



Independent Stock Idea

November 4, 2009

rating: buy
s&p 500: 1055 intraday

Cimarex Energy (XEC) Raise Net Present Value to \$50 a Share from \$46

<i>Symbol</i>	XEC	<i>Ebitda Next Twelve Months ending 9/30/10 (US\$m)</i>	873
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	51
<i>Price (\$/sh)</i>	43.83	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/4/09	<i>Adjusted Reserves/Production NTM</i>	7.6
<i>Shares (mm)</i>	82	<i>EV/Ebitda</i>	5.0
<i>Market Capitalization (\$mm)</i>	3,600	<i>PV/Ebitda</i>	5.6
<i>Debt (\$mm)</i>	790	<i>Undeveloped Reserves (%)</i>	17
<i>Enterprise Value (EV) (\$mm)</i>	4,390	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	32.50
<i>Present Value (PV) (\$mm)</i>	4,900	<i>Present Value Proven Reserves(\$/boe)</i>	22.00
<i>Net Present Value (\$/share)</i>	50	<i>Oil and Gas Ebitda Margin (%)</i>	70
<i>Debt/Present Value</i>	0.16	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.34
<i>McDep Ratio - EV/PV</i>	0.90	<i>Price/Earnings Next Twelve Months</i>	10
<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

Analyzing third quarter results released November 3 and weighing remarks by management on the quarterly conference call, we raise estimated Net Present Value (NPV) to \$50 a share for buy-recommended **Cimarex (XEC)** on higher expected production (see table [Next Twelve Months Operating and Financial Estimates](#)). With the increase in NPV from \$46 a share, unlevered appreciation potential is 12% to a McDep Ratio of 1.0 where stock price would equal NPV. Latest results were close to expectations, but we now forecast a flat volume trend rather than the slightly declining trend previously. Still, NPV could be \$21 a share higher if we were to value Cimarex's cash flow at the same multiple we do for other companies with similar reserve life (see table [Functional Cash Flow and Present Value](#)). We have been cautious because cash flow would decline sharply if drilling remained at a low level. Big recent wells and rising drilling activity suggest volume may soon be increasing. Rich liquids content and slow decline rate compared to other shale plays add to enthusiasm for the Cana Shale project in western Oklahoma dominated by Cimarex and Devon Energy (DVN). The Two Sisters well near Beaumont Texas continues to flow at about 30 million cubic feet daily (mmcf). A new 20 mmcf well is on line and two more may be added by year end. Finally, the price trend indicators are positive with futures prices for the next six years for oil and gas above the 40-week average (see chart [Six-Year Commodity Price Meter](#)).

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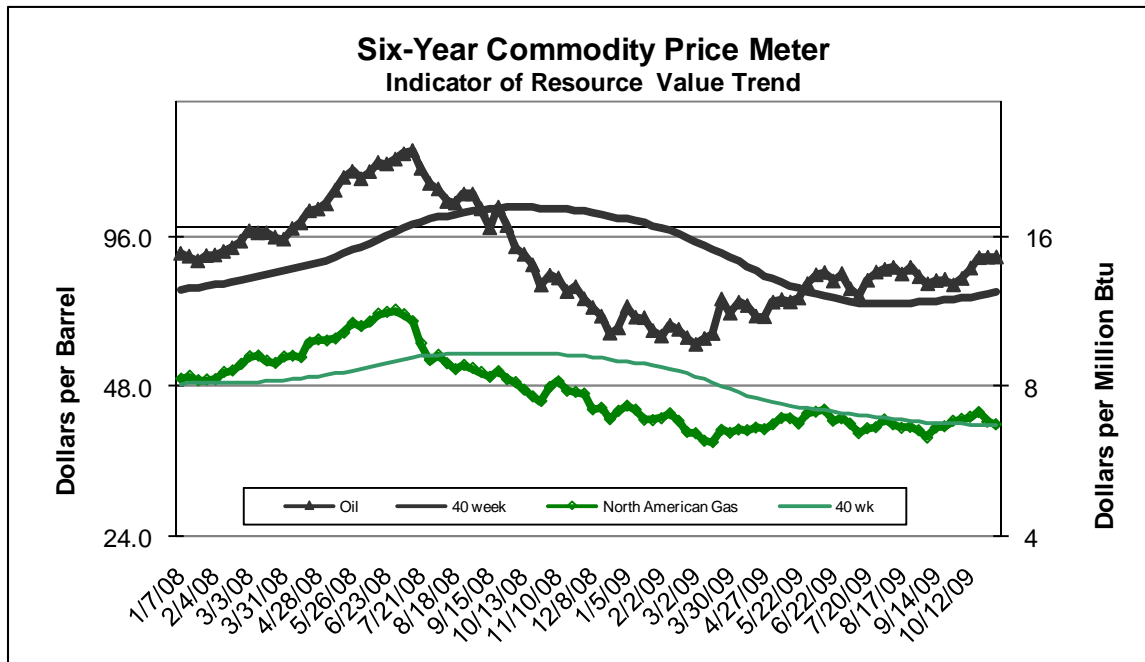
Cimarex Energy Company									
Next Twelve Months Operating and Financial Performance									
	Q3	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	Next Twelve Months
	9/30/08	6/30/09	9/30/09	12/31/09	2009E	3/31/10	6/30/10	9/30/10	9/30/10
Volume									
Natural Gas (bcf)	32.1	28.9	28.2	28.2	116	27.6	27.9	28.2	112
Natural Gas (mmcf)	349	318	307	307	317	307	307	307	307
Days	92	91	92	92	365	90	91	92	365
Oil (mmb)	2.1	2.1	2.1	2.1	8.5	2.0	2.0	2.1	8.2
Oil (mbd)	22.6	22.7	22.4	22.4	23.2	22.4	22.4	22.4	22.4
Total (bcfe)	44.6	41.3	40.6	40.6	167	39.7	40.2	40.6	161
Total (mmcf)	485	454	441	441	456	441	441	441	441
Price									
Henry Hub (\$/mmbtu)	10.25	3.50	3.39	4.28	4.02	5.20	5.28	5.54	5.07
Differential (\$/mmbtu)	0.46	0.02	(0.41)	(0.52)	0.04	(0.63)	(0.64)	(0.67)	(0.61)
Company (\$/mcf)	9.79	3.48	3.80	4.80	3.97	5.83	5.92	6.21	5.69
WTI Cushing (\$/bbl)	117.99	59.52	68.22	77.22	61.98	79.30	81.15	82.28	79.99
Differential	3.12	4.91	4.73	5.35	6.04	5.50	5.63	5.82	5.58
Company (\$/bbl)	114.87	54.61	63.49	71.86	55.94	73.80	75.52	76.45	74.41
Total (\$/bbl)	74.44	31.00	36.79	41.91	33.99	46.81	47.70	49.23	46.41
Revenue (\$mm)									
Natural Gas	315	101	107	135	460	161	165	175	637
Oil	239	113	131	148	473	149	154	158	609
Other			11						
Total	554	213	249	284	943	310	319	333	1,246
Expense									
Operating	78	54	57	57	227	56	56	57	226
Production taxes	39	15	20	23	73	25	26	27	100
General and administrative	15	12	15	12	49	12	12	12	48
Total	132	81	92	92	349	92	94	96	374
Ebitda	422	132	157	192	594	218	226	238	873
Deprec., Deplet., & Amort	149	59	63	70	284	70	70	70	280
Other Non Cash	(14)	(4)	10	5	18	5	5	5	20
Ebit	287	77	84	117	292	143	151	163	573
Interest	2	6	6	6	20	6	6	6	24
Ebt	285	71	78	111	272	137	145	157	549
Income Tax	100	25	27	39	95	48	51	55	192
Net Income (\$mm)	185	46	51	72	177	89	94	102	357
Per Share (\$)	2.19	0.56	0.62	0.88	2.15	1.08	1.14	1.24	4.34
Shares (millions)									
Operating (\$/mcf)	1.75	1.31	1.40	1.40	1.36	1.40	1.40	1.40	1.40
Production taxes (%rev)	7.0	7.0	8.0	8.0	7.8	8.0	8.0	8.0	8.0
General and admin (\$/mcf)	0.34	0.29	0.37	0.30	0.30	0.30	0.30	0.30	0.30
Deprec., D, & A (\$/mcf)	3.34	1.43	1.55	1.72	1.71	1.76	1.74	1.72	1.74
Ebitda Margin	76%	62%	63%	68%	63%	70%	71%	71%	70%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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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	450	8.5	7.3	3,300	67%
Oil	423	5.5	3.8	1,590	33%
	873	7.6	5.6	4,890	100%
Debt (US\$mm)					790
Net Present Value (US\$mm)					4,100
Shares (mm)					82
Net Present Value - Standard Estimate (US\$/sh)					50
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					71





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