

## Burlington Resources (BR – 36.81)

### Depressed Stock

We believe that Burlington Resources stock offers an unusual opportunity to own valuable natural gas resources at a time when the clean fuel is gaining more attention than ever before (see Action Idea, July 24, 2000). The risk is that investors will not realize that value if the company is managed as it has been for the past ten years. Because that risk is unacceptable, we see two logical courses of action. First, the company is sold to a well-capitalized acquirer. Otherwise, second, the Board of Directors shuts down wasteful reinvestment and maximizes return of cash to stockholders. The former may well be contemplated by more than one party and the latter is also happening already, but not to the degree it should. If BR stock were to be priced within the range of \$41 - \$54, its McDep Ratio would fall within the range for trusts and partnerships (see table). In addition, resources have the potential to appreciate further and well-regarded management may be able to earn more recognition from investors.

		<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>29-Sep</i> <i>2000</i>	<i>Shares</i> <i>(mm)</i>	<i>(\$mm)</i>	<i>(\$mm)</i>	<i>(\$/sh)</i>	
Dorchester Hugoton, Ltd.	DHULZ	15.25	10.7	164	-	15.90	0.96
Hugoton RT (42.5%)	HGT	15.69	17.0	267	-	16.60	0.95
Cross Timbers Royalty Trust	CRT	16.06	6.0	96	-	19.50	0.82
San Juan Basin Royalty Trust	SJT	11.88	46.6	553	-	15.00	0.79
Burlington Resources	BR	36.81	216	8,000	3,200	56.50	0.73

If BR stock were to be priced within the range of \$46 - \$71, its ratio of Enterprise Value to Earnings before Interest, Taxes, Depreciation and Amortization for the next four quarters would also fall within the range for trusts and partnerships (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.

		<i>Price</i> (\$/mcf)	<i>Margin</i> (%)	<i>Volume</i> (\$/mcf)	<i>Ebitda</i> (bcf)	<i>Ebitda</i> (\$mm)	<i>PV/</i> <i>Ebitda</i>	<i>EV/</i> <i>Ebitda</i>
Dorchester Hugoton, Ltd.		4.79	76	3.64	6.5	23.6	7.2	6.9
Hugoton RT (42.5%)		4.56	76	3.46	30.3	104.7	6.3	6.0
Cross Timbers Royalty Trust		4.83	75	3.63	5.0	18.1	6.5	5.3
San Juan Basin Royalty Trust		4.34	81	3.52	32.3	113.9	6.1	4.9
Burlington Resources		3.88	76	2.97	901	2,674	5.8	4.2

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# McDep Associates

Research Note

October 2, 2000

**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	3.94	74972	9296	11996	17640	36040	0.43	15400
1999	928		928	2.18	2023	356	324		1343		
2000	836	75	911	3.26	2974	310	476	1094	1094	0.97	1056
2001	744	158	902	3.79	3415	310	546	1280	1280	0.90	1151
2002	671	231	901	3.87	3484	310	557	1308	1308	0.84	1097
2003	604	296	900	3.57	3215	310	514	1195	1195	0.78	934
2004	544	353	897	3.48	3124	310	500	1157	1157	0.73	843
2005	490	404	894	3.32	2973	310	476	1094	1094	0.68	742
2006	442	449	891	3.24	2887	310	462	1058	1058	0.63	669
2007	398	489	886	3.33	2953	310	472	1085	1085	0.59	640
2008	359	523	882	3.42	3018	310	483	1113	1113	0.55	611
2009	323	554	877	3.52	3084	310	493	1140	1140	0.51	584
2010	291	581	872	3.61	3149	310	504	1168	1168	0.48	557
2011	262	604	866	3.71	3215	310	514	1195	1195	0.44	532
2012	236	624	860	3.81	3281	310	525	1223	1223	0.41	507
2013	213	642	854	3.92	3347	310	536	1251	1251	0.39	483
2014	192	657	848	4.02	3414	310	546	1279	1279	0.36	460
2015	173	584	757	4.14	3130	310	501		2320	0.34	778
2016	156	520	676	4.25	2870	310	459		2101	0.31	657
2017	140	463	603	4.36	2632	310	421		1901	0.29	554
2018	126	412	538	4.48	2413	310	386		1717	0.27	466
2019	114	367	480	4.61	2213	310	354		1549	0.25	392
2020	102	326	429	4.73	2030	310	325		1395	0.24	329
2021	92	290	383	4.86	1861	310	298		1254	0.22	276
2022	83	258	342	5.00	1707	310	273		1124	0.20	230
2023	75	230	305	5.13	1565	310	250		1005	0.19	192
2024	68	205	272	5.27	1436	310	230		896	0.18	159
2025	61	182	243	5.42	1317	310	211		796	0.17	132
2026	55	162	217	5.57	1208	310	193		705	0.15	109
2027	49	144	194	5.72	1108	310	177		621	0.14	89
2028	44	128	173	5.88	1016	310	163		544	0.13	73
2029	40	114	154	6.04	932	310	149		473	0.13	59

Analyses are prepared from original sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Oil and gas investment research by Kurt Wulff is available free at <http://www.mcdep.com>. Mr. Wulff may acquire, hold, or sell a position in securities mentioned.

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Research Note

October 2, 2000

**Table BR-2**  
**Burlington Resources**  
**Income Model**

	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>
	<i>9/30/99</i>	<i>12/31/99</i>	<i>1999</i>	<i>3/31/00</i>	<i>6/30/00</i>	<i>9/30/00</i>	<i>12/31/00</i>	<i>2000E</i>	<i>3/31/01</i>	<i>6/30/01</i>	<i>9/30/01</i>
<b>Highlights</b>											
Revenue (\$mm)	547	627	<b>2,065</b>	652	620	812	911	<b>2,994</b>	927	869	794
Ebitda (\$mm)	360	438	<b>1,343</b>	462	418	607	701	<b>2,188</b>	717	664	592
Net Income (\$mm)	61	(84)	<b>1</b>	77	94	196	253	<b>620</b>	262	230	187
Per share	0.28	(0.39)	<b>0.01</b>	0.36	0.43	0.91	1.17	<b>2.87</b>	1.21	1.07	0.87
Shares (millions)	216	216	<b>216</b>	216	216	216	216	<b>216</b>	216	216	216
<b>Volume</b>											
Natural gas (bcf)											
U.S.	137	141	<b>543</b>	140	134	135	135	<b>544</b>	132	134	135
Canada	39	38	<b>157</b>	38	34	35	35	<b>143</b>	39	39	39
Overseas	7	13	<b>32</b>	15	10	10	10	<b>47</b>	15	10	10
Total	183	192	<b>731</b>	193	179	181	181	<b>734</b>	186	183	185
Natural Gas (mmcf)											
U.S.	1,484	1,536	<b>1,487</b>	1,535	1,470	1,470	1,470	<b>1,486</b>	1,470	1,470	1,470
Canada	427	417	<b>429</b>	419	379	383	383	<b>391</b>	429	429	429
Overseas	77	137	<b>88</b>	167	114	114	114	<b>127</b>	167	114	114
Total	1,988	2,090	<b>2,004</b>	2,121	1,963	1,967	1,967	<b>2,005</b>	2,066	2,013	2,013
Days	92	92	<b>365</b>	91	91	92	92	<b>366</b>	90	91	92
Oil (mb)	8	8	<b>33</b>	8	7	7	7	<b>30</b>	7	7	7
Oil (mbd)	89	89	<b>90</b>	91	79	78	76	<b>81</b>	76	76	75
Total gas & oil (bcf)	232	241	<b>928</b>	242	222	224	223	<b>911</b>	227	225	226
<b>Price</b>											
Natural gas (\$/mcf)											
Henry Hub (\$/mmbtu)	2.52	2.45	<b>2.24</b>	2.62	3.63	4.49	5.20	<b>3.99</b>	5.02	4.48	4.42
U.S.	2.20	2.33	<b>2.08</b>	2.39	2.40	3.35	3.94	<b>3.02</b>	4.05	3.84	3.31
Canada	1.85	2.04	<b>1.76</b>	2.21	2.66	3.89	4.60	<b>3.32</b>	4.42	3.88	3.82
Overseas	1.77	1.68	<b>1.93</b>	1.90	2.17	2.71	2.68	<b>2.32</b>	2.63	2.55	2.46
Total	2.11	2.23	<b>2.01</b>	2.32	2.44	3.41	3.99	<b>3.03</b>	4.02	3.77	3.37
Oil (\$/bbl)											
WTI Cushing	21.73	24.52	<b>19.24</b>	28.84	28.79	31.07	30.79	<b>29.87</b>	30.33	29.55	28.62
Worldwide	18.21	22.52	<b>16.85</b>	23.36	24.38	27.07	26.79	<b>25.32</b>	26.33	25.55	24.62
Total gas & oil (\$/mcf)	2.30	2.54	<b>2.18</b>	2.64	2.75	3.62	4.08	<b>3.26</b>	4.08	3.86	3.51
<b>Revenue (\$mm)</b>											
Natural Gas											
U.S.	300	329	<b>1,129</b>	334	321	452	533	<b>1,640</b>	536	514	448
Canada	73	78	<b>276</b>	84	92	137	162	<b>475</b>	171	151	151
Overseas	13	21	<b>62</b>	29	23	28	28	<b>108</b>	40	27	26
Total	386	429	<b>1,470</b>	448	435	618	723	<b>2,224</b>	747	691	625
Oil	149	184	<b>553</b>	193	176	194	188	<b>750</b>	180	177	169
Total	535	612	<b>2,023</b>	640	611	812	911	<b>2,974</b>	927	869	794
<b>Cost (\$mm)</b>											
Production Taxes	38	38	<b>109</b>	33	38	49	55	<b>174</b>	56	52	48
Operating	125	125	<b>472</b>	118	125	125	125	<b>493</b>	127	126	127
Administrative	12	11	<b>99</b>	27	30	30	30	<b>118</b>	27	27	27
Total	175	174	<b>680</b>	178	193	204	210	<b>786</b>	210	205	201
<b>Cash flow (\$mm)</b>	360	438	<b>1,343</b>	462	418	607	701	<b>2,188</b>	717	664	592
Non cash or non operating	159	237	<b>1,107</b>	275	217	217	217	<b>926</b>	217	217	217
Interest	63	63	<b>213</b>	50	63	63	63	<b>239</b>	63	63	63
Income Tax	44	44	<b>22</b>	60	44	131	168	<b>403</b>	175	153	125
<b>Net Income (\$mm)</b>	94	94	<b>1</b>	77	94	196	253	<b>620</b>	262	230	187
<b>Modeling ratios</b>											
Production Tax/Revenue	7.1%	6.2%	<b>5.4%</b>	5.2%	6.2%	6.0%	6.0%	<b>5.9%</b>	6.0%	6.0%	6.0%
Operating Cost (\$/mcf)	0.54	0.52	<b>0.51</b>	0.49	0.56	0.56	0.56	<b>0.54</b>	0.56	0.56	0.56
Margin - relative	67%	72%	<b>66%</b>	72%	68%	75%	77%	<b>74%</b>	77%	76%	75%
Margin - absolute (\$/mcf)	1.55	1.82	<b>1.45</b>	1.91	1.88	2.71	3.14	<b>2.40</b>	3.16	2.95	2.62

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