

Rating: Buy  
S&P 500: 1266

## **Energy Partners Ltd.** **Gulf of Mexico and Natural Gas**

<i>Symbol</i>	EPL	<i>Ebitda Next Twelve Months ending 6/30/07 (US\$mm)</i>	902
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	61
<i>Price (US\$/sh)</i>	18.38	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/9/06	<i>Adjusted Reserves/Production NTM</i>	6.2
<i>Shares (mm)</i>	75	<i>EV/Ebitda</i>	3.6
<i>Market Capitalization (US\$mm)</i>	1,380	<i>PV/Ebitda</i>	4.6
<i>Debt (US\$mm)</i>	1,860	<i>Undeveloped Reserves (%)</i>	27
<i>Enterprise Value (EV) (US\$mm)</i>	3,240	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	6.80
<i>Present Value (PV) (US\$mm)</i>	4,190	<i>Present Value Proven Reserves(US\$/boe)</i>	26.50
<i>Net Present Value (US\$/share)</i>	31	<i>Present Value Proven Reserves(US\$/mcfe)</i>	4.42
<i>Debt/Present Value</i>	0.44	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.64
<i>McDep Ratio - EV/PV</i>	0.77	<i>Price/Earnings Next Twelve Months</i>	11
<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.

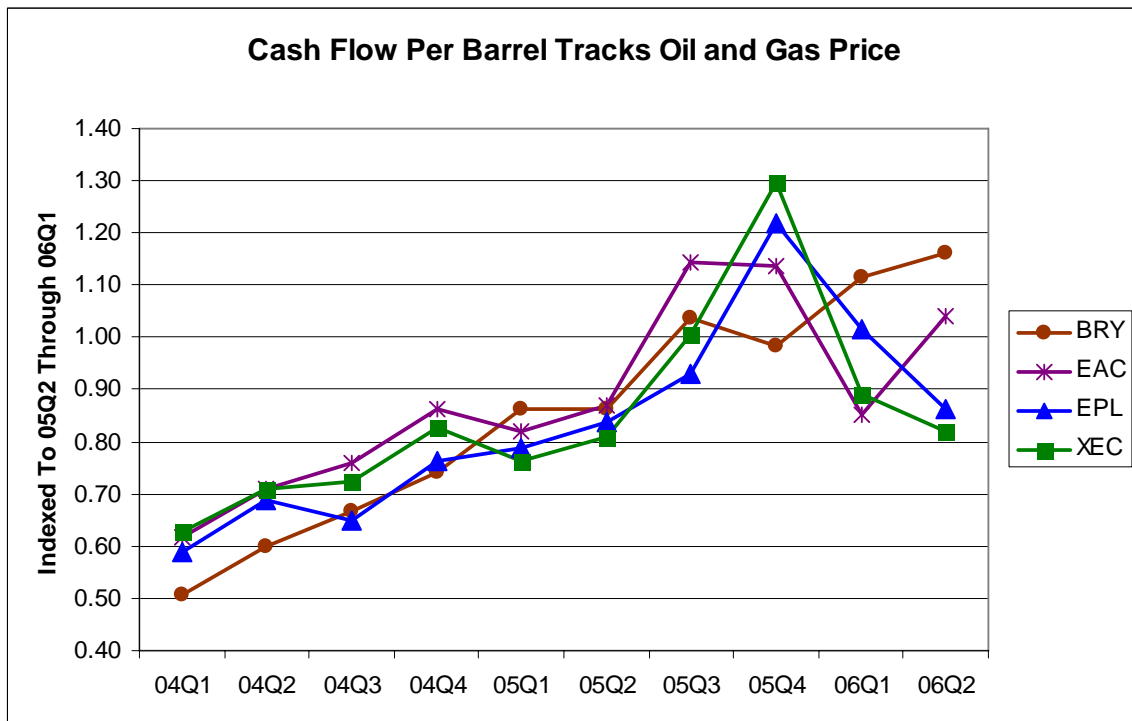
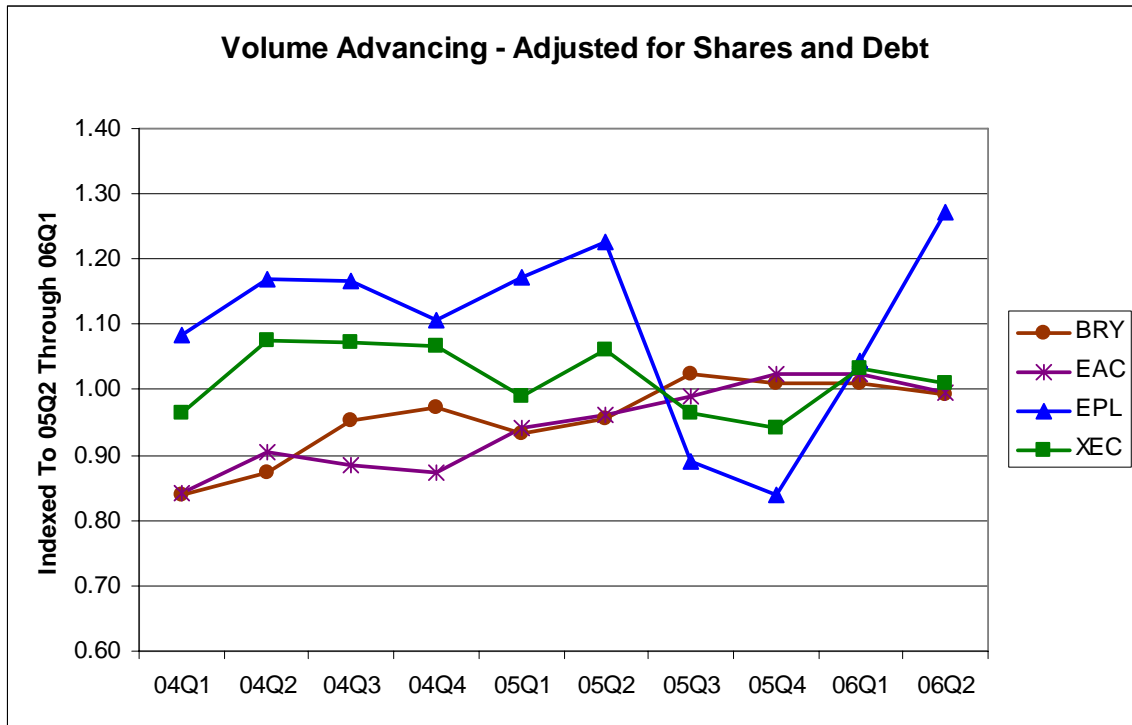
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

### **Summary and Recommendation**

Buy-recommended **Energy Partners (EPL)** offers 29% unlevered possible appreciation to a McDep Ratio of 1.0 where stock price would equal net present value (NPV) estimated at \$31 a share presuming a long-term oil price of \$60 a barrel. We raised our estimate of NPV from \$29 a share when we revised our oil price from \$50 a barrel on June 6. The oil price looks low compared to the current futures price of \$75 for oil delivered over the next six years. The acquisition of Stone Energy expected to be closed in October pending approvals is included in valuation measures, but not in performance through the second quarter of 2006 reported on August 9. During the latest quarter EPL's oil and gas volume adjusted for shares and debt was restored to and surpassed year ago pre-hurricane levels (see chart). The Stone deal may dilute that measure in future quarters initially. Cash flow per barrel has been rising directly with oil price, except for a recent decline with natural gas price (see chart). Operating almost entirely in the Gulf of Mexico, EPL is concentrated 57% on natural gas by value.

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

	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Next</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>	<i>6/30/07</i>	<i>Twelve</i>
								<i>Months</i>
								<i>6/30/07</i>
<b>Volume</b>								
Natural Gas (mmcf/d)	95	120	245	245	<b>177</b>	245	245	<b>245</b>
Oil (mbd)	7.2	8.2	19.5	19.5	<b>13.6</b>	19.5	19.5	<b>19.5</b>
Total (mb)	2,069	2,559	5,551	5,551	<b>15,729</b>	5,430	5,490	<b>22,022</b>
Total (mbd)	23.0	28.1	60.3	60.3	<b>43.1</b>	60.3	60.3	<b>60.3</b>
<b>Price</b>								
Natural Gas								
Henry Hub (\$/mmbtu)	8.97	6.81	6.57	8.68	<b>7.76</b>	10.87	8.45	<b>8.64</b>
Differential (\$/mmbtu)	0.56	(0.09)	-	-	<b>0.15</b>	-	-	<b>0.01</b>
EPL (\$/mcf)	8.41	6.90	6.57	8.68	<b>7.61</b>	10.87	8.45	<b>8.63</b>
Oil (\$/bbl)								
WTI Cushing	63.33	70.47	76.12	79.08	<b>72.25</b>	80.36	80.85	<b>79.10</b>
Differential	4.17	8.75	9.45	9.82	<b>6.36</b>	9.98	10.04	<b>9.83</b>
EPL	59.16	61.72	66.67	69.26	<b>65.89</b>	70.39	70.81	<b>69.27</b>
Total (\$/bbl)	53.22	47.38	48.22	57.65	<b>52.07</b>	66.88	57.19	<b>57.43</b>
<b>Revenue (\$mm)</b>								
Natural Gas	72	75	148	196	<b>491</b>	240	188	<b>772</b>
Oil	38	46	120	124	<b>328</b>	124	126	<b>493</b>
Other	0	0			<b>0</b>			<b>-</b>
Total	110	121	268	320	<b>819</b>	363	314	<b>1,265</b>
<b>Expense (\$mm)</b>								
Lease operating	13	18	48	48	<b>126</b>	47	47	<b>189</b>
Production taxes	3	2	13	16	<b>35</b>	18	16	<b>63</b>
General and administrative	13	15	28	28	<b>83</b>	27	27	<b>110</b>
Total	28	35	89	91	<b>243</b>	92	90	<b>363</b>
<b>Ebitda (\$mm)</b>	82	86	179	229	<b>576</b>	271	224	<b>902</b>
Exploration	20	23	30	30	<b>102</b>	30	30	<b>120</b>
Deprec., Deplet. & Amort.	47	50	117	117	<b>330</b>	117	117	<b>466</b>
Other non cash	(13)	(11)			<b>(23)</b>			<b>-</b>
<b>Ebit (\$mm)</b>	28	24	32	82	<b>167</b>	125	77	<b>316</b>
Interest	5	5	30	30	<b>70</b>	30	30	<b>120</b>
<b>Ebt (\$mm)</b>	23	20	2	52	<b>97</b>	95	47	<b>196</b>
Income tax	8	7	1	19	<b>36</b>	35	17	<b>72</b>
<b>Net income (\$mm)</b>	15	13	1	33	<b>62</b>	60	30	<b>123</b>
Per share	0.37	0.31	0.02	0.44	<b>1.14</b>	0.79	0.40	<b>1.64</b>
<b>Shares (millions)</b>	40.4	40.6	75.0	75.0	<b>54.3</b>	75.0	75.0	<b>75.0</b>
Lease operating (\$/bbl)	6.09	6.91	8.60	8.60	<b>8.00</b>	8.60	8.60	<b>8.60</b>
Production taxes (%)	2.7	1.8	5.0	5.0	<b>4.2</b>	5.0	5.0	<b>5.0</b>
G & A (\$/bbl)	6.04	5.90	5.00	5.00	<b>5.28</b>	5.00	5.00	<b>5.00</b>
D., D. & A (\$/bbl)	22.76	19.40	21.00	21.00	<b>20.97</b>	21.47	21.23	<b>21.17</b>
Tax rate	36%	36%	37%	37%	<b>37%</b>	37%	37%	<b>37%</b>

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**Energy Partners, Ltd.**  
**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	550	4.8	4.4	2,400	57%
Oil	352	9.2	5.1	1,790	43%
	902	6.2	4.6	4,190	100%
Debt (US\$mm)					1,860
Net Present Value (US\$mm)					2,330
Shares (mm)					75
Net Present Value - Standard Estimate (US\$/sh)					31
Net Present Value - Approximation by Correlation (US\$/sh)					38

**Disclaimer:** This analysis was prepared by Kurt Wulff doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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