



BUY
NASDAQ: NGAS

Exploration and
Production

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Neal Dingmann
SVP – Equity Research
(713) 658-9800
ndingmann@dahlmanrose.com

NGAS Resources

Update – Raising Price Target on Higher Asset Value Assumption

- **We are raising our price target to \$13 per share from \$10 as the price paid in the region continues to accelerate.** In addition, we believe there is ample upside remaining in our estimate as the company books incremental proven reserves and adds acreage. Our NAV is based on what we believe NGAS's assets would fetch in the open market. Our target is derived from a \$4.05/Mcfe per proven reserve and \$2 reserve price using 2007 year end results. We are using a 76% risk factor on our proven estimate, which could be considered low given the quality of the company's reserves. We calculate that NGAS has over \$2 per share alone in gas gathering value.
- **We are optimistic over NGAS's horizontal drilling program.**
 - Leatherwood field – NGAS is drilling its sixth horizontal well and plans to drill at least 20 by year end. The first five horizontal wells flowed around 400 Mcf a day with the wells costing \$1 - \$1.2 million each. It is rather early to estimate total reserves per well, but we estimate it would be slightly less than the low end of Equitable wells that have been averaging .75 – 1.5 Bcf. Bottom line is that we believe the rate of return on NGAS's horizontal wells to be quite economical.
 - Other fields – While Leatherwood results are important, upcoming horizontal well results at the Fonde and Straight Creek fields could be considered slightly more important as NGAS has fewer encumbrances from coal companies on these fields enabling easier access to additional wells.
 - Equitable Resources – Not only are we encouraged by NGAS's horizontal wells, but Equitable seems to be as well as it takes a significant interest in recent wells. We believe it also benefits NGAS to be able to conjure with Equitable on various well dynamics.
- **The horizontal wells provide additional reserves and production, but also increase flexibility in the drilling program.** NGAS has 279,000 of undeveloped acreages, but a number of promising prospects cannot be permitted due current coal mining activity. However, a horizontal well allows NGAS to go around the coal mining activities and still access the more lucrative prospects without disturbing other operations.
- **NGAS is now taking a larger working interest of its wells.** Previously NGAS used drilling partnerships in order to drill its required wells to hold its leases. However, the company is now not using any partnerships in its core acreage giving it a larger interest in the economical horizontal plays.

CFPS				Recommendation		Stock Statistics		Fundamentals	
	2007	2008E	2009E			Priced as of 6/15/2008			
1Q	\$0.13	\$0.15	\$0.22	Rating	Buy	Symbol	NGAS	NAV / Share	\$13.00
2Q	\$0.14	\$0.16	\$0.22	Price Target	\$13.00	Price	\$8.90	P / NAV	0.7x
3Q	\$0.13	\$0.18	\$0.24	Exp. Return	46%	52W Range	\$4.50-\$9.35	EPS ('08E)	\$0.12
4Q	\$0.19	\$0.20	\$0.27	Div. ('08E)	\$0.00	Shares Out. (MM)	26.7	PE ('08E)	71.8x
FY	<u>\$0.59</u>	<u>\$0.69</u>	<u>\$0.95</u>	Yield	n/a	Mkt. Cap. (MM)	\$237.9	EBITDA ('08E) (MM)	\$25.6
P/CF	<u>15.2x</u>	<u>12.9x</u>	<u>9.4x</u>	Exp. Total Return	46%	Net Debt (MM)	\$82.7	EV/EBITDA ('08E)	12.4x

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NGAS - NET ASSET VALUATION

	Reserves	Risk Factor	Risk Adjusted Reserves	Value per Unit In the Ground*	Value	Value/Share
Proven Reserves (Net) - 12/31/07						
Natural Gas (MMcf)	102,165	76%	77,298	\$4.05	\$313,057.06	\$11.71
Oil (Mbbls)	500	76%	378	\$24.32	\$9,180.80	\$0.34
Total 2007 Proved Reserves - (46% developed)	105,165		79,563	\$4.05	\$322,230.31	\$12.05
Undeveloped Acres	46%		239	\$225	\$53,775.00	\$2.01
Gas Gathering System (10x EBITDA) - 619 miles					\$60,195.00	\$2.25
Other Property & Equipment (book)					\$0.00	\$0.00
Less						
Debt					(\$84,333.81)	(\$3.15)
Working Capital					(\$4,491.42)	(\$0.17)
Shares Outstanding					26,731.04	
Estimated Net Asset Value					\$ 347,375	\$13.00

*Value assigned to each unit is the value given in the ground, before any expenses are incurred to extract or produce the unit.
This method is used to determine a potential selling price in the market for the oil and gas today.

Source: Dahlman Rose estimates and company documents

			Assumed \$/Mcf In The Ground				
			\$3.00	\$3.25	\$3.50	\$3.75	\$4.00
2008	yr end 2007	105,165	\$12.74	\$13.73	\$14.71	\$15.69	\$16.68
Total	+10%	115,682	\$13.92	\$15.01	\$16.09	\$17.17	\$18.25
Proven	+20%	126,198	\$15.10	\$16.28	\$17.46	\$18.64	\$19.82
Reserves	+30%	136,715	\$16.28	\$17.56	\$18.84	\$20.12	\$21.40
	+40%	147,231	\$17.46	\$18.84	\$20.22	\$21.60	\$22.97

Source: Dahlman Rose estimates and company documents

EPS	\$0.01	\$0.04	\$0.04	\$0.04	(\$0.04)	\$0.12	\$0.19
CFPS	\$0.15	\$0.16	\$0.18	\$0.20	\$0.59	\$0.69	\$0.95
EBITDA	\$5,386	\$6,130	\$6,820	\$7,267	\$18,238.6	\$25,602.8	\$34,010.5

NGAS RESOURCES INCOME STATEMENT

Historical and Forecasted Income Statement

(amounts in millions of \$, except as noted)

Total Days	90	91	92	92	365	365	365
Oil and Gas Production	2008 Quarterly Results/Est.						
Volumes/Prices	1Q08	2Q08E	3Q08E	4Q08E	2007	2008-E	2009-E
Oil Prod. (MM Bbls)	11.6	11.8	11.9	12.0	57.7	47.3	49.2
Price (\$/bbl)	103.41	99.22	97.24	95.64	64.97	98.88	92.66
Gas Prod. (Mmcf)	803.2	811.2	872.0	959.2	2,950.7	3,445.6	4,897.0
Price (\$/mcf)	8.51	9.24	9.40	9.96	8.19	9.31	9.83
NGL Prod. (MM Bbls)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Price	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Production (Mmcfe)	873.0	881.7	943.3	1,031.2	3,297.1	3,729.2	5,192.1
Total Production/day (Mmcfe)	9.7	9.7	10.3	11.2	9.0	10.2	14.2
% Gas	92.0%	92.0%	92.4%	93.0%	89%	92%	94%
Sequential Growth	-5.2%	1.0%	7.0%	9.3%	15.0%	13.1%	39.2%

Gas (Henry Hub Spot); \$/mmbtu	\$8.62	\$9.93	\$10.16	\$10.51	6.96	9.80	9.52
Oil (WTI Cushing Spot); \$/bbl	\$97.76	\$106.22	\$104.24	\$102.64	72.21	102.72	99.66

Income Statement

Theor. Revs. Oil & Gas Sales	\$8,038.6	\$8,665.7	\$9,347.5	\$10,698.4	\$27,693.5	\$36,750.2	\$52,705.7
Contract Drilling	\$6,602.1	\$6,500.0	\$8,250.0	\$7,012.5	\$34,334.8	\$28,364.6	\$27,900.0
Oil & Gas Sales	8,489.4	8,665.7	9,347.5	10,698.4	28,148.7	37,201.1	52,705.7
Gas Proc. Gath, etc	2,558.1	2,609.3	2,661.4	2,714.7	7,719.3	10,543.5	11,412.6
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Revenues	17,649.6	17,775.0	20,258.9	20,425.6	70,202.8	76,109.1	92,018.2
Contract Drilling Costs	\$5,119.8	\$5,096.0	\$6,468.0	\$5,497.8	26,773.0	22,181.6	21,873.6
Oil & Gas Sales Costs	2,765.0	2,253.1	2,430.3	2,781.6	7,648.6	10,230.0	12,649.4
Gas Proc. Gath, etc Costs	1,090.2	1,122.0	1,144.4	1,167.3	4,622.1	4,524.0	4,793.3
Total Direct Costs	8,975.1	8,471.1	10,042.8	9,446.7	39,043.7	36,935.6	39,316.2
Gross Margin	8,674.6	9,303.9	10,216.2	10,978.9	31,159.2	39,173.6	52,702.0
Contract drilling	22%	22%	22%	22%	22%	22%	22%
Oil & Gas Prod	67%	74%	74%	74%	73%	72%	76%
Gas Proc. Gath, etc Costs	57%	57%	57%	57%	40%	57%	58%
Total Margins	49%	52%	50%	54%	44%	51%	57%
DD&A/Impair./Goodwill/Accretion	2,871.8	2,468.8	2,829.8	3,093.6	10,416.7	11,264.0	15,576.2
G&A	3,288.5	3,174.2	3,395.8	3,712.3	12,920.6	13,570.8	18,691.5
Oper. Income	2,514.4	3,660.8	3,990.6	4,173.0	7,821.9	14,338.8	18,434.3
Interest Expense	1,326.0	1,862.7	1,970.2	2,056.2	6,330.8	7,215.1	9,299.6
Interest Income	(69.7)	(32.9)	152.9	79.1	(323.7)	129.4	22.8
Compensation from options	137.7	134.9	132.2	129.6	1,069.3	534.4	492.9
Other	341.6	142.9	167.3	179.5	322.7	831.3	750.4
Income Before Taxes	778.8	1,553.2	1,567.9	1,728.7			
Taxes	615.7	543.6	548.8	605.0	1,239.4	2,313.1	2,754.0
Net Earnings Excl. Special Items	163.2	1,009.6	1,019.1	1,123.6	(816.7)	3,315.5	5,114.5
Preferred Div	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Special Items (After-Tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported Earnings	163.2	1,009.6	1,019.1	1,123.6	(816.7)	\$3,315.5	\$5,114.5
Operating EPS	\$ 0.01	\$ 0.04	\$ 0.04	\$ 0.04	\$ (0.04)	\$ 0.12	\$ 0.19
Reported EPS	\$ 0.01	\$ 0.04	\$ 0.04	\$ 0.04	\$ (0.04)	\$ 0.12	\$ 0.19
Diluted Shares Outstanding	26,731.0	26,731.0	26,731.0	26,731.0	22,432.0	26,731.0	26,731.0
Cash Flow Statement							
Net Earnings	163.2	1,009.6	1,019.1	1,123.6	(816.7)	3,315.5	5,114.5
DD&A	\$2,872	\$2,469	\$2,830	\$3,094	10,416.7	11,264.0	15,576.2
Dfrd Taxes	616	544	549	605	1,239.4	2,313.1	2,754.0
Other	371	373	425	429	2,430.2	1,598.3	1,932.4
Cash Flow	4,021.3	4,395.3	4,823.2	5,251.2	13,269.6	18,490.9	25,377.1
Cash Flow/Share	\$0.15	\$0.16	\$0.18	\$0.20	\$ 0.59	\$ 0.69	\$ 0.95

Source: Company documents, Bloomberg, and Dahlman Rose estimates

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