

Rating: Buy
 S&P 500: 1302

Energy Partners Ltd. Denali a Dry Hole

<i>Symbol</i>	EPL	<i>Ebitda Next Twelve Months ending 3/31/07 (US\$mm)</i>	349
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	60
<i>Price (US\$/sh)</i>	24.04	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	3/27/06	<i>Adjusted Reserves/Production NTM</i>	5.7
<i>Shares (mm)</i>	41	<i>EV/Ebitda</i>	3.7
<i>Market Capitalization (US\$mm)</i>	980	<i>PV/Ebitda</i>	4.3
<i>Debt (US\$mm)</i>	320	<i>Undeveloped Reserves (%)</i>	26
<i>Enterprise Value (EV) (US\$mm)</i>	1,300	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	6.50
<i>Present Value (PV) (US\$mm)</i>	1,500	<i>Present Value Proven Reserves(US\$/boe)</i>	25.50
<i>Net Present Value (US\$/share)</i>	29	<i>Present Value Proven Reserves(US\$/mcf)</i>	4.25
<i>Debt/Present Value</i>	0.21	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.86
<i>McDep Ratio - EV/PV</i>	0.87	<i>Price/Earnings Next Twelve Months</i>	28
<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)** announced on March 27 after the market close that its high-potential Denali prospect is a dry hole. Though we are not surprised as we know exploratory drilling is risky, we are disappointed as we have been calling attention to the potential of the prospect for 19 months (see *Stock Idea, Energy Partners*, August 27, 2004). We reduce our estimate of present value to \$29 a share from \$32 not because of the \$8 million cost for Denali, but to reflect further caution after management lowered its guidance for first quarter volume last week. Last year's hurricanes unleashed a series of unfavorable developments for the New Orleans company that may take more time to overcome. Nonetheless the stock trades at a low cash flow multiple. The difficulties of finding and developing new clean energy supply in the face of growing global demand partly illustrate why the value of those resources is increasing.

Kurt H. Wulff, CFA

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	208	4.0	4.1	850	56%
Oil	141	8.4	4.7	660	44%
	349	5.7	4.3	1,510	100%
Debt (US\$mm)					320
Net Present Value (US\$mm)					1,190
Shares (mm)					41
Net Present Value - Standard Estimate (US\$/sh)					29
Net Present Value - Approximation by Correlation (US\$/sh)					31

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

	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Next</i>
	<i>12/31/05</i>	<i>2005</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>Twelve</i>
								<i>Months</i>
								<i>3/31/07</i>
Volume								
Natural Gas (mmcf/d)	82	88	85	90	90	90	89	92
Oil (mbd)	4.9	8.0	8.5	9.0	9.0	9.0	8.9	9.2
Total (mb)	1,710	8,294	2,040	2,184	2,208	2,208	8,640	9,000
Total (mbd)	18.6	22.7	22.7	24.0	24.0	24.0	23.7	24.7
Price								
Natural Gas								
Henry Hub (\$/mmbtu)	13.00	8.65	8.97	7.24	7.72	9.17	8.28	8.76
Differential (\$/mmbtu)	0.58	0.14	0.40	0.32	0.35	0.41	0.38	0.35
EPL (\$/mcf)	12.42	8.50	8.57	6.92	7.37	8.76	7.89	8.41
Oil (\$/bbl)								
WTI Cushing	60.02	56.31	63.20	64.49	66.18	66.89	65.19	66.20
Differential	8.36	6.71	8.80	8.98	9.21	9.31	9.04	9.19
EPL	51.66	49.60	54.40	55.51	56.96	57.58	56.15	57.01
Total (\$/bbl)	62.20	48.47	52.54	46.76	49.01	54.44	50.66	52.91
Revenue (\$mm)								
Natural Gas	94	274	66	57	61	73	256	284
Oil	23	145	42	45	47	48	182	192
Other	(11)	(17)					-	-
Total	106	402	107	102	108	120	438	476
Expense (\$mm)								
Lease operating	10	52	14	15	15	15	60	63
Production taxes	2	10	4	4	4	5	18	19
General and administrative	13	41	10	11	11	11	43	45
Total	25	103	29	30	31	31	121	127
Ebitda (\$mm)								
	81	299	78	72	77	89	317	349
Exploration	30	83	30	30	30	18	108	96
Deprec., Deplet. & Amort.	24	104	33	35	35	35	138	144
Other non cash	(21)	(20)	9	7	8	10	33	36
Ebit (\$mm)								
	49	133	7	0	5	26	37	74
Interest	5	17	5	5	5	5	18	18
Ebt (\$mm)								
	44	115	2	(4)	0	22	19	56
Income tax	16	42	1	(2)	0	8	7	21
Net income (\$mm)								
	28	74	1	(3)	0	14	12	35
Per share	0.69	1.81	0.03	(0.07)	0.00	0.33	0.30	0.86
Shares (millions)								
	40.9	40.6	40.9	40.9	40.9	40.9	40.9	40.9
Lease operating (\$/bbl)	5.85	6.21	7.00	7.00	7.00	7.00	7.00	7.00
Production taxes (%)	1.8	2.5	4.0	4.0	4.0	4.0	4.0	4.0
G & A (\$/bbl)	7.55	4.98	5.00	5.00	5.00	5.00	5.00	5.00
D., D. & A (\$/bbl)	14.16	12.49	16.00	16.00	16.00	16.00	16.00	16.00
Tax rate	36%	36%	37%	37%	37%	37%	37%	37%

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