



RECOMMENDATION: SELL

TARGET PRICE: \$12.50

INVESTMENT THESIS

We are currently bearish on Petrohawk due to the following reasons:

- The current natural gas supply glut has substantially reduced natural gas prices, hurting Petrohawk's revenue and gross margin. The long-term outlook should eventually improve as industry supply is reduced over the next couple of years due to lower overall rig counts resulting from low natural gas prices. Though we believe the shift towards clean energy and energy independence in the United States will increase the long-term demand for natural gas as it should be a key component to both initiatives, we do not see a near-term catalyst boosting Petrohawk's shares.
- Petrohawk is overvalued relative its peers by approximately 30%. The company's TEV/EBITDA and 2009 P/E ratios are higher than comparables, while its revenue and operating margins are substantially lower. Petrohawk is also highly levered with a 40% debt-to-capital ratio.

COMPANY OVERVIEW

Petrohawk is an independent oil and natural gas company that primarily explores, develops, and produces natural gas properties on land in the United States. Its largest natural gas discovery and operation is the Haynesville Shale deposit in northwestern Louisiana and northeastern Texas¹.

Petrohawk plans to boost production 40% in 2009 compared to 2008 levels². The company has been able to continually build its gas equivalent reserves, totaling 1,417 Bcf¹, enabling such a large production increase. Currently, the company has 70% of its 2009 and 2010 production hedged², which should help to offset the effect of \$4 natural gas. Its Haynesville Shale deposit is still slightly profitable with \$4 natural gas. To fund the increased production, Petrohawk has repeatedly tapped the capital markets over the past year and recently announced a 22 million share issuance. Petrohawk is a highly levered firm with a debt-to-equity ratio of 67.1%, but they have no principal payments that are due on debt until 2012.

Pro Forma Income Statement						
(In millions)	2006	2007	2008	2009E	2010E	2011E
Revenue	587.8	883.4	1,095.2	1,026.8	1,344.5	1,681.5
Operating Exp.	433.2	623.3	682.5	639.9	837.9	1,047.9
Operating Income	154.5	260.1	412.7	386.9	506.6	683.1
Operating Margin	26.3%	29.4%	37.7%	37.7%	37.7%	40.6%
Net Income	116.3	52.9	-388.1	76.1	144.9	346.9
EPS	0.90	0.30	-1.77	0.32	0.56	1.24
Shares	126	171	219	240	260	280

RELATIVE VALUATION

All three comparables that we used are independent oil and natural gas companies that only explore and develop onshore natural gas properties in the United States. Their market capitalizations range between \$3 to \$6 billion³.

Relative Valuation (ttm, unless stated)					
Company	Market Cap.	Revenue Growth	Operating Margin	TEV/ EBITDA	2009 Est. P/E
Petrohawk	\$4.30	24.0%	38%	8.7	65.5
Range Resources	\$5.60	41.8%	46%	7.5	33.6
Ultra Petroleum	\$5.30	91.4%	59%	6.9	22.4
Denbury Resources	\$3.20	40.8%	52%	4.4	15.5
Comparable Average	\$4.7	58.0%	52.3%	6.3	23.8
Earnings (EBITDA; EPS)	\$784.04	\$0.32			
TEV: Market Cap.	\$4,923	\$1,669.48			
Minus Debt	\$2,283	-			
Plus Cash	\$5.70	\$5.70			
Implied Equity Value	\$2,645	\$1,675.18			
Shares Outstanding	218.9	240			
Implied Intrinsic Value	\$12.08	\$6.98			
% Overvalued		29%	59%		

¹ Petrohawk's 2008 10-K

² Petrohawk's 4th quarter 2008 Conference Call

³ Company statistics are from Thomson One Analytics

