

Rating: Buy  
S&P 500: 1510  
Intraday

## **XTO Energy**

### **Raise Net Present Value to \$75 a Share**

<i>Symbol</i>	XTO	<i>Ebitda Next Twelve Months ending 9/30/08 (US\$mm)</i>	3,960
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	72
<i>Price (US\$/sh)</i>	63.31	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	10/23/07	<i>Adjusted Reserves/Production NTM</i>	11.1
<i>Shares (mm)</i>	391	<i>EV/Ebitda</i>	7.8
<i>Market Capitalization (US\$mm)</i>	24,700	<i>PV/Ebitda</i>	8.9
<i>Debt (US\$mm)</i>	6,100	<i>Undeveloped Reserves (%)</i>	33
<i>Enterprise Value (EV) (US\$mm)</i>	30,900	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	33.02
<i>Present Value (PV) (US\$mm)</i>	35,400	<i>Present Value Proven Reserves(US\$/boe)</i>	22.11
<i>Net Present Value (US\$/share)</i>	75	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.69
<i>Debt/Present Value</i>	0.17	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.42
<i>McDep Ratio - EV/PV</i>	0.87	<i>Price/Earnings Next Twelve Months</i>	14
<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](http://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 \$75 a share revised up from \$60 a share with continued strong cash flow generation. Third quarter results reported today met expectations for unlevered cash flow (Ebitda) driven by rising natural gas volume (see table [Next Twelve Months Operating and Financial Estimates](#)). Higher NPV helps bring unlevered cash flow multiple (EV/Ebitda) more in line with that for peer companies considering adjusted reserve life (see table [Functional Cash Flow and Present Value](#)). XTO's acquisition strategy adds value in our analysis in part because the prices XTO pays appear to be less than those we use in our estimate of present value. Six-year natural gas price continues to trade well below its oil equivalent (see chart [Six-Year Commodity Price Meter](#)). Should the world ever become serious about cutting pollution, the price of our cleanest fuel would lose its steep discount.

Kurt H. Wulff, CFA

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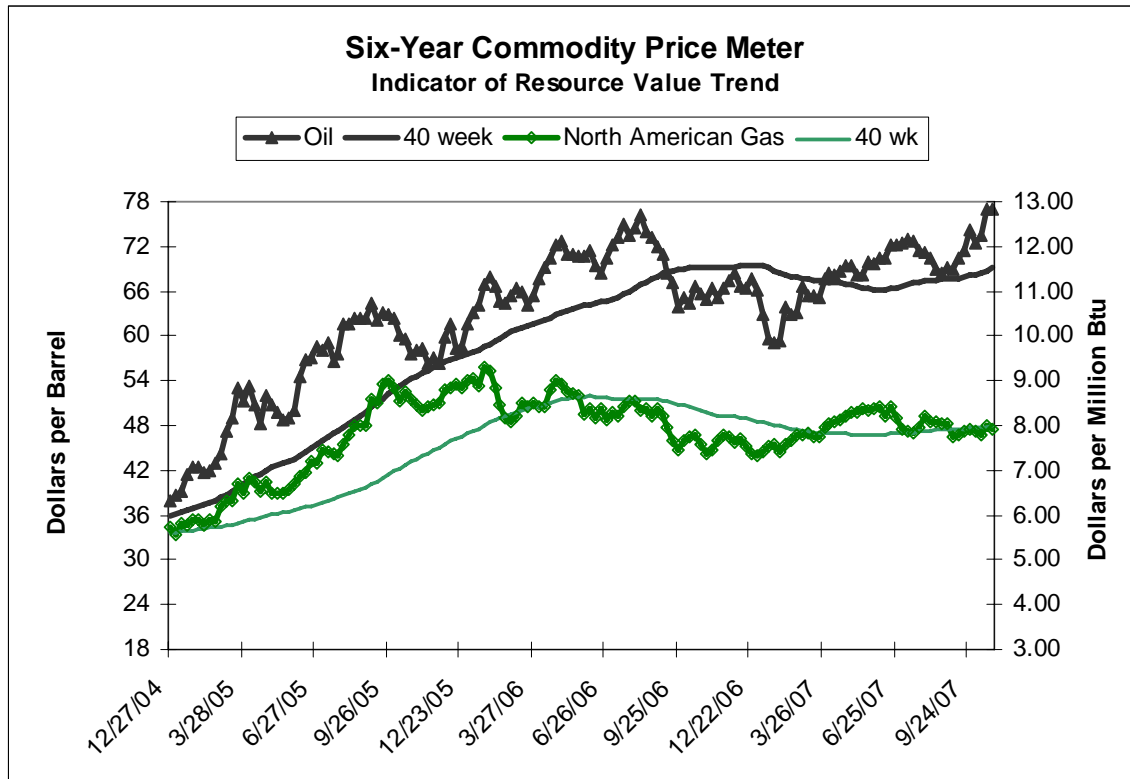
**XTO Energy Inc.**  
**Next Twelve Months Operating and Financial Estimates**

	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next Twelve Months</i>
	<i>9/30/06</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>2007E</i>	<i>3/31/08</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>9/30/08</i>
<b>Volume</b>									
Natural Gas (mmcf)	1,213	1,331	1,561	1,600	<b>1,440</b>	1,600	1,600	1,600	<b>1,600</b>
Days	92	91	92	92	<b>365</b>	91	91	92	<b>366</b>
Oil (mmb)	5	6	6	6	<b>22</b>	6	6	6	<b>22</b>
Oil (mbd)	57	61	61	61	<b>60</b>	61	61	61	<b>61</b>
Total gas & oil (bcf)	143	155	177	181	<b>657</b>	179	179	181	<b>720</b>
Total gas & oil (mmcf)	1,553	1,698	1,929	1,968	<b>1,801</b>	1,968	1,968	1,968	<b>1,968</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.58	7.56	6.16	6.95	<b>6.87</b>	7.87	7.53	7.76	<b>7.53</b>
Company (\$/mcf)	6.01	6.95	5.66	6.39	<b>6.31</b>	7.24	6.93	7.13	<b>6.92</b>
Oil (\$/bbl)									
WTI Cushing	70.42	64.91	75.48	86.12	<b>71.15</b>	84.42	82.44	80.91	<b>83.47</b>
Company (\$/bbl)	60.50	55.20	64.19	73.24	<b>61.14</b>	71.80	70.12	68.81	<b>70.99</b>
Total gas & oil (\$/mcf)	6.90	7.44	6.62	7.48	<b>7.09</b>	8.13	7.82	7.94	<b>7.84</b>
<b>Revenue (\$mm)</b>									
Natural Gas	671	842	813	941	<b>3,319</b>	1,054	1,009	1,050	<b>4,054</b>
Oil	315	308	362	413	<b>1,341</b>	401	391	388	<b>1,593</b>
Other									
Total	986	1,149	1,175	1,354	<b>4,660</b>	1,455	1,400	1,438	<b>5,647</b>
<b>Expense</b>									
Production	224	253	310	356	<b>1,129</b>	383	368	378	<b>1,486</b>
Overhead	39	52	48	48	<b>204</b>	50	50	50	<b>198</b>
<b>Ebitda (\$mm)</b>									
	723	844	817	949	<b>3,327</b>	1,022	982	1,010	<b>3,963</b>
Exploration	9	7	22	22	<b>55</b>	6	6	6	<b>40</b>
Deprec., Deplet., & Amort.	233	265	331	308	<b>1,149</b>	308	308	308	<b>1,231</b>
Hedging and other	(109)	(139)	(237)	(128)	<b>(708)</b>	(14)	(47)	(32)	<b>(221)</b>
<b>Ebit</b>									
	589	712	702	747	<b>2,831</b>	722	715	729	<b>2,913</b>
Interest	47	47	64	64	<b>222</b>	64	64	67	<b>259</b>
<b>Ebt</b>									
	542	665	638	683	<b>2,609</b>	658	651	662	<b>2,654</b>
Income Tax	190	233	223	239	<b>913</b>	230	228	232	<b>929</b>
<b>Net Income (\$mm)</b>									
	352	432	414	444	<b>1,696</b>	428	423	430	<b>1,725</b>
<b>Shares (millions)</b>									
	371	379	391	391	<b>383</b>	391	391	390	<b>391</b>
Per share (\$)	0.95	1.14	1.06	1.14	<b>4.43</b>	1.09	1.08	1.10	<b>4.42</b>
Ebitda Margin - O&G	73%	73%	70%	70%	<b>71%</b>	70%	70%	70%	<b>70%</b>
Tax Rate	35%	35%	35%	35%	<b>35%</b>	35%	35%	35%	<b>35%</b>

**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	2,840	11.2	9.9	28,000
Oil	1,120	10.9	6.6	7,400
	3,960	11.1	8.9	35,400
Debt (US\$mm)				6,100
Net Present Value (US\$mm)				29,300
Shares (mm)				391
Net Present Value - Standard Estimate (US\$/sh)				75
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)				80

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