

Rating: Buy
S&P 500: 1173

Cimarex Energy Company

Magnum Hunter Acquisition Adds Value

<i>Symbol</i>	XEC	<i>Ebitda Next Twelve Months ending 3/31/06 (US\$m)</i>	412
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	77
<i>Price (\$/sh)</i>	35.89	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	1/26/05	<i>Adjusted Reserves/Production NTM</i>	5.2
<i>Shares (mm)</i>	43	<i>EV/Ebitda</i>	3.7
<i>Market Capitalization (\$mm)</i>	1,540	<i>PV/Ebitda</i>	4.6
<i>Debt (\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	1
<i>Enterprise Value (EV) (\$mm)</i>	1,540	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	30.80
<i>Present Value (PV) (\$mm)</i>	1,890	<i>Present Value Proven Reserves(\$/boe)</i>	26.90
<i>Net Present Value (\$/share)</i>	44	<i>Present Value Proven Reserves(\$/mcf)</i>	4.50
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.51
<i>McDep Ratio - EV/PV</i>	0.82	<i>Price/Earnings Next Twelve Months</i>	10
<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

We continue to recommend current purchase of the common shares of Cimarex Energy Company (XEC) for small cap participation in natural gas production with capable leadership. On the basis of our industry-wide revaluation to an expected long-term oil price of \$40 a barrel constant real, we increase our estimate of net present value per share to \$42 compared to \$38 previously.

Today's announced acquisition of **Magnum Hunter (MHR)** implies a further increase to \$44 or more after the closing of the deal expected at about mid-year. The seller had difficulty gaining investor credibility for its valuable properties that also happened to carry a heavy debt burden. Cimarex stock has 20% appreciation potential to net present value where it would then offer a continuing return of 11% per year at \$40 oil and normal risk.

Magnum Hunter an Under-Recognized Producer

When Magnum Hunter last appeared in our research at the end of July 2004, it had a stock price of about \$10, a net present value of \$20 and a ratio of debt to present value of 0.32. At the same time Cimarex had a stock price of about \$31, a net present value of \$38 and a ratio of debt to present value of 0.00. The proposed exchange ratio is 0.415 shares of Cimarex stock for each share of Magnum Hunter. As a result 0.415 share of Cimarex having net present value of \$16 would be exchanged for net present value of \$20. It looks like a good deal for Cimarex. It is also a reasonable deal for Magnum Hunter because the seller gains credibility it was not able to achieve by itself. Besides if the new company is successful as we expect it to be, the selling stockholders will be full participants as new Cimarex stockholders.

As of January 26, 2005, we raised our estimate of long-term oil price to \$40 from \$35 previously. While we have a new estimate for Cimarex, we do not have the same revision for MHR. From our preliminary calculations, more than likely, the addition of MHR increases net present value

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for Cimarex. The two companies are roughly the same size. Thus a \$4 a MHR share gain spread out over all the Cimarex shares would be about \$2 on the old estimates. On new estimates to be refined over the next several months, the increment may be more.

Estimates presented in the table on the first page of this analysis are for Cimarex before the latest proposed transaction. The one exception is that we added \$2 a share to net present value presuming the deal is completed. We can understand that the stock of the acquiring company usually declines while the stock of the seller usually increases. Indeed fees will be paid that dilute the value created. Nonetheless it looks to us like an attractive opportunity for diversified energy investors to accumulate shares of buy-recommended Cimarex.

Kurt H. Wulff, CFA

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