

Rating: Buy  
S&P 500: 1366

## **Energy Partners Ltd.**

### **Live Acquisition Target**

<i>Symbol</i>	EPL	<i>Ebitda Next Twelve Months ending 9/30/07 (US\$mm)</i>	320
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	66
<i>Price (US\$/sh)</i>	24.96	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	10/13/06	<i>Adjusted Reserves/Production NTM</i>	5.0
<i>Shares (mm)</i>	41	<i>EV/Ebitda</i>	4.4
<i>Market Capitalization (US\$mm)</i>	1,010	<i>PV/Ebitda</i>	5.1
<i>Debt (US\$mm)</i>	380	<i>Undeveloped Reserves (%)</i>	26
<i>Enterprise Value (EV) (US\$mm)</i>	1,390	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	5.20
<i>Present Value (PV) (US\$mm)</i>	1,640	<i>Present Value Proven Reserves(US\$/boe)</i>	27.90
<i>Net Present Value (US\$/share)</i>	31	<i>Present Value Proven Reserves(US\$/mcfe)</i>	4.65
<i>Debt/Present Value</i>	0.23	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.35
<i>McDep Ratio - EV/PV</i>	0.85	<i>Price/Earnings Next Twelve Months</i>	70
<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.

Estimated present value presumes a long-term price for oil of US\$60 a barrel and natural gas, \$10 a million btu.

### **Summary and Recommendation**

Management of buy-recommended **Energy Partners (EPL)** seeks the best price possible for EPL stock to avoid selling at \$23 a share in an unsolicited takeover attempt. Terminating a merger agreement with Stone Energy (SGY) on October 12 frees management to concentrate on dealing with a bid from Australia's Woodside Petroleum (WOPEY) announced on August 28. Meanwhile, Woodside appears to be moving ahead with a solicitation of the consent of EPL stockholders to replace the EPL board of directors. The record date of October 17 suggests that the fate of the company lies with shareholders or arbitrageurs who have purchased the stock since the Woodside offer was announced. As soon as Woodside raises its bid to a level that offers a sufficient immediate profit to recent purchasers, it would likely get enough votes to replace the board and acquire the company. Management's alternatives include negotiating a settlement with Woodside at a higher price, finding another buyer, or proposing a buyback of shares to give recent purchasers an opportunity to sell if Woodside does not raise its offer. We keep our estimate at \$31 net present value (NPV) as we revert to projections for the ongoing company without Stone.

Kurt H. Wulff, CFA

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

	<i>Q3</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>9/30/05</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)	76	120	108	120	<b>110</b>	120	120	120	<b>120</b>
Oil (mbd)	6.6	8.2	7.4	8.2	<b>7.7</b>	8.2	8.2	8.2	<b>8.2</b>
Total (mb)	1,775	2,559	2,328	2,587	<b>9,543</b>	2,531	2,559	2,587	<b>10,263</b>
Total (mbd)	19.3	28.1	25.3	28.1	<b>26.1</b>	28.1	28.1	28.1	<b>28.1</b>
<b>Price</b>									
Natural Gas									
Henry Hub (\$/mmbtu)	8.56	6.81	6.58	5.78	<b>7.04</b>	7.91	7.45	7.65	<b>7.20</b>
Differential (\$/mmbtu)	(0.29)	(0.09)	-	-	<b>0.20</b>	-	-	-	<b>0.00</b>
EPL (\$/mcf)	8.85	6.90	6.58	5.78	<b>6.84</b>	7.91	7.45	7.65	<b>7.19</b>
Oil (\$/bbl)									
WTI Cushing	62.52	70.47	70.42	58.47	<b>65.67</b>	62.04	64.14	65.36	<b>62.50</b>
Differential	7.21	8.75	8.74	7.26	<b>7.35</b>	7.70	7.96	8.11	<b>7.76</b>
EPL	55.31	61.72	61.68	51.21	<b>58.32</b>	54.34	56.18	57.25	<b>54.74</b>
Total (\$/bbl)	51.86	47.38	45.96	39.51	<b>46.17</b>	49.48	48.02	49.20	<b>46.53</b>
<b>Revenue (\$mm)</b>									
Natural Gas	62	75	65	64	<b>276</b>	85	81	84	<b>314</b>
Oil	34	46	42	39	<b>165</b>	40	42	43	<b>164</b>
Other	(4)	0			<b>0</b>				<b>-</b>
Total	92	121	107	102	<b>441</b>	125	123	127	<b>478</b>
<b>Expense (\$mm)</b>									
Lease operating	14	18	18	21	<b>69</b>	20	20	21	<b>82</b>
Production taxes	3	2	3	3	<b>11</b>	4	4	4	<b>14</b>
General and administrative	10	15	22	16	<b>65</b>	15	15	16	<b>62</b>
Total	28	35	43	39	<b>145</b>	39	40	40	<b>158</b>
<b>Ebitda (\$mm)</b>	65	86	64	63	<b>295</b>	86	83	87	<b>320</b>
Exploration	23	23	16	20	<b>78</b>	20	20	20	<b>80</b>
Deprec., Deplet.& Amort.	26	50	50	50	<b>196</b>	50	50	50	<b>199</b>
Other non cash	(0)	(11)			<b>(23)</b>				<b>-</b>
<b>Ebit (\$mm)</b>	15	24	(2)	(7)	<b>44</b>	16	14	18	<b>41</b>
Interest	5	5	5	5	<b>19</b>	5	5	5	<b>19</b>
<b>Ebt (\$mm)</b>	10	20	(6)	(11)	<b>25</b>	12	9	13	<b>22</b>
Income tax	4	7	(2)	(4)	<b>9</b>	4	3	5	<b>8</b>
<b>Net income (\$mm)</b>	7	13	(4)	(7)	<b>16</b>	8	6	8	<b>14</b>
Per share	0.16	0.31	(0.10)	(0.18)	<b>0.40</b>	0.19	0.14	0.21	<b>0.35</b>
<b>Shares (millions)</b>									
Lease operating (\$/bbl)	8.14	6.91	7.60	8.00	<b>7.20</b>	8.00	8.00	8.00	<b>8.00</b>
Production taxes (%)	3.0	1.8	3.0	3.0	<b>2.6</b>	3.0	3.0	3.0	<b>3.0</b>
G & A (\$/bbl)	5.76	5.90	9.45	6.00	<b>6.82</b>	6.00	6.00	6.00	<b>6.00</b>
D., D. & A (\$/bbl)	14.81	19.40	21.32	19.19	<b>20.54</b>	19.61	19.40	19.19	<b>19.34</b>
Tax rate	36%	36%	35%	35%	<b>37%</b>	35%	35%	35%	<b>35%</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	210	3.1	4.3	900	55%
Oil	109	9.5	6.8	740	45%
	320	5.0	5.1	1,640	100%
Debt (US\$mm)					380
Net Present Value (US\$mm)					1,260
Shares (mm)					41
Net Present Value - Standard Estimate (US\$/sh)					31
Net Present Value - Approximation by Correlation (US\$/sh)					36

*For historical analysis of EPL see [www.mcdep.com/5epl.htm](http://www.mcdep.com/5epl.htm)*

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