



Independent Stock Idea

February 5, 2009

rating: hold
s&p 500: 832

EOG Resources (EOG) Raise NPV on Reserves Increase

<i>Symbol</i>	EOG	<i>Ebitda Next Twelve Months ending 12/31/09 (US\$m)</i>	2,500
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	70
<i>Price (\$/sh)</i>	68.58	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/4/09	<i>Adjusted Reserves/Production NTM</i>	10.1
<i>Shares (mm)</i>	250	<i>EV/Ebitda</i>	7.8
<i>Market Capitalization (\$mm)</i>	17,200	<i>PV/Ebitda</i>	11.9
<i>Debt (\$mm)</i>	2,300	<i>Undeveloped Reserves (%)</i>	24
<i>Enterprise Value (EV) (\$mm)</i>	19,500	<i>Natural Gas and Oil Ebitda (\$/mcf)</i>	3.30
<i>Present Value (PV) (\$mm)</i>	29,900	<i>Present Value Proven Reserves(\$/boe)</i>	20.60
<i>Net Present Value (\$/share)</i>	110	<i>Present Value Proven Reserves(\$/mcf)</i>	3.40
<i>Debt/Present Value</i>	0.08	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.55
<i>McDep Ratio - EV/PV</i>	0.65	<i>Price/Earnings Next Twelve Months</i>	44
<i>Dividend Yield (%/year)</i>	0.8	<i>Indicated Annual Dividend (US\$/sh)</i>	0.58
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 btu.			
For historical research on EOG since 2006 see http://www.mcdep.com/3eog.htm			

Summary and Recommendation

Estimated Net Present Value (NPV) of \$110 a share, up from \$104 on a 12% increase in year-end proven reserves, is 60% higher than stock price for low-debt, hold-rated **EOG Resources (EOG)**. After a similarly impressive 15% production gain in 2008, volume growth will slow in 2009 as industry supply readjusts to demand. Released today, fourth quarter results displayed lower unlevered cash flow (Ebitda) driven by crude oil and natural gas prices (see table [Next Twelve Months Operating and Financial Estimates](#)). Our valuation capitalizes cash flow at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) for natural gas and oil. Latest calculations result in NPV concentrated 80% on natural gas and 20% on oil (see table [Functional Cash Flow and Present Value](#)). Pointing to expected oil price recovery, futures prices for the next six years averaged US\$60 a barrel recently (see charts [Six-Year Commodity Price Meter](#) and [Six-Year and One-Year Natural Gas and Oil Futures](#)). At the same time, minimal debt gives the stock strong deflation resistance should a sustained stock market and oil price recovery be postponed until next year.

Kurt H. Wulff, CFA



Independent Stock Idea

February 5, 2009

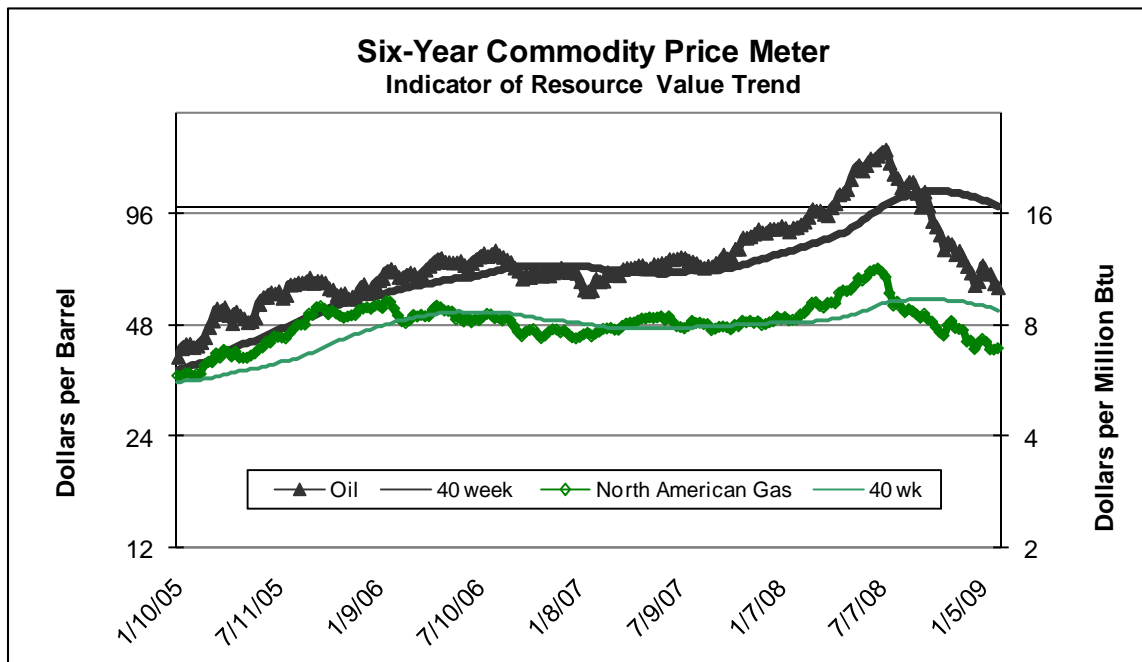
EOG Resources Inc.									
Operating and Financial Results									
									<i>Next</i>
	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Twelve</i>
	<i>12/31/07</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>Months</i>
									<i>12/31/09</i>
Volume									
Natural Gas (mmcf)									
U.S.	1,010	1,196	1,231	1,166	1,231	1,231	1,231	1,231	1,231
Canada	225	224	231	222	231	231	231	231	231
Overseas	261	259	202	235	202	202	202	202	202
Total	1,496	1,679	1,664	1,623	1,664	1,664	1,664	1,664	1,664
Days	92	92	92	366	90	91	92	92	365
Oil (mbd)	49	63	73	61	61	73	73	73	70
Total gas & oil (bcf)	164	189	193	728	183	191	193	193	760
Total gas & oil (mmcf)	1,788	2,055	2,099	1,992	2,033	2,099	2,099	2,099	2,083
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.97	10.25	6.95	9.04	5.06	4.70	5.00	5.72	5.12
U.S.	6.52	8.99	5.65	8.22	4.55	4.40	4.68	5.36	4.75
Canada	6.36	8.15	5.71	7.64	4.05	3.91	4.16	5.36	4.37
Overseas	4.31	4.27	2.86	3.90	2.86	2.86	2.86	2.86	2.86
Total	6.11	8.15	5.32	7.51	4.28	4.14	4.39	5.05	4.47
Oil (\$/bbl)									
WTI Cushing	90.67	117.99	58.45	99.59	40.97	45.90	49.75	52.08	47.18
Worldwide	81.19	100.68	41.61	79.15	29.17	32.68	35.41	37.07	33.78
Total gas & oil (\$/mcf)	7.61	9.73	5.65	8.57	4.38	4.41	4.70	5.29	4.70
Revenue (\$mm)									
Natural Gas									
U.S.	606	989	640	3,498	504	493	531	607	2,134
Canada	132	168	121	620	84	82	88	114	369
Overseas	103	102	53	334	52	53	53	53	211
Total	841	1,259	814	4,452	641	627	672	774	2,714
Oil	363	580	278	1,781	161	216	236	247	861
Other	47			-					-
Total	1,251	1,839	1,092	6,233	802	843	908	1,021	3,574
Expense	336	495	367	1,752	295	305	321	349	1,270
Ebitda (\$mm)	915	1,344	725	4,481	561	590	636	715	2,502
Exploration	146	83	154	441	90	90	90	90	360
Deprec., Deplet., & Amort.	282	346	368	1,326	368	368	368	368	1,472
Ebit	487	915	203	2,714	103	132	178	257	670
Interest	16	12	18	51	18	18	18	18	72
Ebt	471	903	185	2,663	85	114	160	239	598
Income Tax	150	316	65	851	30	40	56	84	209
Net Income (\$mm)	321	587	120	1,812	56	74	104	155	389
Shares (millions)	249	251	250	251	250	250	250	250	250
Per Share (\$)	1.29	2.34	0.48	7.23	0.22	0.30	0.42	0.62	1.55
Ebitda Margin	76%	73%	66%	72%	70%	70%	70%	70%	70%
Tax Rate	32%	35%	35%	32%	35%	35%	35%	35%	35%



Independent Stock Idea

February 5, 2009

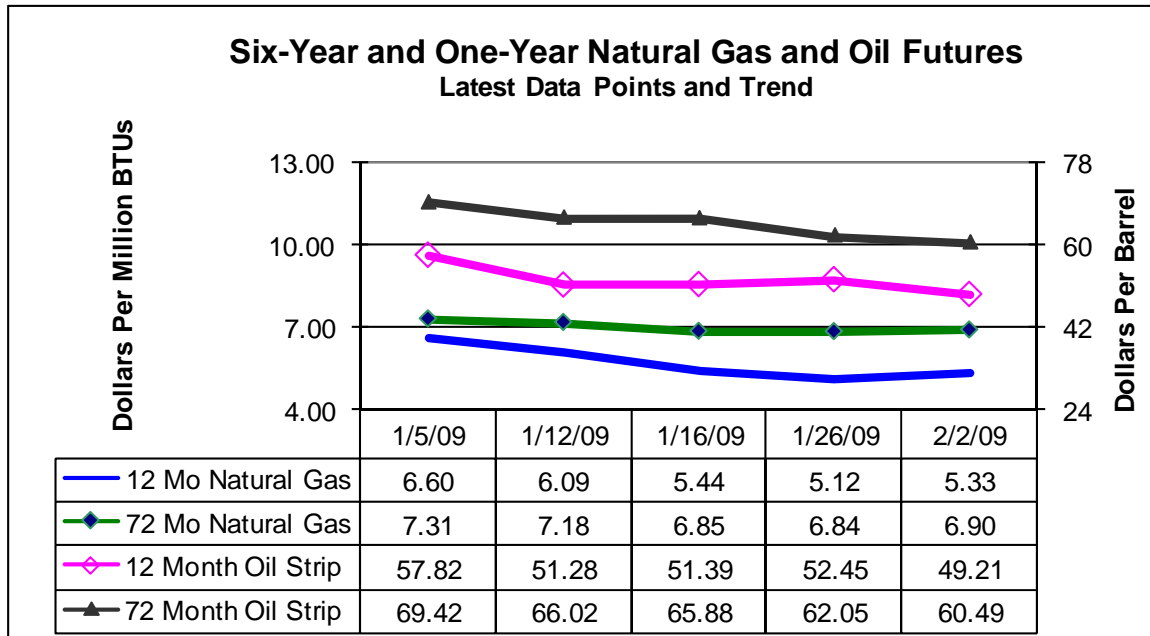
EOG Resources Inc.					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	1,750	10.1	12.7	22,300	75%
Rest of World Natural Gas	150	14.4	9.3	1,400	5%
Oil	600	7.8	10.2	6,100	20%
	2,500	10.1	11.9	29,800	100%
Debt (US\$mm)					2,300
Net Present Value (US\$mm)					27,500
Shares (mm)					250
Net Present Value - Standard Estimate (US\$/sh)					110
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					110





Independent Stock Idea

February 5, 2009



Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

McDep does no investment banking business. McDep is not paid by covered companies including revenue from advertising, trading, consulting, subscriptions or research service. McDep shall not own more than 1% of outstanding stock in a covered company. No one at McDep is on the Board of Directors at a covered company nor is anyone at a covered company on the Board of Directors of McDep.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

Certification: I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

Research Methodology/Ratings Description: McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.