

Rating: Buy
S&P 500: 1204

Energy Partners, Ltd.

Exploration Exposure

<i>Symbol</i>	EPL	<i>Ebitda Next Twelve Months ending 6/30/06 (US\$mm)</i>	432
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	58
<i>Price (US\$/sh)</i>	23.29	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	6/2/05	<i>Adjusted Reserves/Production NTM</i>	4.8
<i>Shares (mm)</i>	40	<i>EV/Ebitda</i>	2.9
<i>Market Capitalization (US\$mm)</i>	940	<i>PV/Ebitda</i>	3.5
<i>Debt (US\$mm)</i>	290	<i>Undeveloped Reserves (%)</i>	20
<i>Enterprise Value (EV) (US\$mm)</i>	1,230	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	6.30
<i>Present Value (PV) (US\$mm)</i>	1,500	<i>Present Value Proven Reserves(US\$/boe)</i>	24.50
<i>Net Present Value (US\$/share)</i>	30	<i>Present Value Proven Reserves(US\$/mcf)</i>	4.08
<i>Debt/Present Value</i>	0.20	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.40
<i>McDep Ratio - EV/PV</i>	0.82	<i>Price/Earnings Next Twelve Months</i>	7
<i>Dividend Yield (%/year)</i>	0.0	<i>Indicated Annual Dividend (US\$/sh)</i>	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 small cap natural gas and oil producer **Energy Partners (EPL)** with possible high potential exploration exposure. The deep “multiply the company” Denali prospect offshore Louisiana waits the naming of partners before drilling that is expected to occur in a few months. In early April, drilling confirmed natural gas and oil in a second fault block in the South Timbalier area, the company’s most important offshore Louisiana discovery so far. On May 24, the company announced a dry hole on the Mallard prospect in the East Bay area. Despite the risks, rising volume and commodity price contribute growing cash flow to support 29% appreciation potential to estimated net present value of \$30 a share.

South Timbalier Block 41 Discovery Expands

A second fault block appears productive in South Timbalier 41 as a recently drilled well encounters natural gas and oil in multiple formations similar to those in the first fault block. Reserves in the first fault block approach 120 billion cubic feet equivalent (bcf) net to EPL. That compares to existing reserves of about 370 bcf equivalent for the whole company. A third fault block remains to be drilled.

A Dry Hole at East Bay

A deep, expensive, wholly owned well was dry. The high potential prospect in the East Bay area is within about ten miles of the Denali prospect. Denali is deeper at about 22,000 feet and covers about 11,000 acres. It has perhaps 5 fault blocks and possibly dozens of pay sands. Reserves would be multiples of the company’s currently proven resources. The exploratory well would cost about \$17 million. As a result the company has been seeking partners to share the risk.

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Present Value Low Relative to Cash Flow

Present value looks low relative to next twelve months cash flow (see table Functional Cash Flow and Present Value). Cash flow multiple for the company is below our current correlation with adjusted reserve life index for thirty producers. North American Natural Gas is below the correlation multiple by 0.7. Oil is below by 0.4.

	Energy Partners, Ltd.				
	Functional Cash Flow and Present Value				
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	252	4.0	3.4	850	57%
Oil	180	6.1	3.6	650	43%
	432	4.8	3.5	1,500	100%
Debt (US\$mm)					290
Net Present Value (US\$mm)					1,210
Shares (mm)					40
Net Present Value (US\$/sh)					30

Cash Flow Rising with Commodity Price

Recent quarterly results support higher volume expectation. A dynamic measure, projected cash flow is updated frequently with latest futures quotes (see table Next Twelve Months Operating and Financial Estimates).

Buy Oil and Gas Producers at Mid Decade

Multi-fold gain potential for oil and gas price over the years ahead justifies investment in recommended oil and gas producers, in our opinion. A McDep Ratio of 1.0 implies that a stock would be priced at present value assuming a constant real oil price of US\$40 (see table Rank by McDep Ratio).

Kurt H. Wulff, CFA

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

	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Next Twelve Months</i>
	<i>12/31/04</i>	<i>2004</i>	<i>3/31/05</i>	<i>6/30/05</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005E</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>6/30/06</i>
Volume										
Natural Gas (mmcf/d)	78	82	96	96	115	115	106	115	115	115
Oil (mbd)	9.3	8.7	10.0	10.0	12.0	12.0	11.0	12.0	12.0	12.0
Total (mb)	2,058	8,135	2,341	2,367	2,871	2,871	10,449	2,809	2,840	11,391
Total (mbd)	22.4	22.3	26.0	26.0	31.2	31.2	28.6	31.2	31.2	31.2
Price										
Natural Gas										
Henry Hub (\$/mmbtu)	7.10	6.15	6.27	6.98	6.88	7.50	6.91	8.27	7.05	7.42
Differential (\$/mmbtu)	0.35	(0.01)	(0.25)	(0.28)	(0.28)	(0.30)	(0.31)	(0.33)	(0.28)	(0.30)
EPL (\$/mcf)	6.75	6.15	6.52	7.27	7.16	7.80	7.22	8.61	7.33	7.72
Oil (\$/bbl)										
WTI Cushing	48.31	41.44	49.65	51.91	54.31	55.45	52.83	55.51	55.10	55.09
Differential	1.78	1.35	1.83	1.91	2.00	2.04	1.75	2.05	2.03	2.03
EPL	46.53	40.09	47.82	50.00	52.31	53.41	51.08	53.46	53.07	53.06
Total (\$/bbl)	40.11	36.28	41.64	46.05	46.53	49.35	46.10	52.33	47.48	48.91
Revenue (\$mm)										
Natural Gas	49	184	56	64	76	83	279	89	77	325
Oil	40	126	43	45	58	59	205	58	58	232
Other	(6)	(15)	(2)				(2)			-
Total	83	295	97	109	134	142	482	147	135	557
Expense (\$mm)										
Lease operating	10	41	13	12	14	14	53	14	14	57
Production taxes	3	9	3	4	5	6	18	6	5	22
General and administrative	8	31	10	9	11	11	42	11	11	46
Total	21	81	25	26	31	32	114	31	31	125
Ebitda (\$mm)	61	214	72	83	102	110	368	116	104	432
Exploration	9	36	11	15	15	15	56	15	15	60
Deprec., Deplet. & Amort.	28	94	26	26	32	32	115	31	31	125
Other non cash	(2)	(3)	(0)	1	2	8	11	2	2	14
Ebit (\$mm)	26	87	36	41	54	56	187	68	56	233
Interest	4	14	4	4	4	4	16	4	4	16
Ebt (\$mm)	23	73	32	37	50	52	171	64	52	217
Income tax	8	27	12	14	18	19	63	24	19	80
Net income (\$mm)	15	46	21	23	31	33	108	40	33	137
Per share	0.37	1.20	0.51	0.58	0.78	0.81	2.68	1.00	0.81	3.40
Shares (millions)	39.4	38.7	40.3	40.3	40.3	40.3	40.3	40.3	40.3	40.3
Lease operating (\$/bbl)	5.05	4.99	5.38	5.00	5.00	5.00	5.09	5.00	5.00	5.00
Production taxes (%)	3.2	3.0	2.8	4.0	4.0	4.0	3.8	4.0	4.0	4.0
G & A (\$/bbl)	3.89	3.81	4.23	4.00	4.00	4.00	4.05	4.00	4.00	4.00
D., D. & A (\$/bbl)	13.65	11.59	10.89	11.00	11.00	11.00	10.98	11.00	11.00	11.00
Tax rate	36%	36%	36%	37%	37%	37%	37%	37%	37%	37%

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

	<i>Symbol/</i>	<i>Rating</i>	<i>Price</i> <i>(\$/sh)</i> <i>2-Jun</i> <i>2005</i>	<i>Shares</i> <i>(mm)</i>	<i>Market</i> <i>Cap</i> <i>(\$mm)</i>	<i>Net</i> <i>Present</i> <i>Value</i> <i>(\$/sh)</i>	<i>Debt/</i> <i>Present</i> <i>Value</i>	<i>McDep</i> <i>Ratio</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap								
Encana Corporation	ECA	B	35.41	909	32,200	38.50	0.19	0.94
Unocal Corporation	UCL	B	57.96	273	15,800	65.00	0.19	0.91
XTO Energy Inc.	XTO	B	31.32	366	11,470	36.00	0.19	0.90
Occidental Petroleum Corp.	OXY	B	74.72	406	30,400	87.00	0.14	0.88
CNOOC Limited (19%)	CEO	B	54.70	78	4,270	67.00	-	0.82
Burlington Resources	BR	B	50.89	389	19,800	67.00	0.12	0.79
Devon Energy Corporation	DVN	B	46.87	496	23,200	63.00	0.16	0.78
Anadarko Petroleum Corp.	APC	B	76.10	239	18,200	113.00	0.14	0.72
<i>Total or Median</i>					<i>155,000</i>		<i>0.15</i>	<i>0.85</i>
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	49.81	22	1,120	50.00	0.12	1.00
Energy Partners Ltd.	EPL	B	23.29	40	940	30.00	0.20	0.82
Cimarex Energy Company	XEC	B	39.01	81	3,160	50.00	0.17	0.82
Encore Acquisition Company	EAC	B	38.28	33	1,250	57.00	0.19	0.73
<i>Total or Median</i>					<i>6,500</i>		<i>0.18</i>	<i>0.82</i>

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