

**Forest Oil Corporation**  
**Small Cap McDep Choice**

Symbol	Price	Shares	Market Cap (\$mm)	Net	Debt/ Present Value	McDep Ratio	EV/	EV/	P/E	Div'd NTM (%)	PV/ Ebitda NTM
	(\$/sh)			Present Value (\$/sh)			Sales 2001E	Ebitda NTM			
FST	28.58	50	1,430	42.90	0.21	0.74	2.2	5.3	22	-	7.3

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

EV = Enterprise Value = Market Cap and Debt: \$mm 2,010

Ebitda = Earnings before interest, tax, depreciation and amortization: \$mm 376

NTM = Next Twelve Months Ended September 30, 2002; P/E = Stock Price to Earnings

PV = Present Value of oil and gas: \$mm 2,730

**Summary and Recommendation**

We recommend current purchase of the common stock of Forest Oil because it is a leading small cap natural gas and oil producer with strong management and a low McDep Ratio. With natural gas accounting for 66% of projected next twelve months revenue, the company is concentrated on a commodity that we believe has sharp appreciation potential in the next few years. Among stocks with market cap between about \$100 million and \$2 billion, the 85-year-old company has a particularly diverse suite of high potential prospects in Canada, Alaska and South Africa in addition to its traditional emphasis on the Gulf of Mexico. Guided by a moneymaking chairman, Philip Anschutz who is also a major stockholder, Forest's chief executive officer has brought professional competence previously lacking when the founding family controlled the company. Trading at an unlevered five times earnings before interest, tax, depreciation and amortization, the stock is worth seven times in our opinion as reflected in a McDep Ratio lower than for peer companies. The stock has the usual political, economic, business and financial risks of oil and gas companies.

**Natural Gas Accounts for Two-Thirds Projected Revenue**

Our financial analysis starts with projected production volumes in line with the latest quarterly results. Management actually projects somewhat higher amounts. Next we take futures prices for natural gas and oil for the next twelve months as our guide to what realizations might be for Forest. We break cash expenses into fixed and variable components. The resulting projections are sufficient to form a base for valuation (see Table).

Analyses are prepared from original sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Historical energy analysis by Kurt Wulff doing business as McDep Associates is posted at [www.mcdep.com](http://www.mcdep.com). Owning shares in energy stocks, neither Mr. Wulff nor his spouse act contrary to a buy or sell rating. Mr. Wulff is not paid by covered companies.

## McDep Associates

### Stock Idea

October 29, 2001

#### Forest Oil Corporation Next Twelve Months Operating and Financial Estimates

	Q2	Q3E	Q4E	Q1E	Q2E	Q3E	Next Twelve Months
	6/30/01	9/30/01	12/31/01	3/31/02	6/30/02	9/30/02	9/30/02
<b>Volume</b>							
Natural Gas (mmcf)	316	316	316	316	316	316	<b>316</b>
Oil (mbd)	26	26	26	26	26	26	<b>26</b>
Total gas & oil (bcf)	43	44	44	43	43	44	<b>173</b>
<b>Price</b>							
Natural gas (\$/mcf)							
Henry Hub (\$/mmbtu)	4.36	2.75	2.89	3.29	3.17	3.27	<b>3.15</b>
Company	4.36	2.75	2.89	3.29	3.17	3.27	<b>3.15</b>
Oil (\$/bbl)							
WTI Cushing	27.90	26.69	22.12	22.28	22.30	22.18	<b>22.22</b>
Company	24.35	23.30	19.31	19.45	19.47	19.36	<b>19.39</b>
Total gas & oil (\$/mcf)	4.26	3.13	3.00	3.27	3.19	3.25	<b>5.28</b>
<b>Revenue (\$mm)</b>							
Natural Gas	125	80	84	93	91	95	<b>364</b>
Oil	59	57	47	46	47	47	<b>187</b>
Other	91	91	91	91	91	91	<b>364</b>
Total	275	228	222	231	229	233	<b>915</b>
<b>Expense</b>							
Fixed	25	25	25	25	25	25	<b>100</b>
Variable	25	19	18	19	19	19	<b>75</b>
Other	91	91	91	91	91	91	<b>364</b>
<b>Ebitda (\$mm)</b>	134	93	88	96	94	98	<b>376</b>
Deprec., Deplet., & Amort.	57	57	57	57	57	57	<b>228</b>
<b>Ebit</b>	77	36	31	39	37	41	<b>148</b>
Interest	12	12	12	12	12	12	<b>48</b>
<b>Ebt</b>	65	24	19	27	25	29	<b>100</b>
Income Tax	23	8	7	9	9	10	<b>35</b>
<b>Net Income (\$mm)</b>	42	16	12	17	16	19	<b>65</b>
<b>Shares (millions)</b>	50	50	50	50	50	50	<b>50</b>
Per share (\$)	0.84	0.31	0.25	0.35	0.33	0.37	<b>1.29</b>
Ebitda Margin	49%	41%	40%	41%	41%	42%	<b>41%</b>
Tax Rate	35%	35%	35%	35%	35%	35%	<b>35%</b>

### Reinvesting Cash Flow at a High Rate with Success in 2001

Forest has traditionally reinvested practically all of its cash flow. That implies that the success of that reinvestment is what will really drive future valuation. To the company's credit it has been a survivor in the difficult environment of the past two decades. Thus if commodity prices reflect more closely the cost of replacing production in the future, a company that survived in difficult times should be able to prosper in better times.

Analyses are prepared from original sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Historical energy analysis by Kurt Wulff doing business as McDep Associates is posted at [www.mcdep.com](http://www.mcdep.com). Owning shares in energy stocks, neither Mr. Wulff nor his spouse act contrary to a buy or sell rating. Mr. Wulff is not paid by covered companies.

## ***McDep Associates***

### ***Stock Idea***

October 29, 2001

Management believes that progress has been favorable in the first half of 2001. Some 250 billion cubic feet equivalent of new reserves have been discovered, almost three times the 87 bcf produced during the same time. That is a favorable rate although we do not know how much of that is in South Africa where production is still a few years away and how much is in the Cook Inlet of Alaska or in other areas where production is close at hand.

### **Billionaire Owns 32% of Forest**

Philip Anschutz, number 16 on the Forbes Four Hundred with a net worth of \$9.6 billion, owns through a private company almost a third of the stock of Forest. Originally an oilman who sold a share of his Anschutz Ranch oil field in Utah for a half billion dollars around 1980 as we recall, he parlayed the proceeds into a railroad. Laying fiber optic lines along the railroad right-of-way Mr. Anschutz created Qwest Communications and accumulated more net worth in telecom than he ever made in oil. Perhaps recognizing that the stock market value of Qwest might not last, Mr. Anschutz may have benefited from Denver connections when Qwest won a takeover battle to merge with U.S. West, a traditional telephone company with real cash flow. Cashing in at the last oil peak and salvaging value at the telecom peak, the billionaire shows a sense of timing that has paid him handsomely.

Is Mr. Anschutz positive or negative for Forest? We would say positive at least in the sense that the company appears to be better run today than years ago. We further note that there were large, active stockholders in Encal, Mitchell, Louis Dreyfus and Anderson, four natural gas companies that were acquired this year. Yet we do not sense that Mr. Anschutz feels the time is here to sell Forest. He may think that the portfolio of high potential prospects management has worked hard to build need more time to ripen.

### **Estimate Value as a Multiple of Cash Flow**

For existing resources, the most important variable influencing multiple of cash flow is reserve life. Taking latest reported reserves and comparing them to projected production we see that Forest has a reserve life index of 6.9 years, near the mid point of a range of 3 to 12 for peer companies. In estimating that index we count undeveloped reserves at half the weight of developed reserves because more investment is required to make undeveloped reserves into developed reserves.

Next we estimate present value as a multiple of cash flow, or Ebitda. Our assessed present value multiple of seven times seems readily justifiable on a relative basis because it is at the low end of the range for peer companies.

Alternatively one might contrast our estimated present value of \$2.73 billion with proven reserves of 1.38 trillion cubic feet equivalent implying a value of \$2.00 per thousand cubic feet. Enterprise Value of \$2.01 billion implies that investors are paying \$1.46 per  
Analyses are prepared from original sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Historical energy analysis by Kurt Wulff doing business as McDep Associates is posted at [www.mcdep.com](http://www.mcdep.com). Owning shares in energy stocks, neither Mr. Wulff nor his spouse act contrary to a buy or sell rating. Mr. Wulff is not paid by covered companies.

## **McDep Associates**

### **Stock Idea**

October 29, 2001

mcf for reported reserves. Consultants Randall and Dewey report that acquisitions of reserves in the most recent quarter were priced at about \$7 per barrel or \$1.15 per mcf (www.randew.com).

Typical of shorter life companies, Forest's reserves look less expensive as a multiple of cash flow and more expensive on value per unit. Cash flow is a relatively objective measure, while estimates of multiple of cash flow and values per unit are more subjective. Among other factors a greater concentration on natural gas should be worth more as a multiple of cash flow because gas has more price appreciation potential than oil. Natural gas located near the market should have a higher equivalent unit value than oil because operating costs are usually lower.

Bullish on natural gas and oil outside the Middle East, we believe that small cap producers are potentially rewarding investments. Within our coverage of a dozen small cap peers, we believe that investment in Forest should be rewarding (see Table).

Kurt H. Wulff, CFA

#### **Rank by McDep Ratio: Market Cap and Debt to Present Value**

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 26-Oct 2001</i>	<i>Shares (mm)</i>	<i>Market Cap (\$mm)</i>	<i>Net Present Value (\$/sh)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>	
<b>Small Cap</b>								
Quicksilver Resources Inc.	KWK	14.86	19.3	290	5.50	0.73	1.45	
Spinnaker Exploration Company	SKE	43.90	28.4	1,250	38.60	-	1.14	
Magnum Hunter Resources, Inc.	MHR	11.10	37.0	410	10.40	0.36	1.05	
XTO Energy Inc.	XTO	18.55	123.0	2,280	17.70	0.29	1.04	
Southwestern Energy Company	SWN	12.00	25.7	310	13.90	0.48	0.93	
Louis Dreyfus Natural Gas Corp.	LD	3	39.70	44.8	1,780	45.10	0.23	0.91
Swift Energy Company	SFY	24.47	25.7	630	28.40	0.24	0.89	
Encore Acquisition Corp. (25%)	EAC	12.99	7.5	97	15.60	0.16	0.86	
Penn Virginia Corporation	PVA	37.75	8.8	330	47.70	0.19	0.83	
Newfield Exploration Company	NFX	36.09	49.3	1,780	49.50	0.17	0.77	
Stone Energy Company	SGY	39.60	26.5	1,050	54.60	0.09	0.75	
Forest Oil Corporation	FST	2	28.58	50.2	1,440	42.90	0.21	0.74
	<i>Total or Median</i>			<i>11,650</i>		<i>0.22</i>	<i>0.90</i>	

Buy/Sell rating after symbol: 1 - Strong Buy, 2 - Buy, 3 - Neutral

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

Analyses are prepared from original sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Historical energy analysis by Kurt Wulff doing business as McDep Associates is posted at [www.mcdep.com](http://www.mcdep.com). Owning shares in energy stocks, neither Mr. Wulff nor his spouse act contrary to a buy or sell rating. Mr. Wulff is not paid by covered companies.