



# Independent Stock Idea

May 9, 2018

## Cimarex Energy (XEC) Quality Company, Lagging Stock

<i>Symbol</i>	XEC	<i>Ebitda Next Twelve Months ending 3/31/19 (US\$m)</i>	1,758
<i>Rating</i>		<i>Natural Gas/Ebitda (%)</i>	18
<i>Price (\$/sh)</i>	98.23	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	5/9/18	<i>Developed Reserves/Production NTM</i>	5.0
<i>Shares (mm)</i>	96	<i>EV/Ebitda</i>	6.2
<i>Market Capitalization (\$mm)</i>	9,380	<i>PV/Ebitda</i>	8.5
<i>Debt (\$mm)</i>	1,500	<i>Undeveloped Reserves (%)</i>	26
<i>Enterprise Value (EV) (\$mm)</i>	10,880	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	21.40
<i>Present Value (PV) (\$mm)</i>	14,870	<i>Downstream Uplift (US\$/boe)</i>	0
<i>Net Present Value (\$/share)</i>	140	<i>Oil and Gas Ebitda Margin (%)</i>	68
<i>Ebitda/Market Cap</i>	1.16	<i>Top Line/Ebitda (%)</i>	0
<i>McDep Ratio - EV/PV</i>	0.73	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	0.7	<i>Indicated Annual Dividend (US\$/sh)</i>	0.64
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\$70 a barrel and natural gas, \$4.00 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

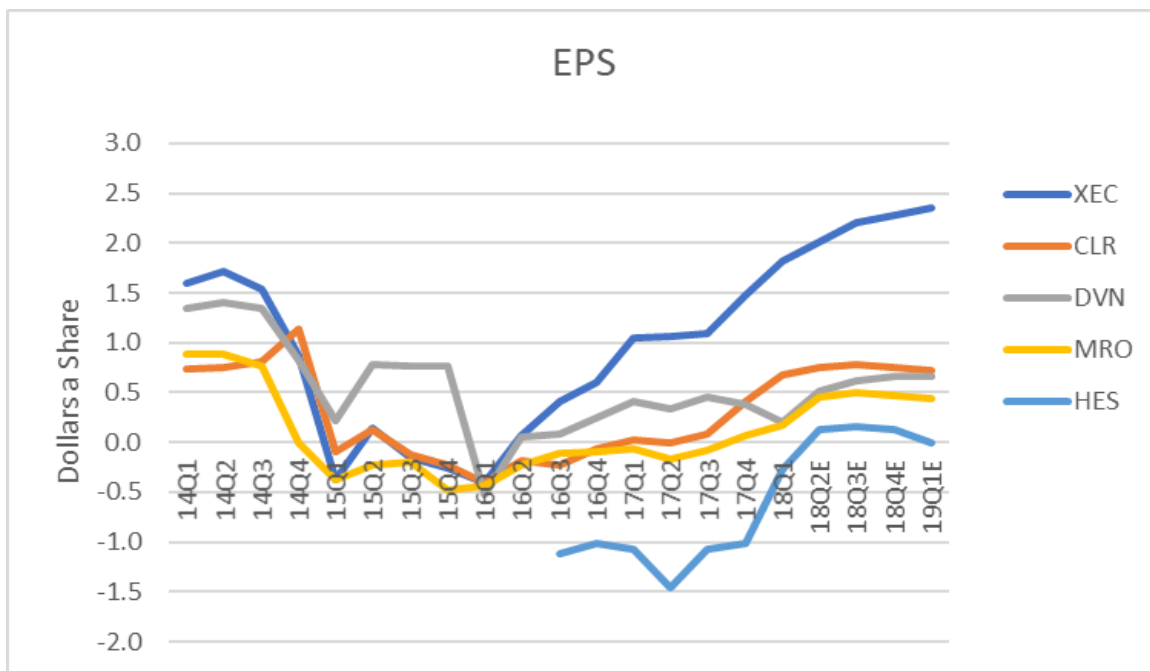
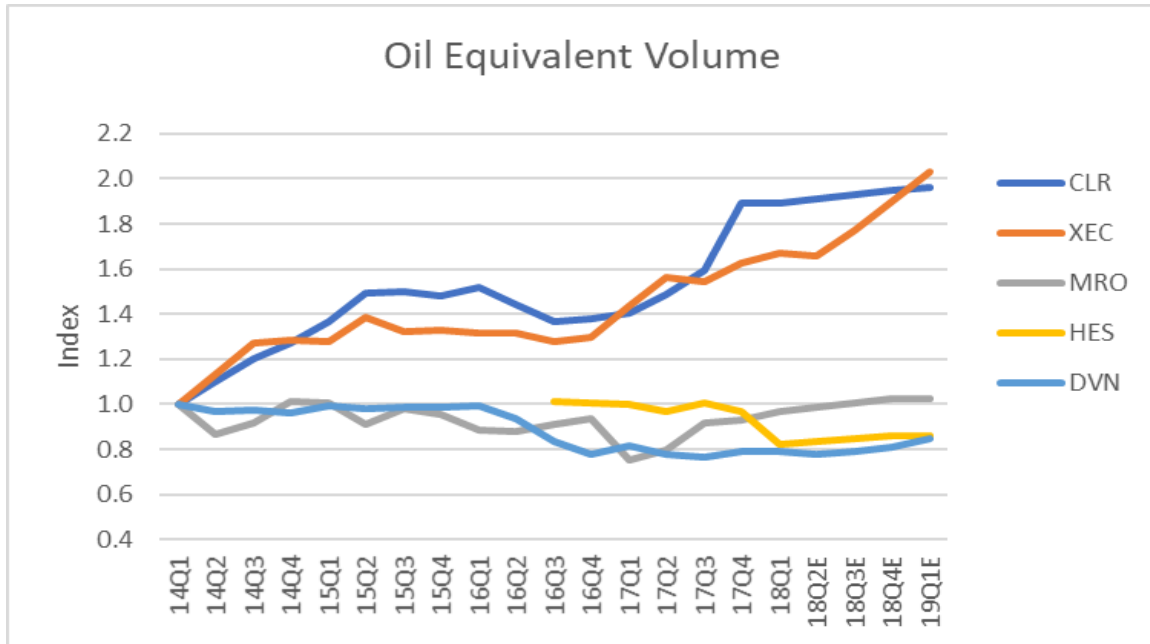
A standout historical record on volume and earnings fortify strong appreciation potential for the stock of **Cimarex Energy (XEC)** to Net Present Value (NPV) of \$140 a share from current stock price of \$100. XEC's doubling of volume in five years, 15% a year, is matched by only one other stock among peers (see chart [Volume](#) on page 2). Helped by its lowest-debt balance sheet, XEC's positive earnings per share trend is unmatched (see chart [EPS](#) on page 2). Financial strength and sound management also contributed to NPV that was more resistant to decline during the 2016 oil price panic (see chart [NPV](#) on page 3). Yet, XEC stock price is down in 2018, a period when energy stocks have outperformed so far. One contributing factor may be a greater proportion of lower-valued natural gas liquids and natural gas in the company's production stream as signaled by a lower average price (see chart [Oil Equivalent Price](#) on page 3). A short-term dislocation has developed in the Permian Basin where production is expanding faster than transportation and processing for natural gas and natural gas liquids. Cimarex has capacity commitments to take its growing volumes but is still exposed to lower regional price. Similarly, volume growth has slowed in the first quarter just as was the case a year ago. The projects are in place to deliver high growth in the second half of the year again (see table [Operating and Financial Estimates](#) on page 4). Finally, a low McDep Ratio of 0.73 for XEC flashes attractive unlevered gain potential among the 22 stocks in our coverage (see [Tables 1-4](#) on pages 5-8).

Kurt H. Wulff, CFA



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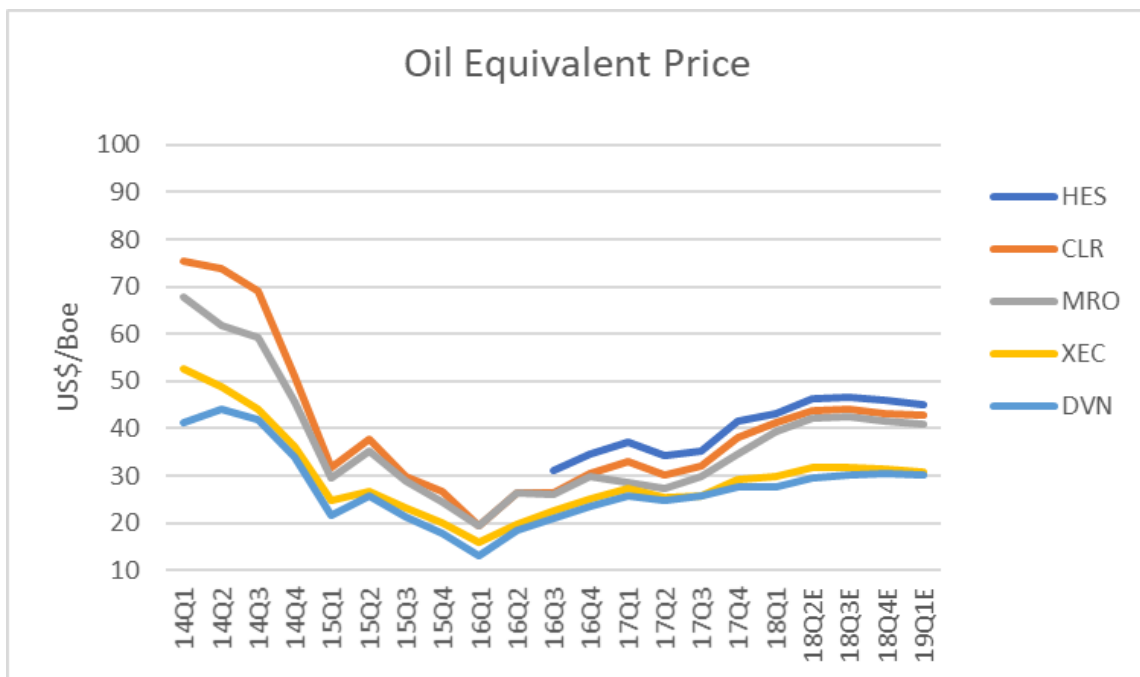
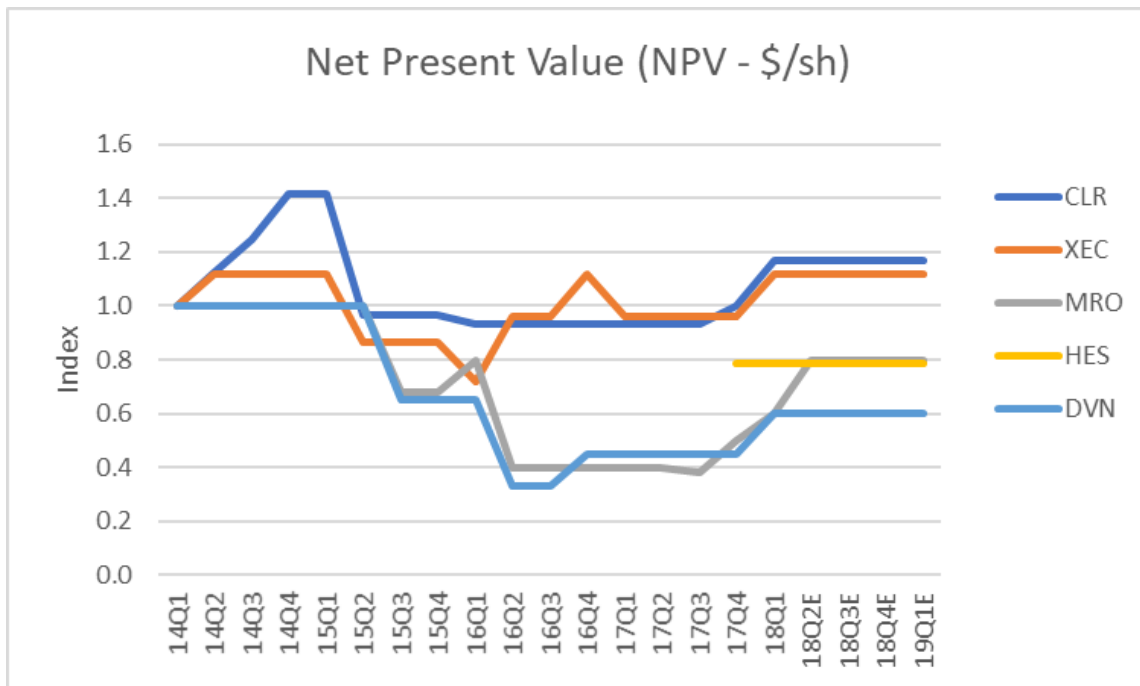
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Cimarex Energy Company											
Next Twelve Months Operating and Financial Performance											
	Year	Q1	Q4	Year	Q1	Q2E	Q3E	Q4E	Year	Q1E	Next Twelve Months
	2016	3/31/17	12/13/17	2017	3/31/18	6/30/18	9/30/18	12/31/18	2018	3/31/19	3/31/19
<b>Volume</b>											
Natural Gas (mmcf)	460	487	534	514	535	530	567	607	560	649	588
Oil (mbd)	84.0	96.0	111.8	104.7	116.9	116.0	124.1	132.8	122.5	142.1	128.7
Total (bcfe)	350	95.7	109.6	413	111.3	111.6	119.4	127.7	470	135.2	494
Total (mmcf)	964	1,063	1,205	1,142	1,236	1,226	1,312	1,404	1,295	1,502	1,360
<b>Price</b>											
Henry Hub (\$/mmbtu)	2.46	3.32	2.93	3.11	3.01	2.74	2.74	2.81	2.82	2.92	2.80
Company (\$/mcf)	2.31	3.01	2.58	2.76	2.28	2.08	2.08	2.13	2.14	2.22	2.13
WTI Cushing (\$/bbl)	43.31	51.92	55.40	50.94	62.88	68.59	69.12	67.53	67.03	65.87	67.78
Company (\$/bbl)	27.09	35.25	40.14	35.50	42.35	46.20	46.56	45.48	45.18	44.37	45.60
Total (\$/bbl)	20.77	27.37	29.21	26.98	29.95	31.62	31.82	31.34	31.20	30.93	31.41
<b>Revenue (\$mm)</b>											
Natural Gas	385	132	125	513	110	100	107	118	435	129	454
Oil	826	305	408	1,346	446	488	526	550	2,009	567	2,131
Total	1,211	436	534	1,859	555	588	633	667	2,444	697	2,585
<b>Expense</b>											
Operating	422	117	132	493	116	126	135	144	521	153	558
Production taxes	62	21	27	89	30	35	38	40	143	42	155
General and administrative	73	18	21	80	23	26	27	29	105	31	114
Total	557	156	180	662	169	187	200	214	770	226	827
<b>Ebitda</b>	<b>654</b>	<b>280</b>	<b>354</b>	<b>1,197</b>	<b>386</b>	<b>401</b>	<b>433</b>	<b>453</b>	<b>1,673</b>	<b>471</b>	<b>1,758</b>
Deprec., Deplet., & Amort.	473	97	142	461	134	145	155	166	600	176	642
Other Non Cash	22	16	(15)	3	20				20		-
<b>Ebit</b>	<b>159</b>	<b>168</b>	<b>227</b>	<b>733</b>	<b>232</b>	<b>256</b>	<b>277</b>	<b>287</b>	<b>1,053</b>	<b>296</b>	<b>1,116</b>
Interest	60	14	11	51	12	12	12	12	48	12	48
<b>Ebt</b>	<b>99</b>	<b>154</b>	<b>216</b>	<b>682</b>	<b>220</b>	<b>244</b>	<b>265</b>	<b>275</b>	<b>1,005</b>	<b>284</b>	<b>1,068</b>
Income Tax	35	54	76	239	46	51	56	58	211	60	224
<b>Net Income (\$mm)</b>	<b>65</b>	<b>100</b>	<b>140</b>	<b>443</b>	<b>174</b>	<b>193</b>	<b>210</b>	<b>218</b>	<b>794</b>	<b>224</b>	<b>844</b>
Per Share (\$)	0.68	1.05	1.47	4.67	1.82	2.02	2.20	2.28	8.31	2.35	8.84
<b>Shares (millions)</b>											
Ebitda Margin	54%	64%	66%	64%	70%	68%	68%	68%	68%	68%	68%
Tax rate	35%	35%	35%	35%	21%	21%	21%	21%	21%	21%	21%
<b>Dividend</b>		0.08	0.08		0.16	0.16	0.16	0.16		0.16	0.64



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**Table 1**  
**McDep Energy Stocks**  
**Ranked by McDep Ratio**

		Price (US\$/sh)	Market Cap (US\$m)	Enterprise Value (\$mm)	EV/ Market Cap	EV/ Ebitda NTM	PV/ Ebitda NTM	Oil Prod'n/ Ebitda (%)	Dist. Yield NTM (%)	McDep Ratio (EV/PV)
	Symbol/Rating	9-May 2018								
<b>Integrated</b>										
Exxon Mobil Corporation	XOM	80.10	342,000	433,000	1.27	8.3	9.1	49	4.1	0.91
Chevron Corporation	CVX	129.34	247,000	310,000	1.25	7.6	8.6	62	3.5	0.89
Suncor Energy	SU	39.06	64,000	84,000	1.30	6.9	8.4	77	2.9	0.82
Royal Dutch Shell	RDS-B	74.86	314,000	430,000	1.37	7.2	8.9	50	5.0	0.80
<i>Total or Median</i>			<i>967,000</i>	<i>1,257,000</i>	<i>1.28</i>	<i>7.4</i>	<i>8.8</i>	<i>56</i>	<i>3.8</i>	<i>0.85</i>
<b>Large Independent</b>										
Occidental Petroleum Corp.	OXY	82.01	62,900	76,600	1.22	8.6	8.0	78	3.8	1.08
Pioneer Natural Resources	PXD	203.79	34,900	37,500	1.07	8.7	8.6	94	0.2	1.02
EOG Resources, Inc.	EOG	118.50	70,900	77,900	1.10	8.3	9.1	90	0.6	0.92
ConocoPhillips	COP	69.30	82,000	105,000	1.28	7.5	8.4	76	1.6	0.89
<i>Total or Median</i>			<i>250,700</i>	<i>297,000</i>	<i>1.16</i>	<i>8.5</i>	<i>8.5</i>	<i>84</i>	<i>1.1</i>	<i>0.97</i>
<b>Mid-Size Independent</b>										
Hess Corporation	HES	62.63	19,400	27,800	1.43	11.1	10.2	89	1.6	1.09
Continental Resources	CLR	68.39	25,600	31,900	1.25	8.4	8.6	84	-	0.98
Devon Energy Corporation	DVN	40.87	21,600	29,500	1.37	7.6	10.2	75	0.8	0.75
Cimarex Energy Company	XEC	98.23	9,400	10,900	1.16	6.2	8.5	82	0.7	0.73
Marathon Oil Corporation	MRO	21.39	18,220	25,000	1.37	5.3	8.6	90	0.9	0.61
<i>Total or Median</i>			<i>94,200</i>	<i>125,100</i>	<i>1.37</i>	<i>7.6</i>	<i>8.6</i>	<i>84</i>	<i>0.8</i>	<i>0.75</i>
<b>Small Independent</b>										
California Resources	CRC	31.67	1,500	7,800	5.3	5.7	8.1	92	-	0.71
Whiting Petroleum Corporation	WLL	47.22	4,300	7,700	1.78	4.8	7.8	97	-	0.61
Range Resources	RRC	14.94	3,700	8,300	2.26	6.2	10.7	46	0.5	0.57
Birchcliff Energy Ltd.	BIREF	3.47	900	1,500	1.63	5.4	10.8	49	2.2	0.51
<i>Total or Median</i>			<i>10,400</i>	<i>25,300</i>	<i>2.02</i>	<i>5.6</i>	<i>9.4</i>	<i>71</i>	<i>0.3</i>	<i>0.59</i>
<b>Income</b>										
Permian Basin RT	PBT	9.74	450	450	1.00	11.0	11.3	80	8.8	0.97
Sabine Royalty Trust	SBR	46.88	680	680	1.00	14.8	15.8	70	6.7	0.94
San Juan Basin Royalty Trust	SJT	6.95	320	320	1.00	12.3	14.2	-	7.9	0.87
Dorchester Minerals, L.P.	DMLP	18.15	590	590	1.00	9.5	12.5	83	10.8	0.76
Cross Timbers Royalty Trust	CRT	13.35	80	80	1.00	7.6	14.2	38	10.7	0.53
<i>Total or Median</i>			<i>2,100</i>	<i>2,100</i>	<i>1.00</i>	<i>11.0</i>	<i>14.2</i>	<i>70</i>	<i>8.8</i>	<i>0.87</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation, amort.

Estimated Ebitda (cash flow) tied to NTM futures prices for oil and natural gas. NTM = Next Twelve Months ending 3/31/19.

Estimated Present Value (PV) presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.00 a million btu.

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses. For historical research see [www.mcdep.com](http://www.mcdep.com)



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	Symbol/Rating	Price	Upstream NTM				Down-	Total	Distrib./ Ebitda (%)	Distrib. NTM (\$/sh)
		(US\$/sh)	Volume (mmboe)	Equiv.	Ebitda	Ebitda	stream Uplift (\$/boe)	Ebitda NTM (\$mm)		
		9-May 2018		Price (\$/boe)	Margin (%)					
<b>Integrated</b>										
Royal Dutch Shell	RDS-B	74.86	1358	46.78	69	32.30	11.79	43,852	26	3.76
Exxon Mobil Corporation	XOM	80.10	1443	50.03	50	25.00	11.29	36,086	27	3.28
Chevron Corporation	CVX	129.34	1048	51.52	62	31.80	7.07	33,317	21	4.48
Suncor Energy	SU	39.06	291	58.45	55	32.02	9.62	9,315	15	1.12
	<i>Total or Median</i>		<i>4140</i>	<i>50.77</i>	<i>58</i>	<i>31.91</i>	<i>10.46</i>	<i>122,570</i>	<i>24</i>	
<b>Large Independent</b>										
ConocoPhillips	COP	69.30	448	49.18	63	31.20	0.00	13,978	10	1.14
EOG Resources, Inc.	EOG	118.50	268	47.36	74	34.86	0.00	9,352	5	0.74
Occidental Petroleum Corp.	OXY	82.01	251	49.01	59	29.00	6.37	7,282	27	3.08
Pioneer Natural Resources	PXD	203.79	121	48.19	73	35.40	0.00	4,291	1	0.32
	<i>Total or Median</i>		<i>1089</i>	<i>48.60</i>	<i>68</i>	<i>33.03</i>	<i>0.00</i>	<i>34,903</i>	<i>7</i>	
<b>Mid-Size Independent</b>										
Marathon Oil Corporation	MRO	21.39	165	41.81	69	28.80	0.00	4,738	4	0.20
Continental Resources	CLR	68.39	107	43.46	81	35.20	0.00	3,780	-	-
Devon Energy Corporation	DVN	40.87	177	30.12	64	19.20	2.82	3,395	4	0.32
Hess Corporation	HES	62.63	96	45.97	57	26.00	0.00	2,500	12	1.00
Cimarex Energy Company	XEC	98.23	82	31.41	68	21.40	0.00	1,758	3	0.64
	<i>Total or Median</i>		<i>627</i>	<i>41.81</i>	<i>68</i>	<i>26.00</i>	<i>0.00</i>	<i>16,170</i>	<i>4</i>	
<b>Small Independent</b>										
Whiting Petroleum Corporation	WLL	47.22	48	49.18	68	33.30	0.00	1,588	-	-
Range Resources	RRC	14.94	137	18.92	52	9.90	0.00	1,356	1	0.08
California Resources	CRC	31.67	50	53.89	51	27.30	0.00	1,353	-	-
Birchcliff Energy Ltd.	BIREF	3.47	22	17.89	69	12.40	0.00	278	7	0.08
	<i>Total or Median</i>		<i>257</i>	<i>34.05</i>	<i>60</i>	<i>19.85</i>	<i>0.00</i>	<i>4,575</i>	<i>1</i>	
<b>Income</b>										
Dorchester Minerals, L.P.	DMLP	18.15	2.28	39.24	69	27.09	0.00	62	103	1.97
Sabine Royalty Trust	SBR	46.88	1.55	34.84	85	29.68	0.00	46	100	3.16
Permian Basin RT	PBT	9.74	1.26	47.23	69	32.66	0.00	41	97	0.86
San Juan Basin Royalty Trust	SJT	6.95	3.27	15.14	53	8.05	0.00	26	98	0.55
Cross Timbers Royalty Trust	CRT	13.35	0.49	37.80	57	21.41	0.00	11	81	1.42
	<i>Total or Median</i>		<i>9</i>	<i>37.80</i>	<i>69</i>	<i>27.09</i>	<i>0.00</i>	<i>186</i>	<i>98</i>	

For historical research see [www.mcdep.com](http://www.mcdep.com)



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**Table 3**  
**McDep Energy Stocks**  
**Net Present Value Per Share**

		<i>Price</i>					<i>Devel.</i>	<i>Undev/</i>	<i>Nat</i>	<i>Top</i>	<i>Net</i>
		<i>(US\$/sh)</i>					<i>Resrvs/</i>	<i>Devel.</i>	<i>Gas/</i>	<i>Line/</i>	<i>Present</i>
	<i>Symbol/Rating</i>	<i>9-May</i>	<i>Shares</i>	<i>Debt</i>	<i>P/E</i>	<i>Prod</i>	<i>Resrvs</i>	<i>Ebitda</i>	<i>Ebitda</i>	<i>Value</i>	
		<i>2018</i>	<i>(mm)</i>	<i>(\$mm)</i>	<i>NTM</i>	<i>NTM</i>	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>	<i>(US\$/sh)</i>	
<b>Integrated</b>											
	Chevron Corporation	CVX	129.34	1,913	62,659	17	7.2	57	24		150.00
	Royal Dutch Shell	RDS-B	74.86	4,189	116,710	12	7.3	22	31		100.00
	Exxon Mobil Corporation	XOM	80.10	4,270	90,941	13	9.7	52	29		90.00
	Suncor Energy	SU	39.06	1,644	19,476	11	8.8	87			50.00
	<i>Median</i>						8.0	55			
<b>Large Independent</b>											
	Pioneer Natural Resources	PXD	203.79	171	2,600	22	7.4	9	6		200.00
	EOG Resources, Inc.	EOG	118.50	598	7,071	19	5.1	43	10		130.00
	ConocoPhillips	COP	69.30	1,186	23,143	15	7.8	31	24		80.00
	Occidental Petroleum Corp.	OXY	82.01	767	13,700	17	7.7	35	4		75.00
	<i>Median</i>						7.6	33			
<b>Mid-Size Independent</b>											
	Cimarex Energy Company	XEC	98.23	96	1,498	11	5.0	35	18		140.00
	Continental Resources	CLR	68.39	374	6,333	23	5.6	121	16		70.00
	Devon Energy Corporation	DVN	40.87	528	7,944	17	8.6	24	14		60.00
	Hess Corporation	HES	62.63	310	8,399		7.5	59	11		55.00
	Marathon Oil Corporation	MRO	21.39	852	6,734	12	5.5	60	10		40.00
	<i>Median</i>						5.6	59			
<b>Small Independent</b>											
	Whiting Petroleum Corporation	WLL	47.22	91	3,367	21	7.0	84	3		100.00
	California Resources	CRC	31.67	46	6,300		8.9	41	8		100.00
	Range Resources	RRC	14.94	247	4,657	15	10.1	83	54		40.00
	Birchcliff Energy Ltd.	BIREF	3.47	268	584	18	7.2	228	51		9.00
	<i>Median</i>						8.0	83			
<b>Income</b>											
	Sabine Royalty Trust	SBR	46.88	15	-	15	11.5	3	37	100	50.00
	Cross Timbers Royalty Trust	CRT	13.35	6	-	9	11.2	-	69	81	25.00
	Dorchester Minerals, L.P.	DMLP	18.15	32	-	11	7.1	-	21	83	24.00
	Permian Basin RT	PBT	9.74	47	-	11	6.7	-	21	37	10.00
	San Juan Basin Royalty Trust	SJT	6.95	47	-	13	12.8	-	100	-	8.00
	<i>Median</i>						11.2				

P/E = Stock Price to Earnings. For historical research see [www.mcdep.com](http://www.mcdep.com).



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Table 4										
McDep Energy Stocks										
Total Return Year-to-Date 2018										
Ranked by Unlevered Total Return										
		Price (\$/sh)	Price (\$/sh)	Price Change (%)	Cash Distrib. (%)	Equity Total Return (%)	Unlevered Total Return (\$/sh) (%)		McDep Ratio	
	Symbol/Rati	9-May 2018	29-Dec 2017							
<b>Integrated</b>										
	Royal Dutch Shell	RDS-B	74.86	68.29	10	1	11	28	8	0.80
	Suncor Energy	SU	39.06	36.72	6	1	7	12	5	0.82
	Chevron Corporation	CVX	129.34	125.19	3	1	4	33	3	0.89
	Exxon Mobil Corporation	XOM	80.10	83.64	(4)	1	(3)	21	(3)	0.91
	<i>Median</i>				5		6		4	0.85
<b>Large Independent</b>										
	ConocoPhillips	COP	69.30	54.89	26	1	27	20	20	0.89
	Pioneer Natural Resources	PXD	203.79	172.85	18	0	18	15	17	1.02
	EOG Resources, Inc.	EOG	118.50	107.91	10	0	10	12	9	0.92
	Occidental Petroleum Corp.	OXY	82.01	73.66	11	1	12	18	10	1.08
	<i>Median</i>				15		15		13	0.97
<b>Mid-Size Independent</b>										
	Continental Resources	CLR	68.39	52.97	29	-	29	17	22	0.98
	Hess Corporation	HES	62.63	47.47	32	1	32	27	21	1.09
	Marathon Oil Corporation	MRO	21.39	16.93	26	0	27	8	18	0.61
	Devon Energy Corporation	DVN	40.87	41.40	(1)	0	(1)	15	(1)	0.75
	Cimarex Energy Company	XEC	98.23	122.01	(19)	0	(19)	16	(17)	0.73
	<i>Median</i>				26		27		18	0.75
<b>Small Independent</b>										
	Whiting Petroleum Corporation	WLL	47.22	26.48	78	-	78	37	33	0.61
	California Resources	CRC	31.67	19.44	63	-	63	137	8	0.71
	Birchcliff Energy Ltd.	BIREF	3.47	3.50	(1)	1	(0)	2	(0)	0.51
	Range Resources	RRC	14.94	17.06	(12)	0	(12)	19	(6)	0.57
	<i>Median</i>				31		31		4	0.59
<b>Income</b>										
	Dorchester Minerals, L.P.	DMLP	18.15	15.20	19	5	25	-	25	0.76
	Permian Basin RT	PBT	9.74	8.87	10	3	13	-	13	0.97
	Sabine Royalty Trust	SBR	46.88	44.60	5	2	7	-	7	0.94
	Cross Timbers Royalty Trust	CRT	13.35	14.69	(9)	3	(6)	-	(6)	0.53
	San Juan Basin Royalty Trust	SJT	6.95	8.24	(16)	3	(13)	-	(13)	0.87
	<i>Median</i>				5		7		7	0.87
	<i>Grand Median</i>				10		11		8	0.85
	<b>Natural Gas (\$/mmbtu)</b>		2.74	2.95	(7)					
	<b>Oil - West Texas Intermediate (\$/bbl)</b>		71.21	60.09	19					
	Total Stock Market - U.S.	VTI	139.23	137.25	1	0	2			
	Developed Markets - ex US	VEA	45.14	44.86	1	0	1			
	Emerging Markets	VWO	45.23	45.91	(1)	0	(1)			
	Total Stock Market - World	VT	74.86	74.26	1	0	1			
Source: McDep LLC, Yahoo, CME Group, Bloomberg					For historical research see <a href="http://www.mcdep.com">www.mcdep.com</a>					





# Independent Stock Idea

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