

STOCK ANALYSIS REPORT**Petroleum Development Corporation (PETD) – Analysis by Nathan Ramos – November 5, 2009**<http://www.betapeg.com>

Industry: **Oil & Gas Refining & Marketing**
Sector: **Energy**
Recommendation: **SELL**
Price: **\$19.09 (as of November 5, 2009)**
Target Price: **\$31.84 or 76.03% undervalued**
52 Week Low-High: **\$9.39 – 27.98**
Fundamentals Grade: **D**
Investment Style: **Small Cap Value**

CORPORATE INFORMATION

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

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.

ANALYSIS

The Petroleum Development Corporation (PETD) has had stellar growth over the last 5 years. Sales and profits have increased 231% and 403% respectively. However, the recent quarters have weighed heavily on PETD. Third quarter revenue has declined 86% from the previous year's third quarter. Profit has turned from a positive \$126.9 million to a loss of \$24.48 million year over year. PETD lost \$33.1 million in the second quarter 2009 due to losses from hedging contracts. The PE ratio, earnings yield, profit margin, and return on equity has become negative which reflects their net losses. The PS and PB ratios have increased 217% and 68% respectively indicating a substantial decline in the underlying fundamentals; however they are still below the sector average. Long-term debt is 16x more than their net losses. The target price on PETD has been lowered from \$35.30 to \$31.84 based on declining fundamentals. Risks include commodity market volatility, production rates, price volatility, availability and cost of capital, natural and geo-political risks, government regulations, and possible or pending litigation.

<http://www.sec.gov/Archives/edgar/data/77877/000114036109024805/form10q.htm>

KEY STATISTICS

Dividend Rate per Share:	\$0.00
Dividend Yield:	0.00%
Earnings Yield:	-6.40%
EPS (past 12-mo.):	-\$1.16
Institutional Ownership:	53.30%
Market Capitalization:	\$363.71 – Small Cap
Net Income (past 12-mo.):	-\$22.3 Mil
Net Profit Margin:	-6.06%
Return on Equity:	-1.80%
Revenue (past 12-mo.):	\$362.8 Mil
Total Shares Outstanding:	19.22 Mil

PRICE RATIOS:

Forward P/E:	4.57
PEG:	0.04
PB:	0.69
PE:	-15.62
PS:	0.95

FINANCIAL CONDITION:

Current Ratio:	1.17
Debt/Income:	-16.00
Debt Ratio:	0.59

PRICE HISTORY**5-Year Price Chart**

The chart indicates a bullish ascending triangle pattern as indicated by the bold lines. The stock can be expected to remain flat or go higher short term as indicated by this pattern. For more information on this pattern, go to <http://chartpatterns.com/ascendingtriangles.htm>.

RELATIVE STRENGTH

PETD has outperformed 45% of the market in the last 12 months. This indicates the stock to be fairly valued relative to its fundamentals grade.

OFFICERS AND DIRECTORS

Richard W. McCullough	Chairman of the Board, President, Chief Executive Officer
Gysle R. Shellum	Chief Financial Officer
Barton R. Brookman Jr.	Senior Vice President - Exploration and Production
Lauck Lance	Senior Vice President
R. Scott Meyers	Chief Accounting Officer
Daniel W. Amidon	General Counsel, Secretary
Jeffrey C. Swoveland	Director
Vincent F. D'Annunzio	Director
Kimberly Luff Wakim	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>Capital Expenditures</i>	\$45	\$106	\$146	\$239	\$323	\$437.92
<i>Current Assets</i>	\$125	\$164	\$271	\$192	\$292	\$343.43
<i>Current Assets/Share</i>	\$7.35	\$10.25	\$18.07	\$12.80	\$19.47	\$23.55
<i>Current Liabilities</i>	125	181	242	242	261	\$307.48
<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>EPS</i>	\$1.94	\$2.56	\$15.87	\$2.20	\$7.53	\$13.07
<i>Free Cash Flow/Share</i>	\$1.65	\$0.38	-\$5.27	-\$11.93	-\$12.27	-\$17.72
<i>Long-term Debt</i>	\$21	\$24	\$117	\$235	\$395	\$467.30
<i>Long-term Debt/Share</i>	\$1.24	\$1.50	\$7.80	\$15.67	\$26.33	\$31.64
<i>Net Cash Balance</i>	\$77	\$90	\$194	\$85	\$51	\$60.81
<i>Net Cash/Share</i>	\$4.53	\$5.63	\$12.93	\$5.67	\$3.40	\$4.25
<i>Net Income</i>	\$33	\$41	\$238	\$33	\$113	\$189.98
<i>Net Profit Margin</i>	12.50%	12.62%	82.93%	10.82%	18.56%	30.57%
<i>Operating Cash Flow</i>	\$73	\$112	\$67	\$60	\$139	\$151.81
<i>PB</i>	4.26	2.84	1.79	2.27	0.63	\$0.06
<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>Revenue/Share</i>	\$15.53	\$20.31	\$19.13	\$20.33	\$40.60	\$46.58
<i>Sales (millions)</i>	\$264	\$325	\$287	\$305	\$609	\$680.64
<i>Shares Outstanding</i>	17	16	15	15	15	14.38
<i>Stock Price</i>	\$38.57	\$33.34	\$43.05	\$59.91	\$21.62	\$31.84
<i>Total Assets</i>	\$335	\$444	\$884	\$1,050	\$1,403	\$1,788.10
<i>Total Assets/Share</i>	\$19.71	\$27.75	\$58.93	\$70.00	\$93.53	\$122.22
<i>Total Equity</i>	\$154	\$188	\$360	\$396	\$512	\$636.12
<i>Total Equity/Share</i>	\$9.06	\$11.75	\$24.00	\$26.40	\$34.13	\$43.51
<i>Total Liabilities</i>	\$181	\$256	\$524	\$655	\$891	\$1,156.01
<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	Target Prices	Discount Rates
<i>PE</i>	\$59.77	230.38%
<i>PEII</i>	\$98.98	447.16%
<i>PS</i>	\$26.48	46.35%
<i>PSII</i>	\$26.90	48.70%
<i>PSIII</i>	\$80.01	342.31%
<i>PB</i>	\$2.81	-84.45%
<i>PBII</i>	\$80.50	344.98%
<i>Market Ratio</i>	\$21.62	19.51%
<i>FS</i>	\$22.77	25.89%
<i>Gamma</i>	\$20.65	14.16%
<i>Inverse Gamma</i>	\$20.33	12.40%
<i>52 Week</i>	\$14.15	-21.75%
<i>Stock Price I</i>	\$17.38	-3.91%
<i>Stock Price II</i>	\$37.10	105.08%
<i>Stock Price III</i>	\$21.12	16.77%
<i>Revenue</i>	\$24.80	37.11%
<i>Long-term Debt</i>	\$17.26	-4.57%
<i>Total Equity</i>	\$27.56	52.36%
<i>Earnings</i>	\$37.50	107.30%
<i>Cash</i>	\$27.03	49.43%
<i>Current Assets</i>	\$26.16	44.59%
<i>Current Liabilities</i>	\$17.03	-5.85%
<i>Current Ratio</i>	\$21.65	19.70%
<i>Profit Margin</i>	\$35.62	96.92%
<i>Total Assets</i>	\$28.25	56.17%
<i>Total Liabilities</i>	\$14.49	-19.90%
Future Target Price	\$31.84	76.03%

PETD is valued at \$31.84 for FY2009 which is 76.03% undervalued for the fiscal year at a current price of \$19.09 (November 5, 2009).

COMPETITION

Growth Rates %	Company	Industry	S&P 500
Sales (Qtr vs year ago qtr)	-86.1	-34.2	-7.4
Net Income (YTD vs YTD)		-42.7	-3.4
Net Income (Qtr vs year ago qtr)	-119.4	-96.1	25.2
Sales (5-Year Annual Avg.)	26.32	26.31	13.14
Net Income (5-Year Annual Avg.)	37.95	23.35	12.6
Dividends (5-Year Annual Avg.)		10.73	11.84
Price Ratios	Company	Industry	S&P 500
Current P/E Ratio	-15.62	22.3	26.1
P/E Ratio 5-Year High	NA	7.1	19
P/E Ratio 5-Year Low	NA	1.3	2.9
Price/Sales Ratio	0.93	1.07	2.04
Price/Book Value	0.67	7.18	3.05
Price/Cash Flow Ratio	3	253.1	13.2
Profit Margins %	Company	Industry	S&P 500
Gross Margin	60.9	20.7	36.6
Pre-Tax Margin	-10.3	8.7	9.6
Net Profit Margin	-6.2	5.5	6.7
5Yr Gross Margin (5-Year Avg.)	46.1	23.4	37.8
5Yr PreTax Margin (5-Year Avg.)	41.1	14.1	16.6
5Yr Net Profit Margin (5-Year Avg.)	25.6	9.1	11.5
Financial Condition	Company	Industry	S&P 500
Debt/Equity Ratio	0.82	0.43	1.01
Current Ratio	1.2	1	1.4
Quick Ratio	1.2	0.8	1.1
Interest Coverage	0	126.8	28.7
Leverage Ratio	2.4	2.4	3.6
Book Value/Share	26.01	14.3	18.38
Investment Returns %	Company	Industry	S&P 500
Return On Equity	-4.6	57.2	16
Return On Assets	-1.8	44.6	6.2
Return On Capital	-2.1	53.3	8.6
Return On Equity (5-Year Avg.)	32.6	40.8	19.4
Return On Assets (5-Year Avg.)	12.9	29.1	8
Return On Capital (5-Year Avg.)	17.7	33.9	10.7

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 *Target Price* of the stock. This value is compared to the current market price. If the *Target Price* 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.

Target Price: 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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