

Rating: Buy
 S&P 500: 1399

Penn West Energy Trust

Lower Net Present Value to \$36 a Unit

<i>Symbol</i>	PWE	<i>Ebitda Next Twelve Months ending 12/31/07 (US\$m)</i>	1,260
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	41
<i>Price (US\$/un)</i>	30.05	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/27/07	<i>Adjusted Reserves/Production NTM</i>	7.5
<i>Units (mm)</i>	240	<i>EV/Ebitda</i>	6.9
<i>Market Capitalization (US\$m)</i>	7,200	<i>PV/Ebitda</i>	8.0
<i>Debt (US\$m)</i>	1,500	<i>Undeveloped Reserves (%)</i>	12
<i>Enterprise Value (EV) (US\$m)</i>	8,700	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	26.41
<i>Present Value (PV) (US\$m)</i>	10,100	<i>Present Value Proven Reserves(US\$/boe)</i>	26.67
<i>Net Present Value (US\$/unit)</i>	36	<i>Present Value Proven Reserves(US\$/mcf)</i>	4.44
<i>Debt/Present Value</i>	0.15	<i>Earnings Next Twelve Months (US\$/un)</i>	1.93
<i>McDep Ratio - EV/PV</i>	0.86	<i>Price/Earnings Next Twelve Months</i>	16
<i>Distribution Yield (%/year)</i>	11.7	<i>Indicated Annual Distribution (US\$/un)</i>	3.52

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\$60 a barrel and natural gas, \$10 a million btu.

For historical analysis of PWE since 2005 see www.mcdep.com/5pwt.htm

Summary and Recommendation

Buy-recommended **Penn West Energy Trust (PWE)** is our top choice among mid cap producers distributing cash at the annual rate of about 10% or more despite an adjustment in estimated net present value (NPV) to \$36 a unit from \$39 a unit. The change reflects in part a shorter adjusted reserve life as a result of a decline in reserves before adjustment for acquisitions (see table, page 4, [Functional Cash Flow and Present Value](#)). Estimated NPV of \$36 includes about \$7 a unit for the potential value in Peace River oil sands, Pembina CO2 enhanced recovery and drilling by others on Penn West lands. Reported on February 28, fourth quarter 2006 results of operations confirmed steady production volume that generated expected cash flow (see table, page 3, [Next Twelve Months Operating and Financial Estimates](#)). Politically, the chance that Canada might not implement fully a punitive tax on existing oil and gas royalty trusts could be a positive surprise this year. Meanwhile on January 16, we scaled back our suggested unlevered weighting to one and a half from double for the stock in our illustrative energy portfolio concentrated on real assets that promise a high return providing clean fuel for global growth.

High-Income Mid Cap Oil and Gas Producers

Penn West's low McDep Ratio among multi-billion dollar market cap, high income peers supports our buy rating (see table [Rank by McDep Ratio](#)). Only in its second year as an income stock, Penn West is the largest conventional oil and gas producer among Canadian Income Trusts. Enerplus (ERF) and Pengrowth (PGF) are pioneers of the industry and among the next largest.

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Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 27-Feb 2007</i>	<i>Shares (mm)</i>	<i>Market Cap (\$mm)</i>	<i>Net Present Value (\$/un)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>
Canadian Income Trusts (US\$)							
Pengrowth Energy Trust	PGH	17.50	241.0	4,220	17.00	0.26	1.02
Enerplus Resources Fund	ERF	43.22	123.0	5,320	47.00	0.11	0.93
Penn West Energy Trust	PWE B	30.05	239.5	7,200	36.00	0.15	0.86

Along with our revision of NPV for Penn West, we also lower NPV for Pengrowth to \$17 a unit from \$20 a unit. Simultaneously reported on February 27, latest results for Pengrowth are included in our valuation comparisons.

Enerplus has the longest reserve life as we measure it by counting just proven developed reserves and half of proven undeveloped (see table [Rank by EV/Ebitda](#)). While proven reserves understate likely future production, it is the most objective measure for comparing companies, imperfect though it may be. The subjective adjustment we have made for Penn West compared to Enerplus contributes to a higher present value to cash flow multiple despite a lower reserve life. Each of the three trusts are financially active making deals regularly that make it more difficult to measure operating trends consistently.

Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 27-Feb 2007</i>	<i>Adjstd Resrvs/ Prod NTM</i>	<i>PV/ Ebitda NTM</i>	<i>EV/ Ebitda NTM</i>	<i>P/E NTM</i>	<i>Divd or Distrib NTM (%)</i>
Canadian Income Trusts (US\$)							
Pengrowth Energy Trust	PGH	17.50	7.4	7.9	8.0	32.7	14.8
Enerplus Resources Fund	ERF	43.22	9.0	7.6	7.1	13.8	10.0
Penn West Energy Trust	PWE B	30.05	7.5	8.0	6.9	15.5	11.7
	<i>Median</i>		8.2	7.9	7.6	14.6	10.9

Indicated distribution yields at 10-15% a year are the highest of all the stocks in our coverage and are the main reason for investor interest in the three stocks (see table [Rank by NTM Distribution Yield](#)). Distributing about two thirds of Ebitda, Penn West and Enerplus may have the best chances to maintain the current high level. Though Pengrowth pays the highest distribution yield at 15% a year, it also has less Ebitda, or cash flow, remaining for reinvestment to sustain the distribution.

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Rank by NTM Distribution Yield

	<i>Symbol</i>	<i>Natural Gas/ Ebitda (%)</i>	<i>Dist/ Ebitda</i>	<i>Dist/ Equity Ebitda</i>	<i>NTM Distribution (\$mm)</i>	<i>NTM Distribution (\$/un)</i>	<i>Dist. Yield (%)</i>
Canadian Income Trusts (US\$)							
Enerplus Resources Fund	ERF	49	0.63	0.70	534	4.34	10.0
Penn West Energy Trust	PWE	41	0.67	0.78	842	3.52	11.7
Pengrowth Energy Trust	PGH	46	0.89	1.20	623	2.59	14.8
<i>Total or Median</i>		<i>43</i>	<i>0.65</i>	<i>0.74</i>	<i>2,700</i>		<i>10.9</i>

Penn West Energy Trust
Next Twelve Months Operating and Financial Estimates
(Canadian dollars)

	<i>Q4 12/31/05</i>	<i>Q3 9/30/06</i>	<i>Q4 12/31/06</i>	<i>Year 2006</i>	<i>Q1E 3/31/07</i>	<i>Q2E 6/30/07</i>	<i>Q3E 9/30/07</i>	<i>Q4E 12/31/07</i>	<i>Next Twelve Months 12/31/07</i>
Volume									
Natural Gas (mmcf)	278	359	355	312	355	355	355	355	355
Oil (mbd)	52	69	71	60	71	71	71	71	71
Total gas & oil (bcf)	54	71	72	247	71	71	72	72	285
Total gas & oil (mbd)	98	129	130	112	130	130	130	130	130
Price									
Natural gas (\$/mcf)									
Henry Hub (US\$/mmbtu)	13.00	6.58	6.57	7.23	6.83	7.79	8.03	8.73	7.85
Company (C\$/mcf)	11.66	5.97	6.41	6.59	6.67	7.60	7.84	8.53	7.66
Oil (\$/bbl)									
WTI Cushing (US\$)	60.02	70.42	59.99	66.05	58.69	62.46	64.76	66.00	62.98
Company (C\$/bbl)	53.71	64.73	51.10	57.34	49.98	54.96	56.99	58.08	55.02
Total gas & oil (\$/mcf)	10.23	8.55	7.56	7.02	7.57	8.45	8.74	9.15	7.28
Revenue (\$mm)									
Natural Gas	298	197	209	753	215	245	256	278	995
Oil	257	412	333	1,265	322	354	371	378	1,426
Other	(114)	(78)	(68)	(286)	(76)	(85)	(89)	(93)	(343)
Total	441	531	474	1,732	461	515	539	564	2,079
Expense									
Production	91	134	133	451	132	140	143	147	562
Overhead	10	10	14	44	14	14	15	15	58
Ebitda (\$mm)	340	387	327	1,238	315	361	380	402	1,458
Deprec., Deplet., & Amort.	115	218	215	656	213	213	215	215	856
Hedging and other	23	(28)	(29)	(37)					-
Ebit	202	197	141	619	102	148	165	187	602
Interest	7	17	18	49	18	18	14	14	64
Ebt	195	180	123	570	84	130	151	173	538
Income Tax	(46)	25	18	39					-
Net Income (\$mm)	241	155	105	531	84	130	151	173	538
Shares (millions)	165	239	240	196	240	240	240	240	240
Per share (\$)	1.46	0.65	0.44	2.71	0.35	0.54	0.63	0.72	2.25
Ebitda Margin - O&G	82%	76%	73%	75%	73%	74%	75%	75%	74%
Tax Rate	-24%	14%	15%	7%	0%	0%	0%	0%	0%

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Functional Cash Flow and Present Value

	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<u>(US\$mm)</u>	<u>R/P</u>	<u>Ebitda</u>	<u>Value</u>	
				<u>(US\$mm)</u>	
North American Natural Gas	520	5.7	6.3	3,300	33%
Oil	740	9.0	9.2	6,800	67%
	1,260	7.5	8.0	10,100	100%
Debt (US\$mm)					1,500
Net Present Value (US\$mm)					8,600
Shares (mm)					240
Net Present Value - Standard Estimate (US\$/sh)					36
Net Present Value - Approximation by Correlation (US\$/sh)					29

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Research Methodology/Ratings Description: McDep Associates is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.

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