



Independent Stock Idea

December 30, 2008

rating: hold
s&p 500: 869

Berry Petroleum (BRY) Customer Bankruptcy Manageable

<i>Symbol</i>	BRY	<i>Ebitda Next Twelve Months ending 12/31/09 (US\$m)</i>	287
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	34
<i>Price (\$/sh)</i>	6.45	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	12/29/08	<i>Adjusted Reserves/Production NTM</i>	9.6
<i>Shares (mm)</i>	46	<i>EV/Ebitda</i>	5.8
<i>Market Capitalization (\$mm)</i>	290	<i>PV/Ebitda</i>	11.2
<i>Debt (\$mm)</i>	1,380	<i>Undeveloped Reserves (%)</i>	47
<i>Enterprise Value (EV) (\$mm)</i>	1,670	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	22.40
<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>Oil and Gas Ebitda Margin (%)</i>	60
<i>Debt/Present Value</i>	0.43	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.15
<i>McDep Ratio - EV/PV</i>	0.52	<i>Price/Earnings Next Twelve Months</i>	6
<i>Dividend Yield (%/year)</i>	4.7	<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\$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

We expect the December 22 bankruptcy of the independent refiner that buys Hold-rated **Berry Petroleum (BRY)**'s California oil production to have limited impact on BRY's financial position. Though almost half of the company's total oil equivalent production is affected, there are alternative buyers who would likely pay almost as much as the purchaser who declared bankruptcy. BRY disclosed on December 29, that payment of \$38 million not received for past production is at risk. Meanwhile the main story is the almost 90% decline in stock price from the 52 week high of \$62 a share. Taking account of the company's high leverage, the decline of 60% in Enterprise Value from the high is greater than a median of 54% for small cap and income stocks in our coverage. Protecting against the worst, BRY has hedges on oil price that would give it positive cash flow of perhaps \$100 million in 2009 if oil price were to be just \$20 a barrel. Thus, with the downside likely covered, the opportunity remains on the upside characterized by estimated Net Present Value (NPV) of \$40 a share.

Kurt H. Wulff, CFA



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Berry Petroleum Company									
Next Twelve Months Operating and Financial Estimates									
									<i>Next</i>
	<i>Q4</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Months</i>
	<i>12/31/07</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>12/31/09</i>	<i>12/31/09</i>
Volume									
Natural Gas (mmcf/d)	48.2	84	84	67	84	84	84	84	84
Days	92	92	92	366	90	91	92	92	365
Oil (mbd)	20.00	21.2	21.2	20.7	21.2	21.2	21.2	21.2	21.2
Total (mb)	2,578	3,234	3,234	11,661	3,164	3,199	3,234	3,234	12,830
Total (mbd)	28.0	35.2	35.2	31.9	35.2	35.2	35.2	35.2	35.2
Price									
Henry Hub (\$/mmbtu)	6.97	10.25	6.95	9.04	6.11	6.18	6.43	6.97	6.42
Differential (\$/mmbtu)	2.79	2.30	1.56	1.71	0.36	0.91	1.44	1.56	1.07
Company (\$/mcf)	4.18	7.95	5.39	7.33	5.75	5.27	4.99	5.41	5.35
WTI Cushing (\$/bbl)	90.67	117.99	57.91	99.45	41.02	46.15	49.67	52.48	47.33
Differential	17.25	15.87	7.79	14.31	6.43	6.56	6.68	7.06	6.65
Company	73.43	102.12	50.12	85.15	34.59	39.60	42.99	45.42	40.68
Total (\$/bbl)	59.58	80.46	43.06	70.74	34.56	36.43	37.80	40.26	37.28
Revenue (\$mm)									
Natural Gas	19	61	42	180	43	40	39	42	164
Oil	135	199	98	645	66	76	84	88	314
Other, incl hedge	(20)	(52)		(129)					
Total	134	208	139	696	109	117	122	130	478
Expense									
Lease operating	43	66	41	217	34	37	39	42	151
General and administrative	11	15	15	52	10	10	10	10	40
Total	54	80	56	269	44	47	49	52	191
Ebitda									
Exploration	4	2	2	11	3	3	3	3	12
Deprec., Deplet., & Amort.	29	41	36	134	35	35	36	36	141
Other, incl hedge	(7)	(6)		(4)	-	-	-	-	-
Ebit									
Interest	4	9	14	31	14	14	11	14	53
Ebt									
Income Tax	17	29	11	90	5	6	8	9	28
Net Income (\$mm)									
Per Share (\$)	0.71	1.17	0.46	3.66	0.20	0.25	0.34	0.36	1.15
Shares (millions)									
Lease operating (\$/bbl)	16.60	20.32	12.74	18.63	10.66	11.45	12.03	13.01	11.79
General and admin (\$/bbl)	4.23	4.48	4.48	4.43	3.16	3.13	3.09	3.09	3.12
Deprec., D, & A (\$/bbl)	11.29	12.68	11.00	11.50	11.00	11.00	11.00	11.00	11.00
Ebitda Margin	60%	61%	60%	61%	60%	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	187	7.6	9.9	1,850	58%
	287	9.6	11.2	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)					40

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