

Rating: Buy
S&P 500: 1367

EOG Resources Inc. **Stealth Explorer**

<i>Symbol</i>	EOG	<i>Ebitda Next Twelve Months ending 9/30/07 (US\$mm)</i>	2,800
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	72
<i>Price (\$/sh)</i>	65.75	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/2/06	<i>Adjusted Reserves/Production NTM</i>	9.3
<i>Shares (mm)</i>	246	<i>EV/Ebitda</i>	6.2
<i>Market Capitalization (\$mm)</i>	16,200	<i>PV/Ebitda</i>	8.5
<i>Debt (\$mm)</i>	1,000	<i>Undeveloped Reserves (%)</i>	28
<i>Enterprise Value (EV) (\$mm)</i>	17,200	<i>Natural Gas and Oil Ebitda (\$/mcf)</i>	4.90
<i>Present Value (PV) (\$mm)</i>	23,600	<i>Present Value Proven Reserves(\$/boe)</i>	22.90
<i>Net Present Value (\$/share)</i>	92	<i>Present Value Proven Reserves(\$/mcf)</i>	3.80
<i>Debt/Present Value</i>	0.04	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.18
<i>McDep Ratio - EV/PV</i>	0.73	<i>Price/Earnings Next Twelve Months</i>	16
<i>Dividend Yield (%/year)</i>	0.4	<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.

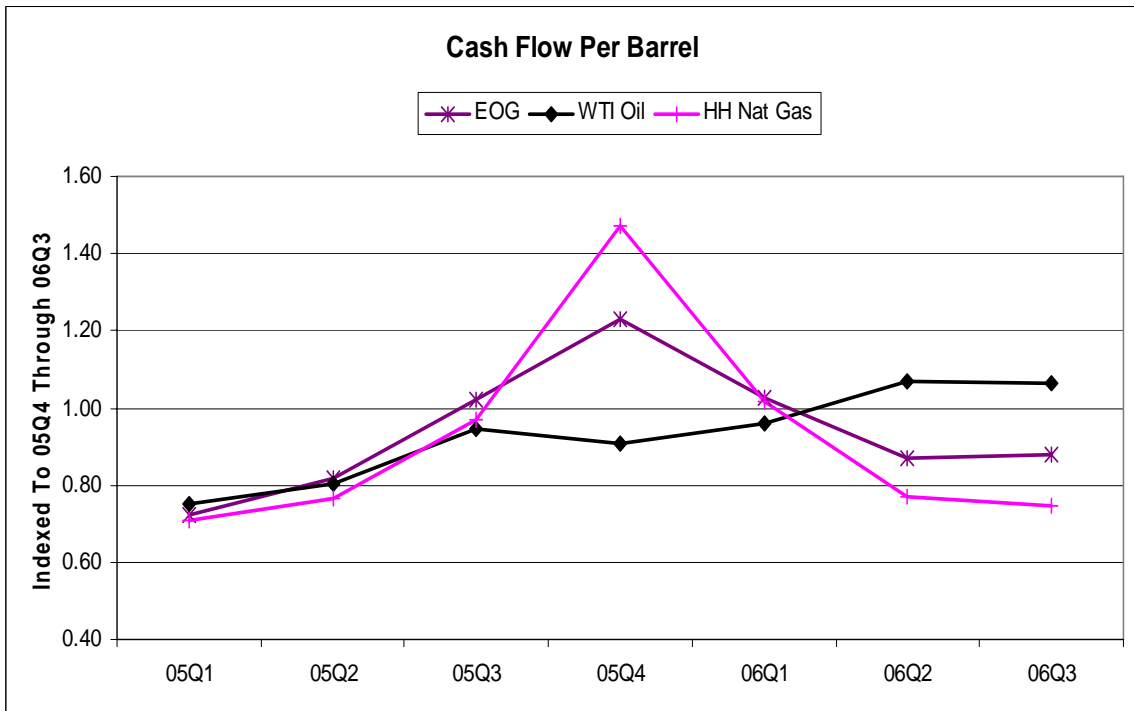
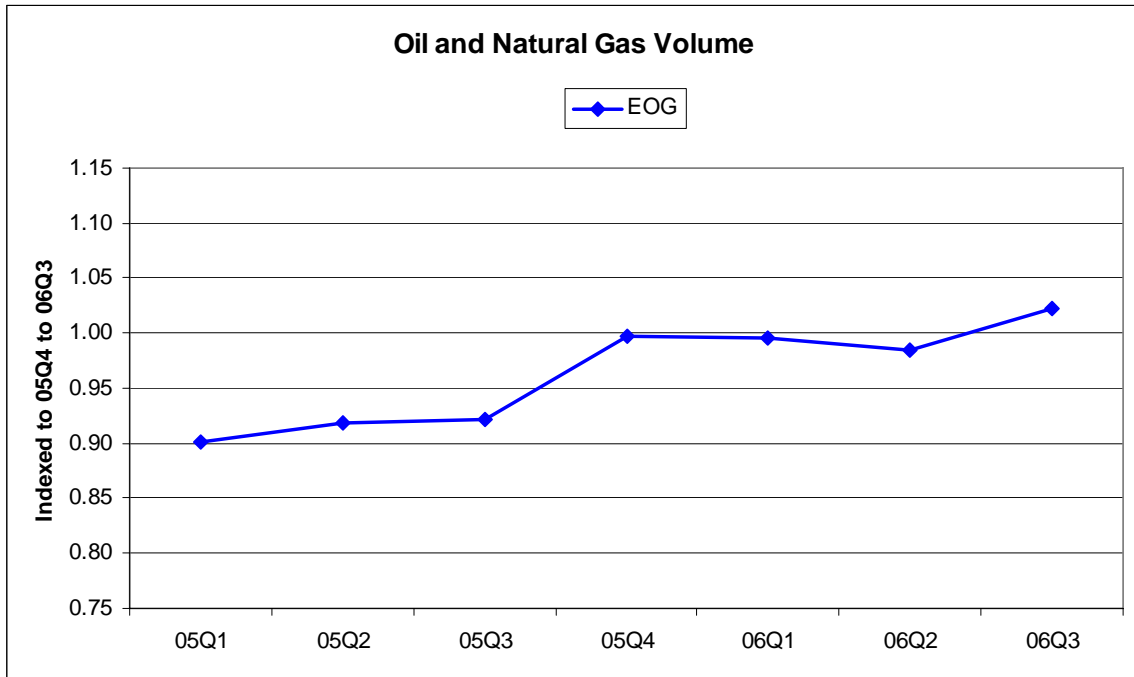
Estimated present value presumes a long-term price for oil of US\$60 a barrel and natural gas, \$10 a million btu.

Summary and Recommendation

Buy-recommended **EOG Resources (EOG)** at a McDep Ratio of 0.73 offers unlevered appreciation potential of 38% to estimated present value. Reported on October 31, third quarter operations trace a rising trend in oil and gas production volume (see chart). Concentrated 76% on natural gas by value, EOG earns a cash flow margin that tracks mostly with natural gas price rather than oil price (see chart). Correlating the rate of production relative to reserves with present value as a multiple of cash flow for some thirty natural gas and oil producers opens a gap of \$7 a share (see table on page 4). Conservative reporting of reserves can cover some of that gap and unrecognized potential in the Fort Worth Barnett Shale may cover some more. At the upcoming analyst meeting on November 29, management promises to unveil data on “stealth” shale plays it looks to for further growth potential. Below the 200-day average price signifying an out-of-favor stock, EOG has a double weighting in our illustrative energy portfolio concentrated on real assets that promise a high return providing clean fuel for global growth.

Kurt H. Wulff, CFA

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EOG Resources Inc.
Operating and Financial Results

	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next Twelve Months</i>
	<i>9/30/05</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>6/30/07</i>	<i>9/30/07</i>	<i>9/30/07</i>
Volume									
Natural Gas (mmcf)									
U.S.	724	776	837	837	802	837	837	837	837
Canada	226	225	224	224	225	224	224	224	224
Overseas	257	290	283	283	293	283	283	283	283
Total	1,207	1,291	1,344	1,344	1,321	1,344	1,344	1,344	1,344
Oil (mbd)									
Total gas & oil (bcf)	130	137	144	144	563	141	143	144	572
Total gas & oil (mmcf)	1,413	1,509	1,567	1,567	1,543	1,567	1,567	1,567	1,567
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	8.56	6.81	6.58	6.30	7.17	8.30	7.74	7.94	7.57
U.S.	8.19	6.33	6.21	5.94	6.53	7.47	6.96	7.15	6.88
Canada	7.12	6.28	5.65	5.94	6.44	6.64	6.19	6.36	6.28
Overseas	2.46	2.54	2.57	2.57	2.78	2.57	2.57	2.57	2.57
Total	6.77	5.47	5.35	5.23	5.68	6.30	5.91	6.05	5.87
Oil (\$/bbl)									
WTI Cushing	62.52	70.47	70.42	58.20	65.60	60.80	63.32	64.77	61.77
Worldwide	57.55	64.91	64.87	53.61	60.41	56.01	58.33	59.67	56.91
Total gas & oil (\$/mcf)	7.19	6.69	6.71	5.76	6.75	6.73	6.45	6.61	6.39
Revenue (\$mm)									
Natural Gas									
U.S.	546	447	478	458	1,913	563	530	551	2,101
Canada	148	129	116	123	530	134	126	131	514
Overseas	58	67	67	67	297	65	66	67	265
Total	752	643	662	647	2,740	762	723	748	2,880
Oil	182	215	222	183	816	188	197	204	773
Other	1	61	84		246				-
Total	934	919	968	831	3,803	950	920	953	3,653
Expense									
Cash costs	138	202	211	198	853	228	220	228	874
Ebitda (\$mm)	796	717	757	633	2,950	722	700	724	2,779
Exploration	100	73	73	73	292	73	73	73	292
Deprec., Deplet., & Amort.	164	193	216	216	803	216	216	216	864
Ebit	532	451	468	344	1,855	433	411	435	1,624
Interest	14	12	10	10	45	10	10	10	40
Ebt	518	439	458	334	1,810	423	401	425	1,584
Income Tax	175	154	160	117	633	148	140	149	554
Net Income (\$mm)	343	285	298	217	1,176	275	261	277	1,029
Shares (millions)									
Per Share (\$)	1.40	1.16	1.21	0.88	4.78	1.12	1.06	1.12	4.18
Ebitda Margin	85%	78%	78%	76%	78%	76%	76%	76%	76%
Tax Rate	34%	35%	35%	35%	35%	35%	35%	35%	35%
Cash costs (\$/mcfe)	1.06	1.47	1.46	1.37	1.51	1.61	1.54	1.58	1.53
D.D.&A. (\$/mcfe)	1.26	1.41	1.50	1.50	1.43	1.53	1.51	1.50	1.51

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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	2,000	9.7	9.0	18,000	76%
Rest of World Natural Gas	200	9.7	8.0	1,600	7%
Oil	600	6.9	6.7	4,000	17%
	2,800	9.3	8.4	23,600	100%
Debt (US\$mm)					1,000
Net Present Value (US\$mm)					22,600
Shares (mm)					246
Net Present Value - Standard Estimate (US\$/sh)					92
Net Present Value - Approximation by Correlation (US\$/sh)					85

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