



Independent Stock Idea

October 29, 2008

rating: hold
s&p 500: 930

Berry Petroleum (BRY) Adjusting Spending to Cash Flow

<i>Symbol</i>	BRY	<i>Ebitda Next Twelve Months ending 9/30/09 (US\$m)</i>	369
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	28
<i>Price (\$/sh)</i>	21.25	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	10/29/08	<i>Adjusted Reserves/Production NTM</i>	9.6
<i>Shares (mm)</i>	46	<i>EV/Ebitda</i>	6.4
<i>Market Capitalization (\$mm)</i>	970	<i>PV/Ebitda</i>	8.7
<i>Debt (\$mm)</i>	1,380	<i>Undeveloped Reserves (%)</i>	47
<i>Enterprise Value (EV) (\$mm)</i>	2,350	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	28.80
<i>Present Value (PV) (\$mm)</i>	3,200	<i>Present Value Proven Reserves(\$/boe)</i>	14.20
<i>Net Present Value (\$/share)</i>	40	<i>Present Value Proven Reserves(\$/mcfe)</i>	2.40
<i>Debt/Present Value</i>	0.43	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.66
<i>McDep Ratio - EV/PV</i>	0.73	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	1.4	<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\$75 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

Hold-rated **Berry Petroleum (BRY)** offers unlevered appreciation potential of 36% to estimated net present value (NPV) of \$40 a share. On October 28 we reset NPV from \$65 a share on the basis of a long-term oil price assumption of \$75 a barrel, down from \$100. Patience may be necessary as BRY stock price remains below the 200-day average of \$44. Released today, third quarter results displayed strength in unlevered cash flow (Ebitda) driven by higher crude oil and natural gas prices. Futures prices now look lower for the next four quarters (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](#)). Last quarter's acquisition in East Texas contributed noticeably to higher natural gas volume (see chart [Oil and Gas Production Volume](#)). Today's news is the quick reduction in capital spending and the release of drilling rigs to keep the budget in line with cash flow. Though volume may be flat next year as a result, cash flow from continuing production keeps the company financially healthy.

Kurt H. Wulff, CFA



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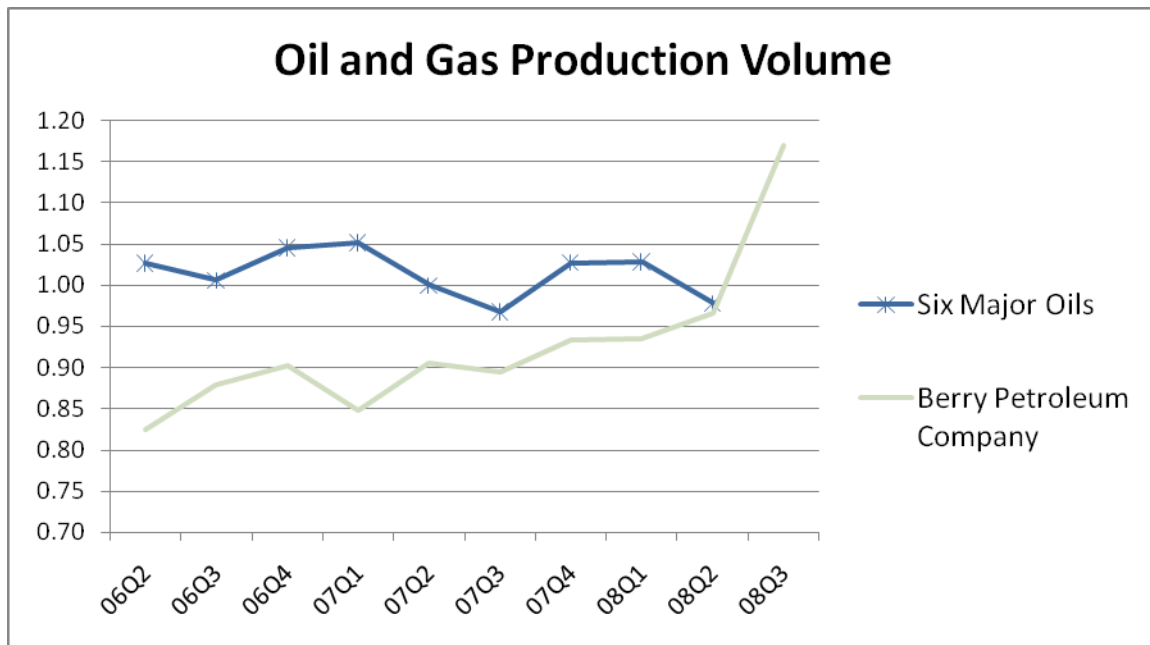
Berry Petroleum Company									
Next Twelve Months Operating and Financial Estimates									
									<i>Next</i>
	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Twelve</i>
	<i>9/30/07</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008E</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>Months</i>
									<i>9/30/09</i>
Volume									
Natural Gas (mmcf)	44.4	50.3	84	84	67	84	84	84	84
Days	92	91	92	92	366	90	91	92	365
Oil (mbd)	19.48	20.61	21.2	21.2	20.7	21.2	21.2	21.2	21.2
Total (mb)	2,472	2,639	3,234	3,234	11,661	3,164	3,199	3,234	12,830
Total (mbd)	26.9	29.0	35.2	35.2	31.9	35.2	35.2	35.2	35.2
Price									
Henry Hub (\$/mmbtu)	6.16	10.93	10.25	6.65	8.96	6.65	6.67	6.97	6.73
Differential (\$/mmbtu)	2.67	1.60	2.30	1.49	1.71	0.86	0.87	0.91	1.03
Company (\$/mcf)	3.49	9.33	7.95	5.16	7.25	5.79	5.80	6.07	5.70
WTI Cushing (\$/bbl)	75.48	123.97	117.99	67.52	101.86	64.23	65.80	67.22	66.19
Differential	15.39	17.61	15.87	9.08	14.57	8.64	9.41	9.62	9.18
Company	60.09	106.36	102.12	58.44	87.28	55.59	56.39	57.60	57.01
Total (\$/bbl)	49.32	91.79	80.46	47.50	71.97	47.29	47.80	49.16	47.94
Revenue (\$mm)									
Natural Gas	14	43	61	40	178	44	44	47	175
Oil	108	199	199	114	662	106	109	112	440
Other, incl hedge	(3)	(57)	(52)		(129)				
Total	119	185	208	154	711	150	153	159	615
Expense									
Lease operating	38	63	66	47	223	50	51	54	202
General and administrative	9	11	15	15	52	10	10	10	45
Total	48	74	80	61	275	60	61	64	246
Ebitda	71	111	128	92	436	90	92	95	369
Exploration	5	4	2	2	11	3	3	3	11
Deprec., Deplet., & Amort.	24	30	41	36	134	35	35	36	141
Other, incl hedge	(4)	(2)	(6)	(6)	(10)	(6)	(6)	(6)	(22)
Ebit	46	80	91	60	301	57	59	62	239
Interest	4	4	9	14	31	14	14	11	53
Ebt	42	76	82	46	270	43	45	51	186
Income Tax	15	27	29	16	95	15	16	18	65
Net Income (\$mm)	27	49	53	30	176	28	29	33	121
Per Share (\$)	0.60	1.08	1.17	0.66	3.86	0.62	0.64	0.73	2.66
Shares (millions)	45	46	46	46	45	46	46	46	46
Lease operating (\$/bbl)	15.49	23.76	20.32	14.51	19.12	15.75	15.99	16.57	15.71
General and admin (\$/bbl)	3.76	4.24	4.48	4.48	4.43	3.16	3.13	3.09	3.47
Deprec., D, & A (\$/bbl)	9.83	11.25	12.68	11.00	11.50	11.00	11.00	11.00	11.00
Ebitda Margin	60%	60%	61%	60%	61%	60%	60%	60%	60%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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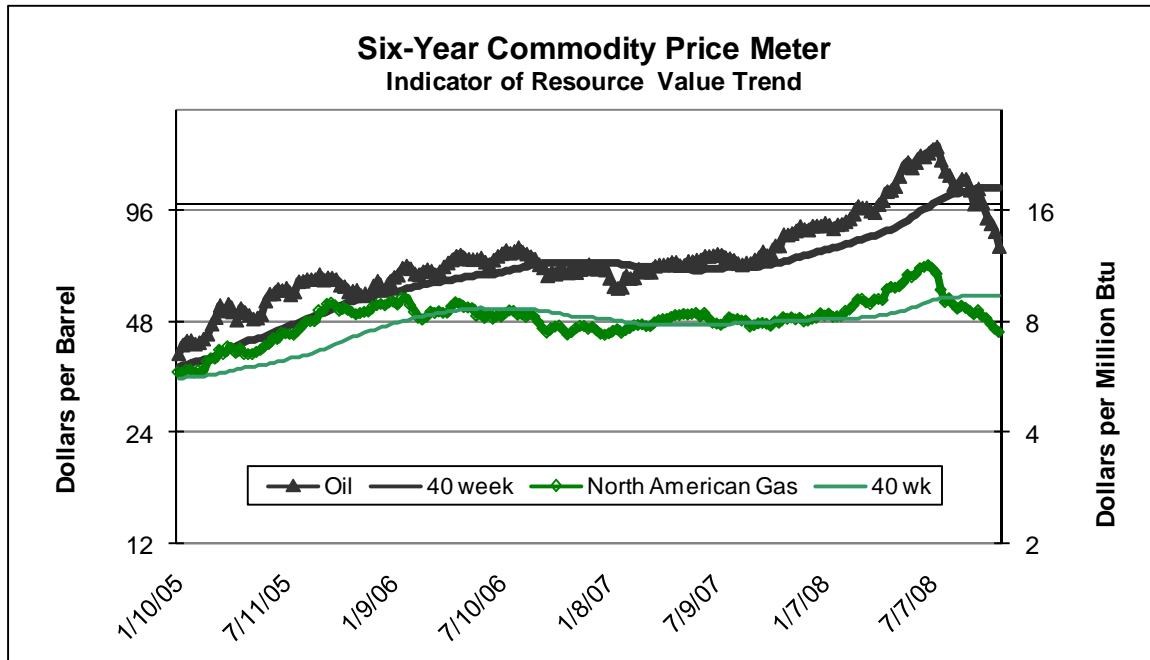
Berry Petroleum Company					
Functional Cash Flow and Present Value					
				<i>Present</i>	
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Value</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>(US\$mm)</i>	
North American Natural Gas	100	14.6	13.5	1,350	42%
Oil	269	7.6	6.9	1,850	58%
	369	9.6	8.7	3,200	100%
Debt (US\$mm)					1,380
Net Present Value (US\$mm)					1,820
Shares (mm)					46
Net Present Value - Standard Estimate (US\$/sh)					40
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					42





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