

Citi E&P Meetings in Houston

Key Takeaways from Meetings with Management

- **The Line Up** – This week, we visited the offices of seven primarily small to mid cap E&P companies headquartered in Houston, TX. The management teams of COG, CIE, EOG, GDP, HK, ROSE, and SWN provided updates and gave us an opportunity to ask questions. The following themes emerged:
- **Service Costs Expected to Decrease Further in 2013** – All but one onshore E&P company we met with expects a softening service cost environment next year, even after service costs fell as much as ~20%+ yr/yr in some areas during 2012. On the completion side, COG sees costs dropping ~10% yr/yr on a per stage basis in the Marcellus and SWN expects over a 20% decline in the area. Meanwhile, GDP forecasts a 15% reduction in the Eagle Ford and ROSE expects a modest improvement in the play. Rig rates are also expected to decline with COG foreseeing a 5% yr/yr reduction in the Marcellus and SWN expecting a similar decrease. ROSE's last rig contract in the Eagle Ford was executed at a 5% reduction while GDP recently contracted the same rig for 20% less than it paid for the previous contract. On the other hand, HK foresees a flat service cost environment next year after a ~10-20% drop across the board in 2012.
- **What to Do with Free Cash Flow?** – As more E&P companies exit the land rush to capture resource play acreage and enter full development mode, free cash flow generation is likely to become much more common than it has been. Thus, some fortunate management teams will be faced with the high class problem of figuring out what to do with that excess dough. We conservatively expect COG to generate more than \$1bn of FCF over the next three years. Given its deep inventory of high return drilling locations, we think management may forego acquisitions and elect to use the cash to further accelerate longer term (2014+) organic growth, buy back shares and/or increase the dividend. Meanwhile, ROSE is on the hunt for acquisitions and SWN would elect to drill more wells while keeping a strong balance sheet to also potentially acquire additional assets. On the other hand, HK views free cash flow as a sign of a lack of opportunities.
- **Prices That Would Encourage Hitting the Gas or Tapping the Brakes** – We asked each onshore E&P company what price deck they would need to see next year in order to accelerate or slow down compared with their current plans. Almost every company noted they would want gas prices of \$4-\$5/MMBtu+ (vs current 2013 strip of ~\$3.70/MMBtu) to allocate more to dry gas projects, while COG and SWN would slow down at \$2-\$3/MMBtu. Oil prices above \$100/Bbl (2013 strip is ~\$88/Bbl) would encourage GDP to speed up, while at ~\$70/Bbl, COG, GDP and HK would tap on the brakes. Notably, at our Citi Global Energy Conference this past June, the consensus was \$4-\$5/MMBtu to accelerate gas and less than \$80/Bbl to slow down oil projects (see our [Day 1](#) and [Day 2](#) notes for more detail).

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

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Company Focus

■ Company Update

Joseph Stewart

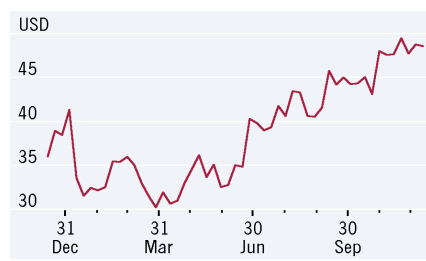
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Buy	1
Price (13 Dec 12)	US\$47.22
Target price	US\$55.00
Expected share price return	16.5%
Expected dividend yield	0.3%
Expected total return	16.7%
Market Cap	US\$9,928M

Price Performance

(RIC: COG.N, BB: COG US)



Cabot Oil & Gas Corp (COG) Contemplating How to Handle a High Class Problem

■ **Wouldn't Be Surprised to See Q4'12 Production Beat** – COG has made it through October and November without any major operational issues or other delays in its core areas. In the Marcellus, the gathering, compression and infrastructure build out remains on pace to provide total takeaway capacity of 1.4 Bcf/d gross (1.23 Bcf/d net) at YE12 vs average production of just ~565 MMcf/d net during Q3'12. Also, in its oily plays (Eagle Ford, Pearsall and Marmaton) COG remains on track to complete a total of 16 net wells during the quarter, including at least two Pearsall wells. Thus, we think the implied Q4'12 guidance mid-point of 828 MMcf/d (~5% liquids), which is what we are currently modeling, will likely prove to be conservative.

■ **Our Longer-Term Production Outlook Remains Conservative** – As disclosed with the Q3'12 earnings release, 2013 production growth guidance is 35-50% yr/yr (all organic) and we are modeling the mid-point of 43%. For 2014 and 2015, we currently project growth to slow considerably to 17% and 15%, respectively. However, as we pointed out in our 10/26/12 [Q3'12 Wrap](#) note, we think these forecasts are very conservative. In fact, considering the productive capability of the Marcellus wells and the pipeline and compression build out in the play (to ~2.0 Bcf/d gross/1.8 Bcf/d net at YE13 and ~2.9 Bcf/d gross/2.5 Bcf/d net at YE14), we think ~30% growth in both 2014 and 2015 could be achievable with relatively modest yr/yr capex increases of ~15-20%.

■ **What to Do with So Much Free Cash Flow?** – Based on our current forecasts, including 2013/2014/2015 gas prices of \$3.60/\$4.45/\$5.00/MMBtu, we expect COG to generate peer-leading free cash flow of ~\$75/\$450/\$825mm. Given that its drilling inventory in the Marcellus exceeds 20 years based on the 2013 drilling pace and that it already has significant acreage positions in three oily play, we think near-term acquisitions are unlikely and that management may instead elect to use the excess cash to pursue one or more of the following: 1) increase capex to further accelerate organic production growth in 2014 and 2015; 2) buy back shares (currently authorized to buy back 10mm shares), especially if the stock price were to fall back into the high \$30s; and/or 3) increase the dividend (currently just \$0.08/share annually).

■ **Maintain Buy** – See our [Q3'12 'Quick Read'](#) and [Wrap Up](#) notes for more info.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.10A	0.20A	0.17A	0.19A	0.66A	0.67A
2012E	0.14A	0.05A	0.20A	0.20E	0.59E	0.63E
Previous	0.14A	0.05A	0.20A	0.20E	0.59E	na
2013E	0.27E	0.26E	0.39E	0.53E	1.46E	1.35E
Previous	0.27E	0.26E	0.39E	0.53E	1.46E	na
2014E	na	na	na	na	2.80E	2.69E
Previous	na	na	na	na	2.80E	na

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

Company Focus

Cobalt International Energy (CIE) Raising Capital to Fund Development Program

■ Company Update

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Buy/High Risk	1H
Price (13 Dec 12)	US\$25.04
Target price	US\$40.00
Expected share price return	59.7%
Expected dividend yield	0.0%
Expected total return	59.7%
Market Cap	US\$10,281M

Price Performance

(RIC: CIE.N, BB: CIE US)



■ **Convertible Notes Offering Adds Significant Liquidity...** – During our meetings in Houston this week, Cobalt issued \$1.38bn of convertible senior notes due 2019 at 2.625% per annum. At a conversion price of \$35.68/share, the convertible notes result in a ~10% increase in the diluted shares outstanding while also adding ~\$36mm of interest expense per annum. We think this transaction reflects opportunistic timing with positive momentum following the recent announcement of the North Platte oil discovery in the Gulf of Mexico. Furthermore, we think CIE could have potentially run into difficulty next year with timing such a transaction in a legally approved window, as the company will likely be in possession of material non-public information for much of the year due to the line-up of high impact wells it expects to drill in 2013.

■ **...to Help Fund Development Program** – Recall that CIE had \$1.5bn of cash and investments on the books, along with a \$110mm drilling carry and no debt as of Q3'12. While those funds provided more than enough liquidity to finance its exploration and appraisal program through YE'13, this capital raise is more geared towards funding CIE's yet-to-be determined development programs needed to bring its discoveries online. With a 2 operated rig program offshore Angola next year and a full year of operated activity in the Gulf of Mexico (1 rig), we expect the 2013 capital budget to be materially higher than the \$550-\$650mm slated for 2012. We expect management to provide an official budget in January.

■ **Near Term Catalyst Timing Updates** – The next data point from the GoM should be results from the Anadarko-operated Shenandoah #2 appraisal well (CIE 20% WI). However, APC apparently encountered a mechanical issue, pushing an update back from as early as YE'12 to "some time in the next few months". Offshore Angola, the likely timing of the results from the production test of the lower-most zone at the Cameia #2 well (CIE 40% WI) has also been pushed back from as early as YE'12 to February or March, as the previously announced rig repairs took longer-than-expected. Management would consider mobile oil a success here as CIE is testing the flank of the structure, which will likely be significantly less fractured than the top of the structure, potentially limiting the oil's ability to flow through the reservoir.

■ **Maintain Buy** – See our 12/5/12 [Note](#) and 11/1/12 [Wrap Up](#) for more info.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	-0.05A	-0.05A	-0.12A	-0.13A	-0.35A	-0.35A
2012E	-0.09A	-0.35A	-0.10A	-0.21E	-0.75E	-0.65E
Previous	-0.09A	-0.35A	-0.10A	-0.21E	-0.75E	na
2013E	-0.24E	-0.24E	-0.24E	-0.24E	-0.98E	-0.52E
Previous	-0.24E	-0.24E	-0.24E	-0.24E	-0.98E	na
2014E	na	na	na	na	-0.98E	-0.45E
Previous	na	na	na	na	-0.98E	na

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

Company Focus

Goodrich Petroleum Corp (GDP)

Expecting to Know a Lot More About the Tuscaloosa in Early '13

Company Update

Joseph Stewart

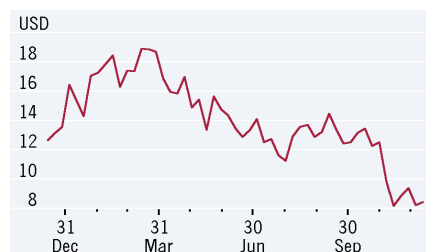
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Neutral	2
Price (13 Dec 12)	US\$8.21
Target price	US\$14.75
Expected share price return	79.7%
Expected dividend yield	0.0%
Expected total return	79.7%
Market Cap	US\$299M

Price Performance

(RIC: GDP.N, BB: GDP US)



■ **2013 Capital Budget and Production Guidance Coming Soon** – We expect the 2013 capital budget and production outlook to be released next week and we would not be surprised to see more conservative spending levels and production guidance than we were previously expecting. Assuming 1) ~1.5 rigs in the Eagle Ford (vs 2 discussed on the Q3'12 conference call); 2) a mostly non-op program in the TMS (vs up to 2 operated rigs); and 3) the previously disclosed \$22mm for non-operated Haynesville completions, we think the budget could be less than \$200mm vs our current projection of \$285mm and the Street's estimate of \$280mm. We think that type of program could deliver oil growth of ~40% yr/yr, below our current forecast of ~100% growth (Street expects ~85% growth).

■ **Thoughts on Liquidity** – Assuming a more conservative 2013 program, as outlined above, we would expect the gap b/t discretionary cash flow and spending to narrow vs our current ~\$130mm estimate. We model \$40mm of availability under the current \$265mm borrowing base, which will likely be increased in Q1'13. We think the most likely liquidity enhancing events remain a JV in the TMS and a potential asset sale of Beckville Minden in E TX, which currently produces ~16 MMcf/d (25% liquids – 78% NGLs w/ 12% condensate) and would fetch close to \$100mm simplistically assuming \$6k/Mcfepd.

■ **We Expect to Know a Lot More About TMS in Early '13** – We are under the impression that the IP rate for GDP's first operated TMS well will not be released this month, due to continued problems with a casing connection. However, we expect to know much more about the TMS by next March. We anticipate GDP to have 2-3 non-operated and 1-2 operated well completions to discuss by the Q4'12 conference call, in addition to at least another 2-3 wells likely to be announced by EOG and DVN. This data should help investors better evaluate the likely shape of the typical decline curve (hyperbolic or exponential) and more accurately assess the potential economics. Notably, Encore's Joe Jackson 4-13H has been online since late 2007 and has exhibited a hyperbolic decline curve with a b-factor of 1.55. Some more recent wells with more than six months of production history also have estimated b-factors ranging from 1.5-1.6.

■ **TMS Well Costs & Potential Economics** – Current AFEs for ~6-7k ft laterals for GDP and its partner are running ~\$12-16mm, but these include long drill times and significant allocations to "science". Goodrich pointed out that based on the impressive drill time of EOG's Dupuy Land Co. #20H well (drilled 5,200 ft lateral in 28 days), the 19 planned frac stages, and no science, the implied cost for that well could be ~\$10mm. Goodrich expects its next AFE to come in below \$12mm. Assuming a 30 day IP of 800 BOE/d and a conservative b-factor of just 1.1, we estimate an EUR of 570 MBOE (90% oil), which generates a pre-tax IRR of 33% at \$95/Bbl LLS using a \$12mm well cost.

■ **Maintain Neutral Rating** – See our 11/6/12 [Note](#) for more info.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	-0.22A	-0.13A	-0.16A	-0.38A	-1.44A	-0.91A
2012E	-0.28A	-0.21A	-0.23A	0.00E	-0.71E	-0.78E
Previous	-0.28A	-0.21A	-0.23A	0.00E	-0.71E	na
2013E	-0.28E	-0.21E	-0.07E	0.03E	-0.53E	-0.94E
Previous	-0.28E	-0.21E	-0.07E	0.03E	-0.53E	na
2014E	na	na	na	na	-0.07E	-0.27E
Previous	na	na	na	na	-0.07E	na

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

Company Focus

■ Company Update

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Buy/High Risk	1H
Price (12 Dec 12)	US\$43.36
Target price	US\$60.00
Expected share price return	38.4%
Expected dividend yield	0.0%
Expected total return	38.4%
Market Cap	US\$2,278M

Price Performance

(RIC: ROSE.O, BB: ROSE US)



Rosetta Resources (ROSE)

Looking for Acquisitions, but Not “Under the Gun” to Buy

■ **2013 Budget Released** – With the 2013 capital budget released this Monday, much of the meeting focused on the plans for next year. Management noted the plan to drill 75 Eagle Ford wells but only complete 62 next year is a function of its desire to keep a buffer of ~12-15 wells drilled ahead of the completion crews in order to mitigate any potential timing issues on the drilling side. Meanwhile, the \$55mm allocated to facilities projects next year is expected to help achieve the goal of continuing to avoid running into transportation capacity bottle necks. See our 12/10/12 note, [“Better-Than-Expected ‘13 Budget; Production Guidance Intact”](#), for more detail.

■ **Free Cash Flow Would Be Used to Build Out Inventory...** – Based on our current model, we expect ROSE to generate ~\$30mm and \$215mm of free cash flow in 2014 and 2015, respectively. As previously discussed, management is not interested in share buy backs over the next few years and would prefer to build out its drilling inventory. ROSE is “very engaged” on the acquisition front and has a team that is solely dedicated to looking at both property level and company level acquisitions that could deliver double digit growth for “many” years while generating “good” returns. Considering its current Eagle Ford assets enabled ROSE to post a very impressive 2011 RRE (reserve replacement efficiency ratio, or our simple measure of economic returns) of 4.8x vs an average of 2.3x for our coverage group (2011 cash flow per BOE produced / 3-yr avg F&D costs per BOE), it would be very tough for any new assets to compete for capital in the near-term. Notably, ROSE hasn’t issued equity in over five years and is in no rush to do so. However, with a goal of maintaining a debt to capital ratio of less than 40% (33% at Q3’12), management would likely issue some equity for a deal north of \$500mm (previously stated appetite to spend up to \$1bn).

■ **...but “Not Under the Gun” to Do So** – On its 50k net acres in high quality areas of the liquids-rich and oil windows of the Eagle Ford, ROSE estimates a drilling inventory of ~11 years based on the 2013 completion pace. Furthermore, production guidance for next year calls for solid ~30% growth and we think a ~20% 2-year CAGR is achievable in 2014 and 2015. Thus, we don’t think ROSE is “under the gun” to acquire assets and can afford to be patient and opportunistic. Furthermore, the company will continue to allocate ~10% of its rapidly growing discretionary cash flow to testing new ventures.

■ **Maintain Buy Rating** – See our 11/8/12 [Note](#) for more info.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.21A	0.48A	0.61A	0.61A	1.91A	1.91A
2012E	0.64A	0.58A	0.76A	0.81E	2.80E	2.90E
Previous	0.64A	0.58A	0.76A	0.81E	2.80E	na
2013E	0.98E	0.99E	1.06E	1.11E	4.13E	4.26E
Previous	0.98E	0.99E	1.06E	1.11E	4.13E	na
2014E	na	na	na	na	6.19E	5.80E
Previous	na	na	na	na	6.19E	na

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

Company Focus

Southwestern Energy Co (SWN) Steady Pace Ahead with Eye on Brown Dense Near Term

■ Company Update

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Buy	1
Price (13 Dec 12)	US\$33.34
Target price	US\$38.00
Expected share price return	14.0%
Expected dividend yield	0.0%
Expected total return	14.0%
Market Cap	US\$11,681M

Price Performance

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



- **Meeting with Management** – We sat down earlier this week with Steve Mueller, President and CEO of Southwestern Energy, to get a brief update on the company's operations and outlook. We would note that management plans to issue 2013 guidance next week and thus there was disclosure of SWN's plans in this regard. But as noted on the company's Q3'12 earnings conference call, capital spending is expected to be flat or down slightly in 2013 versus outlays of ~\$2.1bn this year while total production growth should be 10% or more.
- **Decision on Brown Dense Could Come Soon** – While management maintained its stance that the Brown Dense exploration play has a 40% chance of economic success, we felt that it has grown a bit more optimistic. The company is currently flow testing three of six wells drilled in the play – one vertical and two horizontal – and should have at least 90 days of production by the Q4'12 earnings call. If the 90-day type-curve appears to be an "Eagle Ford type curve with a hyperbolic flattening" then it will likely declare the play a "Go" and immediately put two rigs to work and ramp up further in H2'13 to perhaps six rigs by the end of 2013. Otherwise, if the type-curve appears to exhibit an exponential decline then it may not drill any more wells in the play. The bottom line is that management believes that at a well cost of \$10-10.5mm (4,500-ft lateral with 15-18 frac stages) it needs a 30-day liquids rate (separate from natural gas volumes) of ~500 Bbls/d to meet its economic threshold.
- **Fayetteville Pushes Ahead at Steady Pace** – After drilling 460-470 operated wells in the Fayetteville this year, Southwestern plans to spend within cash flow in the play next year to drill 350, or more, wells. But with seven rigs (all owned), if the re-entry to re-entry time drops to six days, on average, then it could drill ~420 wells. In Q3'12, the average time to drill was 6.8 days or a drop of 1.0 days vs. Q3'11, and so this is a realistic possibility. The only scenario in which the company might scale back plans in the Fayetteville next year is if natural gas prices were to average below \$3.00/MMBtu. On the other hand, at a sustainable price of \$4.00/MMBtu or more, the company would move to PAD drilling and accelerate the pace of activity.
- **Still No Plans to Monetize Midstream Assets** – SWN's midstream assets should generate EBITDA of \$315-320mm this year, or ~20% of its projected total after-tax operating cash flow. Management views these assets as a hedge in its operations given the steady and predictable cash flow growth and sees no need to monetize them except as a source of funds should a better investment alternative arise. The one scenario wherein it could foresee monetizing a portion of its midstream assets would be beyond 2013 if the Brown Dense play proved to be economic and continued to ramp up. But other options in this scenario could be non-core asset sales or possibly a sale of a portion of or a joint venture on the Brown Dense play.
- **Maintain Buy Rating** – See our Nov 4th note [SWN Q3'12 Wrap-Up](#) for more info.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.39A	0.48A	0.50A	0.45A	1.82A	1.82A
2012E	0.31A	0.26A	0.38A	0.43E	1.38E	1.36E
Previous	0.31A	0.26A	0.38A	0.43E	1.38E	na
2013E	0.42E	0.37E	0.45E	0.52E	1.76E	1.76E
Previous	0.42E	0.37E	0.45E	0.52E	1.76E	na
2014E	na	na	na	na	2.48E	1.93E
Previous	na	na	na	na	2.48E	na

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

Cabot Oil & Gas Corp

Company description

Cabot Oil & Gas is an independent oil and gas E&P Company. The company has three key operations: the Marcellus shale in northeast Pennsylvania, the Eagle Ford in south Texas, and the Marmaton in Oklahoma and Texas, in addition to other oil and gas properties in Appalachia, the Rockies and the Mid-Continent. Cabot was founded in 1989 and is headquartered in Houston, Texas with over 400 employees.

Investment strategy

We rate Cabot Oil & Gas Buy based on the upside to our price target. Overall, we believe that Cabot has established an advantageous position in one of the most economic, large-scale resource plays in North America. The company's Marcellus shale position should allow it to continue to post industry-leading returns and production growth for several years into the future. Also, the company has established meaningful positions in the oily Eagle Ford shale (S TX), Pearsall (S TX), and Marmaton (OK/TX) plays, in addition to the "wet" Utica play (NW PA). These oil and liquids-rich assets should help keep the production mix relatively constant over the next several years, materially augmenting our cash flow projections over the next several years.

Valuation

Our price target of \$55 is based on the stock achieving an EV/debt-adjusted cash flow multiple of 14.8x/8.9x for 2012E/2013E based on 'normalized' WTI spot oil and composite spot gas prices of \$90.00/Bbl and \$4.50/MMBtu and 234% of our proven-only NAV.

Risks

Risks to our target price include:

Regulatory Risk - With future growth primarily hinging on the Marcellus, Cabot is significantly exposed to the developing natural gas regulatory environment in Pennsylvania. Conversely, political and regulatory risks could subside and relieve pressure on Cabot's stock.

Drilling Results - Disappointing drilling results or positive drilling results, particularly in the Marcellus, Eagle Ford and Marmaton, could impact COG's share performance.

Volatile Commodity Prices - Hydrocarbon prices have shown increasing volatility in recent years, as well as cash flow and earnings. This volatility tends to significantly impact sector stock performance, both positive and negative.

Cobalt International Energy

Company description

Cobalt International Energy is an exploration company focused on the Gulf of Mexico and West Africa. Currently, the company has no proven reserves or production as up until now, it has been in the "access," or lease acquisition phase of its development. However, with that phase now largely complete, the company has

shifted gears to the drilling of its massive portfolio. It has recently made large discoveries offshore Angola (the Cameia prospect) and the deepwater GoM (the North Platte prospect). The company also has a full drilling slate over the next two years, with many high impact wells to be drilled in both of its core areas. Cobalt is headquartered in Houston, TX.

Investment strategy

We rate Cobalt Buy/High Risk (1H). Cobalt has no debt, it is fully funded through 2013 and we believe that it could farm down interests in some of its acreage or pursue other financing alternatives to cover capital spending beyond then. Further, we believe that the market is giving very little value to the prospects that will be drilled post 2012. Thus, there could be significant upside.

Valuation

Our \$40 price target is based on the stock achieving a ~95% of our riskd NAV estimate based on a "normalized" spot crude oil price of \$90/Bbl. Since the company does not currently generate cash flow and will not begin to do so for at least the next four years, multiple analysis is not applicable to the shares.

Risks

We rate Cobalt High Risk based on a combination of quantitative and qualitative risk assessments compared to other stocks covered by Citi Research.

- Exploration drilling results - While Cobalt already made a large hydrocarbon discovery with its success at Cameia offshore Angola, it still has a broad inventory of high-impact prospects which could have a very large impact on share price.
- Issues with bringing a discovery to production - Post Cameia or any other discovery, it will be key for Cobalt to demonstrate the ability to smoothly bring the discovery on line. Any potential delays or unforeseen problems that might hint at inexperience with securing the necessary equipment, contractors, and agreements, will likely be negatively perceived by investors.
- Funding/capital markets risk - Even though Cobalt is well funded through the end of 2013, there will still inevitably be a lag between the time when the current sources of liquidity runs out and the company's initial cash flow generation. Thus, should capital markets conditions be poor at the time when Cobalt next needs to access capital, the company will likely find decreased investor appetite to fund development activity or a continued high risk exploration program.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, we believe the stock will likely have difficulty achieving our target price or could outperform it.

Goodrich Petroleum Corp

Company description

Goodrich Petroleum is an independent oil and gas exploration & production company with primary operations in East Texas and North Louisiana (ETNL) and South Texas. Goodrich currently holds over 90k net acres in ETNL (comprises its largest assets), where it primarily targets the Haynesville, Bossier and Cotton Valley Taylor Sands formations. While over 90% of proved reserves and ~82% of current

production are natural gas, the Company has shifted much of its focus away from natural gas in ETNL to more oil and liquids opportunities. In South Texas, Goodrich holds 39k net acres concentrated on the oily Eagle Ford Shale and the Buda Lime formations. Goodrich also has an 132k net acre position in the emerging Tuscaloosa Oil Shale in Louisiana and Mississippi. Goodrich resulted from a business combination in 1995 between La/Cal Energy Partners and Patrick Petroleum Company. The combination was a reverse merger in which the current management, largely led by Gil Goodrich and Rob Turnham, gained control of the combined company. Goodrich is headquartered in Houston, TX and has 116 employees.

Investment strategy

We rate Goodrich Petroleum Neutral. Overall, we think management has done a very good job ramping up oil production in the Eagle Ford trend and we think the Tuscaloosa has "company maker" type potential. However, Goodrich has a highly leveraged balance sheet and is still primarily a natural gas company. While management would like to sell some of its natural gas assets and de-leverage its balance sheet, we think this is unlikely near term considering the depressed natural gas price environment. Although we expect Goodrich to have sufficient liquidity to fund its program over the next two years or more, we believe the company's capital constraints and leverage to natural gas in the Haynesville will remain a drag on shares over the next 12 months. However, we would reconsider our rating were the Tuscaloosa to prove commercial.

Valuation

Our \$14.75 price target is based on GDP's stock achieving a multiple of 6.2x/5.4x our 2012/2013 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.

Risks

Risks to our price target include:

Drilling Results - Disappointing drilling results, particularly in the Eagle Ford shale, Buda Lime, Haynesville/Bossier, Cotton Valley Taylor Sand and Tuscaloosa plays could negatively impact GDP's share performance. Conversely, positive results, especially from the Tuscaloosa, would be favorable for GDP's shares.

Repeatability - Goodrich has delivered relatively consistent results from the southern 60% of its Eagle Ford shale position. However, if this consistency were to deteriorate, we think investors would assign less value to the position.

Leverage - Goodrich has substantially more debt than most of its peers. If the Company is not able to reduce its leverage by selling non-core assets, management may elect to raise capital via other potentially more dilutive alternatives.

Small Company Size - Goodrich is significantly smaller than many of its competitors within the oil & gas sector. Thus, it may have difficulty securing the necessary equipment, personnel and financing for its operations.

Volatile Commodity Prices - Hydrocarbon prices have shown increasing volatility in recent years, impacting cash flow and earnings. This volatility tends to significantly impact sector stock performance.

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

Rosetta Resources

Company description

Rosetta Resources explores for, develops and produces crude oil, natural gas and natural gas liquids (NGLs) across several regions in the U.S. including Texas, Montana and Wyoming. It holds ~65k net acres in the prolific TX Eagle Ford Shale area and this play now accounts for nearly all of its total production. Rosetta was founded in 2005 and is headquartered in Houston, Texas.

Investment strategy

We rate Rosetta Resources Buy/High Risk (1H). The company has successfully built a sizeable position in the Texas Eagle Ford shale, condensing itself from a scattered dry gas player to a focused liquids-oriented producer. We estimate that more than 60% of its 2013 production will come from crude oil or NGLs. ROSE now has a longer-term liquids-rich drilling inventory in the Eagle Ford shale and we expect the company to post substantially better-than-average production growth while generating industry-leading rates of return. We estimate ROSE's reserve replacement efficiency ratio (RRE), or our simple measure of economic returns, to be 4.8x, which is the highest in our US E&P coverage group and more than 2x the average.

Valuation

Our 12-month price target of \$60.00 is based on the company achieving a multiple of 5.8x our 2013 debt-adjusted cash flow estimate, using "normalized" WTI spot crude oil and composite spot natural gas prices of \$90.00/Bbl and \$4.50/MMBtu, respectively, and 108% of proven-only NAV. We note that these multiples reflect a discount to the average for our US E&P coverage group.

Risks

We rate Rosetta Resources High Risk based on a combination of quantitative and qualitative risk assessments:

Volatile Commodity Prices - Rosetta is sensitive to changes in the prices of crude oil, natural gas and natural gas liquids (NGLs). Their exposure is partially reduced due to its hedging program, but a significant portion of its anticipated future production is not hedged.

High Exposure To Single Play - Nearly all of its current production comes from the relatively new Texas Eagle Ford Shale play, where long-term results have yet to be definitively established. Additionally, insufficient gathering and processing infrastructure in this emerging area may constrain Rosetta's production.

Small Company Size - Rosetta is significantly smaller than many of its major competitors within the oil & gas sector. Thus, it may have difficulty securing necessary equipment, personnel and financing for its operations.

If 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.

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). With less than five months before the “clock is effectively reset” with natural gas storage being “full” starting out the winter, and based on the assumption of a normal winter, and thus our still much more constructive outlook for natural gas prices next year, we believe it is prudent to continue to add to or build positions in the more natural gas leveraged names.

Valuation

Our \$38 price target is based on Southwestern's stock achieving a multiple of 6.5x our 2013 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 ~132% of proven NAV.

Risks

Risks to our target price include:

Drilling Results – Disappointing drilling results, particularly in the Fayetteville, Haynesville, 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.

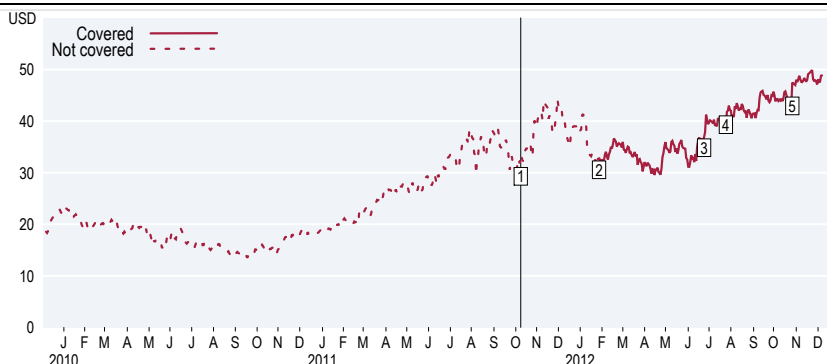
IMPORTANT DISCLOSURES

Cabot Oil & Gas Corp (COG)

Ratings and Target Price History Fundamental Research

Analyst: Joseph Stewart

Covered since January 27 2012



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	27-Jan-12	*1	*40.00	32.88

* Indicates change

	Date	Rating	Target Price	Closing Price
3	25-Jun-12	1	*43.00	36.89
4	25-Jul-12	1	*45.00	39.30

	Date	Rating	Target Price	Closing Price
5	26-Oct-12	1	*55.00	47.46

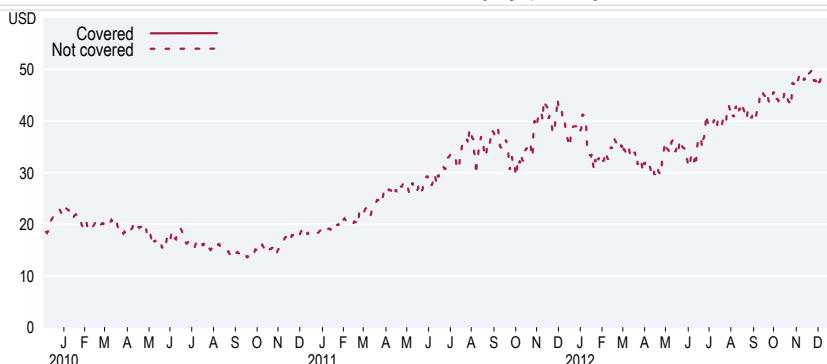
Rating/target price changes above reflect Eastern Standard Time

Cabot Oil & Gas Corp (COG)

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

Analyst: Joseph Stewart

Covered since January 27 2012



* Indicates change

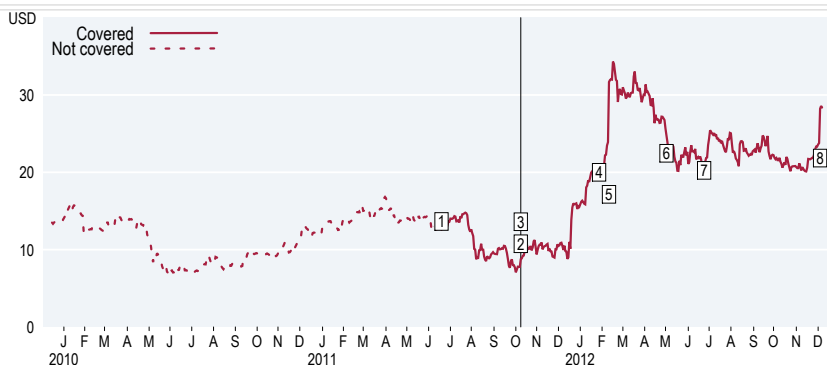
Rating/target price changes above reflect Eastern Standard Time

Cobalt International Energy (CIE)

Ratings and Target Price History Fundamental Research

Analyst: Joseph Stewart

Covered since January 27 2012



	Date	Rating	Target Price	Closing Price
1	20-Jun-11	*1S	*18.00	12.58
2	8-Oct-11	Stock rating system changed		
3	8-Oct-11	*1H	18.00	7.77

* Indicates change

	Date	Rating	Target Price	Closing Price
4	27-Jan-12	1H	*26.00	20.43
5	10-Feb-12	1H	*42.00	31.68
6	2-May-12	1H	*40.00	24.75

	Date	Rating	Target Price	Closing Price
7	25-Jun-12	1H	*37.00	20.66
8	5-Dec-12	1H	*40.00	28.21

Rating/target price changes above reflect Eastern Standard Time

Cobalt International Energy (CIE)

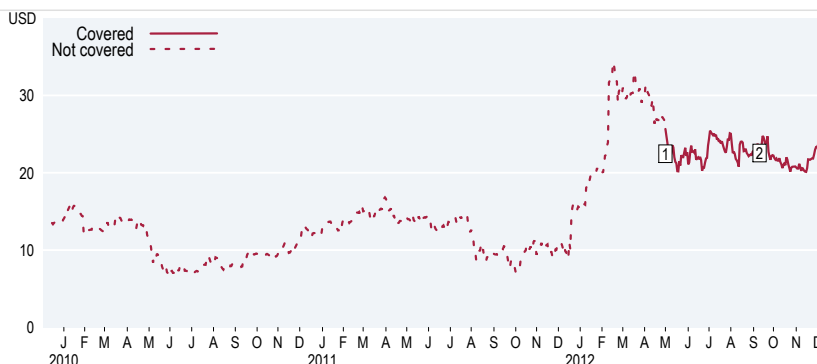
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Joseph Stewart

Covered since January 27 2012



	Date	Rating	Target Price	Closing Price
1	1-May-12	*ADD MP	-	25.66

	Date	Rating	Target Price	Closing Price
2	11-Sep-12	*REM MP	-	22.59

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

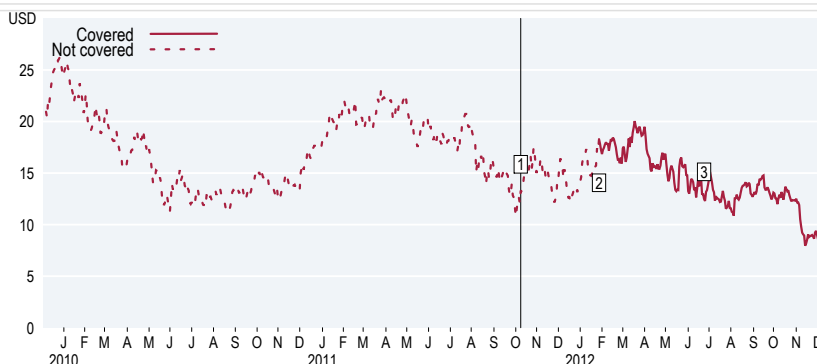
Goodrich Petroleum Corp (GDP)

Ratings and Target Price History

Fundamental Research

Analyst: Joseph Stewart

Covered since January 27 2012



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed	-	-

	Date	Rating	Target Price	Closing Price
2	27-Jan-12	*2	*18.00	18.29

	Date	Rating	Target Price	Closing Price
3	25-Jun-12	2	*14.75	12.49

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Goodrich Petroleum Corp (GDP)

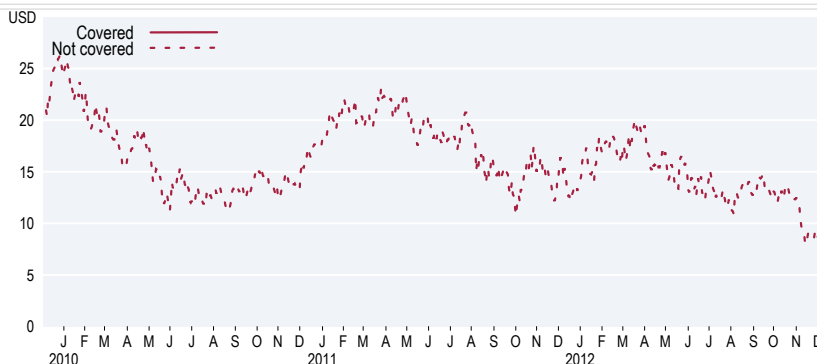
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Joseph Stewart

Covered since January 27 2012



* Indicates change

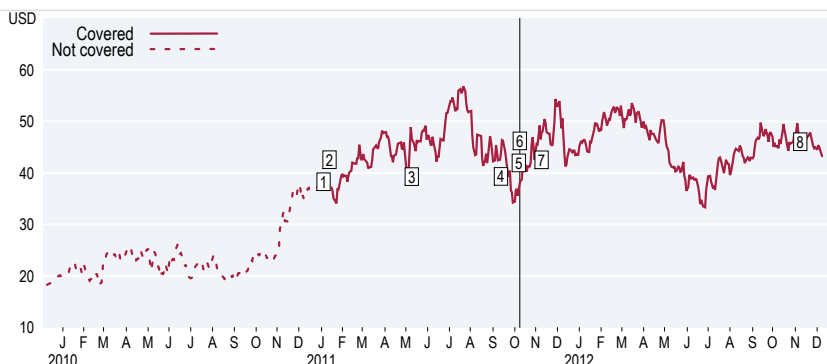
Rating/target price changes above reflect Eastern Standard Time

Rosetta Resources (ROSE)

Ratings and Target Price History Fundamental Research

Analyst: Joseph Stewart

Covered since January 31 2012



	Date	Rating	Target Price	Closing Price
1	5-Jan-11	*2H	*42.00	37.03
2	13-Jan-11	2H	*44.00	37.02
3	10-May-11	*1H	*60.00	46.68

* Indicates change

	Date	Rating	Target Price	Closing Price
4	13-Sep-11	1H	*55.00	43.81
5	7-Oct-11	*2H	*45.00	35.56
6	8-Oct-11	Stock rating system changed		

	Date	Rating	Target Price	Closing Price
7	9-Nov-11	2H	*50.00	47.77
8	8-Nov-12	*1H	*60.00	46.71

Rating/target price changes above reflect Eastern Standard Time

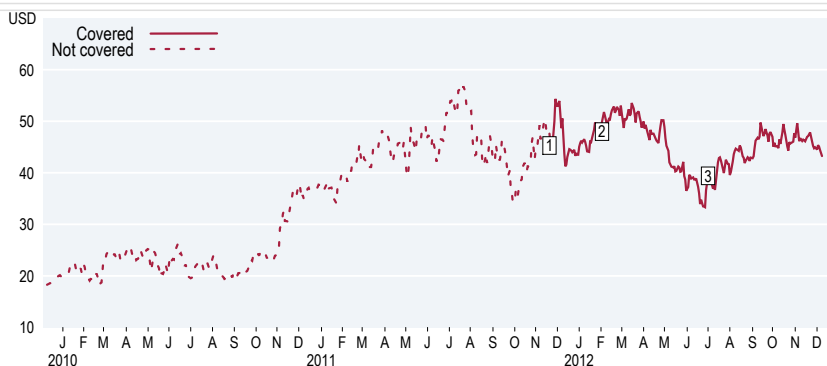
Rosetta Resources (ROSE)

Ratings and Target Price History Best Ideas Research

Relative Call (3 Month)

Analyst: Joseph Stewart

Covered since January 31 2012



	Date	Rating	Target Price	Closing Price
1	20-Nov-11	*ADD LP	-	47.71

* Indicates change

	Date	Rating	Target Price	Closing Price
2	2-Feb-12	*REM LP	-	49.89

	Date	Rating	Target Price	Closing Price
3	30-Jun-12	*N	-	36.62

Rating/target price changes above reflect Eastern Standard Time

Southwestern Energy Co (SWN)

Ratings and Target Price History Fundamental Research

Analyst: Robert S Morris



	Date	Rating	Target Price	Closing Price
1	17-Dec-09	2H	*50.00	45.40
2	9-Sep-10	2H	*40.00	32.94
3	29-Jul-11	2H	*45.00	44.56

* Indicates change

	Date	Rating	Target Price	Closing Price
4	13-Sep-11	2H	*42.00	36.93
5	7-Oct-11	2H	*40.00	34.38
6	8-Oct-11	Stock rating system changed		

	Date	Rating	Target Price	Closing Price
7	8-Oct-11	*2	40.00	34.38
8	11-Jan-12	2	*38.00	29.92
9	25-Jun-12	*1	38.00	29.15

Rating/target price changes above reflect Eastern Standard Time

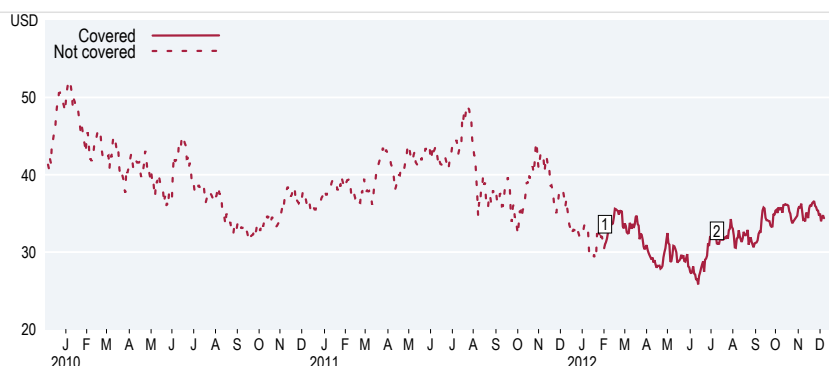
Southwestern Energy Co (SWN)

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

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Data current as of 5 Oct 2012

Citi Research Global Fundamental Coverage

% of companies in each rating category that are investment banking clients

12 Month Rating			Relative Rating		
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50%	47%	45%	59%	47%	50%

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Robert S Morris; Joseph Stewart; Dilya Safine, CFA; Chingiz Gadimov; Rob Teahen

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