

Rating: Buy
 S&P 500: 1230

Cimarex Energy Company

Billion Dollar Cash Flow for Small Cap Natural Gas Producer

<i>Symbol</i>	XEC	<i>Ebitda Next Twelve Months ending 6/30/06 (US\$mm)</i>	1,230
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	72
<i>Price (\$/sh)</i>	42.42	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/12/05	<i>Adjusted Reserves/Production NTM</i>	7.5
<i>Shares (mm)</i>	85	<i>EV/Ebitda</i>	3.5
<i>Market Capitalization (\$mm)</i>	3,610	<i>PV/Ebitda</i>	5.0
<i>Debt (\$mm)</i>	740	<i>Undeveloped Reserves (%)</i>	19
<i>Enterprise Value (EV) (\$mm)</i>	4,350	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	41.90
<i>Present Value (PV) (\$mm)</i>	6,180	<i>Present Value Proven Reserves(\$/boe)</i>	25.50
<i>Net Present Value (\$/share)</i>	64	<i>Present Value Proven Reserves(\$/mcfe)</i>	4.20
<i>Debt/Present Value</i>	0.12	<i>Earnings Next Twelve Months (US\$/sh)</i>	5.34
<i>McDep Ratio - EV/PV</i>	0.70	<i>Price/Earnings Next Twelve Months</i>	8
<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 **Cimarex (XEC)** offers solid small-cap producer representation in natural gas. After doubling in size with the acquisition of Magnum Hunter completed in June, the company appears to be running smoothly at an expanded level. Recent futures prices for the clean fuel point to cash flow of more than a billion dollars a year. Unlevered cash flow multiple, EV/Ebitda, at 3.5 times is among the lowest in our coverage. Reported second quarter earnings of \$1.08 a share exceeded the estimate of \$1.05 in our published quarterly projection dated May 25. The stock has 51% appreciation potential to net present value of \$64 a share. Reinvesting most of its cash flow, Cimarex depends on the results of active drilling for its continued investment success.

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	890	6.7	4.8	4,300	70%
Oil	340	10.0	5.4	1,840	30%
	1,230	7.5	5.0	6,140	100%
Debt (US\$mm)				740	
Net Present Value (US\$mm)				5,400	
Shares (mm)				85	
Net Present Value (US\$/sh)				64	

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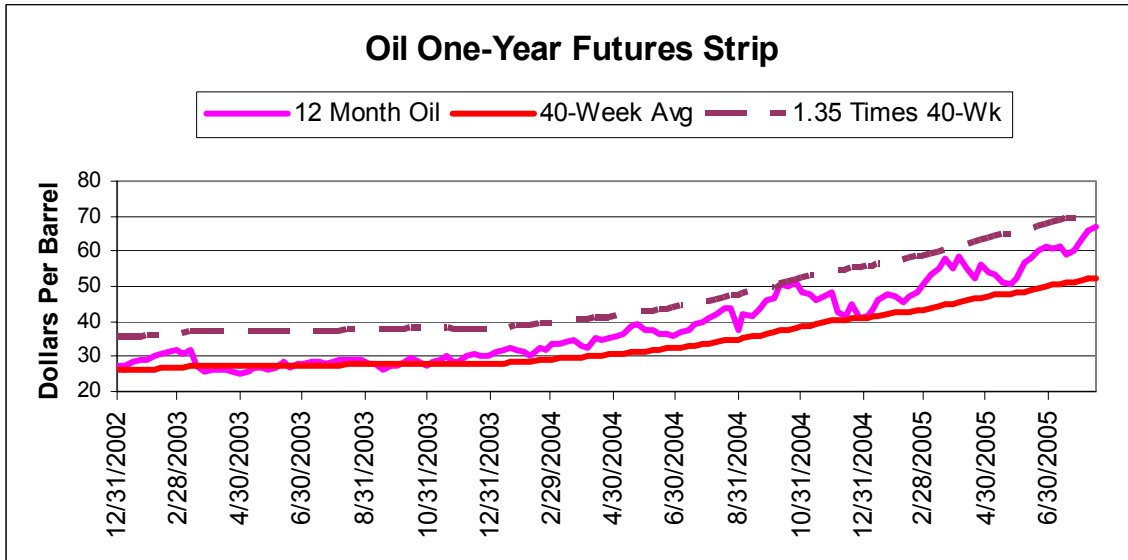
Cimarex Energy Company
Next Twelve Months Operating and Financial Performance

	<i>Q4</i> <i>12/31/04</i>	<i>Year</i> <i>2004</i>	<i>Q1</i> <i>3/31/05</i>	<i>Q2</i> <i>6/30/05</i>	<i>Q3E</i> <i>9/30/05</i>	<i>Q4E</i> <i>12/31/05</i>	<i>Year</i> <i>2005E</i>	<i>Q1E</i> <i>3/31/06</i>	<i>Q2E</i> <i>6/30/06</i>	<i>Next Twelve Months</i> <i>6/30/06</i>
Volume										
Natural Gas (mmcf)	187	174	196	232	366	366	291	366	366	366
Oil (mbd)	7.4	7.2	7.4	10.4	19.3	19.3	14.1	19.3	19.3	19.3
Total (bcfe)	21.3	79	21.6	26.8	44.4	44.4	137	43.4	43.9	176
Total (mmcf)	220	217	240	295	482	482	376	482	482	482
Price										
Henry Hub (\$/mmbtu)	7.10	6.15	6.27	6.76	7.98	9.53	7.63	10.17	8.48	9.04
Differential (\$/mmbtu)	0.71	0.39	0.27	0.27	0.48	0.58	0.12	0.62	0.52	0.55
Company (\$/mcf)	6.39	5.76	6.00	6.49	7.49	8.95	7.51	9.55	7.96	8.49
WTI Cushing (\$/bbl)	48.31	41.44	49.65	53.05	62.20	66.65	57.89	67.44	67.09	65.85
Differential	1.19	1.25	2.37	2.49	3.04	3.26	0.38	3.30	3.28	3.23
Company (\$/bbl)	47.12	40.19	47.28	50.56	59.16	63.39	57.50	64.14	63.81	62.61
Revenue (\$mm)										
Natural Gas	110	366	106	137	253	302	797	315	265	1,135
Oil	32	106	32	48	105	113	297	111	112	441
Other	(0)	(1)	0	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Total	142	472	137	185	358	414	1,094	426	378	1,576
Expense										
Operating	10	37	10	21	40	40	111	39	39	158
Production taxes	10	37	11	14	29	33	87	34	30	126
General and administrative	8	24	9	9	16	16	49	15	15	62
Total	28	97	30	44	84	89	247	88	85	346
Ebitda	114	375	107	141	274	326	847	338	292	1,230
Deprec., Deplet., & Amort.	35	124	38	52	98	98	285	95	97	387
Other Non Cash	5	15	3	5	23	35	65	21	27	106
Ebit	74	236	66	84	153	194	497	222	169	737
Interest	-	-	-	4	10	10	23	10	10	38
Ebt	74	236	66	80	143	184	474	212	159	699
Income Tax	26	83	23	28	50	64	166	74	56	245
Net Income (\$mm)	48	153	43	52	93	120	308	138	104	454
Per Share (\$)	1.12	3.58	1.00	1.08	1.10	1.41	4.58	1.62	1.22	5.34
Shares (millions)										
Operating (\$/mcf)	0.47	0.46	0.47	0.78	0.90	0.90	0.81	0.90	0.90	0.90
Production taxes (%rev)	7.0	7.8	7.9	7.6	8.0	8.0	7.9	8.0	8.0	8.0
General and admin (\$/mcf)	0.38	0.30	0.42	0.34	0.35	0.35	0.36	0.35	0.35	0.35
Deprec., D, & A (\$/mcf)	1.64	1.56	1.76	1.94	2.20	2.20	2.08	2.20	2.20	2.20
Ebitda Margin	80%	79%	78%	76%	76%	79%	77%	79%	77%	78%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%

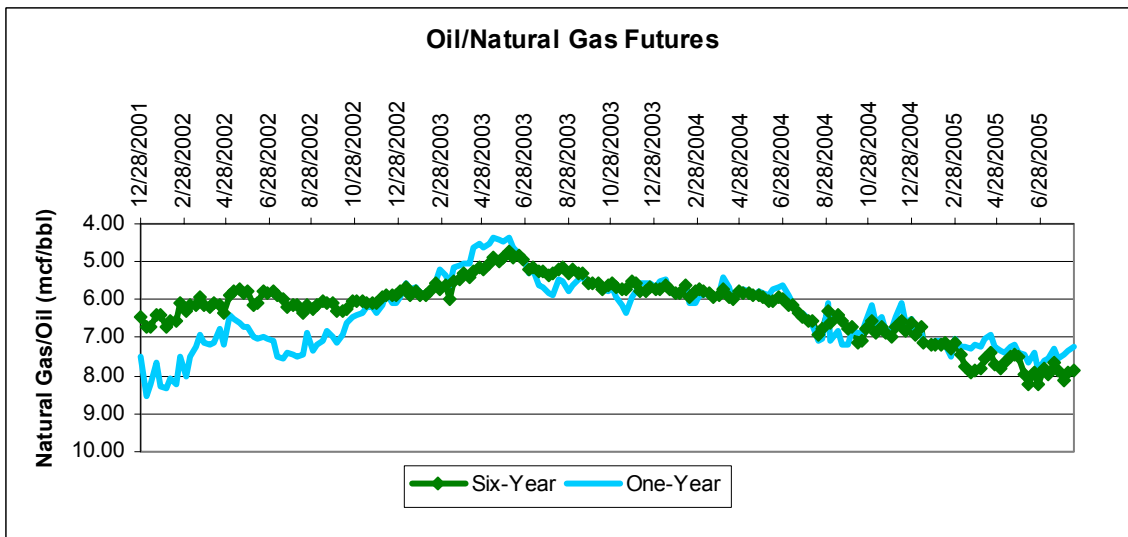
Oil and Gas Producers
Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 12-Aug 2005</i>	<i>Shares (mm)</i>	<i>Market Cap (\$mm)</i>	<i>Net Present Value (\$/sh)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>
Independent Natural Gas and Oil - Small Cap							
Berry Petroleum Company	BRY B	61.65	22	1,390	65.00	0.10	0.96
Energy Partners Ltd.	EPL B	26.34	41	1,070	38.00	0.17	0.75
Encore Acquisition Company	EAC B	32.79	49	1,620	50.00	0.17	0.71
Cimarex Energy Company	XEC B	42.42	85	3,610	64.00	0.12	0.70
	<i>Total or Median</i>			<i>7,700</i>		<i>0.14</i>	<i>0.73</i>

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The chart of Oil One-Year Futures Strip tells us we may be approaching a short-term rest if price were to remain in the channel between the 40-Week Average at \$52 and 1.35 times the 40-Week Average at \$71. Though hot summer weather may be peaking, hurricanes may yet be active and the winter lies ahead. The long-cycle commodity price move appears to have more upside.



The chart of Oil/Natural Gas Futures tells us that a cold winter such as we experienced in early 2003 could take natural gas price up 60%, to 5:1 from 8:1 compared to oil. Normal market conditions should take natural gas price to 5:1 for the next several years and higher ultimately.

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