



Independent Stock Idea

July 30, 2008

rating: buy
s&p 500: 1263

EOG Resources (EOG) Stellar Record Marred by Hedging

<i>Symbol</i>	EOG	<i>Ebitda Next Twelve Months ending 6/30/09 (US\$m)</i>	4,900
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	65
<i>Price (\$/sh)</i>	100.01	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	7/29/08	<i>Adjusted Reserves/Production NTM</i>	9.8
<i>Shares (mm)</i>	251	<i>EV/Ebitda</i>	5.6
<i>Market Capitalization (\$mm)</i>	25,100	<i>PV/Ebitda</i>	7.6
<i>Debt (\$mm)</i>	2,500	<i>Undeveloped Reserves (%)</i>	23
<i>Enterprise Value (EV) (\$mm)</i>	27,600	<i>Natural Gas and Oil Ebitda (\$/mcf)</i>	7.00
<i>Present Value (PV) (\$mm)</i>	37,600	<i>Present Value Proven Reserves(\$/boe)</i>	29.10
<i>Net Present Value (\$/share)</i>	140	<i>Present Value Proven Reserves(\$/mcf)</i>	4.90
<i>Debt/Present Value</i>	0.07	<i>Earnings Next Twelve Months (US\$/sh)</i>	8.34
<i>McDep Ratio - EV/PV</i>	0.73	<i>Price/Earnings Next Twelve Months</i>	12
<i>Dividend Yield (%/year)</i>	0.5	<i>Indicated Annual Dividend (US\$/sh)</i>	0.54
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\$100 a barrel and natural gas, \$14 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)** offers unlevered appreciation potential of 36% to estimated net present value (NPV) of \$140 a share. On May 13 we raised NPV from \$115 a share on the basis of a long-term oil price assumption of \$100 a barrel, up from \$80. However, patience may be necessary as stock price has entered a downtrend defined by current quote below the 200-day average of \$108. Released after the market close on July 29, second quarter results displayed strength in production volume enhanced by higher crude oil and natural gas price. 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](#)). Meanwhile long-term crude oil price remains in an uptrend where the latest quote of \$121 a barrel for delivery over the next six years is above the 40-week average of \$104 (see chart [Six-Year Commodity Price Meter](#)). We admire EOG's record of growth through its own exploration and development with minimal use of debt that has not required hedging. We are dismayed that management loaded up last year on fixed price forward sales at low prices. The losses, which do not extend beyond next year, are included in debt, but not included in earnings and cash flow. Notwithstanding the hedging blemish, we like EOG stock for low McDep Ratio concentration on undervalued natural gas.

Kurt H. Wulff, CFA



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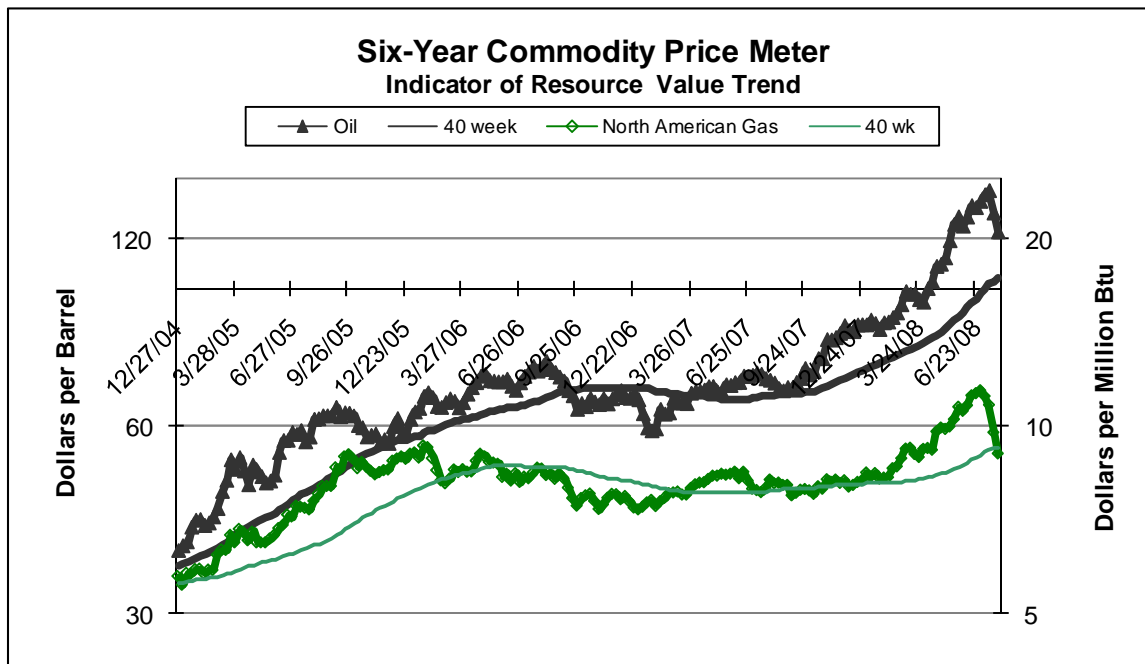
EOG Resources Inc.									
Operating and Financial Results									
									<i>Next</i>
	<i>Q2</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Twelve</i>
	<i>6/30/07</i>	<i>3/31/08</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008E</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>Months</i>
									<i>6/30/09</i>
Volume									
Natural Gas (mmcf)									
U.S.	960	1,085	1,139	1,139	1,139	1,129	1,139	1,139	1,139
Canada	232	216	215	215	215	216	215	215	215
Overseas	272	248	229	229	229	234	229	229	229
Total	1,464	1,549	1,583	1,583	1,583	1,579	1,583	1,583	1,583
Days	91	91	91	92	92	366	90	91	365
Oil (mbd)	39	54	56	56	56	56	56	56	56
Total gas & oil (bcf)	155	171	175	177	177	699	173	175	701
Total gas & oil (mmcf)	1,700	1,875	1,921	1,921	1,921	1,914	1,921	1,921	1,921
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	7.56	8.02	10.93	10.49	9.66	9.78	10.19	9.38	9.93
U.S.	6.80	8.05	10.36	9.94	9.15	9.39	9.17	9.08	9.34
Canada	6.70	7.44	9.42	9.04	9.15	8.76	8.15	8.07	8.61
Overseas	2.20	4.27	3.98	3.98	3.98	4.06	3.98	3.98	3.98
Total	5.93	7.36	9.31	8.96	8.41	8.52	8.28	8.21	8.46
Oil (\$/bbl)									
WTI Cushing	64.91	97.94	123.97	127.56	125.71	118.80	126.45	125.26	126.25
Worldwide	58.12	80.33	102.68	105.65	104.12	98.39	104.74	103.75	104.56
Total gas & oil (\$/mcf)	6.82	8.41	10.68	10.48	9.98	9.90	9.89	9.80	10.04
Revenue (\$mm)									
Natural Gas									
U.S.	594	795	1,074	1,042	959	3,869	940	941	3,882
Canada	141	146	184	179	181	690	158	158	675
Overseas	55	96	83	84	84	347	82	83	333
Total	790	1,037	1,341	1,304	1,224	4,907	1,180	1,182	4,890
Oil	208	398	526	547	539	2,010	531	532	2,149
Other	57					-			-
Total	1,055	1,435	1,867	1,851	1,764	6,917	1,710	1,714	7,039
Expense	262	436	726	722	700	2,585	687	688	2,798
Ebitda (\$mm)	793	999	1,141	1,296	1,235	4,671	1,197	1,200	4,927
Exploration	74	89	115	115	115	435	90	90	410
Deprec., Deplet., & Amort.	260	297	315	315	315	1,242	315	315	1,260
Ebit	459	613	711	866	804	2,994	792	795	3,257
Interest	11	12	9	9	9	39	9	9	36
Ebt	448	601	702	857	795	2,955	783	786	3,221
Income Tax	159	129	69	300	278	776	274	275	1,127
Net Income (\$mm)	289	472	633	557	517	2,179	509	511	2,094
Shares (millions)	247	250	251	251	251	251	251	251	251
Per Share (\$)	1.17	1.89	2.52	2.22	2.06	8.69	2.03	2.03	8.34
Ebitda Margin	79%	70%	61%	70%	70%	68%	70%	70%	70%
Tax Rate	35%	21%	10%	35%	35%	26%	35%	35%	35%



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EOG Resources Inc.					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
North American Natural Gas	3,170	9.8	8.2	26,000	69%
Rest of World Natural Gas	230	12.9	8.7	2,000	5%
Oil	1,500	7.7	6.5	9,700	26%
	4,900	9.8	7.7	37,700	100%
Debt (US\$mm)					2,500
Net Present Value (US\$mm)					35,200
Shares (mm)					251
Net Present Value - Standard Estimate (US\$/sh)					140
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					137





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