

Rating: Buy
S&P 500: 1194

Cimarex Energy Company Natural Gas Growth

<i>Symbol</i>	XEC	<i>Ebitda Next Twelve Months ending 6/30/06 (US\$m)</i>	949
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	72
<i>Price (\$/sh)</i>	37.47	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	5/24/05	<i>Adjusted Reserves/Production NTM</i>	7.5
<i>Shares (mm)</i>	81	<i>EV/Ebitda</i>	4.0
<i>Market Capitalization (\$mm)</i>	3,040	<i>PV/Ebitda</i>	5.1
<i>Debt (\$mm)</i>	800	<i>Undeveloped Reserves (%)</i>	19
<i>Enterprise Value (EV) (\$mm)</i>	3,840	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	32.40
<i>Present Value (PV) (\$mm)</i>	4,850	<i>Present Value Proven Reserves(\$/boe)</i>	20.00
<i>Net Present Value (\$/share)</i>	50	<i>Present Value Proven Reserves(\$/mcf)</i>	3.30
<i>Debt/Present Value</i>	0.17	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.75
<i>McDep Ratio - EV/PV</i>	0.79	<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. Shareholders of both parties vote on June 6 to approve the merger with **Magnum Hunter (MHR)**. The deal lengthens Cimarex's reserve life and adds value by our correlation for about 30 producers. Estimated net present value of \$50 a share corresponds to an expected long-term oil price of \$40 a barrel and a natural gas price of about \$8 a million btu. On that basis the stock has 33% appreciation potential to the point where it would then provide a normal return with normal risk.

Project Next Twelve Months on Pro-Forma Basis

The proposed exchange ratio of 0.415 shares of Cimarex stock for each share of Magnum Hunter is expected to be effective by the end of the second quarter. For valuation purposes we assume the deal is complete at the beginning of the third quarter so that our reference period of the twelve months ending June 30, 2006 includes full operations of both companies. All the summary measures in the masthead above are consistent with a completed deal. The two companies are roughly equal in size. The main difference is that while Cimarex was unusual with no debt, no hedges and no puds (proven undeveloped reserves); Magnum Hunter has all three as do most companies. The expanded company remains primarily a natural gas producer (see tables Functional Cash Flow and Present Value and Next Twelve Months Operating and Financial Performance).

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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	680	6.7	5.1	3,500	71%
Oil	269	10.0	5.2	1,400	29%
	949	7.5	5.2	4,900	100%
Debt (US\$mm)					800
Net Present Value (US\$mm)					4,100
Shares (mm)					81
Net Present Value (US\$/sh)					50

Cimarex Energy Company
Next Twelve Months Operating and Financial Performance

	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Next</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>Twelve</i>
										<i>Months</i>
										<i>6/30/06</i>
Volume										
Natural Gas (mmcf)	187	174	196	196	366	366	282	366	366	366
Oil (mbd)	7.4	7.2	7.4	7.4	19.3	19.3	13.4	19.3	19.3	19.3
Total (bcfe)	21.3	79	21.6	21.9	44.4	44.4	132	43.4	43.9	176
Total (mmcf)	220	217	240	240	482	482	362	482	482	482
Price										
Henry Hub (\$/mmbtu)	7.10	6.15	6.27	6.85	6.52	7.13	6.69	7.93	6.86	7.11
Differential (\$/mmbtu)	0.71	0.39	0.27	0.29	0.45	0.49	0.36	0.54	0.47	0.49
Company (\$/mcf)	6.39	5.76	6.00	6.55	6.07	6.64	6.33	7.39	6.39	6.62
WTI Cushing (\$/bbl)	48.31	41.44	49.65	50.26	49.98	51.43	50.33	51.43	51.17	51.01
Differential	1.19	1.25	2.37	2.40	2.51	2.58	2.33	2.58	2.57	2.56
Company (\$/bbl)	47.12	40.19	47.28	47.86	47.48	48.85	48.00	48.85	48.61	48.45
Revenue (\$mm)										
Natural Gas	110	366	106	117	205	224	651	244	213	885
Oil	32	106	32	32	84	87	235	85	85	341
Other	(0)	(1)	0	0	0	0	0	0	0	0
Total	142	472	137	149	289	311	886	329	298	1,227
Expense										
Operating	10	37	10	10	30	30	80	29	29	118
Production taxes	10	37	11	11	23	25	70	26	24	98
General and administrative	8	24	9	9	16	16	49	15	15	62
Total	28	97	30	30	68	70	199	71	69	278
Ebitda	114	375	107	119	221	241	687	258	230	949
Deprec., Deplet., & Amort.	35	124	38	38	98	98	271	95	97	387
Other Non Cash	5	15	3	11	11	16	41	15	14	57
Ebit	74	236	66	70	112	127	375	147	119	505
Interest	-	-	-	-	10	10	19	10	10	38
Ebt	74	236	66	70	102	117	356	138	110	467
Income Tax	26	83	23	24	36	41	125	48	38	163
Net Income (\$mm)	48	153	43	45	66	76	231	89	71	303
Per Share (\$)	1.12	3.58	1.00	1.05	0.82	0.94	3.81	1.10	0.88	3.75
Shares (millions)	43	43	43	43	81	81	81	81	81	81
Operating (\$/mcf)	0.47	0.46	0.47	0.47	0.67	0.67	0.60	0.67	0.67	0.67
Production taxes (%rev)	7.0	7.8	7.9	7.3	8.0	8.0	7.9	8.0	8.0	8.0
General and admin (\$/mcf)	0.38	0.30	0.42	0.42	0.35	0.35	0.37	0.35	0.35	0.35
Deprec., D,& A (\$/mcf)	1.64	1.56	1.76	1.74	2.20	2.20	2.05	2.20	2.20	2.20
Ebitda Margin	80%	79%	78%	80%	76%	77%	78%	79%	77%	77%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%

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Cash Flow and Reserve Life Correlate with Present Value

Ultimately the present value estimates that we use as an indicator of stock price potential are justified by projecting cash flows for years into the future and discounting to the present. We detail those calculations in past analyses. Since many of the factors affecting future cash flow are similar for the companies we cover, we can get a quick check on present value by correlating the multiple of present value to first year, or next twelve months, cash flow with adjusted reserve life.

When the pricing expectations are similar for natural gas and oil we can combine the two fuels in the same analysis. As the pricing of natural gas has lagged we have taken to looking at natural gas separately from oil. The cash flow multiple of 5.1 for Cimarex is less than 5.5 indicated by the current correlation (see table North American Natural Gas Cash Flow and Present Value).

North American Natural Gas Cash Flow and Present Value

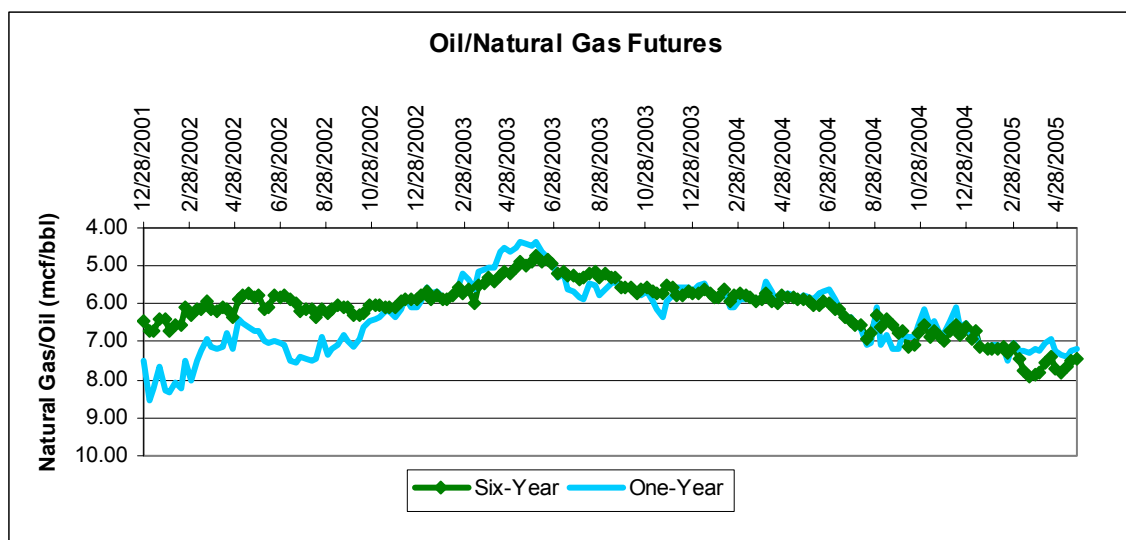
	<i>Ebitda</i>	<i>Adjstd</i>	<i>PV/</i>	<i>Present</i>
	<i>NTM</i>	<i>Resrvs/</i>	<i>Ebitda</i>	<i>Value</i>
	<i>(\$mm)</i>	<i>Prod</i>	<i>NTM</i>	<i>(\$mm)</i>
		<i>NTM</i>		
Imperial Oil Limited	616	3.9	5.2	3,200
Energy Partners Ltd.	238	4.0	3.3	780
Royal Dutch/Shell	2,020	4.7	4.5	9,000
Chevron Corporation	2,140	5.6	5.1	11,000
Marathon Oil Corporation	750	5.7	4.9	3,700
Cimarex Energy Company	680	6.7	5.1	3,500
Encana Corporation	6,240	7.1	5.6	35,000
Devon Energy Corporation	4,060	7.7	5.8	23,500
Unocal Corporation	939	8.0	6.4	6,000
Petro-Canada	750	8.2	6.7	5,000
Suncor Energy	210	8.4	6.2	1,300
Burlington Resources	3,010	10.0	6.6	20,000
Occidental Petroleum Corp.	831	10.3	7.2	6,000
Encore Acquisition Company	81	11.0	8.0	650
Berry Petroleum Company	30	11.4	6.7	200
Anadarko Petroleum Corp.	2,550	11.9	7.1	18,000
XTO Energy Inc.	1,760	12.0	7.6	13,400
San Juan Basin Royalty Trust	160	12.1	9.3	1,490
Exxon Mobil Corporation	4,420	12.2	9.0	40,000
BP plc	3,220	12.9	8.4	27,000
ConocoPhillips	1,940	13.6	8.2	16,000

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Natural Gas Investment Timely

Cimarex's more than 70% concentration on natural gas appears especially desirable as natural gas price has not kept up with oil in the past three years. Natural gas is priced at a discount to oil signaling that the clean fuel could be more widely used. In a clean, safe world, electric power would be generated only from natural gas, refined oil or gasified coal. In the cheap and dirty world, electric power is generated predominantly from coal with minimal or moderate effort to control unhealthful pollution. Current pricing relationships suggest that we can afford to use more natural gas. It is clear we cannot live without coal, but we could live with a little less of it by replacing some it with natural gas.

The most sensitive clue to natural gas availability is commodity price relative to oil, the world's largest traded energy source. Natural gas price is at its lowest relative to oil in three years (see chart Oil/Natural Gas Futures). That seems to be the case for futures price for the next year or the next six years.



The common conversion factor to equate oil and natural gas on equivalent heating basis is to divide the oil price by 6. We see that the prices in the futures market currently are between 7 and 8. Instead it should be going in the other direction. Dividing by 6 is for comparing crude oil to natural gas. Heating oil, diesel fuel or jet fuel, the substitutes for natural gas in efficient power plants, are worth about a 20% premium to crude oil. That changes our price ratio to 5:1. Because those products are still not as clean as natural gas, we see the conversion factor going to 4:1 in the next decade. It is a long-term trend that as our society increasingly prospers, we demand a cleaner environment. Cimarex has a long record of helping to meet that need with growing natural gas production

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