

Rating: Buy  
S&P 500: 1236

## **Energy Partners Ltd.** **Katrina Survivor**

|                                       |        |  |       |
|---------------------------------------|--------|--|-------|
| <i>Symbol</i>                         | EPL    | <i>Ebitda Next Twelve Months ending 9/30/06 (US\$mm)</i> | 559   |
| <i>Rating</i>                         | Buy    | <i>North American Natural Gas/Ebitda (%)</i>             | 63    |
| <i>Price (US\$/sh)</i>                | 25.24  | <i>Natural Gas and Oil Production/Ebitda (%)</i>         | 100   |
| <i>Pricing Date</i>                   | 9/7/05 | <i>Adjusted Reserves/Production NTM</i>                  | 5.1   |
| <i>Shares (mm)</i>                    | 41     | <i>EV/Ebitda</i>   | 2.4   |
| <i>Market Capitalization (US\$mm)</i> | 1,020  | <i>PV/Ebitda</i>   | 3.3   |
| <i>Debt (US\$mm)</i>                  | 320    | <i>Undeveloped Reserves (%)</i>                          | 20    |
| <i>Enterprise Value (EV) (US\$mm)</i> | 1,340  | <i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>            | 8.60  |
| <i>Present Value (PV) (US\$mm)</i>    | 1,860  | <i>Present Value Proven Reserves(US\$/boe)</i>           | 30.40 |
| <i>Net Present Value (US\$/share)</i> | 38     | <i>Present Value Proven Reserves(US\$/mcfe)</i>          | 5.07  |
| <i>Debt/Present Value</i>             | 0.17   | <i>Earnings Next Twelve Months (US\$/sh)</i>             | 4.69  |
| <i>McDep Ratio - EV/PV</i>            | 0.72   | <i>Price/Earnings Next Twelve Months</i>                 | 5     |
| <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**

Miraculously, buy-recommended small cap natural gas producer **Energy Partners (EPL)** survived a direct hit from Hurricane Katrina with minimal impact on the prospects for the stock. All of the 165 employees of the New Orleans-headquartered company are believed to be safe and nearly all are now working in company offices in Houston and Baton Rouge. Though the eye of the hurricane passed between EPL's two most important areas, East Bay and Bay Marchand/South Timbalier, there apparently was no significant damage to offshore platforms. Production volume now down about 76% is expected to be near fully restored within 60 days. The high-potential Denali exploratory has been delayed perhaps three months. Founder Mr. Rick Bachmann expects to announce before the end of September the partners who will join EPL in drilling the \$18 million dollar well. The stock has 51% appreciation potential to net present value of \$38 a share subject to small cap drilling risk.

### **High Stakes Exploration**

The Denali prospect in the East Bay area lies at about 22,000 feet deep and covers about 11,000 acres. It has perhaps 5 fault blocks and possibly dozens of pay sands. Targeted reserves are one to three trillion cubic feet, equivalent to 5 to 15% of annual consumption for the whole U.S. Costing about \$18 million, the well is expected to start before the end of the year and take about 150 days to drill.

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**Energy Partners, Ltd.**  
**Functional Cash Flow and Present Value**

|                             | <i>NTM Ebitda</i><br><i>(US\$mm)</i> | <i>Adjusted</i><br><i>R/P</i> | <i>PV/</i><br><i>Ebitda</i> | <i>Present</i><br><i>Value</i><br><i>(US\$mm)</i> |       |
|-----------------------------|--------------------------------------|-------------------------------|-----------------------------|---|-------|
| North American Natural Gas  | 351                                  | 4.2                           | 3.0                         | 1,050   | 56%   |
| Oil                         | 209                                  | 6.7                           | 3.9                         | 810   | 44%   |
|                             | 559                                  | 5.1                           | 3.3                         | 1,860   | 100%  |
| Debt (US\$mm)               |                                      |                               |                             |   | 320   |
| Net Present Value (US\$mm)  |                                      |                               |                             |   | 1,540 |
| Shares (mm)                 |                                      |                               |                             |   | 41    |
| Net Present Value (US\$/sh) |                                      |                               |                             |   | 38    |

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

|                            | <i>Q4</i><br><i>12/31/04</i> | <i>Year</i><br><i>2004</i> | <i>Q1</i><br><i>3/31/05</i> | <i>Q2</i><br><i>6/30/05</i> | <i>Q3E</i><br><i>9/30/05</i> | <i>Q4E</i><br><i>12/31/05</i> | <i>Year</i><br><i>2005E</i> | <i>Q1E</i><br><i>3/31/06</i> | <i>Q2E</i><br><i>6/30/06</i> | <i>Q3E</i><br><i>9/30/06</i> | <i>Next</i><br><i>Twelve</i><br><i>Months</i><br><i>9/30/06</i> |
|----------------------------|------------------------------|----------------------------|-----------------------------|-----------------------------|------------------------------|-------------------------------|-----------------------------|------------------------------|------------------------------|------------------------------|---|
| <b>Volume</b>              |                              |                            |                             |                             |                              |                               |                             |                              |                              |                              |   |
| Natural Gas (mmcf)         | 78                           | <b>82</b>                  | 96                          | 100                         | 90                           | 103                           | <b>97</b>                   | 115                          | 115                          | 115                          | <b>112</b>  |
| Oil (mbd)                  | 9.3                          | <b>8.7</b>                 | 10.0                        | 10.5                        | 8.0                          | 10.8                          | <b>9.8</b>                  | 11.0                         | 11.0                         | 11.0                         | <b>10.9</b>   |
| Total (mb)                 | 2,058                        | <b>8,135</b>               | 2,341                       | 2,468                       | 2,116                        | 2,573                         | <b>9,498</b>                | 2,715                        | 2,745                        | 2,775                        | <b>10,808</b>   |
| Total (mbd)                | 22.4                         | <b>22.3</b>                | 26.0                        | 27.1                        | 23.0                         | 28.0                          | <b>26.0</b>                 | 30.2                         | 30.2                         | 30.2                         | <b>29.6</b>   |
| <b>Price</b>               |                              |                            |                             |                             |                              |                               |                             |                              |                              |                              |   |
| Natural Gas                |                              |                            |                             |                             |                              |                               |                             |                              |                              |                              |   |
| Henry Hub (\$/mmbtu)       | 7.10                         | <b>6.15</b>                | 6.27                        | 6.76                        | 8.56                         | 11.95                         | <b>8.38</b>                 | 12.33                        | 9.39                         | 9.35                         | <b>10.75</b>  |
| Differential (\$/mmbtu)    | 0.35                         | <b>(0.01)</b>              | (0.25)                      | (0.12)                      | (0.16)                       | (0.22)                        | <b>(0.25)</b>               | (0.22)                       | (0.17)                       | (0.17)                       | <b>(0.16)</b>   |
| EPL (\$/mcf)               | 6.75                         | <b>6.15</b>                | 6.52                        | 6.88                        | 8.72                         | 12.17                         | <b>8.63</b>                 | 12.55                        | 9.56                         | 9.52                         | <b>10.91</b>  |
| Oil (\$/bbl)               |                              |                            |                             |                             |                              |                               |                             |                              |                              |                              |   |
| WTI Cushing                | 48.31                        | <b>41.44</b>               | 49.65                       | 53.05                       | 63.20                        | 68.10                         | <b>58.50</b>                | 69.01                        | 68.93                        | 68.37                        | <b>68.60</b>  |
| Differential               | 1.78                         | <b>1.35</b>                | 1.83                        | 1.73                        | 2.06                         | 2.22                          | <b>2.00</b>                 | 2.25                         | 2.25                         | 2.23                         | <b>2.24</b>   |
| EPL                        | 46.53                        | <b>40.09</b>               | 47.82                       | 51.32                       | 61.14                        | 65.88                         | <b>56.50</b>                | 66.76                        | 66.69                        | 66.14                        | <b>66.37</b>  |
| Total (\$/bbl)             | 40.11                        | <b>36.28</b>               | 41.64                       | 43.01                       | 55.39                        | 70.26                         | <b>52.81</b>                | 72.19                        | 60.76                        | 60.42                        | <b>65.81</b>  |
| <b>Revenue (\$mm)</b>      |                              |                            |                             |                             |                              |                               |                             |                              |                              |                              |   |
| Natural Gas                | 49                           | <b>184</b>                 | 56                          | 63                          | 72                           | 115                           | <b>307</b>                  | 130                          | 100                          | 101                          | <b>446</b>  |
| Oil                        | 40                           | <b>126</b>                 | 43                          | 49                          | 45                           | 65                            | <b>202</b>                  | 66                           | 67                           | 67                           | <b>265</b>  |
| Other                      | (6)                          | <b>(15)</b>                | (2)                         | (5)                         |                              |                               | <b>(7)</b>                  |                              |                              |                              | <b>-</b>  |
| Total                      | 83                           | <b>295</b>                 | 97                          | 106                         | 117                          | 181                           | <b>502</b>                  | 196                          | 167                          | 168                          | <b>711</b>  |
| <b>Expense (\$mm)</b>      |                              |                            |                             |                             |                              |                               |                             |                              |                              |                              |   |
| Lease operating            | 10                           | <b>41</b>                  | 13                          | 14                          | 18                           | 18                            | <b>63</b>                   | 19                           | 19                           | 19                           | <b>76</b>   |
| Production taxes           | 3                            | <b>9</b>                   | 3                           | 3                           | 5                            | 7                             | <b>17</b>                   | 8                            | 7                            | 7                            | <b>28</b>   |
| General and administrative | 8                            | <b>31</b>                  | 10                          | 8                           | 25                           | 12                            | <b>55</b>                   | 12                           | 12                           | 12                           | <b>48</b>   |
| Total                      | 21                           | <b>81</b>                  | 25                          | 25                          | 48                           | 37                            | <b>136</b>                  | 39                           | 38                           | 38                           | <b>152</b>  |
| <b>Ebitda (\$mm)</b>       | 61                           | <b>214</b>                 | 72                          | 81                          | 70                           | 144                           | <b>366</b>                  | 157                          | 129                          | 130                          | <b>559</b>  |
| Exploration                | 9                            | <b>36</b>                  | 11                          | 19                          | 19                           | 19                            | <b>67</b>                   | 19                           | 19                           | 19                           | <b>75</b>   |
| Deprec., Deplet. & Amort.  | 28                           | <b>94</b>                  | 26                          | 28                          | 28                           | 33                            | <b>114</b>                  | 35                           | 36                           | 36                           | <b>141</b>  |
| Other non cash             | (2)                          | <b>(3)</b>                 | (0)                         | 2                           | 3                            | 11                            | <b>16</b>                   | 5                            | 5                            | 4                            | <b>25</b>   |
| <b>Ebit (\$mm)</b>         | 26                           | <b>87</b>                  | 36                          | 33                          | 20                           | 80                            | <b>168</b>                  | 98                           | 70                           | 70                           | <b>318</b>  |
| Interest                   | 4                            | <b>14</b>                  | 4                           | 4                           | 4                            | 4                             | <b>17</b>                   | 4                            | 4                            | 4                            | <b>17</b>   |
| <b>Ebt (\$mm)</b>          | 23                           | <b>73</b>                  | 32                          | 28                          | 15                           | 76                            | <b>152</b>                  | 94                           | 66                           | 66                           | <b>302</b>  |
| Income tax                 | 8                            | <b>27</b>                  | 12                          | 10                          | 6                            | 28                            | <b>56</b>                   | 35                           | 24                           | 24                           | <b>112</b>  |
| <b>Net income (\$mm)</b>   | 15                           | <b>46</b>                  | 21                          | 18                          | 10                           | 48                            | <b>96</b>                   | 59                           | 41                           | 42                           | <b>190</b>  |
| Per share                  | 0.37                         | <b>1.20</b>                | 0.51                        | 0.45                        | 0.24                         | 1.18                          | <b>2.38</b>                 | 1.46                         | 1.02                         | 1.03                         | <b>4.69</b>   |
| <b>Shares (millions)</b>   | 39.4                         | <b>38.7</b>                | 40.3                        | 40.5                        | 40.5                         | 40.5                          | <b>40.5</b>                 | 40.5                         | 40.5                         | 40.5                         | <b>40.5</b>   |
| Lease operating (\$/bbl)   | 5.05                         | <b>4.99</b>                | 5.38                        | 5.86                        | 8.51                         | 7.00                          | <b>6.64</b>                 | 7.00                         | 7.00                         | 7.00                         | <b>7.00</b>   |
| Production taxes (%)       | 3.2                          | <b>3.0</b>                 | 2.8                         | 2.4                         | 4.0                          | 4.0                           | <b>3.4</b>                  | 4.0                          | 4.0                          | 4.0                          | <b>4.0</b>  |
| G & A (\$/bbl)             | 3.89                         | <b>3.81</b>                | 4.23                        | 3.36                        | 11.81                        | 4.66                          | <b>5.81</b>                 | 4.42                         | 4.37                         | 4.32                         | <b>4.44</b>   |
| D., D. & A (\$/bbl)        | 13.65                        | <b>11.59</b>               | 10.89                       | 11.20                       | 13.00                        | 13.00                         | <b>12.01</b>                | 13.00                        | 13.00                        | 13.00                        | <b>13.00</b>  |
| Tax rate                   | 36%                          | <b>36%</b>                 | 36%                         | 36%                         | 37%                          | 37%                           | <b>37%</b>                  | 37%                          | 37%                          | 37%                          | <b>37%</b>  |

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

**Independent Natural Gas and Oil - Small Cap**

|                            |     |   |       |    |              |       |             |             |
|----------------------------|-----|---|-------|----|--------------|-------|-------------|-------------|
| Berry Petroleum Company    | BRY | B | 63.67 | 23 | 1,430        | 65.00 | 0.10        | 0.98        |
| Encore Acquisition Company | EAC | B | 34.83 | 49 | 1,720        | 50.00 | 0.17        | 0.75        |
| Energy Partners Ltd.       | EPL | B | 25.24 | 41 | 1,020        | 38.00 | 0.17        | 0.72        |
| Cimarex Energy Company     | XEC | B | 42.07 | 85 | 3,580        | 64.00 | 0.12        | 0.70        |
| <i>Total or Median</i>     |     |   |       |    | <i>7,800</i> |       | <i>0.15</i> | <i>0.73</i> |

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