Rating: Buy
S&P 500: 1184

Energy Partners, Ltd.
Lowest Cash Flow Multiple

Symbol	EPL	*Ebitda Next Twelve Months ending 9/30/05 (US$mm)*	280
Rating	Buy	*North American Natural Gas/Ebitda (%)*	62
Price (US$/sh)	17.78	*Natural Gas and Oil Production/Ebitda (%)*	100
Pricing Date	11/12/04	*Adjusted Reserves/Production NTM*	4.9
Shares (mm)	39	*EV/Ebitda*	3.0
Market Capitalization (US$mm)	690	*PV/Ebitda*	3.6
Debt (US$mm)	150	*Undeveloped Reserves (%)*	31
Enterprise Value (EV) (US$mm)	840	*Natural Gas and Oil Ebitda (US$/mcfe)*	5.50
Present Value (PV) (US$mm)	1,000	*Present Value Proven Reserves(US$/boe)*	20.30
Net Present Value (US$/share)	22	*Present Value Proven Reserves(US$/mcfe)*	3.38
Debt/Present Value	0.15	*Earnings Next Twelve Months (US$/sh)*	2.03
McDep Ratio - EV/PV	0.84	*Price/Earnings Next Twelve Months*	9
Dividend Yield (%/year)	0.0	*Indicated Annual Dividend (US$/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 continue a Buy rating on the common shares of **Energy Partners (EPL)** as a small cap participation in an improved industry outlook for finding and developing oil and gas on the Gulf of Mexico Continental Shelf. The drilling news continues favorable especially in the South Timbalier area. Third quarter progress was positive on volume, but not quite as strong overall as we had projected. Meanwhile the commodity price outlook has strengthened further in the past few months and management continues to look for 10%-20% production growth next year. Our estimate of net present value of $22 a share assumes a 7% real return on a constant real oil price of $35 a barrel and good reinvestment success. The recent average futures price for the next six years is $41 a barrel.

Short Life Natural Gas, Longer Life Oil

North American Natural Gas is the larger of just two functional distinctions (see table Functional Cash Flow and Present Value). After allocating cash flow on the basis of wellhead revenue we apply a cash flow multiple that depends mostly on reserve life. Natural gas concentration decreases some for present value because natural gas reserve life is shorter than for oil.

Energy Partners, Ltd.
Functional Cash Flow and Present Value

	NTM Ebitda (US$mm)	Adjusted R/P	PV/ Ebitda	Present Value (US$mm)	
North American Natural Gas	175	3.3	3.1	540	
Oil	105	7.5	4.5	470	
	280	4.9	3.6	1,010	
Debt (US$mm)					150
Net Present Value (US$mm)					860
Shares (mm)					39
Net Present Value (US$/sh)					22

Cash Flow Gains Appear Ahead

Commodity price drives further gains in cash flow in our model (see table Next Twelve Months Operating and Financial Estimates). The high rate of cash flow implies a low multiple of Enterprise Value to Ebitda of just 3 times. That is lowest of any of the companies in our coverage. The low multiple reflects in part a reserve life of 4.9 years on our adjusted basis that is also the lowest in our coverage.

Cash flow could be even greater if we included volume gains in our projections. We would rather wait and see. Yet considering the company's level of spending and the short life of existing reserves there should be some expansion indicated when reserves are reported after year end. We will not be surprised to see that the cost of new reserves reflects in part the higher price that new production would receive compared to a few years ago.

Two Areas of Exploration Potential

Bruce Sidner, the exploration chief we have cited in a previous analysis, has resigned from the company. Mr. Sidner contributed to a broadening of the company's effort and was well regarded. Yet the teams working on the two areas that have most attracted our attention partly precede Mr. Sidner and remain intact.

EPL's traditional areas of Bay Marchand and East Bay are both near the mouth of the Mississippi River. Fortunately, Hurricane Ivan had only minimal impact on EPL. At South Timbalier 41, on the south flank of the large Bay Marchand complex, EPL completed a successful exploratory well that helped confirm new reserve potential in the area approaching 40 million barrels, perhaps 20 million net to EPL. The company's total proven reserves at the end of last year were 49 million barrels. The South Timbalier 41 #4 well starts in about a week and by year end should reach deeper sands than those proven productive so far.

Energy Partners, Ltd.
Next Twelve Months Operating and Financial Estimates

	Q1 3/31/04	*Q2 6/30/04*	*Q3 9/30/04*	*Q4E 12/31/04*	***Year 2004E***	*Q1E 3/31/05*	*Q2E 6/30/05*	*Q3E 9/30/05*	***Next Twelve Months 9/30/05***
Volume									
Natural Gas (mmcfd)	77	87	86	86	**84**	86	86	86	**86**
Oil (mbd)	8.0	8.4	8.9	8.9	**8.5**	8.9	8.9	8.9	**8.9**
Total (mb)	1,876	2,086	2,114	2,138	**8,214**	2,091	2,114	2,138	**8,481**
Total (mbd)	20.8	22.9	23.2	23.2	**22.6**	23.2	23.2	23.2	**23.2**
Price									
Natural Gas									
Henry Hub ($/mmbtu)	5.64	6.10	5.49	6.61	**5.96**	7.90	6.72	6.73	**6.99**
Differential ($/mmbtu)	(0.17)	(0.17)	(0.30)	(0.36)	**(0.26)**	(0.43)	(0.37)	(0.37)	**(0.38)**
EPL ($/mcf)	5.81	6.27	5.79	6.97	**6.22**	8.32	7.09	7.09	**7.36**
Oil ($/bbl)									
WTI Cushing	35.23	38.34	43.89	49.89	**41.84**	47.54	46.60	45.42	**47.36**
Differential	1.73	(1.01)	4.09	4.65	**2.17**	4.43	4.35	4.24	**4.42**
EPL	33.50	39.35	39.80	45.24	**39.66**	43.11	42.25	41.18	**42.95**
Total ($/bbl)	33.79	36.01	35.05	43.12	**37.11**	47.33	42.43	42.03	**43.71**
Revenue ($mm)									
Natural Gas	40	50	45	55	**191**	64	56	56	**231**
Oil	24	30	32	37	**123**	35	34	34	**139**
Other	(1)	(5)	(3)		**(9)**				**-**
Total	63	75	74	92	**305**	99	90	90	**371**
Expense ($mm)									
Lease operating	10	10	11	11	**41**	10	11	11	**42**
Production taxes	2	2	2	4	**10**	4	4	4	**15**
General and administrative	8	7	8	8	**31**	8	8	9	**33**
Total	20	19	20	22	**82**	23	23	23	**90**
Ebitda ($mm)	43	56	54	70	**223**	76	67	67	**280**
Exploration	10	8	10	10	**37**	10	10	10	**40**
Deprec., Deplet.& Amort.	19	22	25	24	**90**	23	23	24	**93**
Other non cash	(0)	0	(0)	6	**5**	1	0	0	**8**
Ebit ($mm)	15	26	19	30	**91**	43	33	33	**140**
Interest	4	3	4	4	**14**	4	4	4	**14**
Ebt ($mm)	12	23	15	27	**77**	39	30	30	**125**
Income tax	4	8	6	10	**28**	14	11	11	**46**
Net income ($mm)	8	15	10	17	**49**	25	19	19	**79**
Per share	0.20	0.38	0.25	0.43	**1.26**	0.63	0.48	0.48	**2.03**
Shares (millions)	37.7	38.4	38.9	38.9	**38.6**	38.9	38.9	38.9	**38.9**
Lease operating ($/bbl)	5.22	4.70	5.01	5.00	**4.98**	5.00	5.00	5.00	**5.00**
Production taxes (%)	3.4	2.6	2.7	4.0	**3.2**	4.0	4.0	4.0	**4.0**
G & A ($/bbl)	4.37	3.40	3.64	3.60	**3.74**	4.00	4.00	4.00	**3.90**
D., D. & A ($/bbl)	9.97	10.64	11.97	11.00	**10.92**	11.00	11.00	11.00	**11.00**
Tax rate	36%	37%	36%	37%	**37%**	37%	37%	37%	**37%**

Likely partners are studying data for a 20,000 foot exploration prospect in the East Bay area. The size of structure the exploration scientists and engineers think they have identified is larger than anything the company has drilled previously. After risk-sharing the company's likely 25% share of a successful natural gas discovery might equal all of its current total reserves. The target sands may be the extension of those producing in deep water offshore discoveries by the industry. The tradeoff is the high cost of drilling to deeper formations under shallow water as opposed to the high cost of drilling in deep water. The prospect is modestly named Denali after the highest mountain in North America.

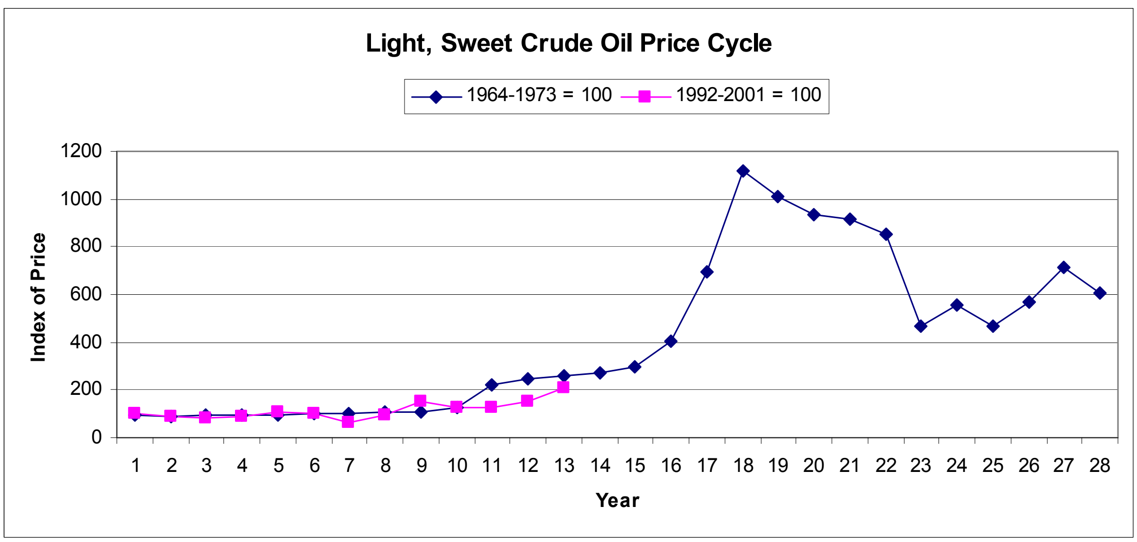
A big prospect makes its own economics. Nonetheless, higher commodity price makes most of what EPL is doing more valuable.

Oil Price Move Possibly Just Starting

To offset any inclination to underestimate further potential for oil and gas price, we compare the relatively stable price period from 1992 to 2001 to the period from 1964 to 1973. Each was a ten year period that immediately preceded a sharply lower stock market in 2002 and in 1974. After quiescence, oil price started moving up in each case. We may be in the early stages of a new historic move (see chart Light, Sweet Crude Oil Price Cycle).

Frankly, few investors would give much weight to the likelihood of continued oil price strength. Contrast that with the growing chorus for a weaker dollar. It may just be that oil price is not high, but the real value of the dollar is low. That, too, is a parallel to historical experience.

Let us imagine how the cycle might unfold. By the way we chose to draw the chart Year 13 corresponds to 1976 and 2004. Once the move got going in the previous cycle, the annual average oil price did not decline until Year 19 (1982). The annual peak of 1100, or 11 times the first ten year average, was too high to be sustained. It might be less disruptive economically if the peak ahead of us were lower and the decline shallower. The end point in Year 28 at 600 implies a tripling over the next 15 years. If higher oil price unfolded gradually it would give everyone time to adjust.



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