

Rating: Buy
S&P 500: 1203

Berry Petroleum Company **A Touch of Glamour**

<i>Symbol</i>	BRY	<i>Ebitda Next Twelve Months ending 3/31/06 (US\$m)</i>	185
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	11
<i>Price (\$/sh)</i>	56.51	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/4/05	<i>Adjusted Reserves/Production NTM</i>	11.9
<i>Shares (mm)</i>	22	<i>EV/Ebitda</i>	7.2
<i>Market Capitalization (\$mm)</i>	1,260	<i>PV/Ebitda</i>	6.4
<i>Debt (\$mm)</i>	60	<i>Undeveloped Reserves (%)</i>	31
<i>Enterprise Value (EV) (\$mm)</i>	1,320	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	23.20
<i>Present Value (PV) (\$mm)</i>	1,180	<i>Present Value Proven Reserves(\$/boe)</i>	9.50
<i>Net Present Value (\$/share)</i>	50	<i>Present Value Proven Reserves(\$/mcf)</i>	1.60
<i>Debt/Present Value</i>	0.05	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.43
<i>McDep Ratio - EV/PV</i>	1.12	<i>Price/Earnings Next Twelve Months</i>	16
<i>Dividend Yield (%/year)</i>	0.8	<i>Indicated Annual Dividend (US\$/sh)</i>	0.48

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.

Summary and Recommendation

We continue to recommend current purchase of the common shares of small cap **Berry Petroleum (BRY)** for representation in growing volume and rising value of domestic oil production. Revising our estimate of long-term oil price on January 26, 2005 to \$40 a barrel constant real, up from \$35, we raised out estimated net present value of Berry to \$50 a share as previously indicated in a sensitivity calculation. Up more than 160% in eleven months, the stock price exceeds net present value, but not by enough yet to cause us to change our rating to hold. The company has attractive exploration prospects and oil recovery projects that promise further potential while oil price shows no signs of reversing its upward trend.

Rocky Mountain Exploration Heating Up

In a joint venture with Bill Barrett Corp (BBG), the eponymous Rocky Mountain explorer, a wildcat well is set to start drilling by the end of next month on the Lake Canyon acreage. The prospect is west of Berry's growing oil field at Brundage Canyon in Utah. BRY has 75% of the shallower oil-prospective rights while BBG has 75% of the deeper gas-prospective rights.

Berry has reached total depth on the first of nine exploratory wells it is obliged to drill to earn 50% of **Petro-Canada (PCZ)**'s Coyote Flats prospect, also in Utah. The partners are looking for unconventional natural gas in tight formations and coal bed methane.

Another joint project with Bill Barrett Corp seeks natural gas in northeastern Colorado. Also in that area Berry made a \$105 million acquisition of natural gas reserves effective November 1, 2004.

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Diatomite Formation Pilot Showing Favorable Results

We can remember that when **Royal Dutch/Shell (RD, SC)** acquired the Belridge oil field around 1979 one of the formations with large amounts of oil had little economic value at the time because the oil did not flow. Now Shell apparently is producing from that diatomite formation and may be able to recover a third of the oil in place. Belridge is in the same San Joaquin Basin as the Midway Sunset field where about two-thirds of Berry's reserves are located.

Berry is producing from the diatomite in a technological pilot program at its nearby Poso Creek field. Volumes have reached 500 barrels daily moving toward a target 2000 barrels daily. Meanwhile Berry has diatomite resources in place that may be almost double its proven recoverable reserves. Even 10% recovery factor on those amounts would be meaningful.

Growing Volume and a Smart Contract

Oil and gas production volume is likely to continue climbing though we assume a flat trend that gives a cushion for any unexpected costs (see table Quarterly Results). The Company has a sales contract under which it sells 97% of its California oil production with a price mechanism equating to Light, Sweet Crude less approximately \$6.00 per barrel. The actual current spread is about \$14 a barrel! The contract expires December 31, 2005

Present Value Relates to \$40 a Barrel Constant Real

We revised our estimate of long-term oil price on January 26, 2005 to \$40 a barrel constant real, up from \$35. As a result we raised net present value for BRY to \$50 a share, a level previously calculated for \$40 oil in a sensitivity analysis (see *Stock Idea, Berry Petroleum*, November 8, 2004). The calculation is sensitive to assumptions. As a check on consistency we regularly compare estimates of present value that do not change often to estimated NTM cash flow that changes every time we obtain new commodity price quotes (see table Global Oil Cash Flow and Present Value).

Berry's cash flow multiple appears in line with that for the oil resources of **Anadarko Petroleum (APC)**, **Occidental Petroleum (OXY)** and **XTO Energy (XTO)**. The cash flow multiple for each of the four companies is about 10% less than what the current correlation with adjusted reserve life indicates. The ongoing comparison is dynamic as new information develops on adjusted reserve life and estimated NTM cash flow. In Berry's case some of the factors include final year end 2004 reserves when they are reported, the trend in daily volume and the light/heavy price differential after its favorable crude oil contract expires at year end 2005. A final implication is that there is little recognition in present value of reserves or cash flow for the exploration prospects or the diatomite program except that Berry is expected to earn a normal return on reinvested capital.

Berry Petroleum Company
Quarterly Results

	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Next Twelve Months</i>
	<i>9/30/04</i>	<i>12/31/04</i>	<i>2004E</i>	<i>3/31/05</i>	<i>6/30/05</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005E</i>	<i>3/31/06</i>	<i>3/31/06</i>
Volume										
Natural Gas (bcf)	0.83	1.38	2.41	1.35	1.37	1.38	1.38	5.48	1.35	5.48
Natural Gas (mmcf/d)	9.1	15.0	6.6	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Days	92	92	366	90	91	92	92	365	90	365
Oil (mb)	1,777	1,777	6,973	1,738	1,758	1,777	1,777	7,050	1,738	7,050
Oil (mbd)	19.32	19.32	19.05	19.32	19.32	19.32	19.32	19.32	19.32	19.32
Total (mb)	1,916	2,007	7,375	1,963	1,985	2,007	2,007	7,963	1,963	7,963
Total (mbd)	20.8	21.8	20.1	21.8	21.8	21.8	21.8	21.8	21.8	21.8
Price										
Henry Hub (\$/mmbtu)	5.75	7.10	6.15	6.21	6.21	6.36	6.72	6.37	7.20	6.62
Differential (\$/mmbtu)	(0.23)	0.85	0.07	0.74	0.74	0.76	0.80	0.76	0.80	0.79
Company (\$/mcf)	5.98	6.25	6.08	5.46	5.47	5.60	5.91	5.61	6.34	5.83
WTI Cushing (\$/bbl)	43.89	48.30	41.44	46.56	47.32	46.67	45.83	46.60	45.35	46.29
Differential	8.32	9.15	7.37	9.15	8.97	8.84	8.68	4.47	8.68	8.77
Company	35.58	39.14	34.06	37.74	38.36	37.82	37.15	42.12	36.75	37.52
Total (\$/bbl)	35.60	38.95	34.34	37.17	37.72	37.34	36.95	37.29	36.90	37.23
Revenue (\$mm)										
Natural Gas	5	9	15	7	7	8	8	31	9	32
Oil	63	70	239	66	67	67	66	266	64	265
Other, incl hedge	(7)		(16)					-		
Total	62	78	238	73	75	75	74	297	72	296
Expense										
Lease operating	22	24	83	24	24	24	24	96	24	96
General and administrative	4	4	16	4	4	4	4	16	4	16
Total	26	28	99	28	28	28	28	112	28	112
Ebitda	35	50	138	45	47	47	46	185	45	185
Exploration	-	1	1	1	1	1	1	4	1	4
Deprec., Deplet., & Amort.	8	11	35	11	11	11	11	44	11	44
Other, incl hedge	(0)	6	5	4	5	4	4	18	4	17
Ebit	27	32	97	29	30	30	30	120	30	120
Interest	1	1	2	1	1	1	1	2	1	2
Ebt	27	32	95	29	30	30	30	118	29	118
Income Tax	8	10	27	10	10	10	10	41	10	41
Net Income (\$mm)	18	22	68	19	19	19	19	76	19	77
Per Share (\$)	0.82	1.00	3.05	0.83	0.86	0.87	0.86	3.42	0.84	3.43
Shares (millions)										
Lease operating (\$/bbl)	11.53	12.00	11.31	12.00	12.00	12.00	12.00	12.00	12.00	12.00
General and admin (\$/bbl)	2.21	1.99	2.16	2.04	2.01	1.99	1.99	2.01	2.04	2.01
Deprec., D, & A (\$/bbl)	4.34	5.50	4.75	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Ebitda Margin	57%	64%	58%	62%	63%	63%	62%	62%	62%	62%
Tax rate	31%	30%	28%	35%	35%	35%	35%	35%	35%	35%

Buy Oil and Gas Producers at Mid Decade

Berry stock has outperformed recently in an attractive group for investment (see table [Rank by McDep Ratio](#)). Three to five-fold gain potential for oil and gas price over the next 5 to 13 years justifies investment in recommended oil and gas producers, in our opinion. Supporting improving prospects, the average futures price of oil for continuous delivery over the next six years is in a multi-year uptrend as defined by the current quotes above the 40-week average. The current benchmark oil average futures price for the next six years is about \$42 a barrel.

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Global Oil Cash Flow and Present Value

	<i>Ebitda</i>	<i>Adjstd</i>	<i>PV/</i>	<i>Present</i>
	<i>NTM</i>	<i>Resrvs/</i>	<i>Ebitda</i>	<i>Value</i>
	<i>(\$mm)</i>	<i>Prod</i>	<i>NTM</i>	<i>(\$mm)</i>
		<i>NTM</i>		
Norsk Hydro ASA	2,740	6.0	4.7	12,900
Royal Dutch/Shell	18,930	6.3	5.1	97,000
Petro-Canada	2,133	7.3	5.9	12,500
Encana Corporation	2,850	7.5	5.3	15,200
Energy Partners Ltd.	103	7.5	5.1	530
Unocal Corporation	2,110	7.9	4.9	10,300
CNOOC	4,560	8.0	5.3	24,300
Devon Energy Corporation	2,500	8.1	5.5	13,800
Marathon Oil Corporation	1,380	8.4	6.0	8,300
BP plc	20,400	8.8	6.6	134,000
Total S.A.	12,910	8.9	6.6	84,800
Burlington Resources	1,400	9.7	5.9	8,300
ConocoPhillips	9,210	9.8	5.4	49,700
Exxon Mobil Corporation	22,990	10.3	7.5	172,000
ChevronTexaco Corporation	13,720	11.2	7.6	104,300
Anadarko Petroleum Corp.	2,060	11.8	6.2	12,700
Occidental Petroleum Corp.	4,786	11.8	6.4	30,400
Berry Petroleum Company	185	11.9	6.4	1,180
XTO Energy Inc.	450	12.1	6.4	2,900
PetroChina	21,100	12.7	6.6	139,800
Imperial Oil	1,776	13.3	8.7	15,500
Encore Acquisition Company	214	16.4	7.7	1,640
Lukoil Oil Company	4,400	20.0	10.2	44,900
Suncor Energy	2,190	20.0	11.1	24,300
Canadian Oil Sands Trust (US\$)	920	20.0	11.0	10,100

Oil and Gas Producers

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

	<i>Symbol/</i>	<i>Price</i>	<i>Market</i>	<i>Net</i>	<i>Debt/</i>	<i>McDep</i>		
	<i>Rating</i>	<i>(\$/sh)</i>	<i>Cap</i>	<i>Present</i>	<i>Present</i>	<i>Ratio</i>		
		<i>4-Feb</i>	<i>Shares</i>	<i>Value</i>	<i>Value</i>			
		<i>2005</i>	<i>(mm)</i>	<i>(\$mm)</i>	<i>(\$/sh)</i>			
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B2	56.51	22	1,260	50.00	0.05	1.12
Energy Partners Ltd.	EPL	B3	23.16	39	900	24.00	0.14	0.97
Cimarex Energy Company	XEC	B2	34.87	43	1,500	44.00	0.00	0.79
Encore Acquisition Company	EAC	B2	39.34	33	1,280	57.00	0.19	0.75
			<i>Total or Median</i>		<i>4,900</i>		<i>0.09</i>	<i>0.88</i>

B1 = Buy full unlevered position, B2 = Buy half unlevered position, B3 = Alternative buy, H = Hold
S2 = Short half unlevered position, S3 = Short quarter unlevered position
McDep Ratio = **M**arket cap and **D**ebt to **P**resent value of oil and gas and other businesses

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