



Independent Stock Idea

February 21, 2014

PDC Energy (PDCE) **Raise NPV to \$75 on More Shale Oil**

<i>Symbol</i>	PDCE	<i>Ebitda Next Twelve Months ending 12/31/14 (US\$m)</i>	338
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	19
<i>Price (\$/sh)</i>	56.96	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/20/14	<i>Adjusted Reserves/Production NTM</i>	23.5
<i>Shares (mm)</i>	37	<i>EV/Ebitda</i>	8.0
<i>Market Capitalization (\$mm)</i>	2,100	<i>PV/Ebitda</i>	9.9
<i>Debt (\$mm)</i>	600	<i>Undeveloped Reserves (%)</i>	28
<i>Enterprise Value (EV) (\$mm)</i>	2,690	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	34.70
<i>Present Value (PV) (\$mm)</i>	3,360	<i>Present Value Proven Reserves(\$/boe)</i>	12.60
<i>Net Present Value (\$/share)</i>	75	<i>Oil and Gas Ebitda Margin (%)</i>	63
<i>Debt/Present Value</i>	0.18	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.15
<i>McDep Ratio - EV/PV</i>	0.80	<i>Price/Earnings Next Twelve Months</i>	26
<i>Dividend Yield (%/year)</i>	0.0	<i>Indicated Annual Dividend (US\$/sh)</i>	0.00
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\$90 a barrel and natural gas, \$6 a million btu.			
For historical analysis of PDC Energy since 2011 see www.mcdep.com/5petd.htm			

Summary and Recommendation

We raise estimated Net Present Value (NPV) of high-growth shale oil producer **PDC Energy (PDCE)** to \$75 a share from \$55 on a 40% sequential increase in fourth quarter 2014 production disclosed on February 20 on top of a 50% increase in yearend 2013 proven reserves disclosed on January 28. Both disclosures exceeded our expectations when we raised NPV to \$55 from \$45 on January 14 (see *Meter Reader*, January 14, 2014). Otherwise the story is the same as it was a month ago, while the actual results are better. Optimistically, we see stock price appreciating 30% to NPV and to higher NPV over time. Cautiously, we know that stock price for a small cap shale oil growth stock can be sensitive to unforeseen deviations from a smooth trend. In any case, we are impressed at the progress demonstrated by management in achieving high aspirations.

Kurt H. Wulff, CFA



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PDC Energy, Inc.									
Next Twelve Months Operating and Financial Estimates									
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Next Twelve Months
	12/31/12	9/30/13	12/31/13	2013	3/31/14	6/30/14	9/30/14	12/31/14	12/31/14
Volume									
Natural Gas (mmcf)	90	56	72	57	67	66	66	65	66
Days	92	92	92	365	90	91	92	92	365
Oil (mb)	788	850	1,302	3,953	1,325	1,393	1,465	1,523	5,705
Oil (mbd)	8.6	9.2	14.2	10.8	14.7	15.3	15.9	16.6	15.6
Total (bcfe)	13.0	10.3	14.4	44.6	14.0	14.4	14.8	15.1	58.3
Total (mbd)	23.6	18.6	26.1	20.4	25.9	26.4	26.9	27.4	26.6
Price									
Henry Hub (\$/mmbtu)	3.40	3.58	3.60	3.65	5.14	4.68	4.68	4.74	4.81
Differential	0.49	0.45	0.39	0.36	0.56	0.51	0.51	0.52	0.53
Company (\$/mcf)	2.91	3.13	3.21	3.29	4.58	4.17	4.17	4.22	4.29
WTI Cushing (\$/bbl)	88.18	105.83	97.46	97.98	98.57	99.86	97.39	94.89	97.68
Differential	19.56	28.26	21.35	24.40	21.59	21.88	21.34	20.79	21.46
Company	68.61	77.57	76.11	73.58	76.97	77.98	76.06	74.10	76.22
Total (\$/bbl)	36.05	47.92	50.05	48.38	55.63	55.77	55.27	54.80	55.36
Revenue (\$mm)									
Natural Gas	24	16	21	69	28	25	25	25	103
Oil	54	66	99	291	102	109	111	113	435
Total	78	82	120	359	130	134	137	138	538
Expense									
Lease operating	18	19	22						-
General and administrative	16	16	17						-
Total	34	35	39	132	48	50	51	51	200
Ebitda									
Exploration	16	2	2	7	2	2	2	2	8
Deprec., Deplet., & Amort.	40	31	41	127	41	41	41	41	162
Other, incl hedge	165	5	1	40	1				1
Ebit	(177)	9	38	53	38	41	43	44	167
Interest	16	13	13	52	13	13	13	13	52
Ebt	(194)	(4)	25	1	25	29	30	31	115
Income Tax	(68)	(1)	9	0	9	10	11	11	40
Net Income (\$mm)	(126)	(2)	16	1	16	19	20	20	75
Per Share (\$)	(4.17)	(0.07)	0.44	(0.07)	0.45	0.50	0.64	0.56	2.15
Shares (millions)	30.2	33.4	36.8	(9.8)	36.8	36.8	31.0	36.0	36.8
Ebitda Margin	56%	57%	67%	63%	63%	63%	63%	63%	63%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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PDC Energy, Inc.					
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	65	26.2	13.8	900	27%
Oil	273	21.7	9.0	2,460	73%
	338	23.5	9.9	3,360	100%
Debt (US\$mm)					600
Net Present Value (US\$mm)					2,760
Shares (mm)					37
Net Present Value - Standard Estimate (US\$/sh)					75
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					89

Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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