



Independent Stock Idea

February 15, 2010

rating: buy
s&p 500: 1076

EOG Resources (EOG) Proven Reserves Increase 24%

<i>Symbol</i>	EOG	<i>Ebitda Next Twelve Months ending 12/31/10 (US\$mm)</i>	2,800
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	54
<i>Price (\$/sh)</i>	90.98	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/12/10	<i>Adjusted Reserves/Production NTM</i>	10.8
<i>Shares (mm)</i>	251	<i>EV/Ebitda</i>	9.2
<i>Market Capitalization (\$mm)</i>	22,900	<i>PV/Ebitda</i>	9.3
<i>Debt (\$mm)</i>	3,100	<i>Undeveloped Reserves (%)</i>	46
<i>Enterprise Value (EV) (\$mm)</i>	26,000	<i>Natural Gas and Oil Ebitda (\$/mcf)</i>	3.60
<i>Present Value (PV) (\$mm)</i>	26,300	<i>Present Value Proven Reserves(\$/boe)</i>	14.60
<i>Net Present Value (\$/share)</i>	92	<i>Present Value Proven Reserves(\$/mcf)</i>	2.40
<i>Debt/Present Value</i>	0.12	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.34
<i>McDep Ratio - EV/PV</i>	0.99	<i>Price/Earnings Next Twelve Months</i>	39
<i>Dividend Yield (%/year)</i>	0.7	<i>Indicated Annual Dividend (US\$/sh)</i>	0.62
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 EOG since 2006 see http://www.mcdep.com/3eog.htm			

Summary and Recommendation

Buy-recommended **EOG Resources (EOG)** is priced close to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$92 a share. Fourth quarter results released late February 9 matched our expectations from three months ago for total unlevered cash flow (Ebitda) (see table [Next Twelve Months Operating and Financial Estimates](#)). Cash flow and reserve life support NPV in an industry context (see table [Functional Cash Flow and Present Value](#)). NPV takes account of a 24% increase in year-end reserves, but not volume growth in 2010 beyond the lower bound of management's guidance. All of the increase and more in proven reserves was in the undeveloped category as a result of new guidelines from the U.S. Securities and Exchange Commission. The new rules allowed EOG to book large amounts of proven undeveloped reserves in shale gas formations including the Barnett in Texas, Haynesville in Louisiana, Marcellus in Pennsylvania and Horn River in British Columbia. Meanwhile, the trend is up for natural gas futures for the next twelve months with the February 12 settlement at \$5.88 a million btu compared to the 40-week average of \$5.46 (see chart [Natural Gas One-Year Futures](#)). At the same time, an uptrend in stock price signified by EOG trading above its 200-day average of \$81 a share helps justify a continued positive rating. Nonetheless, when a buy-recommended stock appreciates to a McDep Ratio of 1.0 and it remains a Buy, we suggest rebalancing to limit portfolio weight to average.

Kurt H. Wulff, CFA



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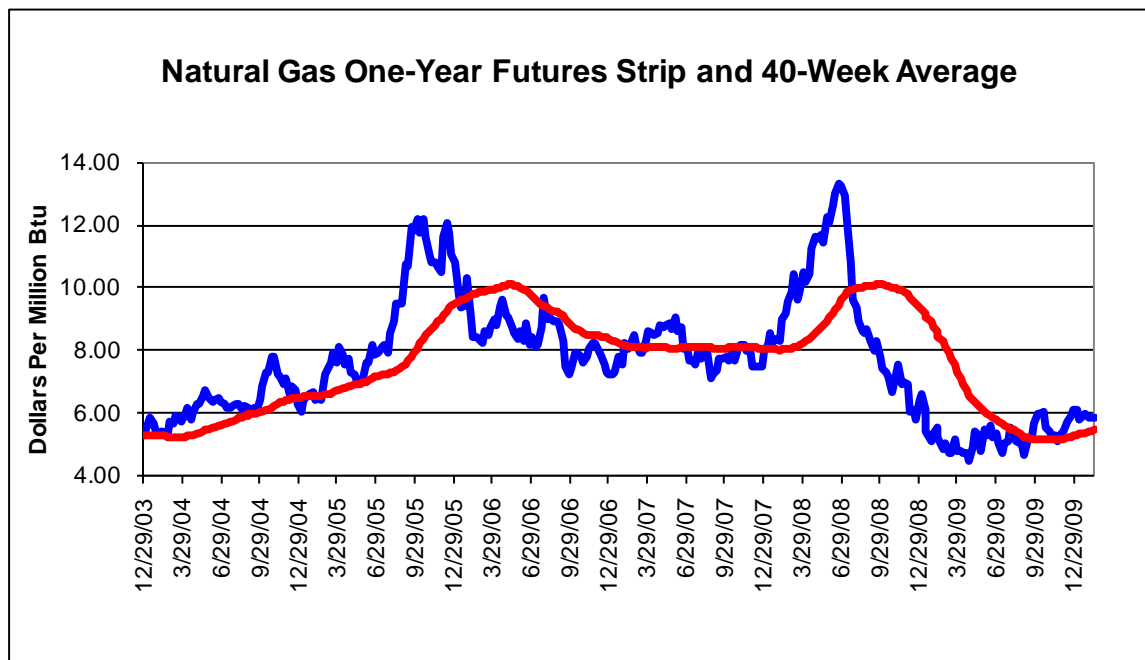
EOG Resources Inc.									
Operating and Financial Results									
									Next Twelve Months
	Q4 12/31/08	Q3 9/30/09	Q4 12/31/09	Year 2009	Q1E 3/31/10	Q2E 6/30/10	Q3E 9/30/10	Q4E 12/31/10	12/31/10
Volume									
Natural Gas (mmcf)									
U.S.	1,231	1,128	1,075	1,133	1,075	1,075	1,075	1,075	1,075
Canada	231	219	225	225	225	225	225	225	225
Overseas	202	281	307	287	307	307	307	307	307
Total	1,664	1,628	1,607	1,645	1,607	1,607	1,607	1,607	1,607
Days	92	92	92	365	90	91	92	92	365
Oil (mbd)	73	84	85	79	85	85	85	85	85
Total gas & oil (bcf)	193	196	195	773	191	193	195	195	773
Total gas & oil (mmcf)	2,099	2,130	2,119	2,118	2,119	2,119	2,119	2,119	2,119
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.95	3.39	4.16	3.99	5.52	5.45	5.63	6.08	5.67
U.S.	5.65	3.27	4.21	3.72	5.08	5.02	5.18	5.60	5.22
Canada	5.71	3.15	4.41	3.85	5.08	5.02	5.18	5.60	5.22
Overseas	2.86	1.86	2.34	1.86	2.34	2.34	2.34	2.34	2.34
Total	5.32	3.01	3.88	3.42	4.56	4.50	4.64	4.97	4.67
Oil (\$/bbl)									
WTI Cushing	58.45	68.22	76.09	61.70	74.01	72.72	74.20	75.54	74.11
Worldwide	41.61	52.14	59.71	47.20	58.07	57.06	58.22	59.27	58.16
Total gas & oil (\$/mcf)	5.65	4.35	5.35	4.41	5.79	5.71	5.86	6.16	5.88
Revenue (\$mm)									
Natural Gas									
U.S.	640	339	416	1,541	492	491	513	553	2,048
Canada	121	63	91	316	103	103	107	116	429
Overseas	53	48	66	195	65	65	66	66	262
Total	814	451	574	2,052	659	659	686	735	2,739
Oil	278	401	469	1,357	446	443	457	465	1,811
Total	1,092	852	1,042	3,409	1,105	1,101	1,143	1,200	4,549
Expense	267	337	382	1,289	420	419	434	456	1,729
Ebitda (\$mm)	825	515	660	2,121	685	683	708	744	2,821
Exploration	154	117	177	527	140	140	140	140	560
Deprec., Deplet., & Amort.	368	385	399	1,549	399	399	399	399	1,596
Hedging and other	-	(331)	(301)	(1,210)	(100)	(100)	(86)	(62)	(348)
Ebit	303	344	385	1,255	246	244	256	267	1,013
Interest	18	30	27	100	27	27	27	27	108
Ebt	285	314	358	1,155	219	217	229	240	905
Income Tax	100	110	125	404	77	76	80	84	317
Net Income (\$mm)	185	204	233	751	142	141	149	156	588
Shares (millions)	250	252	253	251	253	253	250	250	251
Per Share (\$)	0.74	0.81	0.92	2.99	0.56	0.56	0.60	0.62	2.34
Ebitda Margin	76%	60%	63%	62%	62%	62%	62%	62%	62%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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EOG Resources Inc.					
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	1,520	12.8	11.8	18,000	69%
Rest of World Natural Gas	160	7.2	7.5	1,200	5%
Oil	1,120	7.8	6.3	7,000	27%
	2,800	10.8	9.4	26,200	100%
Debt (US\$mm)					3,100
Net Present Value (US\$mm)					23,100
Shares (mm)					251
Net Present Value - Standard Estimate (US\$/sh)					92
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					90





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