Rating: Buy
S&P 500: 1222

Energy Partners, Ltd.
Layer Cake

Symbol	EPL	*Ebitda Next Twelve Months ending 3/31/06 (US$mm)*	357
Rating	Buy	*North American Natural Gas/Ebitda (%)*	53
Price (US$/sh)	26.81	*Natural Gas and Oil Production/Ebitda (%)*	100
Pricing Date	3/4/05	*Adjusted Reserves/Production NTM*	5.3
Shares (mm)	39	*EV/Ebitda*	3.8
Market Capitalization (US$mm)	1,060	*PV/Ebitda*	4.2
Debt (US$mm)	300	*Undeveloped Reserves (%)*	20
Enterprise Value (EV) (US$mm)	1,360	*Natural Gas and Oil Ebitda (US$/mcfe)*	5.80
Present Value (PV) (US$mm)	1,480	*Present Value Proven Reserves(US$/boe)*	24.20
Net Present Value (US$/share)	30	*Present Value Proven Reserves(US$/mcfe)*	4.03
Debt/Present Value	0.20	*Earnings Next Twelve Months (US$/sh)*	2.30
McDep Ratio - EV/PV	0.92	*Price/Earnings Next Twelve Months*	12
Dividend Yield (%/year)	0.0	*Indicated Annual Dividend (US$/sh)*	0.00

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.

Summary and Recommendation

We continue a Buy rating on the common shares of small cap **Energy Partners (EPL)** that now has the most interesting exploration in its five years as a public company. We raise our estimate of net present value to $30 a share from $24 on the basis of a favorable year-end reserve report and more confidence in the company's prospects after a recent analyst day presentation. There appear to be more pieces of cake (fault blocks) and more layers (formations) that hold oil and gas not yet drilled in the promising South Timbalier area. In the other of the company's two traditional areas offshore Louisiana, East Bay at the mouth of the Mississippi River, the company hopes to test in the next several months a new deeper layer cake that may rival the original East Bay cake that lies shallower and closer to shore. That well could be of such potential significance that the stock may react during drilling though no one can be sure it will be successful.

Luck is where Preparation Meets Opportunity

We may not remember the expression exactly as we first heard it from Jim Bob Moffett of Freeport-McMoRan some twenty years ago who, as we recall, learned it from his college football coach. Regardless, we think the idea captures what has been happening after we introduced the founder of EPL to the company's source of initial capital about 1997.

Progress has not all been smooth. The company had a rough period in 2002 soon after its initial public offering. Yet preparation was underway as one of the company's early employees, Tom DeBrock, was building his knowledge of a particular area of the Gulf of Mexico continental shelf.

Mr. DeBrock's focus was Greater Bay Marchand offshore Louisiana about a quarter or a third of the distance from the Mississippi River to the Texas border. Over the period 1998 to 2000 EPL accumulated interests in Chevron and Shell leases covering prolific historical production. As Mr. DeBrock tells the story, Shell didn't talk to Chevron and Chevron didn't talk to Shell. Each company had a separate seismic survey that overlapped the other. Chevron's was from 1986 and Shell's from 1989. EPL was the first company to have access to both surveys. That intelligence was enhanced in 1997 with a survey that covered both areas and extended farther from shore.

Chevron produced from the shallower formations up against a big old salt dome. Shell came along a decade or more after Chevron and developed production farther from shore in deeper formations from about 10,000 feet to 15,000 feet.

From 1999 to 2003 EPL added new production to the South Timbalier 26 platform, originally built by Shell, with new wells, workovers and recompletions to different zones. In 2003-2004 EPL found new production on its Mossy Creek prospect just across a fault from old Shell wells. Since EPL bought 10 million barrels (mmb) of reserves on the block in 1999, cumulative production for the past six years has been 10 mmb and proven reserves are now more than 12 mmb.

The story gets better as we move farther from shore. In 2003 EPL acquired the lease South Timbalier 41 seaward of Shell's South Timbalier 26. That set up the Rock Creek discovery in deeper formations below 15,000 feet.

South Timbalier Block 41 Rock Creek Discovery

Located in the company's Greater Bay Marchand area offshore Louisiana, the Rock Creek field now has three successful wells all in a single fault block. The wells each have potential flow rates of 50 million cubic feet per day (mmcfd) and eventual reserves of perhaps 50 billion cubic feet. The mobile production unit (MOPU) in the area has capacity of 100 mmcfd. After a 1/6 Federal royalty and a 40% working interest held by Kerr-McGee (KMG), EPL's net interest is 50% of gross volume.

There are at least two more fault blocks in the area that have not been tested yet. EPL's geoscientists apparently found a subtle signal in seismic analysis that pointed to the discovery in the first fault block. Last fall we were looking at new reserves in South Timbalier 41 approaching 40 million barrels, perhaps 20 million net to EPL. On a natural gas equivalent basis that would be 240 bcf gross, 120 bcf net. Now a more credible estimate, it compares to existing reserves of about 370 bcf equivalent for the whole company.

Those reserves may be developed in just the upper layers of the "Rock Creek" piece of cake. The depth limits have not yet been reached for additional layers. And there are likely to be more pieces of cake tentatively named "Peach Tree Creek", "Rhino" and "Black Hawk". Luck appears to be occurring where preparation meets opportunity.

East Bay, a Second Area of Preparation

While Tom DeBrock was working the Bay Marchand complex, another Tom, Tom Meyer, was applying his and his colleague's skills to prepare to meet opportunity in EPL's second major focus area, East Bay, near the mouth of the Mississippi River. The East Bay field, South Pass 24 and South Pass 27, was an advantageous and timely purchase from Ocean Energy in 2000. Discovered and developed by Shell around 1950, the field produced more than 100,000 barrels daily from 1964 to 1972. EPL has stabilized production near 10,000 barrels daily.

As in Bay Marchand, EPL merged seismic data and acquired more leases in the area. Better information has helped EPL find new reserves missed by Shell and Ocean. East Bay also has a deeper "cake" seaward of the original field that may be as large as the original. Deep means about 22,000 feet. At that depth the reserves would be natural gas rather than oil. The cake covers about 11,000 acres and has perhaps 5 pieces or fault blocks. The cake has many layers. The original field has 107 pay sands. The target pay zone would be the Big Hum formation identified at shallower depths in nearby wells. The prospect is modestly named Denali after the highest mountain in North America.

The exploratory well would cost about $17 million. As a result the company has been seeking partners to share the risk. EPL might pay about 25% of the well cost for 50% ownership in the discovery. The size of structure is larger than anything the company has drilled previously. The next event presumably would be the announcement of partners which would be professional affirmation of work done by Tom Meyer and his team.

Broader Gulf of Mexico Exposure at Moderate Risk

It has taken some six years for EPL to get to the point where it has exciting exploration potential. In the early stages, the Bay Marchand and East Bay projects were not far enough along to meet management's early expectations and to sustain investor interest at the initial price of the stock when it came to market in December 2000. At an advantageous time near the bottom of the market in 2002, EPL acquired Hall-Houston in a deal that brought broader exploration exposure across the Gulf of Mexico on the Continental Shelf where water depth was less than 600 feet. The deal has been successful in large part because of its favorable timing.

Though the size of targets is small by historical standards, Jay Lehman points out that some of the best discoveries do not appear that large initially. Mr. Lehman heads the experienced exploration team in the Houston office of EPL. We would add our interpretation that an effort that earned a reasonable return at lower commodity price should earn a higher return at higher commodity price at least for awhile. Thus we have reasonable expectations for Mr. Lehman's effort, but are not able to identify upside that looks as enticing as EPL's South Timbalier area or the Denali prospect.

Onshore Acquisition Evokes Louisiana Land and Exploration Connection

On January 20 EPL closed a $154 million acquisition of 52 bcf of reserves and prospects including some on fee lands that once belonged to Louisiana Land and Exploration (LL&E) before it was acquired by **Burlington Resources (BR)** a few years ago. The Chief Executive of EPL was the president of LL&E. The LL&E fee lands were the source of much of the oil and gas wealth of Texaco, now part of **ChevronTexaco (CVX)**. The owner of land in fee has all the surface and mineral rights. In this case Texaco leased the land from LL&E in return for a royalty payment of about 25% on oil and gas produced, as we recall.

EPL acquired reserves from a private company that was exploring on the fee lands. Part of the deal involves future exploration in an area of mutual interest. EPL's exploration technologists include persons who worked on the fee lands with LL&E and Texaco. The team hopes that it can trace the formations productive offshore Louisiana to new discoveries onshore.

Both Tom DeBrock and Tom Meyer once worked at LL&E with Mr. Bachmann. Tom Meyer apparently will have charge of the onshore effort.

Accelerating Exploration Activity

Last year the company spent about $190 million that included the funding of 25 exploratory wells. In 2005 the budget starts at $240 million and may increase with continued strong oil and natural gas price. Plans on the acquired properties double the expected exploratory wells in 2005 to 50. About 15 of the 50 are "higher risk, higher potential".

Conservative Reporting of Reserves

Reported reserves typically lag reality by a greater amount for a rapidly expanding exploration company. Reserves in new discoveries are only considered fully proven as development drilling proceeds over the months and years. We use last year's reserves and add the amount recently acquired. The resulting short adjusted reserve life is associated with a low multiple of present value to cash flow (see table Functional Cash Flow and Present Value). A cash flow multiple of 4.1 for a reserve life index of 4.7, for example, also anticipates that reserves are more understated for short life companies than for long life companies. As a result, our estimate does not include any unusual success, but it does presume some value beyond proven reserves. There almost always are some more pieces of cake and layers around big old fields in the Gulf of Mexico.

Energy Partners, Ltd.
Functional Cash Flow and Present Value

	NTM Ebitda (US$mm)	*Adjusted R/P*	*PV/ Ebitda*	*Present Value (US$mm)*	
North American Natural Gas	190	4.7	4.1	780	53%
Oil	167	6.2	4.2	700	47%
	357	5.3	4.1	1,480	100%
Debt (US$mm)					300
Net Present Value (US$mm)					1,180
Shares (mm)					39
Net Present Value (US$/sh)					30

Volume and Price Drive Cash Flow in 2005

Volume gains drive cash flow higher in our model (see table Next Twelve Months Operating and Financial Estimates). We also take account of latest futures prices that currently show a rising trend as well.

Energy Partners, Ltd.
Next Twelve Months Operating and Financial Estimates

	Q3 9/30/04	*Q4 12/31/04*	***Year 2004***	*Q1E 3/31/05*	*Q2E 6/30/05*	*Q3E 9/30/05*	*Q4E 12/31/05*	***Year 2005E***	*Q1E 3/31/06*	***Next Twelve Months 3/31/06***
Volume										
Natural Gas (mmcfd)	86	78	**82**	86	86	103	103	**95**	103	**99**
Oil (mbd)	8.9	9.3	**8.7**	10.3	10.3	12.3	12.3	**11.3**	12.3	**11.8**
Total (mb)	2,114	2,058	**8,135**	2,215	2,240	2,717	2,717	**9,889**	2,658	**10,332**
Total (mbd)	23.2	22.4	**22.3**	24.6	24.6	29.5	29.5	**27.1**	29.5	**28.3**
Price										
Natural Gas										
Henry Hub ($/mmbtu)	5.75	7.10	**6.15**	6.27	6.76	6.97	7.37	**6.84**	7.90	**7.25**
Differential ($/mmbtu)	(0.04)	0.35	**(0.01)**	0.31	0.33	0.34	0.36	**0.30**	0.39	**0.34**
EPL ($/mcf)	5.79	6.75	**6.15**	5.96	6.43	6.63	7.01	**6.54**	7.52	**6.92**
Oil ($/bbl)										
WTI Cushing	43.89	48.30	**41.44**	49.17	53.90	53.51	52.36	**52.23**	51.09	**52.72**
Differential	4.09	1.77	**1.35**	1.80	1.97	1.96	1.91	**1.84**	1.87	**1.97**
EPL	39.80	46.53	**40.09**	47.37	51.93	51.55	50.44	**50.40**	49.22	**50.74**
Total ($/bbl)	35.05	40.11	**36.28**	40.61	44.16	44.69	45.58	**43.90**	46.83	**45.36**
Revenue ($mm)										
Natural Gas	45	49	**184**	46	50	63	67	**226**	70	**250**
Oil	32	40	**126**	44	49	59	57	**208**	55	**219**
Other	(3)	(6)	**(15)**					**-**		**-**
Total	74	83	**295**	90	99	121	124	**434**	124	**469**
Expense ($mm)										
Lease operating	11	10	**41**	11	11	14	14	**49**	13	**52**
Production taxes	2	3	**9**	4	4	5	5	**17**	5	**19**
General and administrative	8	8	**31**	9	9	11	11	**40**	11	**41**
Total	20	21	**81**	24	24	29	29	**106**	29	**112**
Ebitda ($mm)	54	61	**214**	66	75	92	94	**328**	96	$\boxed{\textbf{357}}$
Exploration	10	9	**36**	15	15	15	15	**60**	15	**60**
Deprec., Deplet.& Amort.	25	28	**94**	24	25	30	30	**109**	29	**114**
Other non cash	(0)	(2)	**(3)**	1	2	2	7	**11**	1	**12**
Ebit ($mm)	19	26	**87**	26	33	46	43	**148**	50	**172**
Interest	4	4	**14**	7	7	7	7	**28**	7	**28**
Ebt ($mm)	15	23	**73**	19	26	39	36	**120**	43	**144**
Income tax	6	8	**27**	7	10	14	13	**44**	16	**53**
Net income ($mm)	10	15	**46**	12	17	24	22	**75**	27	**90**
Per share	0.25	0.37	**1.20**	0.31	0.42	0.62	0.57	**1.91**	0.69	**2.30**
Shares (millions)	38.9	39.4	**38.7**	39.4	39.4	39.4	39.4	**39.4**	39.4	**39.4**
Lease operating ($/bbl)	5.01	5.05	**4.99**	5.00	5.00	5.00	5.00	**5.00**	5.00	**5.00**
Production taxes (%)	2.7	3.2	**3.0**	4.0	4.0	4.0	4.0	**4.0**	4.0	**4.0**
G & A ($/bbl)	3.64	3.89	**3.81**	4.00	4.00	4.00	4.00	**4.00**	4.00	**4.00**
D., D. & A ($/bbl)	11.97	13.65	**11.59**	11.00	11.00	11.00	11.00	**11.00**	11.00	**11.00**
Tax rate	36%	36%	**36%**	37%	37%	37%	37%	**37%**	37%	**37%**

Buy Oil and Gas Producers at Mid Decade

EPL stock offers reasonable value among independent producers (see table Rank by McDep Ratio). Three to five-fold gain potential for oil and gas price over the next 5 to 13 years justifies investment in recommended oil and gas producers, in our opinion. Supporting improving prospects, the average futures price of oil for continuous delivery over the next six years is in a multi-year uptrend as defined by the current quotes above the 40-week average. The current benchmark oil average futures price for the next six years is about $46 a barrel.

Oil and Gas Producers
Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/	Rating	Price ($/sh) 4-Mar 2005	Shares (mm)	Market Cap ($mm)	Net Present Value ($/sh)	Debt/ Present Value	McDep Ratio
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	45.35	280	12,700	45.00	0.16	1.01
Unocal Corporation	UCL	B	60.75	271	16,500	65.00	0.21	0.95
Encana Corporation	ECA	B	71.14	471	33,500	77.00	0.16	0.94
Occidental Petroleum Corp.	OXY	B	73.65	406	29,900	87.00	0.15	0.87
CNOOC Limited (19%)	CEO	B	56.92	78	4,450	67.00	-	0.85
Burlington Resources	BR	B	53.10	391	20,800	67.00	0.12	0.82
Devon Energy Corporation	DVN	B	48.46	500	24,200	63.00	0.16	0.80
Anadarko Petroleum Corp.	APC	B	81.37	246	20,000	113.00	0.14	0.76
Total or Median					*162,000*		*0.15*	*0.86*
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	63.69	22	1,420	50.00	0.05	1.26
Energy Partners Ltd.	EPL	B	26.81	39	1,060	30.00	0.20	0.92
Cimarex Energy Company	XEC	B	41.75	81	3,360	50.00	0.15	0.86
Encore Acquisition Company	EAC	B	45.62	33	1,490	57.00	0.19	0.84
Total or Median					*7,300*		*0.17*	*0.89*

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