

Rating: Buy
S&P 500: 1476

Energy Partners Ltd. Management Scales Back

<i>Symbol</i>	EPL	<i>Ebitda Next Twelve Months ending 9/30/08 (US\$mm)</i>	328
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	60
<i>Price (US\$/sh)</i>	13.47	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/7/07	<i>Adjusted Reserves/Production NTM</i>	6.0
<i>Shares (mm)</i>	32	<i>EV/Ebitda</i>	3.2
<i>Market Capitalization (US\$mm)</i>	430	<i>PV/Ebitda</i>	5.6
<i>Debt (US\$mm)</i>	620	<i>Undeveloped Reserves (%)</i>	24
<i>Enterprise Value (EV) (US\$mm)</i>	1,040	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	7.10
<i>Present Value (PV) (US\$mm)</i>	1,820	<i>Present Value Proven Reserves(US\$/boe)</i>	34.70
<i>Net Present Value (US\$/share)</i>	38	<i>Present Value Proven Reserves(US\$/mcfe)</i>	5.78
<i>Debt/Present Value</i>	0.34	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.45
<i>McDep Ratio - EV/PV</i>	0.57	<i>Price/Earnings Next Twelve Months</i>	30
<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\$66 a barrel and natural gas, \$11 a million btu.

For historical analysis of EPL since 2000 see www.mcdep.com/5epl.htm

Summary and Recommendation

Our main encouragement in maintaining a buy recommendation on the stock of **Energy Partners (EPL)** comes from a low market cash flow multiple near three times in an industry that we think has an attractive outlook. Third quarter results reported today met or exceeded unlevered cash flow (Ebitda) expectations of three months ago, but we have reduced volume expectations for future quarters (see table Next Twelve Months Operating and Financial Estimates). Though NPV appears supported by projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P), the relationship can depend on reinvestment for short reserve life properties (see table Functional Cash Flow and Present Value). Management may be under pressure to sell properties, cut back on drilling and pay down debt. Chairman Rick Bachmann laments on the quarterly call that the potential buyers for the assets EPL is willing to sell are having trouble getting financing “with the high yield market and the bank credit facilities shrinking”. Because financial risk may be higher than indicated by our ratio of Debt/Present Value of 0.31, we are more comfortable suggesting a half unlevered weight for EPL stock rather than full in our illustrative McDep Energy Portfolio of buy recommendations. On the positive side for EPL, a renewed rise in oil price may take six-year futures to another double as was the case from the end of 2004 to mid 2006, subject to short declines from time to time (see chart Six-Year Commodity Price Meter).

Kurt H. Wulff, CFA

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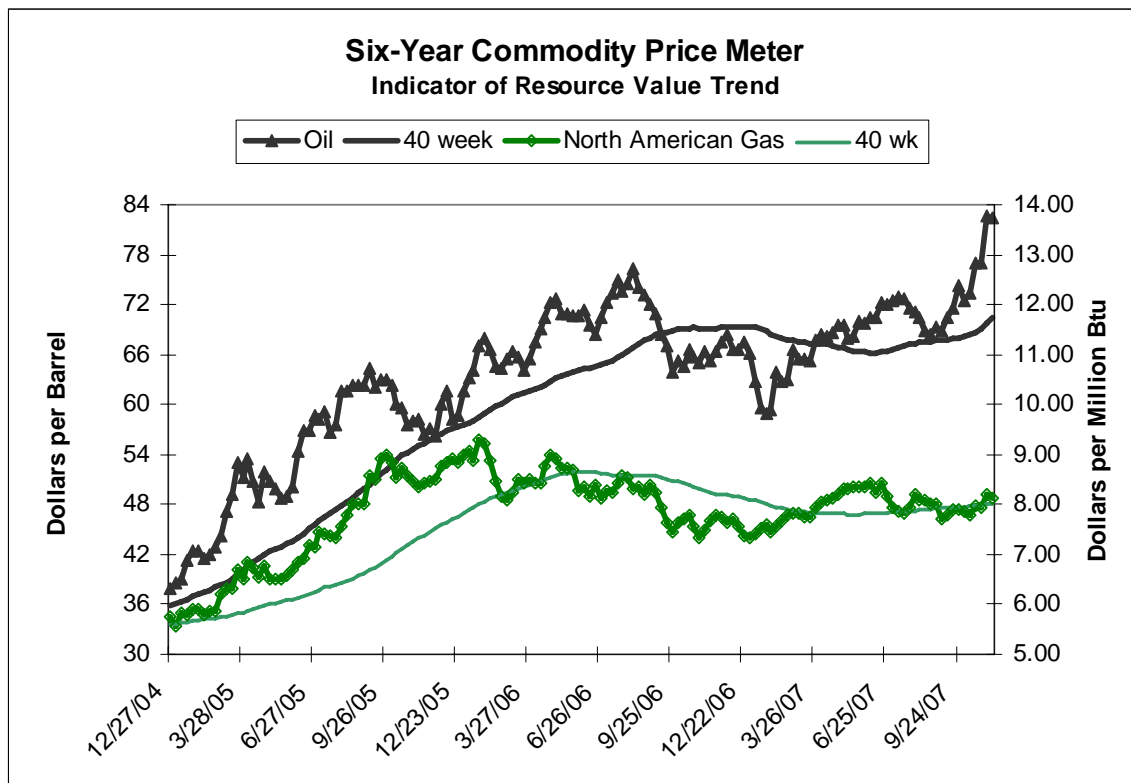
Energy Partners, Ltd.
Next Twelve Months Operating and Financial Estimates

	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next Twelve Months</i>
	<i>9/30/06</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>2007E</i>	<i>3/31/08</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>9/30/08</i>
Volume									
Natural Gas (mmcf)	104	102	93	88	96	88	88	88	88
Oil (mbd)	8.1	9.1	8.3	6.3	8.2	6.3	6.3	6.3	6.3
Total (mb)	2,339	2,348	2,180	1,929	8,796	1,908	1,908	1,929	7,674
Total (mbd)	25.4	26.1	23.7	21.0	24.2	21.0	21.0	21.0	21.0
Price									
Natural Gas									
Henry Hub (\$/mmbtu)	6.58	7.56	6.16	7.24	6.94	8.38	7.97	8.15	7.93
Differential (\$/mmbtu)	0.46	(0.20)	(0.90)	(1.06)	(0.60)	(1.23)	(1.17)	(1.20)	(1.16)
EPL (\$/mcf)	6.12	7.76	7.06	8.30	7.54	9.61	9.14	9.34	9.10
Oil (\$/bbl)									
WTI Cushing	70.42	64.91	75.48	91.29	72.44	92.23	89.70	87.47	90.17
Differential	4.85	5.02	4.59	5.55	6.57	5.60	5.45	5.32	5.48
EPL	65.57	59.89	70.89	85.74	65.87	86.63	84.25	82.15	84.69
Total (\$/bbl)	45.96	51.20	52.32	60.59	52.26	66.35	63.69	63.89	63.62
Revenue (\$mm)									
Natural Gas	59	71	60	67	263	77	73	76	293
Oil	49	49	54	50	197	50	48	48	195
Other	0				0				-
Total	107	120	114	117	460	127	122	123	488
Expense (\$mm)									
Lease operating	16	18	20	21	76	21	21	21	84
Production taxes	6	2	2	4	11	4	4	4	15
General and administrative	15	14	12	15	64	15	15	15	61
Total	36	34	35	40	151	40	40	40	160
Ebitda (\$mm)	71	86	79	77	309	87	82	83	328
Exploration	12	37	23	23	105	23	23	20	88
Deprec., Deplet. & Amort.	46	45	43	42	178	42	42	42	169
Other non cash	(8)	0	(0)		(16)				-
Ebit (\$mm)	21	4	14	12	42	22	17	20	71
Interest	7	13	13	13	45	12	12	12	49
Ebt (\$mm)	15	(10)	1	(1)	(4)	10	5	8	22
Income tax	5	(3)	1	(0)	(1)	3	2	3	8
Net income (\$mm)	10	(6)	1	(1)	(2)	6	3	6	14
Per share	0.25	(0.18)	0.03	(0.02)	(0.08)	0.20	0.10	0.17	0.45
Shares (millions)	38.4	34.6	31.7	31.7	28.4	31.7	31.7	31.7	31.7
Lease operating (\$/bbl)									
Lease operating (\$/bbl)	6.82	7.68	9.10	11.00	8.68	11.00	11.00	11.00	11.00
Production taxes (%)									
Production taxes (%)	5.4	1.8	2.1	3.0	2.4	3.0	3.0	3.0	3.0
G & A (\$/bbl)									
G & A (\$/bbl)	6.20	5.75	5.72	8.00	7.25	8.00	8.00	8.00	8.00
D., D. & A (\$/bbl)									
D., D. & A (\$/bbl)	19.51	19.23	19.65	22.00	20.27	22.00	22.00	22.00	22.00
Ebitda Margin (%)									
Ebitda Margin (%)	66%	72%	70%	66%	67%	68%	67%	67%	67%
Tax rate									
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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Energy Partners, Ltd.
Functional Cash Flow and Present Value

	<i>NTM Ebitda</i> <i>(US\$mm)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$mm)</i>	
North American Natural Gas	197	4.0	4.8	950	52%
Oil	131	10.7	6.7	880	48%
	328	6.0	5.6	1,830	100%
Debt (US\$mm)					620
Net Present Value (US\$mm)					1,210
Shares (mm)					32
Net Present Value - Standard Estimate (US\$/sh)					38
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					35



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