

## Equities

15 October 2010 | 7 pages

# EOG Resources Inc (EOG)

## Model Update

- Updating estimates to reflect newly disclosed hedges. Company announced that it has hedged 8% of 2011 natural gas production at \$5.44/MMBtu. It has also added oil hedges covering 3% of expected 2011 production, bringing total expected 2011 oil production hedged to 8% at \$90.39/Bbl. Further, EOG announced that it has hedged 10% of expected 2012 natural gas production at \$5.57/MMBtu.

- Company Update
- Estimate change

<b>Buy/Medium Risk</b>	<b>1M</b>
Price (15 Oct 10)	US\$100.43
Target price	US\$110.00
Expected share price return	9.5%
Expected dividend yield	0.6%
<b>Expected total return</b>	<b>10.1%</b>
Market Cap	US\$25,456M

### Price Performance (RIC: EOG.N, BB: EOG US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
<b>2009A</b>	0.53A	0.73A	0.81A	0.92A	3.00A	3.00A
<b>2010E</b>	<b>0.46A</b>	<b>0.18A</b>	<b>-0.01E</b>	<b>0.55E</b>	<b>1.18E</b>	<b>1.39E</b>
Previous	0.46A	0.18A	-0.01E	0.55E	1.18E	na
<b>2011E</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>3.62E</b>	<b>3.94E</b>
Previous	na	na	na	na	3.52E	na
<b>2012E</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>8.25E</b>	<b>7.09E</b>
Previous	na	na	na	na	8.27E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

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Fiscal year end 31-Dec	2008	2009	2010E	2011E	2012E
<b>Valuation Ratios</b>					
P/E adjusted (x)	13.4	33.5	84.8	27.7	12.2
EV/EBITDA adjusted (x)	5.1	9.6	9.4	6.8	4.3
P/BV (x)	2.8	2.5	2.5	2.3	1.9
Dividend yield (%)	0.5	0.6	0.6	0.6	0.6
<b>Per Share Data (US\$)</b>					
EPS adjusted	7.50	3.00	1.18	3.62	8.25
EPS reported	9.72	2.17	1.24	3.62	8.25
BVPS	36.11	39.58	40.38	43.74	51.74
DPS	0.51	0.58	0.62	0.62	0.62
<b>Profit &amp; Loss (US\$K)</b>					
Net sales	6,962,610	4,379,843	5,141,682	6,917,164	10,141,926
Operating expenses	-3,002,551	-3,103,170	-4,151,923	-4,804,118	-5,881,407
<b>EBIT</b>	<b>3,960,059</b>	<b>1,276,673</b>	<b>989,760</b>	<b>2,113,046</b>	<b>4,260,519</b>
Net interest expense	-51,658	-100,901	-116,903	-140,490	-151,608
Non-operating/exceptionals	-161,846	-303,761	-298,819	-300,957	-300,957
<b>Pre-tax profit</b>	<b>3,746,555</b>	<b>872,011</b>	<b>574,038</b>	<b>1,671,600</b>	<b>3,807,954</b>
Tax	-1,309,621	-325,384	-258,317	-752,220	-1,713,579
Extraord./Min.Int./Pref.div.	-443	0	0	0	0
<b>Reported net income</b>	<b>2,436,491</b>	<b>546,627</b>	<b>315,721</b>	<b>919,380</b>	<b>2,094,375</b>
Adjusted earnings	1,879,069	754,506	300,531	919,380	2,094,375
Adjusted EBITDA	5,286,934	2,825,861	3,063,241	4,437,842	7,019,491
<b>Growth Rates (%)</b>					
Sales	67.1	-37.1	17.4	34.5	46.6
EBIT adjusted	128.5	-74.2	-29.1	163.1	118.5
EBITDA adjusted	84.8	-46.6	8.4	44.9	58.2
EPS adjusted	72.2	-60.0	-60.5	205.9	127.8
<b>Cash Flow (US\$K)</b>					
<b>Operating cash flow</b>	<b>4,633,249</b>	<b>2,922,439</b>	<b>2,699,248</b>	<b>3,657,896</b>	<b>5,795,815</b>
Depreciation/amortization	1,326,875	1,549,188	2,073,482	2,324,795	2,758,971
Net working capital	525,666	150,446	-29,173	0	0
<b>Investing cash flow</b>	<b>-4,966,518</b>	<b>-3,414,551</b>	<b>-5,519,805</b>	<b>-4,392,900</b>	<b>-6,087,190</b>
Capital expenditure	-5,461,000	-3,527,000	-5,600,000	-5,642,900	-6,087,190
Acquisitions/disposals	-109,000	-707,000	-21,000	1,250,000	0
<b>Financing cash flow</b>	<b>645,105</b>	<b>834,162</b>	<b>2,749,470</b>	<b>735,004</b>	<b>291,375</b>
Borrowings	712,000	900,000	2,397,989	196,379	-249,204
Dividends paid	-125,838	-144,400	-155,429	-155,496	-155,496
<b>Change in cash</b>	<b>277,080</b>	<b>354,440</b>	<b>-71,274</b>	<b>0</b>	<b>0</b>
<b>Balance Sheet (US\$K)</b>					
<b>Total assets</b>	<b>15,951,226</b>	<b>18,118,667</b>	<b>21,078,450</b>	<b>22,541,875</b>	<b>25,263,460</b>
Cash & cash equivalent	331,311	685,751	650,114	650,114	650,114
Accounts receivable	722,695	771,417	810,145	810,145	810,145
Net fixed assets	13,657,302	16,139,225	19,037,085	20,500,510	23,222,095
<b>Total liabilities</b>	<b>6,936,729</b>	<b>8,120,625</b>	<b>10,842,428</b>	<b>11,452,528</b>	<b>12,145,793</b>
Accounts payable	1,122,209	979,139	1,255,657	1,255,657	1,255,657
Total Debt	1,860,000	2,760,000	5,157,989	5,354,368	5,105,164
<b>Shareholders' funds</b>	<b>9,014,497</b>	<b>9,998,042</b>	<b>10,236,023</b>	<b>11,089,347</b>	<b>13,117,667</b>
<b>Profitability/Solvency Ratios (%)</b>					
EBITDA margin adjusted	75.9	64.5	59.6	64.2	69.2
ROE adjusted	23.5	7.9	3.0	8.6	17.3
ROIC adjusted	20.1	4.3	2.5	5.4	10.4
Net debt to equity	17.0	20.7	44.0	42.4	34.0
Total debt to capital	17.1	21.6	33.5	32.6	28.0

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## EOG Resources Inc

### Valuation

Our \$110 price target is based on the company achieving a enterprise value to discretionary cash flow (EV/DACF) multiple of and 6.9x our 2011 estimates based on “normalized” WTI spot crude oil and composite spot natural gas prices of \$80.00/Bbl and \$6.25/MMBtu, respectively, and ~149% of proven NAV.

### Risks

We rate EOG Resources Medium Risk.

Our risk rating on EOG is Medium based on a combination of quantitative and qualitative risk assessments compared to other stocks covered by Citi Investment Research.

**Drilling Results** - Disappointing drilling results, particularly in EOG's key operating areas in the Eagle Ford, Barnett Combo play, the Bakken, the Haynesville shale, the Marcellus shale and the Horn River Basin, could impact EOG's share performance.

**Volatile Commodity Prices** - Hydrocarbon prices have shown increasing volatility in recent years, as well as cash flow and earnings. This volatility tends to significantly impact sector stock performance.

If the impact on the company from any of these factors proves to be less than we anticipate, the stock could materially outperform our target. Conversely, if the impact on the company from any of these factors proves to be greater than we anticipate, the stock could underperform our target price.

## Appendix A-1

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Covered since December 7 2009

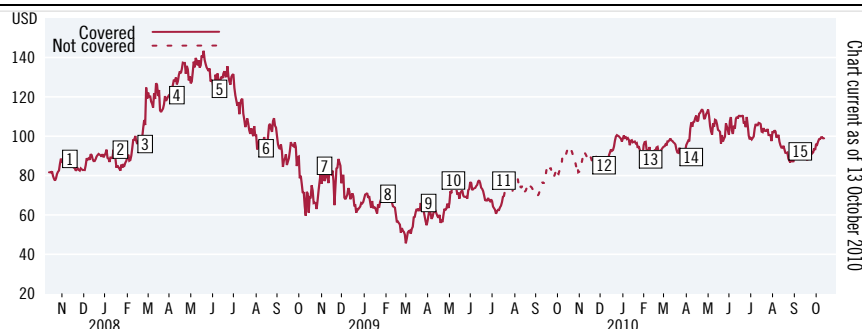


Chart current as of 13 October 2010

	Date	Rating	Target Price	Closing Price
1	13-Nov-07	*2H	*90.00	85.66
2	23-Jan-08	*1H	*100.00	82.47
3	27-Feb-08	*2H	*112.00	105.68
4	11-Apr-08	2H	*138.00	126.32
5	11-Jun-08	2H	*139.00	128.39

\* Indicates change

	Date	Rating	Target Price	Closing Price
6	15-Aug-08	2H	*106.00	95.60
7	6-Nov-08	*1H	*95.00	77.17
8	4-Feb-09	1H	*88.00	68.58
9	2-Apr-09	1H	*70.00	60.33
10	7-May-09	*2H	*82.00	73.52

	Date	Rating	Target Price	Closing Price
11	17-Jul-09	Coverage terminated		
12	7-Dec-09	*1M	*110.00	87.27
13	10-Feb-10	1M	*102.00	88.24
14	8-Apr-10	1M	*120.00	106.96
15	9-Sep-10	1M	*110.00	89.37

Rating/target price changes above reflect Eastern Standard Time

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	48%	45%	39%

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