



Morning Meeting Note

NGAS Resources, Inc. (NGAS-\$6.80)

Adjust Earnings Estimates; Earnings Preview

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BUY

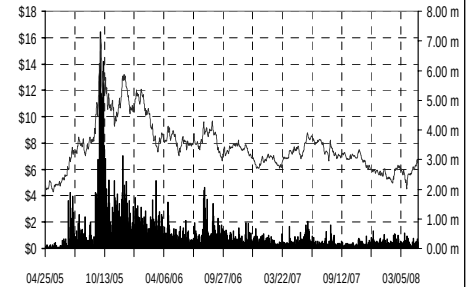
Target: \$11

April 28, 2008

Market Cap (Mil)	\$180	Price to Book Value	2.0x
Avg. Daily Trading Volume	217,000	Return on Equity (2009E)	6.5%
Shares Out (Mil)	26.126	LT Debt to Total Capital	57%
Float Shares (Mil)	25.300	5-Year Prod. Growth Rate Projection	29%
Institutional Holdings	36%	52-Week Range (NASD)	9-5
Dividend	Nil	Russell 2000	722
Dividend Yield	N/A	Short Interest (Mil)	1.518

	2006	2007	2008E		2009E	
			<u>OLD</u>	<u>NEW</u>	<u>OLD</u>	<u>NEW</u>
Mar.	\$0.16	\$0.12	\$0.16		\$0.30	\$0.29
June	0.18	0.14	0.15	0.19	0.29	0.30
Sep.	0.13	0.14	0.19	0.20	0.33	
Dec.	<u>0.17</u>	<u>0.18</u>	<u>0.23</u>	<u>0.25</u>	<u>0.36</u>	<u>0.37</u>
DCF	\$0.63	\$0.57	\$0.72	\$0.81	\$1.29	\$1.29
P/DCF				8.4x		5.3x
EBITDA (mil.) (Cal.)	\$17.6	\$18.5	\$26.6	\$28.9	\$43.8	\$43.7
EV / EBITDA				8.9x		5.9x

Action	Date	Px	Rating	PT
Initiation	3/20/07	6.1	Buy	11



Sources: Bloomberg L.P., Sidoti & Company, LLC

Table Legend: PT=Price Target, Px=Price on Day of Change, ACHG=Analyst Change

Note: 2006 DCF and EPS exclude \$0.09 in after-tax gains from the sale of assets. 2006 and 2007 results include \$0.07 and \$0.05 of stock-based compensation expense, respectively; our 2008-2009 EPS estimates factor \$0.06 in annual stock-based compensation expense. Sum of quarterly cash flow may not equal full-year total due to rounding and/or changes in share count. NC=Not covered by Sidoti & Company, LLC.

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008E	2009E
Rev.(Mil.)	\$6.1	\$7.2	\$8.4	\$27.4	\$48.0	\$62.2	\$79.8	\$70.2	\$73.2	\$96.5
GAAP EPS	(\$0.09)	(\$0.08)	\$0.11	\$0.31	\$0.10	\$0.05	\$0.09	\$0.01	\$0.08	\$0.20

Description: NGAS Resources, Inc. (www.ngas.com) is an independent oil and gas exploration and production company with core operations in the Appalachian Basin in Eastern Kentucky, Virginia and Tennessee. The company also owns minor interests in the Arkoma Basin in Arkansas and Oklahoma and Western Kentucky's New Albany Shale. At year-end 2007, NGAS' estimated net proved reserves were 105 Bcfe, of which 97% was natural gas and 46% was developed. Headquarters are in Lexington, KY.

Release Date	Conference Call	Time (Eastern)	Contact	Co. Guidance	Consensus
Week of May 5	N/A	N/A	N/A	N/A	DCF - \$0.18 EPS - \$0.03

Anticipate 1Q:08 EBITDA Grew 49% On 19% Jump In Production; Early Results From Horizontal Devonian Shale Drilling Encouraging; Maintain BUY, \$11 Target

- We expect NGAS to deliver 49% EBITDA growth for 1Q:08 on 19% production growth and strong commodity prices.
- NGAS' initial Devonian shale horizontal well achieved 400 million cubic feet (mmcf) of daily production in its first week on line.

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- The company recently fracture-stimulated its second and third horizontal wells; we expect management to discuss results on the call.
 - Higher commodity price assumptions lift our 2008 DCF/EPS estimates.
 - We maintain our BUY rating and \$11 price target.
- **We project 49% EBITDA growth on a 19% production increase in 1Q:08.** We expect NGAS to deliver 1Q:08 DCF/EPS of \$0.16/\$0.02, up from \$0.12/(\$0.01) in 1Q:07, on 19% production growth and respective 71% and 15% increases in realized crude oil and natural gas prices. For full-year 2008, we increase our realized crude oil and natural gas prices estimates to \$86.70 (from \$71.31) and \$9.78 (from \$8.79), respectively, taking our 2008 DCF/EPS estimates to \$0.81/\$0.11 (from \$0.72/\$0.08).
- **Early results from NGAS' Devonian shale horizontal drilling program indicate the company can replicate Equitable Resource's (NYSE: EQT, NC) success, in our opinion.** NGAS recently reported that its first horizontal well produced 400 mmcf per day in its initial week, right in line with results that Equitable is targeting in its extensive horizontal drilling program in eastern Kentucky. The company also recently fracture-stimulated its second and third horizontal wells and plans to drill three more horizontals immediately. NGAS now anticipates drilling 20 Leatherwood horizontal wells in 2008, up from the 10-15 it was discussing earlier in the year. The strong production from horizontal drilling may keep cap-ex below the roughly \$50 million targeted for 2008, while NGAS explores strategic alternatives for its non-operated Arkoma Basin assets.
- **We maintain our BUY rating and \$11 price target.** We derive our price target from our \$11 per share net asset value (NAV) estimate that credits NGAS with 1,100 drilling locations and its extensive gathering and transportation system in the company's core Appalachian Basin leasehold. Our NAV does not assign any value to the to the company's New Albany shale, recently acquired eastern Kentucky leasehold, and Arkoma Basin assets, which the company is looking to divest (these assets hold roughly 12 Bcfe of proved reserves, two-thirds of which are developed and are responsible for about one-quarter of NGAS' natural gas production). We view NGAS as an attractive investment given the company's large inventory of low-risk development drilling locations, the opportunity to grow this project inventory organically, and the upside that the economics of horizontal drilling provide. We maintain our BUY rating and \$11 price target, which equates to 9x our 2009 DCF estimate of \$1.29 per share.

Table 1: NGAS Resources Variance Table

	1Q:08 Est	1Q:07	Variance	% Change
Production				
Oil (bbl)	12,333	15,611	(3,278)	-21%
Natural gas (mcf)	851,000	684,649	166,351	24%
Mcf (6:1)	925,000	778,315	146,685	19%
Sale price per bbl	\$87.75	\$51.44	\$36.31	71%
Sale price per mcf	\$9.89	\$8.62	\$1.27	15%
Revenue	\$16,348,640	\$17,945,392	(\$1,596,752)	-9%
Discretionary cash flow	\$4,380,758	\$2,719,018	\$1,661,740	61%
DCF per diluted share	\$0.16	\$0.12	\$0.04	29%
Net Income	\$549,803	(\$254,264)	\$804,067	nm
Diluted EPS	\$0.02	(\$0.01)	\$0.03	nm
EBITDA	\$5,889,021	\$3,960,186	\$1,928,835	49%

Notes: 1) Discretionary cash flow = net income + DD&A + def. taxes + other non-cash items

Source: Company reports and Sidoti & Co. LLC estimates