

Burlington Resources (BR - 33.88)

Turn Into Royalty Trust Equivalent

Disappointed with the performance of management for a decade, we advocate that Burlington Resources be turned into a royalty trust equivalent (see Action Idea, Burlington Resources, July 24, 2000). This research note is an update on the valuation of the company compared to trusts and partnerships covered elsewhere on this website. BR continues to have 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. As a royalty trust equivalent BR would minimize reinvestment and distribute cash through massive stock repurchase. We believe the total return to investors would be more attractive than would a continuation of past policies.

		<i>Price</i> (\$/sh)		<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>28-Jul</i> <i>2000</i>	<i>Shares</i> <i>(mm)</i>	<i>(\$mm)</i>	<i>(\$mm)</i>	<i>(\$/sh)</i>	
Dorchester Hugoton, Ltd.	DHULZ	13.50	10.7	145	-	14.50	0.93
Hugoton RT (42.5%)	HGT	11.88	17.0	202	-	14.60	0.81
Cross Timbers Royalty Trust	CRT	13.88	6.0	83	-	19.20	0.72
San Juan Basin Royalty Trust	SJT	9.69	46.6	451	-	13.40	0.72
Burlington Resources	BR	33.88	216	7,300	3,200	49.10	0.69

		<i>Wellhead</i> <i>Price</i> (\$/mcf)	<i>Margin</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.		3.84	75	2.87	6.5	18.7	7.7
Hugoton RT (42.5%)		3.64	74	2.70	29.5	79.7	6.0
San Juan Basin Royalty Trust		3.54	81	2.88	29.8	85.9	5.3
Cross Timbers Royalty Trust		4.03	75	3.04	5.4	16.2	5.1
Burlington Resources		3.27	73	2.38	899	2,141	4.9

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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

McDep Associates

Research Note

July 31, 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	Volume		Total (bcf)	Price (\$/mcf)	Revenue (\$mm)	Fixed Cost (\$mm)	Var Cost (\$mm)	Cap Ex (\$mm)	Cash Flow (\$mm)	Disc Factor	Present Value (\$mm)
	Basic (bcf)	Enhanced (bcf)									
Total 2000 through 2029											
	7983	11025	19009	3.71	70516	10058	11283	16100	33076	0.42	13800
1999	928		928	2.18	2023	356	324		1343		
2000	836	75	911	2.98	2720	335	435	975	975	0.96	941
2001	744	158	902	3.32	2992	335	479	1089	1089	0.90	978
2002	671	231	901	3.51	3162	335	506	1160	1160	0.84	970
2003	604	296	900	3.26	2930	335	469	1063	1063	0.78	827
2004	544	353	897	3.20	2870	335	459	1038	1038	0.72	752
2005	490	404	894	3.13	2798	335	448	1007	1007	0.67	679
2006	442	449	891	3.06	2726	335	436	977	977	0.63	613
2007	398	489	886	3.15	2790	335	446	1004	1004	0.58	587
2008	359	523	882	3.24	2854	335	457	1031	1031	0.54	561
2009	323	554	877	3.33	2918	335	467	1058	1058	0.51	536
2010	291	581	872	3.42	2982	335	477	1085	1085	0.47	511
2011	262	604	866	3.52	3047	335	488	1112	1112	0.44	488
2012	236	624	860	3.62	3112	335	498	1139	1139	0.41	465
2013	213	642	854	3.72	3177	335	508	1167	1167	0.38	443
2014	192	657	848	3.82	3243	335	519	1194	1194	0.35	423
2015	173	584	757	3.93	2976	335	476		2164	0.33	713
2016	156	520	676	4.04	2731	335	437		1959	0.31	600
2017	140	463	603	4.16	2506	335	401		1770	0.29	505
2018	126	412	538	4.27	2300	335	368		1597	0.27	424
2019	114	367	480	4.39	2111	335	338		1438	0.25	355
2020	102	326	429	4.52	1937	335	310		1292	0.23	297
2021	92	290	383	4.65	1778	335	284		1158	0.21	248
2022	83	258	342	4.78	1632	335	261		1035	0.20	206
2023	75	230	305	4.91	1498	335	240		923	0.19	171
2024	68	205	272	5.05	1375	335	220		819	0.17	142
2025	61	182	243	5.19	1262	335	202		725	0.16	117
2026	55	162	217	5.34	1158	335	185		638	0.15	95
2027	49	144	194	5.49	1063	335	170		558	0.14	78
2028	44	128	173	5.64	976	335	156		484	0.13	63
2029	40	114	154	5.80	896	335	143		417	0.12	50

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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	727	742	2,741	753	713
Ebitda (\$mm)	281	360	438	1,343	462	418	528	542	1,950	554	517
Net Income (\$mm)	24	61	(84)	1	77	94	149	157	477	164	142
Per share	0.11	0.28	(0.39)	0.01	0.36	0.43	0.69	0.73	2.21	0.76	0.66
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	3.85	3.96	3.52	3.91	3.59
U.S.	1.90	2.20	2.33	2.08	2.39	2.40	3.03	3.19	2.75	3.27	3.13
Canada	1.48	1.85	2.04	1.76	2.21	2.66	3.25	3.36	2.86	3.31	2.99
Overseas	2.28	1.77	1.68	1.93	1.90	2.17	2.47	2.37	2.20	2.31	2.23
Total	1.82	2.11	2.23	2.01	2.32	2.44	3.04	3.18	2.74	3.20	3.05
Oil (\$/bbl)											
WTI Cushing	17.66	21.73	24.52	19.24	28.84	28.79	28.73	27.74	28.52	27.05	26.30
Worldwide	15.68	18.21	22.52	16.85	23.36	24.38	24.73	23.74	24.03	23.05	22.30
Total gas & oil (\$/mcf)	1.99	2.30	2.54	2.18	2.64	2.75	3.25	3.33	2.98	3.32	3.17
Revenue (\$mm)											
Natural Gas											
U.S.	248	300	329	1,129	334	321	409	432	1,496	433	419
Canada	57	73	78	276	84	92	115	118	409	128	117
Overseas	14	13	21	62	29	23	26	25	102	35	23
Total	319	386	429	1,470	448	435	550	575	2,009	595	558
Oil	126	149	184	553	193	176	177	166	712	158	155
Total	445	535	612	2,023	640	611	727	742	2,720	753	713
Cost (\$mm)											
Production Taxes	38	38	38	109	33	38	44	45	159	45	43
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	199	200	770	199	196
Cash flow (\$mm)											
281	360	438	1,343	462	418	528	542	1,950	554	517	
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	99	105	308	110	95
Net Income (\$mm)											
94	94	94	1	77	94	149	157	477	164	142	
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%	74%	73%
Margin - absolute (\$/mcf)	1.26	1.55	1.82	1.45	1.91	1.88	2.36	2.43	2.14	2.44	2.30

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