

Rating: Buy
S&P 500: 1368

Devon Energy Corporation Deep Gulf Explorer

<i>Symbol</i>	DVN	<i>Ebitda Next Twelve Months ending 9/30/07 (US\$mm)</i>	8,000
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	57
<i>Price (\$/sh)</i>	66.44	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/1/06	<i>Adjusted Reserves/Production NTM</i>	8.2
<i>Shares (mm)</i>	447	<i>EV/Ebitda</i>	4.7
<i>Market Capitalization (\$mm)</i>	29,700	<i>PV/Ebitda</i>	7.4
<i>Debt (\$mm)</i>	7,700	<i>Undeveloped Reserves (%)</i>	24
<i>Enterprise Value (EV) (\$mm)</i>	37,400	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	35.10
<i>Present Value (PV) (\$mm)</i>	59,100	<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>	7.15
<i>McDep Ratio - EV/PV</i>	0.63	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	0.7	<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.

Estimated present value presumes a long-term price for oil of US\$60 a barrel and natural gas, \$10 a million btu.

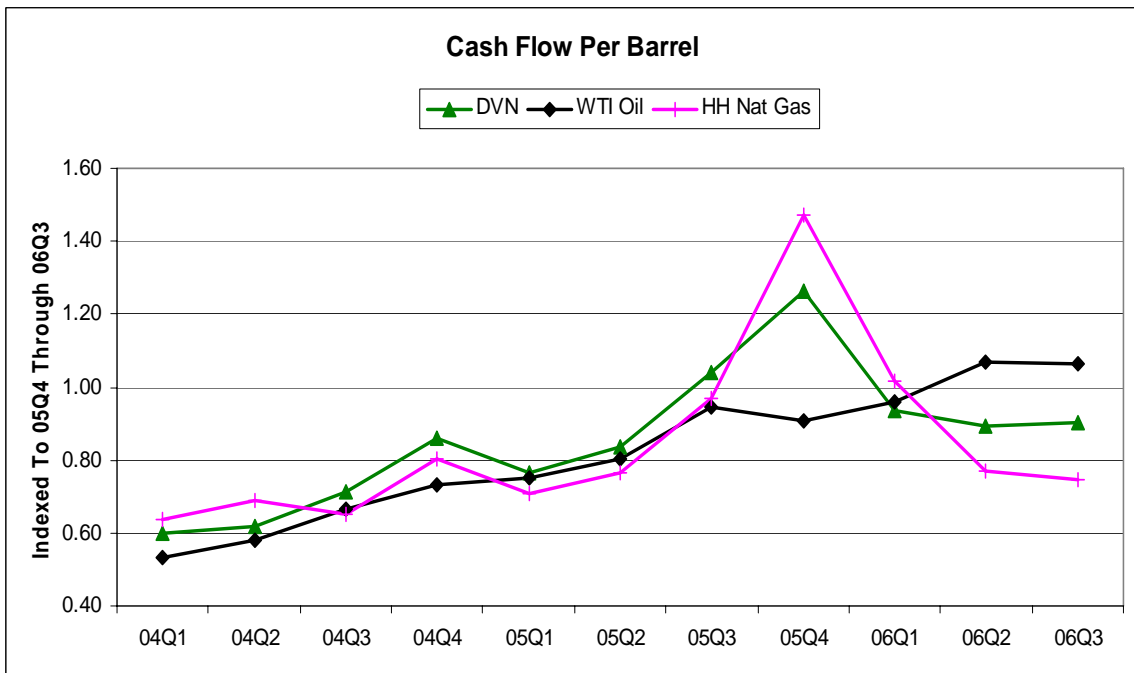
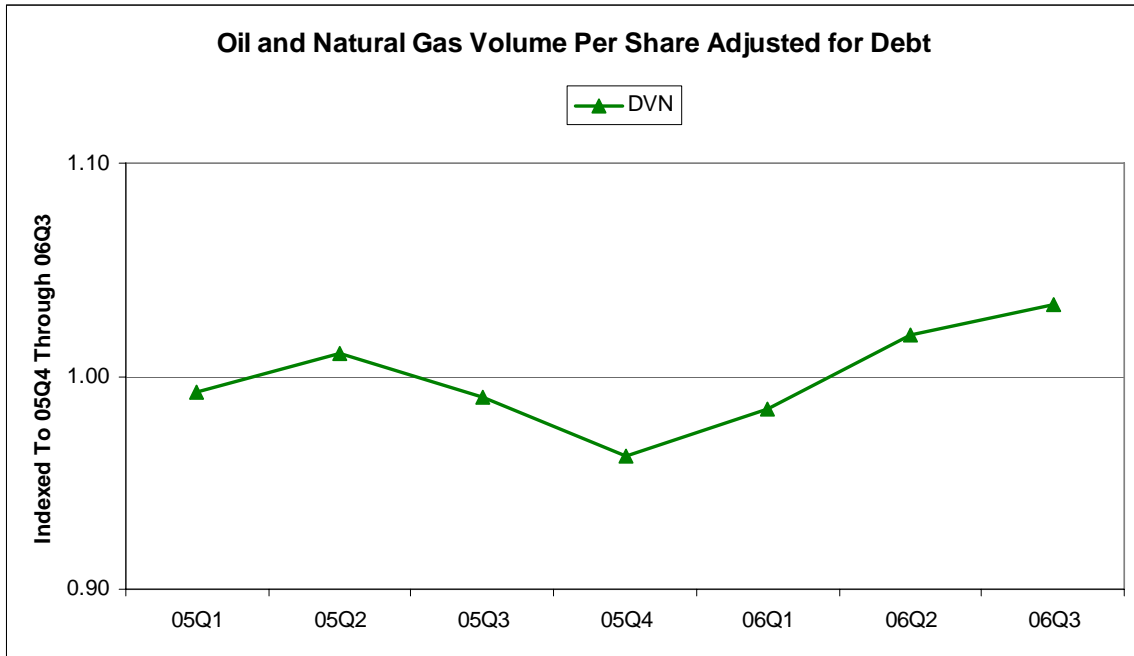
For historical research on Devon since 2004 see <http://www.mcdep.com/3dvn.htm>

Summary and Recommendation

Buy-recommended **Devon Energy (DVN)** at a McDep Ratio of 0.63 offers unlevered appreciation potential of 58% to estimated present value. Futures prices for oil averaging \$65 a barrel for delivery over the next six years seem to validate estimated present value. Third quarter operations reported on November 1 trace a trend in oil and gas production volume per share adjusted for debt that may be turning up (see chart). Balanced 55% natural gas and 45% oil by value, Devon earns a cash flow margin that tracks partly with natural gas price and partly with oil price (see chart). Correlating the rate of production relative to reserves with present value as a multiple of cash flow for some thirty natural gas and oil producers illustrates what Devon might be worth before considering new potential in the Gulf of Mexico. Devon's participation in the deep Tertiary trend with buy-recommended **Chevron (CVX)** and **Shell (RDS)** may add value of \$13 a share to take the total beyond NPV of \$115 (see table on page 4). Above the 200-day average price signifying positive momentum, Devon stock has a double weighting in our illustrative energy portfolio concentrated on real assets that promise a high return providing clean fuel for global growth.

Kurt H. Wulff, CFA

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Devon Energy
Next Twelve Months Operating and Financial Results

	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next Twelve Months</i>
	<i>9/30/05</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>9/30/07</i>
Volume									
Natural Gas (mmcf)									
U.S.	1,485	1,493	1,624	1,691	1,564	1,691	1,691	1,691	1,691
Canada	725	689	662	662	667	662	662	662	662
Overseas	27	24	20	20	22	20	20	20	20
Total	2,237	2,206	2,306	2,373	2,253	2,373	2,373	2,373	2,373
Oil (mbd)	225	211	217	225	217	225	225	225	225
Total gas & oil (bcf)	330	316	332	343	1,297	335	339	343	1,359
Total gas & oil (mmb)	55	53	55	57	216	56	56	57	227
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	8.56	6.81	6.58	6.17	7.13	7.85	7.33	7.53	7.22
U.S.	7.30	5.91	5.70	5.34	5.96	6.79	6.77	6.95	6.46
Canada	7.19	5.70	5.53	5.18	5.93	6.60	6.16	6.33	6.06
Overseas	6.52	4.65	5.71	5.35	4.93	6.81	6.36	6.53	6.26
Total	7.26	5.83	5.65	5.30	5.94	6.74	6.59	6.78	6.35
Oil (\$/bbl)									
WTI Cushing	62.52	70.47	70.42	58.52	65.68	61.42	63.87	65.30	62.28
Worldwide	49.60	54.34	55.55	46.30	50.59	49.57	51.86	52.95	50.17
Total gas & oil (\$/mcf)	7.64	7.01	6.95	6.17	6.85	7.29	7.34	7.52	7.08
Revenue (\$mm)									
Natural Gas									
U.S.	998	802	852	830	3,403	1,034	1,042	1,082	3,988
Canada	480	357	337	316	1,445	393	371	385	1,465
Overseas	16	10	11	10	40	12	12	12	46
Total	1,494	1,170	1,199	1,156	4,888	1,439	1,424	1,479	5,498
Oil	1,027	1,044	1,110	959	4,003	1,004	1,062	1,097	4,122
Total	2,520	2,214	2,309	2,115	8,891	2,443	2,486	2,576	9,621
Expense									
Fixed	174	211	204	204	835	204	204	204	814
Variable	174	211	204	186	818	215	219	227	848
Ebitda (\$mm)	2,173	1,791	1,902	1,725	7,238	2,024	2,064	2,145	7,958
Deprec., Deplet., & Amort.	533	612	648	648	2,457	648	648	648	2,592
Hedging and other	221				93				-
Ebit	1,419	1,179	1,254	1,077	4,688	1,376	1,416	1,497	5,366
Interest	113	102	112	112	427	112	112	112	448
Ebt	1,306	1,077	1,142	965	4,261	1,264	1,304	1,385	4,918
Income Tax	457	377	400	338	1,491	442	456	485	1,721
Net Income (\$mm)	849	700	742	627	2,770	822	847	900	3,197
Shares (millions)	454	446	447	447	1,789	447	447	447	447
Per Share (\$)	1.87	1.57	1.66	1.40	6.19	1.84	1.90	2.01	7.15
Ebitda Margin	86%	81%	82%	82%	81%	83%	83%	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	4,510	7.7	7.2	32,500	55%
Oil	3,450	9.0	7.7	26,600	45%
	7,960	8.2	7.4	59,100	100%
Debt (US\$mm)					7,700
Net Present Value (US\$mm)					51,400
Shares (mm)					447
Net Present Value - Standard Estimate (US\$/sh)					115
Net Present Value - Approximation by Correlation (US\$/sh)					108

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