



Independent Stock Idea

February 21, 2013

rating: none, s&p 500: 1503

Berry Petroleum (BRY) Linn Energy to Acquire Berry for McDep Ratio of 0.77

Summary and Recommendation

Linn Energy (LINE) and **Berry Petroleum (BRY)** have agreed for Linn to acquire Berry in an exchange of stock that values BRY at a low McDep Ratio of 0.77. Normally expecting deals to be priced near a McDep Ratio of 1.0, we judge that Linn is getting a bargain. Stockholders of BRY need not rush to sell because the option to take Linn stock is good for several months and the price is low enough that another buyer may be interested. Though not mentioned in Linn's press release announcing the deal, there may be a breakup fee intended to discourage another offer. To value the deal we take a price for BRY stock estimated by Linn at 1.25 times the closing price of Linn on February 20, the last day before the deal was announced. In morning trading on February 21, Linn stock was priced at a McDep Ratio of 1.14 and Berry at 0.75 (see [Table ISC-1](#) on page 2). When a high McDep Ratio company acquires a low McDep Ratio company the deal is almost sure to be accretive to the buyer.

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Research Methodology/Ratings Description: McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the forty 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.



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Table ISC-1											
McDep Income and Small Cap Energy Portfolio											
Debt, Segments, Cash Flow, Income and McDep Ratio											
			Price			PV(%)					
Symbol/Rating	(US\$/sh)	EV/	Enterprise	Value	Nat	Oil	Ebitda	Dist.	Dist.	McDep	
CB (see below)	21-Feb	Market	Cap	(\$mm)	Gas		NTM	(\$/un)	(%)	Ratio	
Small Cap Independent Producers											
PDC Energy	PDCE		40.83	1.62	2,060	43	57	11.7	-	-	1.01
Range Resources	RRC	B	70.05	1.31	14,640	72	28	17.0	0.16	0.2	1.00
Peyto Exploration and Development	PEYUF		23.86	1.21	4,170	76	24	10.3	0.72	3.0	0.90
Continental Resources (32%)	CLR	B	81.49	1.20	5,730	24	76	7.0	-	-	0.84
Halcón Resources	HK		7.16	1.60	3,900	15	85	5.1	-	-	0.80
Berry Petroleum Company	BRY		45.06	1.71	4,250	12	88	6.2	-	-	0.75
Denbury Resources Inc.	DNR		18.47	1.45	10,440	4	96	6.5	-	-	0.74
Birchcliff Energy Ltd.	BIREF	B	7.40	1.42	1,720	68	32	9.4	-	-	0.70
Cimarex Energy Company	XEC	B	67.99	1.22	7,160	41	59	5.2	0.48	0.7	0.66
Whiting Petroleum Corporation	WLL	B	48.18	1.37	7,860	9	91	4.5	-	-	0.62
<i>Total or Median</i>				1.40	61,900	33	67	6.7			0.78
Leveraged Cash Payers											
Linn Energy, LLC	LINE		37.55	1.66	14,540	43	57	12.1	2.90	7.7	1.14
Vanguard Natural Resources, LLC	VNR		27.56	1.63	2,380	33	67	11.4	2.40	8.7	1.06
Legacy Reserves L.P.	LGCY		25.90	1.47	1,810	25	75	8.9	2.26	8.7	0.90
Enerplus Corporation	ERF	CB	12.12	1.74	4,100	31	69	5.6	1.07	8.9	0.70
<i>Total or Median</i>				1.64	22,800	32	68	10.2		8.7	0.98
RTF Cash Payers											
Freehold Royalties Ltd.	FRHLF		22.82	TL	1,560	16	84	10.7	1.67	7.3	1.08
Dorchester Minerals, L.P.	DMLP	B	23.42	TL	720	61	39	12.2	1.87	8.0	0.87
Enduro Royalty Trust (40%)	NDRO		15.94	BL	210	48	52	7.7	1.56	9.8	0.76
San Juan Basin Royalty Trust	SJT	B	15.45	BL	720	100	-	11.2	0.97	6.3	0.74
Sabine Royalty Trust	SBR		45.88	TL	670	51	49	11.1	4.12	9.0	0.71
Permian Basin RT	PBT		13.05	TL	610	33	67	8.1	0.90	6.9	0.65
Cross Timbers Royalty Trust	CRT		27.15	TL	160	70	30	8.4	3.12	11.5	0.62
Mesa RoyaltyTrust	MTR		23.45	BL	44	75	25	9.3	2.03	8.7	0.59
Hugoton RoyaltyTrust	HGT		7.64	BL	310	88	13	7.2	0.40	5.2	0.55
<i>Total or Median</i>					5,000	61	39	9.3		8.0	0.71
CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.											
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses											
Present Value (PV) presumes long-term prices of \$100 a barrel for oil and \$6 a million btu for natural gas.											
Dist. = Income distribution. NTM = Next Twelve Months Ended March 31, 2014. Enterprise Value = Market Cap and Debt.											
TL = Top Line income sources, BL = Bottom Line income sources											