



Independent Stock Idea

February 25, 2009

rating: hold
s&p 500: 755 intraday

Berry Petroleum (BRY) Resource Rich, Credit Sensitive

<i>Symbol</i>	BRY	<i>Ebitda Next Twelve Months ending 3/31/10 (US\$m)</i>	166
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	32
<i>Price (\$/sh)</i>	6.50	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/25/09	<i>Adjusted Reserves/Production NTM</i>	9.9
<i>Shares (mm)</i>	45	<i>EV/Ebitda</i>	9.2
<i>Market Capitalization (\$mm)</i>	290	<i>PV/Ebitda</i>	18.3
<i>Debt (\$mm)</i>	1,230	<i>Undeveloped Reserves (%)</i>	48
<i>Enterprise Value (EV) (\$mm)</i>	1,520	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	12.80
<i>Present Value (PV) (\$mm)</i>	3,040	<i>Present Value Proven Reserves(\$/boe)</i>	12.40
<i>Net Present Value (\$/share)</i>	40	<i>Oil and Gas Ebitda Margin (%)</i>	40
<i>Debt/Present Value</i>	0.40	<i>Earnings Next Twelve Months (US\$/sh)</i>	
<i>McDep Ratio - EV/PV</i>	0.50	<i>Price/Earnings Next Twelve Months</i>	
<i>Dividend Yield (%/year)</i>	4.6	<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

Estimated Net Present Value (NPV) of \$40 a share is more than five times stock price for high-debt, hold-rated **Berry Petroleum (BRY)**. Released today, fourth quarter results displayed lower unlevered cash flow (Ebitda) driven by crude oil and natural gas prices (see table [Next Twelve Months Operating and Financial Estimates](#)). While our present value estimate remains reasonable for a long-term oil price of \$75 a barrel, the implied unlevered multiple (PV/Ebitda) looks high because of low Ebitda for 2009 (see table [Functional Cash Flow and Present Value](#)). Berry's oil operations have high fixed costs that increase the company's sensitivity to oil price change. At the same time, our estimates of cash flow are before price insurance that mitigates the impact. We include the current market value of hedges in estimating debt. Meanwhile with a billion dollars of bank loans, BRY is close to its limit and has little cushion should credit or industry conditions decline further. On the brighter side pointing to expected oil price recovery, futures prices for the next six years averaged US\$60 a barrel recently (see charts [Six-Year Commodity Price Meter](#) and [Six-Year and One-Year Natural Gas and Oil Futures](#)).

Kurt H. Wulff, CFA



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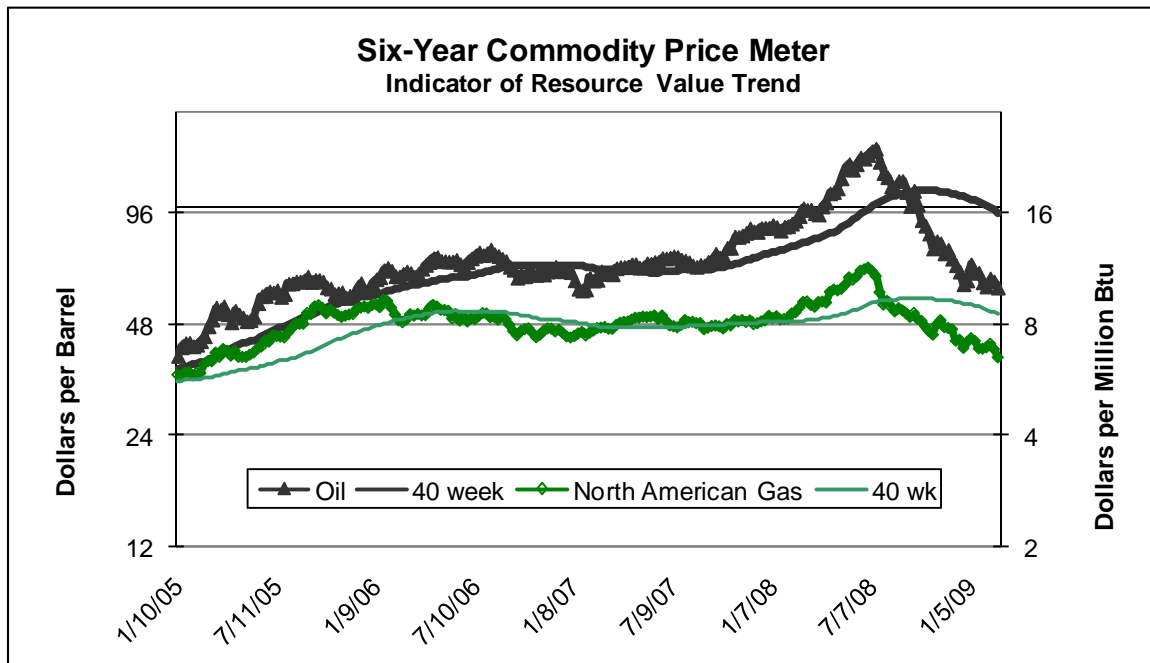
Berry Petroleum Company									
Next Twelve Months Operating and Financial Estimates									
									<i>Next</i>
	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Year</i>	<i>Twelve</i>
	<i>12/31/07</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>2009E</i>	<i>Months</i>
									<i>3/31/10</i>
Volume									
Natural Gas (mmcf)	48.2	84	96	70	96	96	96	96	96
Days	92	92	92	366	90	91	92	365	365
Oil (mbd)	20.00	21.2	19.7	20.3	19.7	19.7	19.7	19.7	19.7
Total (mb)	2,578	3,234	3,274	11,700	3,202	3,238	3,274	12,988	12,988
Total (mbd)	28.0	35.2	35.6	32.0	35.6	35.6	35.6	35.6	35.6
Price									
Henry Hub (\$/mmbtu)	6.97	10.25	6.95	9.04	4.91	4.20	4.52	4.71	4.98
Differential (\$/mmbtu)	2.79	2.30	2.67	2.17	1.89	1.01	1.09	1.31	1.20
Company (\$/mcf)	4.18	7.95	4.28	6.87	3.02	3.19	3.43	3.40	3.78
WTI Cushing (\$/bbl)	90.67	117.99	58.45	99.59	39.41	40.86	45.15	43.30	45.98
Differential	17.25	15.87	9.61	14.10	6.18	5.80	6.07	6.45	6.90
Company	73.43	102.12	48.84	85.49	33.23	35.05	39.08	36.85	39.07
Total (\$/bbl)	59.58	80.46	38.47	69.36	26.46	27.93	30.81	29.49	31.75
Revenue (\$mm)									
Natural Gas	19	61	38	175	26	28	30	119	132
Oil	135	199	88	636	59	63	71	264	280
Other, incl hedge	(20)	(52)	14	(115)				-	-
Total	134	208	140	697	85	90	101	383	412
Expense									
Lease operating	43	66	54	230	48	49	49	195	195
General and administrative	11	15	18	55	13	13	13	51	51
Total	54	80	72	285	61	61	62	246	246
Ebitda									
	80	128	68	412	24	29	39	137	166
Exploration	4	2	3	12	3	3	3	12	12
Deprec., Deplet., & Amort.	29	41	42	141	48	49	49	195	195
Other, incl hedge	(7)	(6)	(7)	(11)	(20)	(20)	(20)	(80)	(80)
Ebit									
	53	91	30	271	(7)	(3)	7	10	39
Interest	4	9	10	27	10	10	11	45	49
Ebt									
	49	82	20	244	(17)	(13)	(4)	(35)	(10)
Income Tax	17	29	7	85	(6)	(4)	(1)	(12)	(3)
Net Income (\$mm)									
	32	53	13	159	(11)	(8)	(3)	(23)	(6)
Per Share (\$)	0.71	1.17	0.29	3.49	(0.25)	(0.18)	(0.06)	(0.50)	(0.14)
Shares (millions)									
	45	46	45	45	45	45	45	45	45
Lease operating (\$/bbl)	16.60	20.32	16.50	19.66	15.00	15.00	15.00	15.00	15.00
General and admin (\$/bbl)	4.23	4.48	5.50	4.71	4.00	3.96	3.91	3.95	3.95
Deprec., D, & A (\$/bbl)	11.29	12.68	12.83	12.01	15.00	15.00	15.00	15.00	15.00
Ebitda Margin	60%	61%	49%	59%	28%	32%	39%	36%	40%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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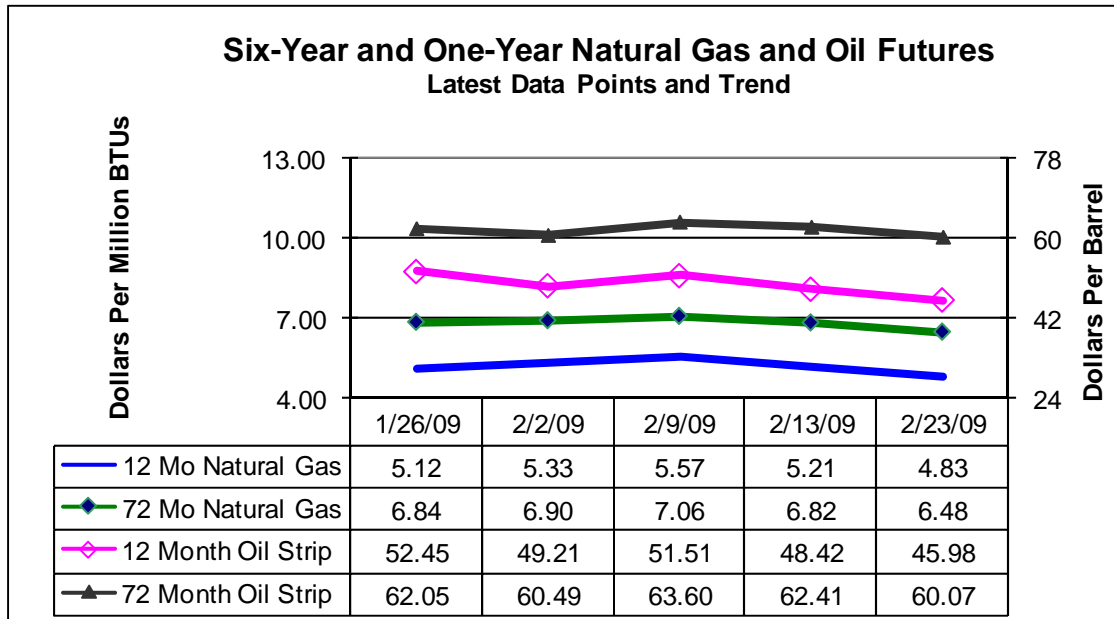
Berry Petroleum Company					
Functional Cash Flow and Present Value					
				<i>Present</i>	
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Value</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>(US\$mm)</i>	
North American Natural Gas	50	14.4	25.0	1,250	41%
Oil	116	7.9	15.4	1,790	59%
	166	9.9	18.3	3,040	100%
Debt (US\$mm)					1,230
Net Present Value (US\$mm)					1,810
Shares (mm)					45
Net Present Value - Standard Estimate (US\$/sh)					40





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