

## **Energy Partners, Ltd. (EPL – 12.19)** **Strong Volume, Surprising Expenses**

Fourth quarter 2000 financial and operating results disclosed 21% volume growth from the third quarter in line with expectations. The surprise was almost \$5 million of unanticipated costs. We cut our near-term projections to a more conservative level, but keep our estimate of present value around \$20 a share. A low McDep Ratio of 0.61 implies strong appreciation potential. We continue to be positive on the young company's prospects that are still valued at a low ratio of enterprise value to earnings before interest, taxes and amortization (EBITDA) of just 2.7 times even though our estimate of EBITDA for 2001 is 22% lower than previously.

Taking the low end of management's guidance we now project 2001 production volume of 18 thousand barrels oil equivalent daily (mbd) compared to 20 mbd previously. Similarly we look for wider differentials between price received by EPL and spot quotes as we do for other stocks as well. It appears to us that the brokers, marketers and transporters are smarter than the producers in capitalizing on rapid price increases. Those steps combined with taking the high end of management's guidance on costs result in a lower first year base for our present value calculation.

Offsetting that we boost our projected growth for five years to 19% per year (34% enhancement minus 15% decline) from 11% per year (31% enhancement minus 15% decline) (see Table EPL-1). While that may be a subjective adjustment, we note that near term gains are running at a stronger pace. Our third quarter 2001 volume is projected to be 43% above third quarter 2000 and our fourth quarter 2001 volume is projected to be 33% above fourth quarter 2000 (see Table EPL-2).

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# McDep Associates

## Stock Idea

February 8, 2001

**Table EPL-1**  
**Energy Partners, Ltd.**  
**Present Value**

Volume Decline (%/yr):	15	Price Escalation post 2006 (%/yr):	1.7
Volume Enhancement (%/yr):	34	Discount rate (%/yr):	6.6
Capex/Cash Flow (%):	100	U.S. TIPS Inflation (%/yr):	1.7
Variable Cost (%):	16	U.S. 10 Year Yield (%/yr):	5.2
PV/Volume (\$/bbl):	3.80	PV/EBITDA 2001:	4.2

Year	Basic (mb)	Volume Enhanced (mb)	Total (mb)	Price (\$/bbl)	Revenue (\$mm)	Fixed Cost (\$mm)	Var Cost (\$mm)	Cap Ex (\$mm)	Pre- Tax (\$mm)	Income Tax (\$mm)	Cash Flow (\$mm)	Disc Factor	Present Value (\$mm)
Total 2001 through 2015													
	42100	101200	143300	23.45	3361	591	538	1070	1162	166	996	0.46	538
2001	6570	0	6570	28.42	187	30	30	127	0	0	0	0.97	0
2002	5584	2234	7818	26.15	204	30	33	142	0	0	0	0.91	0
2003	4747	4557	9303	24.08	224	30	36	159	0	0	0	0.85	0
2004	4035	7036	11071	22.05	244	30	39	176	0	0	0	0.80	0
2005	3429	9745	13174	21.79	287	30	46	212	0	0	0	0.75	0
2006	2915	12763	15678	21.59	338	30	54	255	0	0	0	0.71	0
2007	2478	10848	13326	21.95	293	30	47		216	31	185	0.66	123
2008	2106	9221	11327	22.32	253	30	40		183	26	157	0.62	97
2009	1790	7838	9628	22.70	219	30	35		154	22	132	0.58	77
2010	1522	6662	8184	23.08	189	30	30		129	18	111	0.55	61
2011	1293	5663	6956	23.47	163	30	26		108	15	92	0.51	47
2012	1099	4813	5913	23.86	141	30	23		89	13	76	0.48	37
2013	934	4091	5026	24.26	122	30	20		73	10	62	0.45	28
2014	794	3478	4272	24.67	105	30	17		59	8	51	0.42	21
2015	675	2956	3631	25.08	91	30	15		47	7	40	0.40	16
2016	574	2513	3087	25.50	79	30	13		37	5	31	0.37	12
2017	488	2136	2624	25.93	68	30	11		28	4	24	0.35	8
2018	415	1815	2230	26.37	59	30	9		20	3	17	0.33	6
2019	352	1543	1896	26.81	51	30	8		13	2	11	0.31	3
2020	300	1312	1611	27.26	44	30	7		7	1	6	0.29	2

Analyses are prepared from original sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Oil and gas investment research by Kurt Wulff is available free at <http://www.mcdep.com>. Mr. Wulff may acquire, hold, or sell a position in securities mentioned.

# McDep Associates

## Stock Idea

February 8, 2001

**Table EPL-2**  
**Energy Partners, Ltd.**  
**Cash Flow**

	<i>H1</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>
	<i>6/30/00</i>	<i>9/30/00</i>	<i>12/31/00</i>	<i>2000E</i>	<i>3/31/01</i>	<i>6/30/01</i>	<i>9/30/01</i>	<i>12/31/01</i>	<i>2001E</i>
<b>Highlights</b>									
Revenue (\$mm)	30.4	30.7	42.0	103.1	47.2	43.8	45.6	50.1	186.7
EBITDAX (\$mm)	18.0	19.5	24.1	61.6	32.7	29.4	31.6	35.1	128.9
Cash Flow (\$mm)	15.4	17.2	23.1	55.7	32.3	29.0	31.2	34.7	127.3
Per share (\$)		0.95	1.21		1.19	1.07	1.15	1.28	4.70
Net Income (\$mm)	2.3	5.2	(32.9)	(25.4)	11.2	9.1	10.2	11.5	42.1
Per share		0.29	(1.73)		0.41	0.34	0.38	0.42	1.55
Shares (millions)		18.1	19.0		27.1	27.1	27.1	27.1	27.1
<b>Volume</b>									
Natural Gas (bcf)	1.48	1.49	2.81	5.78	3.60	3.71	3.77	4.25	15.34
Natural Gas (mmcf)	8.1	16.1	30.6	15.8	40.0	40.8	41.0	46.2	42.0
Days	182	92	92	366	90	91	92	92	365
Oil (mb)	965	899	925	2,790	900	956	1,012	1,146	4,014
Oil (mbd)	5.30	9.78	10.05	7.62	10.00	10.50	11.00	12.46	11.00
Total (mb)	1,212	1,147	1,394	3,752	1,500	1,574	1,641	1,855	6,570
Total (mbd)	6.7	12.5	15.1	10.3	16.7	17.3	17.8	20.2	18.0
<b>Price</b>									
Natural Gas									
Henry Hub (\$/mmbtu)	3.13	4.48	6.52	4.31	7.20	5.68	5.55	5.61	6.01
Differential (\$/mmbtu)	(0.40)	(0.29)	0.67	(0.66)	0.72	0.57	0.56	0.56	0.62
EPL (\$/mcf)	3.52	4.77	5.85	4.98	6.48	5.11	5.00	5.05	5.39
Oil (\$/bbl)									
WTI Cushing	28.81	31.61	32.00	30.31	30.63	29.68	28.05	26.56	28.73
Differential	3.12	5.43	6.46	4.51	5.20	3.71	1.60	1.60	3.05
EPL	25.69	26.18	25.54	25.80	25.43	25.97	26.45	24.96	25.68
Total (\$/bbl)	25.05	26.79	30.13	27.47	31.48	27.81	27.81	26.99	28.42
<b>Revenue (\$mm)</b>									
Natural Gas	5.2	7.1	16.4	28.7	23.3	19.0	18.9	21.5	82.6
Oil	24.8	23.5	23.6	72.0	22.9	24.8	26.8	28.6	103.1
Other	0.3	0.1	1.9	2.4	1.0				1.0
Total	30.4	30.7	42.0	103.1	47.2	43.8	45.6	50.1	186.7
<b>Cost (\$mm)</b>									
Lease operating	6.1	6.4	11.5	24.1	8.6	8.7	8.2	9.0	34.5
Production taxes	1.9	1.7	2.7	6.3	2.4	2.2	2.3	2.5	9.3
General and administrative	4.3	3.0	3.7	11.1	3.5	3.5	3.5	3.5	14.0
Total	12.3	11.2	17.9	41.5	14.5	14.3	14.0	15.0	57.8
<b>EBITDAX (\$mm)</b>	18.0	19.5	24.1	61.6	32.7	29.4	31.6	35.1	128.9
Net cash interest and tax	2.6	2.4	1.0	5.9	0.4	0.4	0.4	0.4	1.6
<b>Cash Flow (\$mm)</b>	15.4	17.2	23.1	55.7	32.3	29.0	31.2	34.7	127.3
Exploration	0.8	0.3	0.6	1.7	3.0	3.0	3.0	3.0	12.0
Deprec., Deplet., & Amort.	8.3	7.5	9.8	25.6	10.5	11.0	11.5	13.0	46.0
Amort. Financing Cost	0.3	0.3	0.5	1.1	0.3	0.3	0.3	0.3	1.2
Other non cash	(0.7)	0.7	41.7	41.7	0.8	0.3	0.3	0.3	1.7
Income before income tax	6.8	8.4	(29.6)	(14.5)	17.7	14.4	16.2	18.1	66.4
Deferred income tax	4.5	3.2	3.3	10.9	6.5	5.3	5.9	6.6	24.3
<b>Net income (\$mm)</b>	2.3	5.2	(32.9)	(25.4)	11.2	9.1	10.2	11.5	42.1
<i>Costs (\$/bbl)</i>									
Lease operating	5.03	5.61	8.28	6.41	5.75	5.50	5.00	4.85	5.25
Production taxes	1.57	1.52	1.94	1.69	1.57	1.39	1.39	1.35	1.42
General and administrative	3.57	2.65	2.65	2.95	2.33	2.22	2.13	1.89	2.13
Deprec., Deplet., & Amort.	6.84	6.54	7.04	6.82	7.00	7.00	7.00	7.00	7.00
<i>Tax rate</i>		38%			37%	37%	37%	37%	37%

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