



Independent Stock Idea

February 19, 2009

rating: buy
s&p 500: 784 intraday

XTO Energy (XTO) Hedging Helping

<i>Symbol</i>	XTO	<i>Ebitda Next Twelve Months ending 12/31/09 (US\$mm)</i>	2,920
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	76
<i>Price (US\$/sh)</i>	32.24	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/19/09	<i>Adjusted Reserves/Production NTM</i>	11.9
<i>Shares (mm)</i>	577	<i>EV/Ebitda</i>	10.4
<i>Market Capitalization (US\$mm)</i>	18,600	<i>PV/Ebitda</i>	15.9
<i>Debt (US\$mm)</i>	11,700	<i>Undeveloped Reserves (%)</i>	34
<i>Enterprise Value (EV) (US\$mm)</i>	30,300	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	18.16
<i>Present Value (PV) (US\$mm)</i>	46,300	<i>Present Value Proven Reserves(US\$/boe)</i>	20.04
<i>Net Present Value (US\$/share)</i>	60	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.34
<i>Debt/Present Value</i>	0.25	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.85
<i>McDep Ratio - EV/PV</i>	0.65	<i>Price/Earnings Next Twelve Months</i>	17
<i>Dividend Yield (%/year)</i>	1.6	<i>Indicated Annual Dividend (US\$/sh)</i>	0.50
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\$75 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

Estimated Net Present Value (NPV) of \$60 a share is about 80% higher than stock price for moderately high-debt, buy-recommended **XTO Energy (XTO)**. Released today, fourth quarter results displayed lower unlevered cash flow (Ebitda) driven by crude oil and natural gas prices (see table [Next Twelve Months Operating and Financial Estimates](#)). Continued weakness in natural gas price is taking a toll on projected cash flow for 2009 using an industry benchmark of \$5 a million Btu and a wide geographic differential that reduces the company's price to near \$4. On that basis XTO's acquisitions in 2008 look expensive. Protecting against that risk, XTO has hedges that assure a natural gas price of near \$9 on 80% of 2009 production and half of 2010 volume. Chairman Bob Simpson has seen ups and downs in the natural gas market over the decades and has come out on top most of the time. We also look for better days ahead and are keeping our estimate of NPV concentrated 77% on natural gas and 23% on oil (see table [Functional Cash Flow and Present Value](#)). Pointing to expected price recovery, futures prices for the next six years averaged US\$6.82 a million Btu recently (\$6.52 on February 18) (see charts [Six-Year Commodity Price Meter](#) and [Six-Year and One-Year Natural Gas and Oil Futures](#)).

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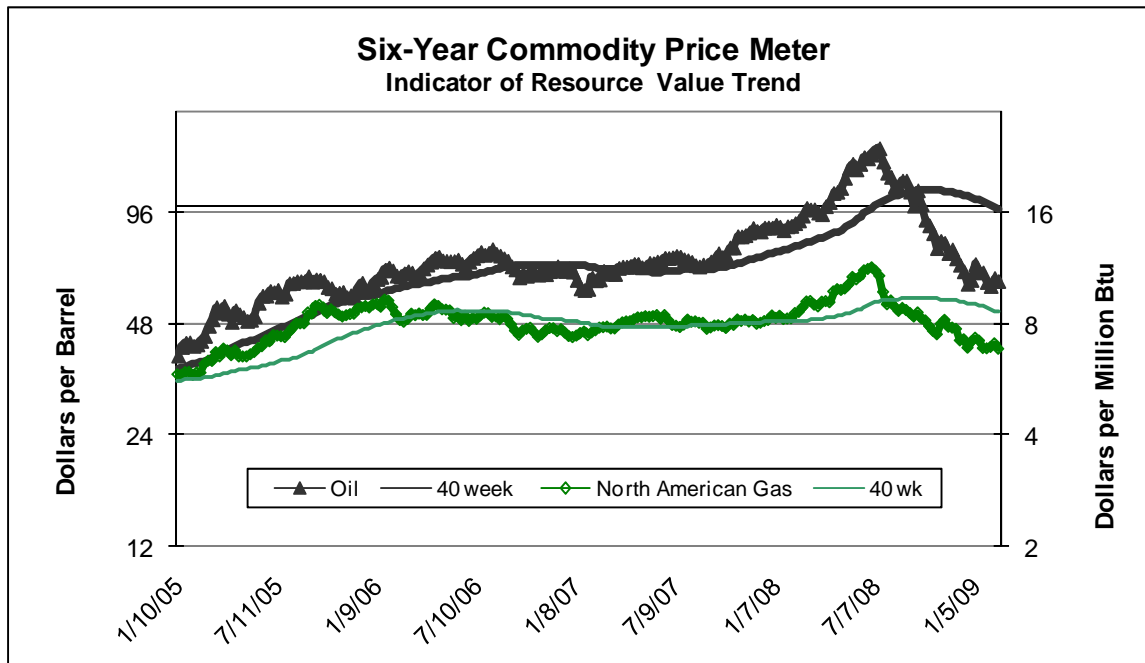
XTO Energy Inc.									
Next Twelve Months Operating and Financial Estimates									
									<i>Next</i>
	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Twelve</i>
	<i>12/31/07</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>Months</i>
	<i>12/31/07</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>12/31/09</i>
Volume									
Natural Gas (mmcf)	1,671	1,949	2,166	1,905	2,166	2,166	2,166	2,166	2,166
Days	92	92	92	366	90	91	92	92	365
Oil (mmb)	6	7	7	26	7	7	7	7	29
Oil (mbd)	63	73	79	72	79	79	79	79	79
Total gas & oil (bcf)	189	220	243	855	238	240	243	243	963
Total gas & oil (mmcf)	2,051	2,388	2,639	2,335	2,639	2,639	2,639	2,639	2,639
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.97	10.25	6.95	9.04	5.02	4.56	4.90	5.61	5.02
Company (\$/mcf)	6.20	9.31	5.84	8.14	4.32	3.93	4.21	4.82	4.32
Oil (\$/bbl)									
WTI Cushing	90.67	117.99	58.45	99.59	40.12	44.53	49.20	51.74	46.40
Company (\$/bbl)	81.71	101.94	46.76	84.35	32.09	35.62	39.36	41.39	37.15
Total gas & oil (\$/mcf)	7.57	10.72	6.19	9.23	4.51	4.29	4.63	5.19	4.66
Revenue (\$mm)									
Natural Gas	953	1,669	1,164	5,679	842	774	839	961	3,416
Oil	476	686	339	2,211	228	256	286	300	1,070
Other									
Total	1,429	2,355	1,503	7,890	1,070	1,030	1,125	1,261	4,486
Expense									
Production	326	493	421	1,669	303	289	322	370	1,285
Overhead	75	83	121	382	71	71	71	71	285
Ebitda (\$mm)	1,028	1,779	961	5,839	696	669	731	820	2,916
Exploration	19	30	26	88	26	26	26	26	104
Deprec., Deplet., & Amort.	362	505	741	2,048	741	741	741	741	2,964
Hedging and other	(168)	271	(566)	220	(628)	(657)	(609)	(532)	(2,426)
Ebit	815	973	761	3,483	557	559	573	585	2,274
Interest	92	132	157	482	157	157	157	157	628
Ebt	723	841	604	3,001	400	402	416	428	1,646
Income Tax	257	294	211	1,050	140	141	146	150	576
Net Income (\$mm)	466	546	392	1,951	260	261	270	278	1,070
Shares (millions)	491	552	577	534	577	577	577	577	577
Per share (\$)	0.95	0.99	0.68	3.65	0.45	0.45	0.47	0.48	1.85
Ebitda Margin - O&G	72%	76%	64%	74%	65%	65%	65%	65%	65%
Tax Rate	36%	35%	35%	35%	35%	35%	35%	35%	35%



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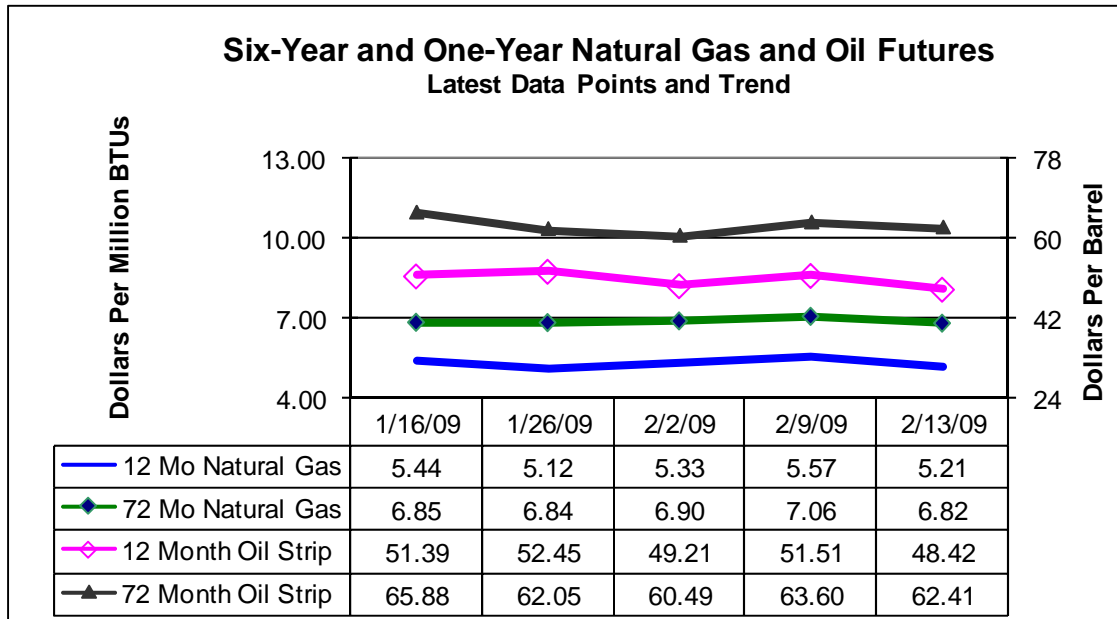
XTO Energy Inc.					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
North American Natural Gas	2,220	12.1	16.1	35,800	77%
Oil	700	11.2	15.0	10,500	23%
	2,920	11.9	15.9	46,300	100%
Debt (US\$mm)					11,700
Net Present Value (US\$mm)					34,600
Shares (mm)					577
Net Present Value - Standard Estimate (US\$/sh)					60
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					53





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