



Independent Stock Idea

July 22, 2008

rating: buy
s&p 500: 1260 intraday

XTO Energy (XTO) Stock Price Momentum Changes

<i>Symbol</i>	XTO	<i>Ebitda Next Twelve Months ending 6/30/09 (US\$mm)</i>	7,720
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	69
<i>Price (US\$/sh)</i>	52.14	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	7/22/08	<i>Adjusted Reserves/Production NTM</i>	11.7
<i>Shares (mm)</i>	546	<i>EV/Ebitda</i>	5.4
<i>Market Capitalization (US\$mm)</i>	28,400	<i>PV/Ebitda</i>	7.9
<i>Debt (US\$mm)</i>	13,400	<i>Undeveloped Reserves (%)</i>	36
<i>Enterprise Value (EV) (US\$mm)</i>	41,800	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	49.89
<i>Present Value (PV) (US\$mm)</i>	61,400	<i>Present Value Proven Reserves(US\$/boe)</i>	27.84
<i>Net Present Value (US\$/share)</i>	88	<i>Present Value Proven Reserves(US\$/mcf)</i>	4.64
<i>Debt/Present Value</i>	0.22	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.64
<i>McDep Ratio - EV/PV</i>	0.68	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	0.9	<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\$100 a barrel and natural gas, \$14 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 47% unlevered appreciation potential to estimated net present value (NPV) of \$88 a share. However, patience may be necessary as XTO stock price has entered a downtrend defined by current quote below the 200-day average of \$58. Second quarter results released today were close to expectations though the comparison is complicated by the timing of acquisitions and hedging. Projected volumes along with current futures prices promise a continuing high level of unlevered cash flow (Ebitda) (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, concentrated 72% on natural gas (see table Functional Cash Flow and Present Value). Adding almost \$11 billion in acquisitions in 2008, management believes XTO can double production and reserves in the four years to 2011. That potential is partly financed by debt that is moderate relative to Present Value, but higher than for the median peer. An indirect cost of debt, hedging of future volumes, showed a high unrealized loss at the equivalent of 40% of cash flow for the quarter. Balancing risk and opportunity, we suggest a 4.8% unlevered weight for XTO in the illustrative McDep Energy Portfolio of 27 stocks.

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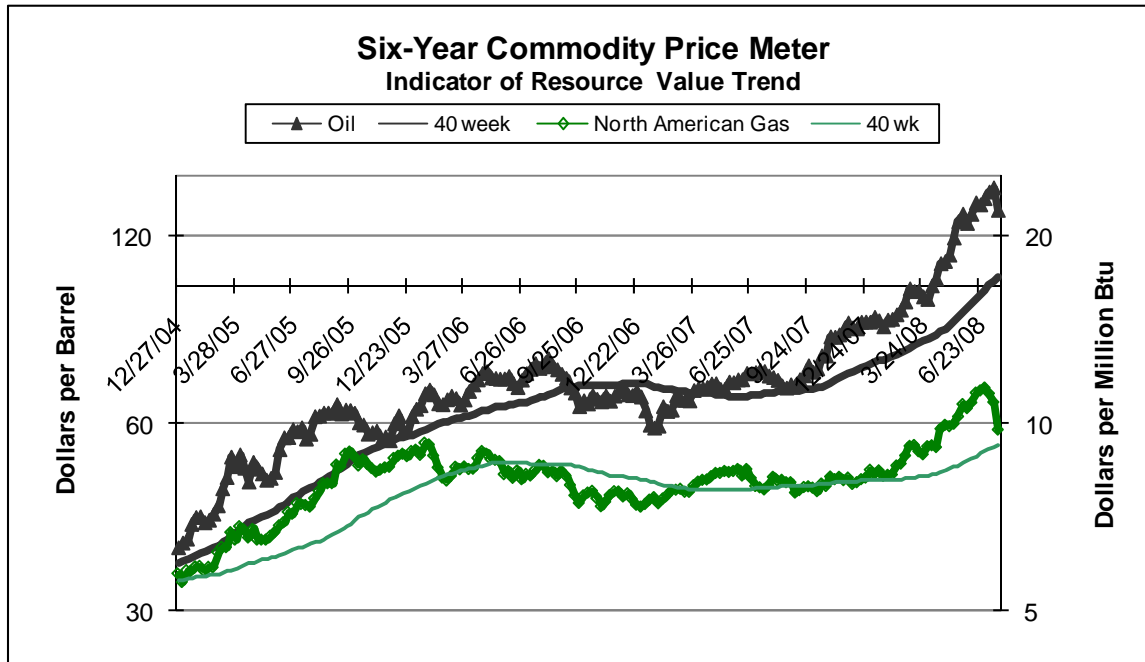
XTO Energy Inc.									
Next Twelve Months Operating and Financial Estimates									
									<i>Next</i>
	<i>Q2</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Twelve</i>
	<i>6/30/07</i>	<i>3/31/08</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008E</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>Months</i>
Volume									
Natural Gas (mmcf)	1,331	1,708	1,795	1,900	2,100	1,876	2,100	2,100	2,050
Days	91	91	91	92	92	366	90	91	365
Oil (mmb)	6	6	6	7	8	27	8	8	30
Oil (mbd)	61	68	67	75	85	74	85	85	82
Total gas & oil (bcf)	155	192	200	216	240	848	235	238	929
Total gas & oil (mmcf)	1,698	2,113	2,196	2,350	2,610	2,318	2,610	2,610	2,544
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	7.56	8.02	10.93	11.40	11.05	10.35	11.54	10.78	11.19
Company (\$/mcf)	6.95	7.59	9.73	10.15	9.84	9.38	10.27	9.59	9.95
Oil (\$/bbl)									
WTI Cushing	64.91	97.94	123.97	132.68	132.66	121.82	133.52	132.25	132.78
Company (\$/bbl)	55.20	85.65	101.66	108.80	108.78	101.91	109.48	108.45	108.88
Total gas & oil (\$/mcf)	7.44	8.87	11.05	11.68	11.46	10.83	11.83	11.25	11.55
Revenue (\$mm)									
Natural Gas	842	1,180	1,589	1,774	1,900	6,443	1,940	1,833	7,447
Oil	308	526	619	751	851	2,746	838	839	3,278
Other									
Total	1,149	1,706	2,208	2,525	2,751	9,190	2,778	2,671	10,725
Expense									
Production	253	346	409	618	681	2,054	689	659	2,647
Overhead	52	89	89	89	89	356	89	89	356
Ebitda (\$mm)	844	1,271	1,710	1,818	1,981	6,780	2,000	1,923	7,722
Exploration	7	18	14	14	14	60	14	14	56
Deprec., Deplet., & Amort.	265	389	413	497	576	1,876	576	576	2,226
Hedging and other	(139)	46	299	301	278	924	44	259	881
Ebit	712	818	984	1,005	1,113	3,920	1,366	1,074	4,558
Interest	47	91	102	167	167	527	167	167	668
Ebt	665	727	882	838	946	3,393	1,199	907	3,891
Income Tax	233	268	329	293	331	1,221	420	318	1,362
Net Income (\$mm)	432	459	553	545	615	2,172	779	590	2,529
Shares (millions)	474	504	517	517	554	524	554	554	546
Per share (\$)	0.91	0.91	1.07	1.05	1.11	4.14	1.41	1.06	4.64
Ebitda Margin - O&G	73%	75%	77%	72%	72%	74%	72%	72%	72%
Tax Rate	35%	37%	37%	35%	35%	36%	35%	35%	35%

XTO Energy Inc.				
Functional Cash Flow and Present Value				
				<i>Present</i>
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Value</i>
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>(US\$mm)</i>
North American Natural Gas	5,360	11.7	8.4	44,800
Oil	2,360	11.7	7.0	16,600
	7,720	11.7	8.0	61,400
Debt (US\$mm)				13,400
Net Present Value (US\$mm)				48,000
Shares (mm)				546
Net Present Value - Standard Estimate (US\$/sh)				88
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)				85



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