



Rating: Buy
 S&P 500: 1349
 Intraday

Devon Energy Corporation Reserves Grow with Production

<i>Symbol</i>	DVN	<i>Ebitda Next Twelve Months ending 12/31/08 (US\$m)</i>	9,100
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	54
<i>Price (\$/sh)</i>	87.33	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/6/08	<i>Adjusted Reserves/Production NTM</i>	9.5
<i>Shares (mm)</i>	449	<i>EV/Ebitda</i>	5.3
<i>Market Capitalization (\$mm)</i>	39,200	<i>PV/Ebitda</i>	7.9
<i>Debt (\$mm)</i>	9,200	<i>Undeveloped Reserves (%)</i>	25
<i>Enterprise Value (EV) (\$mm)</i>	48,400	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	39.30
<i>Present Value (PV) (\$mm)</i>	71,600	<i>Present Value Proven Reserves(\$/boe)</i>	28.70
<i>Net Present Value (\$/share)</i>	139	<i>Present Value Proven Reserves(\$/mcf)</i>	4.80
<i>Debt/Present Value</i>	0.13	<i>Earnings Next Twelve Months (US\$/sh)</i>	7.94
<i>McDep Ratio - EV/PV</i>	0.68	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	0.6	<i>Indicated Annual Dividend (US\$/sh)</i>	0.56
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\$80 a barrel and natural gas, \$11 a million btu.			
For historical research on Devon since 2004 see http://www.mcdep.com/3dvn.htm			

Summary and Recommendation

At the lowest McDep Ratio of large cap independent producers, buy-recommended **Devon Energy (DVN)** offers unlevered appreciation potential of 48% to estimated net present value (NPV) of \$139 a share. Fourth quarter results released today included a gain in proven oil and gas reserves of 5% in addition to replacing 2007 production. 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). On December 18 we increased NPV from \$129 a share prompted by an increase in long-term oil price for calculating present value to \$80 from \$66 a barrel. NPV is mostly supported by projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) (see table Functional Cash Flow and Present Value). The approximation by cash flow multiple does not include Devon's deep water Gulf of Mexico potential we have previously valued at \$13 a share. That is because those Lower Tertiary formation discoveries and prospects are not yet in latest estimates of proven quantities (see table Production and Reserves, 2007). Finally, a strong uptrend in oil price portends catch up for natural gas (see chart Six-Year Commodity Price Meter).

Kurt H. Wulff, CFA

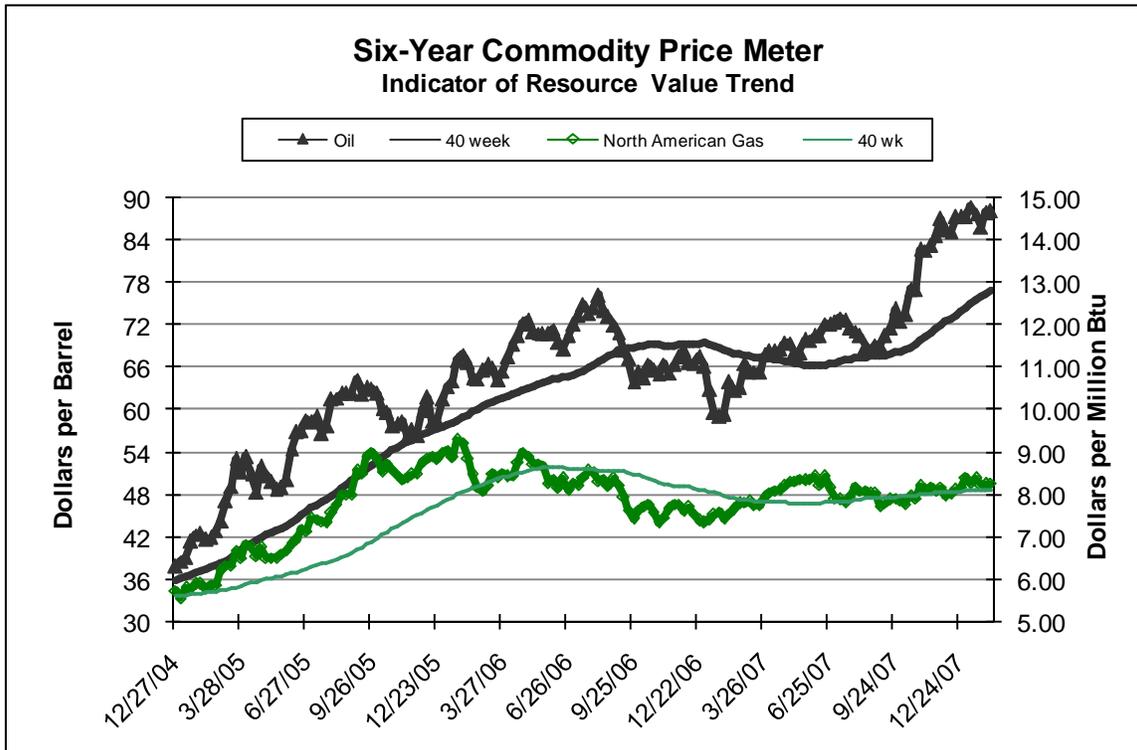


Devon Energy									
Next Twelve Months Operating and Financial Results									
									Next
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Twelve
	12/31/06	9/30/07	12/31/07	2007	3/31/08	6/30/08	9/30/08	12/31/08	Months
12/31/08									
Volume									
Natural Gas (mmcf)									
U.S.	1,640	1,783	1,845	1,739	1,845	1,845	1,845	1,845	1,845
Canada	628	630	606	619	606	606	606	606	606
Overseas	20	5	5	5	5	5	5	5	5
Total	2,288	2,418	2,456	2,363	2,456	2,456	2,456	2,456	2,456
Oil (mbd)	231	215	222	220	222	222	222	222	222
Total gas & oil (bcf)	338	341	349	1,345	345	345	349	349	1,387
Total gas & oil (mmb)	56	57	58	224	57	57	58	58	231
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.57	6.16	6.97	6.87	7.66	7.96	8.17	8.55	8.08
U.S.	5.54	5.23	5.88	5.88	6.47	6.71	6.89	7.21	6.82
Canada	5.95	5.52	6.68	6.42	7.34	7.63	7.83	8.19	7.75
Overseas	4.66	6.61	7.58	6.21	8.33	8.66	8.89	9.29	8.79
Total	5.65	5.31	6.08	6.02	6.69	6.94	7.13	7.46	7.06
Oil (\$/bbl)									
WTI Cushing	59.99	75.48	90.67	72.28	91.01	89.95	89.50	89.07	89.88
Worldwide	46.29	58.02	66.46	55.56	67.31	65.73	64.39	63.08	65.12
Total gas & oil (\$/mcf)	6.43	6.83	7.84	7.18	8.28	8.36	8.40	8.53	8.39
Revenue (\$mm)									
Natural Gas									
U.S.	837	859	998	3,731	1,085	1,127	1,170	1,224	4,607
Canada	344	320	373	1,451	405	421	437	457	1,719
Overseas	8	3	3	11	4	4	4	4	16
Total	1,189	1,182	1,374	5,193	1,494	1,552	1,611	1,685	6,342
Oil	985	1,148	1,360	4,465	1,362	1,330	1,317	1,291	5,301
Total	2,174	2,330	2,734	9,658	2,857	2,882	2,928	2,976	11,643
Expense	612	432	698	2,079	628	634	644	655	2,561
Ebitda (\$mm)	1,561	1,898	2,036	7,579	2,228	2,248	2,284	2,321	9,081
Deprec., Deplet., & Amort.	634	775	794	2,914	794	794	794	794	3,176
Hedging and other				-					-
Ebit	927	1,123	1,242	4,665	1,434	1,454	1,490	1,527	5,905
Interest	106	108	105	430	105	105	105	105	420
Ebt	821	1,015	1,137	4,235	1,329	1,349	1,385	1,422	5,485
Income Tax	212	317	167	1,078	465	472	485	498	1,920
Net Income (\$mm)	609	698	970	3,157	864	877	900	924	3,566
Shares (millions)	448	450	449	1,799	449	449	449	449	449
Per Share (\$)	1.36	1.55	2.16	7.02	1.92	1.95	2.01	2.06	7.94
Ebitda Margin	72%	81%	74%	78%	78%	78%	78%	78%	78%
Tax Rate	26%	31%	15%	25%	35%	35%	35%	35%	35%



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	4,930	9.0	7.7	38,000	53%
Oil	4,150	10.2	8.1	33,600	47%
	9,080	9.5	7.9	71,600	100%
Debt (US\$mm)					9,200
Net Present Value (US\$mm)					62,400
Shares (mm)					449
Net Present Value - Standard Estimate (US\$/sh)					139
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					134

Devon Energy								
Production and Reserves, 2007								
								<i>NTM</i>
				<i>12/31/2007 Proven Reserves</i>			<i>Weighted</i>	<i>Adjusted</i>
		<i>2007 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	1,529	558	5,547	1,218	6,156	11.0	
	U.S. Offshore	211	77	196	182	287	3.7	
	Canada	622	227	1,506	338	1,675	7.4	
	Overseas	3	1	6	1	7	6.5	
	Total	2,364	863	7,255	1,739	8,125	9.4	9.0
Oil								
	U.S. Onshore	88	32	365	47	389	12.1	
	U.S. Offshore	25	9	27	13	34	3.7	
	Canada	55	20	225	202	326	16.3	
	Overseas	55	20	48	71	84	4.2	
		222	81	665	333	832	10.3	10.2
	Total Oil Equivalent	616	225	1,874	623	2,186	9.7	9.5



Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was doing business as McDep Associates. 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.