

Rating: Buy
 S&P 500: 1266

XTO Energy Natural Gas Growth

<i>Symbol</i>	XTO	<i>Ebitda Next Twelve Months ending 12/31/06 (US\$m)</i>	3,090
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	73
<i>Price (US\$/sh)</i>	45.24	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/8/06	<i>Adjusted Reserves/Production NTM</i>	10.7
<i>Shares (mm)</i>	372	<i>EV/Ebitda</i>	6.6
<i>Market Capitalization (US\$m)</i>	16,800	<i>PV/Ebitda</i>	7.0
<i>Debt (US\$m)</i>	3,700	<i>Undeveloped Reserves (%)</i>	28
<i>Enterprise Value (EV) (US\$m)</i>	20,500	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	35.75
<i>Present Value (PV) (US\$m)</i>	21,500	<i>Present Value Proven Reserves(US\$/boe)</i>	19.92
<i>Net Present Value (US\$/share)</i>	48	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.32
<i>Debt/Present Value</i>	0.17	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.75
<i>McDep Ratio - EV/PV</i>	0.95	<i>Price/Earnings Next Twelve Months</i>	12
<i>Dividend Yield (%/year)</i>	0.4	<i>Indicated Annual Dividend (US\$/sh)</i>	0.20

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

Net present value for buy-recommended **XTO Energy (XTO)** may be revised upward from the current \$48 a share after the company discloses details of year-end reserves before the end of February. Should the total exceed 7.5 trillion cubic feet equivalent as promised, adjusted reserve life may be a year longer. Recently announced, management intends to distribute all the company's 54% ownership of **Hugoton Royalty Trust (HGT)** as a dividend in late April. Worth more than \$2 a share to XTO holders, the action should also enhance the stock market liquidity of HGT. Investors in XTO may be giving the company some credit for superior long-term performance with a McDep Ratio higher than peers. A longer-than-median adjusted reserve life supports a higher-than-median unlevered cash flow multiple. Concentration on natural gas at 82% is near highest among peers.

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Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/</i>	<i>Price</i>	<i>Market</i>	<i>Net</i>	<i>Debt/</i>	<i>McDep</i>		
	<i>Rating</i>	<i>(\$/sh)</i>	<i>Cap</i>	<i>Present</i>	<i>Present</i>	<i>Ratio</i>		
		<i>8-Feb</i>	<i>Shares</i>	<i>Value</i>	<i>Value</i>			
		<i>2006</i>	<i>(mm)</i>	<i>(\$/sh)</i>				
				<i>(\$mm)</i>				
Independent Natural Gas and Oil - Large Cap and Mid Cap								
CNOOC Limited (29%)	CEO	B	85.00	119	10,140	84.00	0.00	1.01
XTO Energy Inc.	XTO	B	45.24	372	16,830	48.00	0.17	0.95
Encana Corporation	ECA	B	44.39	876	38,900	51.00	0.20	0.90
Occidental Petroleum Corp.	OXY	B	89.56	432	38,700	120.00	0.12	0.78
Burlington Resources	BR	B	88.06	378	33,300	115.00	-	0.77
Devon Energy Corporation	DVN	B	61.50	451	27,700	94.00	0.12	0.69
Anadarko Petroleum Corp.	APC	B	103.00	234	24,100	160.00	0.10	0.68
	<i>Total or Median</i>				<i>190,000</i>		<i>0.12</i>	<i>0.78</i>

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Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	Symbol/ Rating		Price (\$/sh) 8-Feb 2006	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	45.24	10.7	7.0	6.6	12	0.4
Encana Corporation	ECA	B	44.39	7.1	6.0	5.4	11	0.7
CNOOC Limited (29%)	CEO	B	85.00	9.2	5.1	5.1	9	2.7
Occidental Petroleum Corp.	OXY	B	89.56	11.3	6.0	4.7	8	1.6
Anadarko Petroleum Corp.	APC	B	103.00	12.7	6.8	4.6	8	0.7
Devon Energy Corporation	DVN	B	61.50	8.6	5.6	3.9	7	0.5
Burlington Resources	BR	B	88.06	-	-	-	-	-
	<i>Median</i>			9.2	6.0	4.7	8	0.7

Home Country and Business Segments

	Symbol/ Rating		North Amer. Natural Gas (%)	Rest of World Natural Gas (%)	Oil Prod'n (%)	Down- stream (%)	Total Present Value (US\$mm)
Independent Natural Gas and Oil - Large Cap and Mid Cap							
Occidental Petroleum Corp.	OXY	B	14	2	74	11	59,000
Encana Corporation	ECA	B	Canada	83	-	17	55,600
Devon Energy Corporation	DVN	B		64	-	36	48,100
Anadarko Petroleum Corp.	APC	B		60	-	40	41,700
CNOOC Limited	CEO	B	China	-	12	88	34,600
XTO Energy Inc.	XTO	B		82	-	18	21,600
Burlington Resources	BR	B					
	<i>Median</i>			62	-	38	261,000

XTO Energy Inc.
Functional Cash Flow and Present Value

	NTM Ebitda (US\$mm)	Adjusted R/P	PV/ Ebitda	Present Value (US\$mm)	
North American Natural Gas	2,240	11.2	7.9	17,800	82%
Oil	850	9.2	4.5	3,800	18%
	3,090	10.7	7.0	21,600	100%
Debt (US\$mm)					3,700
Net Present Value (US\$mm)					17,900
Shares (mm)					372
Net Present Value - Standard Estimate (US\$/sh)					48
Net Present Value - Approximation by Correlation (US\$/sh)					51

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XTO Energy Inc.
Next Twelve Months Operating and Financial Estimates

	<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>Next Twelve Months</i>
	<i>12/31/04</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>12/31/06</i>
Volume									
Natural Gas (mmcf)	916	1,087	1,102	1,033	1,102	1,102	1,102	1,102	1,102
Oil (mbd)	42	52	53	49	53	53	53	53	53
Total gas & oil (bcf)	108	129	130	487	129	129	130	130	519
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	7.10	8.56	13.00	8.65	9.26	8.31	8.62	9.63	8.96
Company (\$/mcf)	5.91	7.04	9.09	7.05	7.41	7.06	7.33	8.18	7.50
Oil (\$/bbl)									
WTI Cushing	48.31	62.52	60.02	56.31	65.23	66.74	68.15	68.81	67.23
Company (\$/bbl)	42.96	49.10	47.52	44.90	57.41	58.73	59.97	60.55	59.17
Total gas & oil (\$/mcf)	6.18	7.29	8.83	7.15	7.89	7.67	7.92	8.61	8.02
Revenue (\$mm)									
Natural Gas	498	704	922	2,665	743	708	743	830	3,024
Oil	166	234	230	813	275	281	290	293	1,140
Other									
Total	665	938	1,152	3,478	1,018	990	1,033	1,123	4,164
Expense									
Production	134	192	223	722	223	216	227	250	916
Overhead	15	34	39	158	39	39	39	39	156
Ebitda (\$mm)	516	713	890	2,599	756	735	767	834	3,092
Exploration	5	13	4	24	4	4	4	4	16
Deprec., Deplet., & Amort.	128	182	192	658	192	192	192	183	759
Hedging and other	80	(10)	(24)	12	1	0	1	2	4
Ebit	302	528	717	1,905	559	539	571	645	2,313
Interest	28	44	42	153	42	42	42	42	168
Ebt	274	484	675	1,752	517	497	529	603	2,145
Income Tax	96	169	236	613	181	174	185	211	751
Net Income (\$mm)	178	315	439	1,139	336	323	344	392	1,394
Shares (millions)	349	370	372	367	372	372	372	372	372
Per share (\$)	0.51	0.85	1.18	3.10	0.90	0.87	0.92	1.05	3.75
Ebitda Margin - O&G	78%	76%	77%	75%	74%	74%	74%	74%	74%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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