

Fund Pumps Up Stake in Gas Producer

By CATHERINE SHU

FALLING COMMODITY PRICES have pressured oil and natural-gas companies as of late, but a hedge fund is gushing over shares of GMX Resources after the Oklahoma City-based natural-gas producer announced positive results from several new wells.

Peter Seldin, a managing member of investment firm Centennial Energy Partners, shelled out \$4.8 million for 142,000 GMX shares in transactions from Oct. 3 to 4, and Oct. 13 to 16. The first batch of purchases was made for an average share price of \$31.53, and the most recent one for about \$38.11 a share.

After soaring to an all-time high of \$50.50 on Feb. 9, GMX's stock price fell along with other oil and gas production companies as commodity prices deflated. Shares have started to recover in earnest, however, jumping 20% since Oct. 2, when GMX said it will begin drilling at several wells near Carthage in East Texas after reporting successful results from earlier tests. The stock closed at \$38.64 on Tuesday.

Centennial, based in New York, focuses solely on energy and energy-related sectors and seeks out stocks that are trading at a discount to their intrinsic value, according to StreetSight.net.

Centennial did not return a call for comment by deadline.

Ben Silverman, director of research at InsiderScore.com, notes that Centennial has "aggressively" built its stake in GMX this year. The firm first disclosed ownership of 473,000 GMX shares during the second quarter of 2006. Including its latest purchases, Centennial now owns 1,349,464 shares, or 12% of GMX's 11.2 million outstanding shares.

Centennial's buys put GMX shares in "strong hands, because value investors typically have a longer-term focus, and this is [Centennial's] area of expertise, which is another positive," says Silverman.

Michael Painchaud, managing director of research at Market Profile Theorems says that this month's purchases have boosted his firm's rating on insider sentiment at GMX to a 10, with a one being a Sell indicator and 10 being a Buy indicator. In addition, insider selling, which has been the historical norm at the company, has also fallen off along with oil and gas prices.

The last sale by an insider of GMX shares was in May, when co-founder and Chief Executive Ken L. Kenworthy Jr. and his wife, Karen M. Kenworthy, sold a total of 50,000 shares when the stock was trading at about \$44.

The bullish signal sent by Centennial's purchases is "pretty cut and dry," says Painchaud.

Centennial's GMX splurge is also encouraging because transactions by insiders at energy companies have "dovetailed nicely" with the sector's performance this year, especially at exploration-and-production companies, says Painchaud.

Buying within the industry has picked up since the beginning of October at several of GMX's peers, including Apache, Weatherford International, W&T Offshore and Rowan Cos., as share prices have ebbed.

The bullish sentiment is a reversal from the end of April and beginning of May, when selling surged as insiders took profits after the run-up in commodity prices.

Historically, insider selling at GMX has been relatively low compared to the large equity stake held by the company's executives, notes Silverman of InsiderScore.com. GMX's management team owns about 22% of its shares, according to the company's Website.

Since April 2004, company insiders have sold off just 368,156 shares for a total of \$6.9 million, according to data from Thomson Financial. During that period, GMX's share price has climbed about 380%.

"Insiders are not taking a lot of profits here, and that's another positive that they seem to be holding on for bigger gains," says Silverman.

Several analysts share Centennial's optimism about GMX's prospects. First Albany Capital research analyst Eric Hagen maintained a Strong Buy rating and \$61 price target on the shares after GMX announced successful drilling results from Carthage.

"Although it's still too early to put numbers on the potential, based on initial results, we believe successful horizontal drilling could significantly improve full-cycle economics and rates of return," Hagen wrote in an Oct. 3 report.

Ferris, Baker Watts analyst Richard Rossi maintained a Buy rating and \$70 price target on the same day, writing in a report that there is potential upside in GMX's 2007 production estimates if its drilling activity in Texas proves to be successful.