

Rating: Buy
S&P 500: 1486

EOG Resources Inc.

Productive Drilling Boosts Cash Flow

<i>Symbol</i>	EOG	<i>Ebitda Next Twelve Months ending 3/31/08 (US\$mm)</i>	3,500
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	73
<i>Price (\$/sh)</i>	76.35	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	5/1/07	<i>Adjusted Reserves/Production NTM</i>	9.6
<i>Shares (mm)</i>	247	<i>EV/Ebitda</i>	5.7
<i>Market Capitalization (\$mm)</i>	18,800	<i>PV/Ebitda</i>	6.8
<i>Debt (\$mm)</i>	1,300	<i>Undeveloped Reserves (%)</i>	30
<i>Enterprise Value (EV) (\$mm)</i>	20,100	<i>Natural Gas and Oil Ebitda (\$/mcf)</i>	5.90
<i>Present Value (PV) (\$mm)</i>	24,000	<i>Present Value Proven Reserves(\$/boe)</i>	21.20
<i>Net Present Value (\$/share)</i>	92	<i>Present Value Proven Reserves(\$/mcf)</i>	3.50
<i>Debt/Present Value</i>	0.05	<i>Earnings Next Twelve Months (US\$/sh)</i>	6.02
<i>McDep Ratio - EV/PV</i>	0.84	<i>Price/Earnings Next Twelve Months</i>	13
<i>Dividend Yield (%/year)</i>	0.5	<i>Indicated Annual Dividend (US\$/sh)</i>	0.36

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\$60 a barrel and natural gas, \$10 a million btu.

For historical research on EOG since 2006 see <http://www.mcdep.com/3eog.htm>

Summary and Recommendation

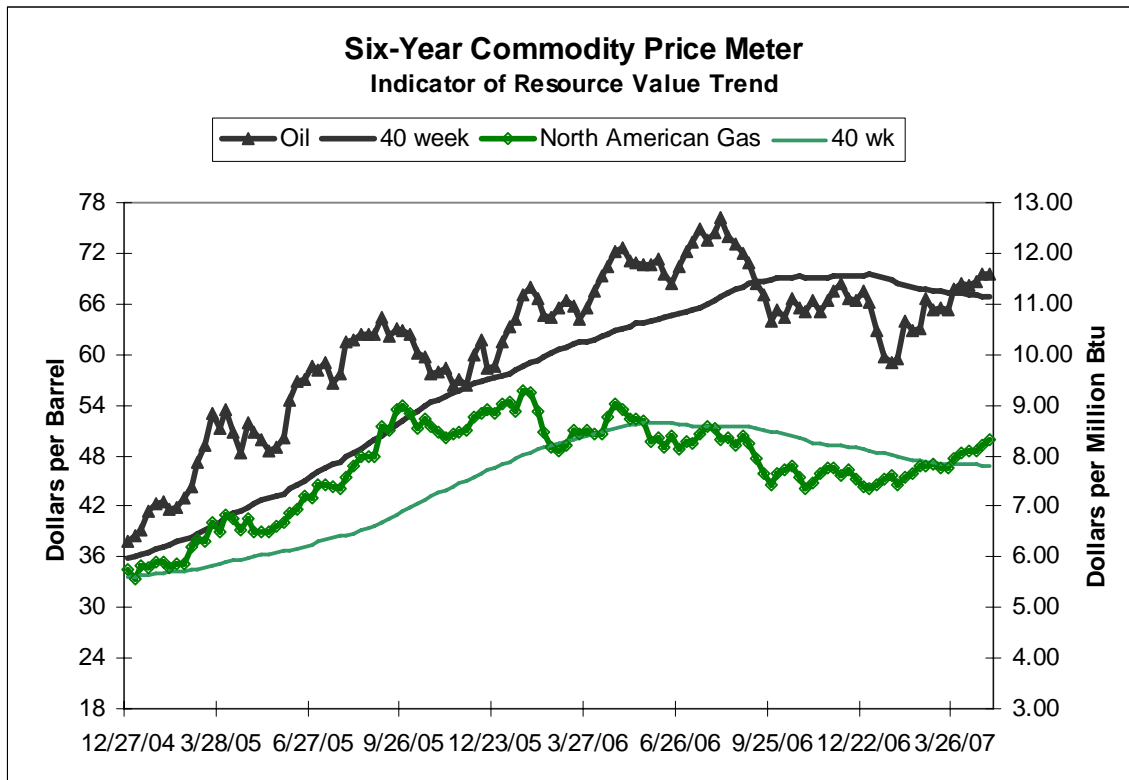
Growing volume and high cash flow margin in quarterly results reported on May 1 increase our confidence in estimated net present value (NPV) of \$92 a share for buy-recommended **EOG Resources (EOG)**. Active drilling in the Barnett Shale surrounding Ft. Worth, Texas, appears to be adding highly productive wells. Such productivity boosts EOG's cash flow trend to the point where estimated NPV is exceeded by that implied by a correlation for some thirty natural gas and oil producers (see table [Functional Cash Flow and Present Value](#)). At the same time there may be more risk that the production trend would fade rapidly if EOG cut back on drilling. Meanwhile with 82% of NPV concentrated on the clean fuel, EOG benefits strongly from the renewed uptrend as the current quote of \$8.20 a million btu for natural gas delivered over the next six years trades above its 40-week average (see chart [Six-Year Commodity Price Meter](#)). Attributing the reversal in trend to a cold February, Chief Executive Mark Papa has become more bullish on natural gas price and his company's prospects. EOG has a double weighting in our illustrative energy portfolio concentrated on real assets that promise a high return providing clean fuel for global growth.

Kurt H. Wulff, CFA

Please see disclosures on the final page.

EOG Resources Inc.
Functional Cash Flow and Present Value

	<i>NTM Ebitda</i> <i>(US\$mm)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$mm)</i>	
North American Natural Gas	2,560	10.1	7.0	18,000	75%
Rest of World Natural Gas	250	9.4	6.4	1,600	7%
Oil	690	7.0	6.4	4,400	18%
	3,500	9.6	6.9	24,000	100%
Debt (US\$mm)					1,300
Net Present Value (US\$mm)					22,700
Shares (mm)					247
Net Present Value - Standard Estimate (US\$/sh)					92
Net Present Value - Approximation by Correlation (US\$/sh)					98



Please see disclosures on the final page.

EOG Resources Inc.
Operating and Financial Results

	<i>Q1</i>	<i>Q4</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Next Twelve Months</i>
	<i>3/31/06</i>	<i>12/31/06</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>3/31/08</i>	<i>3/31/08</i>
Volume									
Natural Gas (mmcf)									
U.S.	758	894	915	915	915	915	915	915	915
Canada	229	227	222	222	222	222	222	222	222
Overseas	317	286	283	283	283	283	283	283	283
Total	1,304	1,407	1,420	1,420	1,420	1,420	1,420	1,420	1,420
Oil (mbd)									
Total gas & oil (bcf)	138	151	149	151	152	152	605	149	605
Total gas & oil (mmcf)	1,528	1,640	1,656	1,656	1,656	1,656	1,656	1,656	1,656
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	8.97	6.57	6.81	7.66	8.11	8.98	7.89	9.90	8.66
U.S.	7.77	6.09	6.42	7.22	7.65	8.47	7.45	8.91	8.06
Canada	7.87	5.85	6.43	7.23	7.66	8.47	7.45	7.92	7.82
Overseas	3.38	3.28	3.10	3.10	3.10	3.10	3.10	3.10	3.10
Total	6.72	5.48	5.76	6.40	6.74	7.40	6.58	7.60	7.03
Oil (\$/bbl)									
WTI Cushing	63.33	59.99	58.08	65.07	67.85	69.47	65.12	70.42	68.20
Worldwide	58.34	55.27	53.50	59.95	62.50	64.00	60.02	64.87	62.83
Total gas & oil (\$/mcf)	7.89	6.18	5.87	6.91	7.27	7.86	6.99	8.06	7.52
Revenue (\$mm)									
Natural Gas									
U.S.	530	501	529	601	644	713	2,487	734	2,692
Canada	162	122	128	146	156	173	604	158	634
Overseas	96	86	79	80	81	81	320	79	320
Total	789	709	736	827	881	966	3,411	971	3,646
Oil	196	197	190	215	227	232	863	230	903
Other	100	26	(51)				(51)		-
Total	1,085	933	875	1,042	1,108	1,198	4,223	1,201	4,549
Expense									
Cash costs	242	210	164	193	209	232	799	233	867
Ebitda (\$mm)	843	723	711	813	864	935	3,323	937	3,549
Exploration	73	124	67	67	67	67	269	90	292
Deprec., Deplet., & Amort.	178	230	244	244	244	244	976	244	976
Ebit	592	369	400	502	553	624	2,078	603	2,281
Interest	13	8	8	8	8	8	32	8	32
Ebt	579	361	392	494	545	616	2,046	595	2,249
Income Tax	203	110	118	149	191	215	673	208	763
Net Income (\$mm)	376	251	274	345	354	400	1,373	387	1,486
Shares (millions)	246	247	247	247	247	247	247	247	247
Per Share (\$)	1.53	1.02	1.11	1.40	1.44	1.62	5.57	1.57	6.02
Ebitda Margin	78%	78%	81%	78%	78%	78%	79%	78%	78%
Tax Rate	35%	30%	30%	30%	35%	35%	33%	35%	34%
Cash costs (\$/mcf)	1.76	1.39	1.10	1.28	1.37	1.52	1.32	1.56	1.43
D.D.&A. (\$/mcf)	1.29	1.52	1.64	1.62	1.60	1.60	1.61	1.64	1.61

Please see disclosures on the final page.

Disclaimer: This analysis was prepared by Kurt Wulff 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 Associates 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.