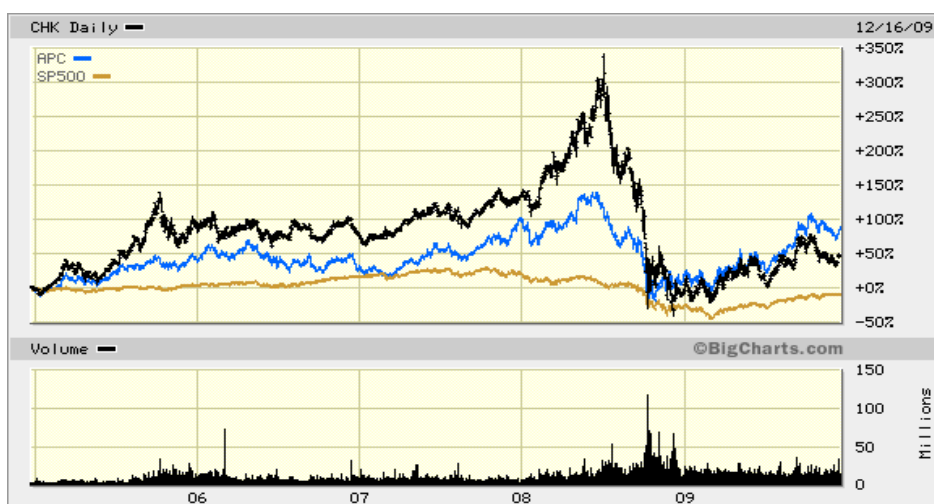


## Chesapeake Energy Corporation (CHK) 12/16/09

CHK operates as an upstream and midstream oil & gas producer. It has operations in locations that include; Texas, Louisiana, Oklahoma, Arkansas, Pennsylvania, Virginia, Michigan, and others. CHK was founded in 1989 and is headquartered in Oklahoma City, Oklahoma.

Current Price	\$24.91
52 Week High	\$30.00
52 Week Low	\$13.27
One Yr Target	\$35.00
Market Cap (in billions)	\$16.13
P/E (Trailing)	9.92
P/E(1 Yr Forward)	10.17
P/E/G	1.21
ROA	-17.68%
ROE	-45.15%
EPS	\$2.51
Beta	1.63
Annualized Dividend	\$0.30
Dividend Yield	1.20%
Analyst Consensus	1.80
Debt to Equity	1.48



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**Annual EPS**

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2005	\$2.56	
2006	\$4.38	70.96%
2007	\$2.84	-35.18%
2008	\$1.19	-58.06%
2009E	\$2.51	110.92%

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**Annual Revenue (in millions)**

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2005	\$4,665.29	
2006	\$7,325.60	57.02%
2007	\$7,800.00	6.48%
2008	\$11,629.00	49.09%

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**Annual Net Income (in millions)**

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2005	\$948.30	
2006	\$2,003.32	111.25%
2007	\$1,451.00	-27.57%
2008	\$723.00	-50.17%

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**Free Cash Flows (in millions)**

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2005	-\$449.19	
2006	\$77.00	117.14%
2007	-\$1,812.00	-2453.25%
2008	-\$3,941.00	-117.49%

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**Required Rate of Return**

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14.43%

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**Dividend Growth Model**

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Present Value of 2014 Price	\$2.38
Holding Period Return (5 years)	-22.43%

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**Expected Annualized Return Model**

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Present Value of 2014 Price	\$30.56
Holding Period Return (5 years)	4.14%

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**Residual Income Model**

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Intrinsic Stock Price	\$176.55
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# Analysis

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## Positives

Current stock price is greatly undervalued according to the RI valuation model

## Negatives

Very low ROA and ROE suggest management could do better

## Financial Statements

Income Statement is poor, Operating Expense has far outpaced Net Income

Balance Sheet has considerable Debt and Preferred Stock, plus increased Shares Outstanding

Cash Flows are poor based on huge Capital Expenditures

## Industry Analysis

Currently the oil & gas industry is slow but will rebound with higher commodity prices

Industry is crowded and competitive with CHK somewhere above average in financials

## Summary

CHK doesn't look like a great company by financial ratios but neither do many in the oil & gas industry. Its financial ratios are okay and its financial statements range from poor to average. While CHK is still an oil producer its focus for the future is on natural gas, specifically the Barnett Shale. CHK's strategy also includes reducing its geographical locations to better concentrate on locations it knows and believes will produce most, as well as selling off other locations to help internally fund future projects. A long position on CHK is essentially a long position on natural gas, which CHK management will increase from \$3.91 to \$7.00 in a year. CHK should see its stock price appreciate in the coming years with the return of the economy and therefore energy consumption, which earns it a tentative buy rating but further research on a natural gas outlook should be considered.