

## COMSTOCK RESOUR (CRK-NYSE)

|                               |                |
|-------------------------------|----------------|
| <b>Current Recommendation</b> | <b>Buy</b>     |
| Prior Recommendation          | Hold           |
| Date of Last Change           | 03/24/2003     |
| Current Price (04/1/2003)     | \$10.10        |
| <b>Target Price</b>           | <b>\$13.00</b> |

### OUTLOOK

We are maintaining our 2003 earnings estimate for CRK of \$1.28 and 2004 estimate of \$0.92. We are increasing 2003 revenue estimates from \$205M to \$881M and for Year 2004 from \$177M to \$770M. 2003 Capital expenditures and exploration expenditures are up by 37% and 38%, respectively over 2002. Industry fundamentals remain strong.

### SUMMARY DATA

|                             |                |
|-----------------------------|----------------|
| <b>52 Week High</b>         | <b>\$10.65</b> |
| <b>52 Week Low</b>          | <b>\$5.50</b>  |
| <b>One Year Return (%)</b>  | <b>29.71</b>   |
| <b>Beta</b>                 | <b>0.51</b>    |
| <b>Average Daily Volume</b> | <b>109,954</b> |

|                                      |              |
|--------------------------------------|--------------|
| <b>Shares Outstanding (mil)</b>      | <b>29</b>    |
| <b>Market Capitalization (\$mil)</b> | <b>\$293</b> |
| <b>Short Interest Ratio (days)</b>   | <b>3.14</b>  |
| <b>Institution Ownership (%)</b>     | <b>49</b>    |
| <b>Insider Ownership (%)</b>         | <b>10</b>    |

|                             |               |
|-----------------------------|---------------|
| <b>Annual Cash Dividend</b> | <b>\$0.00</b> |
| <b>Dividend Yield (%)</b>   | <b>0.00</b>   |

|                               |             |
|-------------------------------|-------------|
| <b>PE using 12 months EPS</b> | <b>27.3</b> |
|-------------------------------|-------------|

|                                |            |
|--------------------------------|------------|
| <b>Historical Growth Rates</b> |            |
| <b>Sales (%)</b>               | <b>15</b>  |
| <b>Earnings Per Share (%)</b>  | <b>-12</b> |
| <b>Dividend (%)</b>            | <b>N/A</b> |

|                                |              |
|--------------------------------|--------------|
| <b>P/E using 2003 Estimate</b> | <b>7.89</b>  |
| <b>P/E using 2004 Estimate</b> | <b>10.98</b> |

|                   |          |
|-------------------|----------|
| <b>Zacks Rank</b> | <b>1</b> |
|-------------------|----------|

|                                 |                            |
|---------------------------------|----------------------------|
| <b>Risk Level</b>               | <b>BELOW AVG.</b>          |
| <b>Type of Stock</b>            | <b>Small-Value</b>         |
| <b>Industry</b>                 | <b>OIL-US EXP&amp;PROD</b> |
| <b>Company Rank in Industry</b> | <b>16 of 62</b>            |

### ZACKS ESTIMATES

#### Revenue

(in millions of \$)

|      | <b>Q1</b> | <b>Q2</b> | <b>Q3</b> | <b>Q4</b> | <b>Year</b> |
|------|-----------|-----------|-----------|-----------|-------------|
|      | (Mar)     | (Jun)     | (Sep)     | (Dec)     | (Dec)       |
| 2001 | 68 A      | 47 A      | 30 A      | 24 A      | 168 A       |
| 2002 | 27 A      | 38 A      | 36 A      | 43 A      | 144 A       |
| 2003 | 367 E     | 54 E      | 47 E      | 47 E      | 881 E       |
| 2004 | N/A E     | N/A E     | N/A E     | N/A E     | 770 E       |

#### Earnings per Share

(EPS is operating earnings before non recurring items)

|      | <b>Q1</b> | <b>Q2</b> | <b>Q3</b> | <b>Q4</b> | <b>Year</b> |
|------|-----------|-----------|-----------|-----------|-------------|
|      | (Mar)     | (Jun)     | (Sep)     | (Dec)     | (Dec)       |
| 2001 | \$0.68 A  | \$0.37 A  | \$0.09 A  | -\$0.08 A | \$1.09 A    |
| 2002 | -\$0.11 A | \$0.11 A  | \$0.10 A  | \$0.29 A  | \$0.37 A    |
| 2003 | \$0.43 E  | \$0.32 E  | \$0.23 E  | \$0.26 E  | \$1.28 E    |
| 2004 | N/A E     | N/A E     | N/A E     | N/A E     | \$0.92 E    |

Zacks Projected EPS Growth Rate- Next 5 Yrs

**13**

## KEY POINTS

- CRK has maintained financial discipline by using excess cash flow to improve its balance sheet.
- Financial results for 2002 were substantially lower than the previous year due to a significant decrease in natural gas prices in 2002. The company's restatement of earnings will have no material effect on its financial outlook.
- Industry fundamentals remain strong - commodity prices are forecast to increase and supply/demand factors are favorable.
- 2003 capital expenditures will be \$100M, a 37% increase over 2002 and exploration expenditures are budgeted at \$49M, 38% higher over 2002. The company plans to drill 78 wells this year.
- The Company operates 57% of its proved oil and natural gas reserve base which allows it to control operating costs, the timing and plans for future development, the level of drilling and lifting costs and the marketing of production.
- Current target price is \$13.00 – 29% above current price.

## OVERVIEW

Comstock Resources, Inc. is an independent energy company engaged in the acquisition, development, production and exploration of oil and natural gas. The Company's operations are concentrated in the East Texas/North Louisiana, Gulf of Mexico, Southeast Texas and South Texas regions, which account for approximately 34%, 28%, 22% and 5% of its proved reserves, respectively. The Company's properties have an average reserve life of approximately 12 years and have extensive development and exploration potential.

For the year 2002, Comstock reported net income from continuing operations of \$11.0M, or 37 cents per share as compared to net income from continuing operations of \$32.9M, or \$1.00 per share for the same period in 2001. The 2002 financial results were substantially lower than the previous year due to a significant decrease in natural gas prices in 2002 versus 2001. Total revenues for 2002 were \$150.2M as compared to \$166.8M in 2001. For the year ended December 31, 2002, Comstock's realized natural gas prices averaged \$3.30 per Mcf and its realized oil prices averaged \$24.95 per barrel as compared to 2001's average prices of \$4.58 per Mcf for natural gas and \$25.46 per barrel for oil.

Comstock will restate its financial statements for 1998, 1999, 2000 and 2001 which will result in earnings in certain years being slightly lower but slightly higher earnings in the year the company recovers expenses from a joint venture partnership. Overall, the financial condition of the company has not been materially affected by these restatements.

In 2002 Comstock spent \$54M to drill 47 wells (27 development wells and 20 exploratory wells), \$11M on acquisitions of producing properties, \$7M on acquiring exploratory acreage, \$7M on recompletions and workovers, and \$5M for new production facilities in 2002, for a total of \$84M. Overall, Comstock had a 75% drilling success rate in its exploration program in 2002.

The 2003 capital expenditure budget for development and exploration activities is \$100M, a 37% increase over \$73M in 2002 and exploration expenditures are budgeted at \$49M, compared with \$35.4M a year ago. In its 2003 drilling program, Comstock currently plans to drill 78 wells, 37 development and

41 exploratory. Comstock's Offshore Gulf of Mexico operating region will account for the largest portion of the 2003 budget with forecasted expenditures of \$54 million.

At December 31, 2002, the Company operates 57% of its proved oil and natural gas reserve base. This allows the Company to control operating costs, the timing and plans for future development, the level of drilling and lifting costs and the marketing of production. As an operator, the Company receives reimbursements for overhead from other working interest owners, which reduces its general and administrative expenses.

Comstock has maintained financial discipline. The company is using excess cash flow to improve its balance sheet. CRK has successfully transitioned from an "acquire and exploit" company to one that is positioned to deliver future growth through internally generated, or organic, projects. This fact alone separates the company from its comparable peer group, which continues to struggle to deliver organic production and reserve growth.

---

## INDUSTRY OUTLOOK

Wall Street analysts believe that fundamentals are in place for several years of sustained higher natural gas prices. Raymond James is raising its 2003 U.S. natural gas price forecast from \$5/Mcf to \$6/Mcf, well above Street consensus of \$4.40/Mcf. In addition, its forecast for 2004 is \$5.00/Mcf. While the market continues to focus on the easing of the near-term crisis in natural gas due to the end of winter, a more sustained, chronic gas shortage situation is expected. A supply/demand analysis suggests that without significant additional gas demand destruction, gas inventories by the end of this summer will be short.

The strength in oil prices has persisted much longer than many anticipated, as the looming Iraqi conflict has taken quite a while to resolve and oil inventories have continued to decline largely as a result of cold winter temperatures and meager Venezuelan crude exports. While oil prices are not expected to remain at current levels, prices should remain strong through the summer and then trend back towards the mid \$20 per barrel range. Analysts feel it may take several months after the end of the Iraqi conflict to rebuild oil inventories. Once inventories are rebuilt, prices should hold within \$25 to \$30 per barrel. Based on these factors, Raymond James has raised 2003 average oil price from \$26.50 per barrel to \$29.50 per barrel and established a 2004 forecast of \$25.00 per barrel.

---

## INDUSTRY POSITION

Analysts continue to be very positive on E&P stocks for three key reasons: 1) natural gas and oil prices are likely to remain higher than many investors anticipate; 2) the current market valuations of E&P stocks have not meaningfully incorporated the substantial increase in commodity prices that have occurred over the last six months; and 3) implied valuations of reserves in the ground are very cheap.

E&P companies favored are those with significant natural gas exposure, strong production growth profiles and/or relatively low current market valuations. Finally, the recent sharp pullback in spot natural gas prices from roughly \$7.00/Mcf to about \$5.40/Mcf over the last two weeks has sparked a dramatic sell-off in the E&P sector, particularly in the less liquid small and mid-cap stocks. This decline in near-term NYMEX gas prices has had a pronounced effect on shorter reserve-life companies. Furthermore, unwarranted sector rotation out of energy and into the broader market has exacerbated the recent decline. This sell-off presents a compelling opportunity for investors.

### Top 5 Public Companies in the industry

| <i>Ticker</i> | <i>Company</i>  | <i>Market Share</i> | <i>Zacks Rec</i> |
|---------------|-----------------|---------------------|------------------|
| DVN           | Devon Energy    | 14%                 | Buy              |
| APC           | Anadarko Petrol | 13%                 | Hold             |
| BR            | Burlingtn Res   | 10%                 | Buy              |
| APA           | Apache Corp     | 9%                  | Hold             |
| NBL           | Noble Energy    | 5%                  | Hold             |

## RECENT NEWS

In January Comstock Resources announced that total proved oil and gas reserves as of December 31, 2002 were 488.8 billion cubic feet ("Bcf") of natural gas and 20.8 million barrels of crude oil or 613.9 Bcf equivalent of natural gas ("Bcfe"), an 8% increase over total proved oil and gas reserves as of December 31, 2001 of 566.2 Bcfe. Natural gas reserves account for 80% of total proved reserves at the end of 2002 and 66% of the reserves were classified as developed at the end of 2002.

Comstock replaced 228% of its 2002 production of 41.1 Bcfe with the successful results from its 2002 exploration and acquisition activities. Comstock sold 5 Bcfe of proved reserves during 2002 in its divestitures of certain marginal oil and gas properties.

## VALUATION

The current price target for CRK is \$13.00. The company stands to benefit from increases in natural gas production, higher commodity prices and favorable supply/demand environment. In February, Raymond James reiterated their Strong Buy rating on the stock with a price target of \$14 and Lehman Brothers upgraded their ratings from Underweight to Equal-weight, with a price target from \$10 to \$13.

Our valuation of CRK is based on a three-stage dividend discount model consisting of a growth, transition, and maturity stage. We anticipate five years of earnings growth at the projected rate of 13%.

## RISKS

The primary risk of investing in any oil and gas producing company is a depressed price environment, which reduces the company's cash flow generation ability and, consequently, production and reserve growth.

Producing in the Gulf of Mexico presents additional risks, such as hurricanes and pipeline damages. Investors should also keep in mind the potential volatility that may occur when an exploration-oriented and financially leveraged company such as Comstock experiences disappointments in its drilling programs.

According to our research, the Company's 12-month P/E and ROE are roughly on par with the industry averages however, its debt to total market cap ratio is high at 62%.

## SIGNALING & OWNERSHIP

Currently, the three largest holders of the stock are Dimensional Fund Advisors (7%), Becker Capital Management (6%) and Barclays Global Investors (5%). Together they control in aggregate roughly 18% of the shares. There has been insider trading in the past three months. Compression, Inc. sold 50,300 shares on January 2nd and 32,000 shares on January 3rd. Roland Burns, CFO, bought 11,250 shares on January 15th. Miles Jay Allison, Chairman, bought 45,000 shares on January 15th and David Sledge, Director, sold 10,000 shares and exercised options on 10,000 shares on March 17th.

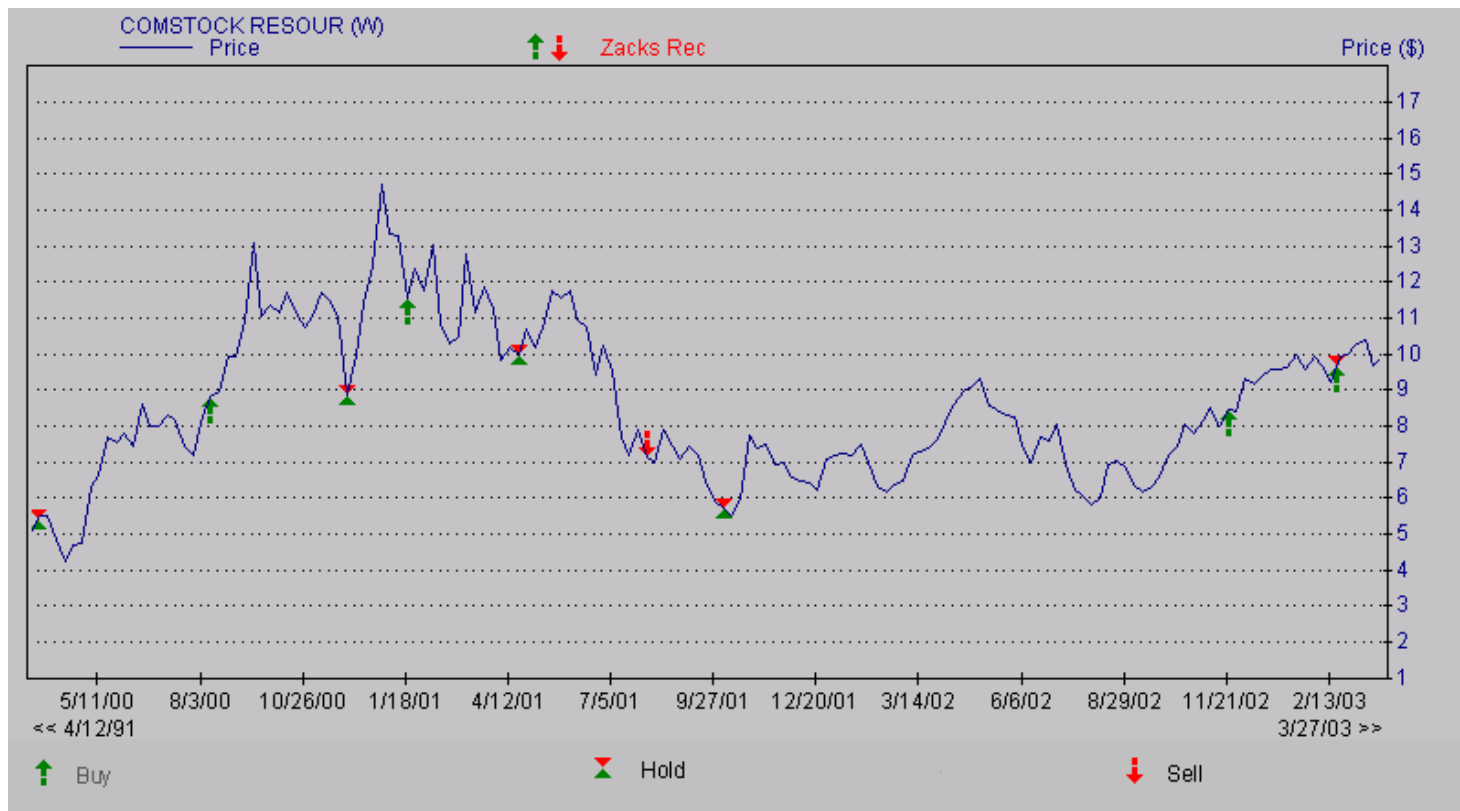
## PROJECTED INCOME STATEMENT & BALANCE SHEET

### COMSTOCK RESOUR

**Income Statement and Balance Sheet**  
(Dollars in millions, except EPS data)

|                                  | 12/98 | 12/99 | 12/00 | 12/01 | 12/02 | 12/03E |
|----------------------------------|-------|-------|-------|-------|-------|--------|
| Sales                            | 93    | 92    | 170   | 168   | 150   | 205    |
| Cost of Goods Sold               | 84    | 24    | 30    | 32    | 33    | 46     |
| SG&A                             | N/A   | 2     | 4     | 4     | 11    | 14     |
| Other operating expenses         | N/A   | 47    | 48    | 53    | 48    | 65     |
| Interest and other               | N/A   | 22    | 47    | 42    | 39    | 53     |
| Zacks Adjusted Income before NRI | -6    | -3    | 41    | 37    | 14    | 36     |
| <b>Net Income</b>                | -17   | -3    | 41    | 36    | 10    | 36     |
| Diluted EPS before NRI           | -0.24 | -0.19 | 1.21  | 1.09  | 0.37  | 1.26   |
| <b>Reported EPS</b>              | -0.69 | -0.19 | 1.21  | 1.06  | 0.34  | 1.26   |
| Cash & Marketable Securities     | 5     | 8     | 7     | 6     | 6     | 6      |
| Current Assets                   | 24    | 32    | 49    | 40    | 40    | 40     |
| Current Liabilities              | 73    | 36    | 46    | 38    | 50    | 50     |
| Long Term Debt                   | 240   | 254   | 234   | 372   | 366   | 366    |
| Shareholder's Equity             | 110   | 137   | 180   | 216   | 226   | 262    |

## HISTORICAL ZACKS RECOMMENDATIONS



## DISCLOSURES

The analyst writing this report holds no position in the company.

### Zacks Rank

Zacks Buy, Hold, Sell recommendations are based on the value of the Zacks Rank, which can equal 1,2,3,4,5 and on the Zacks Analysts assessment of the investment potential of the company. Details on how the Zacks Rank is calculated can be found in the book "Ahead of the Market" by Mitch Zacks, published by Harper Collins, 2003

### Zacks EPS and Revenue Forecasts

Zacks forecasts of EPS and Revenue are based on a historical analysis of the EPS and Revenue accuracy of the brokerage analysts who have forecast EPS and Revenue over the last eight years. The Zacks EPS forecast is not the consensus forecast.