

Rating: Buy  
S&P 500: 1220

## **Cimarex Energy Company** **Doubling Done**

<i>Symbol</i>	XEC	<i>Ebitda Next Twelve Months ending 9/30/06 (US\$m)</i>	1,376
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	77
<i>Price (\$/sh)</i>	41.20	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/3/05	<i>Adjusted Reserves/Production NTM</i>	7.6
<i>Shares (mm)</i>	85	<i>EV/Ebitda</i>	3.0
<i>Market Capitalization (\$mm)</i>	3,500	<i>PV/Ebitda</i>	4.4
<i>Debt (\$mm)</i>	680	<i>Undeveloped Reserves (%)</i>	19
<i>Enterprise Value (EV) (\$mm)</i>	4,180	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	47.70
<i>Present Value (PV) (\$mm)</i>	6,120	<i>Present Value Proven Reserves(\$/boe)</i>	25.20
<i>Net Present Value (\$/share)</i>	64	<i>Present Value Proven Reserves(\$/mcf)</i>	4.20
<i>Debt/Present Value</i>	0.11	<i>Earnings Next Twelve Months (US\$/sh)</i>	6.76
<i>McDep Ratio - EV/PV</i>	0.68	<i>Price/Earnings Next Twelve Months</i>	6
<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 Energy (XEC)** offers 55% appreciation potential to estimated net present value of \$64 a share. Taking account of latest quarterly results, the first to include the Magnum Hunter acquisition that doubled production, our correlation of 30 companies indicates net present value about \$6 a share higher than estimated. The stock is a notable “undervalued laggard” having practically the lowest McDep Ratio among recommendations and having registered modest appreciation in a good year for buy-rated stocks. Yet, the company appears to be performing well and management has a distinguished long-term record.

### **Cash Flow and Reserve Life Point to Present Value**

McDep analysis presumes that fundamental value is measured by the projection of cash flows far into the future and discounting them to the present at a rate of return, currently 7% a year before inflation. Next Twelve Months (NTM) cash flow represents the volumes and costs that form the base for future projections. Reserve life index tells how long cash flow will last. NTM cash flow and reserve life are the two main variables in our correlation by function for about 30 companies. Net present value indicated by the current combined correlation is about \$6 a share higher than our ongoing standard estimate for the company (see table Functional Cash Flow and Present Value)

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**Cimarex Energy Company**  
**Functional Cash Flow and Present Value**

	<i>NTM Ebitda</i> <i>(US\$mm)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$mm)</i>	
North American Natural Gas	1,050	6.7	4.1	4,300	71%
Oil	326	10.3	5.5	1,780	29%
	1,376	7.6	4.4	6,080	100%
Debt (US\$mm)					680
Net Present Value (US\$mm)					5,400
Shares (mm)					85
Net Present Value (US\$/sh)					64
Over (-)/ Under (+) Correlation (US\$/sh)					6

**Cash Flow by Quarter Depends on Latest Results and Futures Prices**

Cash flow for the next year is projected from a base through the latest reported quarter (see table Next Twelve Months Operating and Financial Estimates). Company disclosures provide the clues for future volumes and costs as well as geographic and quality differences in price. Futures prices from the New York Mercantile Exchange determine industry benchmarks for the next year.

**Industry Conditions Support Long-Term Price Expectation**

Present value estimates that form the denominator of the McDep Ratio and change only occasionally for all companies, most recently in early August, are tied to expected constant real long-term prices. Recent futures price for oil delivered over the next six years at \$60 a barrel exceeds our long-term expectation of \$50. One-year futures for natural gas exceed our long-term expectation while six-year futures for natural gas also have appreciation potential, in our opinion.

**Oil and Gas Commodity and Stock Price**  
**Thursday, November 03, 2005**

	<i>Units</i>	<i>Futures Price</i>		<i>McDep Ratio</i>
		<i>Six-Year</i>	<i>One-Year</i>	<i>Denominator</i>
<b>Crude Oil</b>	\$/barrel	60.29	63.18	50
<b>Natural Gas</b>	\$/million btu	8.22	10.68	10
	<i>Stocks</i>			<i>Median</i>
	<b>Independent Producer - Small Cap</b>			<i>McDep Ratio</i>
	<b>XEC</b>			0.77
				0.68

Source: McDep Associates, Bloomberg, New York Mercantile Exchange, Yahoo and company disclosures

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**Cimarex Energy Company**  
**Next Twelve Months Operating and Financial Performance**

	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next Twelve Months</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>9/30/06</i>	<i>9/30/06</i>
<b>Volume</b>											
Natural Gas (mmcf)	187	<b>174</b>	196	232	338	338	<b>277</b>	370	370	370	<b>362</b>
Oil (mbd)	7.4	<b>7.2</b>	7.4	10.4	18.0	18.0	<b>13.5</b>	19.0	19.0	19.0	<b>18.7</b>
Total (bcfe)	21.3	<b>79</b>	21.6	26.8	41.0	41.0	<b>130</b>	43.6	44.0	44.5	<b>173</b>
Total (mmcf)	220	<b>217</b>	240	295	446	446	<b>357</b>	484	484	484	<b>474</b>
<b>Price</b>											
Henry Hub (\$/mmbtu)	7.10	<b>6.15</b>	6.27	6.76	8.56	12.45	<b>8.51</b>	12.15	9.93	9.94	<b>11.12</b>
Differential (\$/mmbtu)	0.71	<b>0.39</b>	0.27	0.27	0.68	0.99	<b>0.15</b>	0.97	0.79	0.96	<b>0.96</b>
Company (\$/mcf)	6.39	<b>5.76</b>	6.00	6.49	7.88	11.45	<b>8.36</b>	11.18	9.14	8.98	<b>10.16</b>
WTI Cushing (\$/bbl)	48.31	<b>41.44</b>	49.65	53.05	62.52	61.97	<b>56.80</b>	62.89	63.42	63.51	<b>62.95</b>
Differential	1.19	<b>1.25</b>	2.37	2.49	3.07	3.04	<b>0.88</b>	3.09	3.11	3.24	<b>3.11</b>
Company (\$/bbl)	47.12	<b>40.19</b>	47.28	50.56	59.45	58.93	<b>55.92</b>	59.81	60.31	60.27	<b>59.84</b>
<b>Revenue (\$mm)</b>											
Natural Gas	110	<b>366</b>	106	137	245	356	<b>844</b>	372	308	306	<b>1,342</b>
Oil	32	<b>106</b>	32	48	98	98	<b>275</b>	102	104	105	<b>409</b>
Other	(0)	<b>(1)</b>	0	(0)	(0)	(0)	<b>(1)</b>	(0)	(0)	(0)	<b>(1)</b>
Total	142	<b>472</b>	137	185	343	453	<b>1,119</b>	474	412	411	<b>1,750</b>
<b>Expense</b>											
Operating	10	<b>37</b>	10	21	47	47	<b>125</b>	50	51	51	<b>199</b>
Production taxes	10	<b>37</b>	11	14	21	32	<b>78</b>	33	29	29	<b>122</b>
General and administrative	8	<b>24</b>	9	9	8	12	<b>38</b>	13	13	13	<b>52</b>
Total	28	<b>97</b>	30	44	76	91	<b>241</b>	96	93	93	<b>374</b>
<b>Ebitda</b>	114	<b>375</b>	107	141	267	362	<b>877</b>	378	319	317	<b>1,376</b>
Deprec., Deplet., & Amort.	35	<b>124</b>	38	52	84	90	<b>264</b>	96	97	98	<b>381</b>
Other Non Cash	5	<b>15</b>	3	5	(11)	45	<b>42</b>	14	10	10	<b>80</b>
<b>Ebit</b>	74	<b>236</b>	66	84	194	226	<b>571</b>	268	212	209	<b>916</b>
Interest	-	-	-	4	8	8	<b>20</b>	8	8	8	<b>32</b>
<b>Ebt</b>	74	<b>236</b>	66	80	186	218	<b>551</b>	260	204	201	<b>884</b>
Income Tax	26	<b>83</b>	23	28	65	76	<b>193</b>	91	71	70	<b>309</b>
<b>Net Income (\$mm)</b>	48	<b>153</b>	43	52	121	142	<b>358</b>	169	133	131	<b>574</b>
Per Share (\$)	1.12	<b>3.58</b>	1.00	1.08	1.42	1.67	<b>5.17</b>	1.99	1.56	1.54	<b>6.76</b>
<b>Shares (millions)</b>	43	<b>43</b>	43	48	85	85	<b>85</b>	85	85	85	<b>85</b>
Operating (\$/mcf)	0.47	<b>0.46</b>	0.47	0.78	1.15	1.15	<b>0.96</b>	1.15	1.15	1.15	<b>1.15</b>
Production taxes (%rev)	7.0	<b>7.8</b>	7.9	7.6	6.1	7.0	<b>6.9</b>	7.0	7.0	7.0	<b>7.0</b>
General and admin (\$/mcf)	0.38	<b>0.30</b>	0.42	0.34	0.20	0.30	<b>0.29</b>	0.30	0.30	0.30	<b>0.30</b>
Deprec., D, & A (\$/mcf)	1.64	<b>1.56</b>	1.76	1.94	2.05	2.20	<b>2.03</b>	2.20	2.20	2.20	<b>2.20</b>
Ebitda Margin	80%	<b>79%</b>	78%	76%	78%	80%	<b>78%</b>	80%	77%	77%	<b>79%</b>
Tax rate	35%	<b>35%</b>	35%	35%	35%	35%	<b>35%</b>	35%	35%	35%	<b>35%</b>

**Buy Independent Natural Gas and Oil Producers**

Energy is necessary for world economic growth and clean energy provides a better quality of life. Independent natural gas and oil producers are among the leading global suppliers of clean energy. McDep Ratios that compare Enterprise Value with Present Value of energy and other businesses imply that the stock market undervalues the fundamental prospects. Stocks are ranked in descending order of McDep Ratio connoting “buy low, sell high” (see table [Rank by McDep Ratio](#)).

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

	<i>Symbol/</i>	<i>Rating</i>	<i>Price</i> <i>(\$/sh)</i> <i>3-Nov</i> <i>2005</i>	<i>Shares</i> <i>(mm)</i>	<i>Market</i> <i>Cap</i> <i>(\$mm)</i>	<i>Net</i> <i>Present</i> <i>Value</i> <i>(\$/sh)</i>	<i>Debt/</i> <i>Present</i> <i>Value</i>	<i>McDep</i> <i>Ratio</i>
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>								
XTO Energy Inc.	XTO	B	44.39	370	16,420	48.00	0.20	0.94
Encana Corporation	ECA	B	48.70	876	42,700	51.00	0.20	0.96
Burlington Resources	BR	B	74.90	381	28,500	86.00	0.09	0.88
CNOOC Limited (29%)	CEO	B	67.11	119	8,000	84.00	0.01	0.80
Devon Energy Corporation	DVN	B	61.88	454	28,100	86.00	0.15	0.76
Occidental Petroleum Corp.	OXY	B	80.81	404	32,700	120.00	0.11	0.71
Anadarko Petroleum Corp.	APC	B	92.90	238	22,100	140.00	0.12	0.70
<i>Total or Median</i>					<i>179,000</i>		<i>0.12</i>	<i>0.80</i>
<b>Independent Natural Gas and Oil - Small Cap</b>								
Berry Petroleum Company	BRY	B	63.12	23	1,420	65.00	0.11	0.97
Encore Acquisition Company	EAC	B	36.22	50	1,800	50.00	0.21	0.78
Energy Partners Ltd.	EPL	B	26.53	41	1,080	38.00	0.17	0.75
Cimarex Energy Company	XEC	B	41.20	85	3,500	64.00	0.11	0.68
<i>Total or Median</i>					<i>7,800</i>		<i>0.14</i>	<i>0.77</i>

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