebitda Margin - O&G	76%	53%	58%	65%	58%	67%	68%	68%	67%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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XTO Energy 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	2,670	10.8	10.8	28,800	75%
Oil	1,420	10.1	6.7	9,500	25%
	4,090	10.7	9.4	38,300	100%
Debt (US\$mm)					11,000
Net Present Value (US\$mm)					27,300
Shares (mm)					580
Net Present Value - Standard Estimate (US\$/sh)					47
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					50





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