

EOG RES INC

(EOG-NYSE)

Current Recommendation	Strong Buy
Prior Recommendation	Hold
Date of Last Change	03/21/2003
Current Price (03/27/2003)	\$39.56
Target Price	\$45.00

OUTLOOK

We are maintaining our 2003 earnings estimate for EOG of \$2.68 and increasing our 2004 estimate from \$1.92 to \$2.11. We are also increasing 2003 revenue estimates from \$1,488M to \$1,508M and for Year 2004 from \$1,446 to \$1,498. We recently upgraded EOG to a Strong Buy since the company was able to significantly increase Q402 earnings over the year ago period in the midst of unpredictable natural gas prices. Moreover, the company expects natural gas production to increase this year. Industry fundamentals remain strong.

SUMMARY DATA

52 Week High	\$44.15
52 Week Low	\$30.02
One Year Return (%)	-1.86
Beta	0.90
Average Daily Volume (1000s)	952,700

Risk Level	BELOW AVG.
Type of Stock	Large-Blend
Industry	OIL-US EXP&PROD
Company Rank in Industry	36 of 63

Shares Outstanding (mil)	115
Market Capitalization (\$mil)	\$4,549
Short Interest Ratio (days)	3.71
Institution Ownership (%)	94
Insider Ownership (%)	1

Annual Cash Dividend	\$0.16
Dividend Yield (%)	0.41

PE using 12 months EPS	52.05
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Historical Growth Rates	
Sales (%)	16
Earnings Per Share (%)	40
Dividend (%)	9

P/E using 2003 Estimate	14.76
P/E using 2004 Estimate	18.75

Zacks Rank	1
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ZACKS ESTIMATES

Revenue

(in millions of \$)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2001	597 A	466 A	354 A	237 A	1,655 A
2002	187 A	291 A	280 A	338 A	1,095 A
2003	438 E	351 E	349 E	374 E	1,508 E
2004	N/A E	N/A E	N/A E	N/A E	1,498 E

Earnings per Share

(EPS is operating earnings before non recurring items)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2001	\$1.79 A	\$1.13 A	\$0.59 A	-\$0.15 A	\$3.30 A
2002	\$0.02 A	\$0.19 A	\$0.22 A	\$0.36 A	\$0.76 A
2003	\$1.02 E	\$0.62 E	\$0.52 E	\$0.59 E	\$2.68 E
2004	N/A E	N/A E	N/A E	N/A E	\$2.11 E

Zacks Projected EPS Growth Rate- Next 5 Yrs	7
Consensus Projected EPS Growth - Next 5 Years %	8

KEY POINTS

- **Industry fundamentals are strong: commodity prices are likely to remain high and therefore E&P stocks are poised for more growth.**
- **EOG stands to benefit from anticipated natural gas production and strong growth prospects in Trinidad.**
- **In 2003 and beyond, EOG is positioned to reap the benefits of its consistent business and operational strategies.**
- **The company's strong earnings turnaround in Q402 prompted inclusion in Zacks #1 Ranked Group.**
- **Current Target price of \$45.00 – 14% above current price.**

OVERVIEW

EOG Resources, Inc. explores, develops, produces and markets natural gas and crude oil primarily in major producing basins in the United States, as well as in Canada and Trinidad, and, to a lesser extent, other international areas. EOG Resources is one of the largest independent (non-integrated) oil and gas companies in the United States. The Company's operations are mainly natural gas and crude oil exploration and production. As of December 31, 2002, the Company's estimated net proved natural gas reserves were 4,091 billion cubic feet and estimated net proved crude oil, condensate and natural gas liquids reserves were 85 million barrels. Approximately 49% of EOG's reserves, on a natural gas equivalent basis, were located in the United States, 19% in Canada and 32% in Trinidad.

Fourth quarter 2002 net income available to common was \$41.7 million, or \$0.36 per share, which compares to a net loss available to common of \$27.6 million, or a loss of \$0.24 per share in the year ago period. For the full year 2002, EOG reported net income available to common was \$76.1 million, or \$0.65 per share. This compares to full year 2001 net income available to common of \$387.6 million, or \$3.30 per share.

Despite disappointing natural gas prices in the first half of 2002, the company continued their drilling momentum and was able to increase volumes consistent with higher prices during the fourth quarter. In 2002, EOG achieved several significant milestones including increased natural gas production, exploration success, and the signing of a 25-year licensing agreement and production-sharing contract.

In 2002 EOG increased total company reserves by 9% to approximately 4.6 trillion cubic feet equivalent at December 31, 2002 and replaced 193% of production from all sources and 160% of production from drilling alone. In addition, the company achieved a 158% reserve replacement in North America at a total all-in finding cost of \$1.42, down 10% from 2001.

The company expects EOG's North American natural gas production to increase with strong growth in Trinidad and projects that higher natural gas commodity prices will be sustained for at least several years. EOG has elected to secure price protection for slightly over 20% of EOG's 2003 North American natural gas production through collars and financial price swaps.

EOG continued to strengthen its capital structure in 2002 by repurchasing 700,000 shares of common stock, resulting in 114.4 million basic shares outstanding at December 31, 2002, the eighth consecutive year of share count reduction.

INDUSTRY OUTLOOK

The strength in oil prices has persisted much longer than many anticipated, as the Iraqi conflict has taken quite a while to resolve and oil inventories have continued to decline largely as a result of cold winter temperatures and declining Venezuelan crude exports. Oil prices are not expected to remain strong through the summer and to trend back towards the mid \$20 per barrel range. Despite the recent drop in both oil and natural gas prices and warmer weather, analysts believe the fundamentals still support natural gas prices north of \$5 per billion cubic feet for the remainder of the year.

In addition, Iraq remains offline, and it will likely stay that way until the regime has been changed. Shippers are not going to enter into financial contracts with Iraq at this time. Meanwhile, the war seems contained enough to stay confined to Iraq, and the rest of the Middle East has been greatly increasing shipments to take advantage of the Iraqi gap. Analysts believe that it may take several months after the end of the Iraqi conflict to rebuild oil inventories. But once inventories are rebuilt, prices should hold within OPEC's target range of \$22-\$28 per barrel in the Middle East, which translates into roughly \$25 to \$30 per barrel in the U.S.

Crude imports surged to 9.7 millions barrels per day, reflecting the recovery of short-haul Venezuelan supply and a flood of Mid-East cargoes finally getting to U.S. shores. Product imports surged as well, to the highest levels in two years, at 3.2 million barrels. U.S. gasoline inventories fell, but are only 3.4% below normal, and refiners should have time to build ahead of driving season amid higher product imports.

Before the Iraq war, OPEC production was close to 28 million barrels per day. Excluding Iraq, OPEC crude is running about 26 million barrels per day but meanwhile, the "call" on OPEC crude is only expected to be 23.8 million barrels per day in Q203. This should allow inventories to see a decent-size seasonal build.

INDUSTRY POSITION

Analysts continue to be very positive on E&P stocks for three key reasons: 1) natural gas and oil prices are likely to remain higher than many investors anticipate; 2) the current market valuations of E&P stocks have not meaningfully incorporated the substantial increase in commodity prices that have occurred over the last six months; and 3) implied valuations of reserves in the ground are very cheap.

Finally, the recent sharp pullback in spot natural gas prices from roughly \$7.00/Mcf to about \$5.40/Mcf over the last two weeks has sparked a dramatic sell-off in the E&P sector, particularly in the small and mid-cap stocks. Furthermore, the unwarranted sector rotation out of energy and into the broader market has exacerbated the recent decline. Given the view for sustained strength in the gas markets, this sell-off presents a compelling opportunity for investors.

Analysts favor E&P companies with significant natural gas exposure, strong production growth profiles and/or relatively low current market valuations.

Top 5 Public Companies in the industry			
<i>Ticker</i>	<i>Company</i>	<i>Market Share</i>	<i>Zacks Rec</i>
DVN	Devon Energy	14%	Buy
APC	Anadarko Petrol	13%	Hold
BR	Burlngtn Res	10%	Buy
APA	Apache Corp	9%	Hold
NBL	Noble Energy	5%	Hold

RECENT NEWS

In February of this year EOG's Board of Directors declared its regular quarterly dividend of \$.04 per share on its common stock, payable April 30, 2003 to shareholders of record as of April 16, 2003. The indicated annual rate is \$0.16.

On March 20th, we released our list of stocks that are #1 Ranked (Strong Buys) that, by definition, produced an average annual return of +33.6% since 1988 and has gained +13.3% annually since 2000. Among the #1 ranked stocks highlighted was EOG. We feel the dramatic improvements in Q402 earnings from the year ago period in spite of unpredictable natural gas prices for the industry bodes well for the stock. Moreover, looking forward to 2003, EOG expects its North American natural gas production to increase and expects strong growth in Trinidad. The company's earnings estimates for this year and next have improved over the past several months with recent further advances.

VALUATION

The current price target for EOG is \$45.00. The company stands to benefit from anticipated increase in natural gas production and strong industry fundamentals.

Our valuation of EOG is based on a three-stage dividend discount model consisting of a growth, transition, and maturity stage. With EOG, we anticipate five years of earnings growth at the projected rate of 7%.

RISKS

According to our research, the Company's 12-month P/E of 49.7 is high relative to the industry average of 22.0. EOG's return on equity is 6% versus 7% for the industry average and 15% for the S&P 500. The Zacks industry group consists of 123 companies. More significant, EOG's debt-to-equity ratio is at 69%.

Other risk factors include:

- Demand determined by the current economic and political environment, fuel price changes and weather conditions.
- The current recession and interest rate volatility.

SIGNALING & OWNERSHIP

Currently, the three largest holders of the stock are Davis Selected Advisers (9%), Capital Research (8%) and Fidelity Management & Research (5%). Together they control in aggregate roughly 22% of the shares. There has been some insider trading in the past three months. Gary Thomas, Executive Vice President sold 8,000 shares on February 25th and 46,060 shares on March 10th. Edward Randall, Director, sold 12,500 shares on March 6th and Loren Leiker, Executive Vice President, sold 28,000 shares on March 10th. Lastly Frank Wisner, Director, sold 10,000 shares on March 12th.

PROJECTED INCOME STATEMENT & BALANCE SHEET

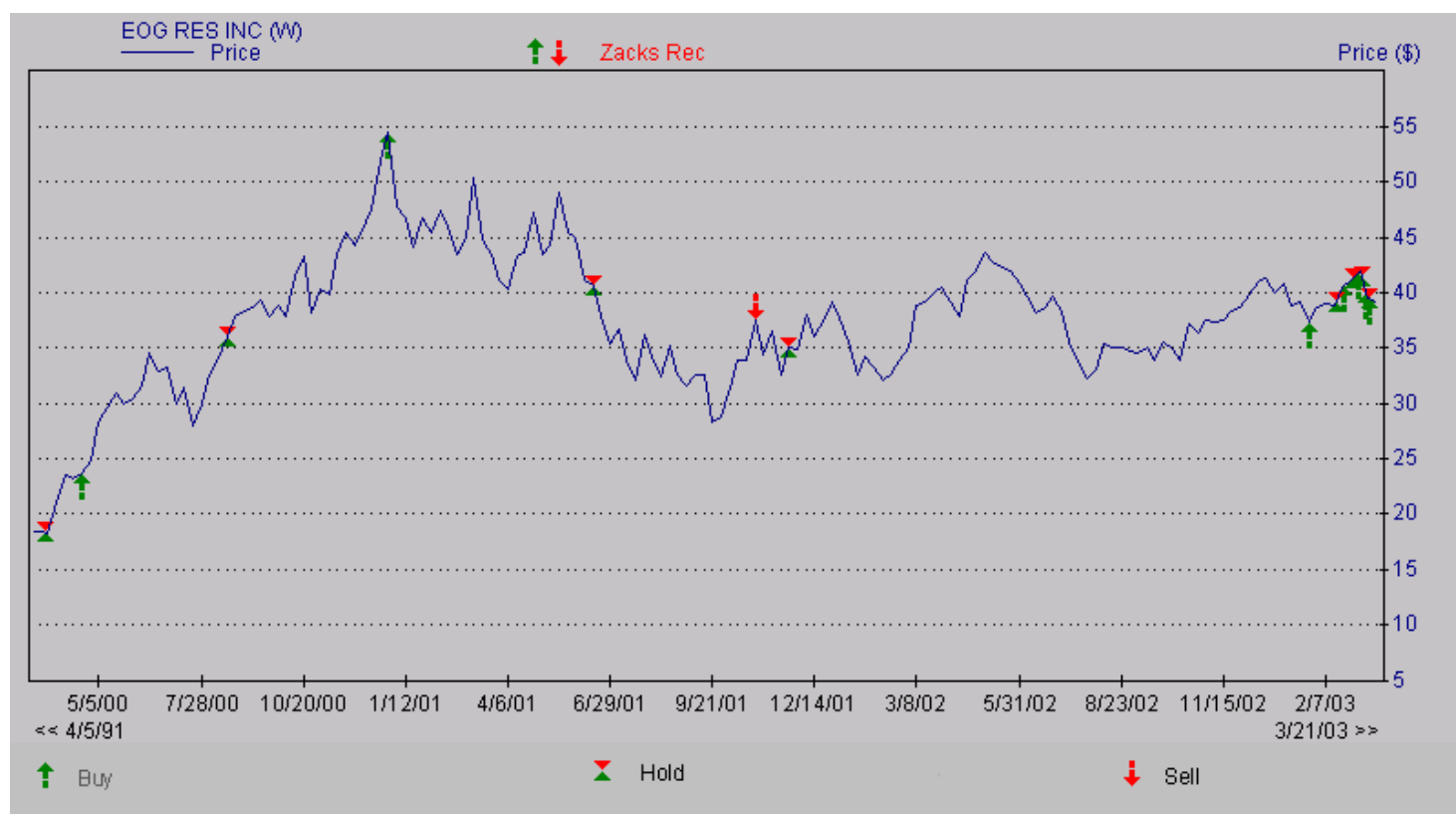
EOG RES INC

Income Statement and Balance Sheet

(Dollars in millions, except EPS data)

	12/98	12/99	12/00	12/01	12/02	12/03E
Sales	769	801	1,490	1,655	1,095	1,488
Cost of Goods Sold	99	188	0	0	286	389
SG&A	121	83	303	490	161	219
Other operating expenses	404	460	437	392	260	353
Interest and other	90	-498	353	374	163	221
Zacks Adjusted Income before NRI	56	67	397	388	89	310
Net Income	56	569	397	399	87	310
Diluted EPS before NRI	0.36	0.48	3.24	3.30	0.76	2.69
Reported EPS	0.36	4.04	3.24	3.30	0.65	2.69
Cash & Marketable Securities	6	25	20	3	10	10
Current Assets	246	201	394	272	395	395
Current Liabilities	263	219	370	311	276	276
Long Term Debt	1,143	990	859	856	1,145	1,145
Shareholder's Equity	1,280	1,130	1,381	1,643	1,672	1,982

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

The analyst writing this report holds no position in the company.

Zacks Rank

Zacks Buy, Hold, Sell recommendations are based on the value of the Zacks Rank, which can equal 1,2,3,4,5 and on the Zacks Analysts assessment of the investment potential of the company. Details on how the Zacks Rank is calculated can be found in the book "Ahead of the Market" by Mitch Zacks, published by Harper Collins, 2003

Zacks EPS and Revenue Forecasts

Zacks forecasts of EPS and Revenue are based on a historical analysis of the EPS and Revenue accuracy of the brokerage analysts who have forecast EPS and Revenue over the last eight years. The Zacks EPS forecast is not the consensus forecast.