

Rating: Buy  
S&P 500: 1300

## **Energy Partners Ltd.** **Woodside Offers \$23 a Share**

<i>Symbol</i>	EPL	<i>Ebitda Next Twelve Months ending 9/30/07 (US\$mm)</i>	880
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	64
<i>Price (US\$/sh)</i>	25.40	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	9/6/06	<i>Adjusted Reserves/Production NTM</i>	6.2
<i>Shares (mm)</i>	75	<i>EV/Ebitda</i>	4.3
<i>Market Capitalization (US\$mm)</i>	1,910	<i>PV/Ebitda</i>	4.8
<i>Debt (US\$mm)</i>	1,860	<i>Undeveloped Reserves (%)</i>	27
<i>Enterprise Value (EV) (US\$mm)</i>	3,770	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	6.70
<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>	1.45
<i>McDep Ratio - EV/PV</i>	0.90	<i>Price/Earnings Next Twelve Months</i>	18
<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)** received an unsolicited acquisition bid on August 28 from Australia's Woodside Petroleum (WOPEY) at \$23 a share compared to our estimate of \$31 net present value (NPV). The offer is conditional on EPL abandoning its plan to acquire Stone Energy (SGY). Our estimates presume the EPL/Stone transaction will be completed early in the fourth quarter. The dates for the meetings of the stockholders of EPL and SGY to approve the combination of the two companies have not been set, to our knowledge. Though Woodside has set an expiration date of September 28, such deadlines are often extended. Similarly initial bids are often raised. Apparently management and the board of EPL are preparing a response that may be to set the dates of the stockholder meetings to move as rapidly as possible to complete the acquisition of Stone. Considering that EPL stock is trading above the offer, there is no apparent reason why investors would tender shares at this stage. EPL stock has 22% appreciation potential to NPV with risk of near-term decline should Woodside withdraw its bid.

Kurt H. Wulff, CFA

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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>Q3E</i>	<i>Next Twelve Months</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>9/30/07</i>	<i>9/30/07</i>
<b>Volume</b>									
Natural Gas (mmcf/d)	95	120	120	245	<b>145</b>	245	245	245	<b>245</b>
Oil (mbd)	7.2	8.2	8.2	19.5	<b>10.8</b>	19.5	19.5	19.5	<b>19.5</b>
Total (mb)	2,069	2,559	2,587	5,551	<b>12,765</b>	5,430	5,490	5,551	<b>22,022</b>
Total (mbd)	23.0	28.1	28.1	60.3	<b>35.0</b>	60.3	60.3	60.3	<b>60.3</b>
<b>Price</b>									
Natural Gas									
Henry Hub (\$/mmbtu)	8.97	6.81	6.58	7.94	<b>7.58</b>	10.53	8.31	8.52	<b>8.83</b>
Differential (\$/mmbtu)	0.56	(0.09)	-	-	<b>0.06</b>	-	-	-	<b>0.01</b>
EPL (\$/mcf)	8.41	6.90	6.58	7.94	<b>7.52</b>	10.53	8.31	8.52	<b>8.82</b>
Oil (\$/bbl)									
WTI Cushing	63.33	70.47	72.21	70.26	<b>69.07</b>	72.50	73.71	74.26	<b>72.68</b>
Differential	4.17	8.75	8.96	8.72	<b>7.56</b>	9.00	9.15	9.22	<b>9.02</b>
EPL	59.16	61.72	63.25	61.54	<b>61.51</b>	63.50	64.56	65.05	<b>63.66</b>
Total (\$/bbl)	53.22	47.38	46.41	52.15	<b>50.20</b>	63.29	54.62	55.62	<b>56.39</b>
<b>Revenue (\$mm)</b>									
Natural Gas	72	75	72	179	<b>398</b>	232	185	192	<b>789</b>
Oil	38	46	48	110	<b>242</b>	111	115	117	<b>453</b>
Other	0	0			<b>0</b>				<b>-</b>
Total	110	121	120	289	<b>641</b>	344	300	309	<b>1,242</b>
<b>Expense (\$mm)</b>									
Lease operating	13	18	18	48	<b>96</b>	47	47	47	<b>189</b>
Production taxes	3	2	6	14	<b>26</b>	17	15	15	<b>62</b>
General and administrative	13	15	13	28	<b>68</b>	27	27	28	<b>110</b>
Total	28	35	37	90	<b>190</b>	91	90	90	<b>361</b>
<b>Ebitda (\$mm)</b>									
	82	86	83	199	<b>451</b>	253	210	218	<b>880</b>
Exploration	20	23	23	30	<b>95</b>	30	30	30	<b>120</b>
Deprec., Deplet. & Amort.	47	50	50	117	<b>263</b>	117	117	117	<b>468</b>
Other non cash	(13)	(11)			<b>(23)</b>				<b>-</b>
<b>Ebit (\$mm)</b>									
	28	24	11	52	<b>116</b>	106	63	71	<b>292</b>
Interest	5	5	5	30	<b>44</b>	30	30	30	<b>120</b>
<b>Ebt (\$mm)</b>									
	23	20	6	22	<b>72</b>	76	33	41	<b>172</b>
Income tax	8	7	2	8	<b>26</b>	28	12	15	<b>64</b>
<b>Net income (\$mm)</b>									
	15	13	4	14	<b>45</b>	48	21	26	<b>109</b>
Per share	0.37	0.31	0.05	0.19	<b>0.92</b>	0.64	0.28	0.35	<b>1.45</b>
<b>Shares (millions)</b>									
Lease operating (\$/bbl)	40.4	40.6	75.0	75.0	<b>49.5</b>	75.0	75.0	75.0	<b>75.0</b>
Production taxes (%)	6.09	6.91	6.84	8.65	<b>7.52</b>	8.60	8.60	8.51	<b>8.59</b>
G & A (\$/bbl)	2.7	1.8	5.0	5.0	<b>4.0</b>	5.0	5.0	5.0	<b>5.0</b>
G & A (\$/bbl)	6.04	5.90	5.00	5.00	<b>5.35</b>	5.00	5.00	5.00	<b>5.00</b>
D., D. & A (\$/bbl)	22.76	19.40	19.19	21.08	<b>20.63</b>	21.55	21.31	21.08	<b>21.25</b>
Tax rate	36%	36%	37%	37%	<b>36%</b>	37%	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	559	4.8	4.3	2,400	57%
Oil	321	9.2	5.6	1,790	43%
	880	6.2	4.8	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)					36

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