

Rating: Buy
S&P 500: 1427

XTO Energy

Raise Net Present Value to \$60 a Share

<i>Symbol</i>	XTO	<i>Ebitda Next Twelve Months ending 12/31/07 (US\$mm)</i>	3,170
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	67
<i>Price (US\$/sh)</i>	48.07	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	12/27/06	<i>Adjusted Reserves/Production NTM</i>	11.3
<i>Shares (mm)</i>	371	<i>EV/Ebitda</i>	6.8
<i>Market Capitalization (US\$mm)</i>	17,800	<i>PV/Ebitda</i>	8.1
<i>Debt (US\$mm)</i>	3,600	<i>Undeveloped Reserves (%)</i>	31
<i>Enterprise Value (EV) (US\$mm)</i>	21,400	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	33.49
<i>Present Value (PV) (US\$mm)</i>	25,900	<i>Present Value Proven Reserves(US\$/boe)</i>	20.39
<i>Net Present Value (US\$/share)</i>	60	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.40
<i>Debt/Present Value</i>	0.14	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.46
<i>McDep Ratio - EV/PV</i>	0.83	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	0.7	<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 analysis of XTO since 2002 see www.mcdep.com/4xto.htm

Summary and Recommendation

We raise net present value (NPV) for buy-recommended **XTO Energy (XTO)** to \$60 a share from \$52 to reflect the company's continued superior operating performance relative to peers. The numbers that matter in our analysis are next twelve months cash flow and reserve life as it determines cash flow multiple. Longer reserve life justifies higher cash flow multiple. Moreover cash flow multiples are higher for natural gas than for oil because natural gas cash flow appears understated relative to oil along with natural gas price. Thus, greater concentration on natural gas also boosts XTO's cash flow multiple. Projected cash flow does not count any volume gain from latest quarterly results nor does it count the likely benefit from forward selling of half the company's natural gas production at a price some 40% above recent quotes for 2007. We favor XTO stock at a full weighting in the illustrative McDep Energy Portfolio concentrated on real assets that promise a high return providing clean energy to support global growth.

Kurt H. Wulff, CFA

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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	2,140	11.4	8.6	18,500	71%
Oil	1,030	11.1	7.2	7,400	29%
	3,170	11.3	8.2	25,900	100%
Debt (US\$mm)					3,600
Net Present Value (US\$mm)					22,300
Shares (mm)					371
Net Present Value - Standard Estimate (US\$/sh)					60
Net Present Value - Approximation by Correlation (US\$/sh)					62

XTO Energy Inc.
Next Twelve Months Operating and Financial Estimates

	<i>Q4</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Next</i>
	<i>12/31/05</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>Twelve</i>
									<i>Months</i>
									<i>12/31/07</i>
Volume									
Natural Gas (mmcf)	1,102	1,213	1,213	1,182	1,213	1,213	1,213	1,213	1,213
Oil (mbd)	53	57	57	56	57	57	57	57	57
Total gas & oil (bcf)	130	143	143	557	141	141	143	143	568
Total gas & oil (mmcf)	1,418	1,553	1,553	1,521	1,553	1,553	1,553	1,553	1,553
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	13.00	6.58	6.57	7.23	6.78	7.00	7.29	8.11	7.29
Company (\$/mcf)	9.09	6.01	5.99	6.34	6.18	6.39	6.66	7.40	6.66
Oil (\$/bbl)									
WTI Cushing	60.02	70.42	59.33	65.89	62.78	65.06	66.57	67.61	65.51
Company (\$/bbl)	47.52	60.50	60.34	58.36	63.86	66.03	68.75	76.40	68.78
Total gas & oil (\$/mcf)	8.83	6.90	6.88	7.09	7.16	7.40	7.71	8.57	7.71
Revenue (\$mm)									
Natural Gas	922	671	669	2,741	683	706	743	826	2,957
Oil	230	315	314	1,206	329	340	358	398	1,425
Other									
Total	1,152	986	983	3,947	1,012	1,046	1,101	1,224	4,382
Expense									
Production	223	224	223	890	231	240	254	286	1,010
Overhead	39	39	50	204	50	50	50	50	200
Ebitda (\$mm)	890	723	710	2,853	731	756	797	888	3,172
Exploration	4	9	9	27	9	9	9	9	36
Deprec., Deplet., & Amort.	192	233	233	873	233	233	233	233	932
Hedging and other	(24)	(109)	(213)	(616)	(153)	(138)	(123)	(114)	(527)
Ebit	717	589	681	2,568	641	652	678	760	2,731
Interest	42	47	47	181	47	46	46	46	185
Ebt	675	542	634	2,387	594	606	632	714	2,546
Income Tax	236	190	222	836	208	212	221	250	891
Net Income (\$mm)	439	352	412	1,552	386	394	411	464	1,655
Shares (millions)	372	371	371	370	371	371	371	371	371
Per share (\$)	1.18	0.95	1.11	4.19	1.04	1.06	1.11	1.25	4.46
Ebitda Margin - O&G	77%	73%	72%	72%	72%	72%	72%	73%	72%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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