

Burlington Resources (BR - 31.63)

Acute Management Penalty

Dropping sharply in price in recent weeks, Burlington Resources stock offers particularly attractive natural gas resource value. Compared to other natural gas producers analyzed elsewhere in detail, BR has a low McDep Ratio (see table). The numerator of the ratio is Market Cap and Debt while the denominator is Present Value as calculated in Table BR-1. Its cash flow multiple is also low with Enterprise Value equal to less than 5 times Earnings before Interest, Taxes, Depreciation and Amortization for the next four quarters (see table). Moreover projected Ebitda is lower than it might be as a result of BR management previously committing future production at fixed prices lower than the current market. The risk in committing to BR stock is that more value will be destroyed although it is hard to believe that investors can remain complacent much longer. We advocate that the company be managed like a royalty trust with minimal reinvestment. Absent a change in structure, the cash could be distributed through massive stock repurchase.

		<i>Price</i> <i>(\$/sh)</i>		<i>Market</i> <i>Cap</i>	<i>Debt</i>	<i>Net</i> <i>Present</i> <i>Value</i>	<i>McDep</i> <i>Ratio</i>
	<i>Symbol</i>	<i>21-Jul</i> <i>2000</i>	<i>Shares</i> <i>(mm)</i>	<i>(\$mm)</i>	<i>(\$mm)</i>	<i>(\$/sh)</i>	
Dorchester Hugoton, Ltd.	DHULZ	13.63	10.7	146	-	14.30	0.95
Hugoton RT (42.5%)	HGT	12.00	17.0	204	-	14.30	0.84
Cross Timbers Royalty Trust	CRT	14.44	6.0	87	-	18.80	0.77
San Juan Basin Royalty Trust	SJT	10.00	46.6	466	-	13.10	0.76
Burlington Resources	BR	31.63	216	6,800	3,200	48.10	0.66

		<i>Wellhead</i> <i>Price</i> <i>(\$/mcf)</i>	<i>Margin</i> <i>(%)</i>	<i>Volume</i> <i>(bcf)</i>	<i>Ebitda</i> <i>(\$mm)</i>	<i>PV/</i> <i>Ebitda</i>	<i>EV/</i> <i>Ebitda</i>	
Dorchester Hugoton, Ltd.		3.79	75	2.83	6.5	18.4	8.3	7.9
Hugoton RT (42.5%)		3.62	74	2.68	29.5	79.1	7.2	6.1
San Juan Basin Royalty Trust		3.51	81	2.85	29.8	85.0	7.2	5.5
Cross Timbers Royalty Trust		4.04	75	3.04	5.4	16.3	6.9	5.3
Burlington Resources		3.25	73	2.37	899	2,127	6.4	4.7

Kurt H. Wulff, CFA

Analyses are prepared from original sources and data believed to be reliable, but no representations are made as to their accuracy or completeness. This summary with supporting documentation is available free at <http://royaltytrusts.intranets.com>. Registration code: sanjuan

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Action Idea

July 24, 2000

Table BR-1
Burlington Resources
Present Value

Volume Decline (%/yr):	11	Price Escalation Post 2006 (%/yr):	2.8
Volume Enhancement (%/yr):	10	Discount rate (%/yr):	7.4
Capex/Cash Flow (%):	50	U.S. TIPS Inflation (%/yr):	2.0
Variable Cost (%):	16	U.S. 10 Year Yield (%/yr):	6.0

Year	Basic (bcf)	Volume Enhanced (bcf)	Total (bcf)	Price (\$/mcf)	Revenue (\$mm)	Fixed Cost (\$mm)	Var Cost (\$mm)	Cap Ex (\$mm)	Cash Flow (\$mm)	Disc Factor	Present Value (\$mm)
Total 2000 through 2029											
	7983	11025	19009	3.64	69169	10027	11067	15794	32281	0.42	13600
1999	928		928	2.18	2023	356	324		1343		
2000	836	75	911	3.00	2730	334	437	980	980	0.96	945
2001	744	158	902	3.31	2991	334	478	1089	1089	0.90	978
2002	671	231	901	3.46	3116	334	498	1141	1141	0.84	955
2003	604	296	900	3.18	2862	334	458	1035	1035	0.78	806
2004	544	353	897	3.12	2802	334	448	1010	1010	0.73	733
2005	490	404	894	3.05	2731	334	437	980	980	0.68	662
2006	442	449	891	3.01	2679	334	429	958	958	0.63	603
2007	398	489	886	3.09	2740	334	438	984	984	0.59	576
2008	359	523	882	3.18	2802	334	448	1010	1010	0.55	551
2009	323	554	877	3.27	2864	334	458	1036	1036	0.51	526
2010	291	581	872	3.36	2926	334	468	1062	1062	0.47	502
2011	262	604	866	3.45	2988	334	478	1088	1088	0.44	479
2012	236	624	860	3.55	3051	334	488	1114	1114	0.41	457
2013	213	642	854	3.64	3114	334	498	1141	1141	0.38	436
2014	192	657	848	3.75	3177	334	508	1167	1167	0.36	415
2015	173	584	757	3.85	2914	334	466		2114	0.33	700
2016	156	520	676	3.96	2673	334	428		1911	0.31	589
2017	140	463	603	4.07	2452	334	392		1725	0.29	495
2018	126	412	538	4.18	2249	334	360		1555	0.27	416
2019	114	367	480	4.30	2063	334	330		1399	0.25	348
2020	102	326	429	4.42	1893	334	303		1256	0.23	291
2021	92	290	383	4.54	1737	334	278		1125	0.22	243
2022	83	258	342	4.66	1593	334	255		1004	0.20	202
2023	75	230	305	4.79	1462	334	234		894	0.19	167
2024	68	205	272	4.93	1341	334	215		792	0.17	138
2025	61	182	243	5.06	1231	334	197		699	0.16	114
2026	55	162	217	5.20	1129	334	181		614	0.15	93
2027	49	144	194	5.35	1036	334	166		536	0.14	75
2028	44	128	173	5.50	951	334	152		464	0.13	61
2029	40	114	154	5.65	872	334	140		399	0.12	49

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Table BR-2
Burlington Resources
Income Model

	Q2	Q3	Q4	Year	Q1	Q2	Q3E	Q4E	Year	Q1E	Q2E
	6/30/99	9/30/99	12/31/99	1999	3/31/00	6/30/00	9/30/00	12/31/00	2000E	3/31/01	6/30/01
Highlights											
Revenue (\$mm)	455	547	627	2,065	652	620	740	739	2,751	743	698
Ebitda (\$mm)	281	360	438	1,343	462	418	540	539	1,959	544	503
Net Income (\$mm)	24	61	(84)	1	77	94	156	156	483	159	134
Per share	0.11	0.28	(0.39)	0.01	0.36	0.43	0.72	0.72	2.23	0.73	0.62
Shares (millions)	216	216	216	216	216	216	216	216	216	216	216
Volume											
Natural gas (bcf)											
U.S.	131	137	141	543	140	134	135	135	544	132	134
Canada	39	39	38	157	38	34	35	35	143	39	39
Overseas	6	7	13	32	15	10	10	10	47	15	10
Total	175	183	192	731	193	179	181	181	734	186	183
Natural Gas (mmcf)											
U.S.	1,435	1,484	1,536	1,487	1,535	1,470	1,470	1,470	1,486	1,470	1,470
Canada	425	427	417	429	419	379	383	383	391	429	429
Overseas	67	77	137	88	167	114	114	114	127	167	114
Total	1,927	1,988	2,090	2,004	2,121	1,963	1,967	1,967	2,005	2,066	2,013
Days	91	92	92	365	91	91	92	92	366	90	91
Oil (mb)	8	8	8	33	8	7	7	7	30	7	7
Oil (mbd)	88	89	89	90	91	79	78	76	81	76	76
Total gas & oil (bcf)	224	232	241	928	242	222	224	223	911	227	225
Price											
Natural gas (\$/mcf)											
Henry Hub (\$/mmbtu)	2.22	2.52	2.45	2.24	2.62	3.63	3.90	3.91	3.51	3.82	3.48
U.S.	1.90	2.20	2.33	2.08	2.39	2.40	3.05	3.17	2.75	3.21	3.05
Canada	1.48	1.85	2.04	1.76	2.21	2.66	3.30	3.31	2.86	3.22	2.88
Overseas	2.28	1.77	1.68	1.93	1.90	2.17	2.58	2.41	2.23	2.32	2.23
Total	1.82	2.11	2.23	2.01	2.32	2.44	3.07	3.15	2.74	3.14	2.97
Oil (\$/bbl)											
WTI Cushing	17.66	21.73	24.52	19.24	28.84	28.79	29.80	28.07	28.88	27.18	26.28
Worldwide	15.68	18.21	22.52	16.85	23.36	24.38	25.80	24.07	24.37	23.18	22.28
Total gas & oil (\$/mcf)	1.99	2.30	2.54	2.18	2.64	2.75	3.31	3.31	3.00	3.27	3.10
Revenue (\$mm)											
Natural Gas											
U.S.	248	300	329	1,129	334	321	412	428	1,495	425	408
Canada	57	73	78	276	84	92	116	117	409	124	113
Overseas	14	13	21	62	29	23	27	25	104	35	23
Total	319	386	429	1,470	448	435	556	570	2,009	584	543
Oil	126	149	184	553	193	176	184	169	722	159	154
Total	445	535	612	2,023	640	611	740	739	2,730	743	698
Cost (\$mm)											
Production Taxes											
Operating	125	125	125	472	118	125	125	125	493	127	126
Administrative	1	12	11	99	27	30	30	30	118	27	27
Total	164	175	174	680	178	193	200	199	771	199	195
Cash flow (\$mm)											
Non cash or non operating	80	159	237	1,107	275	217	217	217	926	217	217
Interest	63	63	63	213	50	63	63	63	239	63	63
Income Tax	44	44	44	22	60	44	104	104	312	106	89
Net Income (\$mm)	94	94	94	1	77	94	156	156	483	159	134
Modeling ratios											
Production Tax/Revenue	8.5%	7.1%	6.2%	5.4%	5.2%	6.2%	6.0%	6.0%	5.8%	6.0%	6.0%
Operating Cost (\$/mcf)	0.56	0.54	0.52	0.51	0.49	0.56	0.56	0.56	0.54	0.56	0.56
Margin - relative	63%	67%	72%	66%	72%	68%	73%	73%	72%	73%	72%
Margin - absolute (\$/mcf)	1.26	1.55	1.82	1.45	1.91	1.88	2.41	2.42	2.15	2.40	2.24

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