

TAIPAN



**American-Style Profits:
The New Oil Bonanza**

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American-Style Profits: The New Oil Bonanza

From the moment your alarm goes off in the morning, your whole day depends on one single commodity. Without it, nothing happens. What we're talking about is oil.

And though it's not as costly as diamonds, gold or uranium... it's the most valuable commodity on the planet!

Just think about it. Without oil, life grinds to a halt. Ships don't sail, planes don't fly, trains don't roll, and cars don't run.

Everything around you—EVERYTHING you see—is there because it was built and delivered from someplace else.

Your clothes, your watch, your desk, your computer... everything!

Without fuel, none of it gets made or delivered... it doesn't exist!

Your way of life is completely based on oil. Which makes it the most important and valuable commodity in the world!

We all know that gas prices have taken the express elevator to the ceiling lately. Unfortunately, prices are going to continue to climb unless this country's demand for oil suddenly diminishes. And according to energy experts, a drop in demand is highly unlikely. This country has an insatiable appetite for oil.

That's why governments—the US and every other—will do anything necessary to get it.

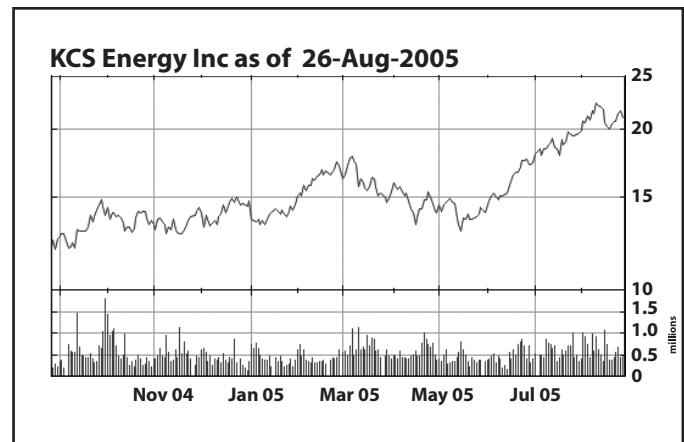
Though we claim to send our troops around the world to stop threats from "weapons of mass destruction" or to topple regimes committing "crimes against humanity," the fact is... it's all about oil. About protecting its flow to our country and safeguarding our economy.

In this report, we'll show you how to prepare for this **financial battlefield** before it's too late.

Using the Forward Earnings Forecaster and rigorous analysis perfected by *Taipan* editor William Colburn, we've isolated the seven oil stocks that will not only withstand the financial shock waves in

the months ahead—but will EXPLODE in price as institutional investors scramble to buy up any available shares.

Oil Stock #1: KCS Energy (KCS:NYSE)



KCS is a successful oil well exploration and drilling company located primarily in the South/Southeast region of the United States.

William has played KCS a number of times, and it's been incredibly profitable. Some investors might have cast out KCS since its quick 66% run this year. But KCS is NOT old news. There's plenty of profit potential left in this stock.

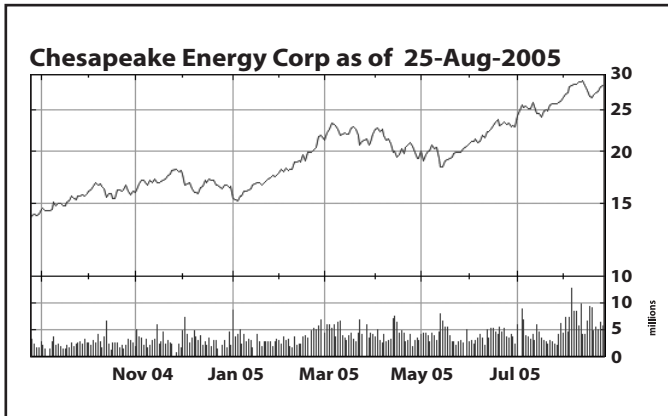
Let's hit on some key points.

When William applied the scientific Forward Earnings Forecaster to KCS, the results it gave were nothing short of stellar. This stock has plenty of room to grow.

Earnings this year are expected to grow slightly. But the growth by December of 2006 is estimated to be 28.9%. After crunching a few numbers, KCS has a full valuation of \$69.43. Cut that in half to be conservative and you've got KCS at \$34.71.

To get the most out of this stock's potential, buy shares under \$27. But hurry. Shares will reach that price before you know it. They are trading for \$24 as we write.

Oil Stock #2: Chesapeake Energy (CHK:NYSE)



We recently attended an oil conference in Denver, Colorado. You should have seen it. The room was filled with greedy-eyed investors when CHK's front office took the podium.

And they did this for good reason...

We know there's oil in our own backyard. How do you think all those Texas tycoons made their money? CHK is your chance to become an oil tycoon.

The company is headquartered in Oklahoma. But it owns interests in 14,950 oil- and gas-producing wells across the United States. Approximately one-fifth of the company's wells are classified as oil-producing wells. The remaining wells primarily produce natural gas.

Recently, CHK drilled 442 wells and participated in another 641 wells operated by other companies. It also owns six drilling rigs, which are dedicated to constructing new wells. And more rigs are under construction.

You can't blame the company for wanting to increase its drilling fleet. With the current price of oil, fresh wells will quickly generate profits many times above their initial cost.

Last year, CHK acquired south Texas gas assets and the Permian Basin and mid-continent oil and gas assets from Concho Resources. Then, it bought Oklahoma City-based Tilford Pinson Exploration for a combined \$590 million. This added approximately 60 million cubic feet of natural gas equivalent to CHK's average daily production of 951 million cubic feet.

According to company insiders, more profitable acquisitions will be coming down the pipeline in the months ahead.

For the second quarter of 2005, net income available to stockholders totaled \$179.2 million, a \$76.6 million increase from last year's comparable period. Revenue figures topped \$1.05 billion, an approximate \$476 million, or 74% gain, from 2004.

According to reports, oil and gas production reached 1,244 million cubic feet per day, a 31% increase over the same period last year and total production growth is expected to surpass 25% by year's end.

But that's not all. We haven't even gotten to the meat and potatoes of CHK...

CHK has a market cap of \$10.48 billion. For the typical small-cap investor, CHK is too expensive. After all, a P/E ratio of 18.70 and a PEG ratio of 1.77 is nothing that would catch the average value investor's eye. But those investors fail to see what lies beneath...like revenues of over \$3.4 billion.

Based on those numbers and future EPS growth estimates, CHK is likely to hit \$45.86 within a few months. That price could double by next year.

CHK trades at a bargain price of \$32.44.

Oil Stock #3: Pioneer Drilling Company (PDC:NYSE)

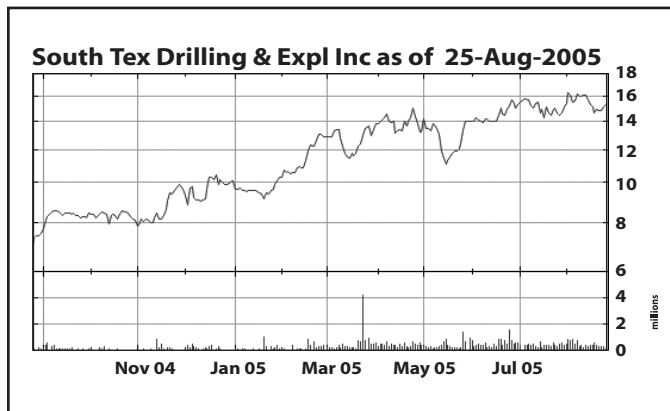
As you grow familiar with Taipan, you'll discover that the stock recommendations vary. Some would almost be considered "sure bets," while others hold huge profit potential but are extremely speculative.

PDC is one we'd categorize as speculative.

It doesn't own the oil or land. It provides the nuts and bolts that get the job done. If a company needs its services or equipment, PDC will be there. In addition to its drilling rigs, PDC provides the drilling crews and most of the ancillary equipment needed to operate its drilling rigs.

Most of its operations are found in Texas. PDC is expanding through acquisitions. In March 2004,

it acquired the drilling assets of Sawyer Drilling & Services, Inc., based in Shreveport, Louisiana. This added seven mechanical 700 to 1200 horsepower rigs, capable of drilling to depths of 8,000 to 14,000 feet.



By August of 2005, PDC had added 15 rigs to its overall operation with regard to the comparable time during 2004 and had increased its utilization to 95%.

Financially, PDC is great. For 2005's second quarter, the company reported earnings of \$7.7 million, or 17 cents per diluted share, on revenues of \$59.9 million. These revenue figures are a \$57 million increase over those of the comparable time period just one year prior, when the figure stood around \$217,000.

These are exciting numbers in their own right, but what caught my attention was PDC's 0.25 PEG ratio.

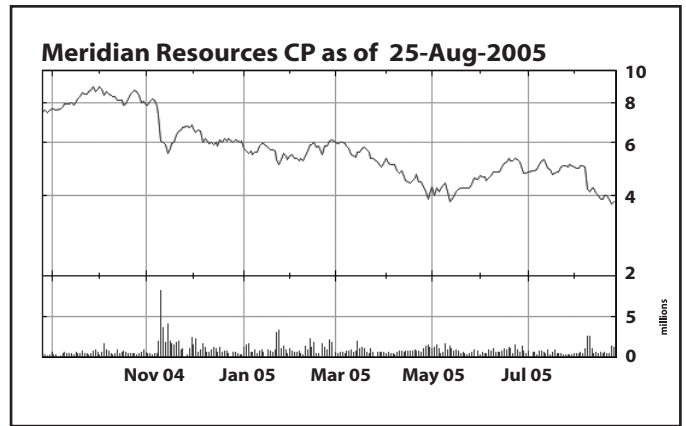
A PEG ratio of 0.25 means that a stock is nowhere near a fully valued position. Basically, PDC would be fully valued at about \$58-64 Right now, it trades for just over \$15.

If PDC were to reach its full valuation, we'd be able to reap gains of 200-300%.

Remember, high speculation is often accompanied by high gains. Right now, the oil market is jam-packed with speculation.

Oil Stock #4: The Meridian Resources (TMR:NYSE:)

Based solely on this year's earnings, TMR is an absolute steal right now.



While TMR may have had a rough first half of 2005, that is no reason to discount the company's overall value. TMR recorded a net income of just \$4.1 million during the second quarter of 2005, compared to a net income of over \$7.7 million during the same period last year.

However, TMR reported a 47.6% increase in operating revenues during fiscal year 2005. What's more, the company also reported its earnings per share increased by 306%.

According to the most recent figures, TMR's EPS (Earnings Per Share) totals \$0.31. Using this EPS figure and a lot of number crunching, TMR could easily clear \$15 a share.

The fair future price for TMR is \$21.50. That's a 497% gain from current levels. We believe TMR will continue to grow this year, but I want to play this safe. Although fair value for TMR is an easy target, we'd like to set a short-term price of \$10.62. Shares are currently selling for just \$3.50.

Taking into consideration the oil crisis that looms on the horizon, this could be an easy and huge profit.

Oil Stock #5: ATP Oil and Gas (ATPG:NASDAQ)

We throw the word "crisis" around about as much as a ten-year-old throws around 100-pound dumbbells. But the fact remains...

We're looking at an oil crisis. In fact, we're using more oil than the world can produce.

The world goes through about 80 million barrels of oil per day as we speak. Earlier this summer, OPEC announced an increase in oil production of

500,000 million barrels per day.

Fine. That means OPEC will give the world 182 million extra barrels to plow through this year.

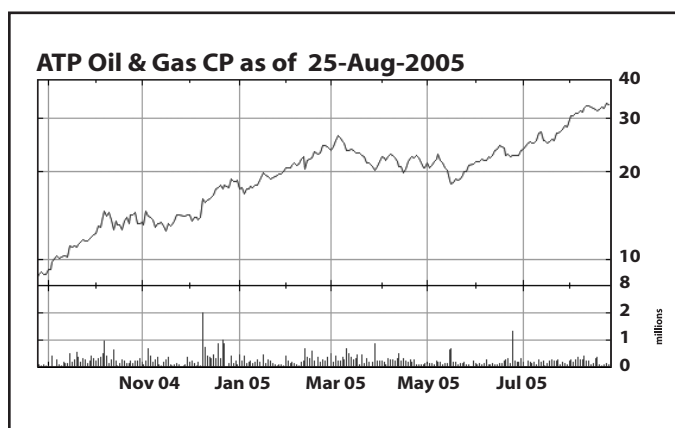
That's nothing. If we keep this usage up, by 2010 it's speculated that 100 billion barrels will be consumed each day. OPEC's addition was a drop in the bucket.

So, you see we've got a big problem. And the bottom line: When there's fear, there's money to be made. Speculating in small oil and gas stocks is a no-brainer. Fortunes will be made in the next 12 to 24 months trading oil stocks. Plan to be a part of it.

So, it came as no shock when *Taipan* editor William Colburn caught ATPG. This company is an oil and gas exploration company that has a different skew on how it goes about tapping fresh wells.

ATPG uses sub-sea directional drilling to tap unused wells. Basically, rather than going straight into the ground, ATPG's directional drilling has the ability to go sideways in seabeds. This increases the chances of finding a much higher payload of oil. A "sweet spot" if you will. The way the directional technology is manufactured actually increases the flow and production of that sweet spot once it's found.

ATPG operates exclusively offshore and has addressed projects in the Gulf of Mexico water depths from twelve feet in the Eugene Island Area to deep water 1,350 feet in Garden Banks. In the North Sea, ATPG's projects range from 50 to 200 feet of water depth.



Revenues from natural gas production totaled \$25 million during the second quarter of 2005. To

make that figure even juicier, consider that sales of natural gas and oil were up 35% from the comparable time during 2004.

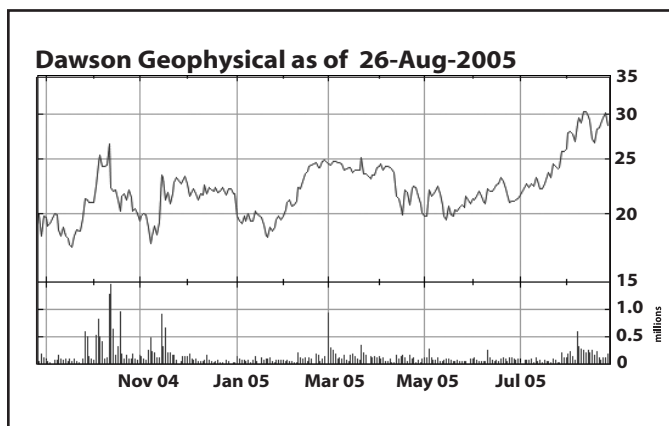
We could ramble on about the five new wells ATPG put into production so far this year, but that's not too interesting.

Just know that it's are producing lots of oil.

ATPG is expected to grow its EPS by over 128% within the next two years. This is a value stock waiting to explode.

Analysts are estimating ATPG could be selling for as much as \$60 by early next year. Right now, investors can buy shares for just \$30.

Oil Stock #6: Dawson Geophysical Company (DWSN:NASDAQ)



Another company of similar note is **Dawson Geophysical Company (DWSN:NASDAQ)**. DWSN is a Texas-based provider of onshore seismic 2-D and 3-D data-acquisition services.

Clients ranging from big-name players to small independent explorers go to DWSN for data to figure out where to set up their rigs. And these oil and gas drillers pay quite a premium for this seismic knowledge.

With energy prices in record territory, oil and gas companies can finally dedicate income to serious exploration, using DWSN as the middleman for data. Even if prices dip, the quest to uncover oil hotspots won't soon diminish.

After adding its tenth data-gathering crew last year, DWSN now has 46,000 data-recording chan-

nels. And it's due to add an eleventh crew in the next three months. That's about half of the capability of the entire US industry. And though adding a crew is not cheap (one crew requires an investment of roughly \$10 million and 50 workers), DWSN has more than \$20 million in cash on hand to add a twelfth crew down the line.

After five consecutive years in the red as the company concentrated its capital on growth, DWSN returned to profitability with a vengeance last year. When the company posted earnings of \$1.24 per share, it was obvious the investment paid off.

The financial results from the second quarter of 2005 showed excellent growth, with revenues jumping by more than 46% over the first half of the year. 2006 is expected to bring even greater growth.

DWSN currently boasts a forward P/E of 14.86, a low figure for its industry. Its PEG ratio of 0.72 is also an eye-catcher.

Figuring conservatively, shares would be fairly valued at about \$45—but are currently trading for just over \$28. That would give us a 61% gain as the gap narrows.

Sure, DWSN's fundamentals sound great by themselves. But how does it stack up in relation to the industry as a whole? Let's take a look...

Houston-based Veritas DGC (VTS:NYSE) is one of DWSN's closest competitors. Like DWSN, Veritas also acquires, processes and interprets geophysical data and produces 2-D and 3-D geophysical surveys. It even explores many of the same regions.

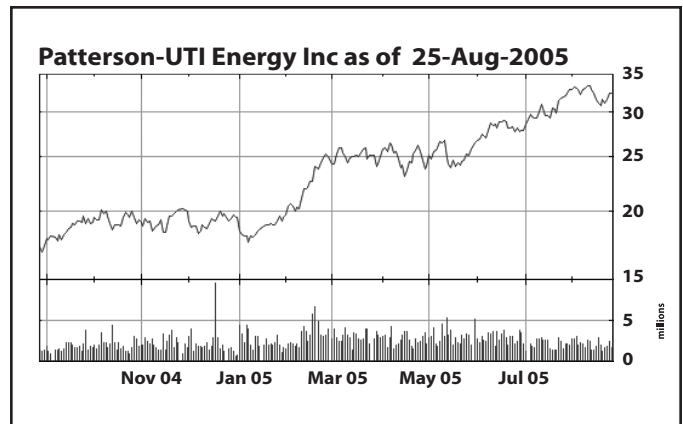
But whereas DWSN is debt-free, Veritas has racked up nearly \$182 million in debt and only has a third of DWSN's revenue growth.

Compare DWSN with another of its close rivals, Petroleum Geo-Services (PGS:NYSE), and DWSN still boasts the lowest P/E. For the industry as a whole, DWSN still has the lowest P/E and the highest earnings and revenue growth around, hands down. Talk about potential.

DWSN is the clear winner in a booming industry that is unlikely to waver much even in the face

of dipping crude prices, and its fundamentals are a screaming buy.

Oil Stock #7: Patterson-UTI Energy, Inc. (PTEN:NASDAQ)



PTEN comes highly recommended by *WaveStrength* editor Sara Nunnally, whose extensive research and analysis of the company explores its continuing success.

Texas-based PTEN is a leading oil drilling company, boasting 263 operational rigs throughout Texas, Colorado, Utah, Oklahoma, Mississippi, New Mexico, Wyoming, and parts of Canada, including Alberta and British Columbia. The company expects 30 more rigs to become operational this year.

The company's first quarter 2005 performance was phenomenal. Pent-up demand for drilling operations resulted in a huge 60% surge in first quarter revenues to \$350.6 million when compared with 2004's first quarter.

That was almost double the industry average, and followed \$1.1 billion in revenues in 2004 or \$6.65 per share. It also meant net income skyrocketed a remarkable 188%...to an increase of \$59.7 million, or 35 cents per share, versus \$20.7 million, or twelve cents per share, during the first quarter of 2004.

During the first three months of 2005, PTEN possessed \$330 million in contract drilling, which amounts to gains of over 80% from 2004's comparable time period. Likewise, 2005's first half showed an 84% gain in the same area.

Pressure-pumping revenues also increased

51.1% over 2005's second quarter, totaling just over \$22 million.

With existing oil production reserves declining, this demand is set to continue for the foreseeable future. Several Middle Eastern countries are already hustling to build new rigs. And it's exactly this kind of tight supply and strong demand from home and abroad that should continue to generate plenty of profitable opportunities.

Moreover, with exploration companies still clamoring for drilling rig usage and the "day rate" (the prices these companies pay the drilling firm

for the contract) continuing to escalate along with waiting times to actually access the rigs, this could mean upward revisions to full-year earnings.

In fact, PTEN's earnings growth rate for fiscal 2005 is projected to soar almost 150% and a PEG ratio of .35 suggests that PTEN is ridiculously undervalued.

With those kinds of financials, PTEN could be trading for \$75. Fortunately for you, shares are currently selling for just \$33. Get your shares now, before the oil wars really takes off. ■

