

Rating: Buy
S&P 500: 1407

Berry Petroleum Company **Light Oil Irony**

<i>Symbol</i>	BRY	<i>Ebitda Next Twelve Months ending 12/31/07 (US\$m)</i>	243
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	19
<i>Price (\$/sh)</i>	30.28	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/28/07	<i>Adjusted Reserves/Production NTM</i>	10.3
<i>Shares (mm)</i>	45	<i>EV/Ebitda</i>	7.9
<i>Market Capitalization (\$mm)</i>	1,350	<i>PV/Ebitda</i>	10.4
<i>Debt (\$mm)</i>	560	<i>Undeveloped Reserves (%)</i>	32
<i>Enterprise Value (EV) (\$mm)</i>	1,910	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	24.50
<i>Present Value (PV) (\$mm)</i>	2,520	<i>Present Value Proven Reserves(\$/boe)</i>	16.70
<i>Net Present Value (\$/share)</i>	44	<i>Present Value Proven Reserves(\$/mcf)</i>	2.80
<i>Debt/Present Value</i>	0.22	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.91
<i>McDep Ratio - EV/PV</i>	0.76	<i>Price/Earnings Next Twelve Months</i>	16
<i>Dividend Yield (%/year)</i>	1.0	<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\$60 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

Chief Executive Bob Heinemann of buy-recommended **Berry Petroleum (BRY)** expects more than 10% annual volume growth for several more years despite a temporary curtailment of new light oil production in Utah. Rocky Mountain crude oil values have been buffeted by more supply from producers like Berry at the same time large incremental volumes of synthetic light crude oil and heavy oil are flowing south from Canada. Choosing an assured outlet over a higher price, Berry has entered into a 5-year contract that gives it the confidence to continue to pursue expanding production. Ironically, Berry seemed to be reducing its exposure to market limits by diversifying away from heavy oil in California. Fourth quarter 2006 results reported February 28 exposed the wider crude oil price differential that also contributes to a lower cash flow for 2007 (table [Quarterly Results](#)). Though net present value (NPV) of \$44 a share looks high relative to current cash flow, we see potential in Utah oil, Colorado Piceance Basin natural gas and California diatomite oil to boost future cash flow (see table [Functional Cash Flow and Present Value](#)). Small cap Berry has a half weighting in our illustrative energy portfolio concentrated on real assets that promise a high return providing clean fuel for global growth.

Kurt H. Wulff, CFA

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Berry Petroleum Company
Quarterly Results

	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Next</i>
	<i>12/31/05</i>	<i>9/30/06</i>	<i>12/31/06</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>Twelve</i>
									<i>Months</i>
									<i>12/31/07</i>
Volume									
Natural Gas (mmcf)	25.2	37.4	40.0	34.3	40.0	40.0	40.0	40.0	40.0
Oil (mbd)	19.44	20.19	20.43	19.74	20.43	20.43	20.43	20.50	20.45
Total (mb)	2,175	2,430	2,493	9,288	2,439	2,466	2,493	2,499	9,897
Total (mcb)	23.6	26.4	27.1	25.4	27.1	27.1	27.1	27.2	27.1
Price									
Henry Hub (\$/mmbtu)	13.00	6.58	6.57	7.23	6.83	7.79	8.03	8.73	7.85
Differential (\$/mmbtu)	3.44	1.72	1.72	1.80	1.72	2.04	2.10	2.28	2.05
Company (\$/mcf)	9.56	4.86	4.85	5.43	5.05	5.75	5.93	6.45	5.80
WTI Cushing (\$/bbl)	60.02	70.42	59.99	66.05	58.69	62.46	64.76	66.00	62.98
Differential	10.37	13.85	14.39	13.48	14.08	14.98	15.54	15.84	15.09
Company	49.65	56.57	45.60	52.57	44.61	47.47	49.22	50.17	47.89
Total (\$/bbl)	51.02	50.11	41.54	48.09	41.08	44.28	45.87	47.35	44.67
Revenue (\$mm)									
Natural Gas	22	17	18	68	18	21	22	24	85
Oil	89	105	86	379	82	88	93	95	357
Other, incl hedge	(14)	(6)	(2)	(16)					
Total	97	116	102	431	100	109	114	118	442
Expense									
Lease operating	33	36	37	133	36	39	41	43	159
General and administrative	5	9	11	36	10	10	10	10	40
Total	38	46	48	169	46	49	51	53	199
Ebitda	59	71	54	262	55	60	63	65	243
Exploration	2	1	1	12	3	3	3	2	11
Deprec., Deplet., & Amort.	12	19	21	71	21	21	21	21	84
Other, incl hedge	(0)	(2)	(3)	(4)	1	0	(0)	(1)	1
Ebit	45	53	35	184	29	36	39	43	147
Interest	2	3	4	11	4	4	4	4	16
Ebt	43	51	31	173	25	32	35	39	131
Income Tax	13	19	12	64	9	11	12	14	46
Net Income (\$mm)	30	32	19	108	16	21	23	25	85
Per Share (\$)	0.68	0.71	0.43	2.42	0.37	0.46	0.51	0.57	1.91
Shares (millions)	45	45	45	45	45	45	45	45	45
Lease operating (\$/bbl)	14.99	14.91	14.84	14.29	14.62	15.92	16.57	17.17	16.08
General and admin (\$/bbl)	2.48	3.87	4.41	3.91	4.10	4.06	4.01	4.00	4.04
Deprec., D, & A (\$/bbl)	5.61	7.74	8.42	7.62	8.61	8.52	8.42	8.40	8.49
Ebitda Margin	61%	61%	53%	61%	54%	55%	55%	55%	55%
Tax rate	30%	37%	38%	37%	35%	35%	35%	35%	35%

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Berry Petroleum Company
Functional Cash Flow and Present Value

	<i>NTM Ebitda</i> <i>(US\$mm)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$mm)</i>	
North American Natural Gas	50	11.3	12.0	600	24%
Oil	193	10.0	10.0	1,920	76%
	243	10.3	10.4	2,520	100%
Debt (US\$mm)					560
Net Present Value (US\$mm)					1,960
Shares (mm)					45
Net Present Value - Standard Estimate (US\$/sh)					44
Net Present Value - Approximation by Correlation (US\$/sh)					28

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