

Rating: Buy
S&P 500: 1326

EOG Resources Inc.

Seasonality Exaggerated

<i>Symbol</i>	EOG	<i>Ebitda Next Twelve Months ending 3/31/07 (US\$m)</i>	3,500
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	68
<i>Price (\$/sh)</i>	76.31	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	5/5/06	<i>Adjusted Reserves/Production NTM</i>	9.6
<i>Shares (mm)</i>	246	<i>EV/Ebitda</i>	5.6
<i>Market Capitalization (\$mm)</i>	18,800	<i>PV/Ebitda</i>	6.6
<i>Debt (\$mm)</i>	800	<i>Undeveloped Reserves (%)</i>	28
<i>Enterprise Value (EV) (\$mm)</i>	19,600	<i>Natural Gas and Oil Ebitda (\$/mcfe)</i>	6.30
<i>Present Value (PV) (\$mm)</i>	22,900	<i>Present Value Proven Reserves(\$/boe)</i>	22.20
<i>Net Present Value (\$/share)</i>	90	<i>Present Value Proven Reserves(\$/mcfe)</i>	3.70
<i>Debt/Present Value</i>	0.04	<i>Earnings Next Twelve Months (US\$/sh)</i>	6.12
<i>McDep Ratio - EV/PV</i>	0.85	<i>Price/Earnings Next Twelve Months</i>	12
<i>Dividend Yield (%/year)</i>	0.3	<i>Indicated Annual Dividend (US\$/sh)</i>	0.24

Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.

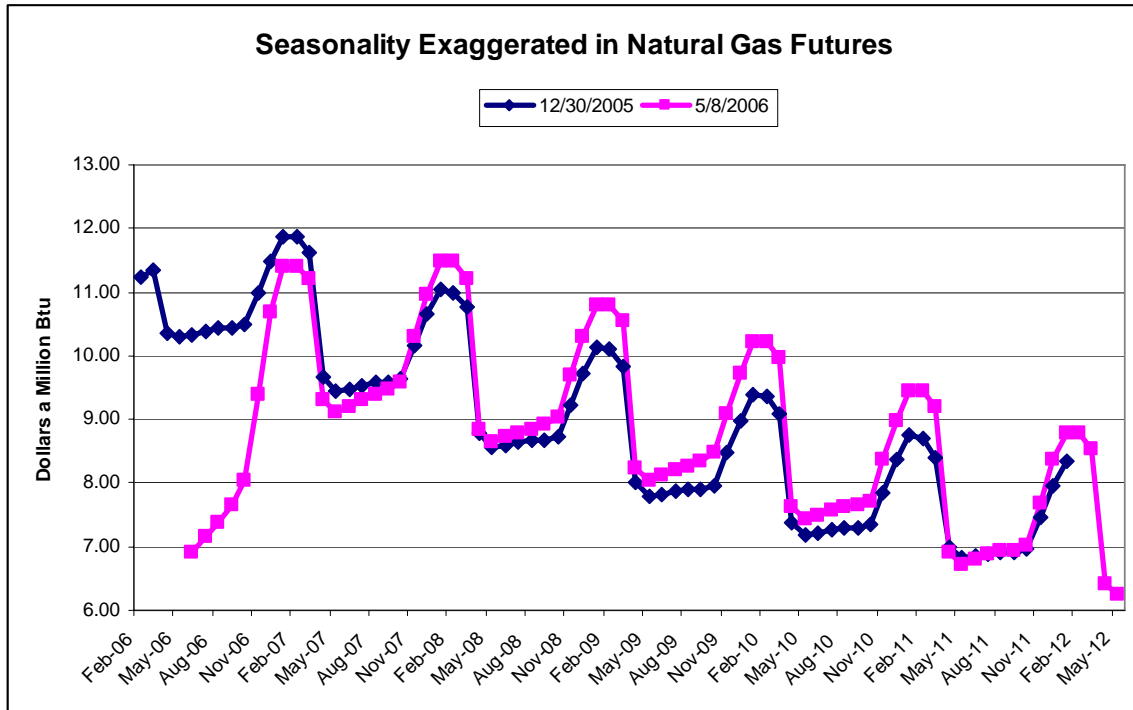
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

Summary and Recommendation

Buy-recommended **EOG Resources (EOG)** offers 18% stock price appreciation potential to estimated net present value (NPV) of \$90 a share. With NPV depending 80% on natural gas, EOG stock has been lagging that of oil producers as the short-term seasonal discount of \$5 a million btu, some 40%, for June compared to next January is near the widest on record. There may be a classic “buy natural gas in the summertime” scenario shaping up. The current quote for oil for delivery over the next six years implies a natural gas price of \$14, 60% more than what appears to be in EOG stock. Meanwhile quarterly results disclosed on May 5 indicate the company seems to be doing unusually well creating value in the Fort Worth Barnett Shale, the second largest natural gas field in the U.S. Apparently management is saving debt capacity for possible application to shale “look-alike” potential elsewhere. Partly compensating for exaggerated seasonality in natural gas price, the company has short-term hedges in place to limit the downside. With conservatively reported reserves and a favorable long-term record, EOG is a high-quality, large cap investment in natural gas drilling and production.

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EOG Resources Inc.
Functional Cash Flow and Present Value

	<i>NTM Ebitda</i> <i>(US\$mm)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$mm)</i>	
North American Natural Gas	2,390	10.5	7.7	18,300	80%
Rest of World Natural Gas	340	8.7	5.3	1,800	8%
Oil	770	7.0	3.6	2,800	12%
	3,500	9.6	6.5	22,900	100%
Debt (US\$mm)					800
Net Present Value (US\$mm)					22,100
Shares (mm)					246
Net Present Value - Standard Estimate (US\$/sh)					90
Net Present Value - Approximation by Correlation (US\$/sh)					89

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EOG Resources Inc.
Operating and Financial Results

	<i>Q1</i>	<i>Q4</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Next</i>
	<i>3/31/05</i>	<i>12/31/05</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>3/31/07</i>	<i>Twelve</i>
									<i>Months</i>
									<i>3/31/07</i>
Volume									
Natural Gas (mmcf)									
U.S.	689	749	758	758	758	758	758	758	758
Canada	234	225	229	229	229	229	229	229	229
Overseas	240	338	317	317	317	317	317	317	317
Total	1,163	1,312	1,304	1,304	1,304	1,304	1,304	1,304	1,304
Oil (mbd)	36	36	36	36	36	36	36	36	36
Total gas & oil (bcf)	124	141	137	138	140	140	555	137	555
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.27	13.00	8.97	7.13	7.40	9.38	8.22	11.33	8.81
U.S.	5.97	10.38	7.77	6.17	6.41	8.12	7.12	10.20	7.72
Canada	5.69	9.73	7.87	6.25	6.49	8.12	7.18	9.07	7.48
Overseas	-	3.28	3.38	3.38	3.38	3.38	3.38	3.38	3.38
Total	5.19	8.44	6.72	5.51	5.69	6.97	6.22	8.34	6.62
Oil (\$/bbl)									
WTI Cushing	49.65	60.02	63.33	69.81	72.44	73.80	69.84	74.06	72.53
Worldwide	44.24	55.29	58.34	64.31	66.73	67.99	64.37	68.22	66.81
Total gas & oil (\$/mcf)	5.54	8.63	7.92	6.25	6.46	7.59	7.06	8.78	7.27
Revenue (\$mm)									
Natural Gas									
U.S.	423	715	530	426	447	566	1,969	696	2,135
Canada	120	201	162	130	137	171	600	187	625
Overseas	-	102	96	97	99	99	391	96	391
Total	543	1,019	789	654	682	836	2,960	979	3,151
Oil	145	185	191	212	223	227	853	223	885
Other	0	11	106				106		-
Total	688	1,214	1,085	866	905	1,063	3,919	1,202	4,036
Expense									
Cash costs	150	149	138	109	119	159	524	159	545
Ebitda (\$mm)	538	1,065	947	757	786	904	3,394	1,043	3,490
Exploration	62	100	100	100	100	100	400	100	400
Deprec., Deplet., & Amort.	153	177	178	180	182	182	722	178	722
Hedging and other			77						-
Ebit	323	788	592	477	504	622	2,195	765	2,368
Interest	14	20	13	13	13	13	52	13	52
Ebt	309	768	579	464	491	609	2,143	752	2,316
Income Tax	108	285	203	162	172	213	751	263	811
Net Income (\$mm)	201	483	376	301	319	396	1,393	489	1,505
Shares (millions)	242	245	246	246	246	246	246	246	246
Per Share (\$)	0.83	1.97	1.53	1.22	1.30	1.61	5.66	1.99	6.12
Ebitda Margin	78%	88%	87%	87%	87%	85%	87%	87%	86%
Tax Rate	35%	37%	35%	35%	35%	35%	35%	35%	35%

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