



# Independent Stock Idea

May 10, 2010

rating: buy  
s&p 500: 1111

## Cimarex Energy (XEC) Raise NPV Again on More Production

<i>Symbol</i>	XEC	<i>Ebitda Next Twelve Months ending 3/31/11 (US\$mm)</i>	1,223
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	44
<i>Price (\$/sh)</i>	61.19	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	5/7/10	<i>Adjusted Reserves/Production NTM</i>	6.4
<i>Shares (mm)</i>	85	<i>EV/Ebitda</i>	4.8
<i>Market Capitalization (\$mm)</i>	5,230	<i>PV/Ebitda</i>	5.7
<i>Debt (\$mm)</i>	620	<i>Undeveloped Reserves (%)</i>	22
<i>Enterprise Value (EV) (\$mm)</i>	5,850	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	34.50
<i>Present Value (PV) (\$mm)</i>	7,030	<i>Present Value Proven Reserves(\$/boe)</i>	27.50
<i>Net Present Value (\$/share)</i>	75	<i>Oil and Gas Ebitda Margin (%)</i>	71
<i>Debt/Present Value</i>	0.09	<i>Earnings Next Twelve Months (US\$/sh)</i>	6.23
<i>McDep Ratio - EV/PV</i>	0.83	<i>Price/Earnings Next Twelve Months</i>	10
<i>Dividend Yield (%/year)</i>	0.5	<i>Indicated Annual Dividend (US\$/sh)</i>	0.32
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 <a href="http://www.mcdep.com/4xec.htm">www.mcdep.com/4xec.htm</a>			

### Summary and Recommendation

Buy-recommended **Cimarex (XEC)** offers unlevered appreciation potential of 20% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$75 a share. On the strength of rising production, NPV is up from \$65 on February 19, \$60 on January 19 and \$50 at the beginning of 2010. In guidance accompanying first quarter results released on May 7, management confirmed that current production may be sustained for the rest of 2010 resulting in a 26% gain over 2009 (see table Next Twelve Months Operating and Financial Estimates). There is room for further gains in NPV to reach the higher level indicated by reserve life and cash flow multiple in an industry context (see table Functional Cash Flow and Present Value). Risk factors that have come up in the past include rapid decline in production from a critical well, drilling cost increases and oil price decline. Thorough analysis of the rate of return expected on each well keeps management alert and able to respond quickly to surprises. Systematic execution of a conservative strategy by the same management team for two decades is now paying off with high profitability in the Cana Shale of Western Oklahoma, big Yegua formation wells on the Texas Gulf Coast and horizontal oil in the Permian Basin.

Kurt H. Wulff, CFA



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Cimarex Energy Company									
Next Twelve Months Operating and Financial Performance									
	Q1	Q4	Year	Q1	Q2E	Q3E	Q4E	Year	Next Twelve Months
	3/31/09	12/31/09	2009	3/31/10	6/30/10	9/30/10	12/31/10	2010E	3/31/11
<b>Volume</b>									
Natural Gas (bcf)	30.5	30.4	<b>118</b>	35.2	35.5	35.9	35.9	<b>142</b>	<b>142</b>
Natural Gas (mmcf)	339	330	<b>323</b>	391	390	390	390	<b>390</b>	<b>390</b>
Days	90	92	<b>365</b>	90	91	92	92	<b>365</b>	<b>365</b>
Oil (mmb)	2.3	2.1	<b>8.5</b>	2.9	2.9	2.9	2.9	<b>11.7</b>	<b>11.7</b>
Oil (mbd)	25.1	22.9	<b>23.3</b>	32.3	32.0	32.0	32.0	<b>32.1</b>	<b>32.0</b>
Total (bcfe)	44.0	43.0	<b>169</b>	52.6	53.0	53.5	53.5	<b>213</b>	<b>212</b>
Total (mmcf)	489	468	<b>463</b>	584	582	582	582	<b>583</b>	<b>582</b>
<b>Price</b>									
Henry Hub (\$/mmbtu)	4.90	4.16	<b>3.99</b>	5.32	4.04	4.22	4.83	<b>4.60</b>	<b>4.58</b>
Differential (\$/mmbtu)	1.07	(1.14)	<b>(0.13)</b>	(1.09)	(0.83)	(0.86)	(0.99)	<b>(0.94)</b>	<b>(0.80)</b>
Company (\$/mcf)	3.83	5.30	<b>4.12</b>	6.41	4.87	5.09	5.82	<b>5.54</b>	<b>5.38</b>
WTI Cushing (\$/bbl)	42.96	76.09	<b>61.70</b>	78.67	85.65	90.56	92.66	<b>86.88</b>	<b>90.46</b>
Differential	7.26	3.82	<b>5.57</b>	7.50	8.16	8.63	8.83	<b>8.25</b>	<b>8.62</b>
Company (\$/bbl)	35.70	72.27	<b>56.13</b>	71.18	77.48	81.93	83.83	<b>78.63</b>	<b>81.84</b>
Total (\$/bbl)	26.90	43.65	<b>34.54</b>	49.37	45.12	47.48	51.04	<b>48.25</b>	<b>48.64</b>
<b>Revenue (\$mm)</b>									
Natural Gas	117	161	<b>485</b>	225	173	182	209	<b>789</b>	<b>766</b>
Oil	81	152	<b>477</b>	207	226	241	247	<b>920</b>	<b>956</b>
Other		(0)	<b>10</b>	1				<b>1</b>	
Total	197	313	<b>973</b>	433	398	424	455	<b>1,710</b>	<b>1,722</b>
<b>Expense</b>									
Operating	59	39	<b>209</b>	53	69	70	70	<b>261</b>	<b>276</b>
Production taxes	16	25	<b>76</b>	32	32	34	36	<b>134</b>	<b>138</b>
General and administrative	10	14	<b>51</b>	16	21	21	21	<b>80</b>	<b>85</b>
Total	85	78	<b>336</b>	101	122	125	127	<b>475</b>	<b>499</b>
<b>Ebitda</b>									
	113	235	<b>637</b>	332	276	299	328	<b>1,235</b>	<b>1,223</b>
Deprec., Deplet., & Amort	92	64	<b>278</b>	72	95	96	96	<b>360</b>	<b>382</b>
Other Non Cash	7	14	<b>27</b>	(3)	(3)	(3)	14	<b>5</b>	<b>22</b>
<b>Ebit</b>									
	13	157	<b>332</b>	263	184	205	218	<b>870</b>	<b>819</b>
Interest	2	1	<b>15</b>	-	-	-	-	<b>-</b>	<b>-</b>
<b>Ebt</b>									
	11	156	<b>317</b>	263	184	205	218	<b>870</b>	<b>819</b>
Income Tax	4	55	<b>111</b>	92	64	72	76	<b>304</b>	<b>287</b>
<b>Net Income (\$mm)</b>									
	7	102	<b>206</b>	171	120	133	141	<b>565</b>	<b>532</b>
Per Share (\$)	0.09	1.23	<b>2.51</b>	2.00	1.40	1.56	1.66	<b>6.62</b>	<b>6.23</b>
<b>Shares (millions)</b>									
	82	83	<b>83</b>	85	85	85	85	<b>85</b>	<b>85</b>
Operating (\$/mcf)	1.34	0.91	<b>1.24</b>	1.01	1.30	1.30	1.30	<b>1.23</b>	<b>1.30</b>
Production taxes (% rev)	7.9	8.0	<b>7.8</b>	7.4	8.0	8.0	8.0	<b>7.8</b>	<b>8.0</b>
General and admin (\$/mcf)	0.23	0.33	<b>0.30</b>	0.30	0.40	0.40	0.40	<b>0.38</b>	<b>0.40</b>
Deprec., D,& A (\$/mcf)	2.09	1.49	<b>1.65</b>	1.37	1.80	1.80	1.80	<b>1.69</b>	<b>1.80</b>
Ebitda Margin	57%	75%	<b>65%</b>	77%	69%	71%	72%	<b>72%</b>	<b>71%</b>
Tax rate	35%	35%	<b>35%</b>	35%	35%	35%	35%	<b>35%</b>	<b>35%</b>



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<b>Cimarex Energy Company</b>					
<b>Functional Cash Flow and Present Value</b>					
	<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	540	7.2	8.5	4,600	66%
Oil	683	4.8	3.5	2,420	34%
	1,223	6.4	5.7	7,020	100%
Debt (US\$mm)					620
Net Present Value (US\$mm)					6,400
Shares (mm)					85
Net Present Value - Standard Estimate (US\$/sh)					75
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					87

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