



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

June 7, 2013

## Cimarex Energy (XEC) Uncovering Culberson Value

<i>Symbol</i>	XEC	<i>Ebitda Next Twelve Months ending 6/30/14 (US\$m)</i>	1,377
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	29
<i>Price (\$/sh)</i>	72.59	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	6/6/13	<i>Adjusted Reserves/Production NTM</i>	7.6
<i>Shares (mm)</i>	87	<i>EV/Ebitda</i>	5.6
<i>Market Capitalization (\$mm)</i>	6,290	<i>PV/Ebitda</i>	7.9
<i>Debt (\$mm)</i>	1,410	<i>Undeveloped Reserves (%)</i>	20
<i>Enterprise Value (EV) (\$mm)</i>	7,700	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	30.70
<i>Present Value (PV) (\$mm)</i>	10,940	<i>Present Value Proven Reserves(\$/boe)</i>	29.00
<i>Net Present Value (\$/share)</i>	110	<i>Oil and Gas Ebitda Margin (%)</i>	70
<i>Debt/Present Value</i>	0.13	<i>Earnings Next Twelve Months (US\$/sh)</i>	6.07
<i>McDep Ratio - EV/PV</i>	0.70	<i>Price/Earnings Next Twelve Months</i>	12
<i>Dividend Yield (%/year)</i>	0.8	<i>Indicated Annual Dividend (US\$/sh)</i>	0.56
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\$100 a barrel and natural gas, \$6 a million btu.			
For historical analysis of XEC since 2003 see <a href="http://www.mcdep.com/4xec.htm">www.mcdep.com/4xec.htm</a>			

### Summary and Recommendation

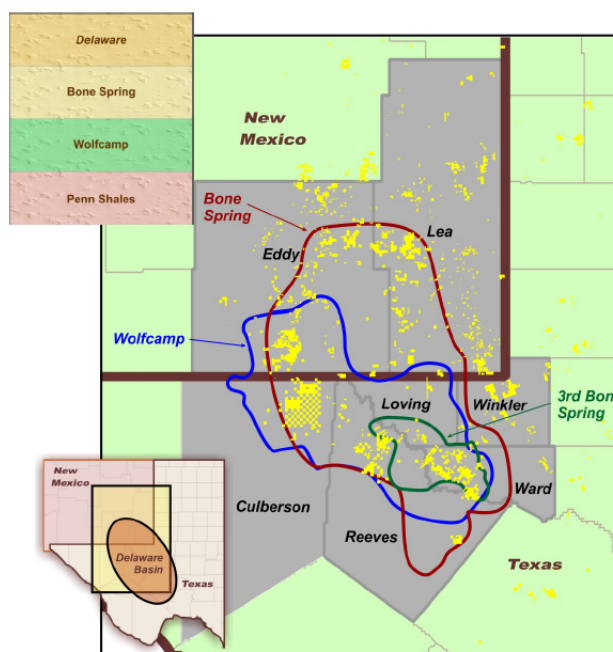
Buy-recommended **Cimarex Energy (XEC)** uncovers increasing value in its half billion barrel shale oil play in Culberson County, Texas, further validating estimated Net Present Value (NPV) of \$110 a share (see table Present Value on page 2). Cost of horizontal fracking of the Wolfcamp shale is decreasing as the company gains experience with more wells. The Bone Spring tight sand is also proving productive on Culberson acreage and management believes that prolific results from its Wolfcamp A shale in adjacent Reeves County may extend to Culberson (see map Delaware Basin Focus on page 2). Delivering average rates as high as a thousand barrels equivalent daily for a 30-day period from the 3<sup>rd</sup> Bone Spring in Texas, the sand is about the most profitable that the driller encounters (see slide Bone Spring on page 3). The Wolfcamp shale also has multiple sections which can multiply commercial success (see slide Culberson County Focus on page 3). For a company that likes to drill, a multi-year inventory points to an attractive profit outlook. We are projecting 11% volume growth in 2013 that is within management's guidance range (see table Operating and Financial Estimates on page 4). Natural gas and oil volumes are about equal on a heating value basis, while the split is close to 30/70 on a revenue basis. As a result, oil price helps current profits while natural gas price offers recovery potential. Finally, Cimarex's McDep Ratio is low at 0.70, Debt/Present Value is low at 0.13, unlevered cash flow multiple (EV/Ebitda) is low at 5.6 compared to adjusted reserve life of 7.6 years and stock price has favorable momentum (see Tables 1- 4 on pages 5-8).

Kurt H. Wulff, CFA

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	400	8.3	11.0	4,400	40%
Oil	977	6.9	6.7	6,510	60%
	1,377	7.6	7.9	10,910	100%
Debt (US\$mm)					1,410
Net Present Value (US\$mm)					9,500
Shares (mm)					87
Net Present Value - Standard Estimate (US\$/sh)					110
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					130

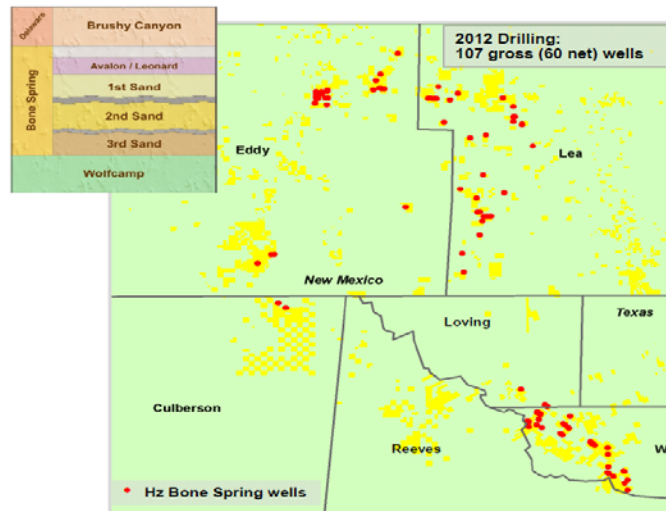
## Delaware Basin Focus

- Multi-stacked formations
- Oil & liquids-rich targets
- 12-14 operated rigs focused on Bone Spring & Wolfcamp drilling
- Active Wolfcamp de-risking project in Culberson County
- Emerging Wolfcamp in Reeves County
- 2<sup>nd</sup> Bone Spring activity transitioning to Culberson County



## Delaware Basin – Bone Spring

- 85-90 net Bone Spring wells planned in 2013
- 2<sup>nd</sup> Bone Spring activity increasing in Culberson County – 2 rigs expected to drill ~20 wells
- New Mexico 2<sup>nd</sup>/3<sup>rd</sup> Bone Spring wells average ~640 Boe/d; 90% oil (30-day IP)
- Texas 3<sup>rd</sup> Bone Spring wells average ~1,000 Boe/d; 80% oil (30-day IP)



NYSE:XEC

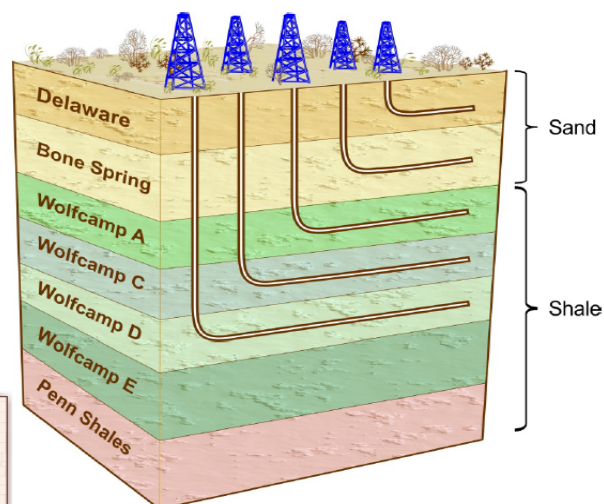
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CIMAREX

## Culberson County Focus Area Summary

- Multiple stacked opportunities
- Five potential horizons
- Significant Wolfcamp resource potential\*
  - Four wells/section – 1.7 -2.1 Tcfe; \$3.6bn of capital
  - Eight wells/section - 3.4-4.1 Tcfe; \$7.2bn of capital

\* Assumes EUR of 5.4Bcfe/well, drilling cost of \$7.2mm.



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Cimarex Energy Company										
Next Twelve Months Operating and Financial Performance										
	Q2	Year	Q1	Q2E	Q3E	Q4E	Year	Q1E	Q2E	Next Twelve Months
	6/30/12	2012	3/31/13	6/30/13	9/30/13	12/31/13	2013E	3/31/14	6/30/14	6/30/14
<b>Volume</b>										
Natural Gas (mmcf)	317	<b>324</b>	333	343	353	364	<b>348</b>	375	386	<b>369</b>
Days	91	<b>366</b>	90	91	92	92	<b>365</b>	90	91	<b>365</b>
Oil (mmb)	4.1	<b>18.5</b>	4.9	5.2	5.6	5.6	<b>21.3</b>	5.4	5.8	<b>22.3</b>
Oil (mbd)	45.5	<b>50.5</b>	54.8	57.5	60.4	60.4	<b>58.3</b>	60.4	63.4	<b>61.2</b>
Total (mmcf)	590	<b>627</b>	662	688	716	726	<b>698</b>	737	767	<b>736</b>
<b>Price</b>										
Henry Hub (\$/mmbtu)	2.21	<b>2.79</b>	3.34	4.10	3.99	4.10	<b>3.88</b>	4.28	4.11	<b>4.12</b>
Company (\$/mcf)	2.42	<b>2.88</b>	3.38	4.15	4.05	4.16	<b>3.94</b>	4.33	4.16	<b>4.18</b>
WTI Cushing (\$/bbl)	93.32	<b>94.16</b>	94.41	93.42	93.55	93.12	<b>93.63</b>	91.83	91.03	<b>92.38</b>
Company (\$/bbl)	66.10	<b>67.19</b>	63.84	63.17	63.26	62.97	<b>63.30</b>	62.10	61.56	<b>62.46</b>
Total (\$/bbl)	38.39	<b>41.41</b>	41.92	44.10	44.02	43.92	<b>43.52</b>	43.75	43.14	<b>43.70</b>
<b>Revenue (\$mm)</b>										
Natural Gas	70	<b>341</b>	101	130	132	139	<b>502</b>	146	146	<b>563</b>
Oil	274	<b>1,242</b>	315	331	352	350	<b>1,347</b>	338	355	<b>1,395</b>
Total	344	<b>1,583</b>	416	460	483	489	<b>1,849</b>	484	502	<b>1,958</b>
<b>Expense</b>										
Operating	78		88							
Production taxes	23		25							
General and administrative	13		16							
Expense	114	<b>461</b>	129	137	143	145	<b>554</b>	144	149	<b>581</b>
<b>Ebitda</b>	230	<b>1,121</b>	287	324	340	344	<b>1,294</b>	340	353	<b>1,377</b>
Deprec., Deplet., & Amor	124	<b>527</b>	139	139	139	139	<b>556</b>	139	139	<b>556</b>
Other Non Cash	(3)	<b>26</b>	4				<b>4</b>			<b>-</b>
<b>Ebit</b>	109	<b>568</b>	144	185	201	205	<b>735</b>	201	214	<b>821</b>
Interest	4	<b>12</b>	3	3	3	3	<b>12</b>	3	3	<b>12</b>
<b>Ebt</b>	105	<b>556</b>	141	182	198	202	<b>723</b>	198	211	<b>809</b>
Income Tax	37	<b>195</b>	49	64	69	71	<b>253</b>	69	74	<b>283</b>
<b>Net Income (\$mm)</b>	68	<b>362</b>	92	118	129	131	<b>470</b>	129	137	<b>526</b>
Per Share (\$)	0.79	<b>4.18</b>	1.06	1.36	1.48	1.52	<b>5.42</b>	1.49	1.58	<b>6.07</b>
<b>Shares (millions)</b>	86	<b>87</b>	87	87	87	87	<b>87</b>	87	87	<b>87</b>
Ebitda Margin	67%	<b>71%</b>	69%	70%	70%	70%	<b>70%</b>	70%	70%	<b>70%</b>
Tax rate	35%	<b>35%</b>	35%	35%	35%	35%	<b>35%</b>	35%	35%	<b>35%</b>



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Table ISC-1											
McDep Income and Small Cap Energy Portfolio											
Debt, Segments, Cash Flow, Income and McDep Ratio											
			Price								
Symbol/Rating	(US\$/sh)	EV/	Enterprise	PV(%)	EV/	Dist.	Dist.				
CB (see below)	6-Jun	Market	Value	Nat	Ebitda	NTM	Yield	McDep			
	2013	Cap	(\$mm)	Gas	Oil	NTM	(\$/un)	(%)	Ratio		
<b>Small Cap Independent Producers</b>											
PDC Energy	PDCE		50.41	1.51	2,350	26	74	11.2	-	-	1.00
Peyto Exploration and Development Cor	PEYUF		31.07	1.17	5,420	68	32	10.0	0.82	2.6	0.90
Range Resources	RRC	B	74.22	1.30	15,550	66	34	13.1	0.16	0.2	0.86
Halcón Resources	HK		5.27	2.31	5,100	8	92	6.8	-	-	0.82
Continental Resources (32%)	CLR	B	83.01	1.27	6,240	18	82	6.4	-	-	0.80
Birchcliff Energy Ltd.	BIREF	B	8.52	1.39	1,940	68	32	9.5	-	-	0.77
Berry Petroleum Company	BRY		44.81	1.74	4,310	12	88	6.9	0.32	0.7	0.76
Denbury Resources Inc.	DNR		18.54	1.49	10,330	5	95	6.5	-	-	0.75
Cimarex Energy Company	XEC	B	72.59	1.22	7,700	40	60	5.6	0.56	0.8	0.70
Whiting Petroleum Corporation	WLL	B	46.16	1.47	8,060	7	93	4.2	-	-	0.62
<i>Total or Median</i>				1.43	67,000	22	78	6.8			0.78
<b>Leveraged Cash Payers</b>											
Vanguard Natural Resources, LLC	VNR		27.74	1.59	2,860	37	63	11.0	2.46	8.9	1.07
Linn Energy, LLC	LINE		33.18	1.80	13,950	42	58	12.6	2.90	8.7	1.06
Legacy Reserves L.P.	LGCY		27.04	1.60	2,470	19	81	10.4	2.30	8.5	0.94
Enerplus Corporation	ERF		15.21	1.60	4,800	31	69	6.5	1.05	6.9	0.81
<i>Total or Median</i>				1.60	24,100	34	66	10.7		8.6	1.00
<b>RTF Cash Payers</b>											
Freehold Royalties Ltd.	FRHLF		23.34	TL	1,620	15	85	13.6	1.63	7.0	1.01
Dorchester Minerals, L.P.	DMLP	B	24.88	TL	760	61	39	14.2	1.65	6.6	0.92
Enduro Royalty Trust (40%)	NDRO		16.00	BL	210	41	59	8.7	1.47	9.2	0.84
Sabine Royalty Trust	SBR		52.35	TL	760	45	55	12.4	4.22	8.1	0.81
San Juan Basin Royalty Trust	SJT	B	15.70	BL	730	100	-	9.1	1.19	7.6	0.75
Hugoton Royalty Trust	HGT		8.65	BL	350	85	15	8.1	0.95	11.0	0.72
Mesa Royalty Trust	MTR		22.29	BL	42	75	25	9.1	2.04	9.1	0.70
Permian Basin RT	PBT		13.13	TL	610	16	84	9.0	0.81	6.2	0.66
Cross Timbers Royalty Trust	CRT		27.80	TL	170	80	20	11.5	2.17	7.8	0.63
<i>Total or Median</i>					5,300	61	39	9.1		7.8	0.75
CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.											
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses											
Present Value (PV) presumes long-term prices of \$100 a barrel for oil and \$6 a million btu for natural gas.											
Dist. = Income distribution. NTM = Next Twelve Months Ended June 30, 2014. Enterprise Value = Market Cap and Debt.											
TL = Top Line income sources, BL = Bottom Line income sources											





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Table ISC-3								
McDep Income and Small Cap Energy Portfolio								
Value Multiples - Rank by EV/Ebitda								
			Price (\$/sh)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda
	Symbol/ Rating		6-Jun 2013	Royalty (%)	Ebitda	NTM	NTM	NTM
<b>Small Cap Independent Producers</b>								
Range Resources	RRC	B	74.22		-	13.6	15.2	13.1
PDC Energy	PDCE		50.41		-	15.0	11.2	11.2
Peyto Exploration and Development Corp	PEYUF		31.07		0.26	9.3	11.1	10.0
Birchcliff Energy Ltd.	BIREF	B	8.52		-	18.8	12.3	9.5
Berry Petroleum Company	BRY		44.81		-	12.1	9.1	6.9
Halcón Resources	HK		5.27		-	5.0	8.3	6.8
Denbury Resources Inc.	DNR		18.54		-	13.9	8.7	6.5
Continental Resources (32%)	CLR	B	83.01		-	9.8	8.0	6.4
Cimarex Energy Company	XEC	B	72.59		-	7.6	7.9	5.6
Whiting Petroleum Corporation	WLL	B	46.16		-	8.4	6.8	4.2
	<i>Median</i>					10.9	8.9	6.8
<b>Leveraged Cash Payers</b>								
Linn Energy, LLC	LINE		33.18		1.15	14.0	11.9	12.6
Vanguard Natural Resources, LLC	VNR		27.74		1.01	11.0	10.3	11.0
Legacy Reserves L.P.	LGCY		27.04		0.85	11.0	11.1	10.4
Enerplus Corporation	ERF		15.21		0.40	6.5	8.1	6.5
	<i>Median</i>					11.0	10.7	10.7
<b>RTF Cash Payers</b>								
Dorchester Minerals, L.P.	DMLP	B	24.88	77	0.94	7.0	15.4	14.2
Freehold Royalties Ltd.	FRHLF		23.34	88	0.95	4.9	13.5	13.6
Sabine Royalty Trust	SBR		52.35	100	1.00	8.9	15.4	12.4
Cross Timbers Royalty Trust	CRT		27.80	97	0.90	13.0	18.2	11.5
San Juan Basin Royalty Trust	SJT	B	15.70		0.69	10.4	12.1	9.1
Mesa RoyaltyTrust	MTR		22.29		0.82	5.2	12.9	9.1
Permian Basin RT	PBT		13.13	40	0.56	12.7	13.8	9.0
Enduro Royalty Trust (40%)	NDRO		16.00		0.80	6.1	10.3	8.7
Hugoton RoyaltyTrust	HGT		8.65		0.89	13.0	11.2	8.1
	<i>Median</i>					8.9	13.5	9.1
B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.								
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2014; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								
Top Line Cash Payers defined as those having Revenue Royalty (see fifth column from right).								



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Table ISC-4									
McDep Income and Small Cap Energy Portfolio									
Total Return and Enterprise Value Momentum									
			Price (\$/sh)	Equity Total	Enterprise Value/				
	Symbol/		6-Jun	Return	52Wk	52Wk	50 Day	200 Day	McDep
	Rating		2013	YTD (%)	High	Low	Avg.	Avg.	Ratio
<b>Small Cap Independent Producers</b>									
Peyto Exploration and Development C	PEYUF		31.07	33	0.99	1.66	1.08	1.20	0.90
PDC Energy	PDCE		50.41	47	0.95	1.69	1.04	1.18	1.00
Cimarex Energy Company	XEC	B	72.59	25	0.93	1.42	1.01	1.10	0.70
Birchcliff Energy Ltd.	BIREF	B	8.52	11	0.97	1.44	1.04	1.09	0.77
Berry Petroleum Company	BRY		44.81	33	0.95	1.23	0.98	1.07	0.76
Denbury Resources Inc.	DNR		18.54	13	0.96	1.24	1.02	1.06	0.75
Continental Resources (32%)	CLR	B	83.01	12	0.91	1.26	1.01	1.04	0.80
Range Resources	RRC	B	74.22	17	0.92	1.25	0.98	1.04	0.86
Whiting Petroleum Corporation	WLL	B	46.16	5	0.89	1.18	0.99	1.00	0.62
Halcón Resources	HK		5.27	(26)	0.68	1.19	0.91	0.88	0.82
	<i>Median</i>			15	0.94	1.26	1.01	1.06	0.78
<b>Leveraged Cash Payers</b>									
Enerplus Corporation	ERF		15.21	21	0.91	1.19	1.03	1.03	0.81
Legacy Reserves L.P.	LGCY		27.04	19	0.94	1.12	1.00	1.01	0.94
Vanguard Natural Resources, LLC	VNR		27.74	11	0.95	1.09	0.98	0.99	1.07
Linn Energy, LLC	LINE		33.18	(3)	0.86	1.02	0.95	0.92	1.06
	<i>Median</i>			15	0.93	1.10	0.99	1.00	1.00
<b>RTF Cash Payers</b>									
Dorchester Minerals, L.P.	DMLP	B	24.88	27	0.97	1.25	1.04	1.10	0.92
Hugoton RoyaltyTrust	HGT		8.65	22	0.87	1.51	0.94	1.10	0.72
Sabine Royalty Trust	SBR		52.35	35	0.93	1.35	1.03	1.08	0.81
San Juan Basin Royalty Trust	SJT	B	15.70	18	0.87	1.30	1.02	1.07	0.75
Freehold Royalties Ltd.	FRHLF		23.34	9	0.96	1.36	1.00	1.06	1.01
Permian Basin RT	PBT		13.13	9	0.68	1.10	1.03	0.96	0.66
Cross Timbers Royalty Trust	CRT		27.80	6	0.70	1.18	0.97	0.95	0.63
Mesa RoyaltyTrust	MTR		22.29	19	0.63	1.20	0.91	0.94	0.70
Enduro Royalty Trust (40%)	NDRO		16.00	(2)	0.81	1.06	0.98	0.93	0.84
	<i>Median</i>			18	0.87	1.25	1.00	1.06	0.75

CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.



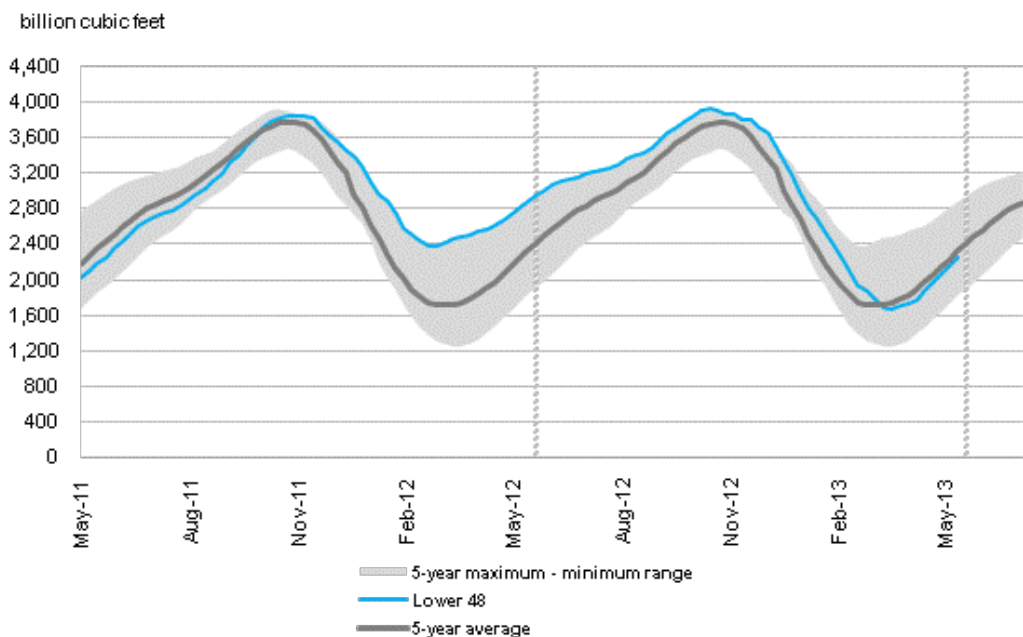


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**Working gas in underground storage compared with the 5-year maximum and minimum**



**Disclaimer:** This analysis was prepared by Kurt Wulff, Manager of McDep LLC. 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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