



# Independent Stock Idea

November 4, 2008

rating: hold  
s&p 500: 994 intraday

## EOG Resources (EOG) The Hat Trick

|   |         |  |       |
|---|---------|--|-------|
| <i>Symbol</i>   | EOG     | <i>Ebitda Next Twelve Months ending 9/30/09 (US\$mm)</i> | 3,600 |
| <i>Rating</i>   | Hold    | <i>North American Natural Gas/Ebitda (%)</i>             | 66    |
| <i>Price (\$/sh)</i>  | 82.00   | <i>Natural Gas and Oil Production/Ebitda (%)</i>         | 100   |
| <i>Pricing Date</i>   | 11/4/08 | <i>Adjusted Reserves/Production NTM</i>                  | 9.1   |
| <i>Shares (mm)</i>  | 251     | <i>EV/Ebitda</i>   | 6.4   |
| <i>Market Capitalization (\$mm)</i>   | 20,600  | <i>PV/Ebitda</i>   | 7.9   |
| <i>Debt (\$mm)</i>  | 2,100   | <i>Undeveloped Reserves (%)</i>                          | 23    |
| <i>Enterprise Value (EV) (\$mm)</i>   | 22,700  | <i>Natural Gas and Oil Ebitda (\$/mcf)</i>               | 4.80  |
| <i>Present Value (PV) (\$mm)</i>  | 28,200  | <i>Present Value Proven Reserves(\$/boe)</i>             | 21.80 |
| <i>Net Present Value (\$/share)</i>   | 104     | <i>Present Value Proven Reserves(\$/mcf)</i>             | 3.60  |
| <i>Debt/Present Value</i>   | 0.08    | <i>Earnings Next Twelve Months (US\$/sh)</i>             | 4.61  |
| <i>McDep Ratio - EV/PV</i>  | 0.80    | <i>Price/Earnings Next Twelve Months</i>                 | 18    |
| <i>Dividend Yield (%/year)</i>  | 0.7     | <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\$75 a barrel and natural gas, \$10 a million bu.       |         |  |       |
| For historical research on EOG since 2006 see <a href="http://www.mcdep.com/3eog.htm">http://www.mcdep.com/3eog.htm</a> |         |  |       |

### Summary and Recommendation

Hold-rated **EOG Resources (EOG)** offers unlevered appreciation potential of 24% to estimated net present value (NPV) of \$104 a share. On October 28, we reset NPV from \$140 a share on the basis of a long-term oil price assumption of \$75 a barrel, down from \$100. Patience may be necessary as EOG stock price remains below the 200-day average of \$108. Released last night, third quarter results scored another “hat trick”, to use Chief Executive Mark Papa’s favorite sports metaphor. EOG’s version of scoring three goals in the same hockey game is to demonstrate rapid volume growth and high return on capital while using minimal debt. Management expects volumes to continue to grow despite the lower price outlook signaled by the futures market, though we project a flat trend for valuation purposes (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). The company’s oil drilling in the North Dakota Bakken Shale continues to be profitable at current oil price. Planning for profits regardless, EOG has a low case and a high case for natural gas in 2009 depending on winter weather.

Kurt H. Wulff, CFA



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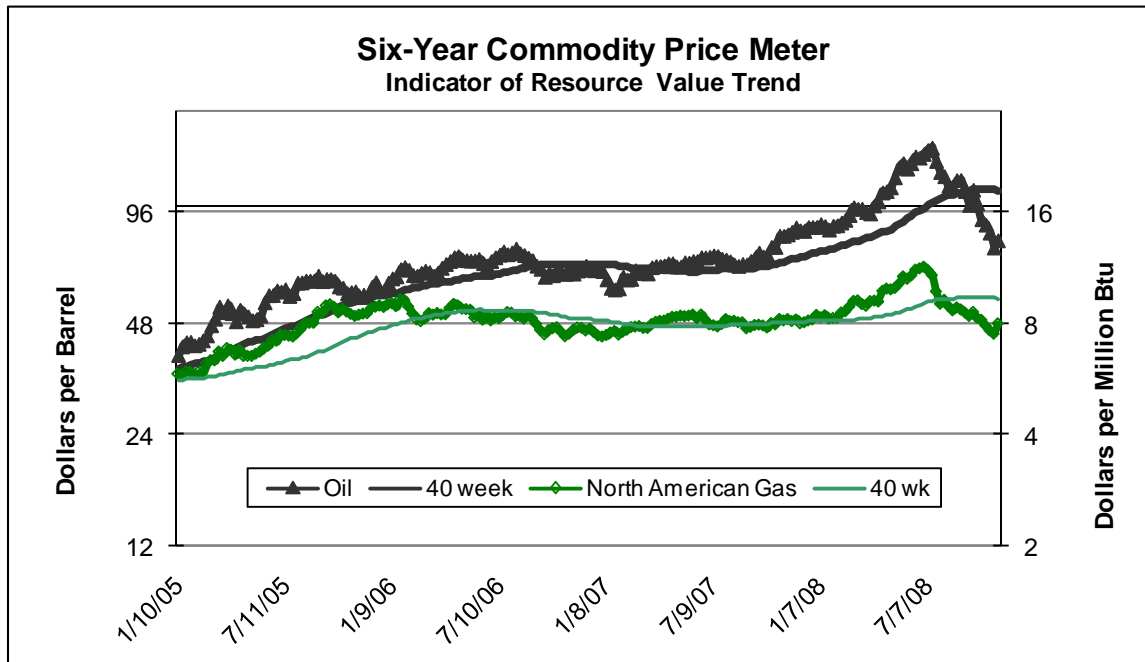
| EOG Resources Inc.              |                |                |                |                 |               |                |                |                |                |
|---------------------------------|----------------|----------------|----------------|-----------------|---------------|----------------|----------------|----------------|----------------|
| Operating and Financial Results |                |                |                |                 |               |                |                |                |                |
|                                 |                |                |                |                 |               |                |                |                | <i>Next</i>    |
|                                 | <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>Twelve</i>  |
|                                 | <i>9/30/07</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>9/30/09</i> | <i>Months</i>  |
|                                 |                |                |                |                 |               |                |                |                | <i>9/30/09</i> |
| <b>Volume</b>                   |                |                |                |                 |               |                |                |                |                |
| Natural Gas (mmcf)              |                |                |                |                 |               |                |                |                |                |
| U.S.                            | 997            | 1,139          | 1,196          | 1,196           | <b>1,157</b>  | 1,196          | 1,196          | 1,196          | <b>1,196</b>   |
| Canada                          | 216            | 215            | 224            | 224             | <b>220</b>    | 224            | 224            | 224            | <b>224</b>     |
| Overseas                        | 284            | 229            | 259            | 259             | <b>249</b>    | 259            | 259            | 259            | <b>259</b>     |
| Total                           | 1,497          | 1,583          | 1,679          | 1,679           | <b>1,627</b>  | 1,679          | 1,679          | 1,679          | <b>1,679</b>   |
| Days                            | 92             | 91             | 92             | 92              | <b>366</b>    | 90             | 91             | 92             | <b>365</b>     |
| Oil (mbd)                       | 44             | 56             | 63             | 63              | <b>59</b>     | 63             | 63             | 63             | <b>63</b>      |
| Total gas & oil (bcf)           | 162            | 175            | 189            | 189             | <b>724</b>    | 185            | 187            | 189            | <b>750</b>     |
| Total gas & oil (mmcf)          | 1,759          | 1,921          | 2,055          | 2,055           | <b>1,981</b>  | 2,055          | 2,055          | 2,055          | <b>2,055</b>   |
| <b>Price</b>                    |                |                |                |                 |               |                |                |                |                |
| Natural gas (\$/mcf)            |                |                |                |                 |               |                |                |                |                |
| Henry Hub (\$/mmbtu)            | 6.16           | 10.93          | 10.25          | 6.93            | <b>9.03</b>   | 7.11           | 7.10           | 7.39           | <b>7.13</b>    |
| U.S.                            | 5.56           | 10.36          | 8.99           | 6.08            | <b>8.35</b>   | 6.40           | 6.80           | 7.08           | <b>6.59</b>    |
| Canada                          | 5.49           | 9.42           | 8.15           | 6.08            | <b>7.75</b>   | 5.68           | 6.05           | 6.30           | <b>6.03</b>    |
| Overseas                        | 2.50           | 3.98           | 4.27           | 4.27            | <b>4.21</b>   | 4.27           | 4.27           | 4.27           | <b>4.27</b>    |
| Total                           | 4.97           | 9.31           | 8.15           | 5.80            | <b>7.63</b>   | 5.97           | 6.31           | 6.54           | <b>6.16</b>    |
| Oil (\$/bbl)                    |                |                |                |                 |               |                |                |                |                |
| WTI Cushing                     | 75.48          | 123.97         | 117.99         | 68.14           | <b>102.01</b> | 65.30          | 67.42          | 69.39          | <b>67.57</b>   |
| Worldwide                       | 67.58          | 102.68         | 100.68         | 58.15           | <b>85.14</b>  | 55.72          | 57.53          | 59.21          | <b>57.66</b>   |
| Total gas & oil (\$/mcf)        | 6.12           | 10.68          | 9.73           | 6.51            | <b>8.81</b>   | 6.58           | 6.91           | 7.15           | <b>6.79</b>    |
| <b>Revenue (\$mm)</b>           |                |                |                |                 |               |                |                |                |                |
| Natural Gas                     |                |                |                |                 |               |                |                |                |                |
| U.S.                            | 510            | 1,074          | 989            | 669             | <b>3,527</b>  | 688            | 740            | 779            | <b>2,877</b>   |
| Canada                          | 109            | 184            | 168            | 125             | <b>624</b>    | 115            | 123            | 130            | <b>493</b>     |
| Overseas                        | 65             | 83             | 102            | 102             | <b>383</b>    | 100            | 101            | 102            | <b>404</b>     |
| Total                           | 684            | 1,341          | 1,259          | 896             | <b>4,534</b>  | 903            | 964            | 1,011          | <b>3,774</b>   |
| Oil                             | 272            | 526            | 580            | 335             | <b>1,838</b>  | 314            | 328            | 341            | <b>1,318</b>   |
| Other                           | 34             |                |                |                 | -             |                |                |                | -              |
| Total                           | 990            | 1,867          | 1,839          | 1,231           | <b>6,372</b>  | 1,217          | 1,292          | 1,352          | <b>5,091</b>   |
| <b>Expense</b>                  | 253            | 455            | 495            | 343             | <b>1,728</b>  | 339            | 358            | 373            | <b>1,412</b>   |
| <b>Ebitda (\$mm)</b>            | 737            | 1,413          | 1,344          | 862             | <b>4,618</b>  | 852            | 904            | 946            | <b>3,564</b>   |
| Exploration                     | 127            | 115            | 83             | 83              | <b>370</b>    | 90             | 90             | 90             | <b>353</b>     |
| Deprec., Deplet., & Amort.      | 279            | 315            | 346            | 346             | <b>1,304</b>  | 346            | 346            | 346            | <b>1,384</b>   |
| <b>Ebit</b>                     | 331            | 982            | 915            | 433             | <b>2,943</b>  | 416            | 468            | 510            | <b>1,827</b>   |
| Interest                        | 13             | 9              | 12             | 12              | <b>45</b>     | 12             | 12             | 12             | <b>48</b>      |
| <b>Ebt</b>                      | 318            | 973            | 903            | 421             | <b>2,898</b>  | 404            | 456            | 498            | <b>1,779</b>   |
| Income Tax                      | 115            | 341            | 316            | 147             | <b>933</b>    | 141            | 160            | 174            | <b>623</b>     |
| <b>Net Income (\$mm)</b>        | 203            | 633            | 587            | 273             | <b>1,965</b>  | 262            | 297            | 324            | <b>1,156</b>   |
| <b>Shares (millions)</b>        | 247            | 251            | 251            | 251             | <b>251</b>    | 251            | 251            | 251            | <b>251</b>     |
| Per Share (\$)                  | 0.82           | 2.52           | 2.34           | 1.09            | <b>7.84</b>   | 1.05           | 1.18           | 1.29           | <b>4.61</b>    |
| Ebitda Margin                   | 77%            | 76%            | 73%            | 70%             | <b>72%</b>    | 70%            | 70%            | 70%            | <b>70%</b>     |
| Tax Rate                        | 36%            | 35%            | 35%            | 35%             | <b>32%</b>    | 35%            | 35%            | 35%            | <b>35%</b>     |
| Cash costs (\$/mcf)             | 1.57           | 2.60           | 2.62           | 1.81            | <b>2.39</b>   | 1.83           | 1.91           | 1.97           | <b>1.88</b>    |
| D.D.&A. (\$/mcf)                | 1.72           | 1.80           | 1.83           | 1.83            | <b>1.80</b>   | 1.87           | 1.85           | 1.83           | <b>1.85</b>    |



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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  | 2,380             | 9.3             | 8.4           | 20,000          | 71%    |
| Rest of World Natural Gas   | 280               | 11.4            | 7.1           | 2,000           | 7%     |
| Oil   | 940               | 7.0             | 6.6           | 6,200           | 22%    |
|   | 3,600             | 9.1             | 7.8           | 28,200          | 100%   |
| Debt (US\$mm)   |                   |                 |               |                 | 2,100  |
| Net Present Value (US\$mm)  |                   |                 |               |                 | 26,100 |
| Shares (mm)   |                   |                 |               |                 | 251    |
| Net Present Value - Standard Estimate (US\$/sh)                             |                   |                 |               |                 | 104    |
| NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh) |                   |                 |               |                 | 109    |





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