

Rating: Buy  
 S&P 500: 1325

## Energy Partners Ltd. Back on Track

<i>Symbol</i>	EPL	<i>Ebitda Next Twelve Months ending 3/31/07 (US\$mm)</i>	411
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	64
<i>Price (US\$/sh)</i>	25.90	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	5/9/06	<i>Adjusted Reserves/Production NTM</i>	5.0
<i>Shares (mm)</i>	40	<i>EV/Ebitda</i>	3.3
<i>Market Capitalization (US\$mm)</i>	1,050	<i>PV/Ebitda</i>	3.6
<i>Debt (US\$mm)</i>	310	<i>Undeveloped Reserves (%)</i>	26
<i>Enterprise Value (EV) (US\$mm)</i>	1,360	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	6.70
<i>Present Value (PV) (US\$mm)</i>	1,480	<i>Present Value Proven Reserves(US\$/boe)</i>	25.20
<i>Net Present Value (US\$/share)</i>	29	<i>Present Value Proven Reserves(US\$/mcf)</i>	4.20
<i>Debt/Present Value</i>	0.21	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.86
<i>McDep Ratio - EV/PV</i>	0.92	<i>Price/Earnings Next Twelve Months</i>	14
<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 **Energy Partners (EPL)** is headed toward record quarterly production in the current period, up 23% from the average for all of 2005. While cash flow looks strong, earnings are not looking as good since the company expenses exploration, a conservative accounting practice when outlays are rising. Depreciation, depletion and amortization, a non-cash charge, has also increased as indicated in the first quarter of 2006 reported on May 9. Practically all of the latest volume increase stems from a single prolific well, South Timbalier #B-2, flowing some six thousand barrels equivalent daily net to EPL. The stock has appreciation potential to estimated net present value (NPV) of \$29 a share tied to a long-term oil price of \$50 a barrel compared to the current six-year quote of \$72 a barrel. Sparked by new volumes, our correlation with adjusted reserve life and next twelve months cash flow also points to higher NPV subject to the agony and the ecstasy of high-stakes offshore exploration.

### 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>	<i>(US\$mm)</i>	
North American Natural Gas	265	3.1	3.2	850	57%
Oil	146	9.8	4.3	630	43%
	411	5.0	3.6	1,480	100%
Debt (US\$mm)				310	
Net Present Value (US\$mm)				1,170	
Shares (mm)				40	
Net Present Value - Standard Estimate (US\$/sh)				29	
Net Present Value - Approximation by Correlation (US\$/sh)				36	

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**Energy Partners, Ltd.**  
**Next Twelve Months Operating and Financial Estimates**

	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Next Twelve Months</i>
	<i>3/31/05</i>	<i>12/31/05</i>	<i>2005</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>3/31/07</i>
<b>Volume</b>									
Natural Gas (mmcf)	96	82	<b>88</b>	95	120	120	120	<b>114</b>	<b>120</b>
Oil (mbd)	10.0	4.9	<b>8.0</b>	7.2	8.0	8.0	8.0	<b>7.8</b>	<b>8.0</b>
Total (mb)	2,341	1,710	<b>8,294</b>	2,069	2,548	2,576	2,576	<b>9,769</b>	<b>10,220</b>
Total (mbd)	26.0	18.6	<b>22.7</b>	23.0	28.0	28.0	28.0	<b>26.8</b>	<b>28.0</b>
<b>Price</b>									
Natural Gas									
Henry Hub (\$/mmbtu)	6.27	13.00	<b>8.65</b>	8.97	7.06	7.24	9.33	<b>8.15</b>	<b>8.74</b>
Differential (\$/mmbtu)	(0.25)	0.58	<b>0.14</b>	0.56	0.44	0.45	0.59	<b>0.56</b>	<b>0.56</b>
EPL (\$/mcf)	6.52	12.42	<b>8.50</b>	8.41	6.62	6.78	8.74	<b>7.59</b>	<b>8.18</b>
Oil (\$/bbl)									
WTI Cushing	49.65	60.02	<b>56.31</b>	63.33	69.69	72.19	73.80	<b>69.75</b>	<b>72.48</b>
Differential	2.80	8.36	<b>6.71</b>	4.17	4.59	4.75	4.86	<b>4.40</b>	<b>4.77</b>
EPL	46.85	51.66	<b>49.60</b>	59.16	65.10	67.44	68.94	<b>65.35</b>	<b>67.70</b>
Total (\$/bbl)	41.64	62.20	<b>48.47</b>	53.22	46.95	48.34	57.16	<b>51.34</b>	<b>54.42</b>
<b>Revenue (\$mm)</b>									
Natural Gas	56	94	<b>274</b>	72	72	75	97	<b>315</b>	<b>358</b>
Oil	42	23	<b>145</b>	38	47	50	51	<b>186</b>	<b>198</b>
Other	(1)	(11)	<b>(17)</b>	0				<b>0</b>	<b>-</b>
Total	97	106	<b>402</b>	110	120	125	147	<b>502</b>	<b>556</b>
<b>Expense (\$mm)</b>									
Lease operating	13	10	<b>52</b>	13	18	18	18	<b>67</b>	<b>72</b>
Production taxes	3	2	<b>10</b>	3	5	5	6	<b>19</b>	<b>22</b>
General and administrative	10	13	<b>41</b>	13	13	13	13	<b>51</b>	<b>51</b>
Total	25	25	<b>103</b>	28	35	36	37	<b>136</b>	<b>145</b>
<b>Ebitda (\$mm)</b>									
Exploration	11	30	<b>83</b>	20	20	20	20	<b>78</b>	<b>78</b>
Deprec., Deplet. & Amort.	26	24	<b>104</b>	47	48	49	49	<b>193</b>	<b>194</b>
Other non cash	(0)	(21)	<b>(20)</b>	(13)				<b>(13)</b>	<b>-</b>
<b>Ebit (\$mm)</b>									
Interest	4	5	<b>17</b>	5	5	5	5	<b>19</b>	<b>19</b>
<b>Ebt (\$mm)</b>									
Income tax	12	16	<b>42</b>	8	4	6	14	<b>32</b>	<b>44</b>
<b>Net income (\$mm)</b>									
Per share	0.51	0.69	<b>1.81</b>	0.37	0.18	0.24	0.58	<b>1.37</b>	<b>1.86</b>
<b>Shares (millions)</b>									
Lease operating (\$/bbl)	5.38	5.85	<b>6.21</b>	6.09	7.00	7.00	7.00	<b>6.81</b>	<b>7.00</b>
Production taxes (%)	2.8	1.8	<b>2.5</b>	2.7	4.0	4.0	4.0	<b>3.7</b>	<b>4.0</b>
G & A (\$/bbl)	4.23	7.55	<b>4.98</b>	6.04	5.00	5.00	5.00	<b>5.22</b>	<b>5.00</b>
D., D. & A (\$/bbl)	10.89	14.16	<b>12.49</b>	22.76	19.00	19.00	19.00	<b>19.80</b>	<b>19.00</b>
Tax rate	36%	36%	<b>36%</b>	36%	37%	37%	37%	<b>37%</b>	<b>37%</b>

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