



Rating: Buy
 S&P 500: 1391

XTO Energy Inc.
Low McDep Ratio Natural Gas

| | | | |
|---|---------|---|-------|
| <i>Symbol</i> | XTO | <i>Ebitda Next Twelve Months ending 6/30/09 (US\$m)</i> | 7,080 |
| <i>Rating</i> | Buy | <i>North American Natural Gas/Ebitda (%)</i> | 70 |
| <i>Price (US\$/sh)</i> | 63.73 | <i>Natural Gas and Oil Production/Ebitda (%)</i> | 100 |
| <i>Pricing Date</i> | 5/28/08 | <i>Adjusted Reserves/Production NTM</i> | 12.2 |
| <i>Shares (mm)</i> | 504 | <i>EV/Ebitda</i> | 5.6 |
| <i>Market Capitalization (US\$m)</i> | 32,100 | <i>PV/Ebitda</i> | 7.3 |
| <i>Debt (US\$m)</i> | 7,600 | <i>Undeveloped Reserves (%)</i> | 34 |
| <i>Enterprise Value (EV) (US\$m)</i> | 39,700 | <i>Natural Gas and Oil Ebitda (US\$/boe)</i> | 55.09 |
| <i>Present Value (PV) (US\$m)</i> | 52,000 | <i>Present Value Proven Reserves(US\$/boe)</i> | 27.64 |
| <i>Net Present Value (US\$/share)</i> | 88 | <i>Present Value Proven Reserves(US\$/mcfe)</i> | 4.61 |
| <i>Debt/Present Value</i> | 0.15 | <i>Earnings Next Twelve Months (US\$/sh)</i> | 5.13 |
| <i>McDep Ratio - EV/PV</i> | 0.76 | <i>Price/Earnings Next Twelve Months</i> | 12 |
| <i>Dividend Yield (%/year)</i> | 0.8 | <i>Indicated Annual Dividend (US\$/sh)</i> | 0.48 |
| 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 analysis of XTO since 2002 see www.mcdep.com/4xto.htm | | | |

Summary and Recommendation

Buy-recommended **XTO Energy (XTO)** is priced at the lowest McDep Ratio among the largest, most concentrated producers of high-appreciation-potential natural gas in the developed world (see table [Natural Gas Producers](#)). Estimated natural gas value increased on May 13 when we raised Net Present Value (NPV) to \$88 a share, up from \$68, on the basis of a long-term oil price assumption of \$100 a barrel, up from \$80. We also like the \$27 a barrel, oil-in-the-ground economics of a \$1.8 billion acquisition in the Bakken Shale of North Dakota and Montana announced on May 28. Though that deal may close by July 15 and add 10,000 barrels daily to XTO production, it is not yet included in projected volumes (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 recent strength in natural gas futures may have more staying power as the six-year average has advanced along with the one-year average (see chart [Natural Gas Futures](#)). A remarkably low price for natural gas relative to oil points to more than 100% further upside (see chart [Oil/Natural Gas Futures Ratio](#)). Finally, all three U.S. presidential candidates want to enforce reductions of carbon dioxide emissions that may have the consequence of stimulating natural gas price just as their promotion of biofuels stimulated food price.

Kurt H. Wulff, CFA



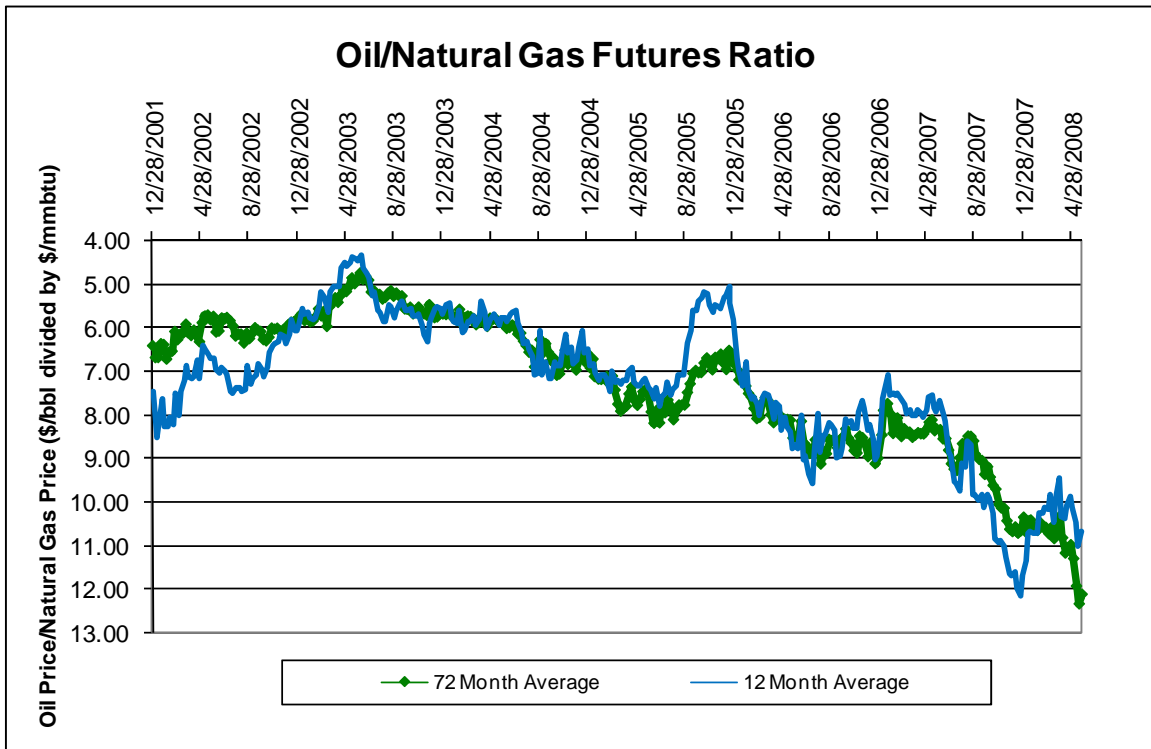
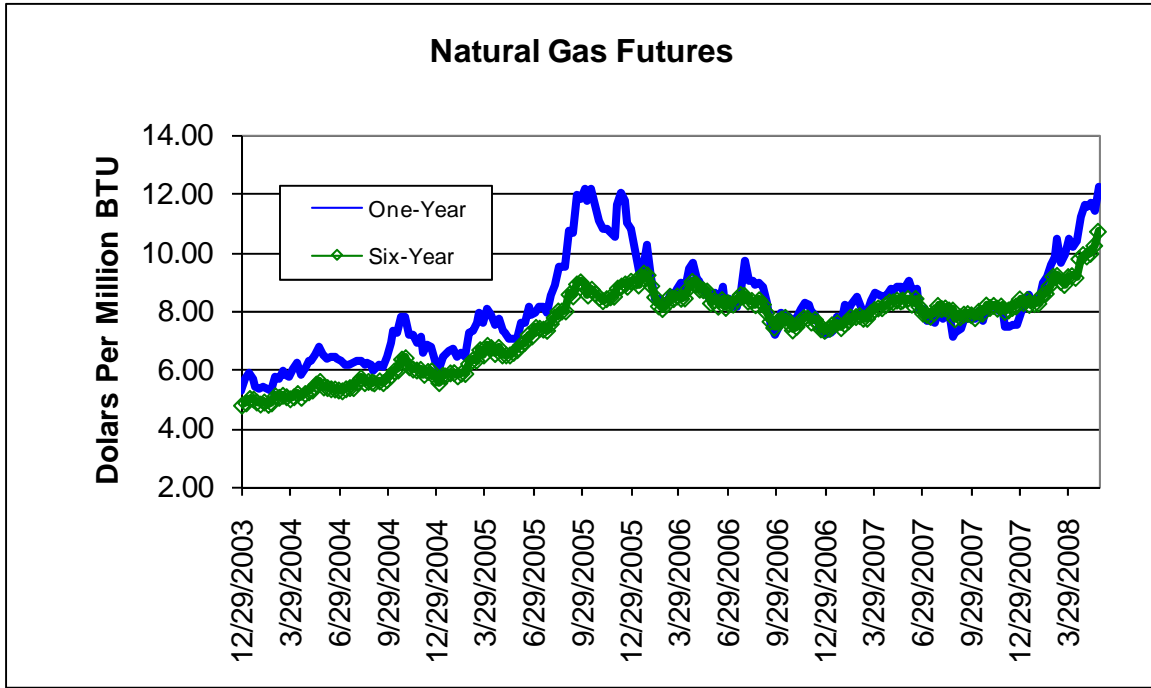
Natural Gas Producers

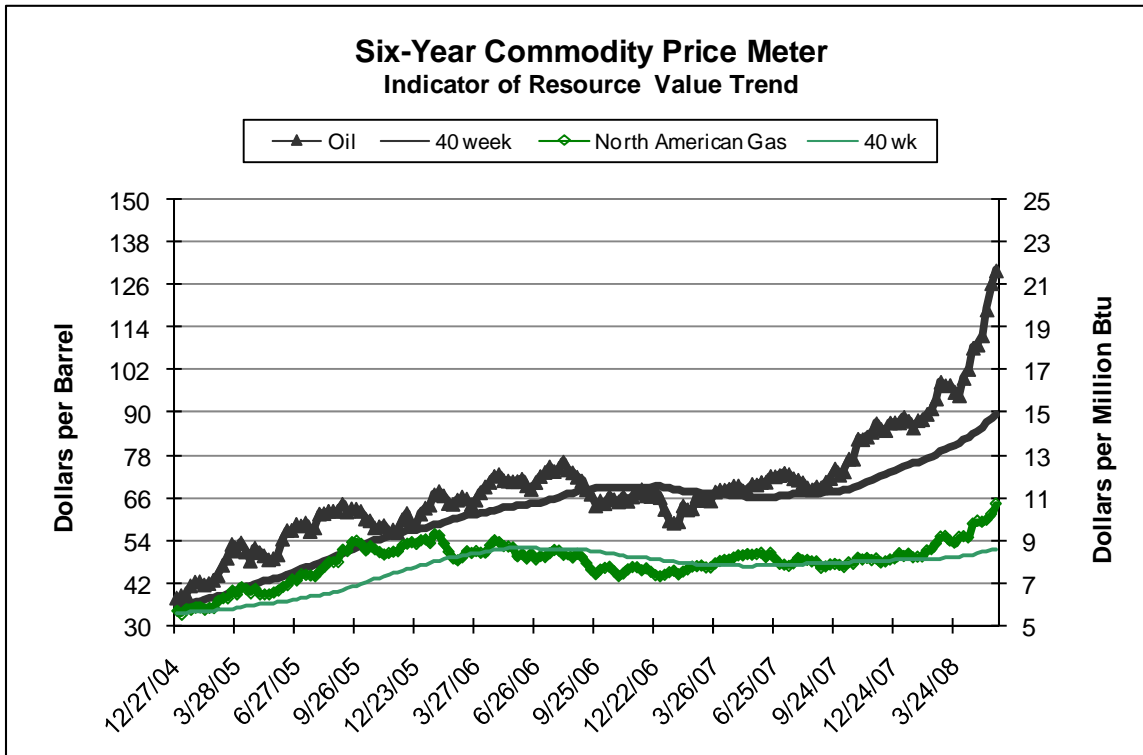
| | <i>Natural Gas</i> | | <i>McDep</i> |
|-------------------------------|----------------------|--------------|--------------|
| | <i>Present Value</i> | <i>Ratio</i> | |
| | <i>(US\$mm)</i> | <i>(%)</i> | |
| San Juan Basin Royalty Trust | 2,240 | 100 | 0.88 |
| Chesapeake Energy Corporation | 50,000 | 91 | 0.77 |
| Gazprom | 450,000 | 80 | 0.71 |
| EOG Resources | 28,000 | 76 | 0.96 |
| XTO Energy Inc. | 39,000 | 75 | 0.76 |
| Encana Corporation | 66,200 | 72 | 0.93 |
| Birchcliff Energy Ltd. (US\$) | 1,200 | 69 | 0.90 |
| Cimarex Energy Company | 5,800 | 64 | 0.71 |
| Anadarko Petroleum Corp. | 34,000 | 53 | 0.83 |
| Devon Energy Corporation | 45,000 | 53 | 0.73 |
| Enerplus Resources Fund | 5,000 | 44 | 0.79 |
| Energy Partners Ltd. | 600 | 41 | 0.68 |
| Statoil ASA | 64,000 | 34 | 0.78 |
| Pengrowth Energy Trust | 2,600 | 33 | 0.91 |
| Berry Petroleum Company | 1,000 | 27 | 0.86 |
| Exxon Mobil Corporation | 154,000 | 23 | 0.78 |
| Penn West Energy Trust | 4,700 | 22 | 0.80 |
| ConocoPhillips | 62,000 | 22 | 0.68 |
| Royal Dutch Shell plc | 80,000 | 19 | 0.75 |
| BP plc | 68,000 | 18 | 0.75 |
| Total S.A. | 52,000 | 17 | 0.73 |
| Encore Acquisition Company | 900 | 17 | 0.91 |
| Petro-Canada | 7,000 | 14 | 0.69 |
| Marathon Oil Corporation | 9,000 | 14 | 0.74 |
| Occidental Petroleum Corp. | 14,000 | 13 | 0.79 |
| Chevron Corporation | 40,000 | 12 | 0.76 |
| CNOOC Limited | 7,000 | 9 | 1.02 |
| PetroChina Company Ltd | 36,000 | 9 | 0.63 |
| Imperial Oil Limited | 3,500 | 6 | 0.90 |
| Suncor Energy | 2,000 | 3 | 0.93 |



| XTO Energy Inc. | | | | | | | | | | |
|--|----------------|----------------|----------------|----------------|-----------------|---------------|----------------|----------------|--|-----------------------------------|
| Next Twelve Months Operating and Financial Estimates | | | | | | | | | | |
| | | | | | | | | | | <i>Next Twelve Months</i> |
| | <i>Q2</i> | <i>Q1</i> | <i>Q2E</i> | <i>Q3E</i> | <i>Q4E</i> | <i>Year</i> | <i>Q1E</i> | <i>Q2E</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>6/30/09</i> |
| Volume | | | | | | | | | | |
| Natural Gas (mmcf) | 1,331 | 1,708 | 1,708 | 1,708 | 1,708 | 1,708 | 1,708 | 1,708 | | 1,708 |
| Days | 91 | 91 | 91 | 92 | 92 | 366 | 90 | 91 | | 365 |
| Oil (mmb) | 6 | 6 | 6 | 6 | 6 | 25 | 6 | 6 | | 25 |
| Oil (mbd) | 61 | 68 | 68 | 68 | 68 | 68 | 68 | 68 | | 68 |
| Total gas & oil (bcf) | 155 | 192 | 192 | 194 | 194 | 773 | 190 | 192 | | 771 |
| Total gas & oil (mmcf) | 1,698 | 2,113 | 2,113 | 2,113 | 2,113 | 2,113 | 2,113 | 2,113 | | 2,113 |
| Price | | | | | | | | | | |
| Natural gas (\$/mcf) | | | | | | | | | | |
| Henry Hub (\$/mmbtu) | 7.56 | 8.02 | 10.91 | 12.04 | 12.44 | 10.85 | 12.89 | 12.21 | | 12.39 |
| Company (\$/mcf) | 6.95 | 7.59 | 10.33 | 10.72 | 11.07 | 9.93 | 11.47 | 10.87 | | 11.03 |
| Oil (\$/bbl) | | | | | | | | | | |
| WTI Cushing | 64.91 | 97.94 | 123.06 | 132.15 | 131.57 | 121.18 | 131.00 | 131.79 | | 131.63 |
| Company (\$/bbl) | 55.20 | 85.65 | 116.56 | 120.93 | 122.36 | 111.43 | 121.83 | 115.43 | | 120.14 |
| Total gas & oil (\$/mcf) | 7.44 | 8.87 | 12.07 | 12.53 | 12.86 | 11.59 | 13.16 | 12.47 | | 12.75 |
| Revenue (\$mm) | | | | | | | | | | |
| Natural Gas | 842 | 1,180 | 1,605 | 1,684 | 1,740 | 6,209 | 1,763 | 1,689 | | 6,876 |
| Oil | 308 | 526 | 716 | 751 | 760 | 2,753 | 740 | 709 | | 2,960 |
| Other | | | | | | | | | | |
| Total | 1,149 | 1,706 | 2,321 | 2,435 | 2,500 | 8,962 | 2,503 | 2,398 | | 9,836 |
| Expense | | | | | | | | | | |
| Production | 253 | 346 | 561 | 593 | 611 | 2,111 | 641 | 611 | | 2,456 |
| Overhead | 52 | 89 | 89 | 89 | 89 | 356 | 60 | 60 | | 298 |
| Ebitda (\$mm) | 844 | 1,271 | 1,671 | 1,753 | 1,800 | 6,495 | 1,802 | 1,727 | | 7,082 |
| Exploration | 7 | 18 | 18 | 18 | 18 | 72 | 10 | 10 | | 56 |
| Deprec., Deplet., & Amort. | 265 | 389 | 389 | 389 | 389 | 1,556 | 389 | 389 | | 1,556 |
| Hedging and other | (139) | 46 | 252 | 342 | 368 | 1,009 | 65 | 353 | | 1,129 |
| Ebit | 712 | 818 | 1,012 | 1,004 | 1,025 | 3,858 | 1,338 | 975 | | 4,341 |
| Interest | 47 | 91 | 91 | 91 | 91 | 364 | 91 | 91 | | 364 |
| Ebt | 665 | 727 | 921 | 913 | 934 | 3,494 | 1,247 | 884 | | 3,977 |
| Income Tax | 233 | 268 | 322 | 319 | 327 | 1,237 | 436 | 309 | | 1,392 |
| Net Income (\$mm) | 432 | 459 | 599 | 593 | 607 | 2,258 | 811 | 574 | | 2,585 |
| Shares (millions) | 474 | 504 | 504 | 504 | 504 | 504 | 504 | 504 | | 504 |
| Per share (\$) | 0.91 | 0.91 | 1.19 | 1.18 | 1.20 | 4.48 | 1.61 | 1.14 | | 5.13 |
| Ebitda Margin - O&G | 73% | 75% | 72% | 72% | 72% | 72% | 72% | 72% | | 72% |
| Tax Rate | 35% | 37% | 35% | 35% | 35% | 35% | 35% | 35% | | 35% |

| XTO Energy Inc. | | | | | |
|---|-------------------|-----------------|---------------|-----------------|--------|
| Functional Cash Flow and Present Value | | | | | |
| | | | | <i>Present</i> | |
| | <i>NTM Ebitda</i> | <i>Adjusted</i> | <i>PV/</i> | <i>Value</i> | |
| | <i>(US\$mm)</i> | <i>R/P</i> | <i>Ebitda</i> | <i>(US\$mm)</i> | |
| North American Natural Gas | 4,950 | 12.4 | 7.9 | 39,000 | 75% |
| Oil | 2,130 | 11.1 | 6.1 | 13,000 | 25% |
| | 7,080 | 12.2 | 7.3 | 52,000 | 100% |
| Debt (US\$mm) | | | | | 7,600 |
| Net Present Value (US\$mm) | | | | | 44,400 |
| Shares (mm) | | | | | 504 |
| Net Present Value - Standard Estimate (US\$/sh) | | | | | 88 |
| NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh) | | | | | 89 |





Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was doing business as McDep Associates. 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.