



# Independent Stock Idea

July 25, 2008

rating: buy  
s&p 500: 1258 intraday

## Berry Petroleum (BRY) A Bit of Haynesville Glamour

<i>Symbol</i>	BRY	<i>Ebitda Next Twelve Months ending 6/30/09 (US\$mm)</i>	716
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	23
<i>Price (\$/sh)</i>	43.41	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	7/25/08	<i>Adjusted Reserves/Production NTM</i>	9.7
<i>Shares (mm)</i>	46	<i>EV/Ebitda</i>	5.2
<i>Market Capitalization (\$mm)</i>	1,980	<i>PV/Ebitda</i>	6.6
<i>Debt (\$mm)</i>	1,760	<i>Undeveloped Reserves (%)</i>	47
<i>Enterprise Value (EV) (\$mm)</i>	3,730	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	55.80
<i>Present Value (PV) (\$mm)</i>	4,720	<i>Present Value Proven Reserves(\$/boe)</i>	20.90
<i>Net Present Value (\$/share)</i>	65	<i>Present Value Proven Reserves(\$/mcf)</i>	3.50
<i>Debt/Present Value</i>	0.37	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.40
<i>McDep Ratio - EV/PV</i>	0.79	<i>Price/Earnings Next Twelve Months</i>	10
<i>Dividend Yield (%/year)</i>	0.7	<i>Indicated Annual Dividend (US\$/sh)</i>	0.30
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\$100 a barrel and natural gas, \$14 a million btu.			
For historical research on Berry since 2004 see <a href="http://www.mcdep.com/4bry.htm">http://www.mcdep.com/4bry.htm</a>			

### Summary and Recommendation

Buy-recommended **Berry Petroleum (BRY)** offers unlevered appreciation potential of 26% to estimated net present value (NPV) of \$65 a share. On May 13 we raised NPV from \$50 a share on the basis of a long-term oil price assumption of \$100 a barrel, up from \$80. However, patience may be necessary as BRY stock price has entered a downtrend defined by current quote below the 200-day average of \$47. Released today, second quarter results displayed strength in production driven by higher crude oil and natural gas price while hedging dampened earnings. Projected volumes along with current futures prices promise a continuing high level of unlevered cash flow (Ebitda) (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 acquisition of natural gas properties in East Texas includes 1500 acres of Haynesville shale where three completed vertical wells point to prospective high volume horizontal wells. Berry's growing overall volume has been accompanied by an escalation of debt that may require more hedging or an equity offering if market conditions are more favorable. Meanwhile long-term crude oil price continues in an uptrend where the latest quote of \$124 a barrel for delivery over the next six years is above the 40-week average of \$103 (see chart [Six-Year Commodity Price Meter](#)).

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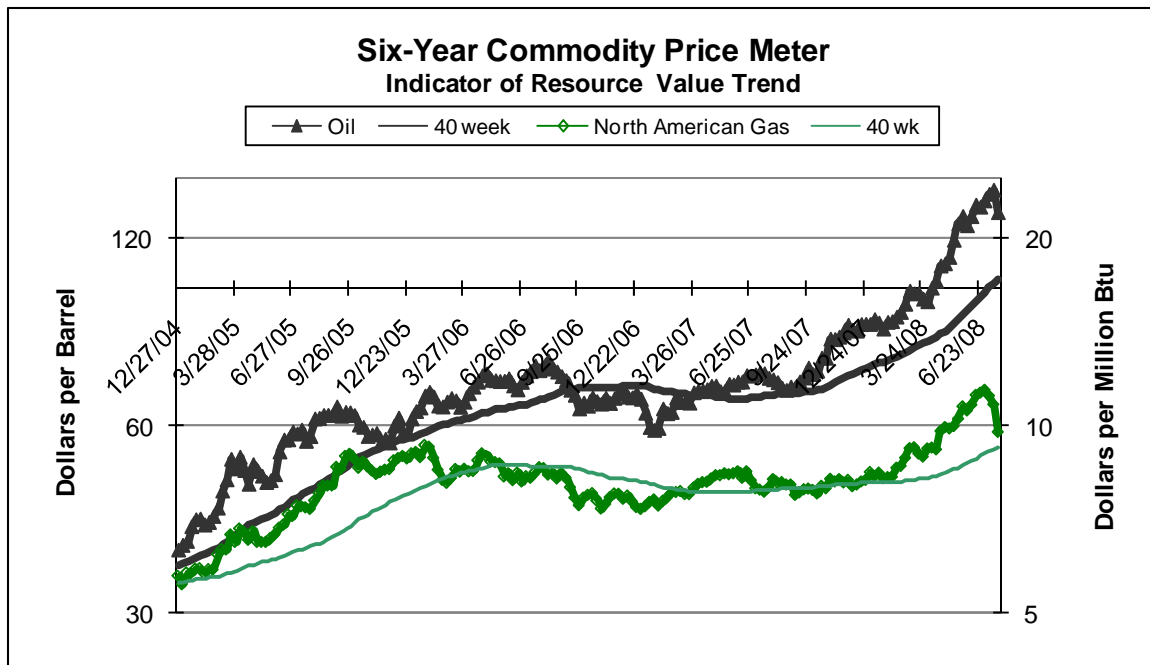
Berry Petroleum Company									
Next Twelve Months Operating and Financial Estimates									
									<i>Next</i>
	<i>Q2</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Months</i>
	<i>6/30/07</i>	<i>3/31/08</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008E</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>6/30/09</i>
<b>Volume</b>									
Natural Gas (mmcf/d)	42.2	49.1	50.3	73	81	<b>63</b>	81	81	<b>79</b>
Days	91	91	91	92	92	<b>366</b>	90	91	<b>365</b>
Oil (mbd)	20.16	19.89	20.61	22.00	22.00	<b>21.13</b>	22.00	22.00	<b>22.00</b>
Total (mb)	2,475	2,554	2,639	3,143	3,268	<b>11,604</b>	3,197	3,232	<b>12,839</b>
Total (mbd)	27.2	28.1	29.0	34.2	35.5	<b>31.7</b>	35.5	35.5	<b>35.2</b>
<b>Price</b>									
Henry Hub (\$/mmbtu)	7.56	8.02	10.93	11.40	11.05	<b>10.35</b>	11.54	10.78	<b>11.19</b>
Differential (\$/mmbtu)	3.20	0.47	1.60	1.67	1.62	<b>1.22</b>	1.50	1.40	<b>1.55</b>
Company (\$/mcf)	4.36	7.55	9.33	9.73	9.43	<b>9.14</b>	10.04	9.37	<b>9.64</b>
WTI Cushing (\$/bbl)	64.91	97.94	123.97	132.68	132.66	<b>121.82</b>	133.52	132.25	<b>132.78</b>
Differential	13.33	15.36	17.61	18.85	18.85	<b>17.11</b>	18.97	18.58	<b>18.81</b>
Company	51.58	82.58	106.36	113.83	113.81	<b>104.70</b>	114.55	113.67	<b>113.96</b>
Total (\$/bbl)	45.01	71.71	91.79	94.09	92.03	<b>88.06</b>	93.87	91.82	<b>92.94</b>
<b>Revenue (\$mm)</b>									
Natural Gas	17	34	43	65	70	<b>212</b>	73	69	<b>278</b>
Oil	95	149	199	230	230	<b>810</b>	227	228	<b>915</b>
Other, incl hedge	2	(19)	(57)			<b>(76)</b>			
Total	113	164	185	296	301	<b>945</b>	300	297	<b>1,193</b>
<b>Expense</b>									
Lease operating	40	48	63	107	109	<b>326</b>	110	109	<b>435</b>
General and administrative	10	11	11	11	11	<b>45</b>	10	10	<b>42</b>
Total	50	59	74	118	120	<b>371</b>	120	119	<b>477</b>
<b>Ebitda</b>	64	105	111	177	180	<b>574</b>	180	178	<b>716</b>
Exploration	4	4	4	4	4	<b>15</b>	3	3	<b>13</b>
Deprec., Deplet., & Amort.	24	28	30	35	36	<b>128</b>	35	36	<b>141</b>
Other, incl hedge	(5)	3	(2)	50	50	<b>101</b>	50	50	<b>200</b>
<b>Ebit</b>	41	70	80	89	91	<b>330</b>	92	90	<b>362</b>
Interest	5	4	4	11	14	<b>33</b>	14	14	<b>53</b>
<b>Ebt</b>	36	66	76	78	77	<b>297</b>	78	76	<b>309</b>
Income Tax	13	23	27	27	27	<b>104</b>	27	26	<b>108</b>
<b>Net Income (\$mm)</b>	23	43	49	51	50	<b>193</b>	51	49	<b>201</b>
Per Share (\$)	0.52	0.95	1.08	1.12	1.10	<b>4.24</b>	1.11	1.08	<b>4.40</b>
<b>Shares (millions)</b>	45	45	46	46	46	<b>46</b>	46	46	<b>46</b>
Lease operating (\$/bbl)	16.11	18.64	23.76	34.07	33.39	<b>28.14</b>	34.42	33.63	<b>33.87</b>
General and admin (\$/bbl)	3.92	4.46	4.24	3.56	3.43	<b>3.88</b>	3.13	3.09	<b>3.30</b>
Deprec., D, & A (\$/bbl)	9.86	10.88	11.25	11.00	11.00	<b>11.03</b>	11.00	11.00	<b>11.00</b>
Ebitda Margin	56%	64%	60%	60%	60%	<b>61%</b>	60%	60%	<b>60%</b>
Tax rate	35%	35%	35%	35%	35%	<b>35%</b>	35%	35%	<b>35%</b>



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Berry Petroleum Company					
Functional Cash Flow and Present Value					
				Present	
	NTM Ebitda	Adjusted	PV/	Value	
	(US\$mm)	R/P	Ebitda	(US\$mm)	
North American Natural Gas	170	15.5	10.6	1,800	38%
Oil	546	7.6	5.3	2,920	62%
	716	9.7	6.6	4,720	100%
Debt (US\$mm)					1,760
Net Present Value (US\$mm)					2,960
Shares (mm)					46
Net Present Value - Standard Estimate (US\$/sh)					65
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					65





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