

Rating: Buy
S&P 500: 1279

Devon Energy Corporation **Best Value Large Cap Producer**

<i>Symbol</i>	DVN	<i>Ebitda Next Twelve Months ending 6/30/07 (US\$mm)</i>	9,400
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	57
<i>Price (\$/sh)</i>	65.75	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/2/06	<i>Adjusted Reserves/Production NTM</i>	8.7
<i>Shares (mm)</i>	446	<i>EV/Ebitda</i>	4.0
<i>Market Capitalization (\$mm)</i>	29,300	<i>PV/Ebitda</i>	5.7
<i>Debt (\$mm)</i>	7,900	<i>Undeveloped Reserves (%)</i>	24
<i>Enterprise Value (EV) (\$mm)</i>	37,300	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	44.20
<i>Present Value (PV) (\$mm)</i>	53,400	<i>Present Value Proven Reserves(\$/boe)</i>	25.30
<i>Net Present Value (\$/share)</i>	102	<i>Present Value Proven Reserves(\$/mcf)</i>	4.20
<i>Debt/Present Value</i>	0.15	<i>Earnings Next Twelve Months (US\$/sh)</i>	9.53
<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 55% appreciation potential to estimated net present value (NPV) of \$102 a share that presumes a long-term natural gas price of \$10 a million btu and oil price of \$60 a barrel. NPV increased to \$102 from \$94 when we raised our price from \$50 a barrel on June 6. NPV is in line with a correlation of present value with adjusted reserve life and next twelve months cash flow taking account of second quarter 2006 results reported August 3. Ranked by McDep Ratio, our comparison of Enterprise Value to Present Value, Devon stock has the most unlevered appreciation potential among large capitalization independent natural gas and oil producers. The near-term outlook also appears competitive as management expects an acceleration of volume gains, though characteristically we use flat volumes in our cash flow projection for the next twelve months. Chairman Larry Nichols has a long record of making money for investors since he and his father cofounded the company three decades ago.

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Devon Energy
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	5,380	8.3	5.9	31,500	59%
Oil	4,020	9.4	5.4	21,900	41%
	9,400	8.7	5.7	53,400	100%
Debt (US\$mm)					7,900
Net Present Value (US\$mm)					45,500
Shares (mm)					446
Net Present Value - Standard Estimate (US\$/sh)					102
Net Present Value - Approximation by Correlation (US\$/sh)					102

Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/</i> <i>Rating</i>	<i>Price</i> <i>(US\$/sh)</i> <i>2-Aug</i> <i>2006</i>	<i>Shares</i> <i>(mm)</i>	<i>Market</i> <i>Cap</i> <i>(US\$mm)</i>	<i>Net</i> <i>Present</i> <i>Value</i> <i>(US\$/sh)</i>	<i>Debt/</i> <i>Present</i> <i>Value</i>	<i>McDep</i> <i>Ratio</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap							
XTO Energy Inc.	XTO B	47.99	369	17,710	52.00	0.18	0.94
Encana Corporation	ECA B	54.49	845	46,000	60.00	0.13	0.92
CNOOC Limited (29%)	CEO B	86.34	119	10,300	98.00	-	0.88
Occidental Petroleum Corp.	OXY B	107.68	431	46,400	138.00	0.11	0.80
EOG Resources	EOG B	70.82	246	17,400	92.00	0.07	0.79
Anadarko Petroleum Corp.	APC B	47.09	463	21,800	77.00	0.46	0.79
Devon Energy Corporation	DVN B	65.75	446	29,300	102.00	0.15	0.70
	<i>Total or Median</i>			<i>189,000</i>		<i>0.13</i>	<i>0.80</i>

Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

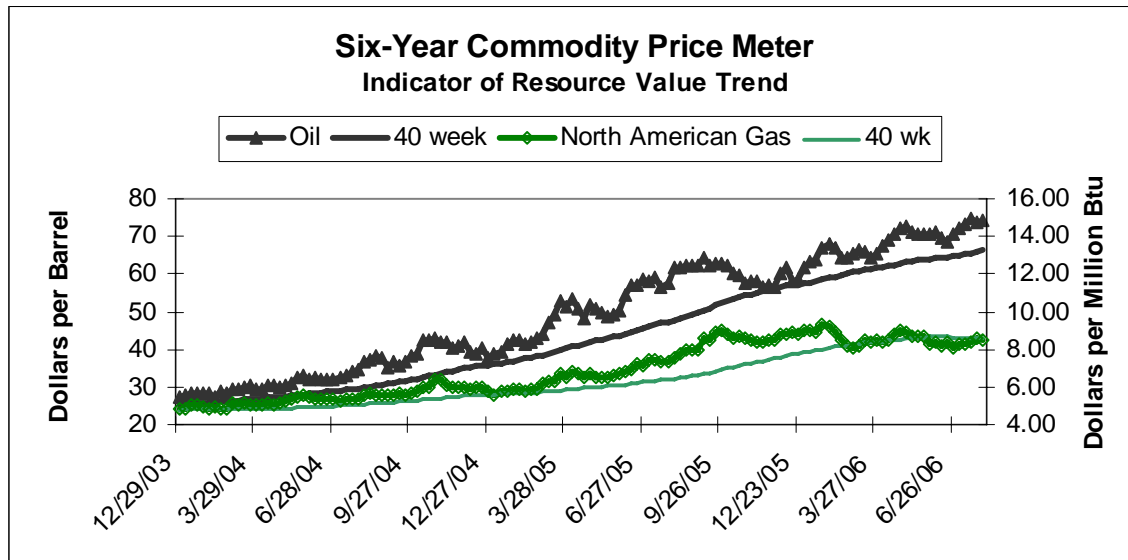
	<i>Symbol/</i> <i>Rating</i>	<i>Price</i> <i>(US\$/sh)</i> <i>2-Aug</i> <i>2006</i>	<i>Adjstd</i> <i>Resrvs/</i> <i>Prod</i> <i>NTM</i>	<i>PV/</i> <i>Ebitda</i> <i>NTM</i>	<i>EV/</i> <i>Ebitda</i> <i>NTM</i>	<i>Divd or</i> <i>Distrib</i> <i>P/E</i> <i>NTM</i>	<i>NTM</i> <i>(%)</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap							
XTO Energy Inc.	XTO B	47.99	11.6	6.8	6.4	11	0.4
EOG Resources	EOG B	70.82	9.7	7.4	5.8	12	0.3
Encana Corporation	ECA B	54.49	8.7	5.7	5.3	11	0.7
Anadarko Petroleum Corp.	APC B	47.09	11.2	6.3	5.0	6	1.5
Occidental Petroleum Corp.	OXY B	107.68	10.4	5.7	4.6	8	1.6
Devon Energy Corporation	DVN B	65.75	8.7	5.7	4.0	7	0.7
CNOOC Limited (29%)	CEO B	86.34	10.0	4.3	3.8	7	3.0
	<i>Median</i>		<i>10.0</i>	<i>5.7</i>	<i>5.0</i>	<i>8</i>	<i>0.7</i>

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Devon Energy
Next Twelve Months Operating and Financial Results

	<i>Q2</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Next</i>
	<i>6/30/05</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>3/31/07</i>	<i>Twelve</i>
									<i>Months</i>
									<i>6/30/07</i>
Volume									
Natural Gas (mmcf)									
U.S.	1,534	1,521	1,444	1,493	1,493	1,493	1,481	1,493	1,493
Canada	735	715	656	689	689	689	681	689	689
Overseas	27	30	25	24	24	24	24	24	24
Total	2,295	2,266	2,125	2,206	2,206	2,206	2,186	2,206	2,206
Oil (mbd)									
Total gas & oil (bcf)	350	1,357	307	316	321	322	1,266	315	1,277
Total gas & oil (mmb)	58	226	51	53	53	54	211	53	213
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.76	8.65	8.97	6.81	7.44	9.79	8.25	11.62	9.40
U.S.	6.19	7.14	7.06	5.91	6.46	8.50	6.98	10.09	8.26
Canada	6.16	7.18	7.37	5.70	6.23	8.21	6.87	9.74	7.87
Overseas	5.47	4.85	4.21	4.65	5.09	6.70	5.16	7.94	6.42
Total	6.17	7.13	7.12	5.83	6.37	8.39	6.93	9.96	8.12
Oil (\$/bbl)									
WTI Cushing	53.05	56.31	63.33	70.47	74.40	76.40	71.15	77.82	76.74
Worldwide	40.85	43.24	46.31	54.34	57.17	60.83	54.73	63.01	60.84
Total gas & oil (\$/mcf)	6.43	7.16	7.35	7.01	7.53	9.04	7.74	10.16	8.87
Revenue (\$mm)									
Natural Gas									
U.S.	864	3,966	918	802	887	1,168	3,775	1,356	4,502
Canada	412	1,875	435	357	395	520	1,708	604	1,979
Overseas	13	52	9	10	11	15	46	17	56
Total	1,289	5,893	1,363	1,170	1,294	1,703	5,529	1,977	6,538
Oil									
Total	959	3,816	891	1,044	1,123	1,209	4,268	1,225	4,785
Total	2,249	9,710	2,254	2,214	2,417	2,912	9,797	3,202	11,323
Expense									
Fixed	199	702	217	211	211	211	850	211	845
Variable	199	702	217	211	231	278	936	306	1,080
Ebitda (\$mm)	1,852	8,306	1,821	1,791	1,975	2,423	8,010	2,685	9,398
Deprec., Deplet., & Amort.	535	2,200	549	612	612	612	2,385	612	2,448
Hedging and other	171	831	93				93		-
Ebit	1,146	5,275	1,179	1,179	1,363	1,811	5,532	2,073	6,950
Interest	146	482	101	102	102	102	407	102	408
Ebt	1,000	4,793	1,078	1,077	1,261	1,709	5,125	1,971	6,542
Income Tax	350	1,677	377	377	441	598	1,794	690	2,290
Net Income (\$mm)	650	3,115	700	700	820	1,111	3,331	1,281	4,252
Shares (millions)									
Per Share (\$)	471	1,872	449	446	446	446	1,787	446	446
Ebitda Margin	1.38	6.72	1.56	1.57	1.84	2.49	7.46	2.87	9.53
Ebitda Margin	82%	86%	81%	81%	82%	83%	82%	84%	83%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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