

Quicksilver Resources Inc (KWK)

Q4'12 Wrap Up: Sharply Lower Spending & Production Forecasts

- **Q4 '12 Bottom Line** – As outlined in our ['Quick Read'](#) note, EPS came in slightly ahead of our forecast while CFPS was inline with our estimate.
- **Reducing Production And Spending Outlooks** – Our FY13 production forecast drops from 378 MMcf/d to 340 MMcf/d (82% gas), down 6% yr/yr (inline w/ guidance mid-pt) due to lower-than-expected drilling activity. For 2014/2015, we now model 325/332 MMcf/d down sharply from 413/447 MMcf/d due to the lower base in '13 and significantly lower spending this year and next as KWK seeks to minimize its outspend in order to avoid running out of liquidity. We model a small ~\$6mm shortfall b/t 2013 discretionary cash flow and the \$120mm budget and an ~\$85mm shortfall next year (\$220mm budget down from ~\$360mm previously), leaving ~\$270mm available under the current \$850mm borrowing base (likely to be reduced this April) at YE14.
- **Operational Highlights** – HRB production ramped to ~100 MMcf/d gross (~80 MMcf/d net) at YE'12 and is expected to remain ~flat this yr with midstream commitments of 100 MMcf/d from May 2013-2018. Notably, the NEB's negative recommendation for the proposed HRB pipeline should allow KWK to defer additional spending in the HRB. In the Niobrara, plans call for 8 wells this year and a Q4 vertical well posted a solid 24-h4 IP rate of 400 BOE/d (90 day rate of 138 BOE/d -60% oil). Based on the Q4 CF statement, it appears KWK received ~\$600/acre from the Shell JV equalization payment and used the proceeds (~\$28mm) to help pay down debt during the quarter. In W. TX, KWK completed its 2nd short lateral (~2.5k ft) well targeting the Wolfcamp (producing 38 BOE/d and improving) with further drilling subject to a JV. In the Barnett, ~50 wells are shut in and should bring ~ 5 MMcf/d back online as prices recover.
- **Update On Capital Raising Initiatives** – Mgmt is still looking to sell a non-op interest in the Barnett (MLP deferred) and hopes to announce details "shortly." In the HRB, JV negotiations continue with downstream gas marketing a top priority while mgmt mentioned that its deferred capital commitments due to the pipeline decision better aligns capital requirements with proposed partners. In W. TX, mgmt still hopes to do a JV following potential Barnett and HRB transactions. Cash proceeds from any deal would be used to reduce debt (\$2.1bn total debt and 248% debt to cap at YE12).
- **Cutting Cash Flow Ests & PT** – Incorporating Q4 results, new production, spending and cost ests (much lower DD&A), '13 EPS/CFPS go to (\$0.04)/\$0.67 from (\$0.52)/\$0.74, '14 to \$0.09/\$0.79 from (\$0.17)/\$1.14, and '15 to \$0.12/\$0.85 from \$0.15/\$1.63. With CF ests falling ~10%/30%/50%, we lower our PT to \$2.00/share.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	-0.09A	-0.13A	-0.04A	-0.01A	-0.27A	-0.27A
2013E	0.00E	-0.02E	0.00E	-0.02E	-0.04E	-0.23E
Previous	-0.15E	-0.15E	-0.13E	-0.10E	-0.52E	na
2014E	na	na	na	na	0.09E	-0.16E
Previous	na	na	na	na	-0.17E	na
2015E	na	na	na	na	0.12E	-0.10E
Previous	na	na	na	na	0.15E	na

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

- Company Update
- Target Price Change
- Estimate Change

Neutral	2
Price (27 Feb 13)	US\$1.86
Target price	US\$2.00
	from US\$3.75
Expected share price return	7.5%
Expected dividend yield	0.0%
Expected total return	7.5%
Market Cap	US\$322M

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



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

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KWK.N: Fiscal year end 31-Dec						Price: US\$1.86; TP: US\$2.00; Market Cap: US\$322m; Recomm: Neutral					
Profit & Loss (US\$)	2011	2012	2013E	2014E	2015E	Valuation ratios	2011	2012	2013E	2014E	2015E
Sales revenue	946,623	670,805	681,184	702,227	724,227	PE (x)	17.0	-6.8	-50.2	20.7	15.9
Cost of sales	-633,821	-534,351	-415,616	-404,522	-415,902	PB (x)	0.3	-0.3	-0.3	-0.3	-0.3
Gross profit	312,802	136,454	265,568	297,705	308,325	EV/EBITDA (x)	4.8	6.3	8.3	7.8	7.8
Gross Margin (%)	33.0	20.3	39.0	42.4	42.6	FCF yield (%)	-23.3	-910.1	-18.8	-41.6	-46.7
EBITDA (Adj)	447,524	364,910	287,455	309,053	320,481	Dividend yield (%)	0	0	0	0	0
EBITDA Margin (Adj) (%)	47.3	54.4	42.2	44.0	44.3	Payout ratio (%)	0	0	0	0	0
Depreciation	-225,763	-185,267	-66,414	-63,393	-64,726	ROE (%)	8.1	nm	na	na	na
Amortisation	0	0	0	0	0	Cashflow (US\$)					
EBIT (Adj)	128,604	-2,705,269	191,392	222,788	232,659	EBITDA	458,426	244,461	257,807	286,182	297,385
EBIT Margin (Adj) (%)	13.6	nm	28.1	31.7	32.1	Working capital	191,182	69,577	0	0	0
Net interest	-186,024	-164,051	-178,409	-178,799	-181,161	Other	-34,603	-2,805,440	-197,431	-198,095	-200,457
Associates	0	0	0	0	0	Operating cashflow					
Non-op/Except	107,270	-2,741,730	-19,296	-19,296	-19,296	Capex	-690,607	-389,567	-120,000	-220,000	-245,000
Pre-tax profit	153,909	-2,846,587	-6,312	24,694	32,203	Net acq/disposals	277,128	72,725	0	0	0
Tax	-59,963	361,438	0	-9,384	-12,237	Other	0	0	0	0	0
Extraord./Min.Int./Pref.div.	0	0	0	0	0	Investing cashflow					
Reported net profit	93,946	-2,485,149	-6,312	15,310	19,966	Dividends paid	0	0	0	0	0
Net Margin (%)	9.9	nm	-0.9	2.2	2.8	Financing cashflow					
Core NPAT	19,121	-46,378	-6,312	15,310	19,966	Net change in cash	-41,791	-8,195	0	0	0
Per share data						Free cashflow to s/holders					
Reported EPS (\$)	0.54	-14.61	-0.04	0.09	0.12		-75,602	-2,880,969	-59,624	-131,913	-148,071
Core EPS (\$)	0.11	-0.27	-0.04	0.09	0.12						
DPS (\$)	0	0	0	0	0						
CFPS (\$)	3.52	-14.64	0.35	0.52	0.57						
FCFPS (\$)	-0.43	-16.93	-0.35	-0.77	-0.87						
BVPS (\$)	7.15	-6.95	-6.81	-6.58	-6.33						
Wtd avg ord shares (k)	168,980	170,105	170,260	170,430	170,601						
Wtd avg diluted shares (k)	174,637	170,187	170,260	170,430	170,601						
Growth rates											
Sales revenue (%)	2.0	-29.1	1.5	3.1	3.1						
EBIT (Adj) (%)	-59.1	nm	107.1	16.4	4.4						
Core NPAT (%)	-84.1	-342.6	86.4	342.5	30.4						
Core EPS (%)	-83.5	-348.9	86.4	342.3	30.3						
Balance Sheet (US\$)											
Cash & cash equiv.	13,146	4,951	4,951	4,951	4,951						
Accounts receivables	95,282	64,149	64,149	64,149	64,149						
Inventory	0	0	0	0	0						
Net fixed & other tangibles	3,701,035	1,080,969	1,103,652	1,228,380	1,376,415						
Goodwill & intangibles	0	0	0	0	0						
Financial & other assets	191,999	138,413	138,413	138,413	138,413						
Total assets	4,001,462	1,288,482	1,311,165	1,435,893	1,583,928						
Accounts payable	142,672	37,131	37,131	37,131	37,131						
Short-term debt	18	0	0	0	0						
Long-term debt	1,903,431	2,063,206	2,060,486	2,135,805	2,226,922						
Provisions & other liab	689,522	418,139	418,413	427,797	440,034						
Total liabilities	2,735,643	2,518,476	2,516,031	2,600,733	2,704,087						
Shareholders' equity	1,265,819	-1,229,994	-1,204,865	-1,164,840	-1,120,159						
Minority interests	0	0	0	0	0						
Total equity	1,265,819	-1,229,994	-1,204,865	-1,164,840	-1,120,159						
Net debt	1,890,303	2,058,255	2,055,535	2,130,854	2,221,971						
Net debt to equity (%)	149.3	na	na	na	na						

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

Figure 1. KWK Operating Summary

	Q1	Q2	Q3	2011	Q1	Q2	Q3	Q4	2012E	Q1E	Q2E	Q3E	Q4E	2013E	2014E	2015E
WTI Spot Crude Oil (\$/Bbl)	\$93.79	\$102.28	\$89.54	\$94.92	\$103.61	\$93.98	\$92.16	\$88.17	\$94.48	\$85.00	\$85.00	\$85.00	\$85.00	\$85.00	\$90.00	\$95.00
Composite Spot Natural Gas (\$/MMBtu)	\$4.19	\$4.30	\$4.08	\$3.96	\$2.40	\$2.25	\$2.84	\$3.37	\$2.72	\$3.60	\$3.25	\$3.60	\$3.90	\$3.60	\$4.45	\$5.00
Natural Gas Production (Mcf/d)	318,687	333,072	351,600	335,084	302,800	285,600	291,300	274,900	288,620	296,892	285,016	273,616	262,671	279,439	265,467	270,776
NGL Production (Bbls/d)	11,560	13,191	11,945	12,147	11,531	11,365	11,073	10,525	11,122	10,209	9,699	9,214	8,753	9,464	9,180	9,364
Oil Production (Bbls/d)	216	823	696	748	845	807	761	725	784	718	682	648	615	665	699	768
Total Production (Mcf/d)	392,343	417,156	427,446	412,459	377,056	358,632	362,304	342,400	360,056	362,454	347,300	332,785	318,882	340,215	324,739	331,570
Total Production (Boe/d)	65,391	69,526	71,241	68,743	62,843	59,772	60,384	57,067	60,009	60,409	57,883	55,464	53,147	56,703	54,123	55,262
Liquids	19%	20%	18%	19%	20%	20%	20%	20%	20%	18%	18%	18%	18%	18%	18%	18%
Gas	81%	80%	82%	81%	80%	80%	80%	80%	80%	82%	82%	82%	82%	82%	82%	82%
Sequential Growth	1%	6%	2%	16%	-9%	-5%	1%	-5%	-13%	6%	-4%	-4%	-4%	-6%	-5%	2%
YOY Growth	23%	19%	18%		-4%	-14%	-15%	-17%		-4%	-3%	-8%	-7%			
Realized Total Gas Price-Hedged (\$/Mcf)	\$5.07	\$5.06	\$4.96	\$4.95	\$4.34	\$3.98	\$4.23	\$4.50	\$4.26	\$4.65	\$4.60	\$4.75	\$4.88	\$4.72	\$4.98	\$4.86
Realized NGL Price-Hedged (\$/Bbl)	\$37.84	\$39.38	\$38.68	\$38.63	\$42.98	\$39.36	\$37.75	\$38.50	\$39.69	\$31.45	\$31.45	\$31.45	\$31.45	\$31.45	\$35.10	\$39.90
Realized Oil Price-Hedged (\$/Bbl)	\$87.05	\$96.28	\$82.58	\$88.15	\$94.61	\$85.73	\$83.88	\$78.55	\$85.99	\$74.79	\$74.79	\$74.79	\$74.79	\$74.79	\$79.79	\$85.00
INCOME STATEMENT (\$ '000)																
Natural gas, NGL and oil	190,301	207,706	208,064	800,544	171,820	150,503	157,699	156,294	636,316	157,997	151,633	150,801	147,521	607,952	620,390	640,754
Sales of purchased natural gas	20,426	19,560	20,130	86,645	12,086	9,442	21,313	19,564	62,405	19,760	19,957	20,157	20,358	80,232	81,837	83,473
Other	1,460	21,180	31,699	59,434	(38,437)	8,617	(1,310)	3,214	(27,916)	(1,750)	(1,750)	(1,750)	(1,750)	(7,000)	0	0
Total revenues	212,187	248,446	259,893	946,623	145,469	168,562	177,702	179,072	670,805	176,006	169,840	169,208	166,130	681,184	702,227	724,227
Lease operating	21,557	24,484	27,673	103,222	28,691	21,599	22,115	22,927	95,332	26,423	25,625	24,849	23,834	100,731	96,149	98,171
Gathering, processing and transportation	44,014	46,726	51,113	190,212	43,077	42,624	41,338	39,277	166,316	39,471	38,241	37,046	35,498	150,256	142,236	145,227
Production and ad valorem taxes	7,581	8,506	7,757	29,226	6,763	7,189	6,881	4,562	25,395	5,065	4,536	4,745	4,836	19,183	22,107	25,503
Cost of purchased natural gas	19,743	19,557	19,954	85,398	11,937	9,337	21,254	19,513	62,041	19,460	19,657	19,857	20,058	79,032	80,637	82,273
Other operating costs	160	23	145	557	18	134	670	742	1,564	0	0	0	0	0	0	0
Depletion, depreciation and accretion	52,471	54,704	57,686	225,763	54,439	51,942	43,209	35,677	185,267	17,289	16,750	16,533	15,842	66,414	63,393	64,726
Impairment	49,063	0	0	104,059	62,746	991,921	546,835	1,162,961	2,764,463	0	0	0	0	0	0	0
General and administrative	18,391	15,770	27,584	79,582	19,095	18,405	17,335	20,861	75,696	18,140	18,221	17,162	20,652	74,175	74,917	75,666
Total operating expenses	212,980	169,770	191,912	818,019	226,766	1,143,151	699,637	1,306,520	3,376,074	125,848	123,031	120,191	120,721	489,792	479,439	491,568
Operating income (loss)	(793)	78,676	67,981	128,604	(81,297)	(974,589)	(521,935)	(1,127,448)	(2,705,269)	50,158	46,809	49,017	45,409	191,392	222,788	232,659
Total other income (expense)	(65,941)	49,419	(22,881)	25,305	(3,721)	(44,841)	(47,475)	(45,281)	(141,318)	(49,436)	(49,425)	(49,421)	(49,423)	(197,705)	(198,095)	(200,457)
Income tax (expense) benefit	(4,024)	(19,508)	(16,414)	(59,963)	25,094	346,889	(82,352)	71,807	361,438	(274)	0	0	0	0	(9,384)	(12,237)
Tax Rate	-6%	15%	36%	39%	NM	NM	NM	NM	13%	38%	NM	NM	NM	0%	38%	38%
Net income attributable to non-controlling interest	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Reported Net Income (Loss)	(70,758)	108,587	28,686	93,946	(59,924)	(672,541)	(651,762)	(1,100,922)	(2,485,149)	447	(2,616)	(404)	(4,014)	(6,312)	15,310	19,966
Reported Net Income (Loss) Per Share	(0.42)	0.60	0.17	0.54	(0.35)	(3.96)	(3.83)	(6.47)	(14.61)	0.00	(0.02)	(0.00)	(0.02)	(0.04)	0.09	0.12
Recurring Net Income (Loss)	2,770	10,983	5,739	19,121	(15,043)	(21,397)	(7,541)	(2,397)	(46,378)	447	(2,616)	(404)	(4,014)	(6,312)	15,310	19,966
Adjusted, Recurring, Diluted NI (Loss) Per Share	\$0.02	\$0.06	\$0.03	\$0.11	(\$0.09)	(\$0.13)	(\$0.04)	(\$0.01)	(\$0.27)	\$0.00	(\$0.02)	(\$0.00)	(\$0.02)	(\$0.04)	\$0.09	\$0.12
Discretionary Cash Flow	70,265	77,203	76,885	284,639	48,454	51,183	63,266	52,311	215,214	31,382	27,529	29,206	25,952	114,070	135,277	144,344
Discretionary Cash Flow Per Share	\$0.39	\$0.43	\$0.45	\$1.63	\$0.28	\$0.30	\$0.37	\$0.31	\$1.26	\$0.18	\$0.16	\$0.17	\$0.15	\$0.67	\$0.79	\$0.85
Weighted Avg. Shares Outstanding (,000)	168,827	168,984	169,031	168,980	169,939	170,043	170,179	170,260	170,105	170,260	170,260	170,260	170,260	170,260	170,430	170,601
Diluted Shares Outstanding (,000)	179,567	179,668	169,736	174,637	170,267	170,043	170,179	170,260	170,187	170,260	170,260	170,260	170,260	170,260	170,430	170,601
COMPONENT ANALYSIS (\$/Boe Prod.)																
Oil & gas revenue	5.39	5.47	5.29	5.32	5.01	4.61	4.73	4.96	4.83	4.84	4.80	4.93	5.03	4.90	5.23	5.29
Lease operating	0.61	0.64	0.70	0.69	0.84	0.66	0.66	0.73	0.72	0.81	0.81	0.81	0.81	0.81	0.81	0.81
Gathering, processing and transportation	1.25	1.23	1.30	1.26	1.26	1.31	1.24	1.25	1.26	1.21	1.21	1.21	1.21	1.21	1.20	1.20
Production and ad valorem taxes	0.21	0.22	0.20	0.19	0.20	0.22	0.21	0.14	0.19	0.16	0.14	0.15	0.16	0.15	0.19	0.21
Production and ad valorem taxes (% of O&G Revenue)	4.6%	4.4%	4.1%	4.1%	5.5%	7.7%	6.6%	4.0%	5.8%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
DD&A	1.49	1.44	1.47	1.50	1.59	1.59	1.30	1.13	1.41	0.53	0.53	0.54	0.54	0.53	0.53	0.53
G&A - excluding stock-based comp	0.37	0.29	0.57	0.39	0.39	0.43	0.31	0.50	0.41	0.39	0.40	0.39	0.49	0.42	0.44	0.44
Stock-based comp	0.16	0.13	0.13	0.14	0.16	0.13	0.21	0.17	0.17	0.17	0.17	0.17	0.21	0.18	0.19	0.19
Interest Expense	1.31	1.25	1.23	1.24	1.17	1.23	1.26	1.32	1.24	1.37	1.41	1.46	1.52	1.44	1.51	1.50
Discretionary Cash Flow	1.99	2.03	1.96	1.89	1.41	1.57	1.90	1.66	1.63	0.96	0.87	0.95	0.88	0.92	1.14	1.19
Discretionary Cash Flow																
Net income (loss)	(70,758)	108,587	28,686	93,946	(59,924)	(672,541)	(651,762)	(1,100,922)	(2,485,149)	447	(2,616)	(404)	(4,014)	(6,312)	15,310	19,966
Depreciation, depletion and amortization	52,471	54,704	57,686	225,763	54,439	51,942	43,209	35,677	185,267	17,289	16,750	16,533	15,842	66,414	63,393	64,726
Impairments	49,063	0	0	104,059	62,746	991,921	546,835	1,162,961	2,764,463	0	0	0	0	0	0	0
Deferred income taxes	4,024	13,643	33,293	66,592	(25,443)	(347,298)	87,537	(71,733)	(356,937)	274	0	0	0	274	9,384	12,237
Non-cash (gain) loss from commodity derivatives	0	(19,115)	(29,737)	(53,082)	45,649	15,854	20,749	13,806	96,058	1,750	1,750	1,750	1,750	7,000	0	0
Non-cash (gain) loss from hedging and derivatives	54	(872)	(880)	(1,698)	0	0	0	0	0	0	0	0	0	0	0	0
Stock-based compensation	5,478	4,908	5,089	20,826	5,630	4,391	6,962	5,263	22,246	5,442	5,466	5,148	6,196	22,253	22,475	22,700
Non-cash interest expense	3,880	3,992	5,237	16,510	1,742	1,727	4,591	1,794	9,854	1,256	1,256	1,256	1,256	5,023	5,023	5,023
Gain on disposition of BBEP units	(1,289)	(122,463)	(9,496)	(217,894)	0	0	0	0	0	0	0	0	0	0	0	0
Loss from BBEP in excess of cash distributions, net	27,253	32,797	(10,985)	28,269	0	0	0	0	0	0	0	0	0	0	0	0
(Gain) loss from sale of properties	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Divestiture expenses	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Minority interest expense	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Income from equity affiliates in excess of cash distributions	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	89	1,022	(2,008)	1,348	(41,126)	357	167	542	(40,060)	0	0	0	0	0	0	0
Discretionary Cash Flow	70,265	77,203	76,885	284,639	48,454	51,183	63,266	52,311	215,214	31,382	27,529	29,206	25,952	114,070	135,277	144,344

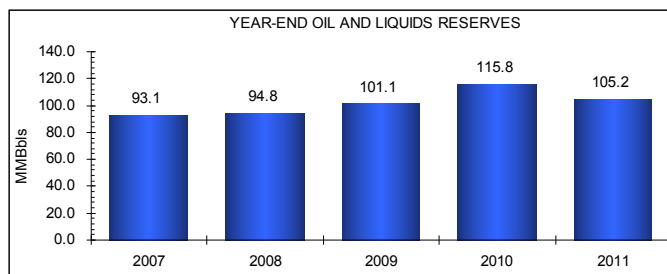
Source: Citi Research

Figure 2. KWK Q4'12 Variance Analysis

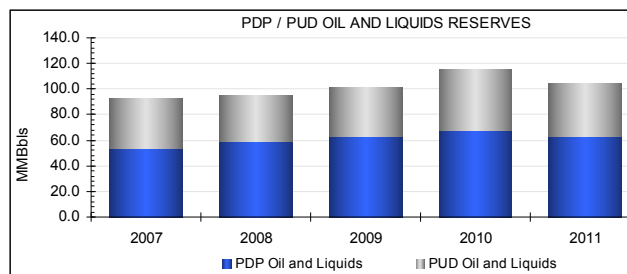
	Q4 2011 Actual	Q3 2012 Actual	Q4 2012 Actual	Q4 2012 Citi Est.	Q4'12 Act. vs Q4'12 Citi Estimate (%)	Q4'12 Act. vs Q4'11 Act. (%)	Q4'12 Act. vs Q3'12 Act. (%)
Natural Gas Production (Mcf/d)	336,600	291,300	274,900	281,105	-2.2%	-18.3%	-5.6%
NGL Production (Bbls/d)	11,892	11,073	10,525	10,187	3.3%	-11.5%	-4.9%
Oil Production (Bbls/d)	<u>759</u>	<u>761</u>	<u>725</u>	<u>776</u>	<u>-6.6%</u>	<u>-4.5%</u>	<u>-4.7%</u>
Total Production (Mcf/d)	412,506	362,304	342,400	346,885	-1.3%	-17.0%	-5.5%
Liquids	18.4%	19.6%	19.7%	19.0%	4%	7%	1%
Gas	81.6%	80.4%	80.3%	81.0%	-1%	-2%	0%
Realized Total Gas Price-Hedged (\$/Mcf)	\$4.73	\$4.23	\$4.50	\$4.67	-4%	-5%	6%
Realized NGL Price-Hedged (\$/Bbl)	\$38.50	\$37.75	\$38.50	\$37.93	1%	0%	2%
Realized Oil Price-Hedged (\$/Bbl)	\$85.55	\$83.88	\$78.55	\$80.17	-2%	-8%	-6%
INCOME STATEMENT (\$,000)							
Natural gas, NGL and oil	194,473	157,699	156,294	162,077	-4%	-20%	-1%
Sales of purchased natural gas	26,529	21,313	19,564	21,526	-9%	-26%	-8%
Other	5,095	(1,310)	3,214	0	NM	-37%	-345%
Total revenues	226,097	177,702	179,072	183,603	-2%	-21%	1%
Lease operating	29,508	22,115	22,927	23,137	-1%	-22%	4%
Gathering, processing and transportation	48,359	41,338	39,277	39,573	-1%	-19%	-5%
Production and ad valorem taxes	5,382	6,881	4,562	6,278	-27%	-15%	-34%
Cost of purchased natural gas	26,144	21,254	19,513	21,226	-8%	-25%	-8%
Other operating costs	229	670	742	0	NM	NM	NM
Depletion, depreciation and accretion	60,902	43,209	35,677	35,743	0%	-41%	-17%
Impairment	54,996	546,835	1,162,961	0	NM	NM	113%
General and administrative	17,837	17,335	20,861	16,468	27%	17%	20%
Total operating expenses	243,357	699,637	1,306,520	142,425	817%	437%	87%
Operating income (loss)	(17,260)	(521,935)	(1,127,448)	41,177	-2838%	6432%	116%
Income (loss) from earnings of BBEP	24,282	0	0	0	NM	NM	NM
Impairment of investment in BBEP	0	0	0	0	NM	NM	NM
Interest expense	(43,901)	(42,102)	(41,703)	(40,839)	2%	-5%	-1%
Income (loss) before income taxes	47,448	(569,410)	(1,172,729)	(4,491)	26013%	-2572%	106%
Income Tax Expense	(20,017)	(82,352)	71,807	0	NM	-459%	-187%
Tax Rate	42%	NM	NM	NM	NM	NM	NM
Reported Net Income (Loss)	27,431	(651,762)	(1,100,922)	(4,491)	24414%	-4113%	69%
Reported Net Income (Loss) Per Share	0.16	(3.83)	(6.47)	(0.03)	24427%	-4093%	69%
Recurring Net Income (Loss)	(371)	(7,541)	(2,397)	(4,491)	-47%	546%	-68%
Recurring Diluted Net Income (Loss) Per Share	(0.00)	(0.04)	(0.01)	(0.03)	-47%	542%	-68%
Discretionary Cash Flow	60,286	63,266	52,311	51,985	1%	-13%	-17%
Discretionary Cash Flow Per Share	0.36	0.37	0.31	0.31	1%	-14%	-17%
Diluted Shares Outstanding (,000)	169,409	170,179	170,260	170,349	0%	1%	0%
COMPONENT ANALYSIS							
Oil & gas revenue	5.12	4.73	4.96	5.08	-2%	-3%	5%
Lease operating	0.78	0.66	0.73	0.73	0%	-6%	10%
Gathering, processing and transportation	1.27	1.24	1.25	1.24	1%	-2%	1%
Production and ad valorem taxes	0.14	0.21	0.14	0.20	-26%	2%	-30%
Production and ad valorem taxes (% of O&G Revenues)	3.2%	6.6%	4.0%	5.5%	-28%	23%	-40%
DD&A	1.60	1.30	1.13	1.12	1%	-29%	-13%
G&A	0.33	0.31	0.50	0.36	37%	51%	59%
Interest Expense	1.16	1.26	1.32	1.28	3%	14%	5%
Discretionary Cash Flow	1.59	1.90	1.66	1.63	2%	5%	-13%
Non cash/Nonrecurring A-T Charges (Gains)	(27,802)	644,221	1,098,525	0	NM	-4051%	71%
Deferred Taxes	15,632	83,497	(71,733)	0	NM	-559%	-186%
Deferred Tax %	78.1%	101.4%	99.9%	100%	0%	28%	-1%
Discretionary Cash Flow							
Net income (loss)	27,431	(651,762)	(1,100,922)	(4,491)	24414%	-4113%	69%
Depreciation, depletion and amortization	60,902	43,209	35,677	35,743	0%	-41%	-17%
Impairments	54,996	546,835	1,162,961	0	NM	NM	NM
Deferred income taxes	15,632	87,537	(71,733)	0	NM	-559%	-182%
Non-cash (gain) loss from commodity derivatives	(4,230)	20,749	13,806	6,224	122%	-426%	-33%
Non-cash (gain) loss from hedging and derivatives	0	0	0	0	NM	NM	NM
Stock-based compensation	5,351	6,962	5,263	4,940	7%	-2%	-24%
Non-cash interest expense	3,401	4,591	1,794	4,591	-61%	-47%	-61%
Gain on disposition of BBEP units	(84,646)	0	0	0	NM	NM	NM
Loss from BBEP in excess of cash distributions, net of interest	(20,796)	0	0	0	NM	NM	NM
(Gain) loss from sale of properties	0	0	0	0	NM	NM	NM
Divestiture expenses	0	0	0	0	NM	NM	NM
Minority interest expense	0	0	0	0	NM	NM	NM
Income from equity affiliates in excess of cash distributions	0	0	0	0	NM	NM	NM
Other	2,245	167	542	0	NM	NM	NM
Discretionary Cash Flow	60,286	63,266	52,311	51,985	1%	-13%	-17%

Source: Citi Research

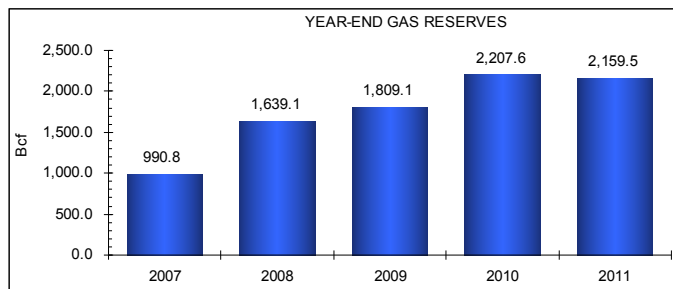
Figure 3. KWK Reserves Summary (As of YE 2011)



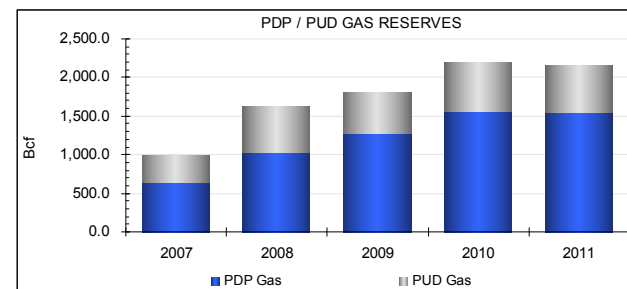
MMBbls	2007	2008	2009	2010	2011
Beginning Balance	54.3	93.1	94.8	101.1	115.8
+ Drilling	47.2	32.1	15.7	13.8	2.7
+ Acquisitions	0.0	0.0	0.0	0.0	0.0
+ Revisions	1.7	(25.7)	(4.0)	5.5	(8.6)
Reserves Added	49.0	6.4	11.7	19.3	(5.9)
- Sales	(7.1)	0.0	0.0	0.0	0.0
- Production	(3.1)	(4.7)	(5.4)	(4.7)	(4.7)
Year-End Reserves	93.1	94.8	101.1	115.8	105.2
% Domestic	100%	100%	100%	100%	100%
% Foreign	0%	0%	0%	0%	0%



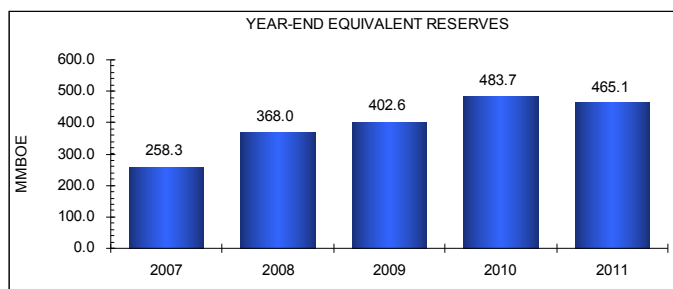
MMBbls	2007	2008	2009	2010	2011
Proved Developed	53.5	58.7	63.5	67.7	63.5
Proved Undeveloped	39.6	36.2	37.7	48.1	41.7
% Proved Developed	57%	62%	63%	58%	60%
% Proved Undeveloped	43%	38%	37%	42%	40%
% PDP Domestic	100%	100%	100%	100%	100%
% PDP Foreign	0%	0%	0%	0%	0%
% PUD Domestic	100%	100%	100%	100%	100%
% PUD Foreign	0%	0%	0%	0%	0%



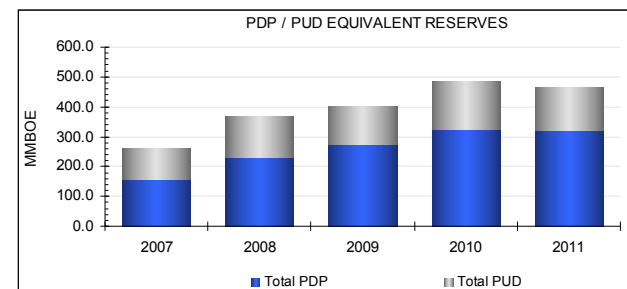
Bcf	2007	2008	2009	2010	2011
Beginning Balance	1,241.7	990.8	1,639.1	1,809.1	2,207.6
+ Drilling	326.6	582.6	472.4	341.0	231.7
+ Acquisitions	0.0	300.0	0.3	147.0	0.0
+ Revisions	(12.7)	(166.1)	(96.0)	12.2	(157.6)
Reserves Added	313.8	716.4	376.6	500.2	74.2
- Sales	(505.1)	(0.0)	(120.6)	0.0	0.0
- Production	(59.6)	(68.1)	(86.0)	(101.7)	(122.2)
Year-End Reserves	990.8	1,639.1	1,809.1	2,207.6	2,159.5
% Domestic	67%	80%	86%	88%	85%
% Foreign	33%	20%	14%	12%	15%



Bcf	2007	2008	2009	2010	2011
Proved Developed	639.9	1,034.9	1,267.4	1,555.7	1,543.6
Proved Undeveloped	350.8	604.2	541.6	651.9	616.0
% Proved Developed	65%	63%	70%	70%	71%
% Proved Undeveloped	35%	37%	30%	30%	29%
% PDP Domestic	59%	73%	82%	84%	81%
% PDP Foreign	41%	27%	18%	16%	19%
% PUD Domestic	81%	91%	95%	96%	95%
% PUD Foreign	19%	9%	5%	4%	5%



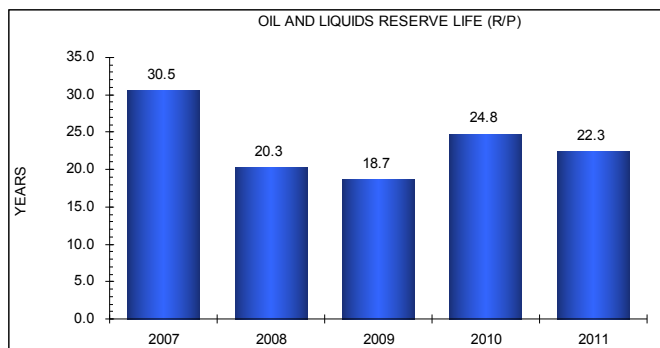
MMBOE	2007	2008	2009	2010	2011
Beginning Balance	261.3	258.3	368.0	402.6	483.7
+ Drilling	101.7	129.2	94.4	70.7	41.3
+ Acquisitions	0.0	50.0	0.1	24.5	0.0
+ Revisions	(0.4)	(53.4)	(20.0)	7.5	(34.8)
Reserves Added	101.3	125.8	74.5	102.7	6.5
- Sales	(91.3)	(0.0)	(20.1)	0.0	0.0
- Production	(13.0)	(16.0)	(19.7)	(21.6)	(25.1)
Year-End Reserves	258.3	368.0	402.6	483.7	465.1
% Oil and Liquids	36%	26%	25%	24%	23%
% Gas	64%	74%	75%	76%	77%



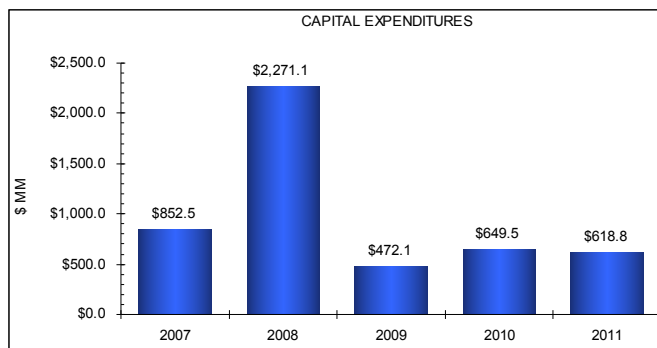
MMBOE	2007	2008	2009	2010	2011
Proved Developed	160.2	231.2	274.7	327.0	320.7
Proved Undeveloped	98.1	136.9	127.9	156.7	144.4
% Proved Developed	62%	63%	68%	68%	69%
% Proved Undeveloped	38%	37%	32%	32%	31%
% PDP Domestic	73%	80%	86%	88%	84%
% PDP Foreign	27%	20%	14%	12%	16%
% PUD Domestic	88%	93%	96%	98%	96%
% PUD Foreign	12%	7%	4%	2%	4%

Source: Citi Research

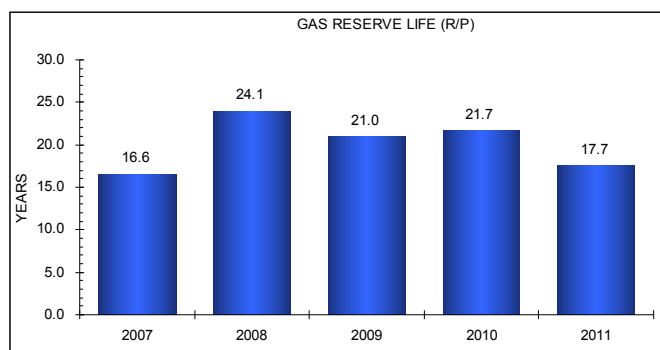
Figure 4. KWK Capital Expenditures and Drilling Summary (As of YE 2011)



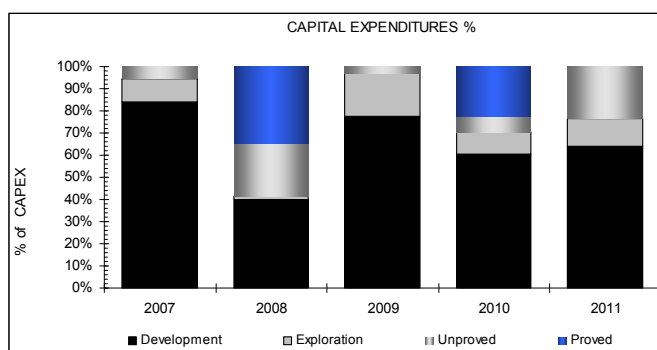
Years	2007	2008	2009	2010	2011
Domestic	30.5	20.3	18.7	24.8	22.4
Foreign	2.0	4.0	4.3	4.0	5.5
Total Oil and Liquids Reserve Life	30.5	20.3	18.7	24.8	22.3



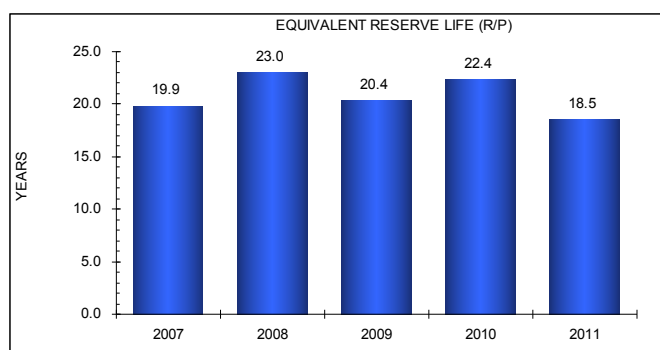
\$ MM	2007	2008	2009	2010	2011
Proved Acquisitions	\$0.0	\$787.2	\$0.1	\$144.9	\$0.0
Unproved Acquisitions	48.5	538.8	14.0	45.1	145.1
Exploration	87.8	40.4	92.2	67.3	79.0
Development	716.2	904.7	365.8	392.2	394.7
Total Capital Expenditures	\$852.5	\$2,271.1	\$472.1	\$649.5	\$618.8



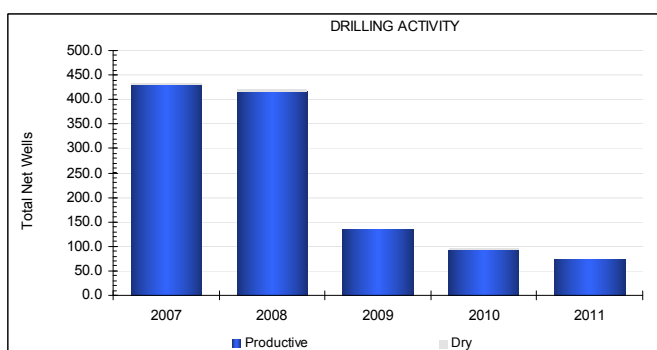
Years	2007	2008	2009	2010	2011
Domestic	17.0	29.0	25.3	25.4	19.1
Foreign	15.8	14.4	10.4	10.5	12.5
Total Gas Reserve Life	16.6	24.1	21.0	21.7	17.7



% of Total	2007	2008	2009	2010	2011
Proved Acquisitions	0%	35%	0%	22%	0%
Unproved Acquisitions	6%	24%	3%	7%	23%
Exploration	10%	2%	20%	10%	13%
Development	84%	40%	77%	60%	64%
Total Capital Expenditures	100%	100%	100%	100%	100%



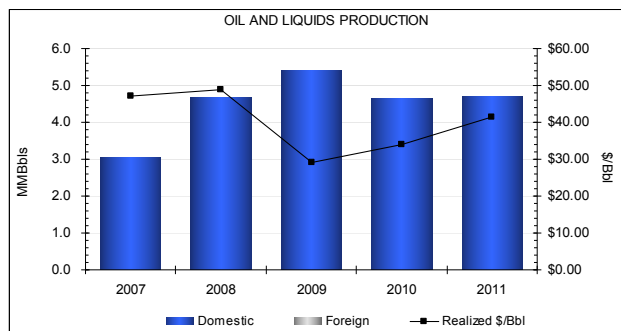
Years	2007	2008	2009	2010	2011
Domestic	21.4	25.6	23.0	25.3	19.8
Foreign	15.8	14.4	10.4	10.5	12.5
Total Reserve Life	19.9	23.0	20.4	22.4	18.5



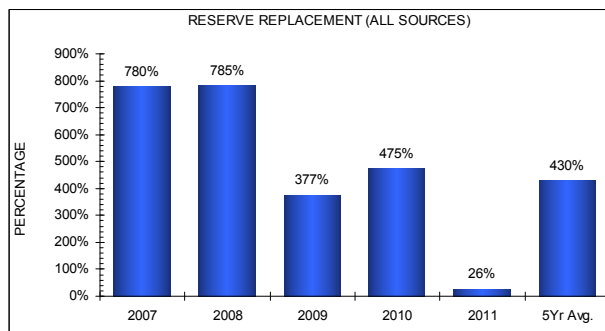
No. of Wells	2007	2008	2009	2010	2011
Productive	429.5	415.7	135.3	92.4	74.5
Dry	3.2	4.0	0.0	1.5	0.0
Total Wells	432.7	419.7	135.3	93.9	74.5
% Exploratory	6%	1%	4%	2%	13%
% Development	94%	99%	96%	98%	87%
Success Rate					
Exploratory	88%	67%	100%	100%	100%
Development	100%	100%	100%	98%	100%

Source: Citi Research

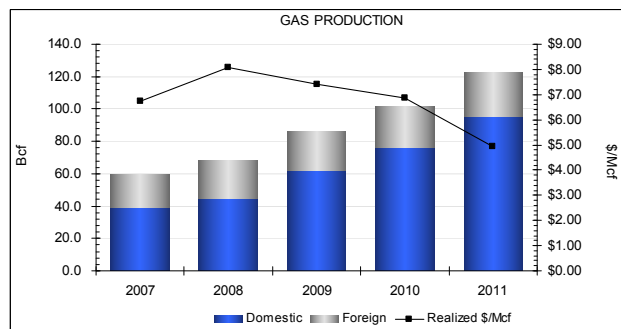
Figure 5. KWK Production and Finding Costs Summary (As of YE 2011)



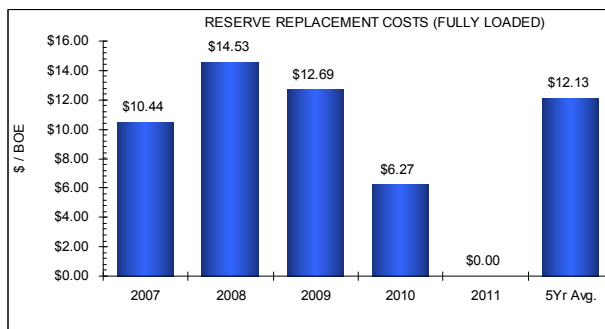
MMBbls	2007	2008	2009	2010	2011
Pricing (\$/Bbl)	\$47.18	\$48.89	\$29.25	\$34.09	\$41.50
Domestic	3.1	4.7	5.4	4.7	4.7
Foreign	0.0	0.0	0.0	0.0	0.0
Total Oil and Liquids Production	3.1	4.7	5.4	4.7	4.7
% Domestic	100%	100%	100%	100%	100%
% Foreign	0%	0%	0%	0%	0%



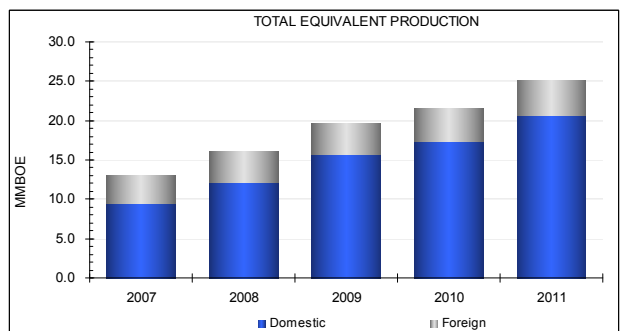
PERCENTAGE	2007	2008	2009	2010	2011	5Yr Avg.
All Sources	780%	785%	377%	475%	26%	430%
Drilling	782%	806%	478%	327%	165%	458%
Drilling + Revisions	780%	473%	377%	362%	26%	352%
Acquisitions	0%	312%	0%	113%	0%	78%



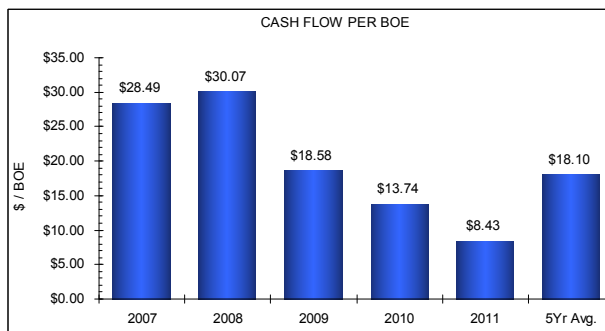
Bcf	2007	2008	2009	2010	2011
Pricing (\$/Mcf)	\$6.73	\$8.10	\$7.42	\$6.86	\$4.95
Domestic	38.9	45.1	61.6	76.4	95.8
Foreign	20.7	23.1	24.4	25.3	26.4
Total Gas Production	59.6	68.1	86.0	101.7	122.2
% Domestic	65%	66%	72%	75%	78%
% Foreign	35%	34%	28%	25%	22%



\$/BOE	2007	2008	2009	2010	2011	5Yr Avg.
Fully Loaded	\$10.44	\$14.53	\$12.69	\$6.27	N/M	\$12.13
Exploration & Development	\$10.44	\$13.73	\$12.70	\$6.38	N/M	\$12.05
E&D w/o Revisions	\$10.40	\$8.06	\$10.01	\$7.05	\$12.27	\$9.26
Acquisitions	N/M	\$15.75	\$2.25	\$5.91	N/M	\$12.51



MMBOE	2007	2008	2009	2010	2011
Pricing (\$/BOE)	\$41.98	\$48.68	\$40.34	\$39.63	\$31.92
Domestic	9.5	12.2	15.7	17.4	20.7
Foreign	3.5	3.8	4.1	4.2	4.4
Total Production	13.0	16.0	19.7	21.6	25.1
% Oil and Liquids	24%	29%	27%	22%	19%
% Gas	76%	71%	73%	78%	81%



\$/BOE	2007	2008	2009	2010	2011	5Yr Avg.
Cash Flow per BOE	\$28.49	\$30.07	\$18.58	\$13.74	\$8.43	\$18.10
Oil & Gas Revenue	\$41.96	\$48.70	\$40.35	\$39.63	\$31.92	\$39.59
- Production Costs	(11.77)	(9.54)	(7.68)	(9.86)	(12.87)	(10.41)
Gross Margin	30.18	39.15	32.68	29.78	19.06	29.19
- G & A	(3.62)	(4.51)	(3.91)	(3.71)	(3.17)	(3.73)
Gross Profit	26.56	34.65	28.76	26.07	15.88	25.46
- Net Interest & Preferred	5.51	(7.38)	(10.19)	(8.94)	(7.71)	(6.65)
- Cash Taxes	(3.58)	2.81	0.01	(3.39)	0.26	(0.71)
Cash Flow	\$28.49	\$30.07	\$18.58	\$13.74	\$8.43	\$18.10
RRE	3x	2.1x	1.5x	2.2x	NM	1.5x

Source: Citi Research

Quicksilver Resources Inc

Company description

Quicksilver is an independent oil and gas exploration & production company with primary operations in the Barnett Shale in Texas and the Horseshoe Canyon in Alberta, Canada. Most of the Company's upside potential comes from natural gas with ~130k net acres in the Horn River Basin. However, KWK also has meaningful oily potential with ~150k net in the Permian Basin, ~160k net acres in the Niobrara, and ~170k net acres in the Alberta Basin Bakken. Members of the Darden family manage KWK and are its largest shareholder on a combined basis. The Company was founded in 1997 and is headquartered in Fort Worth, TX.

Investment strategy

We rate Quicksilver Resources Neutral. Overall, we expect the Company's Horn River Basin and Barnett Shale natural gas assets to drive below average production growth over the next few years. While KWK is primarily leveraged to natural gas, there are multiple oily resource-type play opportunities in its portfolio, including its positions in the Niobrara, Permian Basin, Alberta Basin Bakken, and the Exshaw oil play in the Horn River Basin. While commercial development has not yet been proven in any of these positions to date, each could potentially add significant value to the asset base. However, after failing to take the Company private in 2011, the Darden family has struggled to bring KWK's leverage more inline with its peers and the Company remains capital constrained in a depressed natural gas price environment.

Valuation

Our price target of \$2.00 is based on the stock achieving EV/ debt adjusted cash flow multiples of 8.0x/8.5x for 2013/2014, and ~160% of our proven only NAV (using our near term 'normalized' price deck of \$90.00/Bbl WTI and \$4.50/MMBtu composite spot price).

Risks

Risks to our price target include:

Drilling Results - Disappointing drilling results, particularly in the Niobrara, Barnett, Horn River Basin and Permian Basin could negatively impact KWK's share performance.

Repeatability - In the past, Quicksilver has achieved good organic growth and low F&D costs through the exploitation of its Barnett shale position. However, as the Barnett play matures, Quicksilver is at risk of not securing as compelling of opportunities.

Leverage - KWK has substantially more debt than most of its peers. If the Company is not able to reduce its leverage via its proposed MLP drop downs, management may elect to raise capital via other potentially more dilutive alternatives.

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.

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.

Appendix A-1

Analyst Certification

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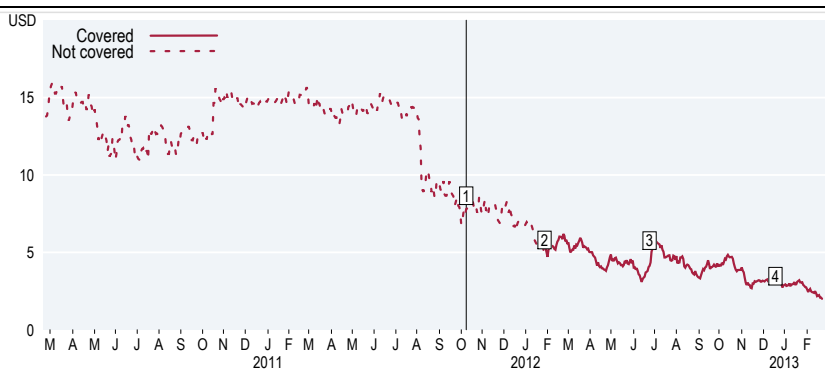
Quicksilver Resources Inc (KWK)

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	*2	*5.75	5.29

* Indicates change

Date	Rating	Target Price	Closing Price
3 25-Jun-12	2	*4.15	4.13
4 19-Dec-12	2	*3.75	3.46

Rating/target price changes above reflect Eastern Standard Time

Quicksilver Resources Inc (KWK)

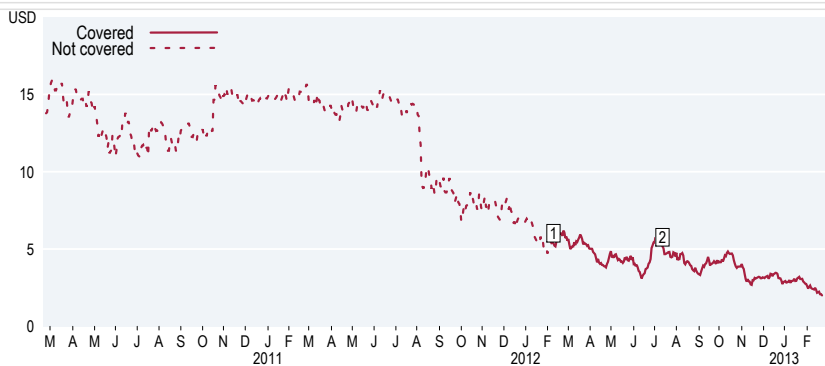
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Joseph Stewart

Covered since January 27 2012



Date	Rating	Target Price	Closing Price
1 9-Feb-12	*ADD LP	-	5.36

* Indicates change

Date	Rating	Target Price	Closing Price
2 12-Jul-12	*REM LP	-	5.17

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

12 Month Rating			Relative Rating		
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49%	38%	12%	7%	86%	7%
53%	49%	45%	60%	49%	55%

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