



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

August 3, 2012

## Cimarex Energy (XEC – Contrarian Buy) West Texas Wolfcamp Shale Oil

<i>Symbol</i>	XEC	<i>Ebitda Next Twelve Months ending 6/30/13 (US\$m)</i>	1,154
<i>Rating</i>	Contrarian Buy	<i>North American Natural Gas/Ebitda (%)</i>	29
<i>Price (\$/sh)</i>	54.13	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/2/12	<i>Adjusted Reserves/Production NTM</i>	7.9
<i>Shares (mm)</i>	86	<i>EV/Ebitda</i>	5.1
<i>Market Capitalization (\$mm)</i>	4,680	<i>PV/Ebitda</i>	9.3
<i>Debt (\$mm)</i>	1,240	<i>Undeveloped Reserves (%)</i>	18
<i>Enterprise Value (EV) (\$mm)</i>	5,920	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	29.60
<i>Present Value (PV) (\$mm)</i>	10,740	<i>Present Value Proven Reserves(\$/boe)</i>	31.50
<i>Net Present Value (\$/share)</i>	110	<i>Oil and Gas Ebitda Margin (%)</i>	70
<i>Debt/Present Value</i>	0.12	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.83
<i>McDep Ratio - EV/PV</i>	0.55	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	0.9	<i>Indicated Annual Dividend (US\$/sh)</i>	0.48
<p>Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.</p>			
<p>Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.</p>			
<p>Estimated present value presumes a long-term price for oil of US\$100 a barrel and natural gas, \$6 a million btu.</p>			
<p>For historical analysis of XEC since 2003 see <a href="http://www.mcdep.com/4xec.htm">www.mcdep.com/4xec.htm</a></p>			

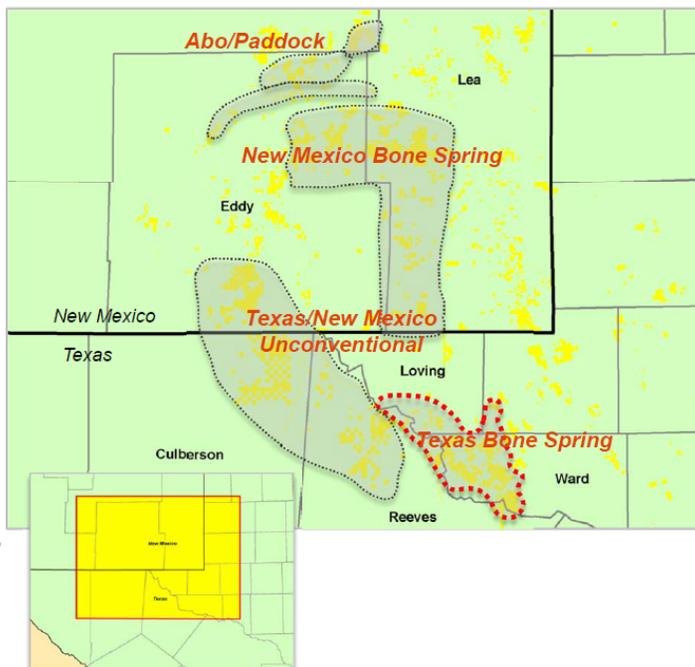
### Summary and Recommendation

Favorable drilling progress in a new shale oil play in the Wolfcamp formation in West Texas reinforces stock price appreciation potential of Contrarian Buy **Cimarex Energy (XEC)** to Net Present Value (NPV) of \$110 a share from the recent quote of \$54. Disclosed in quarterly results released on August 2, the company has drilled and completed 24 horizontal wells as it defines the producing capability of its 100,000 plus net acres in the play in Culberson and Reeves counties in Texas and Eddy county, New Mexico (see Unconventional area on map [Permian Basin](#) on page 2). Permian Basin volume, primarily from the more advanced New Mexico Bone Spring play, grew 37% in the second quarter over the previous year. Permian activity now contributes more than half of corporate revenue. Despite operating success, XEC stock price is down from early in the year, mostly in proportion to the reduction in oil and gas price realized in the second quarter compared to the first quarter. That could be consistent with logic that the recent past is the only concrete indicator of the future. We are comfortable taking the contrarian side of that logic and conclude that if the recent past has been down enough, the future is more likely to be up eventually and closer to the basis we use for estimating NPV (see tables [Functional Cash Flow and Present Value](#) on page 2 and [Next Twelve Months Operating and Financial Results](#) on page 3). McDep Ratio of 0.55 is below the median for small cap explorers and debt is low, as it has been traditionally (see [Tables ISC-1 to ISC-2](#) on pages 4-5). Finally, it helps our confidence that we have seen management perform well in Cimarex and its predecessor company for two decades.

Kurt H. Wulff, CFA

## Permian Basin

- Prolific multi-pay basin
- Strong position in multiple plays in the Delaware Basin:
  - New Mexico Bone Spring  
65,000 net acres
  - Texas Bone Spring  
35,000 net acres
  - Texas/New Mexico Unconventional (*Wolfcamp, Avalon & Cisco/Canyon*)  
110,000-160,000 net acres
  - Abo/Paddock  
48,000 net acres



NYSE:XEC

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CIMAREX

Cimarex Energy Company					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$m)	R/P	Ebitda	Value	
	(US\$m)			(US\$m)	
North American Natural Gas	330	8.9	14.5	4,800	45%
Oil	824	6.9	7.2	5,940	55%
	1,154	7.9	9.3	10,740	100%
Debt (US\$m)					1,240
Net Present Value (US\$m)					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)					100



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Cimarex Energy Company									
Next Twelve Months Operating and Financial Performance									
	Q2	Year	Q1	Q2	Q3E	Q4E	Year	Q2E	Next Twelve Months
	6/30/11	2011	3/31/12	6/30/12	9/30/12	12/31/12	2012E	6/30/13	6/30/13
<b>Volume</b>									
Natural Gas (mmcf)	325	329	320	317	330	343	327	343	340
Days	91	365	91	91	92	92	366	91	365
Oil (mmb)	4.0	16.0	4.3	4.1	4.4	4.6	17.5	4.8	18.3
Oil (mbd)	43.5	43.9	47.3	45.5	47.8	50.2	47.7	52.7	50.2
Total (mmcf)	586	592	604	590	616	644	614	659	641
<b>Price</b>									
Henry Hub (\$/mmbtu)	4.32	4.04	2.73	2.21	3.07	3.40	2.85	3.69	3.47
Company (\$/mcf)	4.75	4.41	2.92	2.42	3.35	3.71	3.12	4.03	3.79
WTI Cushing (\$/bbl)	102.55	95.12	102.93	93.32	89.14	90.41	93.95	91.92	90.76
Company (\$/bbl)	78.80	73.27	75.85	66.10	63.14	64.04	67.22	65.11	64.31
Total (\$/bbl)	50.91	47.27	44.94	38.39	40.13	41.81	41.33	43.83	42.28
<b>Revenue (\$mm)</b>									
Natural Gas	140	530	85	70	102	117	374	126	470
Oil	312	1,173	326	274	278	296	1,173	312	1,178
Total	452	1,703	411	344	379	413	1,547	438	1,648
<b>Expense</b>									
Operating	77	308	83	78					
Production taxes	34	127	25	23					
General and administrative	11	45	14	13					
Expense	122	480	122	114	114	124	473	131	493
<b>Ebitda</b>	330	1,223	289	230	266	289	1,074	307	1,154
Deprec., Deplet., & Amor	93	402	122	124	124	124	494	124	496
Other Non Cash	1	11	9	(3)			5		-
<b>Ebit</b>	236	810	159	109	142	165	575	183	658
Interest	-	-	-	4	4	4	12	4	16
<b>Ebt</b>	236	810	159	105	138	161	563	179	642
Income Tax	83	283	56	37	48	56	197	63	225
<b>Net Income (\$mm)</b>	153	526	103	68	89	105	366	116	418
Per Share (\$)	1.78	6.11	1.20	0.79	1.04	1.21	4.24	1.35	4.83
<b>Shares (millions)</b>	86	86	86	86	86	86	86	86	86
Ebitda Margin	73%	72%	70%	67%	70%	70%	69%	70%	70%
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

		<i>Price</i>									
	<i>Symbol/Rating</i>	<i>(US\$/sh)</i>	<i>EV/</i>	<i>Enterprise</i>	<i>PV(%)</i>	<i>EV/</i>	<i>Dist.</i>	<i>Dist.</i>			
	B = Buy	2-Aug	Market	Value	Nat	Ebitda	NTM	Yield	McDep		
	CB (see below)	2012	Cap	(\$mm)	Gas	Oil	NTM	(\$/un)	(%)	Ratio	
<b>Small Cap Independent Producers</b>											
Continental Resources	CLR	62.58	1.21	13,590	27	73	7.6	-	-	0.91	
Range Resources	RRC CB	61.16	1.32	12,960	74	26	15.1	0.16	0.3	0.90	
Peyto Exploration and Developmen	PEYUF	20.84	1.17	3,380	77	23	10.3	0.71	3.4	0.88	
PDC Energy	PDCE	23.69	1.93	1,100	56	44	7.1	-	-	0.74	
Halcón Resources	HK	6.92	1.09	1,280	20	80	6.2	-	-	0.71	
Berry Petroleum Company	BRY	36.73	1.78	3,570	13	87	5.6	0.32	0.9	0.66	
Birchcliff Energy Ltd.	BIREF CB	6.60	1.46	1,450	63	37	9.7	-	-	0.64	
Denbury Resources Inc.	DNR	14.80	1.47	8,510	6	94	5.5	-	-	0.62	
Cimarex Energy Company	XEC CB	54.13	1.27	5,920	45	55	5.1	0.48	0.9	0.55	
Whiting Petroleum Corporation	WLL CB	39.21	1.41	6,590	8	92	4.6	-	-	0.53	
<i>Total or Median</i>				58,400			6.7			0.69	
<b>Top Line Cash Payers</b>											
Permian Basin RT	PBT	18.12	1.00	850	37	63		1.33	7.4	0.91	
Freehold Royalties Ltd.	FRHLF	18.87	1.04	1,270	16	84		1.67	8.8	0.90	
Cross Timbers Royalty Trust	CRT	37.95	1.00	230	70	30		2.46	6.5	0.86	
Dorchester Minerals, L.P.	DMLP CB	22.05	1.00	680	57	43		1.88	8.5	0.82	
Sabine Royalty Trust	SBR	52.20	1.00	760	55	45		3.50	6.7	0.80	
<i>Total or Median</i>				3,800					7.4	0.86	
<b>Bottom Line Cash Payers</b>											
Linn Energy, LLC	LINE	39.51	1.77	13,860	40	60	13.8	2.90	7.3	1.16	
Vanguard Natural Resources, LLC	VNR	27.61	1.47	2,140	27	74	10.7	2.37	8.6	1.07	
Legacy Reserves L.P.	LGCY	25.94	1.40	1,720	23	77	8.3	2.22	8.6	0.90	
Enduro Royalty Trust (40%)	NDRO	18.23	1.00	240	42	58	7.9	1.68	9.2	0.87	
Enerplus Corporation	ERF CB	13.50	1.64	4,300	26	74	5.6	1.34	9.9	0.75	
Mesa RoyaltyTrust	MTR	29.37	1.00	55	75	25	12.3	1.94	6.6	0.74	
San Juan Basin Royalty Trust	SJT CB	15.27	1.00	710	100	-	11.0	1.08	7.0	0.73	
Hugoton RoyaltyTrust	HGT	7.32	1.00	290	89	11	7.2	0.11	1.6	0.52	
<i>Total or Median</i>				23,300			9.5		7.9	0.81	
<b>Composite</b>											
<i>Enterprise Value Weighting</i>				85,500	37	63				0.79	
<i>Equal Weighting</i>					45	55				0.79	
<i>Equal Weighted Buys</i>					49	51				0.70	

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 June 30, 2013. Enterprise Value = Market Cap and Debt.





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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		2-Aug 2012	Royalty (%)	Ebitda	NTM	NTM	NTM
<b>Small Cap Independent Producers</b>								
Range Resources	RRC	CB	61.16		-	15.1	16.7	15.1
Peyto Exploration and Development Corp	PEYUF		20.84		0.35	10.0	11.6	10.3
Birchcliff Energy Ltd.	BIREF	CB	6.60		-	21.6	15.2	9.7
Continental Resources	CLR		62.58		-	9.6	8.4	7.6
PDC Energy	PDCE		23.69		-	8.1	9.6	7.1
Halcón Resources	HK		6.92		-	7.1	8.8	6.2
Berry Petroleum Company	BRY		36.73		-	11.8	8.4	5.6
Denbury Resources Inc.	DNR		14.80		-	13.1	8.9	5.5
Cimarex Energy Company	XEC	CB	54.13		-	7.9	9.3	5.1
Whiting Petroleum Corporation	WLL	CB	39.21		-	9.5	8.6	4.6
	<i>Median</i>					9.8	9.1	6.7
<b>Top Line Cash Payers</b>								
Sabine Royalty Trust	SBR		52.20	100	1.00	8.7	18.5	14.9
Cross Timbers Royalty Trust	CRT		37.95	78	0.96	17.8	17.2	14.9
Permian Basin RT	PBT		18.12	32	0.88	9.7	13.3	12.0
Dorchester Minerals, L.P.	DMLP	CB	22.05	77	1.00	6.6	14.4	11.7
Freehold Royalties Ltd.	FRHLF		18.87	71	0.88	5.4	11.0	10.0
	<i>Median</i>					8.7	14.4	12.0
<b>Bottom Line Cash Payers</b>								
Linn Energy, LLC	LINE		39.51		1.15	15.1	11.9	13.8
Mesa RoyaltyTrust	MTR		29.37		0.81	8.0	16.7	12.3
San Juan Basin Royalty Trust	SJT	CB	15.27		0.77	8.6	15.1	11.0
Vanguard Natural Resources, LLC	VNR		27.61		0.95	13.6	10.0	10.7
Legacy Reserves L.P.	LGCY		25.94		0.68	11.3	9.2	8.3
Enduro Royalty Trust (40%)	NDRO		18.23		0.73	7.2	9.1	7.9
Hugoton RoyaltyTrust	HGT		7.32		0.11	13.6	13.8	7.2
Enerplus Corporation	ERF	CB	13.50		0.48	6.3	7.5	5.6
	<i>Median</i>					10.0	11.0	9.5
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 June 30, 2013; 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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Table ISC-4								
Oil and Gas Income and Small Cap Stocks								
Rank by Enterprise Value to 200 Day Average								
			Price (\$/sh)	Enterprise Value/				
	Symbol/ Rating		2-Aug 2012	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	McDep Ratio
<b>Small Cap Independent Producers</b>								
	Peyto Exploration and Development C	PEYUF	20.84	0.83	1.34	1.09	1.06	0.88
	Range Resources	RRC	61.16	0.83	1.13	1.02	0.98	0.90
	Denbury Resources Inc.	DNR	14.80	0.77	1.27	1.00	0.91	0.62
	Berry Petroleum Company	BRY	36.73	0.73	1.10	0.99	0.91	0.66
	Cimarex Energy Company	XEC	54.13	0.67	1.13	1.02	0.88	0.55
	PDC Energy	PDCE	23.69	0.74	1.23	0.99	0.87	0.74
	Continental Resources	CLR	62.58	0.69	1.36	0.92	0.86	0.91
	Whiting Petroleum Corporation	WLL	39.21	0.69	1.23	0.97	0.86	0.53
	Birchcliff Energy Ltd.	BIREF	6.60	0.52	1.21	1.06	0.74	0.64
	Halcón Resources	HK	6.92	0.54		0.77		0.71
	<i>Median</i>			<i>0.71</i>	<i>1.23</i>	<i>1.00</i>	<i>0.88</i>	<i>0.69</i>
<b>Top Line Cash Payers</b>								
	Freehold Royalties Ltd.	FRHLF	18.87	0.89	1.36	1.06	1.01	0.90
	Dorchester Minerals, L.P.	DMLP	22.05	0.81	1.11	1.01	0.95	0.82
	Permian Basin RT	PBT	18.12	0.78	1.10	1.01	0.90	0.91
	Cross Timbers Royalty Trust	CRT	37.95	0.75	1.20	1.05	0.89	0.86
	Sabine Royalty Trust	SBR	52.20	0.77	1.15	1.03	0.88	0.80
	<i>Median</i>			<i>0.78</i>	<i>1.15</i>	<i>1.03</i>	<i>0.90</i>	<i>0.86</i>
<b>Bottom Line Cash Payers</b>								
	Linn Energy, LLC	LINE	39.51	0.98	1.14	1.03	1.03	1.16
	Vanguard Natural Resources, LLC	VNR	27.61	0.91	1.16	1.03	1.01	1.07
	Legacy Reserves L.P.	LGCY	25.94	0.88	1.12	1.00	0.95	0.90
	San Juan Basin Royalty Trust	SJT	15.27	0.60	1.27	1.02	0.80	0.73
	Mesa RoyaltyTrust	MTR	29.37	0.61	1.18	1.00	0.78	0.74
	Enerplus Corporation	ERF	13.50	0.55	1.11	1.02	0.75	0.75
	Hugoton RoyaltyTrust	HGT	7.32	0.32	1.14	1.02	0.51	0.52
	<i>Median</i>			<i>0.61</i>	<i>1.14</i>	<i>1.02</i>	<i>0.80</i>	<i>0.75</i>

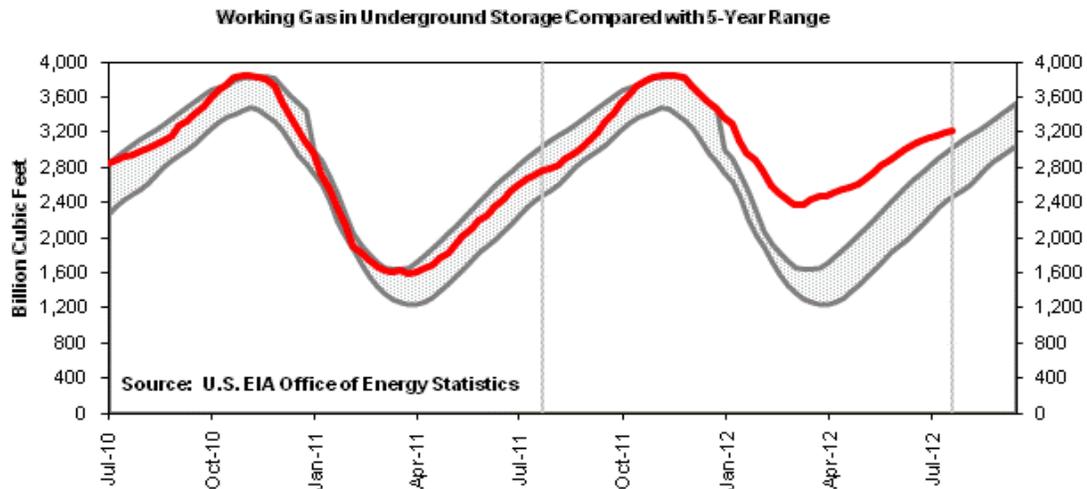
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