



Rating: Buy  
 S&P 500: 1393

## Encore Acquisition Company

### \$120 a Barrel Excitement

<i>Symbol</i>	EAC	<i>Ebitda Next Twelve Months ending 3/31/09 (US\$m)</i>	740
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	19
<i>Price (\$/sh)</i>	49.90	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	5/7/08	<i>Adjusted Reserves/Production NTM</i>	13.9
<i>Shares (mm)</i>	54	<i>EV/Ebitda</i>	5.4
<i>Market Capitalization (\$mm)</i>	2,690	<i>PV/Ebitda</i>	6.1
<i>Debt (\$mm)</i>	1,310	<i>Undeveloped Reserves (%)</i>	32
<i>Enterprise Value (EV) (\$mm)</i>	4,000	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	53.10
<i>Present Value (PV) (\$mm)</i>	4,540	<i>Present Value Proven Reserves(\$/boe)</i>	19.60
<i>Net Present Value (\$/share)</i>	60	<i>Present Value Proven Reserves(\$/mcf)</i>	3.30
<i>Debt/Present Value</i>	0.29	<i>Earnings Next Twelve Months (US\$/sh)</i>	5.42
<i>McDep Ratio - EV/PV</i>	0.88	<i>Price/Earnings Next Twelve Months</i>	9
<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 <a href="http://www.mcdep.com/4eac.htm">http://www.mcdep.com/4eac.htm</a>			

### Summary and Recommendation

Buy-recommended **Encore Acquisition (EAC)** offers unlevered appreciation potential of 14% to estimated net present value (NPV) of \$60 a share. First quarter results released today recorded oil and natural gas prices, revenue, cash flow and earnings higher than our estimates from three months ago. 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). Projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) supports NPV (see table Functional Cash Flow and Present Value). Oil price around \$120 a barrel adds excitement to the company's wide-ranging drilling from Montana and North Dakota to New Mexico and Texas. We like EAC's prospects for new natural gas production on ExxonMobil's old fields in West Texas. Finally, 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</i>
	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Twelve</i>
	<i>3/31/07</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>2008E</i>	<i>3/31/09</i>	<i>Months</i>
										<i>3/31/09</i>
<b>Volume</b>										
Natural Gas (mmcf)	67.9	60.9	<b>65.6</b>	64.1	64.1	64.1	64.1	<b>64.1</b>	64.1	<b>64.1</b>
Days	90	92	<b>365</b>	91	91	92	92	<b>366</b>	90	<b>365</b>
Oil (mbd)	21.2	27.4	<b>26.16</b>	27.5	27.5	27.5	27.5	<b>27.52</b>	27.5	<b>27.52</b>
Total (mb)	2,924	3,455	<b>13,542</b>	3,476	3,476	3,514	3,514	<b>13,980</b>	3,438	<b>13,942</b>
Total (mbd)	32.5	37.6	<b>37.1</b>	38.2	38.2	38.2	38.2	<b>38.2</b>	38.2	<b>38.2</b>
<b>Price</b>										
Henry Hub (\$/mmbtu)	6.81	6.97	<b>6.87</b>	8.02	10.68	11.38	11.76	<b>10.46</b>	12.16	<b>11.50</b>
Differential (\$/mmbtu)	0.99	0.08	<b>0.54</b>	0.80	1.07	1.14	1.18	<b>1.04</b>	1.22	<b>1.15</b>
EAC (\$/mcf)	5.82	6.90	<b>6.33</b>	7.22	9.61	10.24	10.59	<b>9.42</b>	10.95	<b>10.35</b>
WTI Cushing (\$/bbl)	58.08	90.67	<b>72.28</b>	97.94	117.66	118.86	117.23	<b>112.92</b>	115.74	<b>117.37</b>
Differential	9.05	14.41	<b>10.08</b>	8.81	10.59	10.70	10.55	<b>10.14</b>	16.20	<b>11.98</b>
EAC (\$/bbl)	49.03	76.26	<b>62.20</b>	89.13	107.07	108.16	106.68	<b>102.78</b>	99.54	<b>105.39</b>
Total (\$/bbl)	44.12	66.83	<b>55.06</b>	76.31	93.26	95.10	94.61	<b>89.85</b>	90.07	<b>93.28</b>
<b>Revenue (\$mm)</b>										
Natural Gas	36	39	<b>152</b>	42	56	60	62	<b>221</b>	63	<b>242</b>
Oil	93	192	<b>594</b>	223	268	274	270	<b>1,035</b>	246	<b>1,058</b>
Total	129	231	<b>746</b>	265	324	334	332	<b>1,256</b>	310	<b>1,300</b>
<b>Expense</b>										
	53	92	<b>281</b>	116	140	144	143	<b>542</b>	134	<b>560</b>
<b>Ebitda</b>										
	76	139	<b>465</b>	149	184	191	189	<b>714</b>	176	<b>740</b>
Exploration	12	4	<b>28</b>	5	5	5	5	<b>20</b>	5	<b>20</b>
Deprec., Deplet., & Amort.	35	48	<b>184</b>	50	56	56	56	<b>218</b>	55	<b>223</b>
Partnership, hedging, other	5	14	<b>30</b>	(2)	(2)	(2)	(2)	<b>(8)</b>	(2)	<b>(8)</b>
<b>Ebit</b>										
	25	72	<b>223</b>	96	131	136	135	<b>499</b>	123	<b>525</b>
Interest	16	21	<b>88</b>	19	19	19	19	<b>76</b>	19	<b>76</b>
<b>Ebt</b>										
	9	51	<b>135</b>	77	112	117	116	<b>423</b>	104	<b>449</b>
Income Tax	3	13	<b>42</b>	19	39	41	41	<b>140</b>	36	<b>157</b>
<b>Net Income (\$mm)</b>										
	6	38	<b>93</b>	58	73	76	76	<b>283</b>	67	<b>292</b>
Per Share (\$)	0.11	0.70	<b>1.71</b>	1.08	1.35	1.42	1.40	<b>5.25</b>	1.25	<b>5.42</b>
<b>Shares (millions)</b>										
	53	54	<b>54</b>	54	54	54	54	<b>54</b>	54	<b>54</b>
Ebitda Margin	59%	60%	<b>62%</b>	56%	57%	57%	57%	<b>57%</b>	57%	<b>57%</b>
Tax rate	35%	25%	<b>31%</b>	25%	35%	35%	35%	<b>33%</b>	35%	<b>35%</b>

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	138	9.6	5.4	750	17%
Oil	603	15.6	6.3	3,790	83%
	740	13.9	6.1	4,540	100%
Debt (US\$mm)					1,310
Net Present Value (US\$mm)					3,230
Shares (mm)					54
Net Present Value - Standard Estimate (US\$/sh)					60
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					67



**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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