

Rating: Buy
S&P 500: 1313

Devon Energy Corporation

Raise NPV to \$115 a Share

<i>Symbol</i>	DVN	<i>Ebitda Next Twelve Months ending 9/30/07 (US\$mm)</i>	8,900
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	57
<i>Price (\$/sh)</i>	72.14	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	9/5/06	<i>Adjusted Reserves/Production NTM</i>	8.7
<i>Shares (mm)</i>	446	<i>EV/Ebitda</i>	4.5
<i>Market Capitalization (\$mm)</i>	32,200	<i>PV/Ebitda</i>	6.7
<i>Debt (\$mm)</i>	7,900	<i>Undeveloped Reserves (%)</i>	24
<i>Enterprise Value (EV) (\$mm)</i>	40,100	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	41.80
<i>Present Value (PV) (\$mm)</i>	59,200	<i>Present Value Proven Reserves(\$/boe)</i>	28.00
<i>Net Present Value (\$/share)</i>	115	<i>Present Value Proven Reserves(\$/mcf)</i>	4.70
<i>Debt/Present Value</i>	0.13	<i>Earnings Next Twelve Months (US\$/sh)</i>	8.82
<i>McDep Ratio - EV/PV</i>	0.68	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	0.6	<i>Indicated Annual Dividend (US\$/sh)</i>	0.45

Note: Estimated cash flow and earnings tied to one-year futures prices for natural gas and oil.

Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

Summary and Recommendation

Exploration success in the new deep Gulf of Mexico Lower Tertiary province prompts us to add \$13 a share to estimated net present value (NPV) for buy-recommended **Devon Energy (DVN)**. Taking the occasion of the first oil production test in the area as announced by buy-rated **Chevron (CVX)**, management of Devon, with justifiable pride, disclosed on September 5 an estimate of 300 to 900 million barrels of potential discovered resource in four exploratory successes. Our increase in present value corresponds to a nominal \$10 a barrel times 600 million barrels. The value per barrel is less than the \$25 a barrel for existing reserves at a \$60 oil price because the first of the new discoveries will not be producing for at least three years and most of the capital investment has not been made yet. Management also disclosed an estimate of undiscovered potential of 2 to 5 billion barrels on 19 prospects to be drilled at the rate of 2 to 3 a year. Expect perhaps 25% of the undiscovered potential to be commercial. Already our best value large cap producer before the announcement, Devon adds a touch of glamour that may also spark better recognition of the company's strong basic natural gas and oil position.

Kurt H. Wulff, CFA

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Summary of Devon's Lower Tertiary Discoveries				<i>devon</i>
Project	Year Discovered	Working Interest	Net Feet of Hydrocarbon Sands	
Cascade	2002	50.0%	> 450'	
St. Malo	2003	22.5%	> 450'	
Jack	2004	25.0%	> 350'	
Kaskida	2006	20.0%	≈ 800'	

Potential Discovered Resource Net to Devon: 300 – 900 MMBOE

22

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Additional Lower Tertiary Potential		<i>devon</i>
Undrilled prospects identified:	19	
Average working interest:	43%	
Gross potential per prospect:	300 – 500+ MMBOE	
Devon's net unrisks potential:	2 – 5 BBOE	

48

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Devon Energy
Next Twelve Months Operating and Financial Results

	<i>Q3</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q3E</i>	<i>Next</i>
	<i>9/30/05</i>	<i>2005</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>9/30/07</i>	<i>Twelve</i>
									<i>Months</i>
									<i>9/30/07</i>
Volume									
Natural Gas (mmcf)									
U.S.	1,485	1,521	1,444	1,493	1,493	1,493	1,481	1,493	1,493
Canada	725	715	656	689	689	689	681	689	689
Overseas	27	30	25	24	24	24	24	24	24
Total	2,237	2,266	2,125	2,206	2,206	2,206	2,186	2,206	2,206
Oil (mbd)	225	242	214	211	214	216	214	216	216
Total gas & oil (bcf)	330	1,357	307	316	321	322	1,266	322	1,278
Total gas & oil (mmb)	55	226	51	53	53	54	211	54	213
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	8.56	8.65	8.97	6.81	6.58	7.94	7.58	8.52	8.83
U.S.	7.30	7.14	7.06	5.91	5.72	6.90	6.39	7.84	7.88
Canada	7.19	7.18	7.37	5.70	5.52	6.66	6.29	7.14	7.39
Overseas	6.52	4.85	4.21	4.65	4.50	5.43	4.70	5.83	6.03
Total	7.26	7.13	7.12	5.83	5.64	6.81	6.34	7.60	7.71
Oil (\$/bbl)									
WTI Cushing	62.52	56.31	63.33	70.47	72.21	70.26	69.07	74.26	72.68
Worldwide	49.60	43.24	46.31	54.34	55.02	55.23	52.76	59.42	57.99
Total gas & oil (\$/mcf)	7.64	7.16	7.35	7.01	6.94	7.70	7.25	8.45	8.43
Revenue (\$mm)									
Natural Gas									
U.S.	998	3,966	918	802	785	948	3,453	1,077	4,293
Canada	480	1,875	435	357	350	422	1,564	453	1,859
Overseas	16	52	9	10	10	12	42	13	53
Total	1,494	5,893	1,363	1,170	1,145	1,382	5,059	1,542	6,204
Oil	1,027	3,816	891	1,044	1,081	1,098	4,114	1,181	4,574
Total	2,520	9,710	2,254	2,214	2,226	2,480	9,173	2,724	10,778
Expense									
Fixed	174	702	217	211	211	211	850	211	845
Variable	174	702	217	211	212	237	877	260	1,028
Ebitda (\$mm)	2,173	8,306	1,821	1,791	1,803	2,032	7,446	2,253	8,905
Deprec., Deplet., & Amort.	533	2,200	549	612	612	612	2,385	612	2,448
Hedging and other	221	831	93				93		-
Ebit	1,419	5,275	1,179	1,179	1,191	1,420	4,968	1,641	6,457
Interest	113	482	101	102	102	102	407	102	408
Ebt	1,306	4,793	1,078	1,077	1,089	1,318	4,561	1,539	6,049
Income Tax	457	1,677	377	377	381	461	1,596	538	2,117
Net Income (\$mm)	849	3,115	700	700	708	857	2,965	1,000	3,932
Shares (millions)									
Per Share (\$)	1.87	6.72	1.56	1.57	1.59	1.92	6.64	2.24	8.82
Ebitda Margin	86%	86%	81%	81%	81%	82%	81%	83%	83%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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Devon Energy
Functional Cash Flow and Present Value

	<i>NTM Ebitda</i> <i>(US\$mm)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$mm)</i>	
North American Natural Gas	5,080	8.3	6.2	31,500	53%
Oil	3,820	9.3	5.7	21,700	37%
Gulf of Mexico Lower Tertiary				6,000	10%
	8,900	8.7	6.7	59,200	100%
Debt (US\$mm)					7,900
Net Present Value (US\$mm)					51,300
Shares (mm)					446
Net Present Value - Standard Estimate (US\$/sh)					115

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