



Independent Stock Idea

August 7, 2009

rating: buy
s&p 500: 997

Cimarex Energy (XEC) Cana Shale Working Well

<i>Symbol</i>	XEC	<i>Ebitda Next Twelve Months ending 6/30/10 (US\$mm)</i>	766
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	51
<i>Price (\$/sh)</i>	24.83	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/6/09	<i>Adjusted Reserves/Production NTM</i>	7.6
<i>Shares (mm)</i>	82	<i>EV/Ebitda</i>	5.1
<i>Market Capitalization (\$mm)</i>	3,040	<i>PV/Ebitda</i>	6.0
<i>Debt (\$mm)</i>	840	<i>Undeveloped Reserves (%)</i>	17
<i>Enterprise Value (EV) (\$mm)</i>	3,880	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	28.80
<i>Present Value (PV) (\$mm)</i>	4,610	<i>Present Value Proven Reserves(\$/boe)</i>	20.70
<i>Net Present Value (\$/share)</i>	46	<i>Oil and Gas Ebitda Margin (%)</i>	69
<i>Debt/Present Value</i>	0.18	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.02
<i>McDep Ratio - EV/PV</i>	0.84	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	0.6	<i>Indicated Annual Dividend (US\$/sh)</i>	0.24
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 19% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$46 a share. On July 14 we reduced NPV from \$55 when we reduced estimated Present Value of North American Natural Gas by 20%. Released today, second quarter results exceeded our estimate for unlevered cash flow (Ebitda) from three months ago. Costs were lower than expected by more than the impact of lower than expected volume (see table Next Twelve Months Operating and Financial Performance). Cimarex's metrics hold up well in our in our valuation, which capitalizes cash flow at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) (see table Functional Cash Flow and Present Value). Meanwhile we took keen notice in the emphasis Devon Energy management gave in its conference call to the Cana Woodford shale play in western Oklahoma. Cimarex and Devon dominate the play. Devon's chief of exploration and production opined that the economics of the Cana play were as good as or slightly better than for the Barnett, the industry's leading shale producer. The burgeoning play apparently will be featured in a Cimarex investor presentation on August 10 (see map from one of six slides on Cana Shale in advance copy on Cimarex website).

Kurt H. Wulff, CFA



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Cimarex Energy Company									
Next Twelve Months Operating and Financial Performance									
	Q2	Q1	Q2	Q3E	Q4E	Year	Q1E	Q2E	Next Twelve Months
	6/30/08	3/31/09	6/30/09	9/30/09	12/31/09	2009E	3/31/10	6/30/10	6/30/10
Volume									
Natural Gas (bcf)	32.2	30.5	28.9	28.8	28.4	117	27.3	27.2	112
Natural Gas (mmcf)	354	339	318	313	308	319	304	299	306
Days	91	90	91	92	92	365	90	91	365
Oil (mmb)	2.0	2.3	2.1	2.1	2.0	8.4	2.0	1.9	8.0
Oil (mbd)	22.5	25.1	22.7	22.4	22.0	23.0	21.7	21.4	21.9
Total (bcfe)	44.4	44.0	41.3	41.1	40.5	167	39.0	38.9	160
Total (mmcf)	488	489	454	447	440	457	434	427	437
Price									
Henry Hub (\$/mmbtu)	10.93	4.90	3.50	3.79	5.00	4.30	5.95	5.89	5.16
Differential (\$/mmbtu)	0.36	1.07	0.02	0.02	0.02	0.29	0.03	0.03	0.04
Company (\$/mcf)	10.57	3.83	3.48	3.77	4.98	4.01	5.92	5.86	5.11
WTI Cushing (\$/bbl)	123.97	42.96	59.52	69.09	74.17	61.44	76.50	78.25	74.50
Differential	2.33	7.26	4.91	5.82	6.25	6.57	6.44	6.59	6.35
Company (\$/bbl)	121.64	35.70	54.61	63.27	67.92	54.86	70.06	71.66	68.16
Total (\$/bbl)	79.49	26.90	31.00	34.83	41.28	33.36	45.90	46.10	41.92
Revenue (\$mm)									
Natural Gas	340	117	101	109	141	467	162	159	571
Oil	249	81	113	130	138	461	137	139	544
Other									
Total	589	197	213	239	279	928	299	299	1,115
Expense									
Operating	60	59	54	58	57	227	55	54	223
Production taxes	40	16	15	17	20	67	21	21	78
General and administrative	16	10	12	12	12	46	12	12	48
Total	116	85	81	87	88	341	87	87	349
Ebitda									
	473	113	132	152	190	588	211	212	766
Deprec., Deplet., & Amort	135	92	59	59	59	269	59	59	235
Other Non Cash	(18)	7	(4)			4			-
Ebit									
	356	13	77	93	131	315	153	153	531
Interest	3	2	6	6	6	20	6	6	24
Ebt									
	353	11	71	87	125	295	147	147	507
Income Tax	124	4	25	31	44	103	51	52	177
Net Income (\$mm)									
	229	7	46	57	81	192	95	96	329
Per Share (\$)	2.68	0.09	0.56	0.69	0.99	2.34	1.16	1.17	4.02
Shares (millions)									
Operating (\$/mcf)	1.34	1.34	1.31	1.40	1.40	1.36	1.40	1.40	1.40
Production taxes (%rev)	6.8	7.9	7.0	7.0	7.0	7.2	7.0	7.0	7.0
General and admin (\$/mcf)	0.36	0.23	0.29	0.30	0.30	0.28	0.30	0.30	0.30
Deprec., D, & A (\$/mcf)	3.04	2.09	1.43	1.43	1.46	1.61	1.50	1.51	1.47
Ebitda Margin	80%	57%	62%	64%	68%	63%	71%	71%	69%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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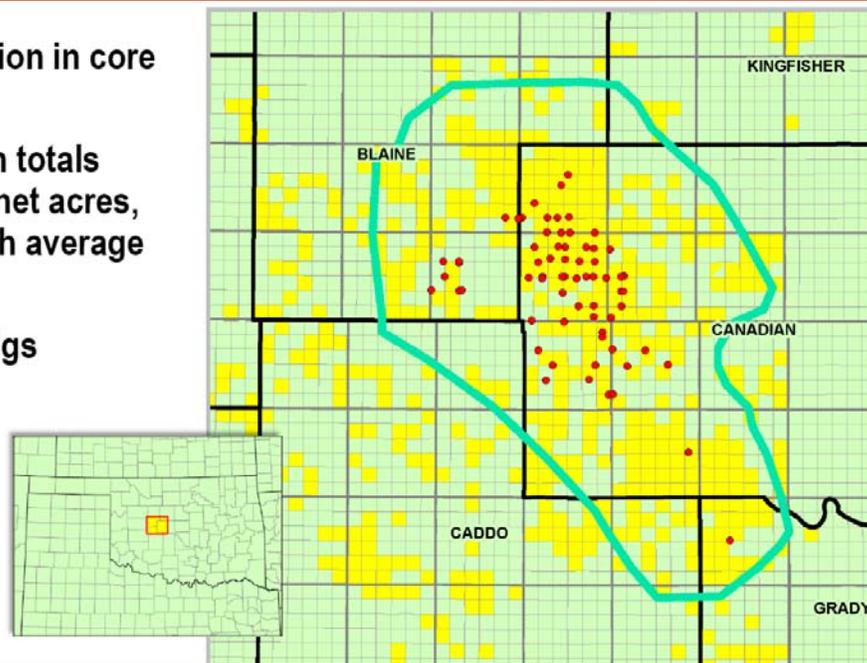
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Cimarex Energy Company					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
North American Natural Gas	390	8.5	7.4	2,880	62%
Oil	376	5.6	4.7	1,760	38%
	766	7.6	6.1	4,640	100%
Debt (US\$mm)					840
Net Present Value (US\$mm)					3,800
Shares (mm)					82
Net Present Value - Standard Estimate (US\$/sh)					46
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					59

Cana-Woodford Shale Acreage



- Strong position in core of the play
- XEC position totals over 94,000 net acres, half-HBP with average NRI ~81%
- 3 operated rigs



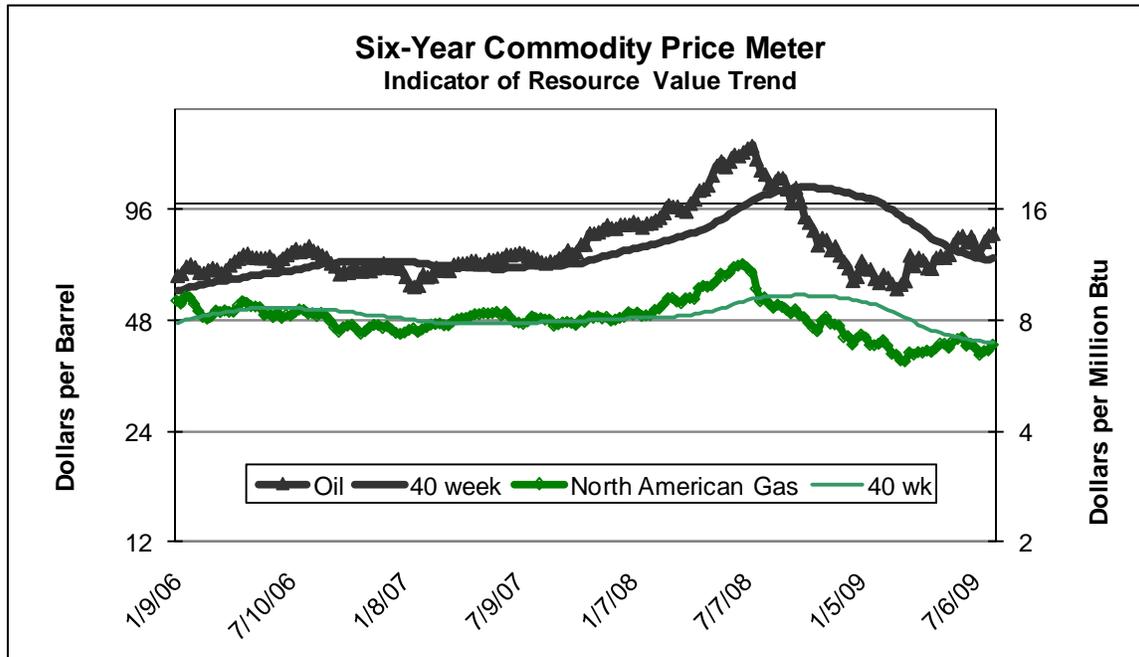
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