



Rating: Buy
 S&P 500: 1349

Encore Acquisition Company Low-Priced Stock Market Oil

<i>Symbol</i>	EAC	<i>Ebitda Next Twelve Months ending 12/31/08 (US\$m)</i>	584
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	18
<i>Price (\$/sh)</i>	34.70	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/14/08	<i>Adjusted Reserves/Production NTM</i>	14.2
<i>Shares (mm)</i>	54	<i>EV/Ebitda</i>	5.6
<i>Market Capitalization (\$mm)</i>	1,890	<i>PV/Ebitda</i>	7.9
<i>Debt (\$mm)</i>	1,360	<i>Undeveloped Reserves (%)</i>	32
<i>Enterprise Value (EV) (\$mm)</i>	3,240	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	42.50
<i>Present Value (PV) (\$mm)</i>	4,620	<i>Present Value Proven Reserves(\$/boe)</i>	19.90
<i>Net Present Value (\$/share)</i>	60	<i>Present Value Proven Reserves(\$/mcfe)</i>	3.30
<i>Debt/Present Value</i>	0.29	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.87
<i>McDep Ratio - EV/PV</i>	0.70	<i>Price/Earnings Next Twelve Months</i>	12
<i>Dividend Yield (%/year)</i>	0.0	<i>Indicated Annual Dividend (US\$/sh)</i>	0.00
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.			
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\$80 a barrel and natural gas, \$11 a million btu.			
For historical research on Encore since 2003 see http://www.mcdep.com/4eac.htm			

Summary and Recommendation

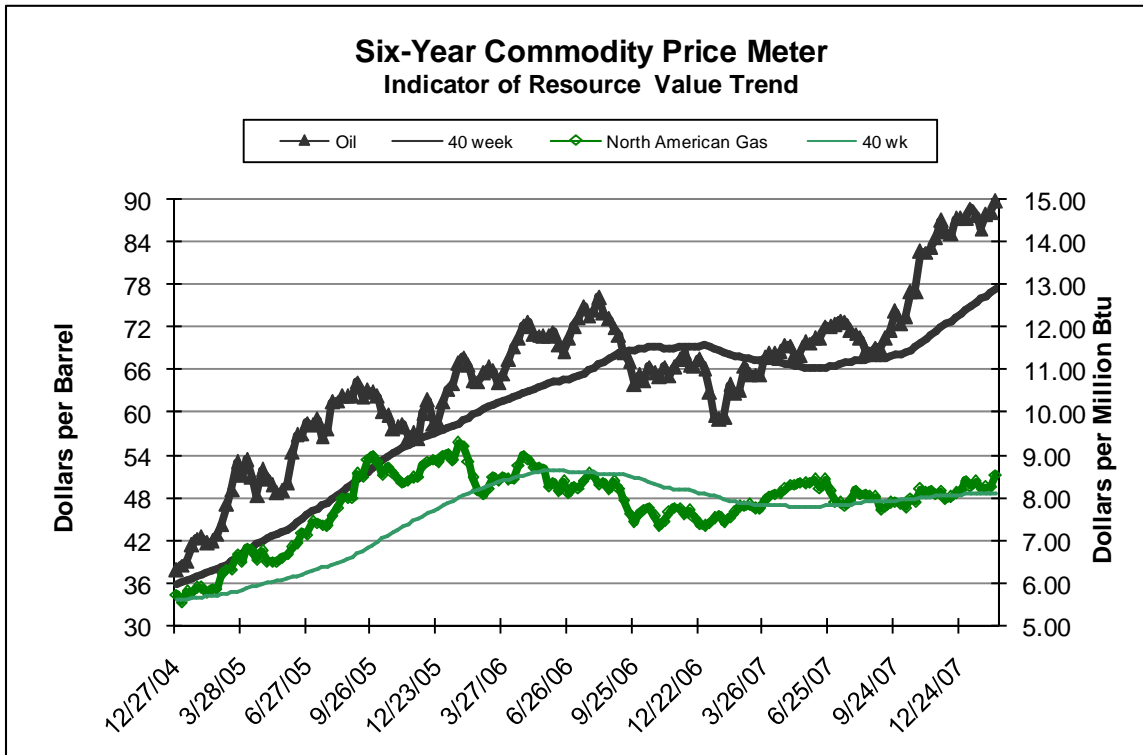
Buy-recommended **Encore Acquisition (EAC)** offers unlevered appreciation potential of 42% to estimated net present value (NPV) of \$60 a share, concentrated 84% on oil, and 16% on natural gas. Fourth quarter results released today looked good after adjusting for the decline in value of oil price insurance because oil prices have increased. Earlier on December 18, we increased NPV from \$54 a share when we increased long-term oil price for calculating present value to \$80 from \$66 a barrel. Projected volumes along with current futures prices promise a continuing high level of unlevered cash flow (Ebitda) (see table Next Twelve Months Operating and Financial Estimates). NPV is supported by projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) (see table Functional Cash Flow and Present Value). We think Encore stock is priced currently at the equivalent of a long-term oil price of \$57 a barrel, which looks low, compared to the latest futures quotes for the next six years averaging \$90 a barrel. Moreover, the oil price trend continues to point up defined by current quote above the 40-week average (see chart Six-Year Commodity Price Meter).

Kurt H. Wulff, CFA



Encore Acquisition Company									
Next Twelve Months Operating and Financial Estimates									
									<i>Next Twelve Months</i>
	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>12/31/08</i>
	<i>12/31/06</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>2007</i>	<i>3/31/08</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>12/31/08</i>
Volume									
Natural Gas (mmcf)	64.1	57.9	60.9	65.6	60.9	60.9	60.9	60.9	60.9
Oil (mbd)	20.0	27.3	27.4	26.16	27.4	27.4	27.4	27.4	27.40
Total (mb)	2,825	3,396	3,455	13,542	3,417	3,417	3,455	3,455	13,743
Total (mbd)	30.7	36.9	37.6	37.1	37.6	37.6	37.6	37.6	37.6
Price									
Henry Hub (\$/mmbtu)	6.57	6.16	6.97	6.87	7.88	8.62	8.81	9.20	8.63
Differential (\$/mmbtu)	0.25	0.07	0.08	0.54	0.79	0.86	0.88	0.92	0.86
EAC (\$/mcf)	6.32	6.09	6.90	6.33	7.10	7.76	7.92	8.28	7.77
WTI Cushing (\$/bbl)	59.99	75.48	90.67	72.28	93.39	93.39	92.61	91.93	92.83
Differential	10.06	12.00	14.41	10.08	13.07	13.07	12.97	12.87	13.00
EAC (\$/bbl)	49.93	63.48	76.26	62.20	80.31	80.32	79.65	79.06	79.83
Total (\$/bbl)	45.75	56.44	66.83	55.06	70.11	71.19	70.97	71.12	70.85
Revenue (\$mm)									
Natural Gas	37	32	39	152	39	43	44	46	173
Oil	92	159	192	594	200	200	201	199	801
Total	129	192	231	746	240	243	245	246	974
Expense									
	49	70	92	281	96	97	98	98	389
Ebitda									
	80	122	139	465	144	146	147	147	584
Exploration	14	9	4	28	4	4	4	4	16
Deprec., Deplet., & Amort.	31	49	48	184	55	55	55	55	220
Hedging and other	10	2	14	30	10	10	10	10	40
Ebit									
	25	62	72	223	79	81	82	82	324
Interest	11	24	21	88	21	21	21	21	84
Ebt									
	14	38	51	135	58	60	61	61	240
Income Tax	4	13	13	42	20	21	21	21	84
Net Income (\$mm)									
	10	25	38	93	38	39	40	40	156
Per Share (\$)	0.19	0.46	0.70	1.71	0.69	0.72	0.73	0.73	2.87
Shares (millions)									
	54	54	54	54	54	54	54	54	54
Ebitda Margin	62%	64%	60%	62%	60%	60%	60%	60%	60%
Tax rate	28%	35%	25%	31%	35%	35%	35%	35%	35%

Encore Acquisition Company					
Functional Cash Flow and Present Value					
					<i>Present</i>
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Value</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>(US\$mm)</i>	
North American Natural Gas	104	9.6	7.2	750	16%
Oil	480	15.8	8.1	3,870	84%
	584	14.2	7.9	4,620	100%
Debt (US\$mm)					1,360
Net Present Value (US\$mm)					3,260
Shares (mm)					54
Net Present Value - Standard Estimate (US\$/sh)					60
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					71



Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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