



# Independent Stock Idea

August 5, 2009

rating: buy  
s&p 500: 1006

## Devon Energy (DVN) Stock Price Moves to Uptrend

<i>Symbol</i>	DVN	<i>Ebitda Next Twelve Months ending 6/30/10 (US\$mm)</i>	6,200
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	52
<i>Price (\$/sh)</i>	61.23	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/4/09	<i>Adjusted Reserves/Production NTM</i>	8.8
<i>Shares (mm)</i>	444	<i>EV/Ebitda</i>	5.9
<i>Market Capitalization (\$mm)</i>	27,200	<i>PV/Ebitda</i>	8.5
<i>Debt (\$mm)</i>	9,100	<i>Undeveloped Reserves (%)</i>	20
<i>Enterprise Value (EV) (\$mm)</i>	36,300	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	24.90
<i>Present Value (PV) (\$mm)</i>	52,600	<i>Present Value Proven Reserves(\$/boe)</i>	21.70
<i>Net Present Value (\$/share)</i>	98	<i>Present Value Proven Reserves(\$/mcf)</i>	3.60
<i>Debt/Present Value</i>	0.17	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.51
<i>McDep Ratio - EV/PV</i>	0.69	<i>Price/Earnings Next Twelve Months</i>	14
<i>Dividend Yield (%/year)</i>	1.0	<i>Indicated Annual Dividend (US\$/sh)</i>	0.64
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\$75 a barrel and natural gas, \$8 a million btu.			
For historical research on Devon since 2004 see <a href="http://www.mcdep.com/3dvn.htm">http://www.mcdep.com/3dvn.htm</a>			

### Summary and Recommendation

Buy-recommended **Devon Energy (DVN)** offers unlevered appreciation potential of 45% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$98 a share. On July 14 we reduced NPV from \$116 when we reduced estimated Present Value of North American Natural Gas by 20%. Released today, second quarter results exceeded our estimate for unlevered cash flow (Ebitda) and earnings from three months ago. New oil production in Canada sparked volume gains. Price was higher and costs were lower (see table Next Twelve Months Operating and Financial Estimates). Natural gas emphasis dominates the current property mix, driving 61% of NPV in our valuation, which capitalizes cash flow at unlevered multiples (PV/Ebitda), related to reserve life (Adjusted R/P) for natural gas and oil (see table Functional Cash Flow and Present Value). Though it has been our favorite U.S. independent producer stock, DVN has crossed the 200-day average price into an uptrend only in recent days. Positive operating performance ought to attract further interest. Similarly, we see a good omen in oil futures prices for the next six years, which crossed the 40-week average into an uptrend at the end of May (see charts Six-Year Commodity Price Meter and Six-Year and One-Year Natural Gas and Oil Futures).

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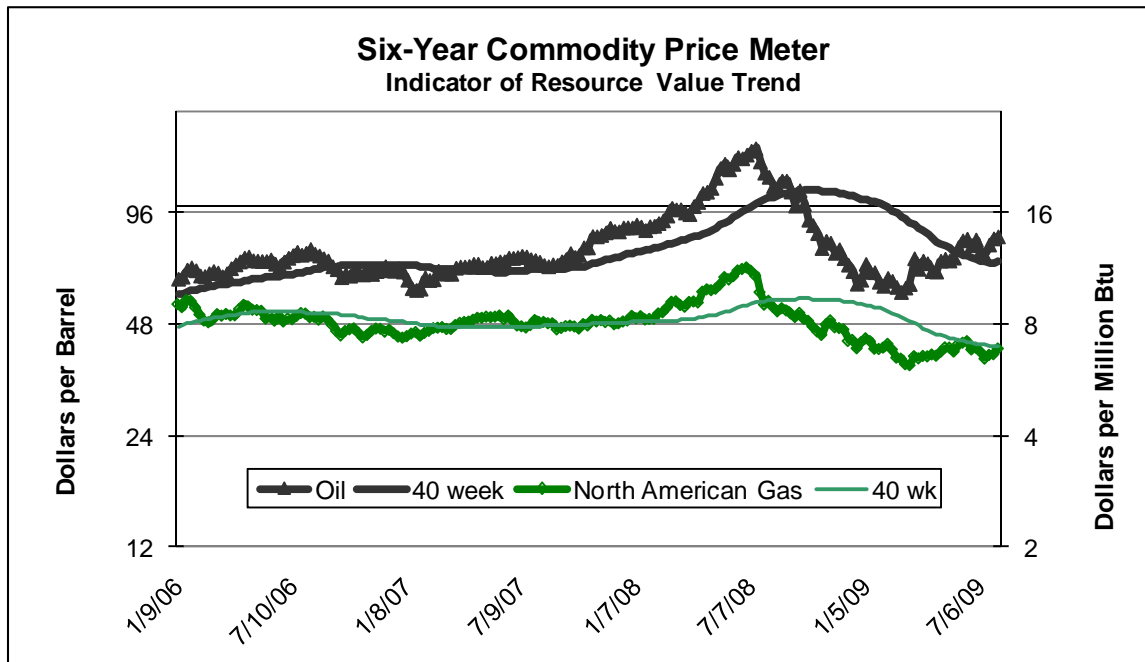
Devon Energy									
Next Twelve Months Operating and Financial Results									
	Q2	Q1	Q2	Q3E	Q4E	Year	Q1E	Q2E	Next Twelve Months
	6/30/08	3/31/09	6/30/09	9/30/09	12/31/09	2009E	3/31/10	6/30/10	6/30/10
<b>Volume</b>									
Natural Gas (mmcf)									
U.S.	1,939	2,131	2,129	2,106	2,106	<b>2,118</b>	2,106	2,106	<b>2,106</b>
Canada	583	585	660	660	660	<b>642</b>	660	660	<b>660</b>
Overseas	5	3	3	3	3	<b>3</b>	3	3	<b>3</b>
Total	2,527	2,719	2,792	2,769	2,769	<b>2,762</b>	2,769	2,769	<b>2,769</b>
Days	91	90	91	92	92	<b>365</b>	90	91	<b>365</b>
Oil (mbd)	222	232	253	253	253	<b>248</b>	253	253	<b>253</b>
Total gas & oil (bcf)	351	370	392	394	394	<b>1,551</b>	386	390	<b>1,565</b>
Total gas & oil (mmb)	58	61	62	63	63	<b>248</b>	61	62	<b>248</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	10.93	4.90	3.50	3.79	5.00	<b>4.30</b>	5.95	5.89	<b>5.16</b>
U.S.	9.56	3.53	2.81	3.05	4.02	<b>3.35</b>	4.78	5.18	<b>4.25</b>
Canada	9.76	4.48	3.25	3.05	4.02	<b>3.67</b>	4.78	5.18	<b>4.25</b>
Overseas	11.00	3.47	4.24	4.24	4.24	<b>4.05</b>	4.24	4.24	<b>4.24</b>
Total	9.61	3.73	2.92	3.05	4.02	<b>3.43</b>	4.78	5.18	<b>4.25</b>
Oil (\$/bbl)									
WTI Cushing	123.97	42.96	59.52	69.09	74.17	<b>61.44</b>	76.50	78.25	<b>74.50</b>
Worldwide	90.90	28.35	42.41	49.23	52.85	<b>43.62</b>	54.51	55.76	<b>53.07</b>
Total gas & oil (\$/mcf)	11.52	4.07	4.38	4.87	5.71	<b>4.77</b>	6.31	6.63	<b>5.88</b>
<b>Revenue (\$mm)</b>									
Natural Gas									
U.S.	1,687	677	544	590	778	<b>2,590</b>	906	992	<b>3,267</b>
Canada	517	236	195	185	244	<b>860</b>	284	311	<b>1,024</b>
Overseas	5	1	1	1	1	<b>4</b>	1	1	<b>5</b>
Total	2,209	914	741	776	1,023	<b>3,454</b>	1,192	1,305	<b>4,296</b>
Oil	1,833	591	976	1,146	1,230	<b>3,944</b>	1,241	1,284	<b>4,901</b>
Total	4,043	1,505	1,717	1,922	2,254	<b>7,398</b>	2,433	2,588	<b>9,197</b>
<b>Expense</b>	914	401	446	538	631	<b>2,017</b>	681	725	<b>2,575</b>
<b>Ebitda (\$mm)</b>	3,129	1,104	1,271	1,384	1,623	<b>5,381</b>	1,752	1,864	<b>6,622</b>
Deprec., Deplet., & Amort.	846	693	592	592	592	<b>2,469</b>	592	592	<b>2,368</b>
Hedging and other						-			-
<b>Ebit</b>	2,283	411	679	792	1,031	<b>2,912</b>	1,160	1,272	<b>4,254</b>
Interest	90	83	90	90	90	<b>353</b>	90	90	<b>360</b>
<b>Ebt</b>	2,193	328	589	702	941	<b>2,559</b>	1,070	1,182	<b>3,894</b>
Income Tax	667	115	206	246	329	<b>896</b>	374	414	<b>1,363</b>
<b>Net Income (\$mm)</b>	1,526	213	383	456	611	<b>1,664</b>	695	768	<b>2,531</b>
<b>Shares (millions)</b>	450	444	450	450	450	<b>1,795</b>	450	450	<b>450</b>
Per Share (\$)	3.39	0.48	0.85	1.01	1.36	<b>3.70</b>	1.54	1.71	<b>5.62</b>
Ebitda Margin	77%	73%	74%	72%	72%	<b>73%</b>	72%	72%	<b>72%</b>
Tax Rate	30%	35%	35%	35%	35%	35%	35%	35%	<b>35%</b>



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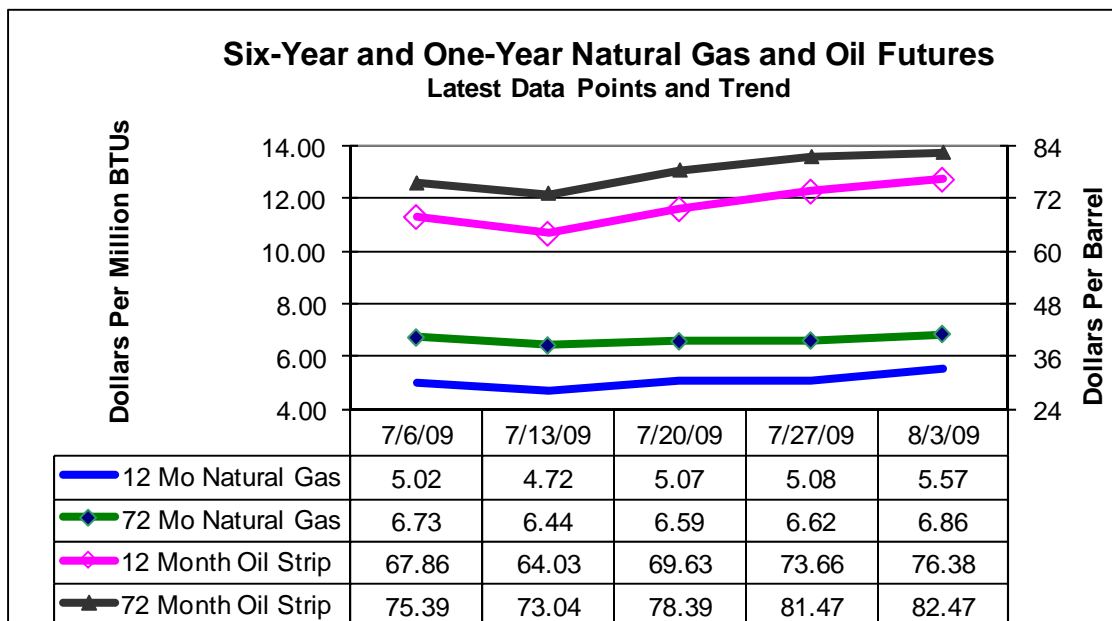
Devon Energy					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	3,090	8.9	10.5	32,400	61%
Oil	3,530	7.4	5.9	21,000	39%
	6,620	8.4	8.1	53,400	100%
Debt (US\$mm)					9,300
Net Present Value (US\$mm)					44,100
Shares (mm)					450
Net Present Value - Standard Estimate (US\$/sh)					98
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					99





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