



Independent Stock Idea

November 4, 2008

rating: buy
s&p 500: 1006

Cimarex Energy (XEC) Capital Discipline

<i>Symbol</i>	XEC	<i>Ebitda Next Twelve Months ending 9/30/09 (US\$m)</i>	941
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	62
<i>Price (\$/sh)</i>	38.75	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/4/08	<i>Adjusted Reserves/Production NTM</i>	7.4
<i>Shares (mm)</i>	85	<i>EV/Ebitda</i>	4.1
<i>Market Capitalization (\$mm)</i>	3,270	<i>PV/Ebitda</i>	6.9
<i>Debt (\$mm)</i>	590	<i>Undeveloped Reserves (%)</i>	22
<i>Enterprise Value (EV) (\$mm)</i>	3,860	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	31.90
<i>Present Value (PV) (\$mm)</i>	6,500	<i>Present Value Proven Reserves(\$/boe)</i>	26.50
<i>Net Present Value (\$/share)</i>	70	<i>Present Value Proven Reserves(\$/mcfe)</i>	4.40
<i>Debt/Present Value</i>	0.09	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.59
<i>McDep Ratio - EV/PV</i>	0.59	<i>Price/Earnings Next Twelve Months</i>	15
<i>Dividend Yield (%/year)</i>	0.6	<i>Indicated Annual Dividend (US\$/sh)</i>	0.24
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\$75 a barrel and natural gas, \$10 a million btu.			
For historical analysis of XEC since 2003 see www.mcdep.com/4xec.htm			

Summary and Recommendation

Buy-recommended **Cimarex Energy (XEC)** offers unlevered appreciation potential of 68% to estimated net present value (NPV) of \$70 a share. On October 28, we reset NPV from \$100 a share on the basis of a long-term oil price assumption of \$75 a barrel, down from \$100. Patience may be necessary as XEC stock price remains below the 200-day average of \$54. Released today, third quarter results displayed strength in unlevered cash flow (Ebitda) driven by crude oil and natural gas prices. Futures prices now look lower for the next four quarters (see table [Next Twelve Months Operating and Financial Estimates](#)). Projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) supports NPV (see table [Functional Cash Flow and Present Value](#)). As Chairman Mick Merelli declares “The landscape has changed”, Cimarex has reduced the number of drilling rigs under contract from a high of 42 in August to about 30 currently and perhaps to 25 soon. Exercising financial discipline, low-debt XEC will spend no more cash than it gets from current production. In the face of the outlook for reduced outlays, Chief Financial Officer Paul Korus declares that the company has increased its production volume every year. Continued profitable reinvestment preserves and enhances present value that we believe exceeds current stock price.

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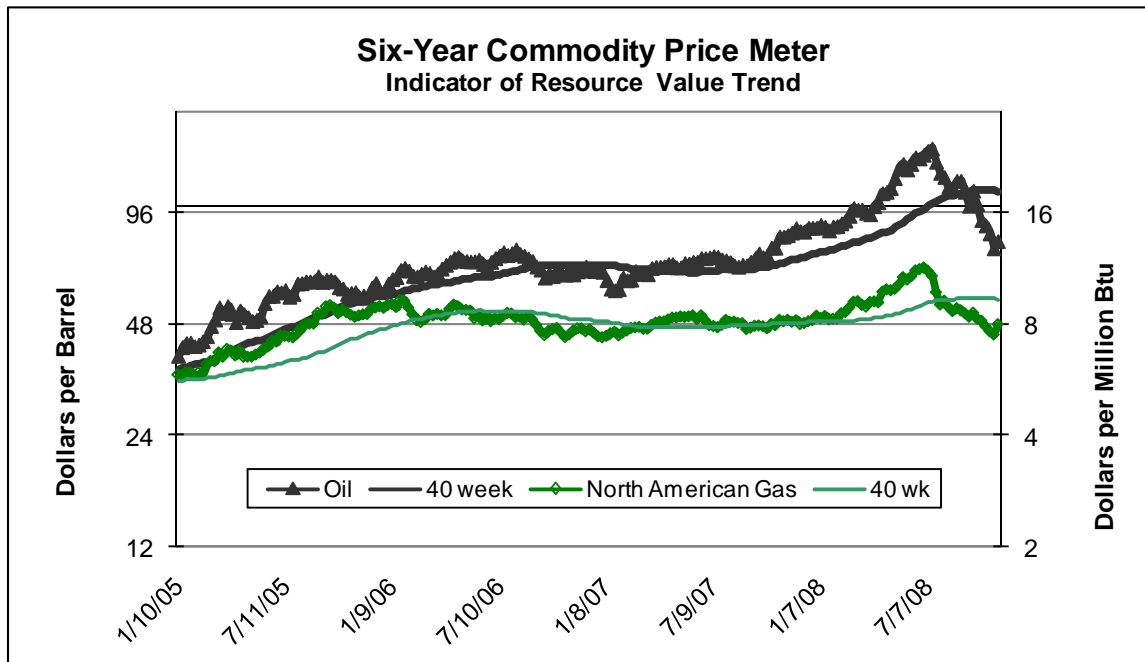
Cimarex Energy Company									
Next Twelve Months Operating and Financial Performance									
									Next Twelve Months
	Q3	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	
	9/30/07	6/30/08	9/30/08	12/31/08	2008E	3/31/09	6/30/09	9/30/09	9/30/09
Volume									
Natural Gas (bcf)	29.9	32.2	32.1	32.1	127	31.4	31.8	32.1	127
Natural Gas (mmcf)	325	354	349	349	348	349	349	349	349
Days	92	91	92	92	366	90	91	92	365
Oil (mmb)	1.9	2.0	2.1	2.1	8	2.0	2.1	2.1	8
Oil (mbd)	20.5	22.5	22.6	22.6	22.6	22.6	22.6	22.6	22.6
Total (bcfe)	41.3	44.4	44.6	44.6	177	43.6	44.1	44.6	177
Total (mmcf)	448	488	485	485	484	485	485	485	485
Price									
Henry Hub (\$/mmbtu)	6.16	10.93	10.25	6.93	9.03	7.11	7.10	7.39	7.13
Differential (\$/mmbtu)	0.12	0.36	0.46	0.31	0.19	0.32	0.32	0.33	0.32
Company (\$/mcf)	6.04	10.57	9.79	6.62	8.84	6.79	6.79	7.07	6.82
WTI Cushing (\$/bbl)	75.48	123.97	117.99	68.14	102.01	65.30	67.42	69.39	67.57
Differential	3.85	2.33	3.12	1.80	2.79	1.73	1.78	1.95	1.80
Company (\$/bbl)	71.63	121.64	114.87	66.34	99.22	63.58	65.64	67.44	65.76
Revenue (\$mm)									
Natural Gas	181	340	315	213	1,126	213	216	227	869
Oil	135	249	239	138	821	129	135	140	543
Other									
Total	316	589	554	351	1,947	343	351	367	1,412
Expense									
Operating	67	60	78	78	276	78	78	78	312
Production taxes	22	40	39	25	135	24	25	26	99
General and administrative	14	16	15	15	60	15	15	15	60
Total	103	116	132	118	470	117	118	119	471
Ebitda	213	473	422	233	1,477	226	233	249	941
Deprec., Deplet., & Amort.	120	135	149	149	559	149	149	149	596
Other Non Cash	(26)	(18)	(14)		(43)				-
Ebit	119	356	287	84	961	77	84	100	345
Interest	4	3	2	2	10	2	2	2	8
Ebt	115	353	285	82	951	75	82	98	337
Income Tax	40	124	100	29	333	26	29	34	118
Net Income (\$mm)	75	229	185	53	618	49	53	63	219
Per Share (\$)	0.89	2.68	2.19	0.63	7.26	0.58	0.63	0.75	2.59
Shares (millions)									
Operating (\$/mcfe)	1.62	1.34	1.75	1.75	1.56	1.79	1.77	1.75	1.76
Production taxes (%rev)	7.0	6.8	7.0	7.0	6.9	7.0	7.0	7.0	7.0
General and admin (\$/mcfe)	0.34	0.36	0.34	0.34	0.34	0.34	0.34	0.34	0.34
Deprec., D, & A (\$/mcfe)	2.91	3.04	3.34	3.34	3.16	3.41	3.38	3.34	3.37
Ebitda Margin	67%	80%	76%	66%	76%	66%	66%	68%	67%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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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	580	7.7	7.2	4,200	65%
Oil	361	6.6	6.3	2,290	35%
	941	7.4	6.9	6,490	100%
Debt (US\$mm)					590
Net Present Value (US\$mm)					5,900
Shares (mm)					85
Net Present Value - Standard Estimate (US\$/sh)					70
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					74





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