

Rating: Buy
S&P 500: 1231

Energy Partners Ltd.

Denali Partners

<i>Symbol</i>	EPL	<i>Ebitda Next Twelve Months ending 9/30/06 (US\$m)</i>	458
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	69
<i>Price (US\$/sh)</i>	22.98	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/10/05	<i>Adjusted Reserves/Production NTM</i>	5.7
<i>Shares (mm)</i>	41	<i>EV/Ebitda</i>	2.9
<i>Market Capitalization (US\$m)</i>	940	<i>PV/Ebitda</i>	4.2
<i>Debt (US\$m)</i>	370	<i>Undeveloped Reserves (%)</i>	20
<i>Enterprise Value (EV) (US\$m)</i>	1,310	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	7.90
<i>Present Value (PV) (US\$m)</i>	1,920	<i>Present Value Proven Reserves(US\$/boe)</i>	31.40
<i>Net Present Value (US\$/share)</i>	38	<i>Present Value Proven Reserves(US\$/mcfe)</i>	5.23
<i>Debt/Present Value</i>	0.19	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.38
<i>McDep Ratio - EV/PV</i>	0.68	<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

Buy-recommended **Energy Partners (EPL)** offers 65% appreciation potential to estimated net present value of \$38 a share. Taking account of latest quarterly results, our correlation of 30 companies indicates net present value about \$2 a share lower than estimated. The correlation relates value to cash flow from volume that is temporarily depressed into the first quarter of 2006 as a result of the disastrous hurricane season. Neither present value nor the correlation give any weight to potential success at the Denali exploratory project that could more than double the company's resource value. Management announced on the quarterly analyst call that the partners in Denali are McMoRan Exploration (MMR) 50%, Petroquest (PQUE) 10% and EPL 40%.

Partners Confirm Denali Appeal and Share Risk

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 (tcf), equivalent to 5 to 15% of annual consumption for the whole U.S. A well to total depth would cost perhaps \$20 million and take about 150 days to drill. The partners apparently have committed to a less ambitious first well to target the shallower Tex W formation rather than the deeper Big Hum, as it is known colloquially. Potential gross reserves in the shallower formation are 0.5 to 1.0 tcf of the 1.0 to 3.0 total potential for both formations.

Cash Flow and Reserve Life Point to Present Value

McDep analysis presumes that fundamental value is measured by the projection of cash flows far into the future and discounting them to the present at a rate of return, currently 7% a year before inflation. Next Twelve Months (NTM) cash flow represents the volumes and costs that form the base for future projections. Reserve life index tells how long cash flow will last. NTM cash flow and reserve life are the two main variables in our correlation by function for about 30 companies.

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Net present value indicated by the current combined correlation is about \$2 a share lower than our ongoing standard estimate for the company (see table Functional Cash Flow and Present Value).

Energy Partners, Ltd.
Functional Cash Flow and Present Value

	<i>NTM Ebitda</i> <i>(US\$mm)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$mm)</i>	
North American Natural Gas	317	4.6	3.3	1,050	54%
Oil	140	7.7	6.3	880	46%
	458	5.7	4.2	1,930	100%
Debt (US\$mm)					370
Net Present Value (US\$mm)					1,560
Shares (mm)					41
Net Present Value (US\$/sh)					38
Over (-)/ Under (+) Correlation (US\$/sh)					(2)

Cash Flow by Quarter Depends on Latest Results and Futures Prices

Cash flow for the next year is projected from a base through the latest reported quarter (see table Next Twelve Months Operating and Financial Estimates). Company disclosures provide the clues for future volumes and costs as well as geographic and quality differences in price. Volume does not return to the pre-hurricane level until the first quarter next year. Futures prices from the New York Mercantile Exchange determine industry benchmarks for the next year.

Industry Conditions Support Long-Term Price Expectation

Present value estimates that form the denominator of the McDep Ratio and change only occasionally for all companies, most recently in early August, are tied to expected constant real long-term prices. Recent futures price for oil delivered over the next six years exceeds our long-term expectation of \$50. One-year futures for natural gas exceed our long-term expectation while six-year futures for natural gas also have appreciation potential, in our opinion.

Oil and Gas Commodity and Stock Price
Thursday, November 10, 2005

	<i>Units</i>	<i>Futures Price</i>		<i>McDep Ratio</i>
		<i>Six-Year</i>	<i>One-Year</i>	<i>Denominator</i>
Crude Oil	\$/barrel	56.76	59.59	50
Natural Gas	\$/million btu	8.15	10.46	10
	<i>Stocks</i>			<i>Median</i>
	Independent Producer - Small Cap			<i>McDep Ratio</i>
	EPL			0.70
				0.68

Source: McDep Associates, Bloomberg, New York Mercantile Exchange, Yahoo and company disclosures

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

	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</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>9/30/06</i>	<i>9/30/06</i>
Volume											
Natural Gas (mmcf)	78	82	96	100	76	72	86	104	115	115	101
Oil (mbd)	9.3	8.7	10.0	10.5	6.6	6.3	8.3	9.9	11.0	11.0	9.5
Total (mb)	2,058	8,135	2,341	2,468	1,775	1,686	8,270	2,444	2,745	2,775	9,650
Total (mbd)	22.4	22.3	26.0	27.1	19.3	18.3	22.7	27.2	30.2	30.2	26.4
Price											
Natural Gas											
Henry Hub (\$/mmbtu)	7.10	6.15	6.27	6.76	8.56	13.06	8.66	11.92	9.71	9.75	11.11
Differential (\$/mmbtu)	0.35	(0.01)	(0.25)	(0.12)	(0.29)	(0.44)	0.04	(0.40)	(0.33)	(0.33)	(0.13)
EPL (\$/mcf)	6.75	6.15	6.52	6.88	8.85	13.49	8.62	12.32	10.04	10.07	11.24
Oil (\$/bbl)											
WTI Cushing	48.31	41.44	49.65	53.05	62.52	59.32	56.14	59.19	59.87	60.01	59.60
Differential	1.78	1.35	2.80	5.51	7.21	6.84	6.30	6.83	6.90	6.92	6.83
EPL	46.53	40.09	46.85	47.54	55.31	52.48	49.84	52.37	52.96	53.09	52.77
Total (\$/bbl)	40.11	36.28	41.64	43.01	51.86	71.16	50.26	66.05	57.57	57.75	62.14
Revenue (\$mm)											
Natural Gas	49	184	56	63	62	90	270	115	105	107	416
Oil	40	126	42	45	34	30	152	47	53	54	184
Other	(6)	(15)	(1)	(2)	(4)		(6)				-
Total	83	295	97	106	92	120	416	161	158	160	600
Expense (\$mm)											
Lease operating	10	41	13	14	14	14	56	17	19	19	70
Production taxes	3	9	3	3	3	5	13	6	6	6	24
General and administrative	8	31	10	8	10	12	40	12	12	12	48
Total	21	81	25	25	28	31	109	36	38	38	142
Ebitda (\$mm)											
Exploration	9	36	11	19	23	18	71	18	18	18	72
Deprec., Deplet. & Amort.	28	94	26	28	26	29	108	32	36	36	132
Other non cash	(2)	(3)	(0)	2	(0)	11	12	3			15
Ebit (\$mm)	26	87	36	33	15	31	115	73	67	68	239
Interest	4	14	4	4	5	5	18	5	5	5	19
Ebt (\$mm)	23	73	32	28	10	26	97	68	62	64	220
Income tax	8	27	12	10	4	10	35	25	23	24	81
Net income (\$mm)	15	46	21	18	7	16	62	43	39	40	139
Per share	0.37	1.20	0.51	0.45	0.16	0.40	1.52	1.05	0.96	0.98	3.38
Shares (millions)											
Lease operating (\$/bbl)	5.05	4.99	5.38	5.86	8.14	8.57	6.77	7.00	7.00	7.00	7.27
Production taxes (%)	3.2	3.0	2.8	2.5	3.0	4.0	3.1	4.0	4.0	4.0	4.0
G & A (\$/bbl)	3.89	3.81	4.23	3.36	5.76	7.12	4.89	4.91	4.37	4.32	4.97
D., D. & A (\$/bbl)	13.65	11.59	10.89	11.20	14.81	17.00	13.07	13.00	13.00	13.00	13.70
Tax rate	36%	36%	36%	36%	36%	37%	36%	37%	37%	37%	37%

Buy Independent Natural Gas and Oil Producers

Energy is necessary for world economic growth and clean energy provides a better quality of life. Independent natural gas and oil producers are among the leading global suppliers of clean energy. McDep Ratios that compare Enterprise Value with Present Value of energy and other businesses imply that the stock market undervalues the fundamental prospects. Stocks are ranked in descending order of McDep Ratio connoting “buy low, sell high” (see table Rank by McDep Ratio).

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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>10-Nov</i>	<i>Shares</i>	<i>Market</i>	<i>Net</i>	<i>Debt/</i>	<i>McDep</i>
				<i>2005</i>	<i>(mm)</i>	<i>Cap</i>	<i>Present</i>	<i>Present</i>	<i>Ratio</i>
						<i>(\$mm)</i>	<i>Value</i>	<i>Value</i>	
Independent Natural Gas and Oil - Large Cap and Mid Cap									
Encana Corporation	ECA	B	42.39		876	37,100	51.00	0.20	0.86
XTO Energy Inc.	XTO	B	38.72		370	14,330	48.00	0.20	0.84
Burlington Resources	BR	B	65.32		381	24,900	86.00	0.09	0.78
CNOOC Limited (29%)	CEO	B	63.22		119	7,540	84.00	0.01	0.76
Devon Energy Corporation	DVN	B	54.57		454	24,800	86.00	0.15	0.69
Occidental Petroleum Corp.	OXY	B	73.08		404	29,500	120.00	0.11	0.65
Anadarko Petroleum Corp.	APC	B	84.60		238	20,100	140.00	0.12	0.65
	<i>Total or Median</i>						<i>158,000</i>	<i>0.12</i>	<i>0.76</i>
Independent Natural Gas and Oil - Small Cap									
Berry Petroleum Company	BRY	B	56.65		23	1,270	65.00	0.11	0.88
Encore Acquisition Company	EAC	B	32.04		50	1,590	50.00	0.21	0.72
Energy Partners Ltd.	EPL	B	22.98		41	940	38.00	0.19	0.68
Cimarex Energy Company	XEC	B	36.42		85	3,100	64.00	0.11	0.62
	<i>Total or Median</i>						<i>6,900</i>	<i>0.15</i>	<i>0.70</i>

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