

Equities

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EOG Resources Inc (EOG)

Core Oil/Liquids Plays Step To The Forefront As 2011 Kicks Off

- Company Update
- Target Price Change

- **Bottom Line Results** – As previously outlined in our ‘Quick Read’ note, EOG reported slightly better than anticipated bottom line results. (See [EOG Resources Inc \(EOG\) - ‘Quick Read’: Q410 Earnings Beat; Guides for Higher Costs.](#))
- **Liquids To Drive 2011 Growth** – In line with previous indications, EOG plans to grow production this year by 9.5% underscored by oil/NGLs with North America natural gas output expected to decline 5% (partly due to asset sales). The Eagle Ford shale, Bakken shale and Barnett combo plays will drive 49% liquids growth while the only natural gas drilling will be that needed to hold acreage in the U.S. Haynesville/Bossier and Marcellus shale plays, and the Canadian Horn River Basin.
- **Asset Sales To Help Fill Funding Gap** – The 2011 capital budget is pegged at \$6.4-6.6 billion (incl. \$1.1 billion for facilities/mid-stream) while our after-tax operating cash flow projection is \$4.1 billion. ~\$1.0 billion of the shortfall is expected to be met with asset sales - \$650mm acreage and U.S. gas and \$350mm mid-stream assets, which are already reflected in guidance. Management stated that it does not currently plan to pursue or enter into any joint ventures on its current acreage holdings.
- **Eagle Ford and Niobrara Capture Spotlight** – The most critical updates from the quarter, in our view, were that with 96 net wells now drilled in the Eagle Ford oil window, EOG claims consistent results across its 520k net acres lending greater credence to its stated 900 MMBOE net upside potential here. Also, management expressed heightened optimism regarding the Niobrara oil play although no reserve estimates were given. Interestingly, given its deep inventory in other oil plays, EOG does not plan intensive development of its Niobrara and Permian plays until 2013.
- **Price Target Raised to \$120** – We revised estimates in our referenced ‘Quick Read’ note per company guidance. Based on these new estimates along with increased confidence in the potential of the Eagle Ford and other plays, we are raising our price target to \$120 from \$105 per share based on EOG’s stock attaining 2011/12 EV/DACF multiples of 7.8x/6.8x and 137% of proven-only NAV based on our normalized price deck of \$90/Bbl and \$5.25/MMbtu.

Hold/Medium Risk	2M
Price (18 Feb 11)	US\$108.89
Target price	US\$120.00
	from US\$105.00
Expected share price return	10.2%
Expected dividend yield	0.6%
Expected total return	10.8%
Market Cap	US\$27,660M

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



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2010A	0.46A	0.18A	0.18A	0.36A	1.18A	0.92A
2011E	0.39E	0.45E	0.82E	1.34E	2.99E	3.49E
Previous	0.39E	0.45E	0.82E	1.34E	2.99E	na
2012E	na	na	na	na	5.96E	5.60E
Previous	na	na	na	na	5.96E	na
2013E	na	na	na	na	6.87E	6.85E
Previous	na	na	na	na	6.87E	na

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

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Fiscal year end 31-Dec	2009	2010	2011E	2012E	2013E
Valuation Ratios					
P/E adjusted (x)	36.3	91.9	36.4	18.3	15.8
EV/EBITDA adjusted (x)	10.4	9.6	7.8	5.9	5.6
P/BV (x)	2.8	2.7	2.5	2.2	1.9
Dividend yield (%)	0.5	0.6	0.6	0.6	0.6
Per Share Data (US\$)					
EPS adjusted	3.00	1.18	2.99	5.96	6.87
EPS reported	2.17	0.63	2.99	5.96	6.87
BVPS	39.58	40.28	43.22	49.21	56.17
DPS	0.58	0.62	0.64	0.64	0.64
Profit & Loss (US\$K)					
Net sales	4,379,843	5,190,216	6,536,308	8,473,962	9,320,209
Operating expenses	-3,103,170	-3,924,250	-4,819,927	-5,476,908	-5,903,823
EBIT	1,276,673	1,265,966	1,716,381	2,997,054	3,416,386
Net interest expense	-100,901	-129,586	-180,000	-193,574	-214,933
Non-operating/exceptionals	-303,761	-728,404	-259,667	-272,650	-286,283
Pre-tax profit	872,011	407,976	1,276,714	2,530,830	2,915,171
Tax	-325,384	-247,322	-514,976	-1,012,332	-1,166,068
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	546,627	160,654	761,738	1,518,498	1,749,102
Adjusted earnings	754,506	301,276	761,738	1,518,498	1,749,102
Adjusted EBITDA	2,825,861	3,207,892	4,170,133	5,796,505	6,439,506
Growth Rates (%)					
Sales	-37.1	18.5	25.9	29.6	10.0
EBIT adjusted	-74.2	-46.1	178.4	87.0	14.9
EBITDA adjusted	-46.6	13.5	30.0	39.0	11.1
EPS adjusted	-60.0	-60.5	152.5	99.3	15.2
Cash Flow (US\$K)					
Operating cash flow	2,922,439	2,708,602	3,515,858	4,874,732	5,413,560
Depreciation/amortization	1,549,188	1,941,926	2,453,752	2,799,451	3,023,120
Net working capital	150,446	751,124	0	0	0
Investing cash flow	-3,414,551	-4,902,774	-5,250,000	-7,150,000	-7,865,000
Capital expenditure	-3,527,000	-5,729,000	-6,500,000	-7,150,000	-7,865,000
Acquisitions/disposals	-707,000	-21,000	1,250,000	0	0
Financing cash flow	834,162	2,303,419	1,734,142	2,275,268	2,451,440
Borrowings	900,000	2,222,798	1,312,067	1,727,161	1,859,722
Dividends paid	-144,400	-155,549	-159,395	-160,650	-160,650
Change in cash	354,440	103,102	0	0	0
Balance Sheet (US\$K)					
Total assets	18,118,667	21,624,233	23,981,148	27,786,396	32,055,711
Cash & cash equivalent	685,751	788,853	788,853	788,853	788,853
Accounts receivable	771,417	1,113,279	1,113,279	1,113,279	1,113,279
Net fixed assets	16,139,225	18,680,900	21,037,815	24,843,063	29,112,378
Total liabilities	8,120,625	11,392,601	13,005,035	15,288,979	17,790,038
Accounts payable	979,139	1,664,944	1,664,944	1,664,944	1,664,944
Total Debt	2,760,000	5,003,341	6,315,408	8,042,569	9,902,291
Shareholders' funds	9,998,042	10,231,632	10,976,112	12,497,418	14,265,673
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	64.5	61.8	63.8	68.4	69.1
ROE adjusted	7.9	3.0	7.2	12.9	13.1
ROIC adjusted	4.3	1.6	4.8	7.5	7.3
Net debt to equity	20.7	41.2	50.4	58.0	63.9
Total debt to capital	21.6	32.8	36.5	39.2	41.0

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Q4'10 Beats; Production Guidance Intact

Q4 and Full Year 2010 Earnings Recap

EOG reported adjusted, recurring Q4'10 EPS/CFPS of \$0.36/\$3.26, above our \$0.28/\$3.08 forecast and Street consensus of \$0.26/\$2.97...

...with the beat largely driven by lower than expected costs, whereby LOE, DD&A, exploration and dry hole, and G&A expenses were all better than we had modeled...

...while Q4 production was 1% ahead of our forecast, although U.S. liquids output missed our projection by 4%.

As previously outlined in our 'Quick Read' note, EOG reported adjusted, recurring Q4'10 EPS/CFPS of \$0.36/\$3.26, above our \$0.28/\$3.08 forecast and Street consensus of \$0.26/\$2.97. (See [EOG Resources Inc \(EOG\) - 'Quick Read': Q410 Earnings Beat; Guides for Higher Costs.](#))

The beat was largely driven by lower than expected costs, whereby LOE, DD&A, exploration and dry hole, and G&A expenses were all better than we had modeled. LOE of \$1.25/Mcfe was at the bottom of guidance range, down from \$1.30/Mcfe in the prior quarter, and below our forecast for a flat reading. The LOE beat was due to a combination of continued efficiency improvements combined with below-forecast liquids component in the overall production mix. DD&A of \$2.34/Mcfe was up \$0.05/Mcfe sequentially, and below our \$2.43/Mcfe and guidance range of \$2.38-2.48/Mcfe. As with LOE, we attribute the DD&A beat to lower-than-expected liquids output. Exploration and dry hole expense of \$66 million was below our \$80 million estimate. G&A of \$74 million was both below our \$78 million estimate and guidance range of \$75-80 million.

Total Q4 production of 2,524 MMcfe/d was 1% ahead of our forecast, up 6% sequentially and 19% year-over-year. Thus, for the full year, EOG grew output 9%. In the quarter, Trinidad natural gas production was once again above contracted volumes, while U.S. oil output missed our projection by 4% on continued completion and frac crew availability tightness that led the company to reign in its liquids guidance for 2011 and 2012 versus last quarter (See our November 3, 2010 notes: [EOG Resources Inc \(EOG\) - Quick Read: Q3 Beats, Production Outlook Slashed, Rating to Hold](#) and [EOG Resources Inc \(EOG\) - Q3 Conference Call Highlights & Follow Up](#)). However, liquids output still drove total production growth, and was up 14% sequentially and 46% from the year ago, vs. natural gas growth of 3% sequentially and 11% from one year ago.

North Dakota Bakken – Top Tier Returns, Largest Contributor to Liquids Output

The Bakken is EOG's single largest oil production contributor, and is expected to remain so until it's surpassed by the Eagle Ford in 2012 or 2013.

In the Bakken shale, where EOG currently holds a 600,000 net acreage position, primarily in North Dakota, the company's recent activity has focused largely outside the play's core on Bakken Lite and Three Forks development. Reported initial production rates from wells drilled in these focus areas averaged ~1,000-1,600 BOPD in the fourth quarter. By its own account, EOG is the largest Bakken/Three Forks producer, and the play is also the company's single largest oil production contributor, and is expected to remain so until it's surpassed by the Eagle Ford shale in 2012 or 2013. Along with the Eagle Ford, the Bakken core ranks at the top of the company's most economic assets, with rates of return estimated by management at 65-110% based on five-year NYMEX strip prices, while the Bakken Lite and Three Forks, where rates of return run in the 30-60% range, rank in line with the company's remaining oil and liquids plays. EOG plans to maintain a 10-rig program in the Bakken/Three Forks this year, flat versus 2010.

EOG's recent well results in the oil window of the Eagle Ford shale have been solid, while the company recently drilled its first successful well in the liquids-rich window.

EOG plans to drill 250 wells in the play this year, up from 96 in 2010, with a focus on well cost reduction.

Although service and infrastructure constraints in the Eagle Ford persist, the play is expected to be the single largest contributor to liquids growth this year...

...While appraisal drilling in the emerging Wolfcamp Shale is set to continue this year with a three-rig program.

Continued efficiencies have enabled EOG to reduce well costs in the Barnett Combo to \$3 million. An 11-rig program in the play is planned for this year.

Eagle Ford to Drive 2011 Liquids Growth

In the mature oil window of the Eagle Ford Play, where EOG currently holds ~520,000 net acres, well results last quarter were consistent with those previously reported, with IP rates in the core eastern part of the company's acreage in Dewitt County averaging 1,200-1,700 BOPD, while on the west side IP's ranged from 870 BOPD to 1,300 BOPD. During the quarter, the company also drilled its first successful horizontal Eagle Ford well outside of the oil window. The Tully C. Garner #100H, located in Webb County, or southwest of the crude oil window, was brought on production at a restricted rate of 2.8 MMcf/d plus 239 Bbl/d of condensate. The company holds a 26,000 net acreage position in the liquids-rich window of the play.

This year, EOG plans to drill ~250 net Eagle Ford wells, up from 96 in 2010. Current well costs average ~\$6.0 million, and the company believes that with continued frac optimization it can bring these costs down by ~\$1.0 million. EOG will operate an average of 14 rigs in the play this year, up from 12 presently.

Meanwhile, the company continues to experience service and infrastructure constraints in the play. On the service side, EOG continues to report pressure pumping service tightness. Infrastructure development is also a bottleneck, with the Enterprise pipeline on which EOG has contracted for takeaway capacity not expected to be in service until mid-2012. In the meantime, EOG and all other operators in the play must rely on trucking for its crude oil takeaway from the play. Consequently, a trucking shortage has emerged. Notwithstanding all these issues, the Eagle Ford play is expected to be the single largest contributor to liquids growth this year. Management also noted that it has secured proprietary means with which to assure the transportation of its projected oil output to market.

In the West Texas Permian Basin Wolfcamp Shale, where EOG currently holds ~120,000 net acres in Irion and Crockett Counties, the company has drilled and completed four wells to date. EOG projects its output mix from the play to be 55% crude oil, 23% NGL's, and the remaining 22% natural gas. The company plans to operate three rigs in the play this year. Well costs average \$6.0 million, and company estimates well EUR's of ~270,000 BOE. EOG's preliminary estimate of its reserve potential from one of the multiple potential productive intervals is 40 MMBOE net after royalty, or ~2.0% of its total proven reserve base. The company also noted that it does not expect the Wolfcamp to be a significant contributor to 2011 liquids output.

Fort Worth Barnett Combo – Second Largest Liquids Output Contributor

In the Barnett Combo, EOG drilled over 230 net wells in 2010, with most recent well results somewhat light in comparison to those reported earlier. However, management chalked up the seemingly unimpressive results to step-out drilling aimed at delineating the areas outside the core of the play. The company also extended the prospective area of the play to ~175,000 net acres. Due to continued efficiency gains, EOG has been able to reduce well costs in the play to ~\$3.0 million. The company plans to operate an 11-rig drilling program in the play this year, and it expects the Barnett Combo to be the second-largest contributor both to its total liquids output and to liquids growth.

Two of EOG's recent Niobrara wells were brought on production at restricted rates of 731 and 820 BOPD, and management has expressed increased confidence in the economic viability of the play.

Niobrara Early Results Encouraging

EOG disclosed well results from two of its recent Niobrara wells, which were brought on production at restricted rates of 731 and 820 BOPD. The company remarked that drilling results have increased its confidence in the economic viability of the play. Management noted that it expects to establish productivity from the play by converting it to a matrix-dominated play from one dependent on fractures. So far, the company has tested 80,000 of the 300,000 likely prospective net acres it holds in the play. This year, it plans to drill 40 wells in the Niobrara and to evaluate the remainder of its acreage. Management stated that it is still too early to provide a total reserve estimate. It also remarked that it doesn't expect the Niobrara to be a significant contributor to liquids output in 2011.

Activity in the Leonard (Avalon) shale has been muted given limited drilling commitments.

Leonard Shale on the Back Burner

The company did not disclose new results from the Leonard shale (aka Avalon) in the Permian Basin, whose discovery was first announced concurrent with EOG's third quarter earnings release. However, management remarked that activity here has been muted given limited commitments to hold acreage. The company will thus operate a one-rig program in the play this year, aimed at optimizing completions in New Mexico and testing remaining acreage in Texas. Intensive development of the play is thus not expected to begin until 2013.

The company's recent well in Bradford County of the Marcellus Shale IP'ed at 14 MMcf/d, and seven more wells are expected to be drilled here by mid-year...

Marcellus Non-Transaction Followed by Upside Surprise

After EOG's planned sale of 50,000 acres in Bradford County in the Marcellus to Newfield Exploration fell through late last quarter, in an ironic twist of events, the company subsequently drilled its first Bradford County well that utilized a new frac tech completion methodology. The well tested at a rate of 14 MMcf/d, and went on to become EOG's best producer in the field to date. Although definitely a positive, we suspect the timing of the Bradford County well drilling was not coincidental, as the company was likely under pressure to refute speculation that the acreage was of sub-prime quality. In fact, management commented during the call that acreage quality or title defects were not the reasons for the cancellation of the planned transaction, although the actual reason was still not disclosed. The company now plans to drill seven additional Bradford County wells by mid-year.

...While Clearfield County well results have helped to establish the economic viability of the north-central PA acreage.

Utilizing similar completion techniques, EOG later drilled and brought to sales three wells in Clearfield County at rates ranging from 7 to 9 MMcf/d. Clearfield County falls outside the two established "sweet spots" of the Marcellus play – first, the dry gas area in northeastern Pennsylvania, and second the liquids-rich acreage in the southwestern part of the play. The acreage located in between the two hot spots has traditionally been thought of as being of significantly lower quality, and thus we view the Clearfield County results as positive data points that help establish at least some of the acreage in the north-central area of the state as very economic. Overall, management expressed that its view of the Marcellus play in general had recently improved significantly. However, if future drilling results do not confirm the high prospectivity of this acreage then it may again be put on the auction block.

In the Haynesville, EOG will run eight rigs this year, down from 11 last year, all of which are needed to hold acreage.

One of EOG's recent Horn River wells tested at a peak rate of 22 MMcf/d...

...While longer-term viability of the play hinges on the development of the Kitimat LNG export facility.

EOG's proven reserve base grew 9% last year, with oil and NGL's now accounting for 28%, up from 17% one year ago.

Haynesville HBP Drilling Continues

Besides the Marcellus, the Haynesville and Horn River are the only dry gas plays to which EOG has committed significant amounts of capital this year. In the Haynesville, EOG will run eight rigs this year, which is the minimum needed to hold acreage, and down from 11 rigs in 2010.

Horn River Results Solid; Development Hinges on Kitimat

In the British Columbia Horn River play, EOG completed several wells from its 2010 drilling program. One of the wells tested at a peak rate of 22 MMcf/d. The company expects to drill several more wells in the play this year.

Further, in conjunction with Apache, the operator of the companies' Horn River joint venture (EOG 49%), EOG continues to advance its plans to construct the Kitimat LNG export facility project. Recently, Apache and EOG entered into an agreement to purchase full ownership of the proposed gas pipeline that will connect the existing pipeline network to Kitimat. The partners have also begun discussions with potential customers on the offtake contracts, and management sees the securing of firm oil-indexed LNG contracts as the next big hurdle for the project, although it will take at least 12 months to secure such contracts in management's view.

Hedging Program

Last month, EOG announced that it has early-settled its hedges with respect to January and February volumes. For the remaining ten months of this year, the company has hedged volumes of 425 MMbtu/d, or ~26% of total output, at a weighted average price of \$5.09/MMbtu. The company has also hedged ~15% of next year's projected gas output at a weighted average price of \$5.56/MMbtu.

On the crude oil side, 14% of this year's projected volumes are hedged at a weighted average price of \$90.69/Bbl. Only ~1% of 2012 volumes have been hedged thus far at a weighted average price of \$100.50/Bbl.

Reserves up 9%, Increasingly Oily

EOG's proven reserves grew 9% to 1.95 MMBOE. Total 2010 reserve replacement before price related revisions came in at 229%, with an associated drillbit-only F&D tab of \$16.34/BOE. PUD's rose to 48% from 46% of total reserves while natural gas accounted for 42% of the drill bit reserve adds including revisions. Overall natural gas reserves decreased 5% to 8.47 Tcf due to producing property sales, a watered out well in Trinidad, and downward revisions in the Midcontinent area to reflect PUD's which are no longer a part of the company's five-year drilling plan. Meanwhile, crude oil and NGL reserves were up 72% to 537.8 MMBbl largely due to bookings across the company's North American oil and liquids-focused plays. Thus, crude oil and NGL's now account for 28% of the company's total proven reserve base, up from just 17% a year ago. Incorporating the latest reserve report, our estimate of the per-share proven-only NAV is \$89.25, up from \$72.25 based on 2009 reserve figures.

EOG now projects 2011 output growth of 9.5%, with oil and NGL's up 55% and 34%, respectively, while North American natural gas expected to fall 5%.

2011 capital budget of ~\$6.5 billion is ~\$2.4 billion above our cash flow forecast for the year, with the shortfall expected to be funded through the combination of debt and asset sales...

...While operating costs are set to increase across the board.

We are revising our price target to \$120 from \$105 per share while maintaining our Hold rating.

Guidance Intact; Hinges on Asset Sales

At this juncture, production guidance for this year is little changed, with management now projecting total production growth of 9.5%, just slightly below the prior target of 10%. This year's growth is expected to be driven by a 55% and a 34% increase in oil and NGL output, respectively, while North American natural gas production is projected to decline 5% partly due to planned asset sales.

The 2011 capital budget of \$6.4-6.6 billion (including \$1.1 billion for facilities and mid-stream) is up from \$6.1 billion last year, and is ~\$2.4 billion above our discretionary cash flow forecast for the year, with the shortfall expected to be funded through a combination of debt (EOG issued \$1.5 billion of senior notes last November) and ~\$1 billion of forthcoming asset sales. About \$550 million of acreage and U.S. natural gas properties are expected to close by mid-year. Importantly, management stated that current production guidance already accounts for the planned asset sales. Roughly 80% of this year's capital spending is slated for oil and liquids-rich projects.

Meanwhile, operating costs are set to increase across the board, with LOE and DD&A up due to increasing liquids mix, and interest expense rising as a function of the company's increased borrowing.

Estimates, Price Target Revision

Based on the updated guidance, we revised our 2011 EPS/CFPS estimates in our previously published 'Quick Read' note to \$2.99/\$16.32 from \$3.70/\$16.09, and for 2012 to \$5.96/\$21.91 from \$6.23/\$20.55. While our EPS estimates for both years have come down, our cash flow projections have increased slightly. DD&A guidance of \$2.65/Mcfe for the year is up ~\$0.36/Mcfe from our prior estimate, driving the opposite moves in EPS and CFPS. The impact of the other items – higher cash costs, adjusted realizations, higher oil output, and higher deferred taxes – cancels out to about neutral for EPS and slightly positive for cash flow.

Thus, based on our slightly higher discretionary cash flow estimates for 2011 and 2012, combined with our 2010 proven-only NAV increasing 24% from 2009, we are increasing our 12-month price target to \$120 per share from \$105. Our \$120 price target is based on EOG's stock achieving EV/DACF multiples of 7.8x and 6.8x our 2011 and 2012 estimates, respectively, and 137% of proven-only NAV calculated using our normalized price deck of \$90/Bbl of crude oil and \$5.25/MMbtu of spot composite natural gas.

Overall, EOG should still post among the strongest growth profiles in our coverage group over the next few years, particularly on the oil/liquids front, while continuing to achieve top-tier economic returns. The company's liquids-weighted growth profile also fits in well with our proclivity for oil and NGL leveraged names. However, while it continues to significantly outspend cash flow in order to achieve this growth and despite our increased confidence in the Eagle Ford and other less significant oil plays, our increased price target of \$120 per share still portends a Hold rating on the stock at this juncture.

Additional Information

For additional information on EOG Resources, please see our previous notes:

February 18, 2011: [EOG Resources Inc \(EOG\) - 'Quick Read': Q410 Earnings Beat; Guides for Higher Costs](#)

January 13, 2011: [2011 E&P Sector Outlook - Still Higher Beta Play On S&P With An Eye On Natural Gas Prices](#)

January 11, 2011: [Fourth Quarter 2010 Earnings Preview - Continued Production Growth Underscores Higher EPS/CFPS](#)

November 3, 2010: [EOG Resources Inc \(EOG\) - Q3 Conference Call Highlights & Follow Up](#)

November 3, 2010: [EOG Resources Inc \(EOG\) - Quick Read: Q3 Beats, Production Outlook Slashed, Rating to Hold](#)

October 15, 2010: [EOG Resources Inc \(EOG\) - Model Update](#)

September 9, 2010: [Natural Gas Price Summer Wrap-Up and Outlook - Emerging Shale Plays Alter Landscape](#)

August 8, 2010: [EOG Resources Inc \(EOG\) - Production Outlook Unchanged, But EPS/CFPS Estimates Lowered](#)

August 5, 2010: [EOG Resources Inc \(EOG\) - Quick Read: Q2 In Line; Leonard Shale Announced; Capex Raised](#)

May 4, 2010: [EOG Resources Inc \(EOG\) - Q1 Results Highlight Focus on Oil Plays](#)

May 3, 2010: [EOG Resources Inc \(EOG\): Quick Read: Q1'10 Results Essentially in Line with Expectations](#)

April 7, 2010: [EOG Resources Inc \(EOG\): Oil Focus Shifts Into High Gear With Strong Growth Ahead](#)

April 7, 2010: [EOG Resources Inc \(EOG\): Analyst Day Headlines – Solid But No Big Surprises](#)

March 29, 2010: [EOG Resources Inc \(EOG\): Setting the Stage To Hand Off the Baton](#)

February 10, 2010: [EOG Resources Inc \(EOG\): Cost Guidance & Reserve Disclosure Disappoints; Holding Back On Operations Details For April 7th Analyst Meeting](#)

February 10, 2010: [EOG Resources Inc \(EOG\): Quick Read: Q4'09 Results Essentially in Line with Expectations](#)

December 7, 2009: [Oil and Gas Exploration & Production: E&P Shares Look To 2010 With An Eye On Commodity Prices](#)

Figure 1. EOG Resources Operating Summary

EOG Resources (For years ending December 31)	2008	2009	Q1	Q2	Q3	Q4	2010E	Q1E	Q2E	Q3E	Q4E	2011E	2012E	2013E
WTI Crude Oil (\$/Bbl)	\$99.74	\$61.76	\$78.84	\$77.88	\$76.09	\$85.16	\$79.49	\$90.00	\$88.00	\$90.00	\$93.00	\$90.00	\$90.00	\$90.00
Natural Gas Composite (\$/MMBtu)	\$8.36	\$3.78	\$5.15	\$4.22	\$4.18	\$3.77	\$4.33	\$4.10	\$3.75	\$4.00	\$5.15	\$4.25	\$5.50	\$5.50
Total Production														
Oil (Bbls/d)	45,511	55,164	63,800	69,700	77,400	87,800	74,748	90,700	104,835	121,683	141,691	114,886	150,453	179,796
NGL (Bbls/d)	15,973	23,606	24,600	28,400	31,900	36,500	30,387	35,000	37,620	40,513	43,642	39,221	45,496	50,046
Gas (Mcf/d)	1,619,028	1,645,192	1,621,000	1,629,000	1,722,800	1,778,000	1,688,075	1,640,000	1,599,050	1,605,228	1,611,725	1,613,889	1,657,182	1,688,547
Equivalent (Mcf/d)	1,987,938	2,117,808	2,151,400	2,217,600	2,377,800	2,523,800	2,318,835	2,394,200	2,453,780	2,578,401	2,723,725	2,538,541	2,832,879	3,067,600
Breakdown: Oil	13.7%	15.6%	17.8%	18.9%	19.5%	20.9%	19.3%	22.7%	25.6%	28.3%	31.2%	27.2%	31.9%	35.2%
NGL	4.8%	6.7%	6.9%	7.7%	8.0%	8.7%	7.9%	8.8%	9.2%	9.4%	9.6%	9.3%	9.6%	9.8%
Gas	81.4%	77.7%	75.3%	73.5%	72.4%	70.4%	72.8%	68.5%	65.2%	62.3%	59.2%	63.6%	58.5%	55.0%
Y-o-Y Growth	15%	7%	0%	7%	12%	19%	9%	11%	11%	8%	8%	9%	12%	8%
Sequential Growth			2%	3%	7%	6%		(5%)	2%	5%	6%			
INCOME STATEMENT (\$,000)														
Gas Sales	\$4,452,058	\$2,050,963	\$676,982	\$553,354	\$602,242	\$587,521	\$2,420,099	\$547,779	\$510,659	\$573,554	\$668,187	\$2,300,179	\$3,035,251	\$2,908,146
Oil, Condensate and NGL Sales	1,769,926	1,348,510	509,189	560,049	613,850	778,028	2,461,116	831,690	940,924	1,120,936	1,342,580	4,236,129	5,438,712	6,412,063
Realized Hedging Gains (Losses)	(136,625)	1,277,584	22,960	0	0	(18,147)	4,813	0	0	0	0	0	0	0
Mark-to-Market Hedging Gains (Losses)	734,536	(845,827)	(15,157)	37,015	60,998	(25,757)	57,099	0	0	0	0	0	0	0
Gains on Sales of Reserves and Other Assets	(321)	534,926	0	0	64,809	151,097	215,906	0	0	0	0	0	0	0
Other	143,036	13,687	4,776	11,674	6,205	8,528	31,183	0	0	0	0	0	0	0
EXP Operating Revenues	\$6,962,610	\$4,379,843	\$1,198,750	\$1,162,092	\$1,348,104	\$1,481,270	\$5,190,216	\$1,379,469	\$1,451,582	\$1,694,490	\$2,010,767	\$6,536,308	\$8,473,962	\$9,320,209
Lease Operating	\$833,201	\$862,619	\$254,703	\$255,079	\$284,183	\$289,654	\$1,083,619	\$310,288	\$321,543	\$341,587	\$360,839	\$1,334,257	\$1,503,409	\$1,623,527
Production Taxes	320,796	174,363	75,465	78,064	74,244	89,301	317,074	89,665	91,450	101,669	116,624	399,409	508,438	559,213
D.D. & A	1,326,875	1,549,188	431,906	465,343	500,888	543,789	1,941,926	553,778	585,030	633,358	681,585	2,453,752	2,799,451	3,023,120
Exploration & Dry Hole	249,053	220,835	74,274	69,449	50,007	66,137	259,867	61,250	62,774	65,962	69,680	259,667	272,650	286,283
Impairments	192,859	305,832	69,595	80,362	352,908	239,782	742,647	61,250	62,774	65,962	69,680	259,667	272,650	286,283
General & Administrative	243,708	248,274	60,423	64,737	81,310	74,004	280,474	75,000	80,000	82,000	85,000	322,000	333,270	344,934
EXP Operating Expenses	\$3,166,492	\$3,361,111	\$966,366	\$1,013,094	\$1,343,540	\$1,302,667	\$4,625,607	\$1,151,232	\$1,203,572	\$1,290,539	\$1,383,409	\$5,028,752	\$5,688,868	\$6,123,359
Operating Income	\$3,796,200	\$970,841	\$219,902	\$140,501	(\$11,695)	\$174,611	\$2,564,609	\$228,237	\$248,010	\$403,951	\$627,358	\$1,507,556	\$2,785,093	\$3,196,850
Interest Expense	51,658	100,901	25,428	29,897	32,890	41,371	129,586	45,000	45,000	45,000	45,000	180,000	193,574	214,933
Other Expenses (Income)	(31,013)	(2,071)	(2,683)	545	(5,772)	(6,333)	(14,243)	0	0	0	0	0	0	0
Income Taxes (Benefit)	1,309,621	325,384	79,142	50,187	32,093	85,900	247,322	72,931	76,372	138,373	227,299	514,976	1,012,332	1,166,068
Effective Tax Rate (Net of Credits)	35%	37%	40%	46%	-83%	62%	61%	43%	40%	40%	40%	40%	40%	40%
Preferred dividend	443	0	0	0	0	0	0	0	0	0	0	0	0	0
Reported Net Income (Loss)	2,436,491	546,627	118,015	59,872	(70,906)	53,673	160,654	98,672	114,558	207,560	340,949	761,738	1,518,498	1,749,102
Reported NI (Loss) Per Share	9.88	2.20	0.47	0.24	(0.29)	0.21	0.64	0.00	0.00	0.00	0.00	3.03	6.05	0.00
Recurring NI (Loss) Per Diluted Share	\$7.50	\$3.00	\$0.46	\$0.18	\$0.18	\$0.36	\$1.18	\$0.39	\$0.45	\$0.82	\$1.34	\$2.99	\$5.96	\$6.87
Discretionary Cash Flow	4,533,702	3,159,946	751,964	627,010	828,687	829,551	3,154,650	808,100	887,364	1,076,973	1,324,891	4,097,328	5,500,529	6,073,813
Cash Flow Per Share - Basic	18.38	12.69	3.00	2.50	3.30	3.30	12.57	3.22	3.54	4.29	5.28	16.32	21.91	24.20
Cash Flow Per Share - Diluted	\$18.10	\$12.98	\$2.96	\$2.46	\$3.30	\$3.26	\$12.44	\$3.22	\$3.54	\$4.29	\$5.28	\$16.32	\$21.91	\$24.20
Wtd. Average Shares Outstanding - Basic (,000)	246,662	248,972	250,370	250,800	251,015	251,356	250,888	251,015	251,015	251,015	251,015	251,015	251,015	251,015
Non-GAAP Wtd. Average Shares Outstanding - Diluted (,000)	250,542	251,716	253,869	253,869	254,572	254,716	254,660	254,572	254,572	254,572	254,572	254,572	254,572	254,572
COMPONENT ANALYSIS (\$/Mcf)														
Operating Revenues	8.36	6.05	6.24	5.52	5.56	5.80	5.77	6.40	6.50	7.14	8.02	7.05	8.17	8.32
Lease Operating	1.15	1.12	1.32	1.26	1.30	1.25	1.28	1.44	1.44	1.44	1.44	1.44	1.45	1.45
Gathering & Processing	0.06	0.07	0.08	0.07	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08
Production Taxes	0.44	0.23	0.39	0.39	0.34	0.38	0.37	0.42	0.41	0.43	0.47	0.43	0.49	0.50
D.D. & A	1.82	2.00	2.23	2.31	2.29	2.34	2.29	2.57	2.62	2.67	2.72	2.65	2.70	2.70
Exploration & Dry Hole	0.34	0.29	0.38	0.34	0.23	0.28	0.31	0.28	0.28	0.28	0.28	0.28	0.26	0.26
General & Administrative	0.33	0.32	0.31	0.32	0.37	0.32	0.33	0.35	0.36	0.35	0.34	0.35	0.32	0.31
Interest Expense	0.07	0.13	0.13	0.15	0.15	0.18	0.15	0.21	0.20	0.19	0.18	0.19	0.19	0.19
Discretionary Cash Flow	6.23	4.09	3.88	3.11	3.79	3.57	3.73	3.75	3.97	4.54	5.29	4.42	5.31	5.42
DISCRETIONARY CASH FLOW (\$,000)														
Net Income	2,436,491	546,627	118,015	59,872	(70,906)	53,673	160,654	98,672	114,558	207,560	340,949	761,738	1,518,498	1,749,102
D.D. & A	1,326,875	1,549,188	431,906	465,343	500,888	543,789	1,941,926	553,778	585,030	633,358	681,585	2,453,752	2,799,451	3,023,120
Deferred Taxes	1,133,630	174,392	36,695	(12,202)	28,574	23,178	76,245	21,879	48,114	87,175	143,198	300,367	556,783	641,338
Impairments	192,859	305,832	69,595	80,362	352,908	122,344	742,647	61,250	62,774	65,962	69,680	259,667	272,650	286,283
Exploration & Dry Hole	249,053	220,835	74,274	69,449	50,007	66,137	259,867	61,250	62,774	65,962	69,680	259,667	272,650	286,283
Capitalized Interest	(43,000)	(54,600)	(18,400)	(18,600)	(20,000)	(19,500)	(76,500)	(20,000)	(20,000)	(20,000)	(20,000)	(80,000)	(82,900)	(92,114)
Unrealized mark-to-market gains	(734,536)	845,827	15,157	(37,015)	(60,998)	25,757	(57,099)	0	0	0	0	0	0	0
Other	(27,670)	(428,155)	24,722	19,801	48,214	14,173	106,910	31,270	34,113	36,955	39,798	142,136	163,457	179,803
Discretionary Cash Flow	4,533,702	3,159,946	751,964	627,010	828,687	829,551	3,154,650	808,100	887,364	1,076,973	1,324,891	4,097,328	5,500,529	6,073,813

Source: Citi Investment Research and Analysis

EOG Resources Inc

Valuation

Our \$120 price target is based on the company achieving a enterprise value to discretionary cash flow (EV/DACF) multiple of 7.8x and 6.8x our 2011 and 2012 estimates, respectively, based on “normalized” WTI spot crude oil and composite spot natural gas prices of \$90.00/Bbl and \$5.50/MMBtu, respectively, and ~137% 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

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

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EOG Resources Inc (EOG) Ratings and Target Price History Fundamental Research

Analyst: Robert S Morris
Covered since December 7 2009

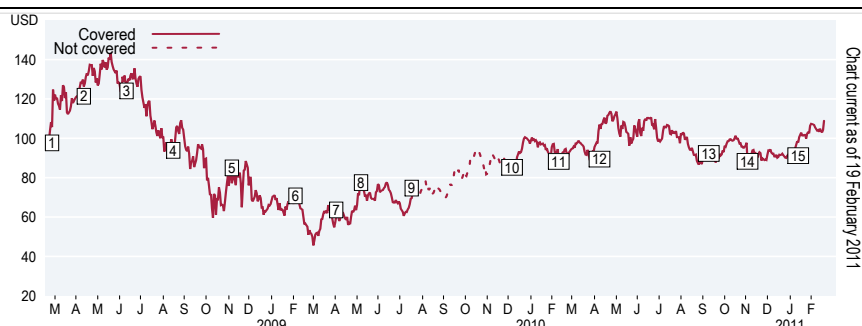


Chart current as of 19 February 2011

	Date	Rating	Target Price	Closing Price
1	27-Feb-08	*2H	*112.00	105.68
2	11-Apr-08	2H	*138.00	126.32
3	11-Jun-08	2H	*139.00	128.39
4	15-Aug-08	2H	*106.00	95.60
5	6-Nov-08	*1H	*95.00	77.17

* Indicates change

	Date	Rating	Target Price	Closing Price
6	4-Feb-09	1H	*88.00	68.58
7	2-Apr-09	1H	*70.00	60.33
8	7-May-09	*2H	*82.00	73.52
9	17-Jul-09	Coverage terminated		
10	7-Dec-09	*1M	*110.00	87.27

	Date	Rating	Target Price	Closing Price
11	10-Feb-10	1M	*102.00	88.24
12	8-Apr-10	1M	*120.00	106.96
13	9-Sep-10	1M	*110.00	89.37
14	3-Nov-10	*2M	*95.00	88.64
15	13-Jan-11	2M	*105.00	97.86

Rating/target price changes above reflect Eastern Standard Time

EOG Resources Inc (EOG) Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Robert S Morris
Covered since December 7 2009

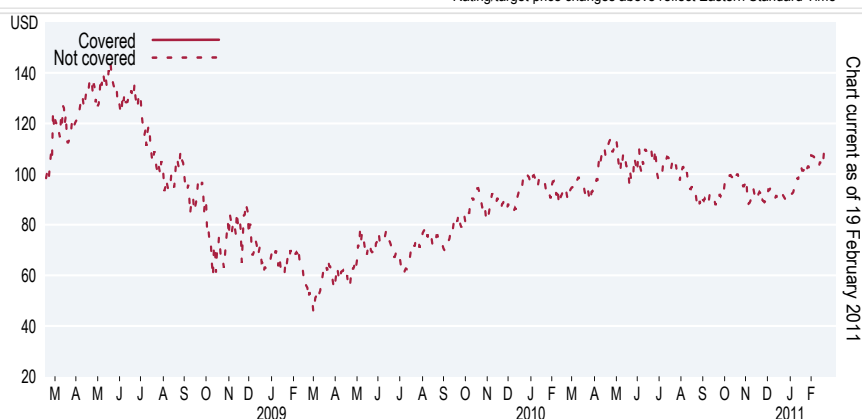


Chart current as of 19 February 2011

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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12 Month Rating			Relative Rating		
Buy	Hold	Sell	Buy	Hold	Sell
52%	37%	11%	0%	100%	0%

% of companies in each rating category that are investment banking clients 45% 44% 40% 0% 44% 0%

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