

Energy
Oil & Gas - Exploration & Production

Goodrich Petroleum (NYSE: GDP)

GDP Hitting Its Stride - Haynesville Potential Still Not Reflected In Stock

Price Target Change Estimate Change

Rating: BUY
Price: \$37.60
Price Target: \$52.00
Previous: \$32.00
Bloomberg: NYSE: GDP

Market Data

52-Week Range: \$41.14-\$16.63
Total Entprs. Value (MM): \$1,472.9
Market Cap. (MM): \$1,191.9
Insider Ownership: 40.0%
Institutional Ownership: 60.0%
Shares Out. (MM): 31.7
Float (MM): 20.0
Avg. Daily Vol.: 750,000

Financial Summary

Net Debt (MM): \$281.0
Net Debt/Capital: 52.0%
Long-Term Debt (MM): \$284.0
Working Capital: (\$62.3)
Reserves (2007 Bcfe): 358.0
Preferred: \$2.3

DACF (MM) USD	2005A	2006A	2007A	2008E
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DACF (MM)	44.4	74.4	84.2	148.8
<i>Prev.</i>	--	--	--	142.1

EV/DACF	2005A	2006A	2007A	2008E
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EV/DACF	33.2x	19.8x	17.5x	9.9x
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CFPS USD	2005A	2006A	2007A	2008E
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Mar	0.39	0.54	0.78	0.90A
<i>Prev.</i>	--	--	--	0.76

Jun	0.32	0.67	0.60	0.89
<i>Prev.</i>	--	--	--	0.87

Sep	0.35	0.60	0.67	1.05
<i>Prev.</i>	--	--	--	1.03

Dec	0.67	0.56	0.58	1.15
<i>Prev.</i>	--	--	--	1.14

FY Dec	1.74	2.36	2.63	3.99
<i>Prev. FY</i>	--	--	--	3.79

FY P/CFPS	21.6x	15.9x	14.3x	9.4x
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<i>Prev. FY</i>	--	--	--	3.79
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FY P/CFPS	21.6x	15.9x	14.3x	9.4x
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<i>Prev. FY</i>	--	--	--	3.79
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Investment Summary

Goodrich Petroleum has amassed a prospective Cotton Valley/James Lime asset base that should serve to grow production and cash flow for the foreseeable future. A discounted cash flow analysis of GDP's properties derives a \$52 price target — offering 38% appreciation potential from current levels.

Event

GDP reported 1Q08 CFPS of \$0.90 versus our \$0.76 estimate. The outperformance was attributable to 5% better-than-expected production volumes and higher realized prices. More importantly, GDP's 2Q08 guidance was above our expectations, leading us to raise our full-year production estimate by 3%.

Key Points

- **GDP Is Beginning To Execute Its Cotton Valley Program With Precision...** First quarter production volumes exceeded expectations by 5% and GDP's 2Q08 production guidance was also above our expectations. GDP seems to have hit its stride with regards to its Cotton Valley development campaign with per-well production improving as well as drilling times. Furthermore, we anticipate that the installation of saltwater disposal facilities at North Minden and Cotton South will serve to lower LOE in the latter half of the year.
- **So We Are Raising Our 2008 Production & CFPS Forecast.** In order to reflect to reflect better well results and execution, we are slightly adjusting production up 3% to average 65,900 Mcfe/d. We are also raising our 2008 CFPS estimate from \$3.79 to \$3.99.
- **... And Raising Our Price Target From \$32 To \$52.** We recently raised our long-term natural price assumptions from \$7.00 to \$8.00 per MMBtu. Consequently, our NAV for Goodrich increased to \$51 per share. Our new price target of \$52 is based on GDP trading at 90% of its NAV, plus \$5.50 per share (or \$6,000 per acre) for its emerging Haynesville play in Northern Louisiana.
- **... But Our NAV Will Likely Prove Conservative.** Notably, our current NAV does not reflect the productive potential of GDP's Haynesville acreage. We are conservatively only giving GDP credit for what reported lease bonuses are going for, rather than a DCF of a development program - which could ultimately represent an incremental \$20+ to our NAV. Notably, GDP plans to spud its initial horizontal Haynesville shale well by the end of 3Q08.

Valuation/Risks

Our \$52 price target is derived from our net asset value model, utilizing a price deck of \$75.00 oil & \$8.00 natural gas, and based on expected reserves at its Cotton Valley drilling program (including 20-acre downspacing), as well as probable reserves associated with its Angelina River Trend acreage. The biggest risk to our thesis remains poor natural gas prices as GDP's NAV is extremely sensitive to natural gas.

Impact on Other Companies

NA

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Company Description

Goodrich Petroleum is a small-cap exploration & production company headquartered in Houston, TX. Following divestitures in early 2007, Goodrich is now focused entirely on the Cotton Valley sand and James Limestone plays in East Texas and Northwestern Louisiana.

	2003	2004	2005	2006	2007	2008E
Spot Prices						
West Texas Intermediate (\$/Bbl)	\$31.04	\$41.43	\$56.47	\$66.07	\$72.19	\$95.03
Spot Gas at Henry Hub (\$/mcf)	\$5.41	\$5.95	\$8.84	\$6.73	\$6.97	\$8.28
Company Prices						
Crude Oil & Condensate (\$/Bbl)	\$29.56	\$32.56	\$35.93	\$57.16	\$71.44	\$88.54
Natural Gas (\$/Mcf)	<u>\$5.12</u>	<u>\$5.95</u>	<u>\$8.64</u>	<u>\$6.85</u>	<u>\$6.73</u>	<u>\$8.13</u>
BOE (\$/BOE)	\$30.18	\$34.51	\$47.36	\$44.00	\$41.77	\$49.94
Production						
Crude Oil & Condensate (Bblpd)	1,326	1,321	1,117	1,296	324	317
Natural Gas (Mcfpd)	<u>9,208</u>	<u>13,203</u>	<u>17,088</u>	<u>35,622</u>	<u>41,863</u>	<u>63,987</u>
BOE (BOEpd)	2,861	3,522	3,965	7,233	7,301	10,982
Revenues						
Crude Oil & NGL's	\$14.3	\$15.7	\$14.7	\$27.0	\$8.4	\$10.3
Natural Gas	\$17.2	\$28.7	\$53.9	\$89.1	\$102.9	\$190.4
Other	<u>\$1.2</u>	<u>\$2.8</u>	<u>\$0.3</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Total Revenues	\$32.7	\$47.3	\$68.9	\$116.2	\$111.3	\$200.7
Expenses						
Lease Operating Expenses	\$6.2	\$7.4	\$9.9	\$21.9	\$22.1	\$29.5
Production Taxes	\$2.3	\$3.1	\$4.1	\$6.0	\$1.4	\$5.5
Depreciation, Depletion & Amortiz:	\$7.7	\$11.6	\$25.6	\$52.6	\$79.8	\$115.2
Exploration Expense	\$2.6	\$4.4	\$6.9	\$16.7	\$7.3	\$7.3
General & Administrative	\$5.3	\$5.8	\$8.7	\$17.2	\$20.9	\$20.9
Other	\$0.0	\$0.0	\$0.0	\$4.0	\$6.0	\$7.4
Total Operating Expenses	\$24.1	\$32.3	\$55.1	\$118.5	\$137.5	\$185.7
Operating Profit	\$8.6	\$15.0	\$13.8	(\$2.4)	(\$26.2)	\$15.0
Other Income (Expense)	(\$0.1)	\$2.2	(\$38.4)	\$12.7	(\$14.2)	(\$23.7)
Interest Expense	\$1.1	\$1.1	\$2.4	\$7.8	\$11.9	\$16.3
Income Before Taxes	\$7.5	\$16.1	(\$27.0)	\$2.5	(\$52.3)	(\$25.0)
Income Taxes						
Current	\$0.1	\$0.0	\$0.0	\$0.0	(\$6.3)	\$0.0
Deferred	\$2.5	(\$1.7)	(\$9.5)	\$0.9	\$9.4	(\$0.4)
Income Taxes	\$2.6	(\$1.7)	(\$9.5)	\$0.9	\$3.0	(\$0.4)
Net Income	\$4.8	\$17.8	(\$17.6)	\$1.6	(\$56.5)	(\$24.6)
Preferred Dividends	\$0.6	\$0.6	\$0.8	\$7.6	\$6.0	\$6.0
Net Income To Common	\$4.2	\$17.2	(\$18.3)	(\$5.9)	(\$62.5)	(\$30.7)
Cash Flow From Operations	\$17.2	\$30.1	\$41.2	\$60.0	\$68.1	\$126.7
Average Shares Outstanding	20.4	21.0	23.7	25.4	25.9	31.7
As Reported						
Earnings Per Share	\$0.21	\$0.82	(\$0.77)	(\$0.23)	(\$2.42)	(\$0.97)
CFOps Per Share	\$0.84	\$1.43	\$1.74	\$2.36	\$2.63	\$3.99
From Continuing Operations						
Earnings Per Share	\$0.21	\$0.82	\$0.84	\$0.74	(\$1.88)	(\$0.97)
CFOps Per Share	\$0.84	\$1.43	\$1.74	\$2.36	\$2.63	\$3.99

Source: Company data and Jefferies & Co. estimates

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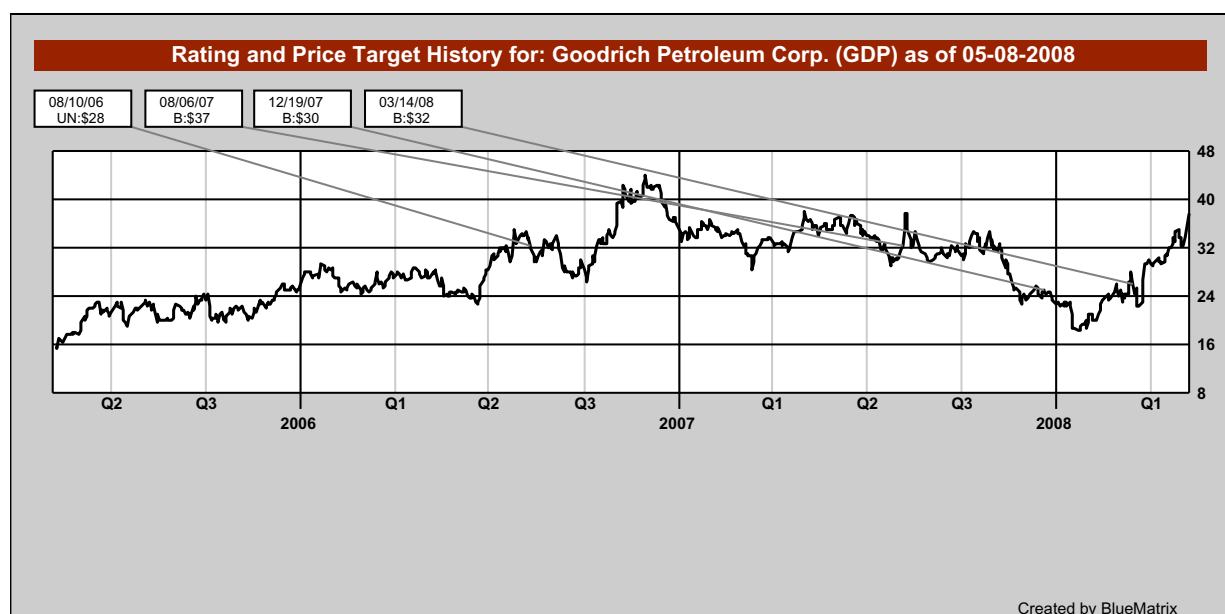
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			Count	Percent
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