



Independent Stock Idea

August 6, 2008

rating: buy
s&p 500: 1289

Devon Energy (DVN) John W. Nichols, 1914-2008

<i>Symbol</i>	DVN	<i>Ebitda Next Twelve Months ending 6/30/09 (US\$m)</i>	11,100
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	53
<i>Price (\$/sh)</i>	92.50	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/6/08	<i>Adjusted Reserves/Production NTM</i>	9.3
<i>Shares (mm)</i>	450	<i>EV/Ebitda</i>	4.5
<i>Market Capitalization (\$mm)</i>	41,600	<i>PV/Ebitda</i>	7.7
<i>Debt (\$mm)</i>	8,600	<i>Undeveloped Reserves (%)</i>	25
<i>Enterprise Value (EV) (\$mm)</i>	50,200	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	47.30
<i>Present Value (PV) (\$mm)</i>	85,100	<i>Present Value Proven Reserves(\$/boe)</i>	34.10
<i>Net Present Value (\$/share)</i>	170	<i>Present Value Proven Reserves(\$/mcf)</i>	5.70
<i>Debt/Present Value</i>	0.10	<i>Earnings Next Twelve Months (US\$/sh)</i>	10.61
<i>McDep Ratio - EV/PV</i>	0.59	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	0.7	<i>Indicated Annual Dividend (US\$/sh)</i>	0.64
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.			
Estimated present value presumes a long-term price for oil of US\$100 a barrel and natural gas, \$14 a million btu.			
For historical research on Devon since 2004 see http://www.mcdep.com/3dvn.htm			

Summary and Recommendation

Our strongest buy recommendation among large independent producers, **Devon Energy (DVN)** is part of the legacy of Chairman Emeritus John W. Nichols who passed away on August 3. Mr. Nichols was a pioneer in developing San Juan Basin natural gas using funds obtained from investors after he registered the first drilling fund with the U.S. Securities and Exchange Commission in 1950. Co-founding Devon in 1971, Mr. Nichols' son, Larry, has been leading the company for decades, making money for investors and giving us confidence in the company's future. Meanwhile, second quarter results reported today matched or exceeded expectations. Projected volumes along with futures prices from August 4 promise a high level of unlevered cash flow (Ebitda) (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 Net Present Value (NPV) of \$170 a share (see table [Functional Cash Flow and Present Value](#)). Though down a few dollars in the past few days, long-term crude oil price remains in an uptrend where today's settlement of \$116 a barrel for delivery over the next six years is above the 40-week average of \$104 (see chart [Six-Year Commodity Price Meter](#)). On the quarterly conference call, President John Richels was enthusiastic about Devon's 483,000 acres with Haynesville Shale potential that he called the largest of any company announced to date. Early estimates of 73 trillion cubic feet in place under the acreage may put it in league with Devon's Barnett Shale where DVN produces 2% of total U.S. daily natural gas volume.

Kurt H. Wulff, CFA



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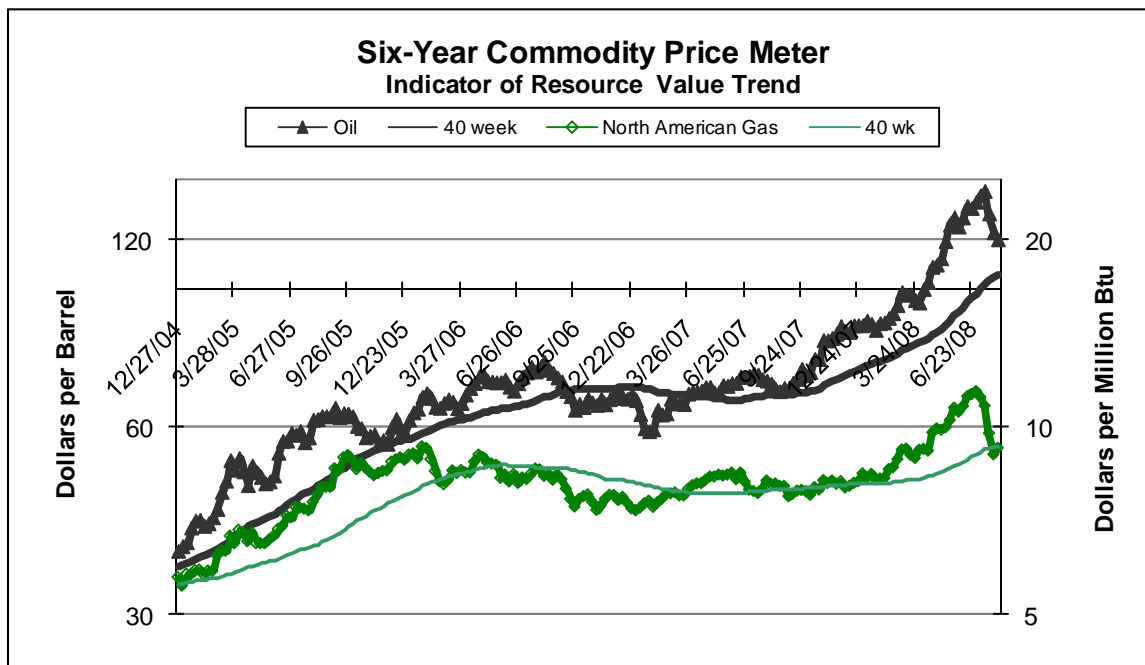
Devon Energy									
Next Twelve Months Operating and Financial Results									
									<i>Next</i>
	<i>Q2</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Twelve</i>
	<i>6/30/07</i>	<i>3/31/08</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008E</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>Months</i>
									<i>6/30/09</i>
Volume									
Natural Gas (mmcf)									
U.S.	1,701	1,877	1,939	1,939	1,939	1,929	1,939	1,939	1,939
Canada	626	567	583	583	583	580	583	583	583
Overseas	6	6	5	5	5	5	5	5	5
Total	2,333	2,450	2,527	2,527	2,527	2,514	2,527	2,527	2,527
Days	91	91	91	92	92	366	90	91	365
Oil (mbd)	229	221	222	222	222	221	222	222	222
Total gas & oil (bcf)	337	343	351	355	355	1,404	347	351	1,407
Total gas & oil (mmb)	56	58	58	59	59	235	58	58	235
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	7.56	8.02	10.93	10.36	9.25	9.64	9.87	8.94	9.60
U.S.	6.36	7.24	9.56	9.06	8.10	8.50	8.63	7.82	8.40
Canada	6.86	7.53	9.76	9.25	8.26	8.71	8.81	7.98	8.58
Overseas	6.19	8.41	11.00	10.42	9.31	9.71	9.93	9.00	9.67
Total	6.50	7.31	9.61	9.11	8.14	8.55	8.67	7.86	8.45
Oil (\$/bbl)									
WTI Cushing	64.91	97.94	123.97	125.40	122.05	117.34	122.70	121.73	122.97
Worldwide	52.31	79.58	90.90	90.18	85.62	86.58	86.59	83.76	86.54
Total gas & oil (\$/mcf)	7.32	9.40	11.52	11.15	10.25	10.59	10.66	9.96	10.51
Revenue (\$mm)									
Natural Gas									
U.S.	985	1,237	1,687	1,616	1,445	5,985	1,506	1,380	5,947
Canada	391	389	517	496	443	1,845	462	423	1,824
Overseas	3	5	5	5	4	18	4	4	17
Total	1,379	1,630	2,209	2,117	1,892	7,847	1,973	1,807	7,788
Oil	1,089	1,598	1,833	1,839	1,746	7,015	1,727	1,689	7,000
Total	2,468	3,571	4,043	3,955	3,637	15,206	3,700	3,496	14,788
Expense	478	815	914	989	909	3,627	925	874	3,697
Ebitda (\$mm)	1,991	2,756	3,129	2,966	2,728	11,579	2,775	2,622	11,091
Deprec., Deplet., & Amort.	712	816	846	846	846	3,354	846	846	3,384
Hedging and other						-			-
Ebit	1,279	1,940	2,283	2,120	1,882	8,225	1,929	1,776	7,707
Interest	107	102	90	90	90	372	90	90	360
Ebt	1,172	1,838	2,193	2,030	1,792	7,853	1,839	1,686	7,347
Income Tax	330	608	667	711	627	2,613	644	590	2,571
Net Income (\$mm)	842	1,230	1,526	1,320	1,165	5,240	1,195	1,096	4,776
Shares (millions)	450	449	450	450	450	1,799	450	450	450
Per Share (\$)	1.87	2.74	3.39	2.93	2.59	11.65	2.66	2.44	10.61
Ebitda Margin	81%	77%	77%	75%	75%	76%	75%	75%	75%
Tax Rate	28%	33%	30%	35%	35%	33%	35%	35%	35%



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Devon Energy					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
North American Natural Gas	5,830	8.8	8.1	47,000	55%
Oil	5,260	10.3	7.2	38,100	45%
	11,090	9.3	7.7	85,100	100%
Debt (US\$mm)					8,600
Net Present Value (US\$mm)					76,500
Shares (mm)					450
Net Present Value - Standard Estimate (US\$/sh)					170
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					162





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