



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

February 19, 2010

Cimarex Energy (XEC) On a Roll – Raise NPV to \$65

<i>Symbol</i>	XEC	<i>Ebitda Next Twelve Months ending 12/31/10 (US\$m)</i>	1,020
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	54
<i>Price (\$/sh)</i>	58.74	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/18/10	<i>Adjusted Reserves/Production NTM</i>	6.9
<i>Shares (mm)</i>	83	<i>EV/Ebitda</i>	5.4
<i>Market Capitalization (\$mm)</i>	4,850	<i>PV/Ebitda</i>	6.0
<i>Debt (\$mm)</i>	700	<i>Undeveloped Reserves (%)</i>	22
<i>Enterprise Value (EV) (\$mm)</i>	5,550	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	30.90
<i>Present Value (PV) (\$mm)</i>	6,070	<i>Present Value Proven Reserves(\$/boe)</i>	23.70
<i>Net Present Value (\$/share)</i>	65	<i>Oil and Gas Ebitda Margin (%)</i>	68
<i>Debt/Present Value</i>	0.12	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.76
<i>McDep Ratio - EV/PV</i>	0.91	<i>Price/Earnings Next Twelve Months</i>	12
<i>Dividend Yield (%/year)</i>	0.4	<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 9% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$65 a share, up from \$60. Along with the release of fourth quarter financial results on February 17, management raised its guidance on 2010 production for the second time in less than two weeks. Big wells flowing liquids-rich natural gas may power unlevered cash flow past a billion dollars for the current year (see table Next Twelve Months Operating and Financial Estimates) Higher production and higher reserves support increased NPV in an industry context (see table Functional Cash Flow and Present Value). “We’ve been on a roll” exploration chief Tom Jorden exclaims about drilling near the city of Beaumont on the gulf coast of Texas (see slide on page 3 from quarterly call). Also pointing to “very, very good results in the Cana play”, Mr. Jorden relates that recent wells in the western Oklahoma program “continue to surprise” favorably. Meanwhile, along with our three consecutive upward revisions in NPV, Cimarex stock trades at the highest ratio to 200-day average of any company in our coverage. Yet, Cimarex offers competitive value among income and small cap stocks (see Tables 1-3). Not knowing when the trend will change or from what level, we suggest that investors rebalance from time to time.

Kurt H. Wulff, CFA



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Cimarex Energy Company									
Next Twelve Months Operating and Financial Performance									
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Next Twelve Months
	12/31/08	9/30/09	12/31/09	2009	3/31/10	6/30/10	9/30/10	12/31/10	12/31/10
Volume									
Natural Gas (bcf)	32.2	28.2	30.4	118	36.0	34.6	35.0	35.0	141
Natural Gas (mmcf)	350	307	330	323	400	380	380	380	385
Days	92	92	92	365	90	91	92	92	365
Oil (mmb)	2.2	2.1	2.1	8.5	2.4	2.4	2.4	2.4	9.6
Oil (mbd)	23.9	22.4	22.9	23.3	27.0	26.0	26.0	26.0	26.2
Total (bcfe)	45.4	40.6	43.0	169	50.6	48.8	49.3	49.3	198
Total (mmcf)	494	441	468	463	562	536	536	536	542
Price									
Henry Hub (\$/mmbtu)	6.95	3.39	4.16	3.99	5.54	5.50	5.69	6.12	5.71
Differential (\$/mmbtu)	2.26	(0.41)	(1.14)	(0.13)	-	-	-	-	0.00
Company (\$/mcf)	4.69	3.80	5.30	4.12	5.54	5.50	5.69	6.12	5.71
WTI Cushing (\$/bbl)	58.45	68.22	76.09	61.70	76.00	74.80	76.25	77.71	76.19
Differential	2.49	4.73	3.82	5.57	3.81	3.75	3.82	3.90	3.82
Company (\$/bbl)	55.96	63.49	72.27	56.13	72.18	71.05	72.43	73.81	72.37
Total (\$/bbl)	36.22	36.79	43.65	34.54	44.47	44.07	45.28	47.52	45.33
Revenue (\$mm)									
Natural Gas	151	107	161	485	199	190	199	214	803
Oil	123	131	152	477	175	168	173	177	693
Other		11	(0)	10					
Total	274	249	313	973	375	358	372	391	1,496
Expense									
Operating	62	57	39	209	71	68	69	69	277
Production taxes	21	20	25	76	30	29	30	31	120
General and administrative	9	15	14	51	20	20	20	20	79
Total	92	92	78	336	121	116	119	120	476
Ebitda	182	157	235	637	254	242	254	271	1,020
Deprec., Deplet., & Amort	141	63	64	278	91	88	89	89	356
Other Non Cash	(1)	10	14	27	14	14	14	14	55
Ebit	42	84	157	332	149	140	151	168	608
Interest	1	6	1	15	1	1	1	1	4
Ebt	41	78	156	317	148	139	150	167	604
Income Tax	14	27	55	111	52	49	53	58	212
Net Income (\$mm)	27	51	102	206	96	91	98	108	393
Per Share (\$)	0.32	0.62	1.23	2.51	1.17	1.10	1.18	1.31	4.76
Shares (millions)									
Operating (\$/mcf)	1.36	1.40	0.91	1.24	1.40	1.40	1.40	1.40	1.40
Production taxes (% rev)	7.7	8.0	8.0	7.8	8.0	8.0	8.0	8.0	8.0
General and admin (\$/mcf)	0.20	0.37	0.33	0.30	0.40	0.40	0.40	0.40	0.40
Deprec., D, & A (\$/mcf)	3.10	1.55	1.49	1.65	1.80	1.80	1.80	1.80	1.80
Ebitda Margin	66%	63%	75%	65%	68%	67%	68%	69%	68%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

Cimarex Energy Company					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$m)	R/P	Ebitda	Value	
	(US\$m)			(US\$m)	
North American Natural Gas	550	7.3	6.9	3,800	62%
Oil	470	5.8	4.9	2,300	38%
	1,020	6.9	6.0	6,100	100%
Debt (US\$m)					700
Net Present Value (US\$m)					5,400
Shares (mm)					83
Net Present Value - Standard Estimate (US\$/sh)					65
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					75

Gulf Coast – Yegua/Cook Mountain

- New 2008/2009 3D shoot near Beaumont, TX
- 2009 discoveries:
 - Two Sisters #1 (100% WI)
 - Garth #1 (100% WI)
 - Jefferson Airplane #2 (96% WI)
 - Jefferson Airplane #3 (96% WI)
- Average gross IP per well 40 MMcfe/d (28 MMcf/d & 2,100 b/d)
- Drilling Jefferson Airplane #4 and Nine Dragons #1
 - Full program in 2010



NYSE:XEC 19 CIMAREX



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

February 19, 2010

Table 1

McDep Income and Small Cap Energy Portfolio Debt, Business Segments and Income Yield

	Symbol/Rating	Price (US\$/sh)	EV/ Market	Enterprise Value (\$mm)	Present Value by Segment (%)		Dist. NTM (\$/un)	Dist. Yield (%)	McDep Ratio
					NAmer. Natural Gas	Oil Prod'n			
	B = Buy CB (see below)	18-Feb 2010	Cap						
Canadian Income Trusts (US\$)									
Peyto Energy Trust	PEYUF	13.25	1.26	1,910	72	28	1.37	10.3	1.01
Penn West Energy Trust	PWE	19.38	1.51	12,300	22	78	1.71	8.8	1.01
Pengrowth Energy Trust	PGH	10.65	1.49	4,600	35	65	0.80	7.5	0.92
Enerplus Resources Fund	ERF	22.43	1.23	4,600	42	58	2.06	9.2	0.78
Canadian Oil Sands Trust	COSWF B	28.26	1.10	15,000		100	1.33	4.7	0.76
<i>Total or Median</i>				38,400					0.92
Small Cap Independent Producers									
Birchcliff Energy Ltd. (US\$)	BIREF	9.13	1.17	1,420	64	36	-	-	1.02
Encore Acquisition Company	EAC	49.96	1.63	4,240	22	78	-	-	1.00
Cimarex Energy Company	XEC B	58.74	1.14	5,550	62	38	0.24	0.4	0.91
Whiting Petroleum Corporation	WLL	73.31	1.28	5,230	17	83	-	-	0.91
Bery Petroleum Company	BRY	29.43	1.84	2,430	31	69	0.30	1.0	0.91
<i>Total or Median</i>				18,900					0.91
Top Line Cash Payers									
Sabine Royalty Trust	SBR	45.39	1.00	660	39	61	2.80	6.2	1.01
Cross Timbers Royalty Trust	CRT	33.88	1.00	200	71	29	2.49	7.4	1.00
Permian Basin RT	PBT	16.98	1.00	790	27	73	1.05	6.2	0.94
Freehold Royalty Trust (US\$)	FRHLF	15.40	1.20	920	25	75	1.64	10.6	0.92
Dorchester Minerals, L.P.	DMLP B	22.69	1.02	690	67	33	1.74	7.6	0.84
<i>Total or Median</i>				3,300					0.94
Bottom Line Cash Payers									
Linn Energy, LLC	LINE	26.62	1.53	4,640	40	60	2.52	9.5	1.31
Encore Energy Partners, L.P. (52%)	ENP	20.36	1.28	610	24	76	2.15	10.6	1.15
San Juan Basin Royalty Trust	SJT B	21.92	1.00	1,020	100	-	1.73	7.9	1.04
Mesa Royalty Trust	MTR	41.57	1.00	77	75	25	3.94	9.5	0.86
Hugoton Royalty Trust	HGT B	17.96	1.00	720	88	12	1.34	7.5	0.85
<i>Total or Median</i>				7,100					1.04
Composite (excl COSWF)									
<i>Enterprise Value Weighting</i>				52,600	37	63			0.96
<i>Equal Weighting</i>					49	51			0.97
<i>Equal Weighted Buys</i>					70	30			0.91

CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses.

Present Value presumes long-term prices of \$75 a barrel for oil and \$8 a million btu for natural gas.

Dist. = Income distribution. NTM = Next Twelve Months Ended December 31, 2010. Enterprise Value = Market Cap and Debt.



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

February 19, 2010

Table 2								
Oil and Gas Income and Small Cap Stocks								
Net Present Value and McDep Ratio								
			Price (\$/sh)	Shares	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		18-Feb 2010	(mm)				
Canadian Income Trusts (US\$)								
Peyto Energy Trust	PEYUF		13.25	114.9	1,520	13.00	0.21	1.01
Penn West Energy Trust	PWE		19.38	420.0	8,140	19.00	0.34	1.01
Pengrowth Energy Trust	PGH		10.65	290.0	3,090	12.00	0.30	0.92
Enerplus Resources Fund	ERF		22.43	169.0	3,790	30.00	0.14	0.78
Canadian Oil Sands Trust	COSWF	B	28.26	484.0	13,680	38.00	0.07	0.76
<i>Total or Median</i>					30,200		0.21	0.92
Small Cap Independent Producers								
Birchcliff Energy Ltd. (US\$)	BIREF		9.13	132.0	1,210	9.00	0.15	1.02
Encore Acquisition Company	EAC		49.96	52.3	2,610	50.00	0.38	1.00
Cimarex Energy Company	XEC	B	58.74	82.6	4,850	65.00	0.12	0.91
Whiting Petroleum Corporation	WLL		73.31	59.0	4,090	78.00	0.20	0.91
Berry Petroleum Company	BRY		29.43	44.9	1,320	35.00	0.41	0.91
<i>Total or Median</i>					14,080		0.20	0.91
Top Line Cash Payers								
Sabine Royalty Trust	SBR		45.39	14.6	660	45.00	-	1.01
Cross Timbers Royalty Trust	CRT		33.88	6.0	200	34.00	-	1.00
Permian Basin RT	PBT		16.98	46.6	790	18.00	-	0.94
Freehold Royalty Trust (US\$)	FRHLF		15.40	49.6	760	17.00	0.15	0.92
Dorchester Minerals, L.P.	DMLP	B	22.69	29.8	680	27.00	0.02	0.84
<i>Total or Median</i>					3,090			0.94
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		26.62	114.0	3,040	17.00	0.45	1.31
Encore Energy Partners, L.P. (52%)	ENP		20.36	23.2	470	17.00	0.25	1.15
San Juan Basin Royalty Trust	SJT	B	21.92	46.6	1,020	21.00	-	1.04
Mesa Royalty Trust	MTR		41.57	1.9	77	48.00	-	0.86
Hugoton Royalty Trust	HGT	B	17.96	40.0	720	21.00	-	0.85
<i>Total or Median</i>					5,330			1.04
B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
Present Value presumes long-term prices of \$75 a barrel for oil and \$8 a million btu for natural gas.								



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Table 3								
Oil and Gas Income and Small Cap Stocks								
Value Multiples - Rank by EV/Ebitda								
			Price (\$/sh)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda
	Symbol/ Rating		18-Feb 2010	Royalty (%)	Ebitda	NTM	NTM	NTM
Canadian Income Trusts (US\$)								
	PEYUF		13.25		1.34	18.2	12.7	12.9
	COSWF	B	28.26		0.53	23.1	15.2	11.6
	PWE		19.38		0.83	8.3	9.2	9.3
	PGH		10.65		0.56	8.3	8.4	7.7
	ERF		22.43		0.65	9.8	9.6	7.5
	<i>Median</i>					9.8	9.6	9.3
Small Cap Independent Producers								
	BIREF		9.13		-	10.6	15.8	16.0
	EAC		49.96		-	11.7	8.4	8.4
	BRY		29.43		-	12.4	8.2	7.4
	WLL		73.31		-	9.8	7.8	7.1
	XEC	B	58.74		-	6.9	6.0	5.4
	<i>Median</i>					10.6	8.2	7.4
Top Line Cash Payers								
	SBR		45.39	100	1.00	12.0	16.1	16.2
	PBT		16.98	32	0.89	11.5	15.3	14.4
	CRT		33.88	84	0.95	12.6	12.9	12.9
	DMLP	B	22.69	64	0.91	7.8	14.2	12.0
	FRHLF		15.40	71	0.95	6.8	9.9	9.1
	<i>Median</i>					11.5	14.2	12.9
Bottom Line Cash Payers								
	LINE		26.62		1.94	18.3	13.1	17.1
	ENP		20.36		1.18	12.5	9.4	10.7
	SJT	B	21.92		0.82	9.1	9.9	10.3
	HGT	B	17.96		0.74	13.4	11.6	9.9
	MTR		41.57		0.92	8.0	11.2	9.7
	<i>Median</i>					12.5	11.2	10.3
B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.								
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2010; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								
Top Line Cash Payers defined as those having Revenue Royalty (see fifth column from right).								



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Research Methodology/Ratings Description: McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.