

Energy Partners, Ltd. (EPL – 13.94) Contrarian Opportunity

Summary and Recommendation

Contrary to a decline in near-term oil price in the past week, our estimates of present value and 2001 cash flow increase, thereby implying an enhanced investment opportunity. Present value increases because oil quotes several years out have moved up, not down. Cash flow for next year increases because the mix of equivalent barrels shifts to 41% natural gas from 31% previously estimated. The best recent recompletion is a natural gas well and the company will be testing, on about December 15, a promising discovery well that will produce natural gas. Estimated present value of future cash flow is \$21.90 per share, or around \$593 million (see Table EPL-1). Current enterprise value is only 2.4 times 2001 EBITDAX of \$157 million (see Table EPL-2). Revised at least weekly depending on market prices of oil, natural gas and money, as well as any new interpretation of operating trends, our estimates imply that 2.4 times should be 3.8.

Testing Promising Natural Gas Discovery

Disclosed in the company's first conference call as a publicly traded stock, a deep exploratory well in the Greater Bay Marchand area encountered 300 feet of productive thickness in 14 different horizons. EPL has a 50% working interest. The high-pressure gas discovery will be tested in the "R" formation around December 15. The well appears to justify expectations that the relatively unexplored sediments below the giant old oil field are prolific. The company scored a second recent success with a recompleted well in the East Bay area flowing 5.4 million cubic feet daily (mmcf). EPL has a 100% working interest in the latter well.

Although we have billed EPL as a Gulf of Mexico oil producer, the company's production has turned surprisingly gassy. At least temporarily, the timing is especially fortuitous because natural gas price is at an all time high relative to oil. Current volume of 16.5 thousand barrels equivalent daily (mbd) breaks down to 9.7 mbd oil (59%) and 41 mmcf natural gas (41%). We adjust projections for 2001 to a 59/41 mix.

Meanwhile a temporary disruption of 20% for more than three weeks reduces the current quarterly average by perhaps 1 mbd. Management expects production to be in the range of 15-16 mbd in the current quarter. We had been estimating 16 mbd, but will now use 15.5 mbd to acknowledge the impact of the disruption.

An unusual noncash charge of some \$40 million will be taken in the current quarter to reflect shares of stock released from escrow for the benefit of management and

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Stock Idea

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employees. As a result of that charge and the change in capital structure associated with the initial public offering on November 1, 2000, reported earnings for the rest of 2000 are not particularly meaningful. While 2001 earnings may be more realistic, our valuation focuses on cash flow.

Rick Bachmann and his team at EPL are off to a good start as a public company. We believe the prospects are favorable for management to achieve its growth targets and for the stock to appreciate accordingly. The company is in a strong financial position with only nominal debt.

Kurt H. Wulff, CFA

Table EPL-1
Energy Partners, Ltd.
Present Value

Volume Decline (%/yr):	15	Price Escalation post 2006 (%/yr):	3.8
Volume Enhancement (%/yr):	30	Discount rate (%/yr):	6.8
Capex/Cash Flow (%):	98	U.S. TIPS Inflation (%/yr):	3.8
Variable Cost (%):	18	U.S. 10 Year Yield (%/yr):	5.4

Year	Volume		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)
	Basic (mb)	Enhanced (mb)											
Total 2000 through 2014													
	30100	129400	159500	25.37	4046	355	728	1508	1455	242	1213	0.41	593
1999	5055		5055	15.51	78.4	16.9	14.1		47.4	0.0	47.4		
2000	4396	390	4786	27.75	132.8	22.2	23.9	85.0	1.7	0.0	1.7	0.97	1.7
2001	3823	3477	7300	28.94	211.3	22.2	38.0	148.0	3.0	0.5	2.5	0.91	2.3
2002	3324	5146	8470	24.37	206.4	22.2	37.2	144.1	2.9	0.5	2.5	0.85	2.1
2003	2890	6915	9805	23.57	231.1	22.2	41.6	164.0	3.3	0.6	2.8	0.80	2.2
2004	2513	8819	11333	23.14	262.2	22.2	47.2	189.0	3.9	0.6	3.2	0.75	2.4
2005	2186	10896	13082	22.83	298.6	22.2	53.8	218.2	4.5	0.7	3.7	0.70	2.6
2006	1900	13186	15087	22.64	341.6	22.2	61.5	252.7	5.2	0.9	4.3	0.65	2.8
2007	1653	15734	17387	23.50	408.6	22.2	73.5	306.6	6.3	1.0	5.2	0.61	3.2
2008	1437	13374	14811	24.39	361.2	22.2	65.0		274.0	45.7	228.3	0.57	130.9
2009	1250	11368	12618	25.31	319.3	22.2	57.5		239.6	39.9	199.7	0.54	107.3
2010	1087	9663	10749	26.26	282.3	22.2	50.8		209.3	34.9	174.4	0.50	87.8
2011	945	8213	9158	27.26	249.6	22.2	44.9		182.5	30.4	152.1	0.47	71.7
2012	822	6981	7803	28.29	220.7	22.2	39.7		158.8	26.5	132.3	0.44	58.4
2013	714	5934	6649	29.36	195.2	22.2	35.1		137.8	23.0	114.9	0.41	47.5
2014	621	5044	5665	30.47	172.6	22.2	31.1		119.3	19.9	99.4	0.39	38.5
2015	540	4287	4828	31.62	152.6	22.2	27.5		103.0	17.2	85.8	0.36	31.1

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.

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>
Highlights									
Revenue (\$mm)	30.4	30.7	43.9	105.0	53.4	48.1	53.3	56.5	211.3
EBITDAX (\$mm)	18.0	19.5	30.7	68.3	39.7	34.7	39.6	42.7	156.7
Cash Flow (\$mm)	15.4	17.2	29.7	62.3	39.4	34.4	39.3	42.4	155.5
Per share (\$)			1.56		1.46	1.27	1.45	1.56	5.74
Net Income (\$mm)	8.3	5.2	(14.5)	(1.0)	15.1	12.6	14.8	16.1	58.6
Per share	0.46	0.29	(0.76)		0.56	0.46	0.55	0.59	2.16
Shares (millions)		18.1	19.1		27.1	27.1	27.1	27.1	27.1
Volume									
Natural Gas (bcf)	1.48	1.49	3.04	6.00	3.83	4.26	4.75	5.05	17.88
Natural Gas (mmcf)	8.1	16.1	33.0	16.4	42.5	46.8	51.6	54.9	49.0
Days	182	92	92	366	90	91	92	92	365
Oil (mb)	965	899	920	2,785	927	1,019	1,141	1,233	4,320
Oil (mbd)	5.30	9.78	10.00	7.61	10.30	11.20	12.40	13.40	11.84
Total (mb)	1,212	1,147	1,426	3,785	1,565	1,729	1,932	2,075	7,300
Total (mbd)	6.7	12.5	15.5	10.3	17.4	19.0	21.0	22.5	20.0
Price									
Natural Gas									
Henry Hub (\$/mmbtu)	3.13	4.48	6.27	4.25	8.05	5.27	5.01	5.05	5.84
Differential (\$/mmbtu)	(0.40)	(0.29)	(0.20)	(1.07)	(0.20)	(0.20)	(0.20)	(0.20)	(0.09)
EPL (\$/mcf)	3.52	4.77	6.47	5.32	8.25	5.47	5.21	5.25	5.93
Oil (\$/bbl)									
WTI Cushing	28.81	31.61	32.14	30.34	28.09	27.15	26.34	25.63	26.81
Differential	3.12	5.43	5.73	4.26	4.50	2.85	1.30	1.30	2.45
EPL	25.69	26.18	26.40	26.08	23.60	24.30	25.04	24.33	24.35
Total (\$/bbl)	25.05	26.79	30.81	27.75	34.14	27.80	27.58	27.23	28.94
Revenue (\$mm)									
Natural Gas	5.2	7.1	19.6	31.9	31.5	23.3	24.7	26.5	106.0
Oil	24.8	23.5	24.3	72.6	21.9	24.8	28.6	30.0	105.2
Other	0.3	0.1							
Total	30.4	30.7	43.9	105.0	53.4	48.1	53.3	56.5	211.3
Cost (\$mm)									
Lease operating	6.4	6.4	8.0	20.9	8.0	8.0	8.0	8.0	32.0
Production taxes	1.5	1.7	2.2	5.5	2.7	2.4	2.7	2.8	10.6
General and administrative	4.3	3.0	3.0	10.4	3.0	3.0	3.0	3.0	12.0
Total	12.3	11.2	13.2	36.7	13.7	13.4	13.7	13.8	54.6
EBITDAX (\$mm)	18.0	19.5	30.7	68.3	39.7	34.7	39.6	42.7	156.7
Net interest	2.6	2.4	1.0	6.0	0.3	0.3	0.3	0.3	1.2
Cash Flow (\$mm)	15.4	17.2	29.7	62.3	39.4	34.4	39.3	42.4	155.5
Exploration	0.8	0.3	2.3	3.3	3.5	1.5	1.5	1.5	8.0
Deprec., Deplet., & Amort.	8.3	7.5	9.3	25.1	10.2	11.3	12.6	13.6	47.7
Amort. Financing Cost		0.3	0.5	0.8	0.3	0.3	0.3	0.3	1.2
Other non cash	(5.6)	1.0	41.0	36.4	1.0	1.0	1.0	1.0	4.0
Income before income tax	12.7	8.4	(23.3)	(2.3)	24.4	20.3	23.9	26.0	94.5
Income tax	4.5	3.2	(8.9)	(1.2)	9.3	7.7	9.1	9.9	35.9
Net income (\$mm)	8.3	5.2	(14.5)	(1.0)	15.1	12.6	14.8	16.1	58.6
<i>Costs (\$/bbl)</i>									
Lease operating	5.32	5.61	5.61	5.52	5.11	4.63	4.14	3.86	4.38
Production taxes	1.27	1.52	1.54	1.45	1.71	1.39	1.38	1.36	1.45
General and administrative	3.57	2.65	2.10	2.74	1.92	1.74	1.55	1.45	1.64
Deprec., Deplet., & Amort.	6.84	6.54	6.54	6.63	6.54	6.54	6.54	6.54	6.54
<i>Tax rate</i>	35%	38%	38%		38%	38%	38%	38%	38%

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