



Independent Stock Idea

February 8, 2010

rating: buy
s&p 500: 1012

Cimarex Energy (XEC) Booming Production Estimated up 18% in 2010

<i>Symbol</i>	XEC	<i>Ebitda Next Twelve Months ending 12/31/10 (US\$mm)</i>	1,297
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	60
<i>Price (\$/sh)</i>	50.56	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/5/10	<i>Adjusted Reserves/Production NTM</i>	7.2
<i>Shares (mm)</i>	82	<i>EV/Ebitda</i>	3.8
<i>Market Capitalization (\$mm)</i>	4,160	<i>PV/Ebitda</i>	4.4
<i>Debt (\$mm)</i>	790	<i>Undeveloped Reserves (%)</i>	22
<i>Enterprise Value (EV) (\$mm)</i>	4,950	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	41.00
<i>Present Value (PV) (\$mm)</i>	5,720	<i>Present Value Proven Reserves(\$/boe)</i>	22.40
<i>Net Present Value (\$/share)</i>	60	<i>Oil and Gas Ebitda Margin (%)</i>	74
<i>Debt/Present Value</i>	0.14	<i>Earnings Next Twelve Months (US\$/sh)</i>	7.69
<i>McDep Ratio - EV/PV</i>	0.86	<i>Price/Earnings Next Twelve Months</i>	7
<i>Dividend Yield (%/year)</i>	0.5	<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 16% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$60 a share. Yet, NPV looks low again despite two successive upward revisions in the past few months. Four booming wells, each producing at 40 million cubic feet equivalent daily (mmcfed) at year-end, help us to boost estimated production 18% for the year 2010 (see table [Next Twelve Months Operating and Financial Estimates](#)). While those big wells on the Texas Gulf Coast will likely decline rapidly, Cimarex also has a backlog of high rate wells in the Cana Shale play in western Oklahoma. A 15% increase in year-end proved reserves is matched by Cana Shale reserves at 15% of the total. Higher production and higher reserves in an industry context point to higher NPV than \$60 a share (see table [Functional Cash Flow and Present Value](#)). We await final financial disclosures expected on February 17 following operating results and reserves that were released today. Meanwhile, after more than a year of decline, one-year natural gas continues in an uptrend in place for the past five months (see chart [Natural Gas One-Year Futures Strip](#)).

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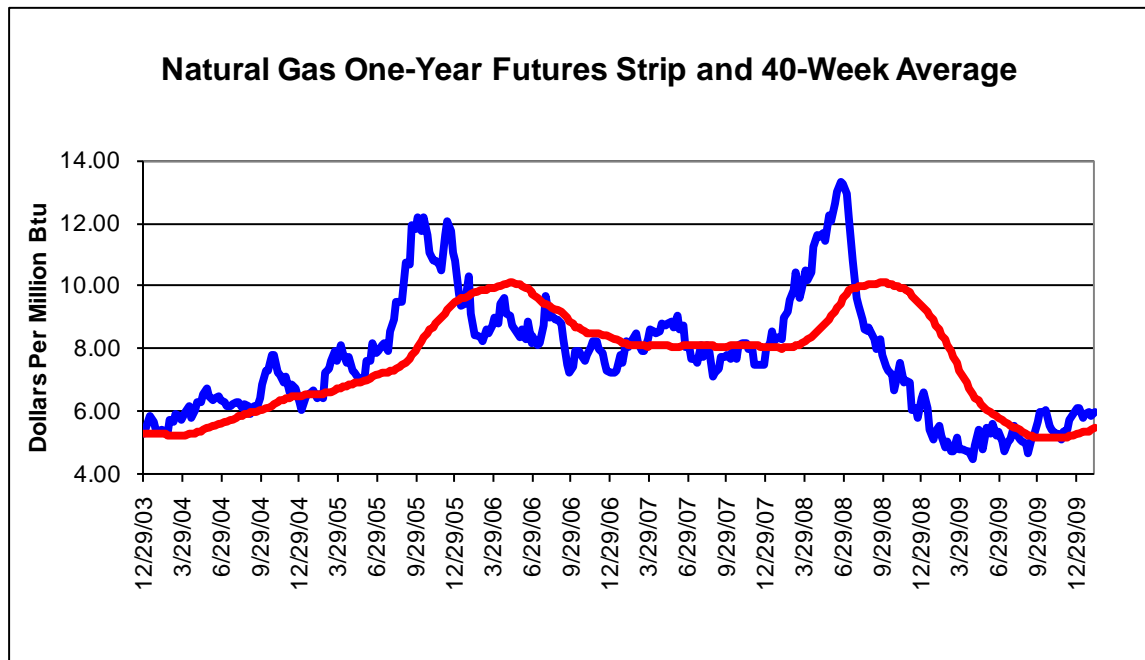
Cimarex Energy Company									
Next Twelve Months Operating and Financial Performance									
	Q4	Q3	Q4E	Year	Q1E	Q2E	Q3E	Q4E	Next Twelve Months
	12/31/08	9/30/09	12/31/09	2009E	3/31/10	6/30/10	9/30/10	12/31/10	12/31/10
Volume									
Natural Gas (bcf)	32.2	28.2	30.4	118	33.3	33.7	34.0	34.0	135
Natural Gas (mmcf)	350	307	330	323	370	370	370	370	370
Days	92	92	92	365	90	91	92	92	365
Oil (mmb)	2.2	2.1	2.1	8.5	2.3	2.3	2.3	2.3	9.1
Oil (mbd)	23.9	22.4	22.9	23.3	25.0	25.0	25.0	25.0	25.0
Total (bcfe)	45.4	40.6	43.0	169	46.8	47.3	47.8	47.8	190
Total (mmcf)	494	441	468	463	520	520	520	520	520
Price									
Henry Hub (\$/mmbtu)	6.95	3.39	4.16	3.99	5.97	5.94	6.10	6.54	6.14
Differential (\$/mmbtu)	2.26	(0.41)	(1.14)	(0.13)	(1.63)	(1.62)	(1.67)	(1.78)	(1.68)
Company (\$/mcf)	4.69	3.80	5.30	4.12	7.60	7.57	7.76	8.32	7.81
WTI Cushing (\$/bbl)	58.45	68.22	76.08	61.69	78.90	80.72	82.25	83.57	81.36
Differential	2.49	4.73	3.83	5.57	3.97	4.06	4.26	4.33	4.14
Company (\$/bbl)	55.96	63.49	72.25	56.12	74.92	76.66	77.99	79.24	77.22
Total (\$/bbl)	36.22	36.79	43.70	34.56	54.07	54.41	55.64	58.38	55.64
Revenue (\$mm)									
Natural Gas	151	107	161	485	253	255	264	283	1,055
Oil	123	131	152	477	169	174	179	182	705
Other		11							
Total	274	249	313	973	422	429	444	465	1,760
Expense									
Operating	62	57	60	230	66	66	67	67	266
Production taxes	21	20	25	76	34	34	35	37	141
General and administrative	9	15	13	50	14	14	14	14	57
Total	92	92	98	356	113	115	117	119	463
Ebitda									
	182	157	215	617	308	314	327	347	1,297
Deprec., Deplet., & Amort	141	63	70	284	70	70	70	70	280
Other Non Cash	(1)	10	5	18	5	5	5	5	20
Ebit									
	42	84	140	315	233	239	252	272	997
Interest	1	6	6	20	6	6	6	6	24
Ebt									
	41	78	134	295	227	233	246	266	973
Income Tax	14	27	47	103	80	82	86	93	340
Net Income (\$mm)									
	27	51	87	192	148	152	160	173	632
Per Share (\$)	0.32	0.62	1.06	2.34	1.80	1.85	1.94	2.10	7.69
Shares (millions)									
	83	82	82	82	82	82	82	82	82
Operating (\$/mcf)	1.36	1.40	1.40	1.36	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	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Deprec., D, & A (\$/mcf)	3.10	1.55	1.63	1.68	1.50	1.48	1.46	1.46	1.48
Ebitda Margin	66%	63%	69%	63%	73%	73%	74%	75%	74%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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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	780	7.6	4.9	3,800	67%
Oil	517	6.1	3.7	1,890	33%
	1,297	7.2	4.4	5,690	100%
Debt (US\$mm)					790
Net Present Value (US\$mm)					4,900
Shares (mm)					82
Net Present Value - Standard Estimate (US\$/sh)					60
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					96





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