



# Independent Stock Idea

November 5, 2008

rating: buy  
s&p 500: 953

## Devon Energy (DVN) Outperforming in Tough Times

<i>Symbol</i>	DVN	<i>Ebitda Next Twelve Months ending 9/30/09 (US\$m)</i>	7,000
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	65
<i>Price (\$/sh)</i>	79.76	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/5/08	<i>Adjusted Reserves/Production NTM</i>	9.4
<i>Shares (mm)</i>	446	<i>EV/Ebitda</i>	5.9
<i>Market Capitalization (\$mm)</i>	35,600	<i>PV/Ebitda</i>	8.2
<i>Debt (\$mm)</i>	6,000	<i>Undeveloped Reserves (%)</i>	25
<i>Enterprise Value (EV) (\$mm)</i>	41,600	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	30.30
<i>Present Value (PV) (\$mm)</i>	57,700	<i>Present Value Proven Reserves(\$/boe)</i>	23.10
<i>Net Present Value (\$/share)</i>	116	<i>Present Value Proven Reserves(\$/mcf)</i>	3.90
<i>Debt/Present Value</i>	0.10	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.79
<i>McDep Ratio - EV/PV</i>	0.72	<i>Price/Earnings Next Twelve Months</i>	17
<i>Dividend Yield (%/year)</i>	0.8	<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\$75 a barrel and natural gas, \$10 a million btu.			
For historical research on Devon since 2004 see <a href="http://www.mcdep.com/3dvn.htm">http://www.mcdep.com/3dvn.htm</a>			

### Summary and Recommendation

Buy-recommended **Devon Energy (DVN)** offers 39% unlevered appreciation potential to estimated net present value (NPV) of \$116 a share. On October 28, we reset NPV from \$170 a share on the basis of a long-term oil price assumption of \$75 a barrel, down from \$100. Patience may be necessary as DVN stock price remains below the 200-day average of \$100. 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). Devon Chief Executive Larry Nichols demonstrated again the qualities that have helped build a long-term record of high performance at comparatively low risk. While some leading competitors got caught with more debt than they wanted during the recent market decline, Devon reduced its debt to a low level when commodity prices were higher. As a result, Devon's stock price has outperformed and the company is in a position to deploy capital in timely fashion.

Kurt H. Wulff, CFA



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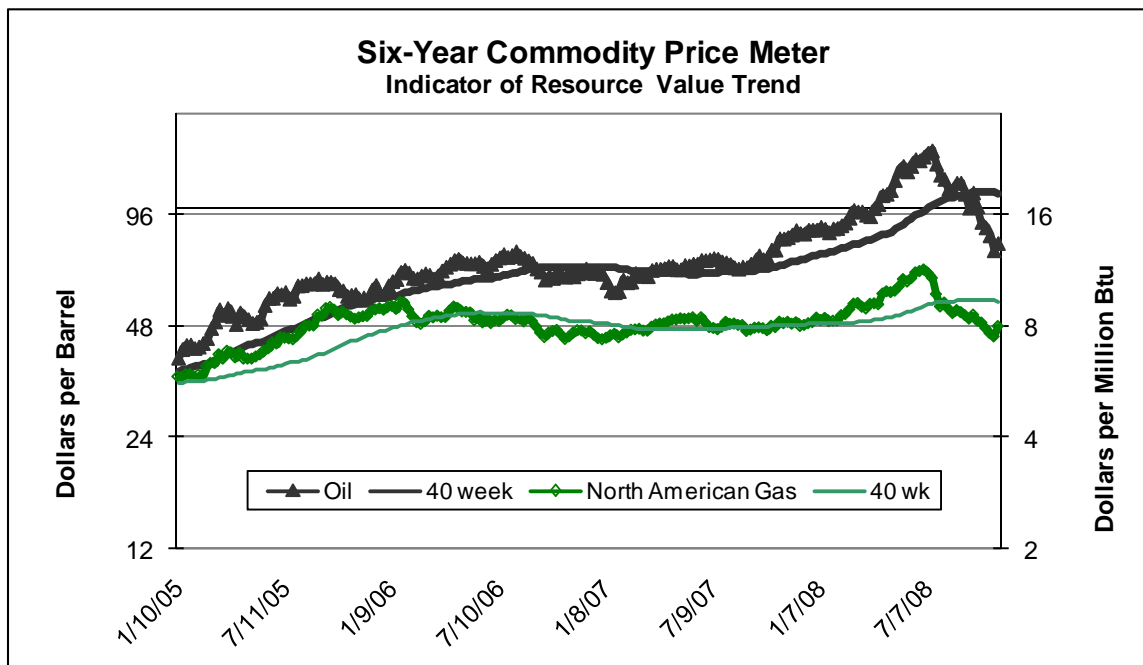
Devon Energy															
Next Twelve Months Operating and Financial Results															
	Q2		Q1		Q2		Q3		Q4E		Year	Q1E	Q2E	Q3E	Next Twelve Months
	6/30/07	3/31/08	6/30/08	9/30/08	12/31/08	2008E	3/31/09	6/30/09	9/30/09	9/30/09					
<b>Volume</b>															
Natural Gas (mmcf)															
U.S.	1,701	1,877	1,939	2,007	2,007	<b>1,963</b>	2,007	2,007	2,007	<b>2,007</b>					
Canada	626	567	583	585	585	<b>582</b>	585	585	585	<b>585</b>					
Overseas	6	6	5	5	5	<b>5</b>	5	5	5	<b>5</b>					
Total	2,333	2,450	2,527	2,597	2,597	<b>2,550</b>	2,597	2,597	2,597	<b>2,597</b>					
Days	91	91	91	92	92	<b>366</b>	90	91	92	<b>365</b>					
Oil (mbd)	229	208	222	204	204	<b>209</b>	204	204	204	<b>204</b>					
Total gas & oil (bcf)	337	337	351	352	352	<b>1,391</b>	344	348	352	<b>1,395</b>					
Total gas & oil (mmb)	56	58	58	59	59	<b>234</b>	57	58	59	<b>232</b>					
<b>Price</b>															
Natural gas (\$/mcf)															
Henry Hub (\$/mmbtu)	7.56	8.02	10.93	10.25	6.93	<b>9.03</b>	7.11	7.10	7.39	<b>7.13</b>					
U.S.	6.36	7.24	9.56	8.94	6.05	<b>7.94</b>	6.20	6.20	6.45	<b>6.22</b>					
Canada	6.86	7.53	9.76	9.15	6.19	<b>8.16</b>	6.35	6.34	6.60	<b>6.37</b>					
Overseas	6.19	8.41	11.00	10.31	6.97	<b>9.12</b>	7.15	7.15	7.44	<b>7.18</b>					
Total	6.50	7.31	9.61	8.99	6.08	<b>7.99</b>	6.24	6.23	6.49	<b>6.26</b>					
Oil (\$/bbl)															
WTI Cushing	64.91	97.94	123.97	117.99	68.14	<b>102.01</b>	65.30	67.42	69.39	<b>67.57</b>					
Worldwide	52.31	77.34	90.90	84.71	44.02	<b>74.55</b>	42.59	42.81	43.01	<b>43.11</b>					
Total gas & oil (\$/mcf)	7.32	9.19	11.52	10.63	6.48	<b>9.46</b>	6.51	6.52	6.71	<b>6.56</b>					
<b>Revenue (\$mm)</b>															
Natural Gas															
U.S.	985	1,237	1,687	1,651	1,116	<b>5,691</b>	1,120	1,132	1,191	<b>4,560</b>					
Canada	391	389	517	492	333	<b>1,731</b>	334	338	355	<b>1,360</b>					
Overseas	3	5	5	5	3	<b>17</b>	3	3	3	<b>13</b>					
Total	1,379	1,630	2,209	2,148	1,453	<b>7,440</b>	1,457	1,473	1,550	<b>5,933</b>					
Oil	1,089	1,465	1,833	1,591	827	<b>5,715</b>	782	795	808	<b>3,212</b>					
Total	2,468	2,922	4,043	3,739	2,279	<b>12,983</b>	2,240	2,268	2,358	<b>9,145</b>					
Expense	478	166	914	680	524	<b>2,284</b>	515	522	542	<b>2,103</b>					
<b>Ebitda (\$mm)</b>	1,991	2,756	3,129	3,059	1,755	<b>10,699</b>	1,725	1,746	1,816	<b>7,042</b>					
Deprec., Deplet., & Amort.	712	816	846	870	870	<b>3,402</b>	870	870	870	<b>3,480</b>					
Hedging and other						-				-					
<b>Ebit</b>	1,279	1,940	2,283	2,189	885	<b>7,297</b>	855	876	946	<b>3,562</b>					
Interest	107	102	90	69	69	<b>330</b>	69	69	69	<b>276</b>					
<b>Ebt</b>	1,172	1,838	2,193	2,120	816	<b>6,967</b>	786	807	877	<b>3,286</b>					
Income Tax	330	608	667	742	286	<b>2,303</b>	275	283	307	<b>1,150</b>					
<b>Net Income (\$mm)</b>	842	1,230	1,526	1,378	530	<b>4,664</b>	511	525	570	<b>2,136</b>					
<b>Shares (millions)</b>	450	449	450	446	446	<b>1,791</b>	446	446	446	<b>446</b>					
Per Share (\$)	1.87	2.74	3.39	3.09	1.19	<b>10.41</b>	1.14	1.18	1.28	<b>4.79</b>					
Ebitda Margin	81%	94%	77%	82%	77%	<b>82%</b>	77%	77%	77%	<b>77%</b>					
Tax Rate	28%	33%	30%	35%	35%	<b>33%</b>	35%	35%	35%	<b>35%</b>					



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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	4,560	8.6	8.1	37,000	64%
Oil	2,480	11.2	8.3	20,700	36%
	7,040	9.4	8.2	57,700	100%
Debt (US\$mm)					6,000
Net Present Value (US\$mm)					51,700
Shares (mm)					446
Net Present Value - Standard Estimate (US\$/sh)					116
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					115





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