Denbury Resources Inc.

NYSE:DNR

Analyst: Ryan Ahlers
Sector: Energy

BUY

Price Target: $9.82

Key Statistics as of 4/27/2015

Market Price:	$8.10
Industry:	Oil and Gas E&P
Market Cap:	$3,223.7 M
52-Week Range:	$18.59 - $6.04
Beta:	2.06

Thesis Points:

- Industry leader in enhanced oil recovery utilizing carbon dioxide
- Improving margins
- Efficiency programs not realized by market
- Commodity recovery will fuel top line growth

Company Description:

Denbury Resources Inc. operates as an independent oil and natural gas company in the United States. The company primarily focuses on enhanced oil recovery utilizing carbon dioxide, making it unique when compared to other domestic oil and gas companies. Therefore, Denbury Resources acquires used oil field wells that have been previously drilled with primary and secondary methods (traditional methods) and continues to extract another 20% - 30% of the wells oil through their unique enhanced oil recovery method. The company holds properties located in Mississippi, Texas, Louisiana, and Alabama in the Gulf Coast region; and in Montana, North Dakota, and Wyoming in the Rocky Mountain region. As of December 31, 2014, it had 437.7 million barrels of oil equivalent of estimated proved oil and natural gas reserves. The company was founded in 1951 and is headquartered in Plano, Texas.

Thesis

Denbury Resources is the leader in enhanced oil recovery utilizing carbon dioxide. They have a competitive advantage due to their large inventory of oil fields specifically well suited for CO2 enhanced recovery, their extensive pipeline infrastructure and their strategic CO2 supply. With the decrease in commodity prices Denbury is reshaping the way they operate by decreasing their costs and creating efficiency programs across all aspects of the company. This will ultimately lead to increasing margins for Denbury. Lastly, with an anticipated increase in commodity prices over the next year, this will fuel top line revenue growth and allow Denbury to be more profitable than ever with their new efficiencies.

Industry Outlook

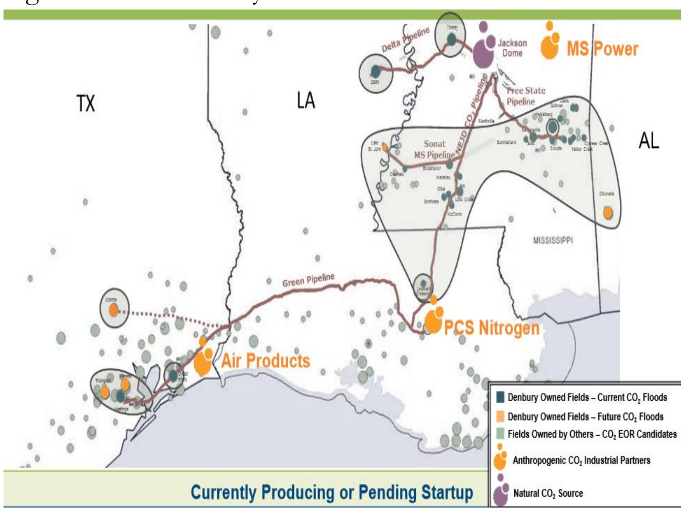
The energy sector and the industries within this sector are heavily influenced by the price of oil. Exploration and Production companies are most directly affected by commodity market prices. Over the past 9 months oil prices have plummeted from a high of about \$100/barrel to a low of about \$44/barrel and oil is at an approximate price of \$55/barrel today. This volatility in the market and decrease in oil price puts stress on oil related companies, specifically companies that cannot pay their interest payments. Going forward, there are many opinions whether oil prices will decrease further or if the floor has been hit and prices will continue to rebound (the ladder is more believed). Below is the WTI Crude historical price chart starting in mid-2014.

Industry Leader: Competitive Advantages

Denbury Resources has three main competitive advantages that make them the industry leader in carbon dioxide enhanced oil recovery: large inventory of oil fields specifically well suited for CO2 enhanced recovery, extensive pipeline infrastructure to deliver CO2 to oil fields and their strategic supply of CO2 that is necessary for the company's entire operation.

Denbury has targeted two main areas of the United States for their enhanced oil recovery operation: the Rocky Mountain Region and the Gulf Coast region. The Rocky Mountain Region has 2.8 to 6.6 billion estimated recoverable barrels and the Gulf Coast region has 3.7 to 9.1 billion estimated recoverable barrels. Between both of those regions, Denbury operated fields represent about 10% of that total potential. This mass amount of oil Denbury holds through their assets will allow them to meet demand growths well into the future.

In order for Denbury to extract oil through carbon dioxide enhanced recovery methods, they need large amounts of CO2 delivered to each well site that is in operation. In order to supply the large demand that they have, Denbury created their own infrastructure of more than 1,100 miles of CO2 pipeline. The pipelines start from one of two sources, an owned natural CO2 source, such as their Jackson Dome, or from an industrial partner that is usually from a man-made CO2 source. As can be seen in the picture below of the Gulf Coast region, the pipelines originate from the natural and/or industrial partner and then navigate throughout the region to the necessary oil fields.



As just mentioned, the carbon dioxide comes from one of three places: owned natural carbon dioxide fields, natural fields owned by others or manmade carbon dioxide from industrial partners. The majority of the CO_2 that is used for the oil recovery comes from owned assets. For instance, they acquired approximately one-third ownership interest in ExxonMobil's CO_2 reserves in LaBarge Field, supplying their Rocky Mountain region.

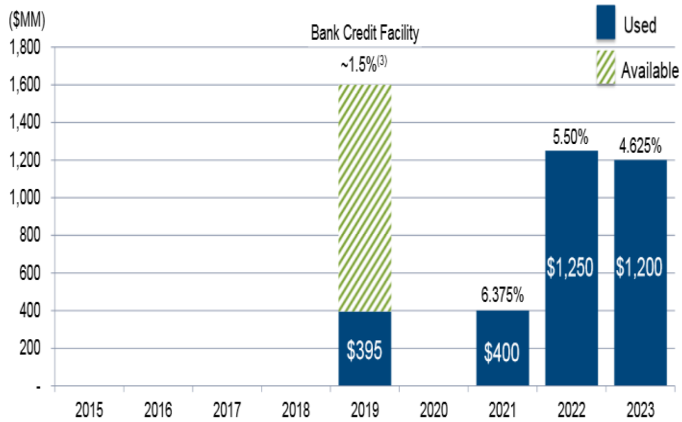
Improving Margins/Increasing Efficiency

Denbury Resources, like most companies in the energy sector, have been battling low commodity prices over the past year. In response, capital expenditures have been cut in half to $550 million for 2015 with oil production remaining the same as 2014. With identical amounts of oil being produced at a lower cost, the result will be an increase in margins. The company also decreased their operating costs by 14% per barrel to an average operating cost of $22.64 per barrel, extremely low for the industry.

Denbury also recently released news of their new company wide program to improve their operational efficiency and the profitability of their existing assets and future projects. Brad Kerr, Senior VP of Development, Technical and Innovation states, "Denbury is on schedule with this program of initiatives. Nine reviews have been completed and we have identified several promising opportunities. More specifically, we have completed seven reviews of fields. These fields account for 38% of our proved reserves. These teams have identified several opportunities for increasing CO_2 flood recovery efficiency, for reducing CO_2 purchase requirements, for developing additional areas and horizons, for optimizing field development plans and reducing operating cost." Denbury is using this time of low commodity pricing as an opportunity and reason to increase efficiencies within the company. They have already begun to implement the highest value opportunities. The potential that this program can deliver for Denbury is not only a great opportunity for the company, but also for shareholders due to the fact that this program and the potential this program can deliver, is not priced into the stock price. This efficiency program will be a value driver for Denbury into the near future once the suggested fixes begin to be implemented.

Financials: Long Term Debt & Liquidity

When looking at Denbury Resources balance sheet, one cannot help but to notice the amount of debt they have, $3.53 billion, to be exact. But, when looking at the company on a quarterly basis, they have decreased their debt by $24 million from Q3 to Q4 of 2014. That is nothing substantial, but Denbury also has no significant near-term debt maturities, which can be seen in the graph below.



Even with the debt, Denbury has high liquidity under their revolving line of credit. The company has a line of credit of $1.6 billion with $395 million drawn leaving the firm with a remaining liquidity of $1.205 billion. Also notable, Denbury has an EBITDA margin of 56% which is projected to increase in the coming years.

Commodity Recovery

Recently, over the past few weeks oil has begun to have a rebound and increase in price per barrel. When looking at the one year price chart of Denbury compared to Brent Crude oil's one year price chart there is a positive correlation between the two. This can be seen below with the green line representing Brent Crude oil.

With Denbury's close relationship to oil it is very likely that their stock price will continue to follow the price trend that oil produces. In the near future oil is predicted to continue increasing as US supply begins to finally decrease. US supply is decreasing because many US oil producers have stopped drilling and pumping oil wells in an attempt to combat the low commodity price and decrease expenses. Many were not profitable enough to continue the heavy drilling at the low commodity price and other companies believed it would be better to sell their oil when prices return to higher levels. Regardless of the reason, slowing down pumping from oil companies does not happen overnight and the economy is now starting to see the decrease in supply, increasing the price of oil. There are also numerous geopolitical issues occurring, increasing the price of oil. With an increase in commodity prices, this will increase Denbury's top line revenue growth, a value driver for the company.

Conclusion

Denbury Resources is the industry leader in enhanced oil recovery utilizing carbon dioxide. They have multiple competitive advantages that set them apart from their competition, such as their large inventory of oil fields, strategic CO2 supply and an extensive pipeline infrastructure to deliver the CO2 to the oil well sites. Along with these competitive advantages Denbury is becoming more efficient and increasing their margins with strong likelihood of the company continuing this trend into the future. Denbury also has a strong probability of increasing its share price with the rebound in oil prices over the next year due to catalyst of top line revenue growth. For these reasons, Denbury Resources Inc. is a BUY.

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Siena Market Line
4th week of April 2015

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Denbury Resources Inc.	dnr	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	NEUTRAL
		TYPE YOUR NAME HERE	$8.10	$9.95	$9.82	3%	1-y Return: 24.03%	

General Info

Sector	Energy
Industry	Oil, Gas and Consumable Fuels
Last Guidance	Feb-19-2015
Next earnings date	5/6/2015

Market Data

Enterprise value	$6,406.53
Market Capitalization	$2,032.29
Daily volume	0.25
Shares outstanding	352.88
Diluted shares outstanding	351.17
% shares held by institutions	99.58%
% shares held by insiders	1.86%
Short interest	11.34%
Days to cover short interest	2.81
52 week high	$18.59
52-week low	$6.04
5y Beta	2.06
6-month volatility	73.18%

Peers	Market Cap.
Whiting Petroleum Corp.	$7,355.12
Concho Resources, Inc.	$14,938.12
SM Energy Company	$3,667.29
Cimarex Energy Co.	$10,652.17
Newfield Exploration Co.	$6,232.41
Cabot Oil & Gas Corporation	$13,661.33
WPX Energy, Inc.	$2,699.95
Range Resources Corporation	$10,187.36
Continental Resources, Inc.	$19,159.92
Antero Resources Corporation	$11,789.07

Current Capital Structure

Total debt/market cap	124.95%
Cost of Borrowing	5.18%
Interest Coverage	1.4x
Altman Z	1.37
Debt Rating	B
Levered Beta	2.22
WACC (based on market value weights)	7.56%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Rykhoek, Phil	Chief Executive Officer, President,	$4,618,027	$6,164,096	$6,360,418
Allen, Mark	Chief Financial Officer, Senior Vice	$2,846,132	$3,053,761	$3,135,618
Kerr, Brad	Senior Vice President of Developm	$0	$0	$1,357,649
Matthews, James	Senior Vice President, General Cou	$1,560,379	$1,746,128	$1,970,787
Rhoades, Alan	Chief Accounting Officer and Vice	$0	$0	$0
McLaurin, Steve	Chief Information Officer and Vic	$0	$0	$0

Historical Median Performance

	dnr	Peers	Industry	All U.S. firms
Growth	18.4%	13.5%	14.2%	7.4%
ROIC	9.3%	8.9%	16.6%	14.3%
NOPLAT Margin	30.2%	18.8%	15.6%	10.4%
Revenue/Invested Capital	0.31	0.48	1.06	1.37
Excess Cash/Rev.	4.0%	1.4%	13.5%	12.9%
Total Cash /Rev.	4.0%	2.4%	12.3%	15.2%
Unlevered Beta	1.00	1.19	1.01	0.95
TEV/REV	4.4x	5.1x	5.6x	2.5x
TEV/EBITA	10.4x	27.2x	15.9x	13.1x
PE (normalized and diluted EPS)	13.6x	26.1x	24.7x	23.5x
P/BV	1.6x	2.8x	2.5x	2.2x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	-10.6%	-26.5%	17.4%
Last Quarter-1	2.0%	8.7%	0.0%
Last Quarter -2	6.7%	13.7%	-3.7%
Last Quarter -3	6.4%	8.5%	0.0%
Last Quarter -4	-1.8%	-8.2%	-12.9%

Non-GAAP Adjustments in estimates computations

Operating Leases Capitalization	100%	Straightline	10 years
R&D Exp. Capitalization	100%	Straightline	10 years
Expl./Drilling Exp. Capitalization	0%	N/A	N/A
SG&A Capitalization	3%	Straightline	10 years

Proforma Assumptions

Money market rate as of today	0.54%
Annual increase (decrease) in interest rates	0.1%
Yield Spread acceleration	1.2
Marginal Tax Rate	37.5%
Risk-Free rate	2.6%
Tobin's Q	0.80
Op. Cash/Rev.	7%
Growth in PPE	NPPE Growth follows Revenue Growth
Long term Growth	4.0%
Base Year Unlevered Beta	is equal to 1.01
Long term Unlevered Beta	1.19

Forecast

Period	Rev. Growth	Adj. Op. Cost/Rev	Invested Capital	NOPLAT Margin	ROIC	WACC
LTM	-3.1%	20.7%	$9,779.23	35%	8.6%	7.6%
NTM	-25.0%	22.0%	$10,114.72	35%	6.4%	7.9%
NTM+1	1.7%	23.2%	$10,885.69	29%	5.4%	8.1%
NTM+2	7.0%	24.4%	$11,729.67	27%	4.9%	8.3%
NTM+3	10.5%	25.6%	$12,583.82	27%	4.9%	8.5%
NTM+4	11.2%	26.9%	$13,393.94	26%	5.1%	8.7%
NTM+5	8.0%	28.1%	$14,170.74	26%	5.1%	8.9%
NTM+6	7.0%	29.3%	$14,916.89	26%	5.1%	9.1%
NTM+7	6.0%	30.5%	$15,628.72	25%	5.0%	9.2%
NTM+8	5.0%	31.8%	$16,311.57	25%	4.9%	9.4%
Continuing Period	4.0%	33.0%	$17,754.09	18%	10.0%	9.5%

Valuation

Period	Invested Capital x (ROIC-WACC)	Total Debt	Other non-interest bearing claims	Shares Outstanding
LTM	$0.00	$3,571.37	$501.10	352.88
NTM	-$138.66	$4,310.22	$264.97	352.88
NTM+1	-$274.63	$4,856.56	$265.82	352.88
NTM+2	-$368.43	$5,471.96	$283.17	352.88
NTM+3	-$419.58	$6,068.56	$312.90	352.88
NTM+4	-$452.54	$6,590.17	$347.97	352.88
NTM+5	-$507.42	$7,076.64	$375.81	352.88
NTM+6	-$566.58	$7,531.01	$402.12	352.88
NTM+7	-$633.38	$7,957.98	$426.24	352.88
NTM+8	-$708.18	$8,370.81	$447.56	352.88
Continuing Value	$1,099.31			

Pricing Model

DCF (Weight = 100%)	Relative (Weight = 0%)	Distress (Weight = 0%)	Weighted Average Price Per Share
$10.91	$27.44	$12.39	$10.91
$10.57	$14.47	$12.43	$10.57
$11.33	$13.39	$13.41	$11.33
$12.50	$13.55	$14.72	$12.50
$14.01	$14.91	$16.27	$14.01
$15.82	$17.03	$17.96	$15.82
$17.77	$18.51	$19.58	$17.77
$20.04	$19.92	$21.24	$20.04
$22.62	$21.18	$22.94	$22.62
$24.52	$22.20	$24.73	$24.52

Monte Carlo Simulation Assumptions

	Base	Stdev	Min	Max	Distribution
Revenue Variation	**0**	**10%**	**N/A**	**N/A**	**Normal**
Op. Costs Variation	**0**	**10%**	**N/A**	**N/A**	**Normal**
Country Risk Premium	**6%**	**N/A**	**5%**	**7%**	**Triangular**
Long term Growth	**4%**	**N/A**	**3%**	**18%**	**Triangular**

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$10.91	$10.57
σ(ε)	$0.32	$0.25
3 σ(ε) adjusted price	$9.95	$9.82
Current Price	$8.10	
Analysts' median est.		$8.88