

Burlington Resources (BR - 34.13)

Royalty Trust Equivalent

While management has been unable to add value for a decade, we see too much value in the stock to give up (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. If managed as a royalty trust equivalent, BR would high grade reinvestment and distribute cash through massive stock repurchase. We believe the total return to investors would be more attractive in that case than it would be with a continuation of past policies.

		<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>4-Aug</i> <i>2000</i>	<i>Shares</i> <i>(mm)</i>	<i>(\$mm)</i>	<i>(\$mm)</i>	<i>(\$/sh)</i>	
Dorchester Hugoton, Ltd.	DHULZ	13.94	10.7	150	-	14.70	0.95
Hugoton RT (42.5%)	HGT	11.69	17.0	199	-	15.20	0.77
Cross Timbers Royalty Trust	CRT	13.25	6.0	80	-	18.40	0.72
San Juan Basin Royalty Trust	SJT	9.81	46.6	457	-	13.90	0.71
Burlington Resources	BR	34.13	216	7,400	3,200	51.90	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.		4.13	75	3.12	6.5	20.2	7.4
Hugoton RT (42.5%)		3.91	75	2.93	29.6	86.7	5.4
San Juan Basin Royalty Trust		3.82	82	3.13	29.8	93.2	4.9
Cross Timbers Royalty Trust		4.37	75	3.27	5.0	16.3	4.9
Burlington Resources		3.46	74	2.56	899	2,303	4.6

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McDep Associates

Research Note

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Table BR-1
Burlington Resources
Present Value

Volume Decline (%/yr):	11	Price Escalation Post 2006 (%/yr):	2.7
Volume Enhancement (%/yr):	10	Discount rate (%/yr):	7.3
Capex/Cash Flow (%):	50	U.S. TIPS Inflation (%/yr):	1.9
Variable Cost (%):	16	U.S. 10 Year Yield (%/yr):	5.9

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	3.76	71505	9767	11441	16528	33770	0.43	14400
1999	928		928	2.18	2023	356	324		1343		
2000	836	75	911	3.09	2817	326	451	1020	1020	0.97	985
2001	744	158	902	3.49	3151	326	504	1161	1161	0.90	1044
2002	671	231	901	3.56	3210	326	514	1186	1186	0.84	994
2003	604	296	900	3.31	2973	326	476	1086	1086	0.78	849
2004	544	353	897	3.24	2910	326	466	1059	1059	0.73	772
2005	490	404	894	3.17	2835	326	454	1028	1028	0.68	698
2006	442	449	891	3.12	2780	326	445	1005	1005	0.63	636
2007	398	489	886	3.21	2842	326	455	1031	1031	0.59	608
2008	359	523	882	3.29	2904	326	465	1057	1057	0.55	581
2009	323	554	877	3.38	2967	326	475	1083	1083	0.51	555
2010	291	581	872	3.47	3029	326	485	1110	1110	0.48	529
2011	262	604	866	3.57	3092	326	495	1136	1136	0.44	505
2012	236	624	860	3.67	3155	326	505	1162	1162	0.41	482
2013	213	642	854	3.77	3218	326	515	1189	1189	0.39	459
2014	192	657	848	3.87	3281	326	525	1215	1215	0.36	438
2015	173	584	757	3.97	3008	326	481		2201	0.34	739
2016	156	520	676	4.08	2758	326	441		1991	0.31	623
2017	140	463	603	4.19	2528	326	405		1798	0.29	524
2018	126	412	538	4.31	2318	326	371		1621	0.27	440
2019	114	367	480	4.42	2125	326	340		1460	0.25	369
2020	102	326	429	4.54	1948	326	312		1311	0.24	309
2021	92	290	383	4.67	1787	326	286		1175	0.22	258
2022	83	258	342	4.79	1638	326	262		1050	0.20	215
2023	75	230	305	4.93	1502	326	240		936	0.19	179
2024	68	205	272	5.06	1377	326	220		831	0.18	148
2025	61	182	243	5.20	1263	326	202		735	0.17	122
2026	55	162	217	5.34	1158	326	185		647	0.15	100
2027	49	144	194	5.48	1062	326	170		567	0.14	82
2028	44	128	173	5.63	974	326	156		493	0.13	66
2029	40	114	154	5.79	893	326	143		425	0.13	53

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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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	767	799	2,838	800	742
Ebitda (\$mm)	281	360	438	1,343	462	418	565	596	2,041	597	544
Net Income (\$mm)	24	61	(84)	1	77	94	171	189	531	190	159
Per share	0.11	0.28	(0.39)	0.01	0.36	0.43	0.79	0.88	2.46	0.88	0.73
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	4.16	4.36	3.69	4.21	3.75
U.S.	1.90	2.20	2.33	2.08	2.39	2.40	3.18	3.44	2.85	3.48	3.26
Canada	1.48	1.85	2.04	1.76	2.21	2.66	3.56	3.76	3.03	3.61	3.15
Overseas	2.28	1.77	1.68	1.93	1.90	2.17	2.58	2.49	2.25	2.38	2.30
Total	1.82	2.11	2.23	2.01	2.32	2.44	3.22	3.45	2.85	3.42	3.18
Oil (\$/bbl)											
WTI Cushing	17.66	21.73	24.52	19.24	28.84	28.79	29.82	28.94	29.10	27.84	26.96
Worldwide	15.68	18.21	22.52	16.85	23.36	24.38	25.82	24.94	24.58	23.84	22.96
Total gas & oil (\$/mcf)	1.99	2.30	2.54	2.18	2.64	2.75	3.42	3.58	3.09	3.52	3.30
Revenue (\$mm)											
Natural Gas											
U.S.	248	300	329	1,129	334	321	430	465	1,550	461	436
Canada	57	73	78	276	84	92	125	133	434	139	123
Overseas	14	13	21	62	29	23	27	26	105	36	24
Total	319	386	429	1,470	448	435	582	624	2,089	636	583
Oil	126	149	184	553	193	176	185	175	728	163	159
Total	445	535	612	2,023	640	611	767	799	2,817	800	742
Cost (\$mm)											
Production Taxes	38	38	38	109	33	38	46	48	165	48	45
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	202	203	776	202	197
Cash flow (\$mm)											
281	360	438	1,343	462	418	565	596	2,041	597	544	
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	114	126	344	127	106
Net Income (\$mm)	94	94	94	1	77	94	171	189	531	190	159
Modeling ratios											
Production Tax/Revenue	8.5%	7.1%	6.2%	5.4%	5.2%	6.2%	6.0%	6.0%	5.9%	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%	74%	75%	72%	75%	73%
Margin - absolute (\$/mcf)	1.26	1.55	1.82	1.45	1.91	1.88	2.52	2.67	2.24	2.63	2.42

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