



Independent Stock Idea

April 22, 2009

rating: hold
s&p 500: 844

Encore Acquisition Company (EAC) Levered to Oil Price

<i>Symbol</i>	EAC	<i>Ebitda Next Twelve Months ending 3/31/10 (US\$mm)</i>	277
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	20
<i>Price (\$/sh)</i>	28.05	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	4/22/09	<i>Adjusted Reserves/Production NTM</i>	11.5
<i>Shares (mm)</i>	53	<i>EV/Ebitda</i>	9.5
<i>Market Capitalization (\$mm)</i>	1,500	<i>PV/Ebitda</i>	12.6
<i>Debt (\$mm)</i>	1,130	<i>Undeveloped Reserves (%)</i>	20
<i>Enterprise Value (EV) (\$mm)</i>	2,630	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	19.00
<i>Present Value (PV) (\$mm)</i>	3,480	<i>Present Value Proven Reserves(\$/boe)</i>	18.70
<i>Net Present Value (\$/share)</i>	44	<i>Oil and Gas Ebitda Margin (%)</i>	49
<i>Debt/Present Value</i>	0.33	<i>Earnings Next Twelve Months (US\$/sh)</i>	
<i>McDep Ratio - EV/PV</i>	0.76	<i>Price/Earnings Next Twelve Months</i>	
<i>Dividend Yield (%/year)</i>	0.0	<i>Indicated Annual Dividend (US\$/sh)</i>	0.00
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.			
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 Encore since 2003 see http://www.mcdep.com/4eac.htm			

Summary and Recommendation

Hold-rated **Encore Acquisition Company (EAC)** offers unlevered appreciation potential of 32% to a McDep Ratio of 1.0 and levered appreciation potential of 56% to Net Present Value (NPV) of \$44 a share. Released today, first quarter results reflected high fixed costs that caused unlevered cash flow (Ebitda) to decline by more than half from the fourth quarter of 2008 while oil and gas price declined by a third. The quarter just ended may have been a low point as we project revenue gains and cost containment in the quarters ahead (see table Next Twelve Months Operating and Financial Estimates). Those projections support estimated NPV when viewed by unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) for natural gas and oil (see table Functional Cash Flow and Present Value). Pointing to expected oil price recovery, futures prices for the next six years averaged US\$66 a barrel recently (see charts Six-Year Commodity Price Meter and Six-Year and One-Year Natural Gas and Oil Futures). The surprise early release of earnings today accompanies a decision to offer 5-year high-yield notes in a public underwriting. The financial leverage of higher debt than we would normally like to see combined with the operating leverage of fixed costs accentuates the opportunity and risk in Encore stock.

Kurt H. Wulff, CFA



Independent Stock Idea

April 22, 2009

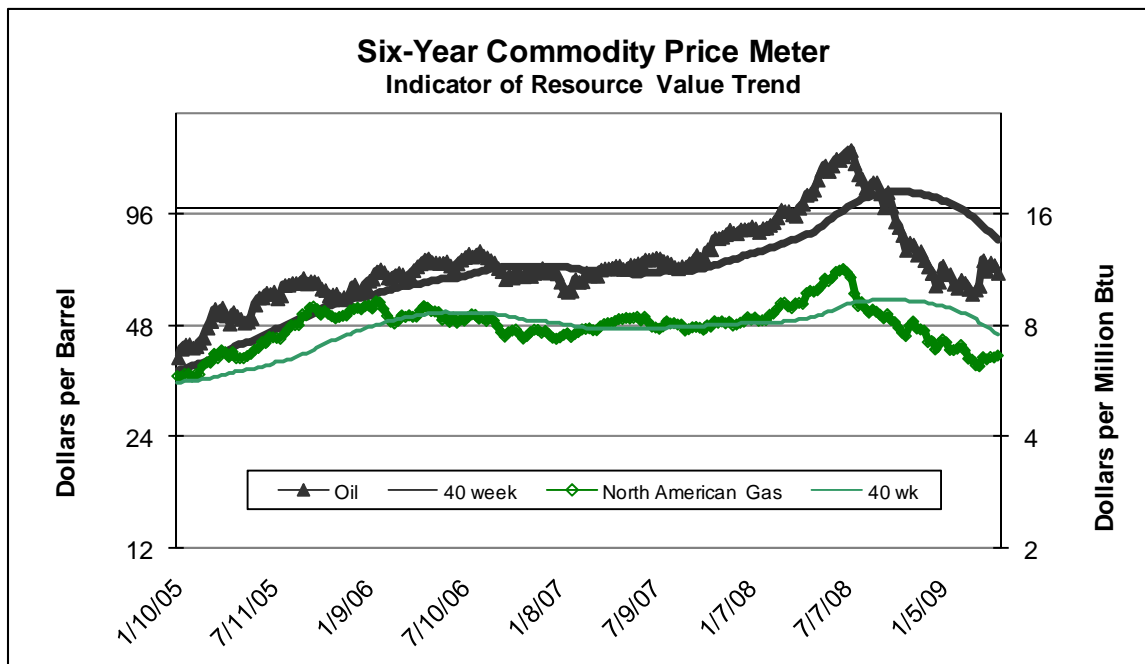
Encore Acquisition Company									
Next Twelve Months Operating and Financial Estimates									
									<i>Next</i>
	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Twelve</i>
	<i>3/31/08</i>	<i>12/31/08</i>	<i>2008</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>2009E</i>	<i>Months</i>
									<i>3/31/10</i>
Volume									
Natural Gas (mmcf)	64.1	81.1	72.1	85.5	83.8	82.1	80.5	83.0	81.7
Days	91	92	366	90	91	92	92	365	365
Oil (mbd)	27.5	28.3	27.46	27.6	27.1	26.6	26.0	26.82	26.42
Total (mb)	3,476	3,847	14,445	3,771	3,737	3,702	3,628	14,838	14,616
Total (mbd)	38.2	41.8	39.5	41.9	41.1	40.2	39.4	40.7	40.0
Price									
Henry Hub (\$/mmbtu)	8.02	6.95	9.04	4.90	3.61	3.94	4.85	4.32	4.55
Differential (\$/mmbtu)	(0.26)	0.98	0.41	1.62	0.54	0.59	0.73	0.87	0.77
EAC (\$/mcf)	8.28	5.97	8.63	3.28	3.07	3.35	4.12	3.45	3.78
WTI Cushing (\$/bbl)	97.94	58.45	99.59	42.96	47.65	52.28	55.61	49.62	53.40
Differential	8.81	11.82	10.02	7.48	5.72	6.27	6.67	6.60	6.47
EAC (\$/bbl)	89.13	46.63	89.56	35.48	41.93	46.01	48.94	43.02	46.93
Total (\$/bbl)	78.10	43.14	78.06	30.10	33.93	37.18	40.70	35.43	38.69
Revenue (\$mm)									
Natural Gas	48	45	227	25	23	25	31	104	113
Oil	223	121	900	88	103	112	117	421	453
Total	271	166	1,128	114	127	138	148	526	565
Expense									
Lease operating	40	45	190	44	41	41	40	166	161
Production taxes	27	15	110	12	13	14	15	53	57
General and administrative	12	12	67	14	13	16	21	63	73
Expense	79	72	420	70	65	70	75	280	288
Ebitda	192	94	708	44	62	67	72	245	277
Exploration	5	9	39	11	9	9	9	38	36
Deprec., Deplet., & Amort.	50	69	228	70	60	59	58	247	234
Partnership, hedging, other	41	(61)	7	(72)				(72)	-
Ebit	96	76	434	35	2	8	14	60	43
Interest	19	19	72	16	16	16	16	64	64
Ebt	77	57	362	19	(14)	(8)	(2)	(4)	(21)
Income Tax	19	20	119	7	(5)	(3)	(1)	(1)	(7)
Net Income (\$mm)	58	37	243	12	(9)	(5)	(1)	(3)	(14)
Per Share (\$)	1.08	0.71	4.59	0.23	(0.17)	(0.09)	(0.02)	(0.05)	(0.25)
Shares (millions)	54	53	53	53	53	53	53	53	53
Lease operating (\$/bbl)	11.51	11.70	13.16	11.67	11.00	11.00	11.00	11.17	11.00
Production taxes (% rev)	9.9	9.0	9.8	10.6	10.0	10.0	10.0	10.1	10.0
General and admin (\$/bbl)	3.45	3.12	4.64	3.71	3.50	4.25	5.69	4.28	5.01
Deprec., D, & A (\$/bbl)	14.38	17.94	15.78	18.56	16.00	16.00	16.00	16.65	16.00
Ebitda Margin	71%	57%	63%	38%	49%	49%	49%	47%	49%
Tax rate	25%	35%	33%	35%	35%	35%	35%	35%	35%



Independent Stock Idea

April 22, 2009

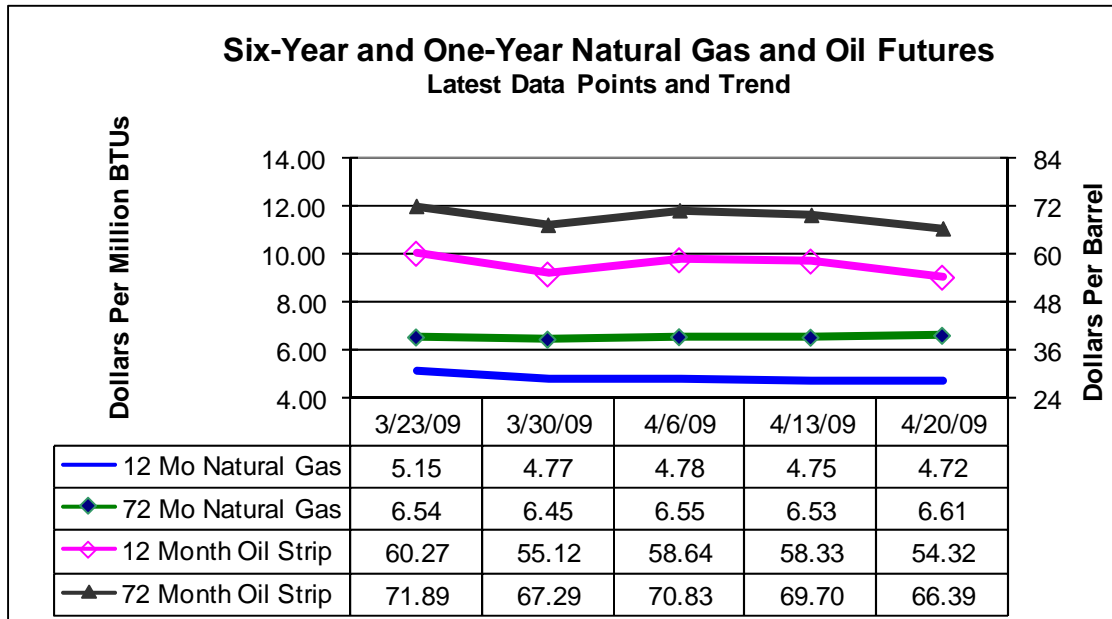
Encore Acquisition Company					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	55	9.0	14.5	800	23%
Oil	222	12.7	12.1	2,680	77%
	277	11.5	12.6	3,480	100%
Debt (US\$mm)					1,130
Net Present Value (US\$mm)					2,350
Shares (mm)					53
Net Present Value - Standard Estimate (US\$/sh)					44
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					46





Independent Stock Idea

April 22, 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.