



Independent Stock Idea

August 5, 2010

rating: buy
s&p 500: 1127

Cimarex Energy (XEC) Raise NPV to \$80 from \$75

<i>Symbol</i>	XEC	<i>Ebitda Next Twelve Months ending 6/30/11 (US\$m)</i>	1,135
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	46
<i>Price (\$/sh)</i>	73.61	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/4/10	<i>Adjusted Reserves/Production NTM</i>	6.3
<i>Shares (mm)</i>	86	<i>EV/Ebitda</i>	6.1
<i>Market Capitalization (\$mm)</i>	6,300	<i>PV/Ebitda</i>	6.6
<i>Debt (\$mm)</i>	600	<i>Undeveloped Reserves (%)</i>	22
<i>Enterprise Value (EV) (\$mm)</i>	6,900	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	31.40
<i>Present Value (PV) (\$mm)</i>	7,450	<i>Present Value Proven Reserves(\$/boe)</i>	29.10
<i>Net Present Value (\$/share)</i>	80	<i>Oil and Gas Ebitda Margin (%)</i>	70
<i>Debt/Present Value</i>	0.08	<i>Earnings Next Twelve Months (US\$/sh)</i>	5.65
<i>McDep Ratio - EV/PV</i>	0.93	<i>Price/Earnings Next Twelve Months</i>	13
<i>Dividend Yield (%/year)</i>	0.4	<i>Indicated Annual Dividend (US\$/sh)</i>	0.32
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.			
Estimated present value presumes a long-term price for oil of US\$75 a barrel and natural gas, \$8 a million btu.			
For historical analysis of XEC since 2003 see www.mcdep.com/4xec.htm			

Summary and Recommendation

Buy-recommended **Cimarex (XEC)** offers unlevered appreciation potential of 8% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$80 a share. On the strength of rising production, NPV is up from \$75 on May 10, \$65 on February 19, \$60 on January 19 and \$50 at the beginning of 2010. On the call with analysts on August 4, management raised its guidance for the year and narrowed the range. The steep increase in volume in the first quarter held at a high level in the second quarter (see table Next Twelve Months Operating and Financial Estimates). Might reserves also get a lift? We heard financial chief Paul Korus exclaim that the company would report its “largest reserve increase ever at year end.” Reserve life and cash flow drive NPV (see table Functional Cash Flow and Present Value). More big wells have been added to Gulf Coast Yegua Cook Mountain successes. Always skeptical how long high flow rates will last, operations chief Joe Albi has successfully managed production with no diminution of reserves. In the Permian Basin, exploration chief Tom Jorden has a new trend in the “Avalon Shale” that helps him justify a boost in spending as oil booms again in West Texas. Finally, partners Cimarex and **Devon (DVN)** are seeing early positives in the pilot program concentrating more wells in the same area to enhance reserves and production in the Cana Shale of Oklahoma.

Kurt H. Wulff, CFA



Independent Stock Idea

August 5, 2010

Cimarex Energy Company									
Next Twelve Months Operating and Financial Performance									
	Q2	Q1	Q2	Q3E	Q4E	Year	Q1E	Q2E	Next Twelve Months
	6/30/09	3/31/10	6/30/10	9/30/10	12/31/10	2010E	3/31/11	6/30/11	6/30/11
Volume									
Natural Gas (bcf)	28.9	35.2	33.8	34.2	34.2	137	33.4	33.8	136
Natural Gas (mmcf)	318	391	371	371	371	376	371	371	371
Days	91	90	91	92	92	365	90	91	365
Oil (mmb)	2.1	2.9	3.4	3.4	3.4	13.1	3.3	3.4	13.6
Oil (mbd)	22.7	32.3	37.2	37.2	37.2	36.0	37.2	37.2	37.2
Total (bcfe)	41.3	52.6	54.1	54.7	54.7	216	53.5	54.1	217
Total (mmcf)	454	584	594	594	594	592	594	594	594
Price									
Henry Hub (\$/mmbtu)	3.50	5.32	4.09	4.75	4.94	4.77	5.20	4.99	4.97
Differential (\$/mmbtu)	0.02	(1.09)	(0.39)	(0.45)	(0.47)	(0.61)	(0.50)	(0.48)	(0.47)
Company (\$/mcf)	3.48	6.41	4.48	5.20	5.41	5.39	5.70	5.47	5.44
WTI Cushing (\$/bbl)	59.52	78.67	77.85	78.07	79.81	78.60	81.10	82.34	80.33
Differential	4.91	2.56	14.73	14.77	15.10	12.15	15.35	15.58	15.21
Company (\$/bbl)	54.61	76.11	63.12	63.30	64.71	66.46	65.76	66.76	65.12
Total (\$/bbl)	31.00	49.37	40.48	43.24	44.58	44.38	46.03	45.54	44.84
Revenue (\$mm)									
Natural Gas	101	225	151	178	185	739	190	185	738
Oil	113	221	214	216	221	872	220	226	884
Other		(14)				(14)			
Total	213	433	365	394	406	1,598	410	411	1,621
Expense									
Operating	54	53	56						
Production taxes	15	32	28						
General and administrative	12	16	12						
Total	81	101	96	118	122	437	123	123	486
Ebitda	132	332	269	276	284	1,161	287	287	1,135
Deprec., Deplet., & Amort	59	72	75	98	98	344	96	97	391
Other Non Cash	(4)	(3)	2			(1)	-	-	-
Ebit	77	263	192	177	186	818	191	190	744
Interest	6	-	-	-	-	-	-	-	-
Ebt	71	263	192	177	186	818	191	190	744
Income Tax	25	92	67	62	65	286	67	67	261
Net Income (\$mm)	46	171	125	115	121	532	124	124	484
Per Share (\$)	0.56	2.00	1.46	1.35	1.41	6.22	1.45	1.44	5.65
Shares (millions)									
Operating (\$/mcf)	1.31	1.01	1.04						
Production taxes (%rev)	7.0	7.4	7.7						
General and admin (\$/mcf)	0.29	0.30	0.22						
Deprec., D, & A (\$/mcf)	1.43	1.37	1.39	1.80	1.80	1.59	1.80	1.80	1.80
Ebitda Margin	62%	77%	74%	70%	70%	73%	70%	70%	70%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



Independent Stock Idea

August 5, 2010

Cimarex Energy Company					
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	520	7.6	8.5	4,400	59%
Oil	615	4.1	4.9	3,000	41%
	1,135	6.3	6.5	7,400	100%
Debt (US\$mm)					600
Net Present Value (US\$mm)					6,800
Shares (mm)					86
Net Present Value - Standard Estimate (US\$/sh)					80
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					88

Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

Certification: I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

Research Methodology/Ratings Description: McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.