



PENNY STOCK BREAKOUTS

Finding Tomorrow's Big Winners, Today.

NOVEMBER 2008

BIG RETURNS FROM FREE MAGAZINES? YOU BET!

This Month's Issue:

PRIMEDIA (PRM)

Big profits from publishing free magazines. PRM even has a 28% dividend yield. Learn more about this great opportunity... and why you should snap it up now.

Vaalco (EGY)

Here's a company focused on exploring for and producing oil in Africa. They've got wells currently producing which give the company strong profits. When oil prices move higher, we'll see huge profits explode.

QUESTIONS OR COMMENTS?

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Not long ago I was standing in a friend's kitchen. He was hunched over a table studying intently the contents of various magazines. I knew instantly what he was doing.

The stacks of magazines were glossy and contained pretty pictures of apartment buildings. Others had quarter page layouts of beautiful homes. These pages contained exterior and interior pictures making buyers drool with excitement.

My friend was looking for a new place to live.

It's one of those basics in life. Right behind food, shelter is extremely important for our very existence. I don't know anyone who would argue about that.

The volume of information found in these magazines was mindboggling. I counted no less than six different publications all focused on various styles of housing. High end, new, used, apartments, rental houses. They were mixed and matched with an assortment of geographies.

I've got to admit, it made finding a new home much easier.

I didn't realize it at the time, but an entire industry has blossomed around this information.

Continued on Next Page . . .

The sole focus is connecting prospective renters with landlords, or buyers with sellers.

Every few weeks a new batch of magazines appears at the local grocery store, library, or distribution point. You know you've seen 'em before. Serious prospects pick up these freebees and study them cover to cover.

That's the key to this million dollar business.

THE BUSINESS OF RENTALS.

The publishers of these magazines fill an important need. They've amassed a great deal of important information.

Information vital to anyone looking to move.

Believe it or not every year some 40 million Americans move, according to the US Census Bureau.

Now, not all of them are looking for apartments, or buying new homes. But many are. And people in these situations crave information. What a better source than local free magazines listing available options in your area.

Enter PRIMEDIA (PRM).

PRIMEDIA's spent the last 30+ years creating a wonderful business. They've optimized their organization into three parts, two of which are nearly identical.

The first business is publishing Apartment Guide and Rentals.com. They've established long term relationships with apartment managers, who pay to be featured in the publications.

PRIMEDIA's also developed online websites providing much of the same information.

The second business is New Home Guide. Nearly identical to the first, only this publication is focused on new home developers looking to advertise their property.

Again, PRIMEDIA has developed websites delivering similar information.

As an aside, the company counts more than 2 million unique visitors to their websites!

**PRIMEDIA
distributes 39+
million guides and
magazines to
60,000+ locations**

The third and final part of the business is Distributech.

A fancy name for publishing and distributing free magazines in 40 states. In addition to the company's own publications, Distributech also has outside customers.

A quick fact: PRM distributes more than 39 million guides to more than 60,000 locations in the US.

Needless to say, PRIMEDIA has developed a nice little business.

They generate an unbelievable amount of cash. It's a true recurring business. Every month, month after month, the company collects advertising fees from customers. The cycle never really ends.

HOW PROFITABLE IS FREE PUBLISHING?

This business isn't exactly small. In the second quarter revenue was more than \$76 million, net income was \$1.9 million.

Not bad at all.

Now, historical comparisons are a little difficult. The company recently sold off their automotive publications. They used the proceeds to pay down debt. Unfortunately, the historical numbers include various onetime charges and other write-offs.

The muddled numbers give us an advantage. Many investors won't take the time to understand what's going on.

Here's why I like last quarter's numbers. They're very positive despite operating in one of the worst economic environments.

The New Homes Guide actually had a double digit loss (obviously because of the soft real estate market). However,

KEY INVESTMENT DATA

Name:	PRIMEDIA Inc.
Ticker Symbol:	PRM
Market Cap:	\$43 Million
Recent Price:	\$0.80

PSB Rating System 4.4 Stars

Raging Revenue: 3.5 stars. The company's got a great history of strong revenue. Growth this year will be slow, because of their real estate exposure. I'm expecting 2009 to show signs of good growth potential.

Beautiful Books: 4 stars. Earnings are strong for this company, as are cash flow numbers. I think they'll only improve, with management driving cost cuts. They do have \$240 million of debt which is a concern.

Stellar Structure: 5 stars. Huge ownership by KKR (58%) and other "outside" investors shows great faith in the company. Active board members from KKR will ensure valuation is maximized.

Valuation Verification: 5 stars. The P/E multiple of the company is ridiculously low (1.0x). Their dividend of \$0.07 per quarter equates to a 28% yield. PRM is clearly undervalued across the board.

Meaningful Milestones: 4.5 stars. The company recently sold off a huge portion of their business focused on automotive publications. This makes year to year comparisons difficult. Cost cutting activities are also starting to take hold. News about positive trends in the financials will drive this stock higher.

the apartment publications showed nice gains.

Here's the best part.

Because of the weak economy, the company is aggressively cutting costs. They're reviewing everything from paper and printing to employees and distribution. As a matter of fact, the company is moving headquarters from New York to Atlanta. This one move will save them almost 50%.

That's a move by management I really like.

One more thing caught my eye. The business is well established. They don't need much money for replacing or improving infrastructure. Last year's Capex was less than 4% (a very good number).

POSITIVE SIGNS EVERYWHERE

A new President & CEO, Charles Stubbs was recently added to management. Originally at yellowpages.com, he helped develop their online presence.

Charles is going to drive cost cutting and focus on growing the business.

Aggressive cost cutting. Need I say more? It drives bigger profits into the pockets of the shareholders.

A dividend. I know what you're thinking. The stock's at less than a buck, how big could the dividend be?

Well, it's 7 cents a quarter. That's \$0.28 per year. A yield of more than 35%.

This is a huge positive sign from the Board. Why start a dividend if you didn't have the confidence to continue it?

Ownership. PRIMEDIA was originally built by Kohlberg, Kravis & Roberts (KKR), one of the largest Private Equity firms in the world. KKR now owns just over 58% of the company and two board seats. It's like having an activist shareholder on the board, a good sign for investors.

Marathon Asset Management and Glenview Capital have amassed huge positions in the company. Both are

greater than 7%.

RISKS OF INVESTING

As always, no company is without risks. PRM is carrying more than \$247 million in debt.

Industry Financials				
Company	Size (\$mm)	Dividend Yield	P/S	P/E
Reed Elsevier plc (RUK)	\$9,400	2.7%	Nm	9.9x
Meredith Corp. (MDP)	\$827	5.2%	.54x	6.4x
PRIMEDIA Inc. (PRM)	\$35	28.0%	.14x	1.0x

Management's working to pay it down. However, it could give any investor pause.

Continued problems in the real estate market could impact company performance. If advertising of new homes falls off, the company's revenue will fall.

Increasing paper costs are another big risk. Since the company prints their magazines, cost increases could limit profits.

WHAT THE NUMBERS SAY

Valuation on a company like PRIMEDIA focuses on a few key ratios. First is the dividend yield. 35% is an amazing yield. Especially considering the S&P 500 yield is around 3%.

The second big ratio is Price to Sales (P/S). PRM is valued at about 20% of Meredith's (a competitor) P/S Ratio.

The final ratio is Price to Earnings (P/E). It's a simple way to compare the earnings of a company to its market value. PRM trades at the industry lows of 1.0x.

Clearly this stock is deeply misvalued and a rebound up to even industry average valuations could provide returns of 3 or 4 times your money.

ACTION RECOMMENDATION

PRIMEDIA (PRM) is trading at \$0.80, BUY up to \$1.50.

Use a stop loss of \$0.40 on this position.

Don't forget your position sizing and stop-loss rules.



CAPTURE THE COMING REBOUND IN OIL PRICES... INVEST NOW IN THIS E&P COMPANY

The air's finally been let out of the oil bubble. Oil prices peaked at \$147 a barrel in early July. They've fallen by almost 55% from the peak as of this writing.

At around \$65 a barrel, oil is nearly where it was at the beginning of 2007.

We're close to the bottom.

Demand for oil has fallen off a cliff as the world follows the U.S. into recession.

At the beginning of the year, most experts predicted world oil demand would soar by 1.3 million barrels a day.

Now it appears world oil demand will be flat for the year – first time it's happened since the last U.S. recession in 1991-92.

In late October, the Organization of Petroleum Exporting Countries (OPEC) took action to try and halt the freefall in oil prices. The cartel cut in its output target by 1.5 million barrels per day.

The cuts won't cause oil prices to rise immediately, but oil should stabilize around \$80 by the end of the year.

Now's the time to get back into oil stocks.

Oil stocks have cratered across the board. The Energy Select SPDR (XLE) has declined by 55% from its peak in July.

It's unlikely oil stocks will fall much lower.

Demand's expected to rise by 500,000 barrels a day in 2009. The U.S. and other developed nations will still rely heavily on oil (developing alternative energy sources will take time).

Emerging economies, led by China and India, will again crave oil to fuel their rapid growth.

Rising demand and falling supply means oil prices will be pushed higher over the long run.

Exploration for new oil reserves will become paramount.

Most new oil discoveries are found by oil exploration and production (E&P) companies.

How do oil E&P companies make money?

They find rich oil reserves and extract them from the ground. Once initial discoveries are made, E&P companies

grow by increasing production from existing wells and finding new reserves.

THE BUSINESS OF EXPLORATION & PRODUCTION

Houston based VAALCO Energy (EGY) is an E&P company with the right stuff for the long-term.

VAALCO's been pumping oil out of the ground since 1988. In 2007, the company produced 7.4 million barrels of oil.

The company's proven reserves were 6.2 billion barrels of oil and 61 million cubic feet of natural gas. They're actively exploring for more in two small African countries, Gabon and Angola.

Africa's a rising oil power.

The opportunity in Africa is tremendous...

Africa has 8% of the world's proven oil reserves. By 2010, they're expected to produce 1 out of every 3 barrels of oil worldwide.

Right now, the United States imports about 15% of its oil from Africa. It's widely expected it will increase to 25% by 2015.

GABON PROPERTIES

Gabon has 15% of total oil reserves in West Central Africa. The country is a relatively stable democracy with a long history of partnering with foreign E&P companies.

VAALCO has ongoing E&P operations in two important West Central African blocks.

Etame Marin Block

VAALCO operates this block on behalf of a consortium of companies. The consortium has long term E&P contracts with the Gabon government for specific sites within the block.

As a member of the consortium, VAALCO has clearly defined financial interests in each of these sites.

The 1,186 square mile block contains five discoveries: the Etame, Avouma, and South Tchibala fields (in production), the Ebouri field (under development), and the North Tchibala (no development plans currently).

These fields lie 20 miles offshore in about 250 feet of water.

Six wells are currently in production. Between 2001 and 2007, the consortium sold 33.1 million gross barrels (8 million barrels net to VAALCO) from the Etame Marin fields. Last year the Etame, Avouma, and South Tchibala fields produced 7.4 million gross barrels (1.8 million barrels net to VAALCO).

A new platform was just installed at the Ebouri field in August.

VAALCO expects production to begin in January 2009 at 4,000 to 6,000 barrels per day. This additional production

would put VAALCO on pace to pump 9.125 million gross barrels in 2009.

The company's also planning further exploration in the Etame Marin block. They're drilling three exploratory wells starting in November.

Mutamba Iroru Block

VAALCO has exclusive E&P rights to this 270,000 acre block along the central coast of Gabon. It plans on drilling the first of two exploratory wells in December.

ANGOLA PROPERTIES

Angola's oil production makes it the second fastest growing economy in Africa.

As an OPEC member, it has a production quota of 1.9 million barrels per day.

In December 2006, VAALCO acquired a 40% working interest in Block 5 offshore Angola. The seven year contract gives them the right to explore roughly 1.4 million acres. They expect to start drilling in early 2009.

VAALCO's positioning themselves for a major growth spurt. Management's working to increase production from existing wells, and working on finding huge new reserves.

THIS E&P MAKES MONEY

VAALCO's revenues are bubbling over thanks to wells already in production. The company brought in an amazing \$125 million last year.

Increased oil production and higher oil prices boosted revenues by 27% from 2006.

VAALCO's revenue increased 66% over the last five years. I'm expecting this trend to continue as new wells are developed and production increased.

Of course, if oil prices fall further, revenues and earnings will cool off.

So far in 2008, VAALCO's on pace to blow away last year's numbers. They posted revenues of \$97.5 million for the first six months. Good for an 83% increase over the prior year period.

But that's not all . . .

VAALCO is one of the rare E&P companies with profits. The company's reported positive earnings in each of the past five years.

Even more impressive is its average earnings per share growth rate of 90% per year.

The company's bid for a fifth year of consecutive earnings increases ended in 2007. It reported earnings of \$19.1 million (\$0.32 per share) compared with \$40.3 million (\$0.67 per share) in 2006.

I know what you're thinking.

Why would I buy this stock after earnings fell last year? Good question. The answer is I'm expecting blowout revenue and profits down the road.

Last year's earnings shortfall is easy to explain. The company experienced a fivefold increase in annual E&P expenses (\$15.3 million versus \$2.7 million).

VAALCO's exploration efforts have already uncovered total combined potential reserves of 110 million to 240 million barrels.

Assuming an average sales price of just \$50 per barrel, the reserves are worth \$7 billion to \$12 billion.

What great long term growth potential!

For the first six months of 2008, the company's earnings were \$14.8 million (\$0.25 per share) An increase of 79% over the same period in 2007.

Huge reserves, strong earnings... a clean balance sheet completes the trifecta.

As of June 2008, VAALCO had over \$100 million in the bank, total long-term debt of \$5 million, and cash flow growth of 40%.

E & P BUSINESS RISKS

The primary risk for EGY is a big drop in oil prices. If oil falls too far, their

KEY INVESTMENT DATA

Name:	VAALCO Energy.
Ticker Symbol:	EGY
Market Cap:	\$255 million
Recent Price:	\$4.32

PSB Rating System **4.0 Stars**

Raging Revenue: 3.5 stars. The company's revenue is directly tied to the amount of oil they pump from their wells and the price of oil. The company's trying to increase production as prices have fallen. Once oil starts climbing again, we should see revenue continue to increase.

Beautiful Books: 4.5 stars. The company's sitting on a huge cash hoard of more than \$100 million. They have less than \$5 million in debt and earnings have been growing rapidly.

Stellar Structure: 4 stars. Three big institutional investors have been buying shares. Last quarter they purchased over 4.3 million shares. Management owns less than 9% of the company. I'd like to see them step up and purchase more.

Valuation Verification: 4 stars. The company's growing faster than industry averages. Their earnings are accelerating and the development of new oil wells are progressing. The stock is off its recent highs and set for a rebound.

Meaningful Milestones: 4 stars. The company continues to actively explore for new oil. Announcements of new discoveries and increased production levels will propel the stock price higher.

profitability could be hurt. VAALCO does hedge future sales. Their strategy keeps cash flows predictable and reduces exposure to changes in the price of oil.

Another risk is replacement rates. As they pump oil from its reserves, it must find new sources of oil. They've had success competitors only dream about.

VAALCO's exploratory wells have uncovered reserves 82% of the time since 1998. The industry success rate is just 33%.

The last risk is money. E&P activities require large cash investments. In 2007 the company spent about \$30 million dollars (25% of revenues) on E&P.

HIGH QUALITY COMPANY AT BARGAIN PRICES

VAALCO is growing much faster than its competition. Sales and earnings have grown twice as fast as the industry average over the last five years.

Year to date, earnings have grown by almost 80%.

Cash flow has grown 40% per year over the last five years.

The current price grossly undervalues VAALCO's business potential. The company has massive reserves (6.2 billion barrels). It will soon increase production to 25,000 barrels per day.

Its exploration activities have uncovered large potential reserves (110 million to 240 million barrels). And the company has hundreds of thousands of acres still to explore.

ACTION RECOMMENDATION

VAALCO Energy (EGY) is trading at \$4.32, BUY up to \$5.25.

Use a stop loss of \$2.75 on this position.

Don't forget your position sizing and stop-loss rules.



PENNY STOCK BREAKOUTS PERFORMANCE

For more information visit our website www.hyperionfinancial.com/psb/home.htm

Date	Company	PSB Rating	Buy Price	Current Price	Peak Price	Peak Return	Stop Loss	Status
Nov-08	VAALCO Energy (EGY)	4.0	\$4.32	NEW	NEW	NEW	\$2.75	Buy up to \$5.25
Nov-08	PRIMEDIA (PRM)	4.4	\$0.80	NEW	NEW	NEW	\$0.40	Buy up to \$1.50
Oct-08	MFA Mortgage Investments (MFA)	4.5	\$5.86	\$5.10	\$6.50	+11%	\$3.50	Buy up to \$6.75
Oct-08	IXYS Corporation (IXYS)	4.3	\$8.91	\$6.27	\$9.17	+3%	\$5.50	Buy up to \$10.00
Sep-08	Alliance One (AOI)	3.9	\$4.02	\$2.76	\$4.27	+6%	\$2.00	Buy up to \$5.50
Sep-08	Questcor Pharma. (QCOR)	4.7	\$5.46	\$7.10	\$7.92	+45%	\$3.50	Profitable!
Aug-08	InfoGroup (IUSA)	4.2	\$5.20	\$3.87	\$7.42	+42%	\$3.00	Hold
Aug-08	Obagi Medical Products (OMPI)	4.5	\$9.00	\$7.58	\$10.61	+18%	\$5.00	Hold

Data as of 10/29/08

Performance Table Notes:

- 1) Buy price is the closing price on the date the recommendation was released. Your prices may be higher or lower. Entry Prices have been adjusted for dividends.
- 2) Current Price is as of the update.
- 3) Peak price is the highest point a stock has traded at since the recommendation.
- 4) Trailing stop loss orders are used on all positions.

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