



Independent Stock Idea

February 4, 2009

rating: buy
s&p 500: 829 intraday

Devon Energy (DVN) Harvesting Accounting Losses

<i>Symbol</i>	DVN	<i>Ebitda Next Twelve Months ending 12/31/09 (US\$m)</i>	5,200
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	64
<i>Price (\$/sh)</i>	58.39	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/4/09	<i>Adjusted Reserves/Production NTM</i>	8.8
<i>Shares (mm)</i>	444	<i>EV/Ebitda</i>	6.7
<i>Market Capitalization (\$mm)</i>	25,900	<i>PV/Ebitda</i>	11.6
<i>Debt (\$mm)</i>	8,600	<i>Undeveloped Reserves (%)</i>	20
<i>Enterprise Value (EV) (\$mm)</i>	34,500	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	20.80
<i>Present Value (PV) (\$mm)</i>	60,100	<i>Present Value Proven Reserves(\$/boe)</i>	24.70
<i>Net Present Value (\$/share)</i>	116	<i>Present Value Proven Reserves(\$/mcf)</i>	4.10
<i>Debt/Present Value</i>	0.14	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.90
<i>McDep Ratio - EV/PV</i>	0.57	<i>Price/Earnings Next Twelve Months</i>	31
<i>Dividend Yield (%/year)</i>	1.1	<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 http://www.mcdep.com/3dvn.htm			

Summary and Recommendation

Estimated Net Present Value (NPV) of \$116 a share is more than 90% higher than stock price for low-debt, buy-recommended **Devon Energy (DVN)**. Released today, fourth quarter results displayed lower unlevered cash flow (Ebitda) driven by crude oil and natural gas prices (see table [Next Twelve Months Operating and Financial Estimates](#)). Our valuation capitalizes cash flow at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) for natural gas and oil. Latest calculations result in NPV concentrated 67% on natural gas and 33% on oil (see table [Functional Cash Flow and Present Value](#)). By the final estimates for the latest year, low year-end heavy oil price in Canada contributed to a slight reduction in proven reserves (see table [Production and Reserves, 2008](#)). That change contributed to an abnormally high depletion charge in the latest quarter, which will likely reverse in some future quarters. Similarly, a separate reduction in capitalized value of reserves will also benefit future earnings through lower depletion charge. Pointing to expected oil price recovery, futures prices for the next six years averaged US\$60 a barrel recently (see charts [Six-Year Commodity Price Meter](#) and [Six-Year and One-Year Natural Gas and Oil Futures](#)). Finally, investors can be reassured that Devon Chief Executive Larry Nichols has a long record of shepherding his company safely through tough times and prospering in good times.

Kurt H. Wulff, CFA



Independent Stock Idea

February 4, 2009

Devon Energy									
Next Twelve Months Operating and Financial Results									
									<i>Next</i>
	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Twelve</i>
	<i>12/31/07</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>Months</i>
	<i>12/31/07</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>12/31/09</i>
Volume									
Natural Gas (mmcf)									
U.S.	1,845	2,007	2,106	1,988	2,106	2,106	2,106	2,106	2,106
Canada	606	585	583	581	583	583	583	583	583
Overseas	5	5	8	6	8	8	8	8	8
Total	2,456	2,597	2,697	2,575	2,697	2,697	2,697	2,697	2,697
Days	92	92	92	366	90	91	92	92	365
Oil (mbd)	222	204	230	222	230	230	230	230	230
Total gas & oil (bcf)	349	352	375	1,427	367	371	375	375	1,489
Total gas & oil (mmb)	58	59	63	238	61	62	63	63	248
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.97	10.25	6.95	9.04	5.06	4.70	5.00	5.72	5.12
U.S.	5.88	8.94	5.11	7.67	4.29	3.99	4.25	4.86	4.35
Canada	6.68	9.15	6.02	8.12	4.54	4.22	4.49	5.14	4.60
Overseas	7.58	10.31	4.90	8.15	4.90	4.90	4.90	4.90	4.90
Total	6.08	8.99	5.31	7.77	4.35	4.04	4.30	4.92	4.40
Oil (\$/bbl)									
WTI Cushing	90.67	117.99	58.45	99.59	40.97	45.90	49.75	52.08	47.18
Worldwide	66.46	84.71	34.96	70.70	24.51	27.45	29.75	31.15	28.24
Total gas & oil (\$/mcf)	7.84	10.63	5.48	9.14	4.26	4.22	4.52	5.01	4.51
Revenue (\$mm)									
Natural Gas									
U.S.	998	1,651	990	5,565	814	764	823	941	3,341
Canada	373	492	323	1,721	238	224	241	276	978
Overseas	3	5	4	18	4	4	4	4	14
Total	1,374	2,148	1,317	7,304	1,055	991	1,067	1,220	4,334
Oil	1,360	1,591	740	5,736	508	575	630	660	2,374
Total	2,734	3,739	2,056	13,040	1,563	1,566	1,698	1,880	6,707
Expense	698	680	468	2,508	360	360	390	432	1,543
Ebitda (\$mm)	2,036	3,059	1,589	10,533	1,204	1,206	1,307	1,447	5,165
Deprec., Deplet., & Amort.	794	870	1,063	3,595	899	899	899	899	3,595
Hedging and other				-					-
Ebit	1,242	2,189	526	6,938	305	307	408	549	1,570
Interest	105	69	68	329	68	68	68	68	272
Ebt	1,137	2,120	458	6,609	237	239	340	481	1,298
Income Tax	167	742	160	2,177	83	84	119	168	454
Net Income (\$mm)	970	1,378	297	4,431	154	156	221	312	843
Shares (millions)	449	446	444	1,789	444	444	444	444	444
Per Share (\$)	2.16	3.09	0.67	9.89	0.35	0.35	0.50	0.70	1.90
Ebitda Margin	74%	82%	77%	81%	77%	77%	77%	77%	77%
Tax Rate	15%	35%	35%	33%	35%	35%	35%	35%	35%



Independent Stock Idea

February 4, 2009

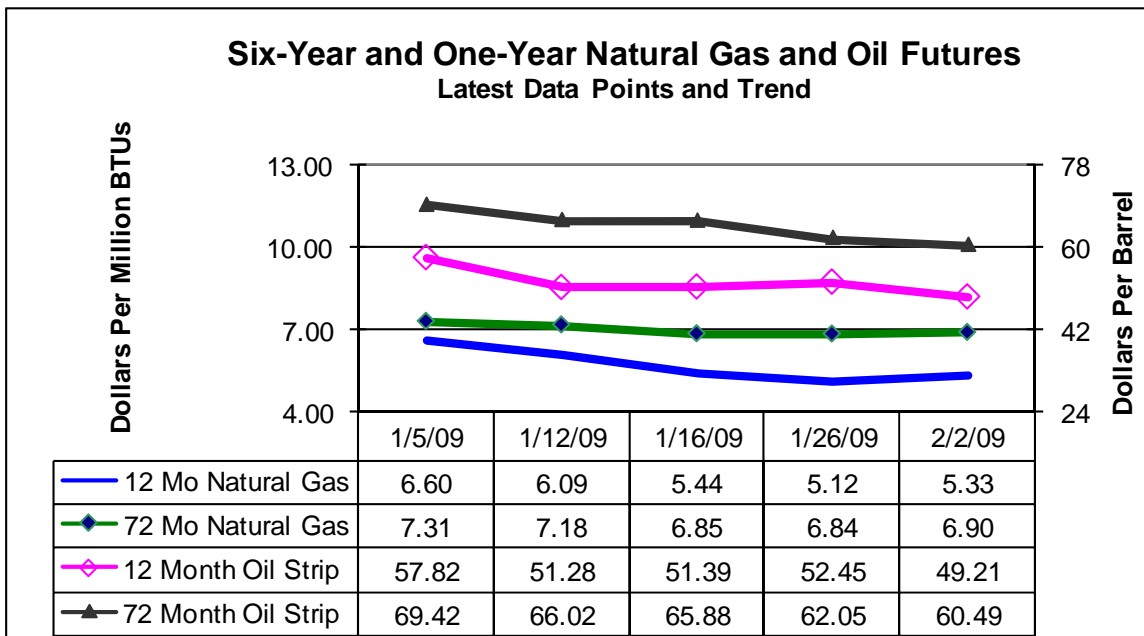
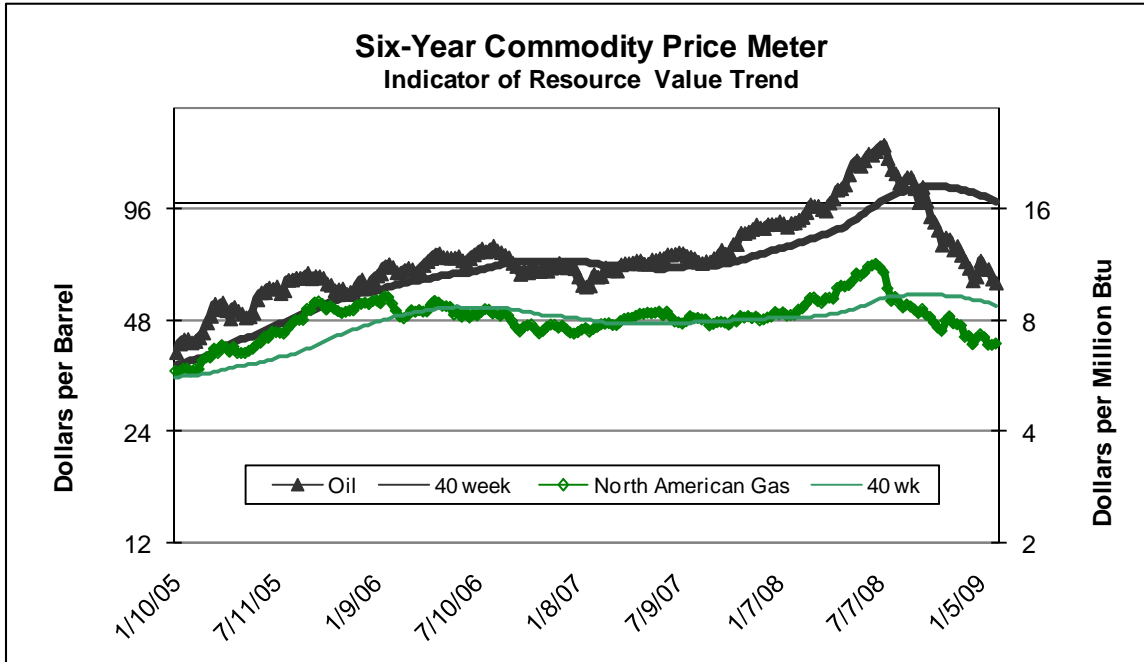
Devon Energy					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	3,320	9.1	12.2	40,500	67%
Oil	1,840	8.2	10.7	19,600	33%
	5,160	8.8	11.6	60,100	100%
Debt (US\$mm)					8,600
Net Present Value (US\$mm)					51,500
Shares (mm)					444
Net Present Value - Standard Estimate (US\$/sh)					116
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					113

Devon Energy								
Production and Reserves, 2008								
								<i>NTM</i>
				<i>12/31/2008 Proven Reserves</i>			<i>Weighted</i>	<i>Adjusted</i>
		<i>2008 Production</i>	<i>Developed</i>	<i>Undeveloped</i>	<i>Weighted</i>	<i>Life Index</i>	<i>R/P</i>	
		<i>(daily)</i>	<i>(annual)</i>	<i>(bcf or mmb)</i>	<i>(bcf or mmb)</i>	<i>(bcf or mmb)</i>	<i>(years)</i>	<i>(years)</i>
North American Natural Gas								
	U.S. Onshore	1,833	669	6,469	1,510	7,224	10.8	
	U.S. Offshore	156	57	212	178	301	5.3	
	Canada	581	212	1,357	153	1,434	6.8	
	Other	5	2	6		6	3.0	
	Total	2,575	940	8,044	1,841	8,965	9.5	9.1
Oil								
	U.S. Onshore	96	35	371	77	410	11.7	
	U.S. Offshore	16	6	23	13	30	4.9	
	Canada	71	26	141	28	155	6.0	
	Overseas	38	14	58	70	93	6.6	
		222	81	593	188	687	8.5	8.2
	Total Oil Equivalent	651	238	1,934	495	2,181	9.2	8.8



Independent Stock Idea

February 4, 2009





Independent Stock Idea

February 4, 2009

Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

McDep does no investment banking business. McDep is not paid by covered companies including revenue from advertising, trading, consulting, subscriptions or research service. McDep shall not own more than 1% of outstanding stock in a covered company. No one at McDep is on the Board of Directors at a covered company nor is anyone at a covered company on the Board of Directors of McDep.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

Certification: I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

Research Methodology/Ratings Description: McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.