

Rating: Buy  
S&P 500: 1472

## **Penn West Energy Trust** **High Return from Distributions**

<i>Symbol</i>	PWE	<i>Ebitda Next Twelve Months ending 6/30/08 (US\$mm)</i>	1,460
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	36
<i>Price (US\$/un)</i>	30.73	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/1/07	<i>Adjusted Reserves/Production NTM</i>	7.7
<i>Units (mm)</i>	242	<i>EV/Ebitda</i>	6.3
<i>Market Capitalization (US\$mm)</i>	7,400	<i>PV/Ebitda</i>	7.1
<i>Debt (US\$mm)</i>	1,700	<i>Undeveloped Reserves (%)</i>	12
<i>Enterprise Value (EV) (US\$mm)</i>	9,200	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	31.54
<i>Present Value (PV) (US\$mm)</i>	10,400	<i>Present Value Proven Reserves(US\$/boe)</i>	27.46
<i>Net Present Value (US\$/unit)</i>	36	<i>Present Value Proven Reserves(US\$/mcfe)</i>	4.58
<i>Debt/Present Value</i>	0.17	<i>Earnings Next Twelve Months (US\$/un)</i>	2.60
<i>McDep Ratio - EV/PV</i>	0.88	<i>Price/Earnings Next Twelve Months</i>	12
<i>Distribution Yield (%/year)</i>	12.4	<i>Indicated Annual Distribution (US\$/un)</i>	3.82

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\$66 a barrel and natural gas, \$11 a million btu.

For historical analysis of PWE since 2005 see [www.mcdep.com/5pwt.htm](http://www.mcdep.com/5pwt.htm)

### **Summary and Recommendation**

Buy-recommended **Penn West Energy Trust (PWE)** offers unlevered appreciation potential of 14% to our estimate of net present value (NPV) of \$36 a share that includes only minimal recognition of the upside in high potential projects in Peace River Oil Sands and carbon dioxide enhanced oil recovery. Second quarter results reported on August 2 indicated that distributions of about C\$246 million were amply exceeded by unlevered cash flow (Ebitda) of C\$346 million (see table [Next Twelve Months Operating and Financial Estimates](#)). Split 2/3 oil and 1/3 natural gas NPV is almost matched by a correlation with operating companies in our coverage that does not count unusual potential (see table [Functional Cash Flow and Present Value](#)). Chairman Bill Andrew outlined on the quarterly call his expectation of independent certification in the next few months of oil sands resource near 6.8 billion barrels of which 400 million to 1.4 billion would be recoverable. Blockbuster prices for new oil sands projects announced by **Petro-Canada (PCZ)** and **Royal Dutch Shell (RDS)**, as well as for **Marathon (MRO)**'s acquisition bid for Western Oil Sands (WTO), attest to industry interest in just the past few weeks. Supporting such confidence, long-term oil price appears to be in a rising trend despite volatility of short-term quotes (see chart [Six-Year Commodity Price Meter](#)). Yet, investors can buy PWE stock below its 200-day average while collecting distributions at the rate of 12% a year.

Kurt H. Wulff, CFA

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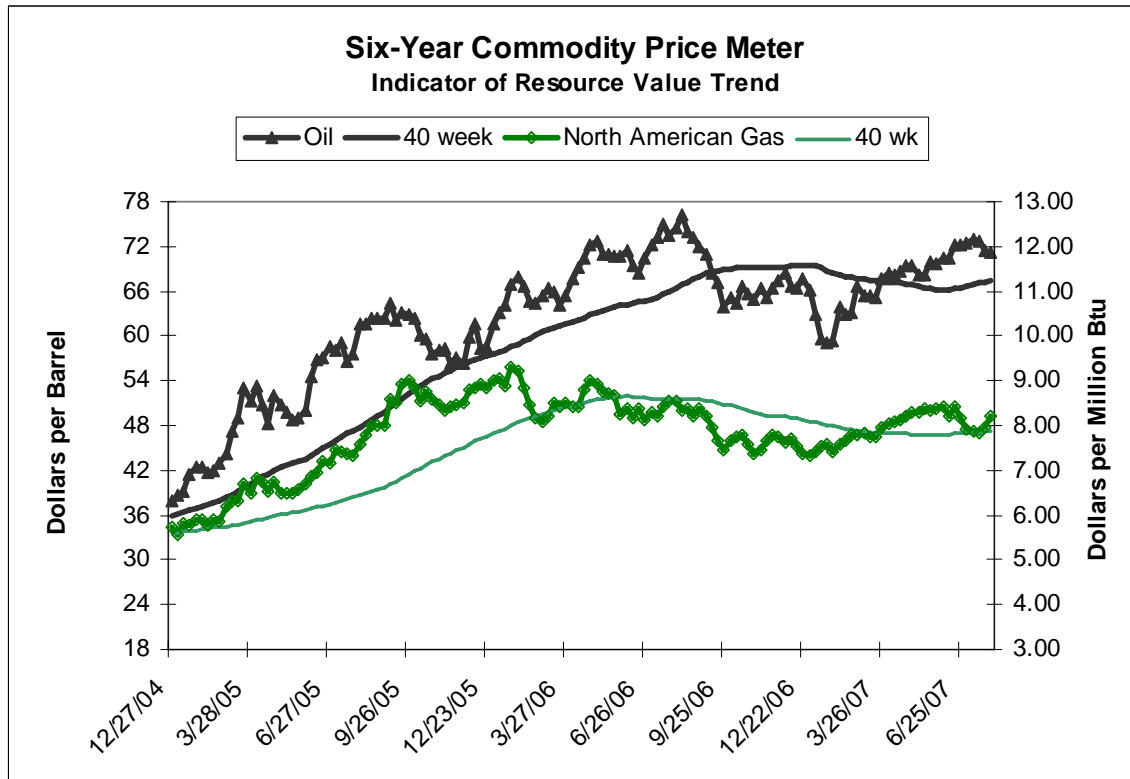
**Penn West Energy Trust**  
**Next Twelve Months Operating and Financial Estimates**  
 (Canadian dollars)

	<i>Q2</i>	<i>Q3</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Next Twelve Months</i>
	<i>6/30/06</i>	<i>9/30/06</i>	<i>2006</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>2007E</i>	<i>6/30/08</i>
<b>Volume</b>									
Natural Gas (mmcf)	268	359	<b>312</b>	340	334	334	334	<b>336</b>	<b>334</b>
Oil (mbd)	49	69	<b>60</b>	72	71	71	71	<b>71</b>	<b>71</b>
Total gas & oil (bcf)	51	71	<b>247</b>	70	69	70	70	<b>279</b>	<b>278</b>
Total gas & oil (mbd)	93	129	<b>112</b>	128	127	127	127	<b>127</b>	<b>127</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (US\$/mmbtu)	6.81	6.58	<b>7.23</b>	6.81	7.56	6.64	7.64	<b>7.16</b>	<b>7.83</b>
Currency (US\$/C\$)	0.89	0.89	<b>0.88</b>	0.85	0.94	0.94	0.94	<b>0.92</b>	<b>0.94</b>
Henry Hub (C\$/mmbtu)	7.63	7.38	<b>8.20</b>	7.97	8.06	7.09	8.15	<b>7.82</b>	<b>8.36</b>
Company (C\$/mcf)	6.14	5.97	<b>6.59</b>	7.59	7.65	6.72	7.73	<b>7.42</b>	<b>7.92</b>
Oil (\$/bbl)									
WTI Cushing (US\$)	70.47	70.42	<b>66.05</b>	58.08	64.91	75.91	75.47	<b>68.59</b>	<b>74.50</b>
WTI Cushing (C\$/bbl)	79.00	78.95	<b>74.90</b>	68.01	69.27	81.02	80.54	<b>74.89</b>	<b>79.51</b>
Company (C\$/bbl)	64.64	64.73	<b>57.34</b>	53.67	58.40	68.30	67.90	<b>62.08</b>	<b>67.04</b>
Total gas & oil (\$/mcf)	8.55	8.55	<b>7.02</b>	8.35	8.82	9.33	9.74	<b>7.35</b>	<b>7.91</b>
<b>Revenue (\$mm)</b>									
Natural Gas	150	197	<b>753</b>	235	233	207	238	<b>912</b>	<b>969</b>
Oil	286	412	<b>1,265</b>	350	377	446	443	<b>1,616</b>	<b>1,740</b>
Other	(61)	(78)	<b>(286)</b>	(111)	(114)	(123)	(128)	<b>(476)</b>	<b>(509)</b>
Total	375	531	<b>1,732</b>	475	495	530	553	<b>2,052</b>	<b>2,200</b>
<b>Expense</b>									
Production	92	134	<b>451</b>	130	133	140	145	<b>547</b>	<b>576</b>
Overhead	10	10	<b>44</b>	17	16	16	16	<b>65</b>	<b>64</b>
<b>Ebitda (\$mm)</b>	273	387	<b>1,238</b>	328	346	374	392	<b>1,440</b>	<b>1,560</b>
Deprec., Deplet., & Amort.	110	218	<b>656</b>	209	218	210	210	<b>846</b>	<b>834</b>
Hedging and other	27	(28)	<b>(37)</b>	48	(36)			<b>12</b>	<b>-</b>
<b>Ebit</b>	137	197	<b>619</b>	71	164	164	183	<b>582</b>	<b>726</b>
Interest	8	17	<b>49</b>	16	24	14	14	<b>68</b>	<b>56</b>
<b>Ebt</b>	129	180	<b>570</b>	55	140	150	169	<b>514</b>	<b>670</b>
Income Tax	3	25	<b>39</b>	(41)				<b>(41)</b>	<b>-</b>
<b>Net Income (\$mm)</b>	126	155	<b>531</b>	96	140	150	169	<b>555</b>	<b>670</b>
<b>Shares (millions)</b>	169	239	<b>196</b>	240	242	242	242	<b>241</b>	<b>242</b>
Per share (\$)	0.75	0.65	<b>2.71</b>	0.40	0.58	0.62	0.70	<b>2.30</b>	<b>2.77</b>
Ebitda Margin - O&G	77%	76%	<b>75%</b>	75%	76%	76%	76%	<b>76%</b>	<b>76%</b>
Tax Rate	2%	14%	<b>7%</b>	-75%	0%	0%	0%	<b>-8%</b>	<b>0%</b>

**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	520	6.0	6.5	3,400	33%
Oil	940	9.0	7.4	7,000	67%
	1,460	7.7	7.1	10,400	100%
Debt (US\$mm)					1,700
Net Present Value (US\$mm)					8,700
Shares (mm)					242
Net Present Value - Standard Estimate (US\$/sh)					36
Net Present Value - Approximation by Correlation (US\$/sh)					32

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