



# Independent Stock Idea

August 5, 2009

rating: hold  
s&p 500: 1006

## Berry Petroleum (BRY) Back on Track

<i>Symbol</i>	BRY	<i>Ebitda Next Twelve Months ending 6/30/10 (US\$mm)</i>	315
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	16
<i>Price (\$/sh)</i>	25.67	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/4/09	<i>Adjusted Reserves/Production NTM</i>	12.1
<i>Shares (mm)</i>	45	<i>EV/Ebitda</i>	7.2
<i>Market Capitalization (\$mm)</i>	1,140	<i>PV/Ebitda</i>	8.6
<i>Debt (\$mm)</i>	1,140	<i>Undeveloped Reserves (%)</i>	48
<i>Enterprise Value (EV) (\$mm)</i>	2,280	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	29.60
<i>Present Value (PV) (\$mm)</i>	2,700	<i>Present Value Proven Reserves(\$/boe)</i>	12.10
<i>Net Present Value (\$/share)</i>	35	<i>Oil and Gas Ebitda Margin (%)</i>	58
<i>Debt/Present Value</i>	0.42	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.69
<i>McDep Ratio - EV/PV</i>	0.85	<i>Price/Earnings Next Twelve Months</i>	15
<i>Dividend Yield (%/year)</i>	1.2	<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, \$8 a million btu.			
For historical research on Berry since 2004 see <a href="http://www.mcdep.com/4bry.htm">http://www.mcdep.com/4bry.htm</a>			

### Summary and Recommendation

Hold-rated **Berry Petroleum (BRY)** offers unlevered appreciation potential of 18% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$35 a share. On July 14 we reduced NPV from \$40 when we reduced estimated Present Value of North American Natural Gas by 20%. Released August 4, second quarter results exceeded our estimate for unlevered cash flow (Ebitda) from three months ago on the strength of a 50% increase in BRY's oil price (see table [Next Twelve Months Operating and Financial Estimates](#)). In the current property mix, oil drives 69% of NPV in our valuation that capitalizes cash flow at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) (see table [Functional Cash Flow and Present Value](#)). Heavy oil production in California, 57% of Berry's total production in the second quarter, benefitted not only from the increase in Light, Sweet Crude Oil, but also from the smaller discount for heavy crude and low natural gas cost for generating steam to make heavy oil flow. Berry's resources are rising in value with oil futures prices for the next six years, which crossed the 40-week average into an uptrend at the end of May (see chart [Six-Year Commodity Price Meter](#)). We like the company's prospects and management, but debt is too high for a buy recommendation.

Kurt H. Wulff, CFA



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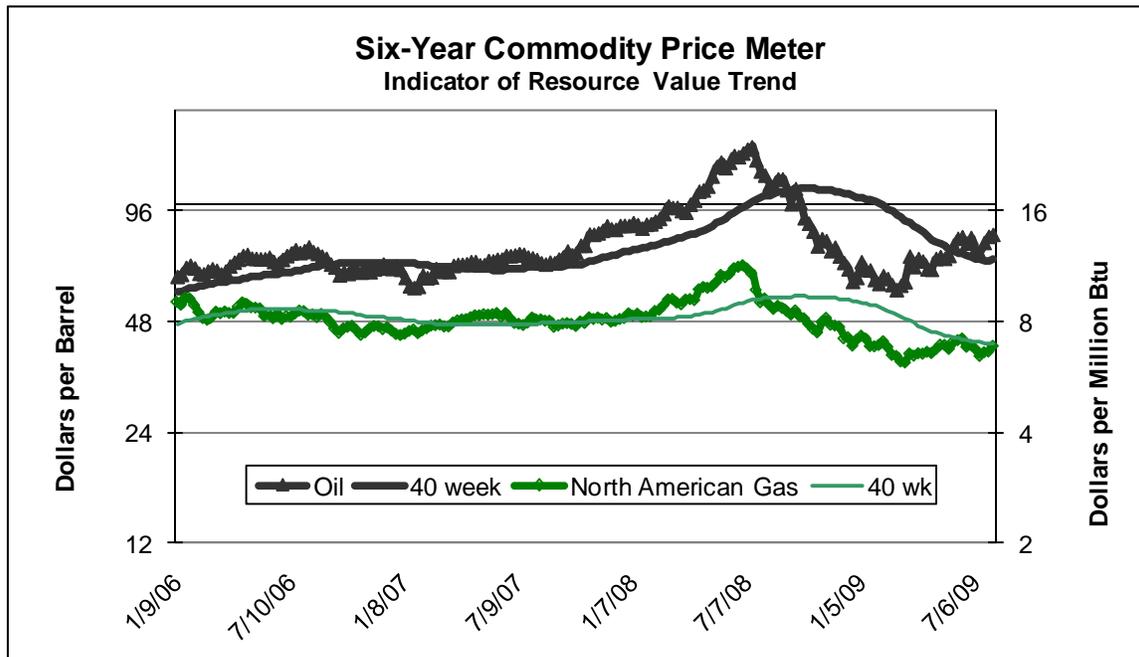
Berry Petroleum Company									
Next Twelve Months Operating and Financial Estimates									
									<i>Next Twelve Months</i>
	<i>Q2</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	
	<i>6/30/08</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>2009E</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>6/30/10</i>
<b>Volume</b>									
Natural Gas (mmcf)	50.3	64	56	56	56	<b>58</b>	56	56	<b>56</b>
Days	91	90	91	92	92	<b>365</b>	90	91	<b>365</b>
Oil (mbd)	20.61	19.5	19.9	19.9	19.9	<b>19.8</b>	19.9	19.9	<b>19.9</b>
Total (mb)	2,639	2,721	2,664	2,684	2,684	<b>10,753</b>	2,626	2,655	<b>10,649</b>
Total (mbd)	29.0	30.2	29.3	29.2	29.2	<b>29.5</b>	29.2	29.2	<b>29.2</b>
<b>Price</b>									
Henry Hub (\$/mmbtu)	10.93	4.90	3.50	3.79	5.00	<b>4.30</b>	5.95	5.89	<b>5.16</b>
Differential (\$/mmbtu)	1.60	1.02	0.53	0.57	0.75	<b>0.71</b>	0.90	0.97	<b>0.80</b>
Company (\$/mcf)	9.33	3.88	2.97	3.22	4.25	<b>3.59</b>	5.05	4.92	<b>4.35</b>
WTI Cushing (\$/bbl)	123.97	42.96	59.52	69.09	74.17	<b>61.44</b>	76.50	78.25	<b>74.50</b>
Differential	17.61	10.27	9.67	11.23	12.05	<b>10.61</b>	13.21	13.51	<b>12.52</b>
Company	106.36	32.69	49.85	57.87	62.12	<b>50.82</b>	63.29	64.73	<b>61.99</b>
Total (\$/bbl)	91.79	29.35	39.60	45.62	50.48	<b>41.23</b>	52.82	53.54	<b>50.59</b>
<b>Revenue (\$mm)</b>									
Natural Gas	43	22	15	16	22	<b>76</b>	25	25	<b>88</b>
Oil	199	57	90	106	114	<b>367</b>	113	117	<b>450</b>
Other, incl hedge	(57)					<b>-</b>			
Total	185	80	105	122	135	<b>443</b>	139	142	<b>539</b>
<b>Expense</b>									
Lease operating	63	43	40	43	43	<b>169</b>	42	42	<b>170</b>
General and administrative	11	13	13	13	13	<b>53</b>	13	13	<b>53</b>
Total	74	56	53	56	56	<b>222</b>	55	56	<b>224</b>
<b>Ebitda</b>	111	24	52	66	79	<b>222</b>	84	86	<b>315</b>
Exploration	4	0	-	-	-	<b>0</b>	3	3	<b>6</b>
Deprec., Deplet., & Amort.	30	37	35	38	38	<b>147</b>	37	37	<b>149</b>
Other, incl hedge	(2)	(49)	(20)			<b>(69)</b>			<b>-</b>
<b>Ebit</b>	80	36	37	29	42	<b>143</b>	44	46	<b>160</b>
Interest	4	10	11	11	11	<b>43</b>	11	11	<b>44</b>
<b>Ebt</b>	76	26	26	18	31	<b>100</b>	33	35	<b>116</b>
Income Tax	27	9	9	6	11	<b>35</b>	11	12	<b>41</b>
<b>Net Income (\$mm)</b>	49	17	17	11	20	<b>65</b>	21	23	<b>75</b>
Per Share (\$)	1.08	0.38	0.38	0.26	0.45	<b>1.46</b>	0.48	0.51	<b>1.69</b>
<b>Shares (millions)</b>	46	45	45	45	45	<b>45</b>	45	45	<b>45</b>
Lease operating (\$/bbl)	23.76	15.81	15.02	16.00	16.00	<b>15.71</b>	16.00	16.00	<b>16.00</b>
General and admin (\$/bbl)	4.24	4.78	4.88	5.00	5.00	<b>4.91</b>	5.00	5.00	<b>5.00</b>
Deprec., D, & A (\$/bbl)	11.25	13.60	13.14	14.00	14.00	<b>13.69</b>	14.00	14.00	<b>14.00</b>
Ebitda Margin	60%	30%	50%	54%	58%	<b>50%</b>	60%	61%	<b>58%</b>
Tax rate	35%	35%	35%	35%	35%	<b>35%</b>	35%	35%	<b>35%</b>



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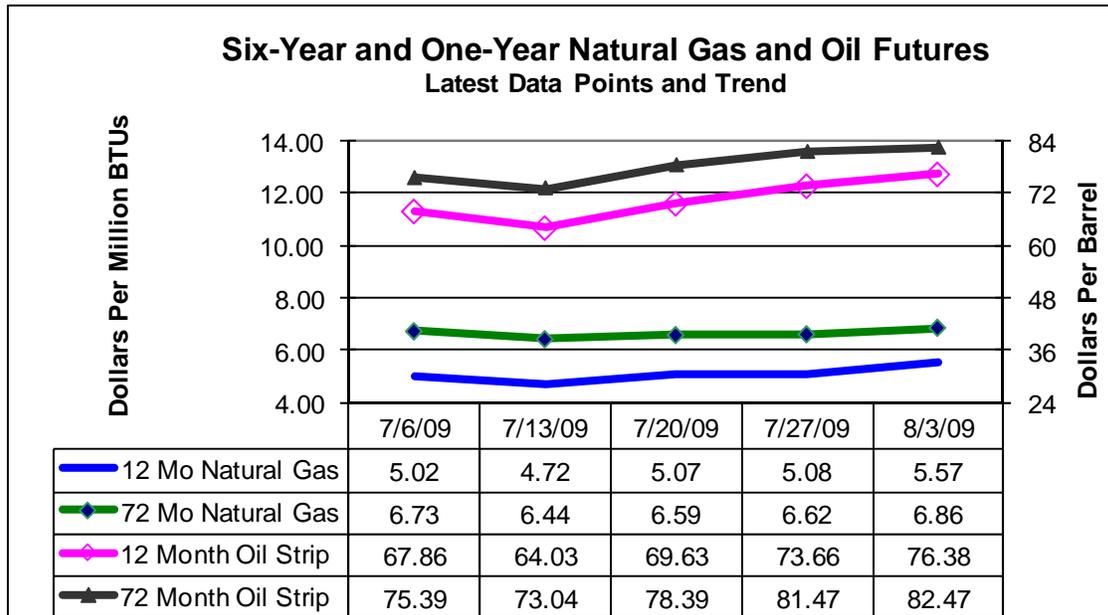
Berry Petroleum Company					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
North American Natural Gas	50	20.5	16.8	840	31%
Oil	265	9.4	7.0	1,860	69%
	315	12.1	8.6	2,700	100%
Debt (US\$mm)					1,140
Net Present Value (US\$mm)					1,560
Shares (mm)					45
Net Present Value - Standard Estimate (US\$/sh)					35
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					39





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