

## Cimarex Energy (XEC – Buy) Permian Payoff

<i>Symbol</i>	XEC	<i>Ebitda Next Twelve Months ending 12/31/12 (US\$m)</i>	1,250
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	23
<i>Price (\$/sh)</i>	80.96	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/16/12	<i>Adjusted Reserves/Production NTM</i>	8.2
<i>Shares (mm)</i>	86	<i>EV/Ebitda</i>	6.3
<i>Market Capitalization (\$mm)</i>	6,980	<i>PV/Ebitda</i>	8.3
<i>Debt (\$mm)</i>	910	<i>Undeveloped Reserves (%)</i>	18
<i>Enterprise Value (EV) (\$mm)</i>	7,890	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	33.30
<i>Present Value (PV) (\$mm)</i>	10,400	<i>Present Value Proven Reserves(\$/boe)</i>	30.50
<i>Net Present Value (\$/share)</i>	110	<i>Oil and Gas Ebitda Margin (%)</i>	72
<i>Debt/Present Value</i>	0.09	<i>Earnings Next Twelve Months (US\$/sh)</i>	6.37
<i>McDep Ratio - EV/PV</i>	0.76	<i>Price/Earnings Next Twelve Months</i>	13
<i>Dividend Yield (%/year)</i>	0.5	<i>Indicated Annual Dividend (US\$/sh)</i>	0.40
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\$100 a barrel and natural gas, \$6 a million btu.			
For historical analysis of XEC since 2003 see <a href="http://www.mcdep.com/4xec.htm">www.mcdep.com/4xec.htm</a>			

### Summary and Recommendation

Buy-recommended **Cimarex Energy (XEC)** jumped nearly 20% in stock price on the release of fourth quarter results on February 15 including an increase of 23% in proven reserves, mostly Mid-Continent Cana-Woodford liquids-rich shale gas, along with guidance for a 28% increase in Permian Basin oil production in 2012. Increasingly active in West Texas and Southeast New Mexico oil since 2005, the company is now seeing a payoff in a rich resource area at a time of favorable oil price. As a result, planned capital spending in the Permian in 2012 at \$775 million for the first time exceeds the Midcontinent at \$625 million. Estimated Net Present Value (NPV) of \$110 a share looks low compared to our estimate for other companies, but within the range of variation. NPV is the result of the interaction of many variables summarized by projected cash flow for 2012 and comparison to reserve life (see tables [Functional Cash Flow and Present Value](#) and [Next Twelve Months Operating and Financial Results](#) on page 2). McDep Ratio of 0.76 is below the median for small cap explorers and debt is the lowest, as it has been traditionally (see [Tables ISC-1 to ISC-2](#) on pages 3-4). As positive as the outlook for the company may be, investors with a full position in the stock before the recent gain may rebalance to take advantage of the good news while at the same time keeping a long-term commitment. The company is well-positioned to profit further from developing new oil and gas supply that strengthens the prospects for U.S. economic growth.



Kurt H. Wulff, CFA



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

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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	280	9.0	16.1	4,500	43%
Oil	970	7.3	6.1	5,910	57%
	1,250	8.2	8.3	10,410	100%
Debt (US\$mm)					910
Net Present Value (US\$mm)					9,500
Shares (mm)					86
Net Present Value - Standard Estimate (US\$/sh)					110
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					122

Cimarex Energy Company									
Next Twelve Months Operating and Financial Performance									
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Next
	12/31/10	9/30/11	12/31/11	2011	3/31/12	6/30/12	9/30/12	12/31/12	Twelve
									Months
									12/31/12
<b>Volume</b>									
Natural Gas (mmcf)	342	330	334	329	334	334	334	334	334
Oil (mbd)	43.8	43.7	44.5	43.9	45.4	46.3	47.2	48.2	46.8
Total (mmcf)	604	592	601	592	607	612	618	623	615
<b>Price</b>									
Henry Hub (\$/mmbtu)	3.80	4.19	3.55	4.04	2.73	2.74	2.96	3.26	2.92
Company (\$/mcf)	4.18	4.57	3.90	4.41	3.00	3.01	3.25	3.58	3.21
WTI Cushing (\$/bbl)	85.10	89.76	94.06	95.12	100.37	101.29	102.79	103.37	101.95
Company (\$/bbl)	65.27	69.91	72.60	73.27	77.47	78.18	79.34	79.79	78.72
Total (\$/bbl)	42.56	46.24	45.25	47.27	44.69	45.35	46.96	48.52	46.40
<b>Revenue (\$mm)</b>									
Natural Gas	131	139	120	530	91	92	100	110	393
Oil	263	281	297	1,173	320	329	345	354	1,348
Total	394	420	417	1,703	411	421	445	464	1,740
<b>Expense</b>									
Operating	70	78	82	308					
Production taxes	33	31	28	127					
General and administrative	12	9	11	45					
<b>Expense</b>	115	118	121	480	116	119	125	131	491
<b>Ebitda</b>	279	302	296	1,223	295	302	319	333	1,250
Deprec., Deplet., & Amor	84	108	114	402	99	100	102	103	405
Other Non Cash	(13)	2	2	11					-
<b>Ebit</b>	209	192	180	810	196	202	217	230	845
Interest	-	-	-	-	-	-	-	-	-
<b>Ebt</b>	209	192	180	810	196	202	217	230	845
Income Tax	73	67	63	283	69	71	76	80	296
<b>Net Income (\$mm)</b>	136	125	117	526	127	131	141	149	549
Per Share (\$)	1.58	1.45	1.36	6.11	1.48	1.52	1.64	1.73	6.37
<b>Shares (millions)</b>	86	86	86	86	86	86	86	86	86
Ebitda Margin	71%	72%	71%	72%	72%	72%	72%	72%	72%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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Table ISC-1											
McDep Income and Small Cap Energy Portfolio											
Debt, Segments, Cash Flow, Income and McDep Ratio											
		Price									
Symbol/Rating		(US\$/sh)	EV/	Enterprise	PV(%)		EV/	Dist.	Dist.		
B = Buy		16-Feb	Market	Value	Nat		Ebitda	NTM	Yield	McDep	
CB (see below)		2012	Cap	(\$mm)	Gas	Oil	NTM	(\$/un)	(%)	Ratio	
<b>Small Cap Independent Producers</b>											
PDC Energy	PETD		36.59	1.43	1,240	55	45	7.3	-	-	0.94
Range Resources	RRC	B	63.37	1.22	12,280	66	34	16.3	0.16	0.3	0.92
Peyto Exploration and Developmen	PEYUF		19.00	1.22	3,080	75	25	10.4	0.72	3.8	0.82
Berry Petroleum Company	BRY		52.59	1.50	4,320	17	83	6.6	0.32	0.6	0.82
Birchcliff Energy Ltd.	BIREF	B	12.28	1.26	2,020	56	44	12.3	-	-	0.81
Cimarex Energy Company	XEC	B	80.96	1.13	7,890	43	57	6.3	0.40	0.5	0.76
Denbury Resources Inc.	DNR		19.48	1.32	10,340	4	96	6.3	-	-	0.75
Whiting Petroleum Corporation	WLL	B	54.88	1.25	8,140	9	91	4.9	-	-	0.67
<i>Total or Median</i>					49,300			7.0			0.81
<b>Top Line Cash Payers</b>											
Cross Timbers Royalty Trust	CRT		47.05	1.00	280	70	30		2.57	5.5	1.07
Permian Basin RT	PBT		20.80	1.00	970	37	63		1.51	7.3	1.04
Sabine Royalty Trust	SBR		64.55	1.00	940	55	45		4.00	6.2	0.99
Freehold Royalties Ltd.	FRHLF		20.52	1.06	1,270	14	86		1.68	8.2	0.98
Dorchester Minerals, L.P.	DMLP	CB	23.03	1.00	710	57	43		1.76	7.6	0.85
<i>Total or Median</i>					4,200					7.3	0.99
<b>Bottom Line Cash Payers</b>											
Linn Energy, LLC	LINE		36.87	1.46	9,450	29	71	13.4	2.76	7.5	1.15
Vanguard Natural Resources, LLC	VNR		27.52	1.54	2,070	26	74	10.0	2.31	8.4	1.06
Enduro Royalty Trust (40%)	NDRO		20.98	1.00	280	45	55	7.4	1.71	8.2	1.00
Legacy Reserves L.P.	LGCY		29.60	1.40	1,800	19	81	8.6	2.18	7.4	0.99
Hugoton RoyaltyTrust	HGT		15.55	1.00	620	87	13	15.4	0.87	5.6	0.91
Mesa RoyaltyTrust	MTR		41.70	1.00	78	75	25	11.6	3.16	7.6	0.87
San Juan Basin Royalty Trust	SJT	CB	17.95	1.00	840	100	-	13.8	0.96	5.3	0.86
Enerplus Corporation	ERF	CB	24.04	1.21	5,700	26	74	6.6	2.16	9.0	0.74
<i>Total or Median</i>					20,800			10.8		7.5	0.95
<b>Composite</b>											
<i>Enterprise Value Weighting</i>					74,300	35	65				0.84
<i>Equal Weighting</i>						46	54				0.91
<i>Equal Weighted Buys</i>						42	58				0.81

CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses.

Present Value (PV) presumes long-term prices of \$100 a barrel for oil and \$6 a million btu for natural gas.

Dist. = Income distribution. NTM = Next Twelve Months Ended December 31, 2012. Enterprise Value = Market Cap and Debt.



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Table ISC-2								
McDep Income and Small Cap Energy Portfolio								
Net Present Value and McDep Ratio								
			Price (\$/sh)		Market	Net		
	Symbol/ Rating		16-Feb 2012	Shares (mm)	Cap (\$mm)	Present Value (\$/un)	Debt/ Present Value	McDep Ratio
<b>Small Cap Independent Producers</b>								
PDC Energy	PETD		36.59	23.8	870	40.00	0.28	0.94
Range Resources	RRC	B	63.37	159.0	10,080	70.00	0.17	0.92
Peyto Exploration and Development Cor	PEYUF		19.00	133.1	2,530	24.00	0.15	0.82
Berry Petroleum Company	BRY		52.59	54.7	2,880	70.00	0.27	0.82
Birchcliff Energy Ltd.	BIREF	B	12.28	131.0	1,610	16.00	0.16	0.81
Cimarex Energy Company	XEC	B	80.96	86.2	6,980	110.00	0.09	0.76
Denbury Resources Inc.	DNR		19.48	403.0	7,850	28.00	0.18	0.75
Whiting Petroleum Corporation	WLL	B	54.88	119.0	6,530	88.00	0.13	0.67
<i>Total or Median</i>					39,330		0.16	0.81
<b>Top Line Cash Payers</b>								
Cross Timbers Royalty Trust	CRT		47.05	6.0	280	44.00	-	1.07
Permian Basin RT	PBT		20.80	46.6	970	20.00	-	1.04
Sabine Royalty Trust	SBR		64.55	14.6	940	65.00	-	0.99
Freehold Royalties Ltd.	FRHLF		20.52	58.8	1,210	21.00	0.05	0.98
Dorchester Minerals, L.P.	DMLP	CB	23.03	30.7	710	27.00	-	0.85
<i>Total or Median</i>					4,110			0.99
<b>Bottom Line Cash Payers</b>								
Linn Energy, LLC	LINE		36.87	176.0	6,490	30.00	0.36	1.15
Vanguard Natural Resources, LLC	VNR		27.52	48.8	1,340	25.00	0.37	1.06
Enduro Royalty Trust (40%)	NDRO		20.98	13.2	280	21.00	-	1.00
Legacy Reserves L.P.	LGCY		29.60	43.6	1,290	30.00	0.28	0.99
Hugoton Royalty Trust	HGT		15.55	40.0	620	17.00	-	0.91
Mesa Royalty Trust	MTR		41.70	1.9	78	48.00	-	0.87
San Juan Basin Royalty Trust	SJT	CB	17.95	46.6	840	21.00	-	0.86
Enerplus Corporation	ERF	CB	24.04	196.0	4,710	34.00	0.13	0.74
<i>Total or Median</i>					15,650			0.95
B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
Present Value presumes long-term prices of \$100 a barrel for oil and \$6 a million btu for natural gas.								



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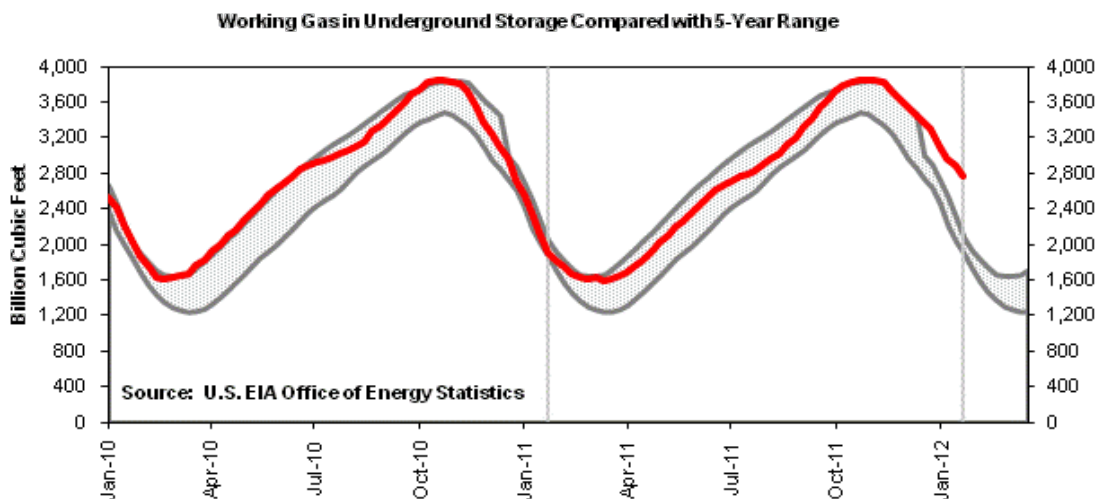
Table ISC-3								
McDep Income and Small Cap Energy Portfolio								
Value Multiples - Rank by EV/Ebitda								
			Price (\$/sh)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda
	Symbol/ Rating		16-Feb 2012	Royalty (%)	Ebitda	NTM	NTM	NTM
<b>Small Cap Independent Producers</b>								
Range Resources	RRC	B	63.37		-	15.2	17.7	16.3
Birchcliff Energy Ltd.	BIREF	B	12.28		-	19.3	15.2	12.3
Peyto Exploration and Development Corp	PEYUF		19.00		0.38	16.1	12.6	10.4
PDC Energy	PETD		36.59		-	8.2	7.8	7.3
Berry Petroleum Company	BRY		52.59		-	11.4	8.1	6.6
Denbury Resources Inc.	DNR		19.48		-	13.5	8.4	6.3
Cimarex Energy Company	XEC	B	80.96		-	8.2	8.3	6.3
Whiting Petroleum Corporation	WLL	B	54.88		-	10.2	7.3	4.9
	<i>Median</i>					12.4	8.4	7.0
<b>Top Line Cash Payers</b>								
Cross Timbers Royalty Trust	CRT		47.05	80	0.96	14.4	16.5	17.6
Sabine Royalty Trust	SBR		64.55	100	1.00	7.3	16.2	16.1
Permian Basin RT	PBT		20.80	32	0.98	17.2	13.0	13.5
Dorchester Minerals, L.P.	DMLP	CB	23.03	77	0.84	6.1	12.9	11.0
Freehold Royalties Ltd.	FRHLF		20.52	71	0.84	6.7	10.5	10.3
	<i>Median</i>					7.3	13.0	13.5
<b>Bottom Line Cash Payers</b>								
Hugoton Royalty Trust	HGT		15.55		0.86	14.0	16.9	15.4
San Juan Basin Royalty Trust	SJT	CB	17.95		0.74	8.5	16.2	13.8
Linn Energy, LLC	LINE		36.87		1.07	16.2	11.6	13.4
Mesa Royalty Trust	MTR		41.70		0.88	13.9	13.4	11.6
Vanguard Natural Resources, LLC	VNR		27.52		0.87	8.7	9.4	10.0
Legacy Reserves L.P.	LGCY		29.60		0.63	9.9	8.7	8.6
Enduro Royalty Trust (40%)	NDRO		20.98		0.61	5.7	7.5	7.4
Enerplus Corporation	ERF	CB	24.04		0.56	8.1	8.9	6.6
	<i>Median</i>					9.3	10.5	10.8
B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.								
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation								
and amortization; NTM = Next Twelve Months Ended December 31, 2012; P/E = Stock Price to								
Earnings; PV = Present Value of oil and gas and other businesses								
Top Line Cash Payers defined as those having Revenue Royalty (see fifth column from right).								



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