

CREDO Petroleum Corporation
NASDAQ: CRED
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Applied Portfolio Management Program
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Company Statistics as of December 16, 2008	
Sector (GICS)	Energy
Industry	Oil & Gas Exploration & Production
Last Price	\$9.36
Target Price	\$13.32
Score	77.40
P/E	18.95
52-Week Range	\$5.69 - \$20.43
Market Cap	\$97.61M
5-yr Annual ROE	17.60%
2-yr Weekly Beta	0.74
Inst. Ownership	32.00%
Reserve/Prod.	12.28 years

INVESTMENT THESIS

With its **patented Calliope Gas Recovery System** and its recent acquisition of the patents for a new fluid lift technology called **Tractor Seal**, CREDO Petroleum Company has been able to position itself in a unique position to take advantage of mature and unproductive natural gas wells. And despite the current downward trend of the market CREDO has been very stable due to the fact that they have virtually **no debt** and have a sizable amount of cash on hand.

With target price of \$13.32 per share, CREDO is currently trading at nearly a 40% discount from the closing price as of December 16, 2008. There is no analyst coverage and so no analyst estimate is available.

CREDO Petroleum has stakes in operating activities across ten states starting in the Rocky Mountains and going south as far as Texas. It has proven reserves that are 83% natural gas and 17% oil that at current production levels will last for 12.28 years. To combat fluctuations in natural gas prices, CREDO holds positions that hedge against falling prices.

In July, CREDO sold 1.15 million newly issued shares to RCH Energy Opportunity Fund II LP at a price of \$14.50 per share. CREDO has used this funding to buy remaining patents of fluid lift technology and to fund property purchase and development.



SIX MONTH PRICE GRAPH



PORTFOLIO BENEFITS

- Moves the black portfolio toward target energy sector weight.
- Increase small-cap weight in the black portfolio.

BUSINESS SUMMARY

CREDO Petroleum Corporation operates in the energy sector as an oil and gas exploration and production company. They are involved in the exploration, development, and production of oil and natural gas, and their related technologies.

COMPANY HISTORY

CREDO Petroleum is headquartered in Denver, CO and has been incorporated since 1978 and has a long track record as a publically traded company. CREDO also has two wholly own subsidiaries, SECO Energy Corporation and United Oil Corporation, and between them have properties and operational activities in the United States ranging from the Rocky Mountains south through Texas. The bulk of their operational activities occur in the Mid-Continent region of the United States.

The company has positioned itself for strong performance despite the less than fruitful economic situation. As mentioned above CREDO has acquired a large stockpile of cash through a new stock issue to help fund future operational growth (property acquisition and development) and to acquire patented fluid lift technologies. On top of that, CREDO does not use any long-term debt to speak of and have never issued a dividend to date.

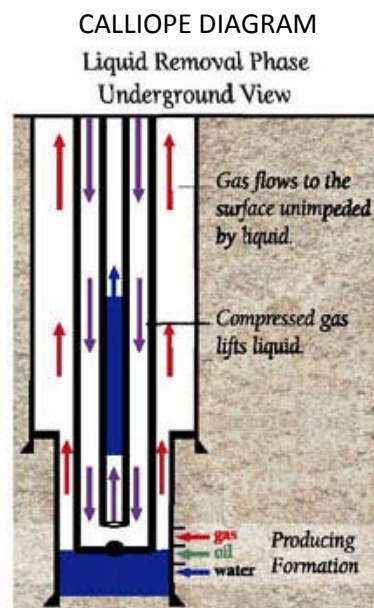
CREDO has also been taking part in the development, testing, and refining of their patented Calliope Gas Recovery System

(Calliope). They have recently (Q1 2009) purchased the remaining underlying patents to Calliope and also patents for a new shallow well fluid lift technology known as Tractor Seal.

ADVANCED FLUID LIFT TECHNOLOGY

CREDO now owns exclusive licenses for two separate fluid lift technologies; Calliope Gas Recovery System and Tractor Seal.

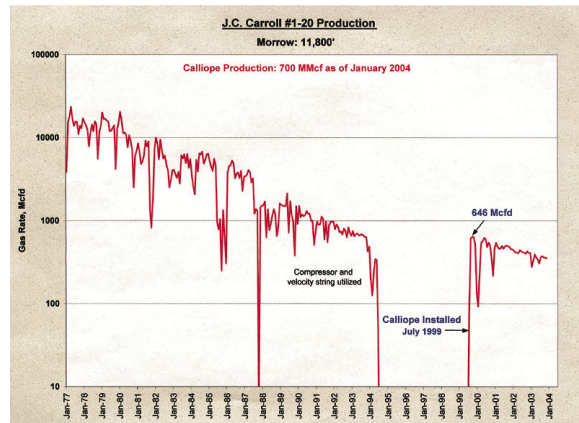
Calliope Gas Recovery System is a relatively new fluid lift technology that does not depend on bottom-hole pressure to extract natural gas. It is the most effective on wells below 10,000 feet where other fluid lift technologies have been ineffective.



Advantages to this sort of technology is that it allows CREDO to take “dead” or otherwise unproductive wells and restore them to acceptable production levels. This creates the opportunities for CREDO to purchase wells at a significant discount, some even at salvage value.

Calliope uses existing well equipment and therefore has a very low installation and operation cost. Finding costs are usually less than \$0.50 per Mcf as well as the reserve addition cost. Calliope has had a 90% success rate and as you can see in the following graph, it can provide significant value to a well.

CALLIOPE PRODUCTION



In the graph you can see where production halted in mid-1994 and was brought back online with Calliope in July 1999. Production almost immediately shot up to 646 Mcfd, which is even more than what it produced before it went down.

During the Q1 2009, CREDO has acquired the remaining patents on Calliope and a new fluid lift technology known as Tractor Seal. Being that Tractor Seal is a new technology there was not a lot of information available, but it is known that it is a shallow well fluid lift technology.

MANAGEMENT

James T. Huffman, 60 - Chairman and CEO, has been with CREDO Petroleum Corporation since 1984.

Timothy J. Pownell, 45 - President and COO, was appointed as president and COO on September 8, 2008. He has been involved for over 20 years in the oil and gas industry and has gained operational, technical, and commercial experience.

Previously employed by Huber Energy, Mr. Pownell has also worked with Chevron as an Asset Manager in Thailand. He was responsible for the overall financial and operational performance of large offshore exploration and production.

He has a Bachelor of Science in Chemical Engineering from Texas A&M University and an MBA from the UCLA Anderson School of Management.

Alford B. Neely, 62 - Vice President and CFO, was first appointed CFO in April 1998, but left in April 2000 and served as the principal owner and manager of his family's business. He then served as CREDO's Manager of Regulatory Compliance since July 2006 and was again appointed to CFO in July 2008.

SECTOR ANALYSIS

The energy sector, although strong the last couple years due to strengthening commodity prices, has been weakening lately. Several factors can be attributed to this decline that may be attributed to this near-term decline are the strengthening USD and a lagging economy. Both of these tend to create downward pressure on commodity prices.

In the longer-term, the trend of climbing energy prices will most likely continue due to an overall increase in global demand. Regardless of what

many would prefer to see, the U.S. and other industrialized countries are still going to rely on fossil fuels. Although prices have been volatile lately, they will begin to settle to a new equilibrium and an overall trend of growth will continue.

NATURAL GAS

Natural gas makes up approximately 80% of CREDO's production and therefore has significant risk to potential changes in natural gas prices and demand.

Demand for natural gas is more seasonal than cyclical since it is used primarily for heating and other appliances. Consumption for the year end 2008 is expected to have increased from 2007. In 2009, projections show that consumption will increase slightly in residential, commercial, and electric power sectors, but will decrease in industrial sectors. Although consumption projections for 2009 are not high, U.S. onshore production is still expected to increase throughout the year.

Some of these expected slow downs are explained by lower average natural gas prices. Prices have fallen nearly around 50% from their high of over \$13/Mcf in early summer. Inventories on November 28, 2008 were 3,358 Bcf which is 69 Bcf above the 5-year average but 107 Bcf below the current level the same week last year. The decrease in inventories could be attributed to the slowing economy but it also could be due to improvements in distribution (i.e., new pipelines).

Although natural gas is still a fossil fuel, it has "cleaner" properties than oil. This could lead to

future changes in regulations and ultimately lead to an increase in the use of natural gas.

OIL

Although oil production represents a much smaller portion of CREDO's total production, they are in the process of expanding their oil production to balance out their operations. Crude oil prices have fallen drastically since this July's high of over \$140/barrel. Overall U.S. consumption for 2009 is projected to decrease by about 200,000 bbl/day, but domestic production is projected to increase by about 320,000 bbl/day. This is partly due to increases in global demand and pressure for the U.S. to rely less on import oil.

BUSINESS RISKS

Competition – The oil & gas exploration & production industry is very competitive market. CREDO competes with both, major integrated oil and gas companies as well as other independent oil and gas companies for development and production rights of oil and gas producing properties. Many of CREDO's competitors have substantially greater resources.

Although smaller than many oil and gas companies, CREDO has been able to put itself in a position where it can compete with these larger companies. The company's exclusive license to fluid lift technologies have and will continue to provide competitive advantages in the next decade.

Commodity Price Risk – CREDO's revenue is highly correlated with and dependent on the prices of oil and natural gas. Any sort of act that may negatively disrupt prices or the

delivery of either commodity can severely and negatively impact the company's income statements and balance sheets. New advancements in technology, such as alternative energy could also have a negative impact on demand and prices.

CREDO hedges its expected natural gas production on a regular basis by investing in forward short positions and collars on both the NYMEX futures market and regional markets.

Development of Fluid Lift Technologies – CREDO's successful development and application of its two fluid lift technologies, Calliope and Tractor Seal, provide very important competitive advantages.

If CREDO were to lose its patents or a new cheaper and more efficient technology came along, it could materially affect the company's financial position.

RECOMMENDATION

Buy 700 shares at a market price less than \$10.00 (\$6,552 as of the closing price on 12/16/2008).

REFERENCES

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CredoPetroleum.com
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last 6 10Q's.
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