

Mossberg's Investor Digest

Best Idea Profile

Abraxas Petroleum Corporation (Nasdaq: AXAS)

DESCRIPTION:

Founded in 1977 and headquartered in San Antonio, Texas, Abraxas Petroleum is an independent natural gas and oil exploration and production company. When upstream Master Limited Partnerships (MLP) became a popular way to raise low cost capital in 2006 & 2007, many companies spun off producing assets in Master Limited Partnerships. In May of 2007, Abraxas formed a MLP and sold of 53% stake in a \$100 million private placement. The company had a contractual commitment to take the MLP public and filed a registration statement with the SEC in July 2007. Several factors, including an acquisition of the company's Bakken field assets, delayed the registration process. By the time the registration was cleared by the SEC, it was July of 2008 and the lead underwriter walked. The subsequent financial crisis made it impossible to complete the registration and the company subsequently decided to buy back the MLP. The transaction was completed in October. Now, the company has 1,811 (429 net) producing wells, with an average working interest of 24%. It's primary operating areas are located in the Rocky Mountains, Mid-continent and Permian Basin/ Texas Gulf Coast Basin.

KEY INVESTMENT CONSIDERATIONS:

Substantial position in the Bakken field – AXAS has approximately 60,000 acres (30,000 net) in the Bakken field, which could be one of the largest oil fields ever developed in the lower 48 states. The giant oil field stretches across North Dakota, Montana and southwestern Saskatchewan. Until 2000, almost no oil and gas was extracted from this area because the deposits lay nearly 2 miles below the earth surface. However, with new technology, it is now affordable to drill for oil. The 30,000 acres that AXAS owns are all producing fields, which means there are no capital commitments to retain the acreage.

Predictable cash flows reduce credit risk – 85% of production is hedged through 2012 at an average oil price of \$74/barrel and an average gas price of \$6.20. With its hedge providing a predictable commodity price and a predictable production decline curve, AXAS has stable cash flow and can afford to carry levels of debt currently on its balance sheet.

Cash from asset sales will further reduce debt levels - The company intends to sell off some of its more mature producing assets, which were suitable for an MLP, but make less sense for a C-corporation to own.

Upside potential from proved undeveloped locations – The company has an inventory of 163 locations with proved reserves of 27.9 MMBoe (\$167.3 Bcfe).

VALUATION:

Two years in registration kept ABAX off the radar screen - Essentially Abraxas was in registration with the SEC for approximately 26 months and very restricted in what it could say to investors. In addition, the pending transaction made analysis of the company very complicated and likely turned investors away. With the transaction complete, management expects to spend more time increasing investor awareness and attracting sell side coverage. Added investor exposure should help shares trade in line with peers. According to the company's analysis, applying the peer mean valuation multiple would yield a share price between approximately \$4.00 and \$8.00.

(Nasdaq: AXAS)

Investment Data (as of 11/27/09)

Recent Price	\$1.99
52-Week Range	0.62 - 2.55
Fiscal Year End	December
Shares Outstanding	76 MM
Average Trading Volume (3 mos)	500,000
Market Capitalization	151 MM
Cash	0.5 MM
Long Term Debt	138 MM
Enterprise Value (EV)	300 MM
LT Debt/ Equity	N/A
BV/ Share	N/A
TTM Revenue	51 MM
P/ Revenue	3.0x
TTM EPS	-1.34
P/ EPS	N/A
TTM EBITDA	42 MM
EV/ EBITDA	7.1x

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