

STOCK ANALYSIS REPORT**Petroleum Development Corporation (PETD) – Analysis by Nathan Ramos – August 19, 2009**<http://www.betapeg.com>

Industry:	Oil & Gas Refining & Marketing
Sector:	Energy
Recommendation:	STRONG BUY
Price:	\$13.03 (as of August 19, 2009)
Intrinsic Value:	\$35.30 or about 171% under priced
Fundamental Grade:	B
Investment Style:	Micro Cap Value
Consider Buying:	When less than \$27

ANALYSIS

The Petroleum Development Corporation (PETD) has had stellar growth over the last 5 years. Sales and profits have increased 231% and 403% respectively. The PE, PS, and PB ratios indicate PETD to be substantially undervalued. PETD is valued at \$35.30 for FY2009. With a current price of \$13.30, PETD is 171% undervalued for the fiscal year. The Company has an incredibly high earnings yield and profit margin of 66% and 20% respectively. Current profit levels would enable PETD to pay off all long-term debt within 4 years on profit alone. PETD lost \$33.1 million in the second quarter 2009 due to losses from hedging contracts. This is less than the \$40.7 million lost in year earlier quarter. The Company's beta of 2.2 indicates the stock to be substantially volatile routinely performing double the market average on both up and down sides. The stock can be expected to remain flat or go lower short term. PETD spends 60% less on finding & research (F&D) than its industry peer group and maintains a \$375 million credit line from 13 lenders. Risks include local environmental regulations, Federal regulations, operating hazards with insurance costs, competition, global economic risks, market volatility, concentration of regional operations (Rocky Mountains), decline in production, failure of drilling prospects, high capital expenditures, weather conditions, geopolitical risks, litigation, and debt risks.

[2008 Annual Report](#)**KEY STATISTICS**

Market Capitalization:	\$202.12 Mil – Micro Cap
Revenue (past 12-mo.):	\$645 Mil
Net Income (past 12-mo.):	\$129 Mil
Net Profit Margin:	20%
Total Shares Outstanding:	14.91 Mil
P/E (past 12-mo.):	1.52
Forward P/E:	4.57
Price/Sales:	.3
Price/Book:	.41
PEG:	.04
Debt/Income:	3.54
Debt Ratio:	.64
Return on Equity:	9.86%
Dividend Rate per Share:	\$0
Dividend Yield:	0%
EPS (past 12-mo.):	\$8.60
Earnings Yield:	66%
Beta:	2.2

BUSINESS SUMMARY

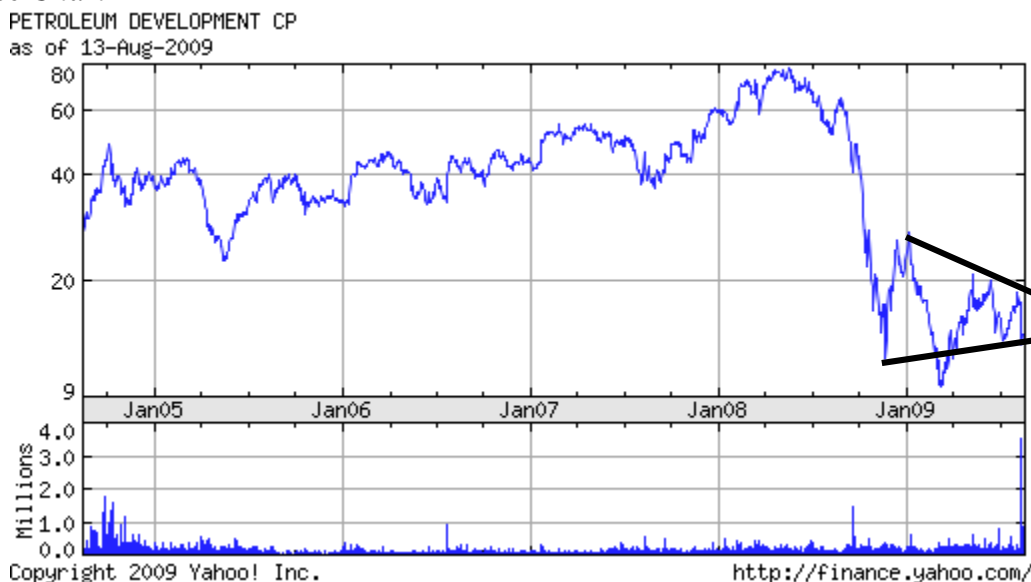
Petroleum Development Corporation (PETD) is an independent energy company engaged in the exploration, development, production and marketing of oil and natural gas. During the year ended December 31, 2008, the Company owned interests in approximately 4,712 gross, 3,259 net, wells located primarily in the Rocky Mountain Region and the Appalachian and Michigan Basins with 753 billion cubic feet equivalent (Bcfe), of net proved reserves, of which 88% was natural gas and 12% was oil. During 2008, the production for the Company was 38.7 Bcfe, averaging 106.1 millions of cubic feet equivalent (MMcfe) per day. The Company operates in four business segments: oil and gas sales, natural gas marketing activities, well operations and pipeline income, and oil and gas well drilling operations.

CORPORATE INFORMATION

Location: 120 Genesis Boulevard
Bridgeport, WV 26330
Phone: 304-8423597
Web Site: <http://www.petd.com/>
Employees: 317
Exchange: NASDAQ

PRICE HISTORY

5-Year Price Chart



The chart indicates a bearish pennant pattern as indicated by the bold lines. The stock can be expected to remain flat or go lower short term as indicated by this pattern. For more information on this pattern, go to <http://www.chartpatterns.com/flagsandpennants.htm>.

RELATIVE STRENGTH

PETD has outperformed 7% of the market in the last 12 months. This indicates the stock to be undervalued relative to its fundamentals grade.

OFFICERS AND DIRECTORS

Simeon P. Palios	Chairman of the Board, Chief Executive Officer
Anastassis C. Margaronis	President, Director
Andreas Michalopoulos	Chief Financial Officer, Treasurer
Ioannis G. Zafirakis	Executive Vice President, Secretary, Director
Maria Dede	Chief Accounting Officer
William Lawes	Director
Konstantinos Psaltis	Director
Boris Nachamkin	Director
Apostolos Kontoyannis	Director

INSIDER ACTIVITY

The following corporate insiders or major shareholders have recently filed transaction reports with the SEC.

Recent Insider Trading Activity: Petroleum Development Corp

Date	Name	Transaction	Num Shares	Price(s)	Value
07/01/09	CRISAFIO ANTHONY J	Grant	4,000	\$15.69	62,760.00
07/01/09	MAZZA LARRY F	Grant	4,000	\$15.69	62,760.00
03/04/09	AMIDON DANIEL WILLSON	Grant	9,371	NA	NA
03/04/09	BROOKMAN BARTON R JR	Grant	10,298	NA	NA
03/04/09	MCCULLOUGH RICHARD W	Grant	27,306	NA	NA
03/04/09	STEARNS ERIC R	Grant	16,101	NA	NA
03/04/09	WILLIAMS STEVEN R	Grant	1,500	NA	NA
12/31/08	BROOKMAN BARTON R JR	Grant	1,500	\$24.07	36,105.00
12/01/08	SHELLUM GYSLE R	Grant	12,240	NA	NA
11/12/08	PARKE DAVID C	Purchase	1,000	\$15.53	15,530.00
10/07/08	D ANNUNZIO VINCENT F	Grant	506	\$35.76	18,094.56
09/30/08	WILLIAMS STEVEN R	Exercise	5,870	\$37.15	218,070.50

HISTORICAL FINANCIAL PERFORMANCE AND ESTIMATES

Date	2004	2005	2006	2007	2008	2009 Est.
<i>Stock Price</i>	38.57	33.34	43.05	59.91	21.62	
<i>Sales (millions)</i>	264	325	287	305	609	681
<i>Net Income</i>	33	41	238	33	113	190
<i>Current Assets</i>	125	164	271	192	292	343
<i>Total Assets</i>	335	444	884	1050	1403	1788
<i>Current Liabilities</i>	125	181	242	242	261	307
<i>Long-term Debt</i>	21	24	117	235	395	467
<i>Total Liabilities</i>	181	256	524	655	891	1156
<i>Total Equity</i>	154	188	360	396	512	636
<i>Shares Outstanding</i>	17	16	15	15	15	14
<i>Operating Cash Flow</i>	73	112	67	60	139	152
<i>Capital Expenditures</i>	45	106	146	239	323	438
<i>Net Cash Balance</i>	77	90	194	85	51	61
<i>PE</i>	19.87	13.01	2.71	27.23	2.87	4.57
<i>PS</i>	2.48	1.64	2.25	2.95	0.53	0.57
<i>PB</i>	4.26	2.84	1.79	2.27	0.63	0.06
<i>Revenue/Share</i>	\$15.53	\$20.31	\$19.13	\$20.33	\$40.60	46.58
<i>EPS</i>	\$1.94	\$2.56	\$15.87	\$2.20	\$7.53	13.07
<i>Current Assets/Share</i>	\$7.35	\$10.25	\$18.07	\$12.80	\$19.47	23.55
<i>Current Liabilities/Share</i>	\$7.35	\$11.31	\$16.13	\$16.13	\$17.40	21.09
<i>Current Ratio</i>	1.00	0.91	1.12	0.79	1.12	1.12
<i>Long-term Debt/Share</i>	\$1.24	\$1.50	\$7.80	\$15.67	\$26.33	31.64
<i>Total Equity/Share</i>	\$9.06	\$11.75	\$24.00	\$26.40	\$34.13	43.51
<i>Free Cash Flow/Share</i>	\$1.65	\$0.38	-\$5.27	-\$11.93	-\$12.27	-5.22
<i>Net Cash/Share</i>	\$4.53	\$5.63	\$12.93	\$5.67	\$3.40	4.25
<i>Net Profit Margin</i>	12.50%	12.62%	82.93%	10.82%	18.56%	\$0.31
<i>Total Assets/Share</i>	\$19.71	\$27.75	\$58.93	\$70.00	\$93.53	\$122.22
<i>Total Liabilities/Share</i>	\$10.65	\$16.00	\$34.93	\$43.67	\$59.40	\$78.99

STOCK PRICE VALUATION**Stock Price Estimates (FY2010)**

Methodologies	Intrinsic Values	Discount Rates
<i>PE</i>	\$59.77	358.68%
<i>PEII</i>	\$98.98	659.64%
<i>PS</i>	\$26.48	103.19%
<i>PSII</i>	\$26.90	106.45%
<i>PSIII</i>	\$80.01	514.07%
<i>PB</i>	\$2.81	-78.41%
<i>PBII</i>	\$80.50	517.79%
<i>Market Ratio</i>	\$21.62	65.92%
<i>FS</i>	\$35.82	174.88%
<i>Gamma</i>	\$72.73	458.14%
<i>Inverse Gamma</i>	\$23.73	82.08%
<i>52 Week</i>	\$61.65	373.12%
<i>Stock Price I</i>	\$17.38	33.40%
<i>Stock Price II</i>	\$37.10	184.72%
<i>Stock Price III</i>	\$21.12	62.12%
<i>Delta</i>	\$9.21	-29.33%
<i>Sigma</i>	\$24.80	90.36%
<i>Lambda</i>	\$17.26	32.50%
<i>Tau</i>	\$27.56	111.53%
<i>Upsilon</i>	\$37.50	187.80%
<i>Kappa</i>	\$27.03	107.45%
<i>Alpha</i>	\$26.16	100.74%
<i>Mu</i>	\$17.03	30.71%
<i>Chi</i>	\$21.65	66.19%
<i>Ksi</i>	\$35.62	173.40%
<i>Eta</i>	\$28.25	116.82%
<i>Zeta</i>	\$14.49	11.21%
Future Intrinsic Value	\$35.30	170.93%

PETD is valued at \$35.30 for FY2009. With a current price of \$13.30, PETD is 171% undervalued for the fiscal year.

COMPETITION

DIRECT COMPETITOR COMPARISON

	<u>PETD</u>	<u>Pvt1</u>	<u>COG</u>	<u>RRC</u>	<u>Industry</u>
Market Cap:	202.11M	N/A	3.90B	8.12B	1.51B
Employees:	317	N/A	560	835	2.76K
Qtrly Rev Growth (yoy):	-55.60%	N/A	-17.70%	22.10%	19.10%
Revenue (ttm):	644.5M	125.70M ¹	916.05M	1.36B	8.93B
Gross Margin (ttm):	48.99%	N/A	79.62%	86.48%	15.02%
EBITDA (ttm):	396.50M	N/A	592.07M	1.12B	1.02B
Oper Margins (ttm):	64.40%	N/A	32.44%	50.77%	4.56%
Net Income (ttm):	129.1M	-35.30M ¹	183.77M	366.39M	N/A
EPS (ttm):	8.6	N/A	1.760	2.314	2.07
P/E (ttm):	1.52	N/A	21.39	22.32	10.95
PEG (5 yr expected):	.04	N/A	5.85	14.69	1.91
P/S (ttm):	0.3	N/A	4.08	5.78	0.54

Pvt1 = [Belden & Blake Corporation](#) (privately held)

[COG](#) = Cabot Oil & Gas Corp.

[RRC](#) = Range Resources Corp.

[Industry](#) = Oil & Gas Refining & Marketing

¹ = As of 2007

GLOSSARY

Bear Market: Market dominated by sellers.

Beta: A measure of stock price history relative to the market price history which indicates volatility. A company with a beta of 1 would be as volatile as the market. A beta less than one indicate less volatility to the market. The higher the beta, the more volatile a stock price is.

Bull Market: Market dominated by buyers.

Dividend Rate per Share: The amount of dividends paid per share.

Dividend Yield: The dividend return as a percentage of the stock price.

Earnings: The amount of profits that a company produces during a specific period.

Earnings per Share (EPS): Total earnings divided by all shares outstanding.

Fair Value: The price at which a stock is intrinsically valued.

Fiscal Year: Any 12-month period that a company uses for accounting purposes.

Forward P/E: Same as the traditional P/E except the estimated future EPS is used. If earnings are expected to grow in the future, the estimated P/E will be lower than the current P/E.

Fundamental Analysis: Method of stock analysis in which the company data is used to place an *intrinsic value* of the stock. This value is compared to the current market price. If the *intrinsic value* is less than the market price, the stock is undervalued, indicating a potential buy position.

Fundamental Grade: A grading system used to evaluate the quality of a company based on fundamental analysis.

Industry: A category used to describe a company's primary business activity.

Insider Activity: Corporate insiders (i.e. CEOs, executives, etc.) and major shareholders transactions of stock.

Institutional Investor: A non-bank investor who trades stocks in such large amounts that they require special treatment and lower commissions.

Institutional Ownership: The percentage of institutional investors who have a position in stock.

Intrinsic Value: The actual value of a stock based on tangible and intangible aspects of the company.

Investment Style: A classification used to indicate what kind of investors the stock is most attractive too. There are nine categories and they include:

- Large value
- Large blend
- Large growth
- Medium value
- Medium blend
- Medium growth
- Small value
- Small blend

- Small growth

Market Capitalization: The market value of a company is the value of its outstanding shares. This figure is found by taking the stock price and multiplying it by the total number of shares outstanding.

Outstanding Shares: Stock currently held by investors.

Price/Earnings (PE) Ratio: A valuation ratio of a company's current share price compared to its per-share earnings.

Calculated as:

$$= \frac{\text{Market Value per Share}}{\text{Earnings per Share (EPS)}}$$

The P/E ratio is a comparison of the stock price and earning. The lower the P/E, the better valued the company relative to earnings.

Price/Sales (P/S) Ratio: A ratio for valuing a stock relative to its own past performance. Price to sales is calculated by dividing a stock's current price by its revenue per share for the trailing 12 months:

$$\text{PSR} = \frac{\text{Share Price}}{\text{Revenue Per Share}}$$

Revenue: The income that comes directly from business operations.

Sector: A group of stocks in the same industry or market.

Target Price: An analyst's estimated stock price for a given period of time.

Technical Analysis: Method of stock analysis in which stock price data is used to determine trends. Charting the stock price history indicates up trends (buy), down trends (sell), and flat trends (even). Support lines drawn along lows and resistance lines drawn along highs indicate the time to buy and sell.

Volatility: A measure of the fluctuations in stock price. The higher the volatility, the more you can win and lose. *Betas* higher than 1 are more volatile than the market. If the market goes up 1%, a stock with a beta = 3 would likely go up 3%. Likewise, the same the can be true for declines.

SOURCES OF INFORMATION

1. <http://www.investopedia.com>
 2. <http://www.moneycentral.msn.com>
 3. <http://www.finance.yahoo.com>
 4. <http://www.finance.google.com>
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