



Independent Stock Idea

July 29, 2009

rating: buy
s&p 500: 971 intraday

Encore Acquisition Company (EAC) Tertiary Recovery Project Announced

<i>Symbol</i>	EAC	<i>Ebitda Next Twelve Months ending 6/30/10 (US\$m)</i>	425
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	22
<i>Price (\$/sh)</i>	34.17	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	7/29/09	<i>Adjusted Reserves/Production NTM</i>	11.7
<i>Shares (mm)</i>	53	<i>EV/Ebitda</i>	8.1
<i>Market Capitalization (\$mm)</i>	1,810	<i>PV/Ebitda</i>	9.3
<i>Debt (\$mm)</i>	1,640	<i>Undeveloped Reserves (%)</i>	18
<i>Enterprise Value (EV) (\$mm)</i>	3,450	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	25.80
<i>Present Value (PV) (\$mm)</i>	3,970	<i>Present Value Proven Reserves(\$/boe)</i>	18.80
<i>Net Present Value (\$/share)</i>	44	<i>Oil and Gas Ebitda Margin (%)</i>	54
<i>Debt/Present Value</i>	0.41	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.10
<i>McDep Ratio - EV/PV</i>	0.87	<i>Price/Earnings Next Twelve Months</i>	359
<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\$75 a barrel and natural gas, \$8 a million btu.			
For historical research on Encore since 2003 see http://www.mcdep.com/4eac.htm			

Summary and Recommendation

Buy-recommended **Encore Acquisition Company (EAC)** offers unlevered appreciation potential of 15% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$44 a share. On July 14 we reduced NPV from \$48 when we reduced estimated Present Value of North American Natural Gas by 20%. Released late July 28, second quarter results demonstrated strong recovery in unlevered cash flow (Ebitda) from the first quarter not only with oil price, but also in lower than expected operating cost (see table [Next Twelve Months Operating and Financial Estimates](#)). Volume is resisting decline despite reduced drilling (see chart [Debt-Adjusted Volume Per Share](#)). The turn in Ebitda may be the start of a new trend (see chart [Cash Flow Per Barrel](#)). Futures prices for oil over the next six years provide another sign of change after crossing the 40-week average into an uptrend at the end of May (see charts [Six-Year Commodity Price Meter](#)). Finally, EAC announced an agreement to procure a supply of carbon dioxide in Wyoming for injecting into the Bell Creek oil field in Montana. A \$345 million capital investment is planned for the next two years to neutralize the presumed pollutant as it facilitates the production of an additional 30 million barrels of oil beginning in 2012 (see map on last page). Encore has a larger potential project to inject carbon dioxide for greater oil production from its Cedar Creek Anticline in North Dakota, perhaps taking advantage of the political interest in reducing emissions.

Kurt H. Wulff, CFA



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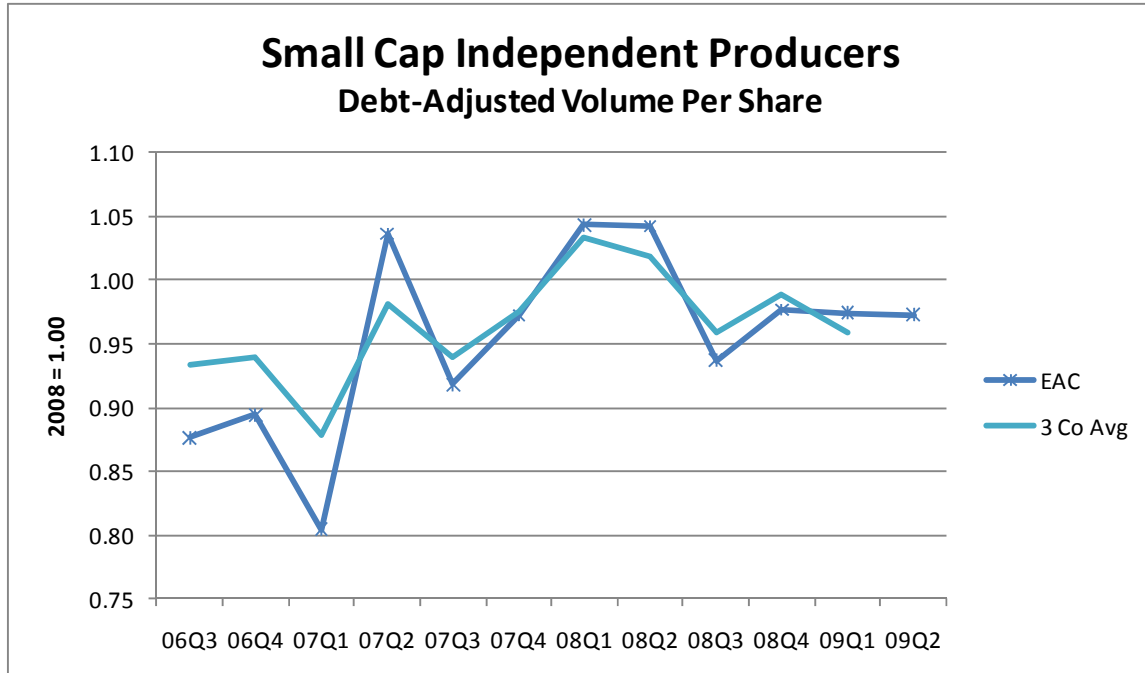
Encore Acquisition Company									
Next Twelve Months Operating and Financial Estimates									
									<i>Next Twelve Months</i>
	<i>Q2</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	
	<i>6/30/08</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>2009E</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>6/30/10</i>
Volume									
Natural Gas (mmcf)	67.1	85.5	88.2	95.4	111.4	95.2	110.3	109.2	106.5
Days	91	90	91	92	92	365	90	91	365
Oil (mbd)	27.0	27.6	26.7	26.9	27.8	27.26	27.5	27.2	27.35
Total (mb)	3,477	3,771	3,768	3,940	4,262	15,742	4,128	4,132	16,463
Total (mbd)	38.2	41.9	41.4	42.8	46.3	43.1	45.9	45.4	45.1
Price									
Henry Hub (\$/mmbtu)	10.93	4.90	3.50	3.78	4.69	4.22	5.65	5.61	4.93
Differential (\$/mmbtu)	(0.19)	1.62	(0.17)	0.15	0.19	0.40	0.53	0.84	0.40
EAC (\$/mcf)	11.12	3.28	3.67	3.63	4.50	3.82	5.11	4.77	4.53
WTI Cushing (\$/bbl)	123.97	42.96	59.52	67.06	71.33	60.22	73.86	75.58	71.96
Differential	7.33	7.48	4.50	10.06	10.70	8.15	11.08	9.07	10.24
EAC (\$/bbl)	116.64	35.48	55.02	57.00	60.63	52.07	62.78	66.51	61.72
Total (\$/bbl)	102.03	30.10	43.30	43.92	47.17	41.34	49.92	51.32	48.12
Revenue (\$mm)									
Natural Gas	68	25	29	32	46	133	51	47	176
Oil	287	88	134	141	155	518	155	165	616
Total	355	114	163	173	201	651	206	212	792
Expense									
Lease operating	41	44	41	47	51	183	50	50	198
Production taxes	35	12	17	19	22	70	23	23	87
General and administrative	15	14	19	20	21	74	21	21	82
Expense	143	70	77	86	95	327	93	94	367
Ebitda	212	44	87	87	106	324	113	118	425
Exploration	12	11	16	16	16	59	16	16	64
Deprec., Deplet., & Amort.	51	70	74	79	85	308	83	83	329
Partnership, hedging, other		(72)	(19)			(92)			-
Ebit	149	35	16	8	21	80	31	36	96
Interest	16	16	19	22	22	79	22	22	88
Ebt	133	19	(3)	(14)	(1)	1	9	14	8
Income Tax	46	7	(1)	(5)	(0)	0	3	5	3
Net Income (\$mm)	86	12	(2)	(9)	(1)	1	6	9	5
Per Share (\$)	1.65	0.23	(0.04)	(0.17)	(0.01)	0.01	0.11	0.17	0.10
Shares (millions)	52	53	52	53	53	64	53	53	53
Lease operating (\$/bbl)	11.79	11.67	10.88	12.00	12.00	11.65	12.00	12.00	12.00
Production taxes (% rev)	9.9	10.6	10.4	11.0	11.0	10.8	11.0	11.0	11.0
General and admin (\$/bbl)	4.31	3.71	4.94	5.00	5.00	4.68	5.00	5.00	5.00
Deprec., D, & A (\$/bbl)	14.67	18.56	19.64	20.00	20.00	19.57	20.00	20.00	20.00
Ebitda Margin	60%	38%	53%	50%	53%	50%	55%	56%	54%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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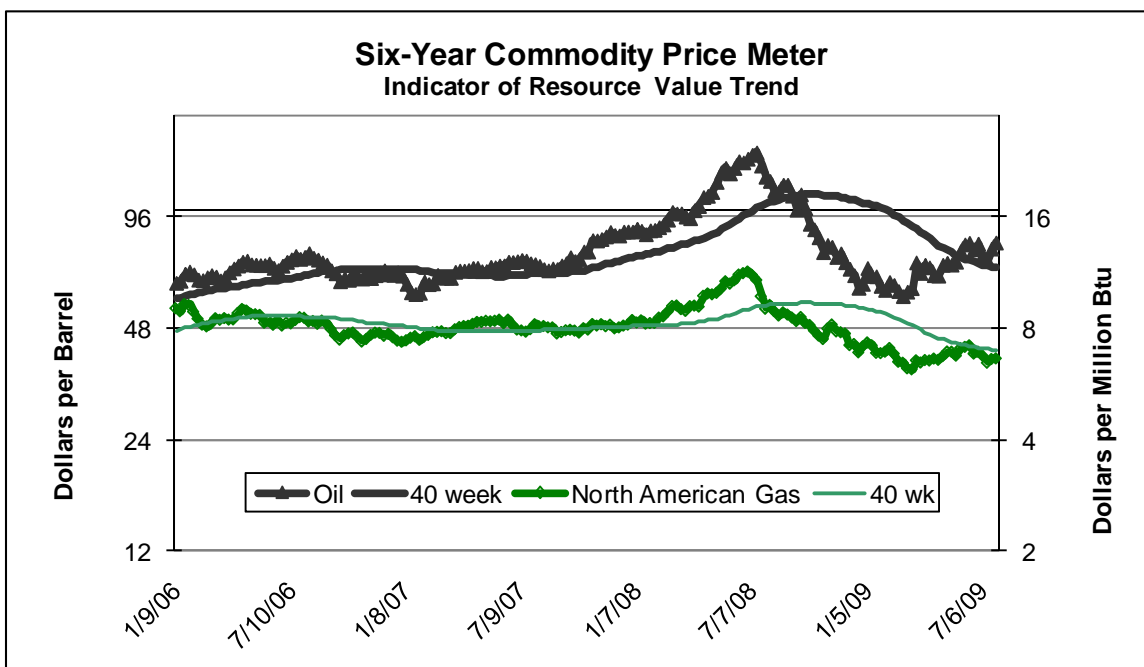
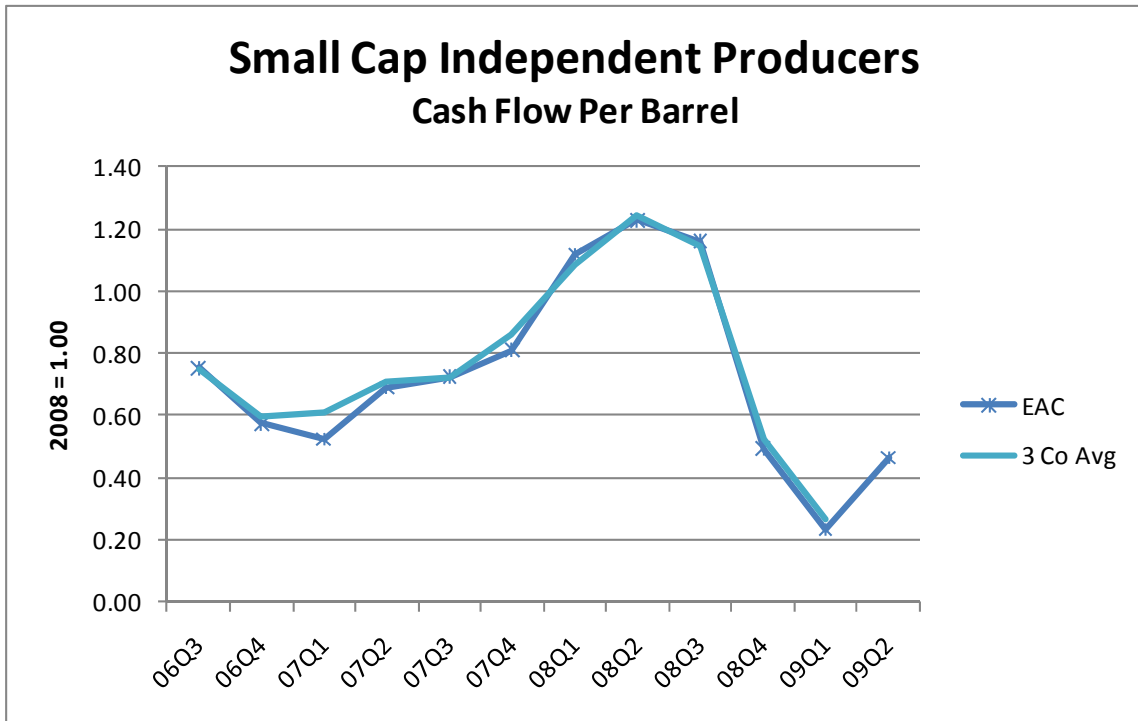
Encore Acquisition Company					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	95	9.7	9.9	940	24%
Oil	331	13.0	9.2	3,030	76%
	425	11.7	9.3	3,970	100%
Debt (US\$mm)					1,640
Net Present Value (US\$mm)					2,330
Shares (mm)					53
Net Present Value - Standard Estimate (US\$/sh)					44
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					49

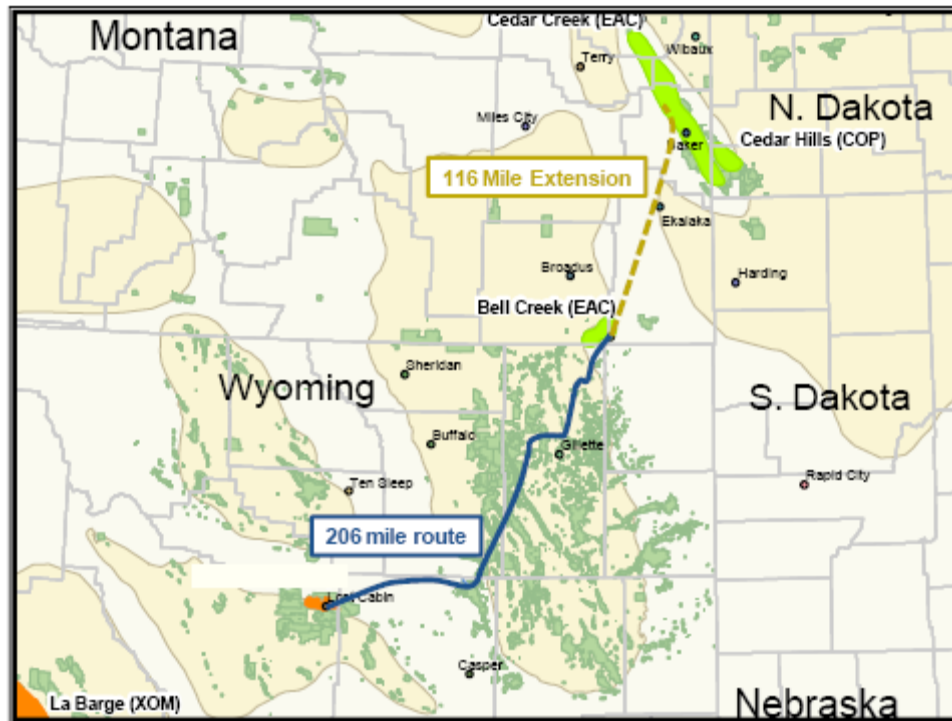




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