

Rating: Buy
 S&P 500: 1306

Devon Energy Corporation Barnett Bargain

<i>Symbol</i>	DVN	<i>Ebitda Next Twelve Months ending 3/31/07 (US\$mm)</i>	8,400
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	57
<i>Price (\$/sh)</i>	62.32	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	5/3/06	<i>Adjusted Reserves/Production NTM</i>	8.7
<i>Shares (mm)</i>	449	<i>EV/Ebitda</i>	4.0
<i>Market Capitalization (\$mm)</i>	28,000	<i>PV/Ebitda</i>	5.7
<i>Debt (\$mm)</i>	5,900	<i>Undeveloped Reserves (%)</i>	24
<i>Enterprise Value (EV) (\$mm)</i>	33,900	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	39.30
<i>Present Value (PV) (\$mm)</i>	48,100	<i>Present Value Proven Reserves(\$/boe)</i>	22.80
<i>Net Present Value (\$/share)</i>	94	<i>Present Value Proven Reserves(\$/mcfe)</i>	3.80
<i>Debt/Present Value</i>	0.12	<i>Earnings Next Twelve Months (US\$/sh)</i>	8.39
<i>McDep Ratio - EV/PV</i>	0.70	<i>Price/Earnings Next Twelve Months</i>	7
<i>Dividend Yield (%/year)</i>	0.7	<i>Indicated Annual Dividend (US\$/sh)</i>	0.45

Note: Estimated cash flow and earnings tied to one-year futures prices for natural gas and oil.

Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

Summary and Recommendation

Buy-recommended **Devon Energy (DVN)** offers 51% appreciation potential to estimated net present value (NPV) of \$94 a share. That estimate presumes a long-term oil price of \$50 a barrel compared to a futures price of \$72 for oil delivered over the next six years. NPV is in line with a correlation of present value with adjusted reserve life and next twelve months cash flow taking account of first quarter 2006 results reported May 3. Devon expands its 64% concentration on North American natural gas with a \$2.2 billion acquisition announced on May 2. The deal would enlarge Devon's reserves in the Barnett Shale surrounding Fort Worth, Texas by up to 25% to more than 3 trillion cubic feet. Devon strengthens its dominance of the field that has become the second largest in the U.S. after the San Juan Basin of New Mexico. Chairman Larry Nichols has a long record of advantageous deals including Mitchell Energy in 2002, Devon's Barnett Bargain that has turned into a long-lasting jewel.

Functional Cash Flow and Present Value

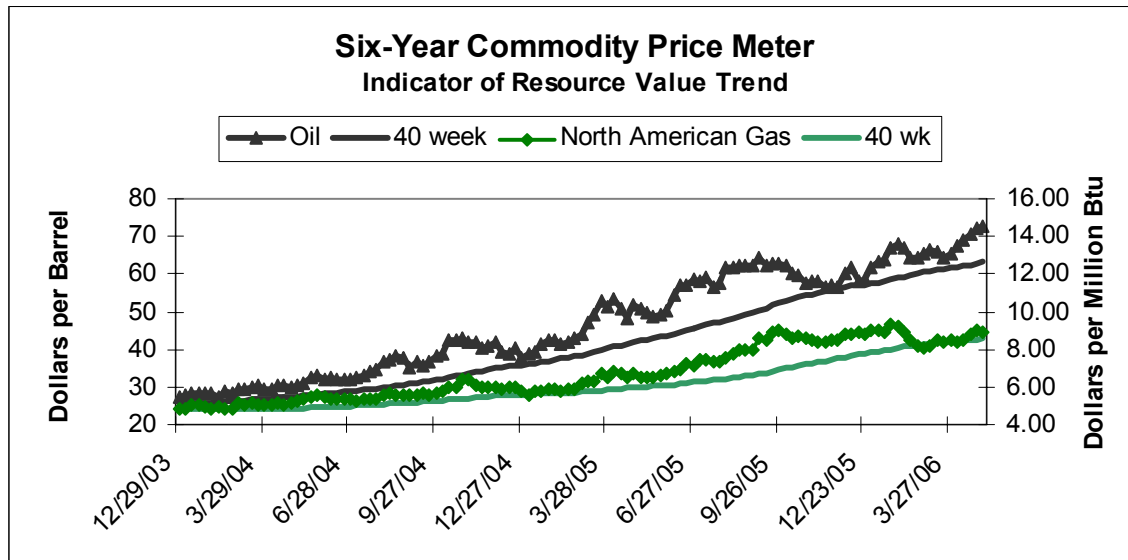
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<u><i>(US\$mm)</i></u>	<u><i>R/P</i></u>	<u><i>Ebitda</i></u>	<u><i>Value</i></u>	
				<u><i>(US\$mm)</i></u>	
North American Natural Gas	4,800	8.3	6.5	31,000	64%
Oil	3,590	9.3	4.8	17,100	36%
	8,390	8.7	5.7	48,100	100%
Debt (US\$mm)				5,900	
Net Present Value (US\$mm)				42,200	
Shares (mm)				449	
Net Present Value - Standard Estimate (US\$/sh)				94	
Net Present Value - Approximation by Correlation (US\$/sh)				94	

Please see disclosures on the final page.

Devon Energy
Next Twelve Months Operating and Financial Results

	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Next</i>
	<i>3/31/05</i>	<i>12/31/05</i>	<i>2005</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>Twelve</i>
									<i>Months</i>
									<i>3/31/07</i>
Volume									
Natural Gas (mmcf)									
U.S.	1,610	1,458	1,521	1,444	1,444	1,507	1,573	1,492	1,524
Canada	735	666	715	656	656	656	656	656	656
Overseas	30	34	30	25	25	25	25	25	25
Total	2,375	2,158	2,266	2,125	2,125	2,188	2,254	2,173	2,205
Oil (mbd)									
Total gas & oil (bcf)	357	320	1,357	307	310	321	329	1,266	1,281
Total gas & oil (mmb)	59	53	226	51	52	53	55	211	213
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.27	13.00	8.65	8.97	7.06	7.24	9.35	8.15	8.78
U.S.	5.45	9.80	7.14	7.06	5.97	6.12	7.90	6.78	7.46
Canada	5.84	9.74	7.18	7.37	5.77	5.92	7.64	6.68	7.17
Overseas	4.81	3.08	4.85	4.21	3.30	3.38	4.37	3.81	4.10
Total	5.56	9.68	7.13	7.12	5.88	6.03	7.78	6.71	7.33
Oil (\$/bbl)									
WTI Cushing	49.65	60.02	56.31	63.33	72.31	75.85	76.87	72.09	75.50
Worldwide	37.86	45.81	43.24	46.31	51.18	54.65	55.94	52.08	54.75
Total gas & oil (\$/mcf)	5.86	8.90	7.16	7.35	6.88	7.17	8.35	7.45	8.00
Revenue (\$mm)									
Natural Gas									
U.S.	789	1,315	3,966	918	785	848	1,143	3,694	4,148
Canada	387	597	1,875	435	345	357	461	1,598	1,717
Overseas	13	10	52	9	8	8	10	35	37
Total	1,189	1,921	5,893	1,363	1,137	1,214	1,614	5,327	5,903
Oil	901	929	3,816	891	996	1,087	1,130	4,103	4,342
Total	2,091	2,850	9,710	2,254	2,132	2,301	2,744	9,431	10,244
Expense									
Fixed	184	146	702	217	217	217	217	866	866
Variable	184	146	702	217	205	221	264	906	984
Ebitda (\$mm)	1,723	2,558	8,306	1,821	1,711	1,863	2,264	7,659	8,394
Deprec., Deplet., & Amort.	579	553	2,200	549	549	549	549	2,196	2,196
Hedging and other	156	284	831	93				93	-
Ebit	988	1,722	5,275	1,179	1,162	1,314	1,715	5,370	6,198
Interest	118	105	482	101	101	101	101	404	404
Ebt	870	1,617	4,793	1,078	1,061	1,213	1,614	4,966	5,794
Income Tax	304	566	1,677	377	371	425	565	1,738	2,028
Net Income (\$mm)	565	1,051	3,115	700	690	789	1,049	3,228	3,766
Shares (millions)									
Per Share (\$)	1.14	2.33	6.72	1.56	1.54	1.76	2.34	7.19	8.39
Ebitda Margin	82%	90%	86%	81%	80%	81%	83%	81%	82%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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