

Rating: Buy
S&P 500: 1386

Berry Petroleum Company **Election Winner**

<i>Symbol</i>	BRY	<i>Ebitda Next Twelve Months ending 9/30/07 (US\$m)</i>	292
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	17
<i>Price (\$/sh)</i>	30.97	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/8/06	<i>Adjusted Reserves/Production NTM</i>	10.1
<i>Shares (mm)</i>	45	<i>EV/Ebitda</i>	6.6
<i>Market Capitalization (\$mm)</i>	1,380	<i>PV/Ebitda</i>	8.6
<i>Debt (\$mm)</i>	540	<i>Undeveloped Reserves (%)</i>	29
<i>Enterprise Value (EV) (\$mm)</i>	1,930	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	29.50
<i>Present Value (PV) (\$mm)</i>	2,510	<i>Present Value Proven Reserves(\$/boe)</i>	17.10
<i>Net Present Value (\$/share)</i>	44	<i>Present Value Proven Reserves(\$/mcf)</i>	2.90
<i>Debt/Present Value</i>	0.22	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.81
<i>McDep Ratio - EV/PV</i>	0.77	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	1.0	<i>Indicated Annual Dividend (US\$/sh)</i>	0.31

Note: Estimated cash flow and earnings tied to one-year futures prices for natural gas and oil.

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\$60 a barrel and natural gas, \$10 a million btu.

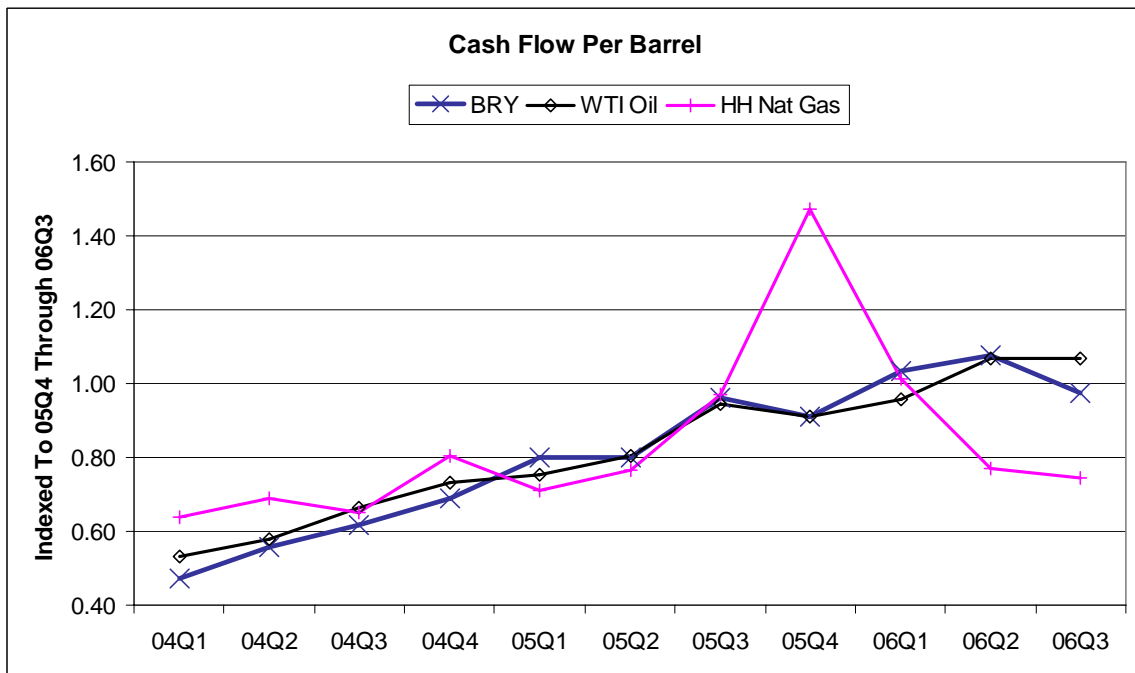
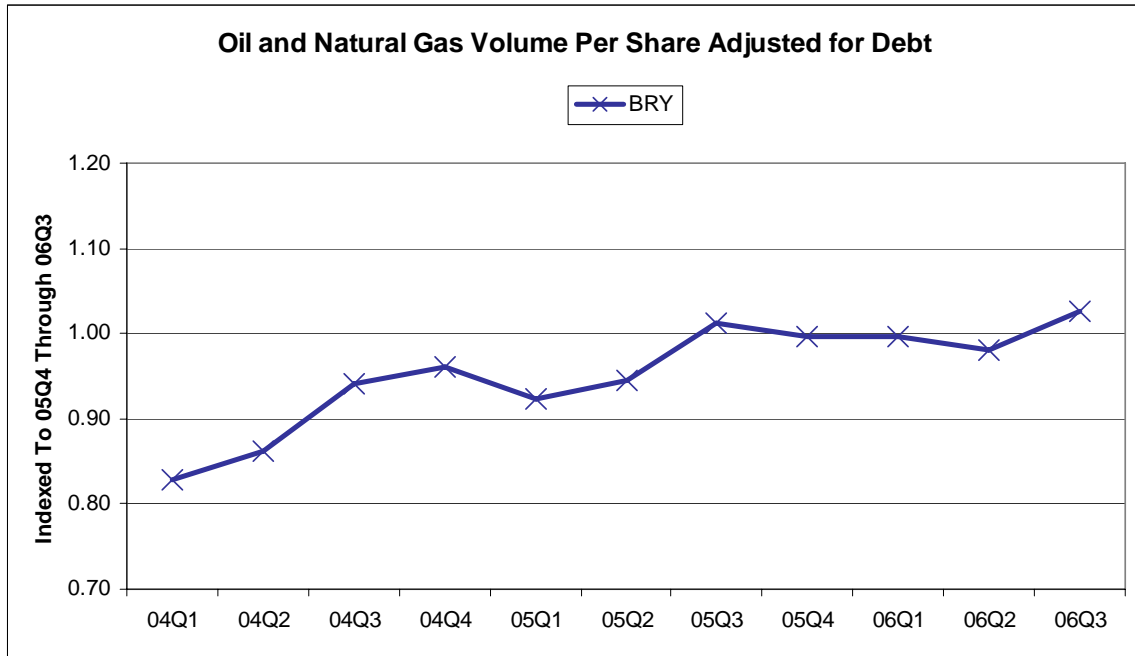
For historical research on Berry since 2004 see <http://www.mcdep.com/4bry.htm>

Summary and Recommendation

Buy-recommended **Berry Petroleum (BRY)** at a McDep Ratio of 0.77 offers unlevered appreciation potential of 30% to estimated present value. On the quarterly call on November 8, management had reason to celebrate after California voters turned down an oil tax on local production advocated by former President Clinton and Vice President Gore among others. The news is also good for volume as third quarter operations trace a rising trend in oil and gas production (see chart [Oil and Natural Gas Volume](#)). Cash flow margin slipped as a result of steeper location discounts on price and rising costs in the Rocky Mountains (see chart [Cash Flow per Barrel](#)). A difference of \$7 a share persists between our estimate of Net Present Value at \$44 a share and that indicated by correlating the rate of production relative to reserves with present value as a multiple of cash flow for some thirty natural gas and oil producers (see table [Functional Cash Flow and Present Value](#)). About \$5 a share of the difference reflects the present value of diatomite oil reserves declared commercial a few days ago (see *Stock Idea*, Berry, November 6, 2006). Below the 200-day average price signifying an out-of-favor stock, small cap Berry has a half weighting in our illustrative energy portfolio concentrated on real assets that promise a high return providing clean fuel for global growth.

Kurt H. Wulff, CFA

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Berry Petroleum Company
Quarterly Results

	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next Twelve Months</i>
	<i>9/30/05</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>9/30/07</i>
Volume									
Natural Gas (mmcf)	21.8	31.1	37.4	40.0	34.3	40.0	40.0	40.0	40.0
Oil (mbd)	20.00	19.59	20.19	20.50	19.75	20.50	20.50	20.50	20.50
Total (mb)	2,174	2,254	2,430	2,499	9,295	2,445	2,472	2,499	9,916
Total (mbd)	23.6	24.8	26.4	27.2	25.5	27.2	27.2	27.2	27.2
Price									
Henry Hub (\$/mmbtu)	8.56	6.81	6.58	6.29	7.16	8.01	7.54	7.75	7.40
Differential (\$/mmbtu)	0.78	1.22	1.72	1.65	1.79	1.65	1.97	2.03	1.94
Company (\$/mcf)	7.78	5.59	4.86	4.64	5.37	5.91	5.57	5.72	5.46
WTI Cushing (\$/bbl)	62.52	70.47	70.42	59.63	65.96	62.91	65.38	66.80	63.68
Differential	10.68	13.90	13.85	11.73	12.79	12.37	12.86	13.14	12.52
Company	51.84	56.57	56.57	47.90	53.17	50.53	52.52	53.66	51.16
Total (\$/bbl)	51.05	51.76	50.11	42.98	48.47	46.83	47.83	48.92	46.64
Revenue (\$mm)									
Natural Gas	16	16	17	17	67	21	20	21	80
Oil	95	101	105	90	383	93	98	101	383
Other, incl hedge	(15)	(6)	(6)		(14)				
Total	96	111	116	107	436	115	118	122	462
Expense									
Lease operating	28	31	36	29	125	33	34	36	133
General and administrative	6	8	9	9	35	9	9	9	38
Total	34	38	46	38	160	42	44	46	170
Ebitda	62	72	71	69	277	72	74	76	292
Exploration	4	3	1	2	13	3	3	3	11
Deprec., Deplet., & Amort.	10	17	19	19	69	19	19	19	75
Other, incl hedge	(1)	(3)	(0)	1	2	(0)	1	0	2
Ebit	50	55	52	47	194	51	52	54	204
Interest	2	3	3	3	10	3	3	3	11
Ebt	49	52	49	44	184	48	49	52	193
Income Tax	15	18	17	15	66	17	17	18	68
Net Income (\$mm)	34	34	32	29	118	31	32	34	126
Per Share (\$)	0.76	0.76	0.71	0.64	2.63	0.70	0.72	0.75	2.81
Shares (millions)									
Lease operating (\$/bbl)	12.92	13.53	14.91	11.63	13.43	13.34	13.95	14.60	13.38
General and admin (\$/bbl)	2.76	3.51	3.87	3.76	3.73	3.84	3.80	3.76	3.79
Deprec., D, & A (\$/bbl)	4.42	7.54	7.74	7.52	7.38	7.69	7.60	7.52	7.58
Ebitda Margin	65%	65%	61%	64%	63%	63%	63%	62%	63%
Tax rate	30%	35%	35%	35%	36%	35%	35%	35%	35%

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Berry Petroleum Company
Functional Cash Flow and Present Value

	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	50	8.2	8.0	400	16%
Oil	242	10.6	8.7	2,110	84%
	292	10.1	8.6	2,510	100%
Debt (US\$mm)					540
Net Present Value (US\$mm)					1,970
Shares (mm)					45
Net Present Value - Standard Estimate (US\$/sh)					44
Net Present Value - Approximation by Correlation (US\$/sh)					37

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