



Independent Stock Idea

May 6, 2009

rating: hold
s&p 500: 920

Penn West Energy Trust (PWE) Transitioning to Exploration and Production Company

<i>Symbol</i>	PWE	<i>Ebitda Next Twelve Months ending 3/31/10 (US\$mm)</i>	1,220
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	27
<i>Price (US\$/un)</i>	12.36	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	5/6/09	<i>Adjusted Reserves/Production NTM</i>	8.1
<i>Units (mm)</i>	399	<i>EV/Ebitda</i>	7.2
<i>Market Capitalization (US\$mm)</i>	4,900	<i>PV/Ebitda</i>	11.3
<i>Debt (US\$mm)</i>	3,800	<i>Undeveloped Reserves (%)</i>	10
<i>Enterprise Value (EV) (US\$mm)</i>	8,800	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	19.78
<i>Present Value (PV) (US\$mm)</i>	13,800	<i>Present Value Proven Reserves(US\$/boe)</i>	25.99
<i>Net Present Value (US\$/unit)</i>	25	<i>Oil and Gas Ebitda Margin (%)</i>	61
<i>Debt/Present Value</i>	0.28	<i>Earnings Next Twelve Months (US\$/un)</i>	
<i>McDep Ratio - EV/PV</i>	0.63	<i>Price/Earnings Next Twelve Months</i>	
<i>Distribution Yield (%/year)</i>	12.5	<i>Indicated Annual Distribution (US\$/un)</i>	1.54
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.			
Reported results may vary widely from estimates. Estimated present value per unit revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$75 a barrel and natural gas, \$10 a million btu.			
For historical analysis of PWE since 2005 see www.mcdep.com/5pwt.htm			

Summary and Recommendation

Hold-rated **Penn West Energy Trust (PWE)** offers unlevered appreciation potential of 58% to a McDep Ratio of 1.0 and levered appreciation potential of 102% to Net Present Value (NPV) of US\$25 a share. During the first quarter, according to results released today, the company generated cash from oil and gas production of about US\$12 a barrel of oil equivalent as the difference between price of about US\$33 and cash operating costs of about US\$21. Unlevered cash flow (Ebitda) was less than our expectations from three months ago, though hedging helped diminish the impact of low market pricing. Meanwhile, after the reduction in the past month, PWE's cash distribution is back under 60% of projected Ebitda minus interest (see table [Next Twelve Months Operating and Financial Estimates](#)). Our valuation capitalizes cash flow at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) for natural gas and oil (see table [Functional Cash Flow and Present Value](#)). Pointing to expected oil price recovery, futures prices for the next six years averaged near US\$71 a barrel recently (see charts [Six-Year Commodity Price Meter](#) and [Six-Year and One-Year Natural Gas and Oil Futures](#)). As oil price trends higher, management would likely use the incremental cash flow to reduce debt rather than increase the distribution as PWE undergoes a tax-induced transition from income trust to exploration and production company.

Kurt H. Wulff, CFA



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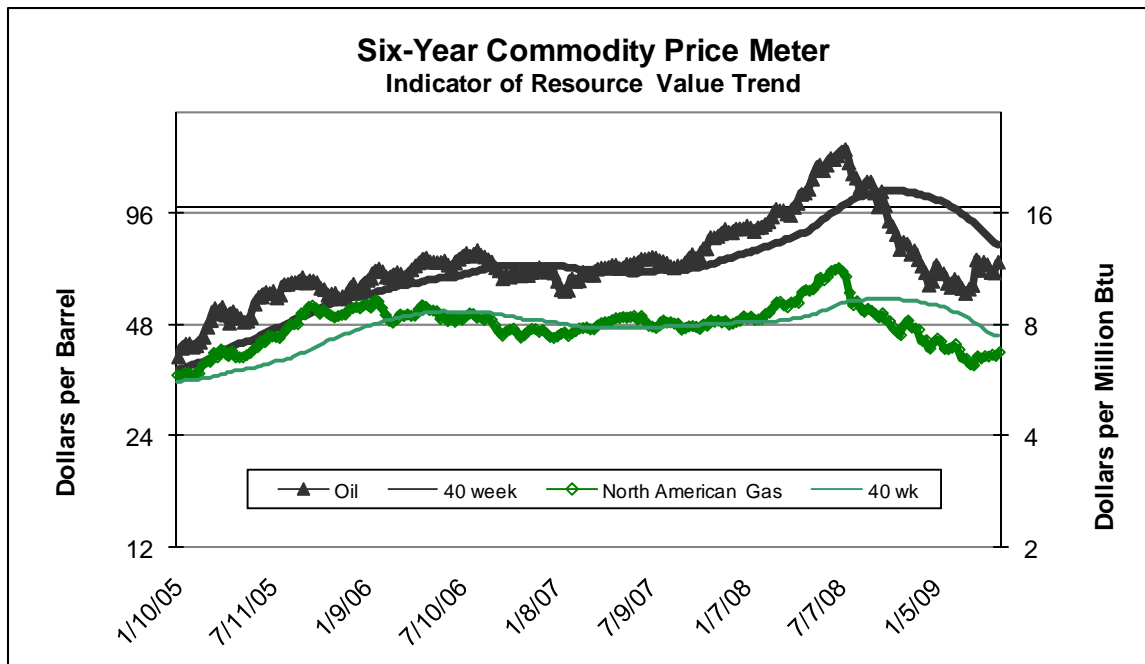
Penn West Energy Trust									
Next Twelve Months Operating and Financial Estimates									
(Canadian dollars)									
									<i>Next</i>
	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Twelve</i>
	<i>3/31/08</i>	<i>12/31/08</i>	<i>2008</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>2008</i>	<i>Months</i>
									<i>12/31/09</i>
Volume									
Natural Gas (mmcf)	500	476	491	447	434	421	421	430	421
Days	91	92	366	90	91	92	92	365	365
Oil (mbd)	109	106	108	106	102	99	99	102	99
Total gas & oil (bcf)	105	102	416	97	95	94	94	380	371
Total gas & oil (mbd)	192	185	190	180	175	169	169	173	170
Price									
Natural gas (\$/mcf)									
Henry Hub (US\$/mmbtu)	8.02	6.95	9.04	4.90	3.56	3.96	4.84	4.31	4.54
Currency (US\$/C\$)	1.00	0.83	0.95	0.86	0.86	0.86	0.86	0.86	0.86
Henry Hub (C\$/mmbtu)	8.05	8.40	9.54	5.71	4.15	4.62	5.65	5.03	5.30
Company (C\$/mcf)	7.98	7.03	8.43	5.37	3.90	4.34	5.31	4.73	4.96
Oil (\$/bbl)									
WTI Cushing (US\$)	97.94	58.45	99.59	42.96	52.92	57.55	60.64	53.52	58.51
WTI Cushing (C\$/bbl)	98.40	70.62	105.13	50.13	61.75	67.16	70.77	62.45	68.28
Company (C\$/bbl)	83.22	49.94	87.04	42.63	52.51	57.11	60.18	53.00	57.94
Total gas & oil (\$/mcf)	11.32	7.77	9.73	6.39	6.75	7.38	8.08	5.87	6.35
Revenue (\$mm)									
Natural Gas	363	308	1,514	216	154	168	205	743	761
Oil	826	485	3,432	405	489	522	550	1,967	2,102
Other	(214)	(152)	(898)	(110)	(114)	(122)	(134)	(480)	(507)
Total	975	641	4,048	511	530	568	622	2,230	2,356
Expense	292	279	1,046	292	238	234	234	998	928
Ebitda (\$mm)	682	362	3,001	220	291	334	388	1,233	1,428
Deprec., Deplet., & Amort.	396	400	1,594	385	385	385	385	1,540	1,540
Hedging and other	210	7	1,031	(150)				(150)	-
Ebit	76	(45)	376	(15)	(94)	(51)	3	(157)	(112)
Interest	52	53	204	40	40	40	40	160	160
Ebt	24	(98)	172	(55)	(134)	(91)	(37)	(317)	(272)
Income Tax	(55)		(55)					-	-
Net Income (\$mm)	79	(98)	227	(55)	(134)	(91)	(37)	(317)	(272)
Shares (millions)	361	391	379	399	399	399	399	399	399
Per share (\$)	0.22	(0.25)	0.60	(0.14)	(0.34)	(0.23)	(0.09)	(0.79)	(0.68)
Ebitda Margin - O&G	70%	56%	74%	43%	55%	59%	62%	55%	61%
Tax Rate	-225%		-32%		0%	0%	0%	0%	0%
Distribution (\$mm)	368	399	1,546	275	180	180	180	814	719
Per share (\$)	1.02	1.02	4.08	0.69	0.45	0.45	0.45	2.04	1.80



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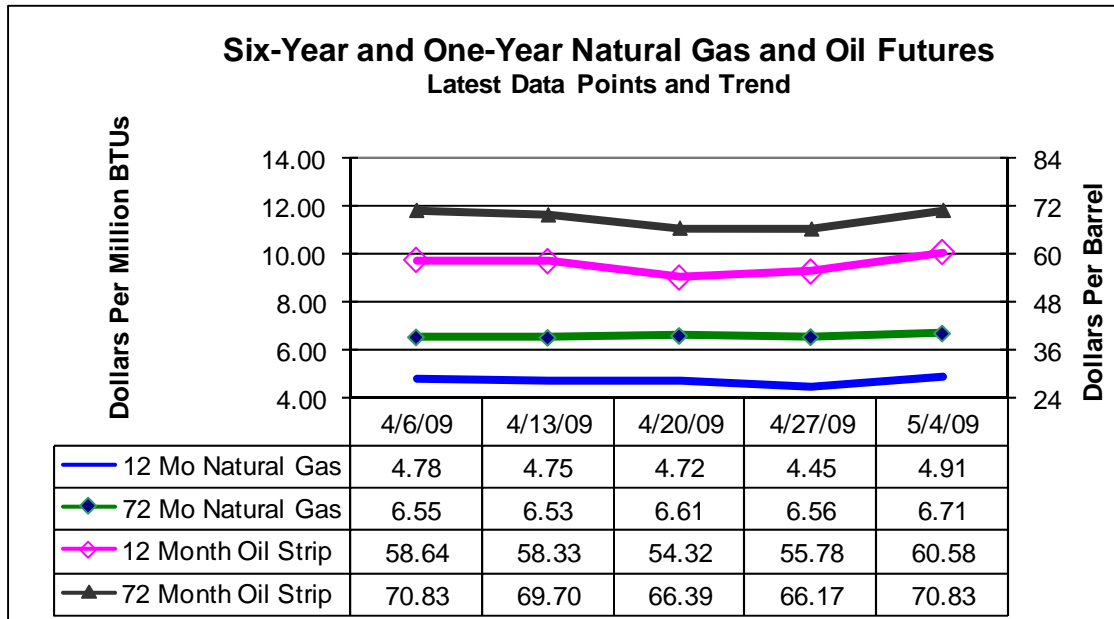
Penn West Energy Trust					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	320	6.8	14.1	4,500	33%
Oil	900	9.1	10.3	9,300	67%
	1,220	8.1	11.3	13,800	100%
Debt (US\$mm)					3,800
Net Present Value (US\$mm)					10,000
Shares (mm)					399
Net Present Value - Standard Estimate (US\$/sh)					25
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					21





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