

Rating: Buy
S&P 500: 1511

XTO Energy

Volume Growth in Underpriced Natural Gas

<i>Symbol</i>	XTO	<i>Ebitda Next Twelve Months ending 6/30/08 (US\$mm)</i>	3,880
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	73
<i>Price (US\$/sh)</i>	57.69	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	7/24/07	<i>Adjusted Reserves/Production NTM</i>	11.3
<i>Shares (mm)</i>	390	<i>EV/Ebitda</i>	7.3
<i>Market Capitalization (US\$mm)</i>	23,000	<i>PV/Ebitda</i>	8.4
<i>Debt (US\$mm)</i>	5,500	<i>Undeveloped Reserves (%)</i>	33
<i>Enterprise Value (EV) (US\$mm)</i>	28,500	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	32.78
<i>Present Value (PV) (US\$mm)</i>	32,800	<i>Present Value Proven Reserves(US\$/boe)</i>	20.49
<i>Net Present Value (US\$/share)</i>	70	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.41
<i>Debt/Present Value</i>	0.17	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.55
<i>McDep Ratio - EV/PV</i>	0.87	<i>Price/Earnings Next Twelve Months</i>	13
<i>Dividend Yield (%/year)</i>	0.8	<i>Indicated Annual Dividend (US\$/sh)</i>	0.48

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\$66 a barrel and natural gas, \$11 a million btu.

For historical analysis of XTO since 2002 see www.mcdep.com/4xto.htm

Summary and Recommendation

Buy-recommended **XTO Energy (XTO)** offers unlevered appreciation potential of 15% to estimated net present value (NPV) of \$70 a share revised up with long-term oil price from \$60 a share on May 29. Second quarter results reported on July 24 trace a rising trend in unlevered cash flow (Ebitda) driven by rising natural gas volume (see table [Next Twelve Months Operating and Financial Estimates](#)). NPV for the large cap stock is concentrated 79% on natural gas and NPV looks low compared to our estimates for some thirty other producers (see table [Functional Cash Flow and Present Value](#)). On the earnings conference call, Chairman Bob Simpson called attention to XTO's price hedges that are protecting cash flow while natural gas pricing may be shaping up like the last half of 2006. We note the trend in long-term natural gas price appears to be up by a slim margin compared to its 40-week average despite volatility of short-term quotes (see chart [Six-Year Commodity Price Meter](#)). Finally, XTO stock may be timely as it is below the 60-day average while retaining positive momentum above the 200-day average.

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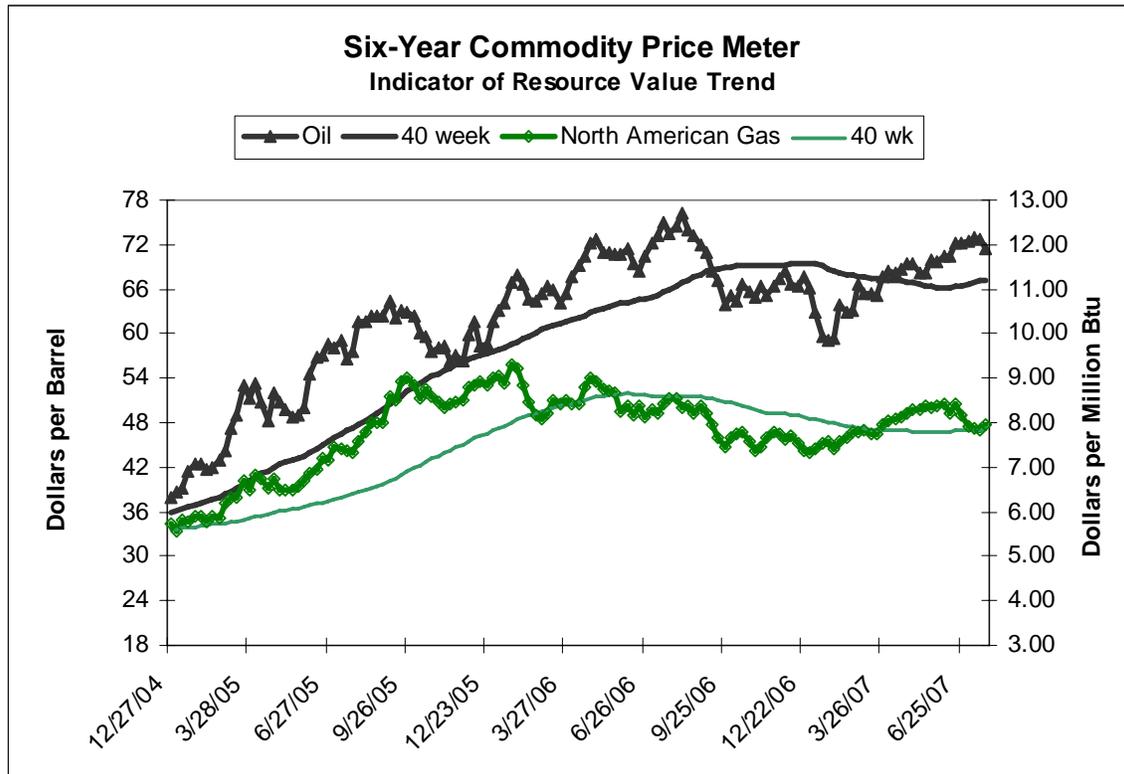
XTO Energy Inc.
Next Twelve Months Operating and Financial Estimates

	<i>Q2</i>	<i>Q3</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Next Twelve Months</i>
	<i>6/30/06</i>	<i>9/30/06</i>	<i>2006</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>2007E</i>	<i>6/30/08</i>
Volume									
Natural Gas (mmcf)	1,175	1,213	1,186	1,264	1,331	1,500	1,600	1,424	1,575
Oil (mbd)	57	57	57	56	61	61	61	60	61
Total gas & oil (bcf)	138	143	559	146	155	172	181	653	711
Total gas & oil (mmcf)	1,516	1,553	1,528	1,603	1,698	1,867	1,967	1,785	1,942
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.81	6.58	7.23	6.81	7.56	6.36	7.22	6.99	7.49
Company (\$/mcf)	6.10	6.01	6.26	6.36	6.80	5.73	6.50	6.33	6.75
Oil (\$/bbl)									
WTI Cushing	70.47	70.42	66.05	58.08	64.91	74.48	74.58	68.01	74.07
Company (\$/bbl)	59.90	60.50	56.95	50.83	55.17	63.31	63.40	58.35	62.96
Total gas & oil (\$/mcf)	6.97	6.90	6.98	6.81	7.32	6.68	7.26	7.02	7.46
Revenue (\$mm)									
Natural Gas	652	671	2,717	732	824	790	957	3,302	3,891
Oil	310	315	1,186	261	307	357	357	1,282	1,411
Other									
Total	962	986	3,903	993	1,131	1,147	1,314	4,585	5,302
Expense									
Production	215	224	900	210	253	257	300	1,021	1,214
Overhead	75	39	189	56	52	52	52	212	204
Ebitda (\$mm)	672	723	2,814	727	826	838	961	3,352	3,884
Exploration	3	9	22	4	7	7	7	25	26
Deprec., Deplet., & Amort.	211	233	883	245	265	292	308	1,110	1,215
Hedging and other	(81)	(109)	(675)	(193)	(158)	(187)	(130)	(668)	(356)
Ebit	540	589	2,584	671	712	726	777	2,885	2,998
Interest	46	47	180	47	47	67	67	228	268
Ebt	494	542	2,404	624	665	659	710	2,657	2,730
Income Tax	173	190	841	218	233	231	248	930	956
Net Income (\$mm)	321	352	1,563	405	432	428	461	1,727	1,775
Shares (millions)	369	371	370	372	379	390	390	383	390
Per share (\$)	0.87	0.95	4.22	1.09	1.14	1.10	1.18	4.51	4.55
Ebitda Margin - O&G	70%	73%	72%	73%	73%	73%	73%	73%	73%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

XTO Energy Inc.
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	2,850	11.3	9.1	26,000	79%
Oil	1,030	10.9	6.6	6,800	21%
	3,880	11.3	8.5	32,800	100%
Debt (US\$mm)					5,500
Net Present Value (US\$mm)					27,300
Shares (mm)					390
Net Present Value - Standard Estimate (US\$/sh)					70
Net Present Value - Approximation by Correlation (US\$/sh)					80

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