



# Independent Stock Idea

August 12, 2009

rating: hold  
s&p 500: 1006

## Penn West Energy Trust (PWE) Reduce NPV on Volume Trend

<i>Symbol</i>	PWE	<i>Ebitda Next Twelve Months ending 6/30/10 (US\$mm)</i>	1,340
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	24
<i>Price (US\$/un)</i>	13.24	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/12/09	<i>Adjusted Reserves/Production NTM</i>	8.1
<i>Units (mm)</i>	410	<i>EV/Ebitda</i>	7.1
<i>Market Capitalization (US\$mm)</i>	5,400	<i>PV/Ebitda</i>	8.8
<i>Debt (US\$mm)</i>	4,100	<i>Undeveloped Reserves (%)</i>	10
<i>Enterprise Value (EV) (US\$mm)</i>	9,500	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	21.47
<i>Present Value (PV) (US\$mm)</i>	11,900	<i>Present Value Proven Reserves(US\$/boe)</i>	22.41
<i>Net Present Value (US\$/unit)</i>	19	<i>Oil and Gas Ebitda Margin (%)</i>	56
<i>Debt/Present Value</i>	0.34	<i>Earnings Next Twelve Months (US\$/un)</i>	
<i>McDep Ratio - EV/PV</i>	0.80	<i>Price/Earnings Next Twelve Months</i>	
<i>Distribution Yield (%/year)</i>	12.5	<i>Indicated Annual Distribution (US\$/un)</i>	1.65
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, \$8 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

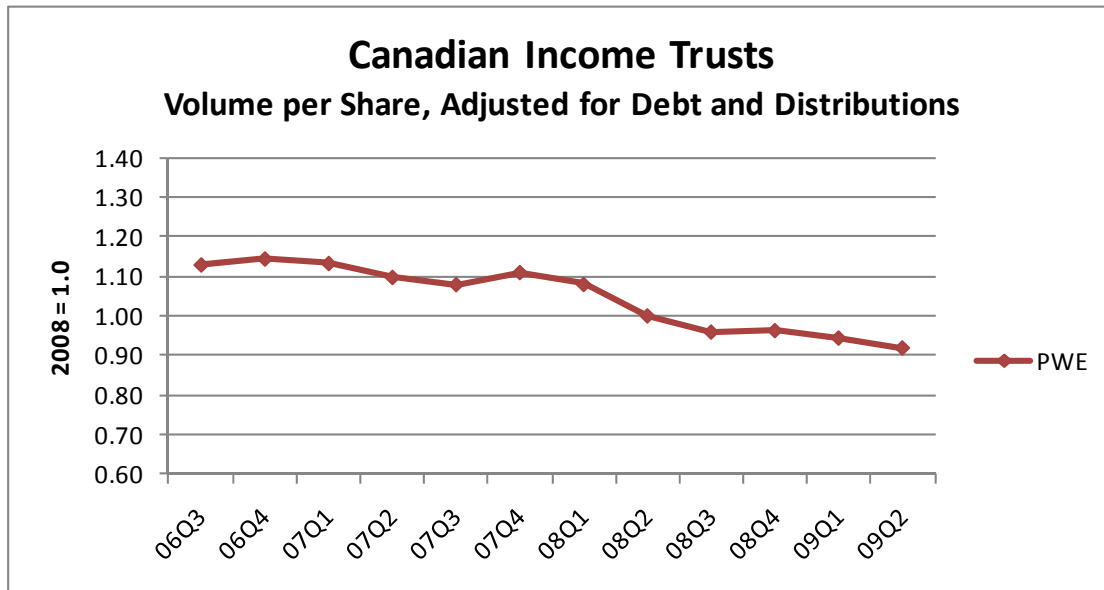
Hold-rated **Penn West Energy Trust (PWE)** offers unlevered appreciation potential of 25% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of US \$19 a share. On July 14 we reduced NPV from US\$25 to US\$23 when we reduced estimated Present Value of North American Natural Gas by 20%. Today we reduce NPV from US\$23 to recognize the declining volume trend while the trust paid high distributions (see chart [Volume per Share, Adjusted for Debt and Distributions](#)). Meanwhile, oil drives 73% of NPV in our valuation, which capitalizes cash flow at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) (see table [Functional Cash Flow and Present Value](#)). Released today, second quarter results met our estimate for unlevered cash flow (Ebitda) from three months ago, helped by higher oil price (see table [Next Twelve Months Operating and Financial Estimates](#)). Pointing to possible further gains, oil futures prices for the next six years crossed the 40-week average into an uptrend at the end of May (see chart [Six-Year Commodity Price Meter](#)). There are also prospects for the volume trend to improve with the application of horizontal drilling and multistage fracturing to boost recovery from PWE's relatively unexploited light oil resource base. After reducing debt, management's priority is to exploit its assets that have doubled in size with acquisitions in the past two years. Distributions may be reduced in 2010 in favor of the debt and reinvestment priorities.

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<b>Penn West Energy Trust</b>					
<b>Functional Cash Flow and Present Value</b>					
				<i>Present</i>	
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Value</i>	
	<u>(US\$mm)</u>	<u>R/P</u>	<u>Ebitda</u>	<u>(US\$mm)</u>	
North American Natural Gas	320	6.6	10.0	3,200	27%
Oil	1,020	9.2	8.5	8,700	73%
	1,340	8.1	8.9	11,900	100%
Debt (US\$mm)					4,100
Net Present Value (US\$mm)					7,800
Shares (mm)					410
Net Present Value - Standard Estimate (US\$/sh)					19
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					16



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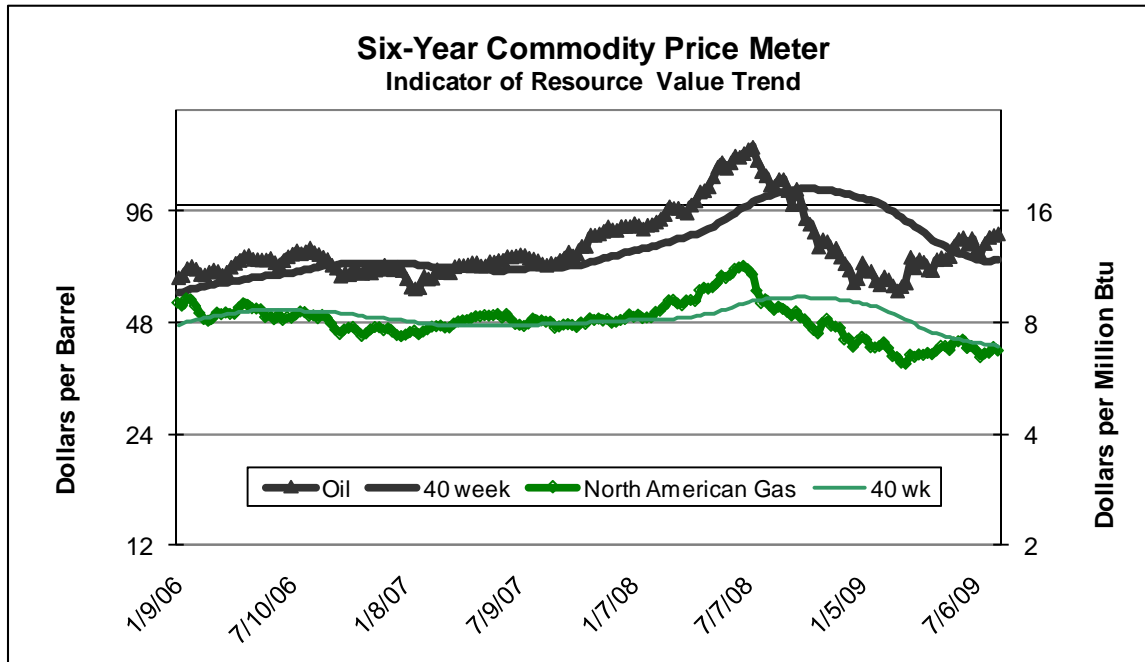
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<b>Penn West Energy Trust</b>									
<b>Next Twelve Months Operating and Financial Estimates</b>									
<b>(Canadian dollars)</b>									
									<i>Next</i>
	<i>Q2</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Twelve</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>2008</i>	<i>3/31/09</i>	<i>6/30/10</i>	<i>Months</i>
									<i>6/30/10</i>
<b>Volume</b>									
Natural Gas (mmcf)	487	447	459	445	445	<b>449</b>	432	419	<b>435</b>
Days	91	90	91	92	92	<b>365</b>	90	91	<b>365</b>
Oil (mbd)	109	106	104	101	101	<b>103</b>	98	95	<b>99</b>
Total gas & oil (bcf)	104	97	99	97	97	<b>389</b>	92	90	<b>375</b>
Total gas & oil (mbd)	191	180	181	175	175	<b>178</b>	170	165	<b>171</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (US\$/mmbtu)	10.93	4.90	3.50	3.66	4.70	<b>4.19</b>	5.71	5.67	<b>4.93</b>
Currency (US\$/C\$)	0.99	0.80	0.86	0.92	0.92	<b>0.87</b>	0.92	0.92	<b>0.92</b>
Henry Hub (C\$/mmbtu)	11.04	6.09	4.08	3.98	5.11	<b>4.82</b>	6.21	6.17	<b>5.37</b>
Company (C\$/mcf)	10.20	5.37	3.68	3.60	4.62	<b>4.31</b>	5.61	5.57	<b>4.82</b>
Oil (\$/bbl)									
WTI Cushing (US\$)	123.97	42.96	59.52	68.44	73.91	<b>61.21</b>	76.62	78.41	<b>74.35</b>
WTI Cushing (C\$/bbl)	125.23	53.43	69.38	74.46	80.41	<b>70.37</b>	83.35	85.31	<b>80.88</b>
Company (C\$/bbl)	107.17	42.63	57.75	61.98	66.93	<b>57.24</b>	67.80	69.39	<b>66.46</b>
Total gas & oil (\$/mcf)	14.60	6.39	7.11	7.48	8.39	<b>6.10</b>	8.89	9.03	<b>7.01</b>
<b>Revenue (\$mm)</b>									
Natural Gas	452	216	154	147	189	<b>706</b>	218	212	<b>767</b>
Oil	1,067	405	547	576	622	<b>2,149</b>	598	600	<b>2,395</b>
Other	(267)	(110)	(117)	(121)	(135)	<b>(483)</b>	(138)	(137)	<b>(531)</b>
Total	1,252	511	584	602	675	<b>2,372</b>	677	675	<b>2,630</b>
<b>Expense</b>	250	292	292	292	292	<b>1,169</b>	292	292	<b>1,169</b>
<b>Ebitda (\$mm)</b>	1,002	220	291	310	383	<b>1,204</b>	385	382	<b>1,460</b>
Deprec., Deplet., & Amort.	394	385	400	400	400	<b>1,585</b>	400	400	<b>1,600</b>
Hedging and other	560	(150)	(105)			<b>(255)</b>			<b>-</b>
<b>Ebit</b>	48	(15)	(4)	(90)	(17)	<b>(126)</b>	(15)	(18)	<b>(140)</b>
Interest	48	40	37	37	37	<b>151</b>	37	37	<b>148</b>
<b>Ebt</b>	-	(55)	(41)	(127)	(54)	<b>(277)</b>	(52)	(55)	<b>(288)</b>
Income Tax						<b>-</b>			<b>-</b>
<b>Net Income (\$mm)</b>	-	(55)	(41)	(127)	(54)	<b>(277)</b>	(52)	(55)	<b>(288)</b>
<b>Shares (millions)</b>	380	399	411	411	411	<b>409</b>	410	410	<b>410</b>
Per share (\$)	-	(0.14)	(0.10)	(0.31)	(0.13)	<b>(0.68)</b>	(0.13)	(0.13)	<b>(0.70)</b>
Ebitda Margin - O&G	80%	43%	50%	51%	57%	<b>51%</b>	57%	57%	<b>56%</b>
Tax Rate				0%	0%	<b>0%</b>	0%	0%	<b>0%</b>
<b>Distribution (\$mm)</b>	388	275	185	185	185	<b>833</b>	185	185	<b>738</b>
Per share (\$)	1.02	0.69	0.45	0.45	0.45	<b>2.04</b>	0.45	0.45	<b>1.80</b>



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