

Rating: Buy
 S&P 500: 1273

Energy Partners Ltd.

Offers to Buy Stone Energy

<i>Symbol</i>	EPL	<i>Ebitda Next Twelve Months ending 6/30/07 (US\$mm)</i>	397
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	63
<i>Price (US\$/sh)</i>	21.07	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	5/25/06	<i>Adjusted Reserves/Production NTM</i>	5.0
<i>Shares (mm)</i>	40	<i>EV/Ebitda</i>	2.9
<i>Market Capitalization (US\$mm)</i>	850	<i>PV/Ebitda</i>	3.7
<i>Debt (US\$mm)</i>	310	<i>Undeveloped Reserves (%)</i>	26
<i>Enterprise Value (EV) (US\$mm)</i>	1,160	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	6.50
<i>Present Value (PV) (US\$mm)</i>	1,480	<i>Present Value Proven Reserves(US\$/boe)</i>	25.20
<i>Net Present Value (US\$/share)</i>	29	<i>Present Value Proven Reserves(US\$/mcf)</i>	4.20
<i>Debt/Present Value</i>	0.21	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.64
<i>McDep Ratio - EV/PV</i>	0.78	<i>Price/Earnings Next Twelve Months</i>	13
<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)** has made a bold, unsolicited offer to acquire 60% larger, close peer, Stone Energy for \$700 million of EPL stock and \$1.4 billion of debt. The deal may be accepted by Stone because it has been in a proposed sale that has gone awry because of the decline in the buyer's stock. We continue a buy rating on EPL stock as the McDep Ratio after the deal would remain low at 0.85, up from 0.78 (see table). The stock would offer the same percentage appreciation potential to estimated net present value of \$29 a share, but the financial risk would be higher. A rise in the ratio of debt to present value implies that the equity position of EPL in a portfolio could be reduced by a third to maintain the same unlevered exposure to natural gas and oil production. Management intends that the level of debt near our maximum would be reduced rapidly. The eponymous chairman of the target, Mr. Jimmy Stone, is a New Orleans neighbor of the chairman of EPL while the chairman of Stone's current suitor is a brother of an EPL executive.

Energy Partners with Stone Energy

	<u>EPL</u>	<u>Acquire</u>	<u>EPL + Stone</u>
<i>Shares (mm)</i>	40	33	73
<i>Market Capitalization (US\$mm)</i>	850		1550
<i>Debt (US\$mm)</i>	310	1420	1730
<i>Enterprise Value (EV) (US\$mm)</i>	1,160		3280
<i>Present Value (PV) (US\$mm)</i>	1,480	2400	3880
<i>Net Present Value (US\$/share)</i>	29		29
<i>Debt/Present Value</i>	0.21		0.45
<i>McDep Ratio - EV/PV</i>	0.78		0.85

Please see disclosures on the final page.

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

	<i>Q2</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Next Twelve Months</i>
	<i>6/30/05</i>	<i>2005</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>2006E</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>6/30/07</i>
Volume									
Natural Gas (mmcf)	100	88	95	120	120	114	120	120	120
Oil (mbd)	10.5	8.0	7.2	8.0	8.0	7.8	8.0	8.0	8.0
Total (mb)	2,468	8,294	2,069	2,548	2,576	9,769	2,520	2,548	10,220
Total (mbd)	27.1	22.7	23.0	28.0	28.0	26.8	28.0	28.0	28.0
Price									
Natural Gas									
Henry Hub (\$/mmbtu)	6.76	8.65	8.97	6.82	6.37	7.61	10.20	8.44	8.32
Differential (\$/mmbtu)	(0.12)	0.14	0.56	0.43	0.40	0.55	0.64	0.53	0.53
EPL (\$/mcf)	6.88	8.50	8.41	6.39	5.97	7.06	9.56	7.91	7.79
Oil (\$/bbl)									
WTI Cushing	53.05	56.31	63.33	70.50	72.02	69.83	74.11	74.19	73.44
Differential	5.51	6.71	4.17	4.64	4.74	4.41	4.88	4.88	4.84
EPL	47.54	49.60	59.16	65.85	67.28	65.42	69.23	69.30	68.60
Total (\$/bbl)	43.01	48.47	53.22	46.20	44.80	49.07	60.76	53.71	52.98
Revenue (\$mm)									
Natural Gas	63	274	72	70	66	293	103	86	341
Oil	45	145	38	48	50	186	50	50	200
Other	(2)	(17)	0			0			-
Total	106	402	110	118	115	479	153	137	541
Expense (\$mm)									
Lease operating	14	52	13	18	18	67	18	18	72
Production taxes	3	10	3	5	5	18	6	5	22
General and administrative	8	41	13	13	13	51	13	13	51
Total	25	103	28	35	36	135	36	36	144
Ebitda (\$mm)	81	299	82	82	80	344	117	101	397
Exploration	19	83	20	20	20	78	20	20	78
Deprec., Deplet. & Amort.	28	104	47	48	49	193	48	48	194
Other non cash	2	(20)	(13)			(13)			-
Ebit (\$mm)	33	133	28	14	11	85	49	33	125
Interest	4	17	5	5	5	19	5	5	19
Ebt (\$mm)	28	115	23	10	7	66	44	28	105
Income tax	10	42	8	4	2	24	16	10	39
Net income (\$mm)	18	74	15	6	4	42	28	18	66
Per share	0.45	1.81	0.37	0.15	0.10	1.03	0.69	0.44	1.64
Shares (millions)									
Lease operating (\$/bbl)	5.86	6.21	6.09	7.00	7.00	6.81	7.00	7.00	7.00
Production taxes (%)	2.5	2.5	2.7	4.0	4.0	3.7	4.0	4.0	4.0
G & A (\$/bbl)	3.36	4.98	6.04	5.00	5.00	5.22	5.00	5.00	5.00
D., D. & A (\$/bbl)	11.20	12.49	22.76	19.00	19.00	19.80	19.00	19.00	19.00
Tax rate	36%	36%	36%	37%	37%	37%	37%	37%	37%

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