Rating: Buy
S&P 500: 1202

Energy Partners, Ltd.
South Timbalier Thrill

Symbol	EPL	*Ebitda Next Twelve Months ending 3/31/06 (US$mm)*	303
Rating	Buy	*North American Natural Gas/Ebitda (%)*	61
Price (US$/sh)	22.65	*Natural Gas and Oil Production/Ebitda (%)*	100
Pricing Date	2/8/05	*Adjusted Reserves/Production NTM*	4.9
Shares (mm)	39	*EV/Ebitda*	3.9
Market Capitalization (US$mm)	880	*PV/Ebitda*	4.1
Debt (US$mm)	300	*Undeveloped Reserves (%)*	31
Enterprise Value (EV) (US$mm)	1,180	*Natural Gas and Oil Ebitda (US$/mcfe)*	4.90
Present Value (PV) (US$mm)	1,230	*Present Value Proven Reserves(US$/boe)*	20.80
Net Present Value (US$/share)	24	*Present Value Proven Reserves(US$/mcfe)*	3.47
Debt/Present Value	0.24	*Earnings Next Twelve Months (US$/sh)*	1.56
McDep Ratio - EV/PV	0.96	*Price/Earnings Next Twelve Months*	14
Dividend Yield (%/year)	0.0	*Indicated Annual Dividend (US$/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 and off the Louisiana Coast. Favorable drilling news in the South Timbalier area lends credibility to management's forecast of 10%-20% production growth in 2005 over 2004. An acquisition that closed last month extends the forecast to 20%-30% volume growth in 2005. A doubling of planned exploratory wells in 2005 offers more opportunity for unusual surprise. Revising our estimate of long-term oil price on January 26, 2005 to $40 a barrel constant real, up from $35, we raised our estimated net present value of EPL to $24 a share as previously indicated in a sensitivity calculation.

South Timbalier Block 41 Rock Creek Discovery

The South Timbalier 41 #4 well discovered new deeper reserves in a field apparently named Rock Creek. Located in the company's Greater Bay Marchand area offshore Louisiana, the field now has three successful wells all in a single fault block. The wells each have potential flow rates of 50 million cubic feet per day (mmcfd) and eventual reserves of perhaps 50 billion cubic feet. The mobile production unit (MOPU) in the area has capacity of 100 mmcfd. After a 1/6 Federal royalty and a 40% working interest held by Kerr-McGee (KMG), EPL's net interest is 50% of gross volume.

There are at least two more fault blocks in the area that have not been tested yet. EPL's geoscientists apparently found a subtle signal in seismic analysis that pointed to the discovery in the first fault block. Last fall we were looking at new reserves in South Timbalier 41 approaching 40 million barrels, perhaps 20 million net to EPL. On a natural gas equivalent basis that would be 240 bcf gross, 120 bcf net. Now a more credible estimate, it compares to existing reserves of about 350 bcf equivalent for the whole company.

Onshore Acquisition Evokes Louisiana Land and Exploration Connection

On January 20 EPL closed a $154 million acquisition of 52 bcf of reserves and prospects on fee lands that once belonged to Louisiana Land and Exploration (LL&E) before it was acquired by **Burlington Resources (BR)** a few years ago. The Chief Executive of EPL was the president of LL&E. The LL&E fee lands were the source of much of the oil and gas wealth of Texaco, now part of **ChevronTexaco (CVX)**. The owner of land in fee has all the surface and mineral rights. In this case Texaco leased the land from LL&E in return for a royalty payment of about 25% on oil and gas produced, as we recall.

EPL acquired reserves from a private company that was exploring on the fee lands. Part of the deal involves future exploration in an area of mutual interest. EPL's exploration technologists include persons who worked on the fee lands with LL&E and Texaco. The team hopes that it can trace the formations productive offshore Louisiana to new discoveries onshore.

Accelerating Exploration Activity

In its short life as a new company, EPL has been building its exploration and production activity at a rapid pace. Last year the company spent about $190 million that included the funding of 25 exploratory wells. In 2005 the budget starts at $240 million and may increase with continued strong oil and natural gas price. Plans on the acquired properties double the expected exploratory wells in 2005 to 50. About 15 of the 50 are "higher risk, higher potential".

The company has been seeking partners on 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.

Conservative Reporting of Reserves

Reported reserves lag reality by a greater amount for a rapidly expanding exploration company. We await final estimates for 2004 by independent engineers that include the conservative firm of Ryder Scott. Chief Executive Rick Bachmann emphasizes that with the industry experience of the past year and oversight by the Securities and Exchange Commission the process of estimating reserves appears to have become more cautious. We use last year's reserves and add the amount recently acquired. The resulting short adjusted reserve life is associated with a low multiple of present value to cash flow.

Volume Drives Cash Flow in 2005

Our projection makes it look like commodity prices peaked in the fourth quarter of last year. No one can know that. We use the futures market for 2005 and 2006 prices because it is a widely known consensus. Futures have systematically understated actual price for the past several years. Without a boost from price, volume gains drive cash flow higher in our model (see table Next Twelve Months Operating and Financial Estimates).

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

	Q3 9/30/04	*Q4E* 12/31/04	***Year* 2004E**	*Q1E* 3/31/05	*Q2E* 6/30/05	*Q3E* 9/30/05	*Q4E* 12/31/05	***Year* 2005E**	*Q1E* 3/31/06	***Next Twelve Months* 3/31/06**
Volume										
Natural Gas (mmcfd)	86	83	**83**	91	91	109	109	**100**	109	**105**
Oil (mbd)	8.9	8.5	**8.5**	9.4	9.4	11.3	11.3	**10.3**	11.3	**10.8**
Total (mb)	2,114	2,052	**8,128**	2,208	2,233	2,709	2,709	**9,858**	2,650	**10,300**
Total (mbd)	23.2	22.3	**22.3**	24.5	24.5	29.4	29.4	**27.0**	29.4	**28.2**
Price										
Natural Gas										
Henry Hub ($/mmbtu)	5.75	7.10	**6.15**	6.16	6.08	6.24	6.61	**6.27**	7.09	**6.50**
Differential ($/mmbtu)	(0.04)	(0.05)	**(0.11)**	(0.04)	(0.04)	(0.04)	(0.04)	**(0.05)**	(0.05)	**(0.06)**
EPL ($/mcf)	5.79	7.14	**6.26**	6.20	6.12	6.28	6.65	**6.33**	7.14	**6.56**
Oil ($/bbl)										
WTI Cushing	43.89	48.30	**41.44**	45.83	46.24	45.94	45.22	**45.81**	44.42	**45.46**
Differential	4.09	4.50	**2.20**	4.27	4.31	4.29	4.22	**4.29**	4.14	**4.27**
EPL	39.80	43.79	**39.24**	41.55	41.93	41.66	41.00	**41.52**	40.27	**41.19**
Total ($/bbl)	35.05	43.21	**37.07**	38.86	38.72	39.20	40.31	**39.32**	41.84	**40.07**
Revenue ($mm)										
Natural Gas	45	54	**190**	51	51	63	67	**231**	70	**250**
Oil	32	34	**121**	35	36	43	43	**157**	41	**162**
Other	(3)		**(9)**					**-**		**-**
Total	74	89	**301**	86	86	106	109	**388**	111	**413**
Expense ($mm)										
Lease operating	11	10	**40**	11	11	14	14	**49**	13	**52**
Production taxes	2	4	**10**	3	3	4	4	**16**	4	**17**
General and administrative	8	8	**31**	9	9	11	11	**39**	11	**41**
Total	20	22	**81**	23	24	29	29	**104**	28	**109**
Ebitda ($mm)	54	67	**220**	62	63	78	80	**283**	83	$\boxed{\textbf{303}}$
Exploration	10	10	**37**	15	15	15	15	**60**	15	**60**
Deprec., Deplet.& Amort.	25	23	**89**	24	25	30	30	**108**	29	**113**
Other non cash	(0)	6	**5**	0	0	0	5	**6**	0	**6**
Ebit ($mm)	19	29	**89**	23	23	32	31	**109**	38	**124**
Interest	4	4	**14**	7	7	7	7	**28**	7	**28**
Ebt ($mm)	15	25	**75**	16	16	25	24	**81**	31	**96**
Income tax	6	9	**28**	6	6	9	9	**30**	12	**36**
Net income ($mm)	10	16	**48**	10	10	16	15	**51**	20	**61**
Per share	0.25	0.41	**1.24**	0.26	0.26	0.41	0.38	**1.31**	0.51	**1.56**
Shares (millions)	38.9	38.9	**38.6**	38.9	38.9	38.9	38.9	**38.9**	38.9	**38.9**
Lease operating ($/bbl)	5.01	5.00	**4.98**	5.00	5.00	5.00	5.00	**5.00**	5.00	**5.00**
Production taxes (%)	2.7	4.0	**3.2**	4.0	4.0	4.0	4.0	**4.0**	4.0	**4.0**
G & A ($/bbl)	3.64	3.75	**3.78**	4.00	4.00	4.00	4.00	**4.00**	4.00	**4.00**
D., D. & A ($/bbl)	11.97	11.00	**10.92**	11.00	11.00	11.00	11.00	**11.00**	11.00	**11.00**
Tax rate	36%	37%	**37%**	37%	37%	37%	37%	**37%**	37%	**37%**

Buy Oil and Gas Producers at Mid Decade

EPL stock offers reasonable value in an attractive group for investment (see table Rank by McDep Ratio). Three to five-fold gain potential for oil and gas price over the next 5 to 13 years justifies investment in recommended oil and gas producers, in our opinion. Supporting improving prospects, the average futures price of oil for continuous delivery over the next six years is in a multi-year uptrend as defined by the current quotes above the 40-week average. The current benchmark oil average futures price for the next six years is about $42 a barrel.

Kurt H. Wulff, CFA

Oil and Gas Producers
Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/	Rating	Price ($/sh) 8-Feb 2005	Shares (mm)	Market Cap ($mm)	Net Present Value ($/sh)	Debt/ Present Value	McDep Ratio
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B2	55.73	22	1,250	50.00	0.05	1.11
Energy Partners Ltd.	EPL	B3	22.65	39	880	24.00	0.24	0.96
Cimarex Energy Company	XEC	B2	35.32	43	1,510	44.00	0.00	0.80
Encore Acquisition Company	EAC	B2	38.90	33	1,270	57.00	0.19	0.74
Total or Median					*4,900*		*0.12*	*0.88*

B1 = Buy full unlevered position, B2 = Buy half unlevered position, B3 = Alternative buy, H = Hold
S2 = Short half unlevered position, S3 = Short quarter unlevered position
McDep Ratio = **M**arket **c**ap and **De**bt to **p**resent value of oil and gas and other businesses

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