



# US Spinoff Report™

Valuations of Corporate Divestitures

## Parent: Questar Corporation

Sector: Integrated Oil / Gas

## Spinoff: QEP Resources, Inc

Sector: O&G Exploration & Production

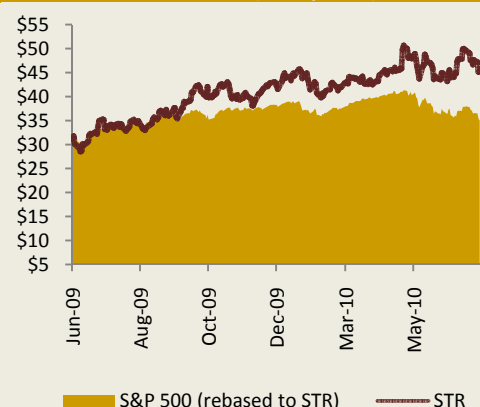
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### Target price & risk - STR / QEP

	STR (ex-Spinoff)	QEP
Target price	<b>\$18.1</b>	<b>\$47.2 or \$42.7</b>
Rating	<b>Buy</b>	<b>Absolute Buy</b>
Share price	\$15.4	\$28.2
Listing Exchange	NYSE	NYSE
Horizon (months)	12	12
Risk	Medium	High

### Performance & EV - STR (Pre Spinoff)



Return 5d/YTD/1Y (%)	-2.5/9.4/46.5
Volatility 30d/90d/200d (%)	47.0/41.4/39.5
High/Low 1Y (\$)	52.6/28.0
Avg d turn 30d/90d (\$ m)	113.8/88.8
Market Cap (\$ m)	7,965
Net IB Debt (\$ m)	2,724
Enterprise value (\$ m)	10,743

### Miscellaneous - STR (Pre Spinoff)

Spinoff announcement date	April 24, 2010
Forthcoming Event Date	July 27, 2010
Majority shareholder	Vanguard Group, Inc
O/S shares m	175
Free float in %	99.0%

## Positive Growth Outlook for Separate Entities

We believe that the separation of Questar's regulated *gas head to home business* and QEP's commodity price-sensitive *E&P business* allows investors to choose their target investments, implying an upside for both the businesses. Questar is replaced by its Spinoff QEP in the S&P500, while Questar (post-Spinoff) moves from the S&P500 to S&P400 Midcap index. We expect short-term selling to be absorbed without any significant impact on stock prices. After the Spinoff distribution on June 30, 2010, the separate entities were listed and started trading on July 1, 2010 on the NYSE.

### STR: Low-risk, low-growth, regulated cash generative business to provide an attractive and growing dividend yield

STR's low-risk utility investment with complementary natural gas production, transportation and delivery businesses provide little downside risk and a sustained high single digit growth in EBITDA and net profits with excellent dividend yields. Post Spinoff, STR's regulated business, freed from the volatility of the E&P business, will help to generate strong cash flows, thus enabling growth in dividend yields in line with profits while generating enough surpluses to fund capex requirements with a low requirement of outside funding. Further, Questar Pipeline and Questar Gas earn regulated ROEs, which will help earnings grow in line with the rate base and negate the impact of business cycles. **We initiate with a Buy rating on STR (post Spinoff) with a one year target price of \$18.1 per share, implying an upside potential of 17.5% to its current share price of \$15.4 per share.**

### QEP: Amongst top-5 in production growth and bottom-5 in costs

QEP's high quality E&P assets with a strong track record of production and reserve growth of 13.6% and 16.7% CAGR respectively over 2005-2009, positions QEP amongst the top-5 E&P players. QEP occupies commendable industry bottom quartile positions in production cost and drilling time. We believe that there is a significant upside in the probable reserves, and the upcoming Iron Horse processing plants in FY11 and FY12 will drive the earnings of the midstream business and fund capital investments. **We recommend an Absolute Buy rating on QEP with a target price of \$47.2 (Scenario 1) or \$42.7 (Scenario 2) per share, implying an upside potential of 67.4% or 51.5% to its current trading price of \$28.2 per share.**

### Key figures and ratios (in \$ m)

Pro Forma (Y/E Dec 31)	STR (Post Spinoff)			QEP		
	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Total Revenue	1,110	1,163	1,277	1,973	2,064	2,408
Revenue growth (%)	-9.8%	4.8%	9.8%	-18.2%	4.6%	16.7%
EBIT	328	343	376	586	538	706
EBIT Margin (%)	29.6%	29.5%	29.4%	29.7%	26.1%	29.3%
EBITDA	475	506	546	1,145	1,094	1,308
EBITDA Margin (%)	42.8%	43.5%	42.7%	58.0%	53.0%	54.3%
Net income	181	190	210	213	207	273
Diluted EPS (\$)	1.02	1.07	1.19	1.21	1.17	1.54
Return on Assets (%)	NA	6.0%	6.4%	NA	3.2%	4.1%
Return on Invested Capital (%)	NA	9.3%	10.0%	NA	11.5%	14.7%
EV/EBITDA	8.7x	8.2x	7.6x	5.5x	5.7x	4.8x
P/E	15.1x	14.4x	13.0x	23.3x	24.1x	18.3x

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