



# Independent Stock Idea

February 19, 2009

rating: hold  
s&p 500: 779

## Penn West Energy Trust (PWE) Distribution Keyed to US\$45 Oil

<i>Symbol</i>	PWE	<i>Ebitda Next Twelve Months ending 12/31/09 (US\$mm)</i>	1,070
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	33
<i>Price (US\$/un)</i>	9.96	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/19/09	<i>Adjusted Reserves/Production NTM</i>	8.0
<i>Units (mm)</i>	410	<i>EV/Ebitda</i>	7.1
<i>Market Capitalization (US\$mm)</i>	4,100	<i>PV/Ebitda</i>	12.8
<i>Debt (US\$mm)</i>	3,500	<i>Undeveloped Reserves (%)</i>	10
<i>Enterprise Value (EV) (US\$mm)</i>	7,600	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	16.98
<i>Present Value (PV) (US\$mm)</i>	13,700	<i>Present Value Proven Reserves(US\$/boe)</i>	25.80
<i>Net Present Value (US\$/unit)</i>	25	<i>Oil and Gas Ebitda Margin (%)</i>	68
<i>Debt/Present Value</i>	0.25	<i>Earnings Next Twelve Months (US\$/un)</i>	
<i>McDep Ratio - EV/PV</i>	0.55	<i>Price/Earnings Next Twelve Months</i>	
<i>Distribution Yield (%/year)</i>	22.0	<i>Indicated Annual Distribution (US\$/un)</i>	2.19
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\$75 a barrel and natural gas, \$10 a million btu.			
For historical analysis of PWE since 2005 see <a href="http://www.mcdep.com/5pwt.htm">www.mcdep.com/5pwt.htm</a>			

### Summary and Recommendation

Estimated Net Present Value (NPV) of \$25 a share is about 150% higher than stock price for moderately high-debt, hold-rated **Penn West Energy Trust (PWE)**. Released late the night of February 18, fourth quarter results displayed lower unlevered cash flow (Ebitda) driven by crude oil and natural gas prices (see table [Next Twelve Months Operating and Financial Estimates](#)). Responding to an investor question on the call today about whether the monthly distribution of C\$0.23 could be sustained at lower price, Chairman Bill Andrew was quick to reemphasize that the indicated income level is matched to an oil price of US\$45 a barrel. Mr. Andrew said the distribution would still be positive at a hypothetical lasting price of \$35. Interest costs magnify the sensitivity of distribution to price just as debt magnifies the sensitivity of NPV to oil price. Those concerns are moderated by hedges that assure an oil price of US\$80 a barrel in 2009 for about 30% of oil production. Our valuation capitalizes cash flow at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) for natural gas and oil taking account of final reported reserves for 2008. Latest calculations result in NPV concentrated 30% on natural gas and 70% on oil (see table [Functional Cash Flow and Present Value](#)). Pointing to expected oil price recovery, futures prices for the next six years averaged US\$62 a barrel recently (see charts [Six-Year Commodity Price Meter](#) and [Six-Year and One-Year Natural Gas and Oil Futures](#)).

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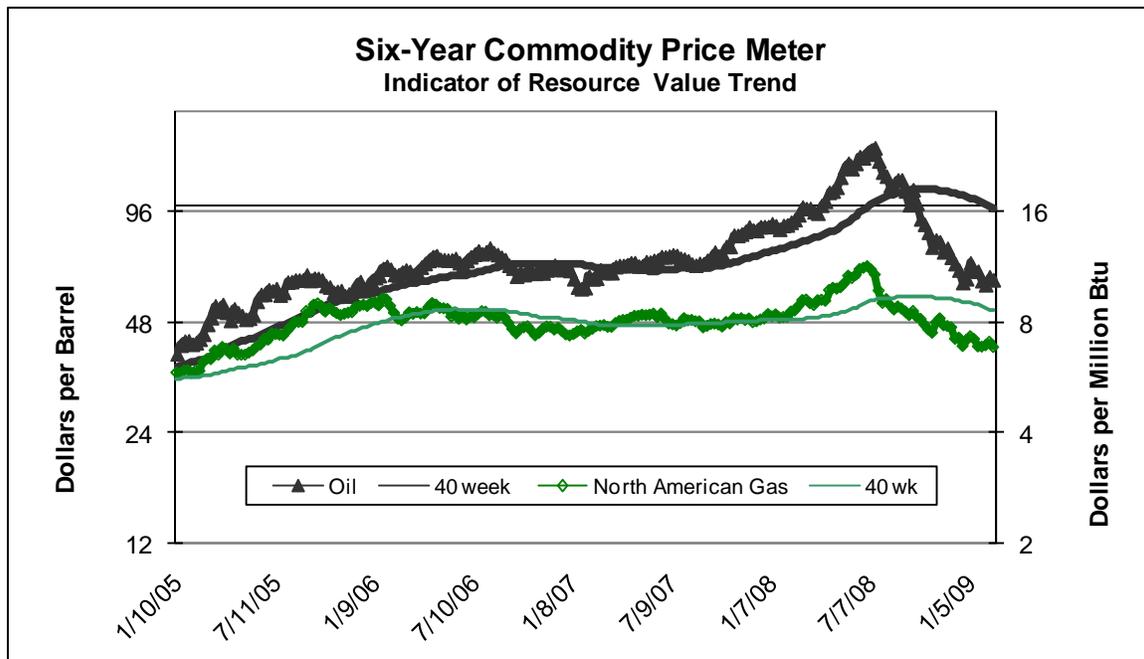
Penn West Energy Trust									
Next Twelve Months Operating and Financial Estimates									
(Canadian dollars)									
									<i>Next</i>
	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Twelve</i>
	<i>12/31/07</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>Months</i>
									<i>12/31/09</i>
<b>Volume</b>									
Natural Gas (mmcf)	328	500	476	<b>491</b>	462	448	434	434	<b>445</b>
Days	92	92	92	<b>366</b>	90	91	92	92	<b>365</b>
Oil (mbd)	73	107	106	<b>108</b>	102	99	96	96	<b>99</b>
Total gas & oil (bcf)	71	105	102	<b>416</b>	97	95	93	93	<b>378</b>
Total gas & oil (mbd)	128	190	185	<b>190</b>	179	174	169	169	<b>173</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (US\$/mmbtu)	6.97	10.25	6.95	<b>9.04</b>	5.02	4.56	4.90	5.61	<b>5.02</b>
Currency (US\$/C\$)	1.02	0.96	0.83	<b>0.95</b>	0.79	0.79	0.79	0.79	<b>0.79</b>
Henry Hub (C\$/mmbtu)	6.84	10.66	8.40	<b>9.54</b>	6.32	5.74	6.16	7.05	<b>6.32</b>
Company (C\$/mcf)	6.34	8.49	7.03	<b>8.43</b>	5.29	4.80	5.15	5.90	<b>5.28</b>
Oil (\$/bbl)									
WTI Cushing (US\$)	90.67	117.99	58.45	<b>99.59</b>	40.12	44.53	49.20	51.74	<b>46.40</b>
WTI Cushing (C\$/bbl)	88.91	122.77	70.62	<b>105.13</b>	50.47	56.02	61.89	65.09	<b>58.37</b>
Company (C\$/bbl)	68.40	107.19	49.94	<b>87.04</b>	41.79	46.38	51.24	53.89	<b>48.25</b>
Total gas & oil (\$/mcf)	9.24	13.76	7.77	<b>9.73</b>	6.25	6.48	7.09	7.66	<b>5.24</b>
<b>Revenue (\$mm)</b>									
Natural Gas	191	391	308	<b>1,514</b>	220	196	206	236	<b>857</b>
Oil	461	1,054	485	<b>3,432</b>	385	420	455	478	<b>1,738</b>
Other	(114)	(265)	(152)	<b>(898)</b>	(143)	(145)	(156)	(169)	<b>(613)</b>
Total	539	1,180	641	<b>4,048</b>	462	470	505	545	<b>1,982</b>
<b>Expense</b>	158	225	279	<b>1,046</b>	185	188	126	136	<b>635</b>
<b>Ebitda (\$mm)</b>	381	955	362	<b>3,001</b>	277	282	378	409	<b>1,347</b>
Deprec., Deplet., & Amort.	242	404	400	<b>1,594</b>	400	400	400	400	<b>1,600</b>
Hedging and other	(13)	254	7	<b>1,031</b>					<b>-</b>
<b>Ebit</b>	153	297	(45)	<b>376</b>	(123)	(118)	(22)	9	<b>(253)</b>
Interest	27	51	53	<b>204</b>	53	53	53	53	<b>212</b>
<b>Ebt</b>	126	246	(98)	<b>172</b>	(176)	(171)	(75)	(44)	<b>(465)</b>
Income Tax				<b>(55)</b>					<b>-</b>
<b>Net Income (\$mm)</b>	126	246	(98)	<b>227</b>	(176)	(171)	(75)	(44)	<b>(465)</b>
<b>Shares (millions)</b>	242	390	391	<b>379</b>	410	410	410	410	<b>410</b>
Per share (\$)	0.52	0.63	(0.25)	<b>0.60</b>	(0.43)	(0.42)	(0.18)	(0.11)	<b>(1.13)</b>
Ebitda Margin - O&G	71%	81%	56%	<b>74%</b>	60%	60%	75%	75%	<b>68%</b>
Tax Rate	0%			<b>-32%</b>	0%	0%	0%	0%	<b>0%</b>
<b>Distribution (\$mm)</b>	246	398	399	<b>1,546</b>	283	283	283	283	<b>1,132</b>
Per share (\$)	1.02	1.02	1.02	<b>4.08</b>	0.69	0.69	0.69	0.69	<b>2.76</b>



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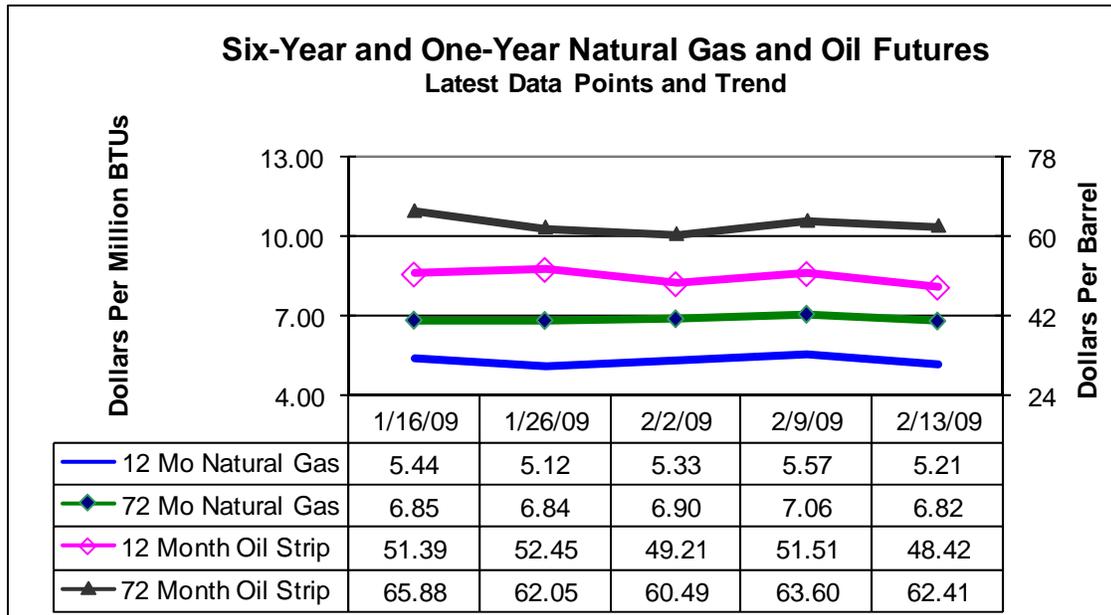
Penn West Energy Trust					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	350	6.4	11.7	4,100	30%
Oil	720	9.2	13.5	9,700	70%
	1,070	8.0	12.9	13,800	100%
Debt (US\$mm)					3,500
Net Present Value (US\$mm)					10,300
Shares (mm)					410
Net Present Value - Standard Estimate (US\$/sh)					25
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					20





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