

Southwestern Energy Co (SWN)

Q4'13 'Quick Read'– Slight Beat While Posting Best Hz Wells Ever

- **Q4'13 Bottom Line** – SWN reported recurring Q4'13 EPS/CFPS of \$0.54/\$1.44 vs. our and Consensus estimates of \$0.52/\$1.42. The slight beat was largely due to better-than-projected production which was slightly above the high-end of guidance.
- **Fayetteville Posts Highest Rate Wells Ever...** – After implementing a “shake-n-bake” completion technique in Q3'13, SWN posted the highest average 30-day IP rate ever for Fayetteville wells in Q4'13 (but not the highest ever IP per lateral foot) and at the lowest per-well cost ever even with the average lateral length increasing nearly 10% over the Q3'13 average.
- **...With Highest Rate Well To Date In Marcellus** – The average 30-day rate for 7 Marcellus wells in Q4'13 was nearly double any prior quarter at just over 10 MMcf/d but this was due to one well in Susquehanna Co. with a 30-day IP of 32.2 MMcf/d (6,194-ft lateral, 20 frac stages). Also, SWN did not incur any material widening in Marcellus natural gas price basis differentials in Q4'13 and we believe, like RRC, the company may benefit from the spike in Northeast prices in Q1'14.
- **End Of The Line For Brown Dense?** – Thirteen wells have now been drilled in the Brown Dense play including five since the Sharp 27-22-3 #1, which appears to be the only commercial well to date. None of the subsequent three completed wells have yet attained a 24-hour rate of even 100 Bbls/d. Thus, we believe this may spell the end of the line for the Lower Smackover Brown Dense play.
- **Solid 2013 F&D Tab** – Southwestern reported 2013 all-in reserve replacement (including positive price revisions and acquisitions) of 550% with an all-in F&D cost of ~\$0.56/Mcfe. Excluding positive price-related revisions of 246 Bcfe, SWN added 3,365 Bcfe of proven reserves for “organic” reserve replacement of ~512% with an associated organic drill-bit F&D tab of \$0.55/Mcfe (versus 103% and \$3.17/Mcfe, respectively, in 2012 with the impact of negative performance-related revisions in the Fayetteville). The PUD mix increased sharply to 39% from 20% due to significant additions related to higher natural gas prices. Roughly 62% of the organic reserve adds were in the Fayetteville and 37% in the Marcellus.
- **No Change To 2014 Guidance** – After the recent increase in our natural gas price forecast, we now project SWN will have only a ~\$200mm funding gap this year. But given new hedges added at prices below our full-year price forecast, we have lowered 2014 EPS/CFPS estimates to \$2.34/\$5.96 from \$2.56/\$6.29. Also, even if cash flow projections moved up, mgmt. would not likely alter its 2014 plans until perhaps mid-year and only if it believed higher natural gas prices were sustainable.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2013A	0.42A	0.54A	0.51A	0.54A	2.00A	na
2014E	0.63E	0.58E	0.58E	0.57E	2.34E	2.15E
Previous	na	na	na	na	2.56E	na
2015E	na	na	na	na	2.58E	2.39E
Previous	na	na	na	na	2.59E	na
2016E	na	na	na	na	3.72E	3.02E
Previous	na	na	na	na	na	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

■ Estimate Change

Buy	1
Price (27 Feb 14)	US\$43.14
Target price	US\$46.00
Expected share price return	6.6%
Expected dividend yield	0.0%
Expected total return	6.6%
Market Cap	US\$15,175M

Price Performance (RIC: SWN.N, BB: SWN US)



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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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SWN.N: Fiscal year end 31-Dec						Price: US\$43.14; TP: US\$46.00; Market Cap: US\$15,175m; Recomm: Buy					
Profit & Loss (US\$K)	2012	2013	2014E	2015E	2016E	Valuation ratios	2012	2013	2014E	2015E	2016E
Sales revenue	1,948,222	2,404,165	2,823,837	3,103,439	3,953,531	PE (x)	31.0	21.5	18.4	16.7	11.6
Cost of sales	-509,275	-632,909	-760,909	-869,144	-979,194	PB (x)	4.9	4.1	3.4	2.8	2.2
Gross profit	1,438,947	1,771,256	2,062,928	2,234,295	2,974,338	EV/EBITDA (x)	10.4	8.7	7.7	7.0	5.2
Gross Margin (%)	73.9	73.7	73.1	72.0	75.2	FCF yield (%)	-17.9	-2.6	-4.2	0.6	8.0
EBITDA (Adj)	1,589,526	1,938,838	2,228,415	2,458,182	3,213,201	Dividend yield (%)	0	0	0	0	0
EBITDA Margin (Adj) (%)	81.6	80.6	78.9	79.2	81.3	Payout ratio (%)	0	0	0	0	0
Depreciation	-762,088	-735,215	-834,621	-933,629	-1,027,780	ROE (%)	-25.1	21.1	20.4	18.5	21.8
Amortisation	0	0	0	0	0	Cashflow (US\$K)	2012	2013	2014E	2015E	2016E
EBIT (Adj)	-1,399,187	1,203,623	1,393,793	1,524,553	2,185,421	EBITDA	1,589,526	1,938,838	2,228,415	2,458,182	3,213,201
EBIT Margin (Adj) (%)	-71.8	50.1	49.4	49.1	55.3	Working capital	-52,224	-84,977	0	0	376,577
Net interest	-34,599	-41,594	-32,000	-26,242	-26,242	Other	-2,245,892	-16,929	-569,908	-26,242	-26,242
Associates	0	0	0	0	0	Operating cashflow	-708,590	1,836,932	1,658,506	2,431,941	3,563,536
Non-op/Except	-2,226,653	28,348	0	0	0	Capex	-1,998,288	-2,226,376	-2,295,256	-2,343,814	-2,343,814
Pre-tax profit	-1,433,814	1,190,377	1,361,793	1,498,311	2,159,179	Net acq/disposals	201,101	-93,000	0	0	0
Tax	553,020	-486,874	-537,908	-591,833	-852,876	Other	0	0	0	0	0
Extraord./Min.Int./Pref.div.	0	0	0	0	0	Investing cashflow	-1,797,187	-2,319,376	-2,295,256	-2,343,814	-2,343,814
Reported net profit	-880,794	703,503	823,885	906,478	1,306,303	Dividends paid	0	0	0	0	0
Net Margin (%)	-45.2	29.3	29.2	29.2	33.0	Financing cashflow	2,698,651	299,215	636,750	-88,127	-843,145
Core NPAT	486,711	703,886	823,885	906,478	1,306,303	Net change in cash	192,874	-183,229	0	0	376,577
Per share data	2012	2013	2014E	2015E	2016E	Free cashflow to s/holders	-2,706,878	-389,444	-636,750	88,127	1,219,722
Reported EPS (\$)	-2.52	2.00	2.34	2.58	3.72						
Core EPS (\$)	1.39	2.00	2.34	2.58	3.72						
DPS (\$)	0	0	0	0	0						
CFPS (\$)	-2.03	5.23	4.72	6.92	10.14						
FCFPS (\$)	-7.74	-1.11	-1.81	0.25	3.47						
BVPS (\$)	8.77	10.46	12.84	15.46	19.23						
Wtd avg ord shares (m)	350	351	351	351	351						
Wtd avg diluted shares (m)	350	351	351	351	351						
Growth rates	2012	2013	2014E	2015E	2016E						
Sales revenue (%)	-7.2	23.4	17.5	9.9	27.4						
EBIT (Adj) (%)	-230.2	186.0	15.8	9.4	43.3						
Core NPAT (%)	-23.7	44.6	17.0	10.0	44.1						
Core EPS (%)	-23.6	43.9	17.0	10.0	44.1						
Balance Sheet (US\$K)	2012	2013	2014E	2015E	2016E						
Cash & cash equiv.	206,167	22,938	22,938	22,938	399,515						
Accounts receivables	346,896	464,045	464,045	464,045	464,045						
Inventory	0	0	0	0	0						
Net fixed & other tangibles	5,928,615	7,403,551	8,911,382	10,320,204	11,634,877						
Goodwill & intangibles	0	0	0	0	0						
Financial & other assets	255,849	157,192	157,192	157,192	157,192						
Total assets	6,737,527	8,047,726	9,555,557	10,964,379	12,655,629						
Accounts payable	487,186	507,468	507,468	507,468	507,468						
Short-term debt	0	0	0	0	0						
Long-term debt	1,668,273	1,950,096	2,149,924	2,060,435	1,592,506						
Provisions & other liab	1,546,196	1,968,132	2,452,250	3,044,083	3,896,958						
Total liabilities	3,701,655	4,425,696	5,109,642	5,611,986	5,996,932						
Shareholders' equity	3,035,872	3,622,030	4,445,915	5,352,393	6,658,697						
Minority interests	0	0	0	0	0						
Total equity	3,035,872	3,622,030	4,445,915	5,352,393	6,658,697						
Net debt	1,462,106	1,927,158	2,126,986	2,037,497	1,192,991						
Net debt to equity (%)	48.2	53.2	47.8	38.1	17.9						

For definitions of the items in this table, please click [here](#)

Q4'13 'Quick Read' – Slight Beat While Posting Best Horizontal Wells Ever

Q4'13 Bottom Line Beats: SWN reported Q4'13 recurring EPS/CFPS of \$0.54/\$1.44 above both our estimates and Street Consensus of \$0.52/\$1.42. The EPS/CFPS beat was primarily driven by better-than-projected production slightly offset by higher-than-projected per-unit DD&A and production taxes. Total production of 176 Bcfe in Q4 was slightly above the high-end of the company's guidance (173-175 Bcfe) due to stronger Marcellus ramp-up.

Figure 1. Southwestern Energy Fourth Quarter Variance Analysis

	Q4 2012 Actual	Q3 2013 Actual	Q4 2013 Actual	Q4 2013 Citi Est.	Q4 '13A vs Q4 '13 EST	Q4 '13A vs Q4 '12	Q4 '13A vs Q3 '13
Total Daily Production:							
Oil (Bbls/d)	261	402	392	362	8.4%	50.4%	-2.5%
NGLs (Bbls/d)	0	130	109	117	-7.4%	NA	NA
Gas (MMcf/d)	1,628	1,871	1,913	1,894	1.0%	17.5%	2.3%
Equivalent (Mmcfe/d)	1,630	1,874	1,916	1,896	1.0%	17.6%	2.3%
Breakdown: Liquids	0.1%	0.2%	0.2%	0.2%			
Gas	99.9%	99.8%	99.8%	99.8%			
Commodity Price							
Realized Oil Price (\$/Bbl)	\$98.17	\$106.72	\$98.53	\$98.53	0.0%	0.4%	-7.7%
Realized NGLs (\$/Bbl)	-	\$42.05	\$41.54	\$38.80	7.1%		-1.2%
Realized Gas Price (\$/Mcf)	\$3.72	\$3.60	\$3.68	\$3.61	1.8%	-1.1%	2.2%
INCOME STATEMENT (\$,000)							
Total Operating Revenue	559,782	622,477	651,527	633,157	2.9%	16.4%	4.7%
Lease Operating	120,713	150,602	157,515	155,278	1.4%	30.5%	4.6%
Production Taxes	14,007	15,310	18,934	15,627	21.2%	35.2%	23.7%
D.D. & A.	193,434	191,860	201,638	194,170	3.8%	4.2%	5.1%
General & Administrative	37,452	42,013	45,735	44,114	3.7%	22.1%	8.9%
Impairments	849,261	0	0	0	NM	NM	NM
Total Operating Expenses	1,214,867	399,785	423,822	409,189	3.6%	-65.1%	6.0%
E&P Operating Income	(655,085)	222,692	227,705	223,967	1.7%	-134.8%	2.3%
OTHER OPERATING SEGMENTS							
Other Operating Income (Loss)	77	(121)	(169)	(121)	NM	-319.5%	39.7%
Midstream Operating Income/(Loss)	77,704	86,658	89,581	86,658	3.4%	15.3%	3.4%
Operating Income - Other Segments	77,781	86,537	89,412	86,537	3.3%	15.0%	3.3%
TOTAL OPERATING INCOME	(577,304)	309,229	317,117	310,504	2.1%	-154.9%	2.6%
Interest Expense	9,352	11,018	12,277	9,185	33.7%	31.3%	11.4%
Other Expenses (Income)	1,585	(11,805)	46,933	0			
Income Before Income Taxes	(588,241)	310,016	257,907	301,320	-14.4%	-143.8%	-16.8%
Income Taxes (Benefit)	(232,658)	124,149	113,417	119,021	-4.7%	-148.7%	-8.6%
Effective Tax Rate (Net of Credits)	40%	40%	44%	40%			
Reported Net Income (Loss)	(355,583)	185,867	144,490	182,298	-20.7%	-140.6%	-22.3%
Recurring Net Income (Loss)	156,399	179,808	188,413	182,298	3.4%	20.5%	4.8%
Adjusted, Recurring, Diluted NI (Loss) P	\$0.45	\$0.51	\$0.54	\$0.52	3.3%	19.9%	4.7%
Discretionary Cash Flow	445,476	511,191	507,374	497,629	2.0%	13.9%	-0.7%
Diluted Cash Flow Per Share	\$1.27	\$1.46	\$1.44	\$1.42	1.9%	13.3%	-0.8%
Weighted Avg. Shares Outstanding (.000)	349,618	350,517	350,851	350,517	0.1%	0.4%	0.1%
Diluted Shares Outstanding (.000)	349,618	351,223	351,364	351,223	0.0%	0.5%	0.0%
COMPONENT ANALYSIS (\$/Mcf Prod.)							
O&G Operating Revenues	\$3.73	\$3.61	\$3.70	\$3.63	1.8%	-1.0%	2.4%
Lease Operating	\$0.81	\$0.87	\$0.89	\$0.89	0.4%	11.0%	2.3%
Production Taxes	\$0.09	\$0.09	\$0.11	\$0.09	19.9%	15.0%	20.9%
Production Taxes (% of O&G Revenues)	3.1%	2.9%	3.4%	2.9%	17.6%	8.0%	17.6%
E&P DD&A	\$1.29	\$1.11	\$1.14	\$1.11	2.8%	-11.3%	2.8%
General & Administrative	\$0.25	\$0.24	\$0.26	\$0.25	2.6%	3.9%	6.5%
Interest Expense	\$0.06	\$0.06	\$0.07	\$0.05	32.3%	11.7%	9.0%
Discretionary Cash Flow	\$2.97	\$2.97	\$2.88	\$2.85	0.9%	-3.1%	-2.9%
Discretionary Cash Flow							
Net Income	(\$355,583)	\$185,867	\$144,490	\$182,298	-20.7%	-140.6%	-22.3%
Deferred Taxes	(\$250,978)	\$140,217	\$124,890	\$134,426	-7.1%	-149.8%	-10.9%
Total DD&A	\$209,823	\$205,916	\$201,638	\$194,170	3.8%	-3.9%	-2.1%
Capitalized Interest	(\$14,728)	(\$15,466)	(\$16,186)	(\$16,186)	0.0%	9.9%	4.7%
Unrealized loss (gain) on derivatives	\$2,618	(\$10,104)	\$51,284	\$0	NM	NM	NM
Stock-based compensation	\$3,569	\$2,921	\$4,387	\$2,921	50.2%	22.9%	50.2%
Other Non-Cash Items	\$1,494	\$1,840	(\$3,129)	\$0	NM	NM	NM
TOTAL	\$445,476	\$511,191	\$507,374	\$497,629	2.0%	13.9%	-0.7%

Source: Citi Research

Operational Highlights

Fayetteville Shale

- Production volumes in the Fayetteville shale rose ~0.3% sequentially to ~1,339 MMcf/d as SWN brought on 97 operated horizontal wells compared to 89 in Q3'13, including its three highest-rate wells since inception (12,173, 11,919 and 12,207 Mcf/d 24-hour rates). These strong IP rates helped push the company's **average IP rate for the period to 4,877 Mcf/d**, up ~6% sequentially and +23% versus Q4'12.
- Driving this impressive improvement in average IP rates is a combination of longer laterals, which were up ~9% sequentially to 5,976 feet, and the recently implemented "shake-n-bake" technique where wells are left to rest prior to completion. We would also note that some of the more prolific results are being driven by even **longer laterals** (over ~8,000 ft) alongside the use of the "shake-n-bake" technique. Additionally, 30-day average rates improved by 7% sequentially and reached a record 2,856 MMcf/d. Average well costs remained at ~\$2.6mm despite the company drilling longer laterals. However, the average 30-day IP rate per lateral foot was not a record high.

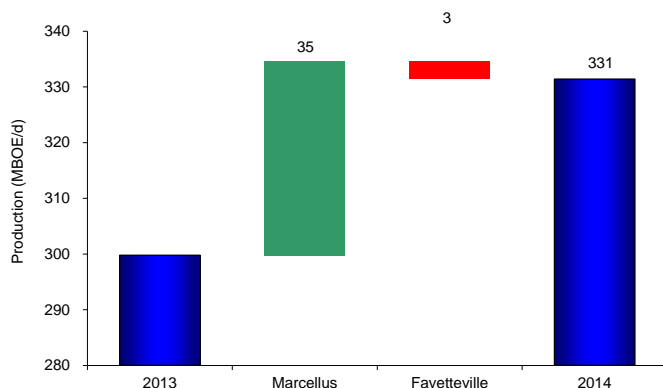
Marcellus Shale

- Natural gas **volumes surged ~8% sequentially** in the fourth quarter to ~527MMcf/d. In Q4, 20 (13 in Susquehanna, 6 in Lycoming & 1 in Bradford County) operated horizontal wells were brought online vs. 22 in Q3'13. Susquehanna wells, which take longer to unload water following completion, made up 2/3s of the wells that were brought online. Given that there are now 41 wells waiting on completion, we anticipate a notable improvement in Q1 production as these wells are tied in although most will be toward the end of the period.
- **Well costs declined ~3% sequentially** to \$7.1mm despite laterals being extended ~9% to 5,887 feet. Average 30-day IP rates more than doubled from 4,512 MMcf/d to 10,119 MMcf/d driven by a horizontal well in Susquehanna County that was placed on production in November and reached a peak 24-hour IP rate of 32.2 MMcf/d (~6,200 ft lateral with 20 frac stages).

New Ventures

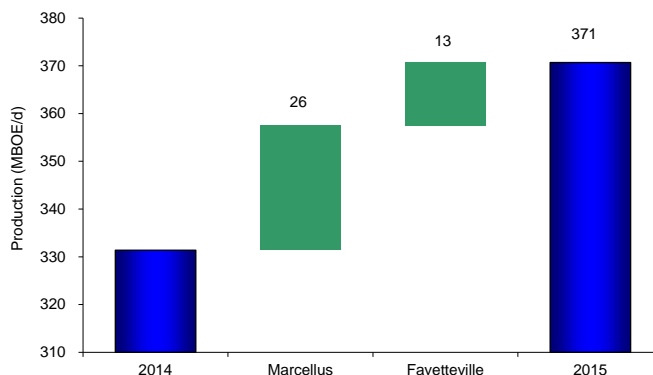
- **Brown Dense:** SWN has now drilled a total of five wells in its Brown Dense play since the Sharp 22-22-1 #1 *vertical* well which tested at peak 24-hour IP rate of 817 BOE/d (~73% condensate). While the three most recently completed wells following the Sharp well are still unloading, none of them have yet reached 24-hour IP rate of over 100 Bbls/d. The company targets an economic threshold of 300 Bbls/d (just liquids) with a \$6mm completed well cost to be economic.
- **DJ Basin:** No update was provided on activity in the play. The company plans to test two additional wells in the Marmaton formation in early 2014.

Figure 2. SWN Projected Production Growth in 2014 By Region



Source: Citi Research

Figure 3. SWN Projected Production Growth in 2015 By Region



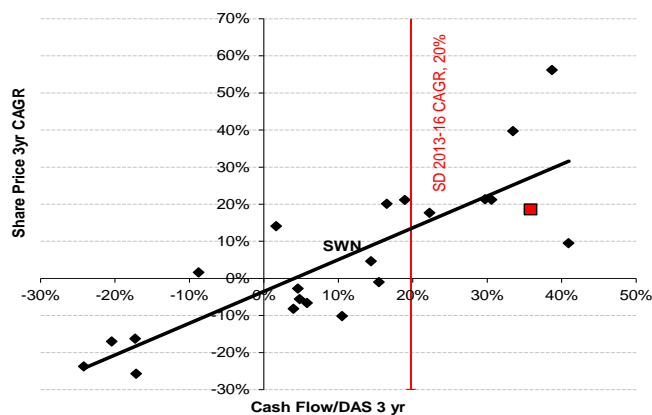
Source: Citi Research

Estimates and Valuation

Adjusting Estimates: We have updated our projections to reflect actual Q4 results, the new hedges added for 2014/15 and other fine tuning. Our 2014 EPS/CFPS decrease to \$2.34/\$5.96 from \$2.56/\$6.29, for 2015 to \$2.58/\$6.93 from \$2.59/\$6.92 and for 2016 to \$3.72/\$9.07 from \$3.72/\$9.06. Our estimates decline primarily due to new hedges added at prices below our full-year price forecast. We maintain our Buy rating on SWN with a \$46/share 12-month price target which is based on the stock achieving 2014/2015 EV/DACF multiples of 8.9x/7.2x based on "normalized" WTI spot oil and composite spot gas prices of \$90.00/Bbl and \$4.50/MMBtu, respectively, and ~180% of proven-only NAV based on our actual commodity price forecasts.

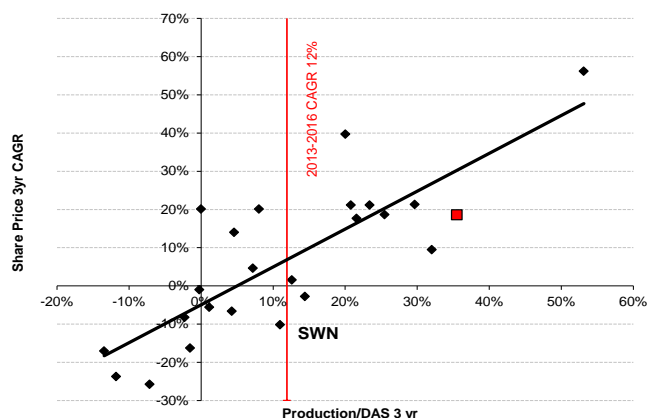
Cash Flow and 'Energy Weighted' Production Per Debt Adjusted Share – We project a 2013–2016 CF/DAS growth of 20% per annum vs. a projected group average CAGR of +20%, and 'Energy Weighted' Production/DAS of +12% vs. our group average of +14%. For 2010-2013 Southwestern posted a 3% CAGR for CF/DAS versus our coverage group at +11%, and a 14% CAGR for P/DAS versus group average of +11%, while its share price fell 20% vs. +7% CAGR for average group share price appreciation.

Figure 4. Cash Flow/DAS Growth versus Share Price Performance



Source: Citi Research

Figure 5. Energy Weighted P/DAS Growth and Share Price Performance



Source: Citi Research

Figure 6. Southwestern Energy Operating Summary

	2012	Q4E	2013E	Q1	Q2	Q3E	Q4E	2014E	2015E	2016E
WTI Spot Crude Oil (\$/Bbl)	\$94.48	\$97.63	\$98.00	\$97.00	\$88.00	\$102.00	\$90.00	\$97.00	\$89.00	\$92.00
Composite Spot Natural Gas (\$/MMBtu)	\$2.72	\$3.78	\$3.66	\$5.50	\$4.75	\$4.55	\$4.40	\$4.80	\$4.40	\$5.00
Other U.S. Oil (Bbls/d)	227	391	378	500	500	500	500	500	1,000	1,000
Other U.S. Natural Gas (Mcf/d)	216,986	573,913	464,658	596,870	641,635	687,191	742,166	667,419	847,622	1,017,146
Other U.S. Production (Mcf/d)	218,351	576,913	466,926	601,070	645,835	691,391	746,366	670,419	853,622	1,023,146
Fayetteville Oil (Bbls/d)	0	1	0	0	0	0	0	0	0	0
Fayetteville Natural Gas (Mcf/d)	1,330,137	1,339,130	1,330,959	1,325,739	1,319,110	1,317,791	1,304,613	1,316,758	1,369,429	1,424,206
Fayetteville Production (Mcf/d)	1,330,137	1,339,136	1,330,959	1,325,739	1,319,110	1,317,791	1,304,613	1,316,758	1,369,429	1,424,206
Total Oil (Bbls/d)	227	392	378	500	500	500	500	500	1,000	1,000
Total Natural Gas (Mcf/d)	1,547,123	1,913,043	1,795,616	1,922,609	1,960,745	2,004,982	2,046,780	1,984,177	2,217,051	2,441,352
Total Production (Mcf/d)	1,548,488	1,916,049	1,798,707	1,926,809	1,964,945	2,009,182	2,050,980	1,988,377	2,224,251	2,448,552
Sequential Growth	13%	2%	16%	1%	2%	2%	2%	11%	12%	10%
YOY Growth		18%	0%	17%	12%	7%	7%	0%	0%	0%
Realized Oil Price-Hedged (\$/Bbl)	\$101.52	\$98.53	\$103.35	\$102.35	\$93.35	\$107.35	\$95.35	\$99.60	\$91.60	\$94.60
Realized Gas Price-Hedged (\$/Mcf)	\$3.44	\$3.68	\$3.64	\$4.10	\$3.86	\$3.79	\$3.74	\$3.87	\$3.79	\$4.39
INCOME STATEMENT (\$,000)										
Oil & Gas Sales	1,948,222	651,527	2,404,165	715,179	693,732	705,676	709,251	2,823,837	3,103,439	3,953,531
Total Operating Revenue	1,948,222	651,527	2,404,165	715,179	693,732	705,676	709,251	2,823,837	3,103,439	3,953,531
Lease Operating	453,301	157,515	564,101	157,806	162,717	168,209	171,708	660,439	738,785	813,287
Production Taxes	55,974	18,934	68,808	28,055	24,527	24,165	23,722	100,469	130,359	165,907
Other Operating Costs	0	0	0	0	0	0	0	0	0	0
D.D. & A.	762,088	201,638	735,215	199,425	205,632	212,571	216,994	834,621	933,629	1,027,780
General & Administrative	145,056	45,735	157,340	48,500	48,500	48,500	48,500	194,000	150,000	150,000
Total Operating Expenses	3,643,044	423,822	1,525,464	433,785	441,376	453,446	460,924	1,789,530	1,952,773	2,156,974
E&P OPERATING INCOME	(1,694,822)	227,705	878,701	281,394	252,356	252,230	248,327	1,034,306	1,150,666	1,796,558
Operating Income - Other Segments	295,635	89,412	324,922	89,872	89,872	89,872	89,872	359,487	373,887	388,863
TOTAL OPERATING INCOME	(1,399,187)	317,117	1,203,623	371,265	342,227	342,102	338,199	1,393,793	1,524,553	2,185,421
Interest Expense	34,599	12,277	41,594	8,000	8,000	8,000	8,000	32,000	26,242	26,242
Loss (Gain) on Minority Interest in Partnership	0	0	0	0	0	0	0	0	0	0
Other Expenses (Income)	28	46,933	(28,348)	0	0	0	0	0	0	0
Income Before Income Taxes	(1,433,814)	257,907	1,190,377	363,265	334,227	334,102	330,199	1,361,793	1,498,311	2,159,179
Income Taxes (Benefit)	(553,020)	113,417	486,874	143,490	132,020	131,970	130,428	537,908	591,833	852,876
Effective Tax Rate (Net of Credits)	39%	44%	41%	40%	40%	40%	40%	40%	40%	40%
Income Before Extraordinary Items	(880,794)	144,490	703,503	219,776	202,208	202,132	199,770	823,885	906,478	1,306,303
Extraordinary Items	0	0	0	0	0	0	0	0	0	0
Reported Net Income (Loss)	(880,794)	144,490	703,503	219,776	202,208	202,132	199,770	823,885	906,478	1,306,303
Reported Net Income (Loss) Per Share	(2.52)	0.41	2.01	0.63	0.58	0.58	0.57	2.35	2.58	3.72
Recurring Net Income (Loss)	486,711	188,413	703,886	219,776	202,208	202,132	199,770	823,885	906,478	1,306,303
Recurring Diluted Net Income (Loss) Per Share	1.39	0.54	2.00	0.63	0.58	0.58	0.57	2.34	2.58	3.72
Discretionary Cash Flow	1,542,675	507,374	1,905,082	536,542	514,858	521,677	522,350	2,095,428	2,433,303	3,188,321
Diluted Cash Flow Per Share	4.41	1.44	5.42	1.53	1.47	1.48	1.49	5.96	6.93	9.07
Wtg. Avg. Shares Outstanding (,000)	349,618	350,851	350,851	350,851	350,851	350,851	350,851	350,851	350,851	350,851
Diluted Shares Outstanding (,000)	349,618	351,364	351,364	351,364	351,364	351,364	351,364	351,364	351,364	351,364
COMPONENT ANALYSIS (\$/Mcf Prod.)										
O&G Operating Revenues	3.45	3.70	3.66	4.12	3.88	3.82	3.76	3.89	3.82	4.42
Lease Operating	0.80	0.89	0.86	0.91	0.91	0.91	0.91	0.91	0.91	0.91
Production Taxes	0.10	0.11	0.10	0.16	0.14	0.13	0.13	0.14	0.16	0.19
Production Taxes (% of O&G Revenues)	4.2%	3.4%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	4.2%	4.2%
E&P DD&A	1.35	1.14	1.12	1.15	1.15	1.15	1.15	1.15	1.15	1.15
General & Administrative (incl. non-cash incentive comp)	0.26	0.26	0.24	0.28	0.27	0.26	0.26	0.27	0.18	0.17
Interest Expense	0.06	0.07	0.06	0.05	0.04	0.04	0.04	0.04	0.03	0.03
Discretionary Cash Flow	2.73	2.88	2.90	3.09	2.88	2.82	2.77	2.89	3.00	3.57
Discretionary Cash Flow										
Net Income	(880,794)	144,490	703,503	219,776	202,208	202,132	199,770	823,885	906,478	1,306,303
Deferred Taxes	(571,709)	124,890	497,945	129,141	118,818	118,773	117,386	484,118	591,833	852,876
DD&A	814,710	201,638	775,859	199,425	205,632	212,571	216,994	834,621	933,629	1,027,780
Capitalized Interest	(59,486)	(16,186)	(64,024)	(16,186)	(16,186)	(16,186)	(16,186)	(64,744)	(16,186)	(16,186)
(Gain) Loss on sale of securities/assets/prior hedges	(272)	51,284	(21,380)	0	0	0	0	0	0	0
Impairment of assets	2,226,625	0	0	0	0	0	0	0	0	0
Other Non-Cash Items	13,601	1,258	13,179	4,387	4,387	4,387	4,387	17,548	17,548	17,548
Discretionary Cash Flow	1,542,675	507,374	1,905,082	536,542	514,858	521,677	522,350	2,095,428	2,433,303	3,188,321

Source: Citi Research

Figure 7. E&P Comp Table

Company	Share Price 2/27/2014	Citi Rating	Target Price	EV/(DACF)			Price/ NAV	MEV/BOE	Reserve / Prod	Production Growth			% Prod N.Amer. Nat Gas	EBITDA/ Fixed Charges	Net Debt/Cap.		Reserve Replac. Eff. ⁽¹⁾
				2014E	2015E	2016E				12/13E	13/14E	14/15E			2014	2015E	
Anadarko Petroleum (APC)	82.92	Neutral	86.00	4.5x	4.3x	3.7x	80%	20.29	9.6	6.2%	7.9%	6.8%	53%	15.8x	16%	13%	1.3x
Antero Resources (AR)	60.42	Buy	64.00	14.6x	11.7x	9.0x	801%	21.15	10.1	55.0%	84.0%	46.9%	84%	10.5x	47%	41%	N/A
Apache Corporation (APA)	79.49	Neutral	90.00	5.0x	5.1x	4.8x	66%	15.53	10.1	(3.7%)	(19.7%)	8.1%	25%	38.4x	24%	26%	NA
Cabot Oil & Gas (COG)	35.65	Buy	45.00	8.0x	5.9x	3.7x	92%	25.34	14.4	52.2%	37.9%	33.5%	95%	29.3x	19%	16%	2.8x
Canadian Natural Res. (CNQ)	36.21	Buy	37.00	5.7x	5.6x	4.6x	106%	12.16	17.2	2.6%	22.5%	7.8%	31%	32.4x	34%	32%	1.3x
Chesapeake Energy (CHK)	25.87	Buy(H)	32.00	5.9x	5.4x	4.6x	64%	15.56	9.0	5.0%	1.4%	7.6%	71%	5.9x	42%	40%	NA
EOG Resources (EOG)	186.77	Buy	190.00	6.3x	5.7x	4.7x	143%	31.02	10.6	8.7%	12.4%	13.3%	29%	40.5x	19%	14%	NA
EnCana Corp. (ECA)	18.73	Neutral	20.00	5.6x	5.1x	4.0x	131%	10.36	8.7	(2.4%)	1.8%	2.8%	87%	5.7x	41%	38%	NA
Marathon Oil (MRO)	33.39	Neutral	40.00	5.4x	5.4x	4.7x	212%	15.46	12.7	2.3%	0.2%	7.2%	12%	31.9x	27%	27%	2.5x
Noble Energy (NBL)	67.90	Buy	88.00	7.2x	6.0x	4.7x	107%	23.59	13.5	13.5%	14.5%	26.4%	27%	14.4x	36%	37%	0.6x
Occidental Petroleum (OXY)*	95.45	Neutral	93.00	8.0x	7.1x	6.8x	111%	23.19	13.2	1.8%	4.7%	7.7%	59%	70.7x	13%	10%	1.5x
Pioneer Natural Resources (PXD)	195.30	Buy	260.00	11.4x	10.0x	7.5x	171%	28.36	19.9	11.1%	13.4%	18.2%	32%	15.0x	29%	30%	1.1x
Range Resources (RRC)	86.06	Buy	95.00	12.6x	10.8x	7.4x	137%	15.89	23.6	25.7%	26.2%	23.3%	74%	7.1x	58%	59%	2.7x
Southwestern Energy (SWN)	43.07	Buy	46.00	8.2x	7.0x	5.2x	169%	25.05	7.1	15.8%	10.5%	11.6%	100%	23.0x	33%	28%	NA
Talisman Energy (TLM)	10.24	Neutral	12.50	5.4x	5.6x	5.5x	85%	16.46	5.6	(12.6%)	(3.8%)	2.6%	34%	8.5x	34%	40%	NA
Large Cap Average (Ex Hi-Lo)				7.1x	6.4x	5.2x	122%	\$19.19	12.0	10.0%	11.1%	12.8%	54%	20.6x	30%	29%	1.6x
Athlon Energy (ATHL)	36.49	Neutral	33.00	10.3x	8.7x	6.7x	232%	34.54	9.0	72.4%	59.6%	30.0%	19%	9.4x	46%	46%	NA
Cimarex Energy (XEC)	113.70	Neutral	107.00	6.4x	6.4x	5.2x	149%	28.74	9.8	9.9%	12.9%	12.8%	47%	31.3x	19%	19%	1.6x
Cobalt International Energy (CIE)	19.34	Buy(H)	32.00	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	N/A	N/A	NA
Concho Resources (CXO)	118.86	Buy	130.00	8.5x	7.1x	5.1x	164%	35.47	15.2	13.9%	22.1%	26.1%	36%	8.9x	50%	49%	1.8x
Denbury Resources (DNR)	16.16	Neutral	17.90	6.7x	7.0x	6.4x	NA	19.79	15.6	(2.6%)	9.5%	4.7%	5%	6.9x	38%	39%	NA
Kosmos Energy (KOS)	10.99	Neutral	12.00	8.7x	7.7x	7.5x	152%	84.52	NA	36.6%	8.4%	19.6%	0%	13.0x	44%	43%	NA
Matador Resources (MTDR)	23.57	Neutral (H)	19.70	7.2x	6.2x	4.9x	233%	82.18	6.5	27.4%	42.1%	18.0%	44%	26.8x	39%	40%	NA
Newfield Exploration (NFX)	27.62	Neutral	33.00	4.7x	4.5x	3.9x	NA	12.74	11.1	(2.5%)	(1.5%)	8.3%	47%	8.9x	43%	44%	NA
Oasis Petroleum (OAS)	42.45	Neutral	46.00	6.0x	5.3x	4.1x	NA	N/A	NA	50.1%	46.8%	25.3%	10%	7.6x	59%	56%	NA
Rice Energy (RICE)	24.09	Neutral	27.00	11.1x	8.5x	5.5x	86%	42.84	NA	162.6%	157.2%	56.7%	100%	10.3x	41%	40%	NA
Resolute Energy (REN)	9.08	Neutral	9.10	6.1x	5.7x	4.7x	NA	6.37	NA	31.2%	19.0%	11.8%	15%	4.5x	52%	52%	NA
Rosetta Resources (ROSE)	44.31	Buy	58.00	5.6x	5.9x	4.3x	NA	15.68	14.8	32.6%	28.0%	24.8%	38%	12.3x	50%	52%	3.0x
SandRidge Energy (SD)	6.29	Neutral	5.20	5.6x	5.2x	4.5x	NA	13.10	16.9	0.3%	(12.7%)	15.7%	47%	3.3x	39%	48%	0.7x
SM Energy (SM)	73.24	Neutral	93.00	4.1x	4.1x	3.6x	133%	22.26	8.1	32.1%	11.6%	14.5%	49%	16.3x	44%	46%	1.9x
Ultra Petroleum (UPL)	24.25	Neutral	21.00	7.8x	6.7x	5.0x	NA	11.58	12.0	(10.0%)	6.9%	7.3%	91%	5.9x	100%	83%	NA
Whiting Petroleum (WLL)	67.40	Buy	78.00	5.6x	5.2x	4.3x	NA	26.53	12.5	12.9%	14.8%	15.4%	13%	11.3x	39%	39%	1.5x
Small-Mid Cap Average (Ex Hi-Lo)				7.1x	6.4x	5.1x	174%	\$30.06	12.0	22.6%	26.0%	18.2%	37%	10.4x	46%	46%	1.7x
Total Universe Average				7.3x	6.5x	5.2x	164%	\$25.54	12.1	20.4%	22.7%	17.0%	46%	17.0x	39%	38%	1.6x

Source: Citi Research

Southwestern Energy Co

Company description

Southwestern Energy is a domestic onshore natural gas-leveraged E&P company primarily focused in the Arkoma Basin (Arkansas and Oklahoma), East Texas, and Appalachia. The company is also focused on creating and capturing additional value at and beyond the wellhead through established natural gas distribution, marketing and transportation businesses and expanding gathering activities.

Investment strategy

We rate Southwestern Energy Buy (1). Based on the assumption of a normal winter and a constructive outlook for natural gas prices this year, we believe it is prudent to continue to add to or build positions in the more natural gas leveraged names.

Valuation

Our \$46 price target is based on Southwestern's stock achieving multiples of 7.7x and 6.8x our 2014-15 debt-adjusted cash flow estimates based on "normalized" WTI spot crude oil and composite spot natural gas prices of \$90.00/Bbl and \$4.50/MMBtu, respectively and ~175% of proven NAV.

Risks

Drilling Results: Disappointing drilling results, particularly in the Fayetteville and Marcellus shale plays, could negatively impact SWN's share performance. Conversely, positive exploration results from its New Ventures group could be favorable for SWN's shares.

Repeatability: SWN has achieved high organic growth and low F&D costs through the exploitation of its Fayetteville shale position. Once the Fayetteville play matures, SWN is at risk of not securing as compelling of opportunities.

Infrastructure Build Out: The overarching bottleneck in developing the Fayetteville play has traditionally been overall takeaway capacity from third party operators. Delays in future expansions of takeaway capacity could delay SWN's production growth.

Volatile Commodity Prices: With 100% natural gas production and minimal hedges in place, SWN is the most natural gas levered name in our universe.

The impact on the company from any of these factors proves to be less than we anticipate, the stock could materially outperform our target. Conversely, if the impact on the company from any of these factors proves to be greater than we anticipate, the stock could underperform our target price.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Southwestern Energy Co (SWN)

Ratings and Target Price History Fundamental Research

Analyst: Robert S Morris



	Date	Rating	Target Price	Closing Price
1	29-Jul-11	2H	*45.00	44.56
2	13-Sep-11	2H	*42.00	36.93
3	7-Oct-11	2H	*40.00	34.38

* Indicates change

	Date	Rating	Target Price	Closing Price
4	8-Oct-11	Stock rating system changed		
5	8-Oct-11	*2	40.00	34.38
6	11-Jan-12	2	*38.00	29.92

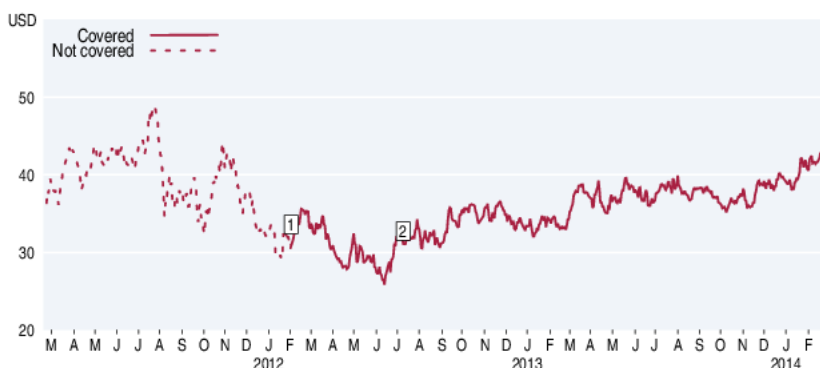
	Date	Rating	Target Price	Closing Price
7	25-Jun-12	*1	38.00	29.15
8	2-Apr-13	1	*46.00	36.92

Rating/target price changes above reflect Eastern Standard Time

Southwestern Energy Co (SWN)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Robert S Morris



	Date	Rating	Target Price	Closing Price
1	2-Feb-12	*ADD LP	-	30.98

* Indicates change

	Date	Rating	Target Price	Closing Price
2	10-Jul-12	*REM LP	-	31.01

Rating/target price changes above reflect Eastern Standard Time

Citigroup Global Markets Inc. advised Noble Energy, Inc. in the announced sale of interest in the offshore Leviathan licenses to Woodside Energy Ltd. Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Noble Energy Inc

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Southwestern Energy Co

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Ultra Petroleum Corp

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Anadarko Petroleum Corp

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Concho Resources Inc

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Cabot Oil & Gas Corp

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Marathon Oil Corp

Citigroup Global Markets Inc. served as a financial advisor to Advent International in connection with its acquisition of Oceana Pipeline in Colombia from Talisman Energy Inc. Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Talisman Energy Inc

Citigroup Global Markets Inc. is acting as a joint bookrunning manager on the announced offering of common shares of Athlon Energy Inc.

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Rosetta Resources Inc

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of SandRidge Energy Inc. Citigroup Global Markets Inc. acted as financial advisor and provided underwritten finance to Fieldwood Energy LLC in relation to the announced acquisition of entities comprising SandRidge Energy, Inc.'s (SandRidge) Gulf of Mexico and Gulf Coast business unit for \$750 million.

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Range Resources Corp

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Encana Corporation

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Chesapeake Energy Corp

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Whiting Petroleum Corp

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of EOG Resources Inc

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Canadian Natural Resources Ltd

Citigroup Global Markets Inc. is acting as Dealer Manager on the announced tender offer for Apache Corp. Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Apache Corp.

Citigroup Global Markets Inc. is advising Oasis Petroleum Inc. in its announced sale of non-operated Sanish properties and certain other non-operated leases adjacent to the Sanish position to an undisclosed buyer.

Robert S Morris, Analyst, holds a long position in the securities of Chesapeake Energy Corp, EOG Resources Inc, Canadian Natural Resources Ltd.

Citigroup Global Markets Inc. or its affiliates beneficially owns 1% or more of any class of common equity securities of Anadarko Petroleum Corp. This position reflects information available as of the prior business day.

Within the past 12 months, Citigroup Global Markets Inc. or its affiliates has acted as manager or co-manager of an offering of securities of Noble Energy Inc, Ultra Petroleum Corp., Anadarko Petroleum Corp, Concho Resources Inc, Cobalt International Energy, Athlon Energy, Rosetta Resources, Range Resources Corp, Matador Resources Co, Rice Energy Inc, Resolute Energy Corp, Antero Resources, Chesapeake Energy Corp, Oasis Petroleum Inc.

Citigroup Global Markets Inc. or its affiliates has received compensation for investment banking services provided within the past 12 months from Kosmos Energy Ltd, Noble Energy Inc, Southwestern Energy Co, Ultra Petroleum Corp., Anadarko Petroleum Corp, Concho Resources Inc, Newfield Exploration Co., Pioneer Natural Resources Co., Marathon Oil Corp, Talisman Energy Inc, Athlon Energy, Rosetta Resources, SandRidge Energy Inc, Range Resources Corp, Matador Resources Co, Rice Energy Inc, Resolute Energy Corp, EnCana Corp, Antero Resources, Chesapeake Energy Corp, EOG Resources Inc, Canadian Natural Resources Ltd, Apache Corp, Oasis Petroleum Inc.

Citigroup Global Markets Inc. or its affiliates expects to receive or intends to seek, within the next three months, compensation for investment banking services from Anadarko Petroleum Corp, Pioneer Natural Resources Co., Talisman Energy Inc, Oasis Petroleum Inc.

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from Noble Energy Inc, Southwestern Energy Co, Ultra Petroleum Corp., Anadarko Petroleum Corp, Concho Resources Inc, Newfield Exploration Co., Pioneer Natural Resources Co., Marathon Oil Corp, Cobalt International Energy, Talisman Energy Inc, Athlon Energy, Rosetta Resources, SandRidge Energy Inc, Range Resources Corp, Matador Resources Co, Rice Energy Inc, Resolute Energy Corp, EnCana Corp, Antero Resources, Chesapeake Energy Corp, EOG Resources Inc, Canadian Natural Resources Ltd, Apache Corp, Oasis Petroleum Inc in the past 12 months.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as investment banking client(s): Resolute Energy Corp, Athlon Energy, Antero Resources, Rice Energy Inc, Kosmos Energy Ltd, Noble Energy Inc, Southwestern Energy Co, Ultra Petroleum Corp., Anadarko Petroleum Corp, Concho Resources Inc, Newfield Exploration Co., Pioneer Natural Resources Co., Marathon Oil Corp, Talisman Energy Inc, Rosetta Resources, SandRidge Energy Inc, Range Resources Corp, Matador Resources Co, EnCana Corp, Chesapeake Energy Corp, EOG Resources Inc, Canadian Natural Resources Ltd, Apache Corp, Oasis Petroleum Inc.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, securities-related: Cobalt International Energy, Pioneer Natural Resources Co., Resolute Energy Corp, Athlon Energy, Antero Resources, Rice Energy Inc, Oasis Petroleum Inc, Noble Energy Inc, Southwestern Energy Co, Ultra Petroleum Corp., Anadarko Petroleum Corp, Concho Resources Inc, Newfield Exploration Co., Cabot Oil & Gas Corp, Marathon Oil Corp, Talisman Energy Inc, Rosetta Resources, SandRidge Energy Inc, Range Resources Corp, Matador Resources Co, EnCana Corp, Chesapeake Energy Corp, EOG Resources Inc, Canadian Natural Resources Ltd, Apache Corp.

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Citigroup Global Markets Inc. or an affiliate received compensation in the past 12 months from Cobalt International Energy, Pioneer Natural Resources Co., Resolute Energy Corp, Athlon Energy, Antero Resources, Rice Energy Inc, Oasis Petroleum Inc.

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The Firm is a market maker in the publicly traded equity securities of Cobalt International Energy, Rosetta Resources.

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addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

Citi Research Equity Ratings Distribution

<i>Data current as of 31 Dec 2013</i>	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
Citi Research Global Fundamental Coverage	49%	40%	12%	6%	88%	6%
<i>% of companies in each rating category that are investment banking clients</i>	55%	52%	44%	62%	52%	49%

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