

## **Energy Partners, Ltd. (EPL – 12.13) Recent Testing Positive**

Contrary to a decline in stock price since the initial public offering of EPL shares, operating news is favorable. A promising discovery well noted in management's conference call on December 7 has been further confirmed with the first flow tests from lower zones. Flow rates have exceeded 5 million cubic feet daily from two formations with the remaining dozen formations yet to be tested. The well discovered natural gas below the Bay Marchand oil field, the third or so largest in the Gulf of Mexico by cumulative production. The strike validates EPL's strategy to apply new technology to find more oil and gas near where generous quantities have been found in the past.

As a new company formed to serve major oil companies driven strategically to outsource exploitation, EPL is up and running just when natural gas is trading at all time highs and oil is trading in a high range. The stock is an attractive investment in our opinion at estimated present value of future cash flow of \$21.60 per share and at only 2.1 times estimated 2001 cash flow.

The main risk is that the company may be unable to achieve the growth we forecast. Recent news makes us more comfortable with our projection. Moreover, the company is in a strong financial position with only nominal debt.

Oil price also poses some risk for the stock, but not as great as some might think. Indeed our present value might be a few dollars lower if current prices hold until we update our calculation at week's end. Futures quotes for 2006 have dropped to below \$20 a barrel this week. Yet very little volume is traded in long-dated contracts. We believe that by the time 2006 rolls around the oil price will be more like \$30 a barrel. We concede that oil can be volatile, but our prejudice is that the surprises over the next few years are still likely to be on the upside barring any recession worse than we had in 1973-74.

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