

April 1st, 2004

OMNI ENERGY SERVICES CORP. (OMNI: NASDAQ)

Update: BUY Rating & Price Target Affirmed

Share Statistics	
Symbol	OMNI
Closing Price	\$7.70
High/Low 52 Weeks	\$9.00/\$0.80
Market Capitalization	\$68mn
Shares Outstanding (Diluted)	8.83mn

Analyst Rating & Rationale

We maintain our BUY rating on Omni Energy Services Corp. ("OMNI" or "The Company") and reiterate our \$9.40/Share Price Target. The Company exceeded our top line & earnings expectations for both the fourth quarter and year ended 2003. However, we believe that many of the service contract and pricing power drivers that emerged in Q403 have appropriately been integrated in our FY04 projections. Though the Company did not cite certain forward looking metrics like backlog, we believe that new contract announcements (\$7mn annual offshore) should be included with past backlog guidance of over \$40 million. We also believe the Company's existing organic growth and selective acquisitions in a very attractive space will be a catalyst for continued price appreciation toward our intrinsic price target. Lastly, the February 23, 2004 guidance of \$10 million operating cash flow (EBITDA) for 2004 to pay down obligations is an exceedingly powerful metric for OMNI valuation projections.

Given the robust state of the oil & gas service industry and OMNI's ramped up service platform, the Company exhibited substantial traction on revenue. Indeed, OMNI's Q4 is typically tepid and in our Initiation of Coverage report we noted that performance would be smoothed by new service categories (e.g. offshore). Fourth quarter 2003 in terms of yoy and sequential comparable periods was stellar on all counts in an otherwise traditionally seasonally slow quarter, outpacing the annual comparable performance growth items.

The Company announced capital structure changes in February 2004, engendering market price weakness in its stock. Though the Company attempted to lower the overall cost of capital – while also reducing potential dilution – we believe given the relatively low share outstanding base, the replacement of one share dilution mezzanine layer with another lesser dilutive tranche was not the right signal. Rather, a more costly layer of debt without dilutive features indicates to shareholders that management believes the equity is more valuable and the opportunity cost of losing this value to dilution is greater than the higher interest on bank debt (even if there is no tax benefits given the large NOL). Fortunately, OMNI made an unusual press release (to quell negative sentiment), reaffirming its commitment to reduce convertible and other obligations with the ample cash flows anticipated from 2004 operations.

Recent FY&4Q03 Financial Performance

OMNI's FY03 and 4Q03 operating revenue increased 33.2% and 59.4%, respectively, to \$37.1 million and \$10.2 million, respectively, from the same periods in 2002. The quality of revenue was earmarked by robust cash flow and earnings growth. Indeed, for the fiscal year ending 12/31/03, cash flow (EBITDA) from operations increased 29.8% to \$7.4 million while net earnings increased 225% to \$3.9 million, from the same period last year. In turn for the fourth quarter 2003 period, cash flow from operations increased 233% to \$1 million compared to Q402 and net income from continuing operations increased to \$1 million (compared to a \$0.6 million loss in the same quarter last year ending 12/31/02).

Fiscal Year Ended 12/31/03 (\$000)

	2003	2002
Operating Revenue	\$ 37,055	\$ 27,796
Gross Profit	8,314	5,654
Operating Income	3,082	1,883
Net Income	\$ 3,483	\$ 1,208
EPS (Diluted)	\$ 0.34	\$ 0.08

Kipley J. Lytel, CFA, is a senior partner with money management firm Montecito Capital Management. For over three years Mr. Lytel served as the lead securities analyst for M.L. Stern & Company. Previously, he performed portfolio management and analyst coverage during his employment with two hedge funds, Pacific Strategic Fund Group and DD Capital Management. His background has been marked by his experience as a Generalist,

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