Rating: Buy
S&P 500: 1121

Energy Partners, Ltd.
Gulf of Mexico Explorer

Symbol	EPL	*Ebitda Next Twelve Months ending 3/31/05 (US$mm)*	220
Rating	Buy	*North American Natural Gas/Ebitda (%)*	64
Price (US$/sh)	13.10	*Natural Gas and Oil Production/Ebitda (%)*	100
Pricing Date	5/27/04	*Adjusted Reserves/Production NTM*	5.5
Shares (mm)	38	*EV/Ebitda*	2.8
Market Capitalization (US$mm)	490	*PV/Ebitda*	4.3
Debt (US$mm)	130	*Undeveloped Reserves (%)*	31
Enterprise Value (EV) (US$mm)	630	*Natural Gas and Oil Ebitda (US$/mcfe)*	4.90
Present Value (PV) (US$mm)	960	*Present Value Proven Reserves(US$/boe)*	19.46
Net Present Value (US$/share)	22	*Present Value Proven Reserves(US$/mcfe)*	3.24
Debt/Present Value	0.14	*Earnings Next Twelve Months (US$/sh)*	1.55
McDep Ratio - EV/PV	0.65	*Price/Earnings Next Twelve Months*	8
Dividend Yield (%/year)	0.0	*Indicated Annual Dividend (US$/sh)*	0.00

Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

Summary and Recommendation

We restore a "Buy" rating on the common shares of **Energy Partners (EPL)** on the basis of an improved industry outlook for oil and gas production. Our estimate of present value, raised to $22 a share on March 23 from $15, anticipates that some of the recent strength in daily commodity price is permanent. The company's business of finding and developing oil and gas on the Gulf of Mexico Continental Shelf had become highly competitive at lower commodity price. Now it should enjoy a few years of higher profitability. We see about 68% appreciation potential to net present value and take comfort that the current debt level is low.

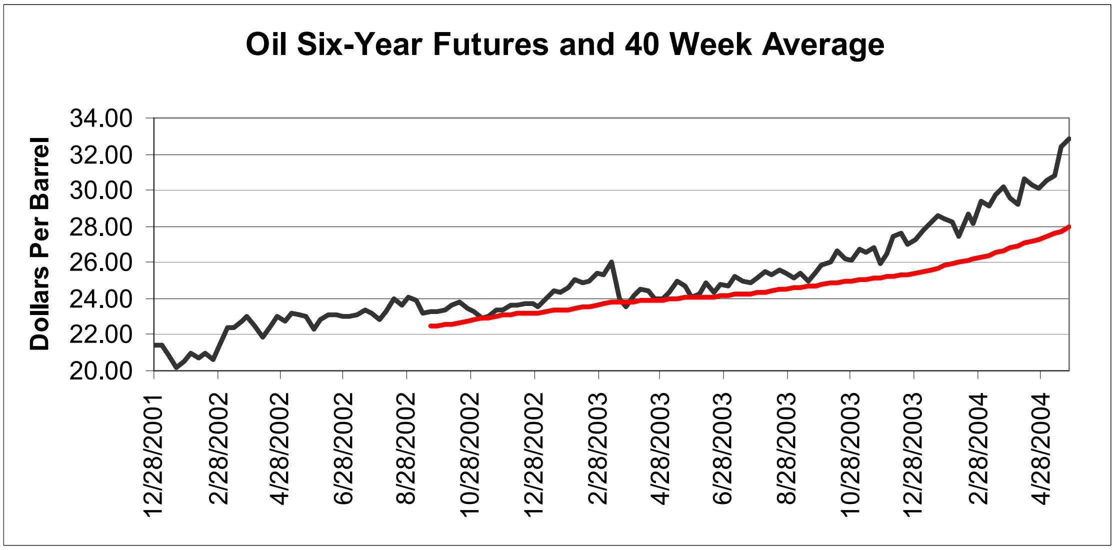
Oil Looks Up by the Charts, Fundamentals, Inflation and Security

Six-year futures describe the commodity price trends most relevant to estimating resource value. The longer time horizon better matches the period during which more of current resources will actually be produced. The longer term measure also smoothes the frantic near-month fluctuations and has the potential to keep climbing even if near-month quotes drop back temporarily.

The plots of weekly results since the beginning of 2002 trace a trend of six-year oil price rising 16% a year (see chart). We measure momentum with the 40-week moving average.
The charts look good as long as the current six-year quote remains above the trailing average.

Fundamental factors support the price trends. Oil demand is strong with world economic growth paced by developing countries, especially China. Supply is tight as the Middle East is showing maturity with the workhorse giant fields on the verge of peaking.

Monetary factors also favor oil investment as interest rates below inflation drive investors to real assets for protection against currency debasement. Compared to Treasury Inflation Protected Securities that we also favor, oil price is likely to rise more than the official government determined inflation measure.



There appears to be little of the cost of maintaining global security reflected in the price of oil. The U.S. military presence in the Middle East may be controversial today. Yet when the U.S. supported government in Iran fell at the end of the 1970s, the world experienced its highest energy prices ever.

At some point oil price could be too strong and economic activity would be adversely affected. Six times in the past thirty years the annual gain in monthly price exceeded 70% briefly. July futures near $40 a barrel for Light, Sweet Crude Oil would have to exceed $52 a barrel to trigger a 70% warning.

Volume, Price and Costs Translate to Attractive Cash Flow

Our process of estimating company-specific present value begins with an estimate of next twelve months cash flow. Current projections lead to a healthy level of unlevered cash flow, also known as Ebitda, short for earnings before interest, tax, depreciation and amortization (see table). We choose the next twelve months ending March 31, 2005 as the relevant time period.

For the next twelve months we project natural gas and oil volume near the first quarter 2004 level. That is sufficient for our valuation calculation. Management provides rich detail in conference calls, presentations and copious regulatory disclosures to put more color on a projection of growth for the rest of the decade.

We take the futures market at face value in projecting price for the next twelve months. Henry Hub quotes guide our projection of natural gas revenue. Light Sweet Crude quotes guide our projections of oil revenue. Because futures are constantly changing, our projection is adjusted accordingly. As a result, the specific amounts we project today may not be the amounts realized when the company next reports.

Energy Partners, Ltd.
Cash Flow

	Q1 3/31/04	Q2E 6/30/04	Q3E 9/30/04	Q4E 12/31/04	Year 2004E	Q1E 3/31/05	Next Twelve Months 3/31/05
Volume							
Natural Gas (mmcfd)	77.1	77.1	77.1	77.1	**77.1**	77.1	**77.1**
Oil (mbd)	7.99	7.99	7.99	7.99	**7.99**	7.99	**7.99**
Total (mb)	1,876	1,897	1,918	1,918	**7,608**	1,876	**7,608**
Total (mbd)	20.8	20.8	20.8	20.8	**20.8**	20.8	**20.8**
Price							
Natural Gas							
Henry Hub ($/mmbtu)	5.64	6.22	6.78	6.93	**6.39**	7.11	**6.76**
Differential ($/mmbtu)	(0.17)	(0.19)	(0.20)	(0.21)	**(0.20)**	(0.21)	**(0.20)**
EPL ($/mcf)	5.81	6.40	6.98	7.14	**6.59**	7.32	**6.96**
Oil ($/bbl)							
WTI Cushing	35.23	39.51	41.20	39.42	**38.84**	37.67	**39.45**
Differential	1.73	1.94	2.02	1.93	**1.89**	1.85	**1.92**
EPL	33.50	37.58	39.18	37.49	**36.95**	35.83	**37.53**
Total ($/bbl)	33.79	38.10	40.84	40.78	**38.41**	40.83	**40.14**
Revenue ($mm)							
Natural Gas	40.3	45.0	49.5	50.7	**185.5**	50.8	**196.0**
Oil	24.1	27.3	28.8	27.6	**107.8**	25.8	**109.4**
Other	(1.0)				**(1.0)**		**-**
Total	63.4	72.3	78.3	78.2	**292.2**	76.6	**305.4**
Expense ($mm)							
Lease operating	9.8	9.5	9.6	10.5	**39.4**	10.3	**39.9**
Production taxes	2.2	2.9	3.1	3.1	**11.4**	3.1	**12.2**
General and administrative	8.2	7.6	7.7	7.7	**31.1**	7.5	**30.4**
Total	20.2	20.0	20.4	21.3	**81.9**	20.9	**82.6**
Ebitda ($mm)	43.2	52.3	57.9	56.9	**210.3**	55.7	**222.8**
Exploration	9.5	9.5	9.5	9.5	**38.0**	5.0	**33.5**
Deprec., Deplet.& Amort.	18.7	20.9	21.1	21.1	**81.8**	20.6	**83.7**
Other non cash	(0.2)	0.3	0.3	0.3	**0.7**	0.3	**1.2**
Ebit ($mm)	15.2	21.6	27.0	26.0	**89.8**	29.8	**104.4**
Interest	3.6	3.6	3.6	3.6	**14.4**	3.6	**14.4**
Ebt ($mm)	11.6	18.0	23.4	22.4	**75.4**	26.2	**90.0**
Income tax	4.1	6.3	8.2	7.8	**26.4**	9.2	**31.5**
Net income ($mm)	7.5	11.7	15.2	14.5	**49.0**	17.0	**58.5**
Per share	0.20	0.31	0.40	0.39	**1.30**	0.45	**1.55**
Shares (millions)	37.7	37.7	37.7	37.7	**37.7**	37.7	**37.7**
Lease operating ($/bbl)	5.22	5.00	5.00	5.50	**5.18**	5.50	**5.25**
Production taxes (%)	3.4	4.0	4.0	4.0	**3.9**	4.0	**4.0**
G & A ($/bbl)	4.37	4.00	4.00	4.00	**4.09**	4.00	**4.00**
D., D. & A ($/bbl)	9.97	11.00	11.00	11.00	**10.75**	11.00	**11.00**
Tax rate	35%	35%	35%	35%	**35%**	35%	**35%**

Assess Present Value Multiple Depending on Reserve Life

The important variables in the valuation of future production are captured in base year cash flow and a multiple of that cash flow that depends on reserve life. Indeed investors do differentiate on that basis as reflected in a high correlation of unlevered cash flow multiple with adjusted reserve life. We convert the market relationship to a formula that produces an anticipatory value with somewhat more sensitivity to reserve life.

The adjusted reserve life index is the sum of developed and half undeveloped reserves divided by next twelve months production. When we last did an industry-wide upward revaluation on March 23, we estimated cash flow multiple equal to 2.5 plus 0.5 times reserve life. That approximates present value assuming constant commodity price near the one-year quotes at that time, about $35 a barrel for crude oil. Higher commodity prices since then imply higher cash flow and lower multiple by about 10%. Estimated present value provides a measure of appreciation potential should the market move toward that level as we expect.

Short Reserve Life Means More Dependence on Reinvestment

Like most Gulf of Mexico producers, EPL has a short reserve life. The good side of that is the rapid return of investment. Also like most producers, EPL reinvests practically all of its cash flow in an attempt to build growing value of future production. Because a short life company has more cash flow to invest it is even more important that the reinvestment be successful.

Drilling Program Promising in New Environment

EPL's Chairman, Mr. Richard Bachmann, has made successful investments until now or EPL would not have a near half billion dollar market cap. We are most reassured that EPL has had good timing in making acquisitions particularly its East Bay properties and the Hall-Houston company. Our sense of EPL's drilling program is that the results have been competitive. As most investors realize, "competitive" is not too exciting at low commodity price. Yet, having been tested under more difficult conditions, EPL now has a chance to be more profitable under more favorable industry conditions.

Exploration and development involves a continuing cycle of maturity of ideas or areas. A new idea offers profitable opportunities in the early stages that dwindle as the activity matures. Most of the area on the outer continental shelf off Louisiana and Texas is in a mature stage of development in formations as deep as, say, 12,000 feet. Deeper formations have more untapped potential that is also expensive to develop. Continual improvements in technology and today's commodity price point to attractive deeper opportunities. About half of the 28 exploratory wells in EPL's 2004 program have target depth below 12,000 feet. We'll judge the company's progress by how often and how much we can raise the volume in our next twelve month's forecast and by the impact on adjusted reserve life.

Mr. Bachmann was president of Louisiana Land and Exploration Company. After Burlington Resources acquired LL&E, we introduced Mr. Bachmann to the source of financing that enabled him to found Energy Partners.

Kurt H. Wulff, CFA

Research Methodology/Ratings Description: McDep Associates is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are more than fully reflected in the current price of the stock. Sell recommendations are expected to deliver a negative total return less than 7% per year including the effects of inflation.

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