



# Independent Stock Idea

February 16, 2011

rating: buy  
s&p 500: 1328

## Cimarex Energy (XEC) Raise NPV to \$120 on Oil Reserves

<i>Symbol</i>	XEC	<i>Ebitda Next Twelve Months ending 12/31/11 (US\$mm)</i>	1,241
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	31
<i>Price (\$/sh)</i>	107.10	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/15/11	<i>Adjusted Reserves/Production NTM</i>	7.4
<i>Shares (mm)</i>	86	<i>EV/Ebitda</i>	7.9
<i>Market Capitalization (\$mm)</i>	9,190	<i>PV/Ebitda</i>	8.8
<i>Debt (\$mm)</i>	650	<i>Undeveloped Reserves (%)</i>	23
<i>Enterprise Value (EV) (\$mm)</i>	9,840	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	33.10
<i>Present Value (PV) (\$mm)</i>	10,950	<i>Present Value Proven Reserves(\$/boe)</i>	34.90
<i>Net Present Value (\$/share)</i>	120	<i>Oil and Gas Ebitda Margin (%)</i>	70
<i>Debt/Present Value</i>	0.06	<i>Earnings Next Twelve Months (US\$/sh)</i>	6.33
<i>McDep Ratio - EV/PV</i>	0.90	<i>Price/Earnings Next Twelve Months</i>	17
<i>Dividend Yield (%/year)</i>	0.3	<i>Indicated Annual Dividend (US\$/sh)</i>	0.32
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, \$8 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 (XEC)** offers unlevered appreciation potential of 11% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$120 a share. On the strength of today's disclosure of 2011 results showing an 80% increase in oil and natural gas liquids reserves (partly a reclassification from natural gas to natural gas liquids), NPV is up from \$100 on January 22. The shift from lower price natural gas to higher price oil is expected to continue in 2011 along with a further shift in spending to oil drilling in West Texas (see table [Next Twelve Months Operating and Financial Estimates](#)). The company's timely emphasis on oil leads us to attribute more than half of present value to liquid fuel resources for the first time in our 21<sup>st</sup> century coverage of the company run by Chief Mick Merelli and his loyal team (see table [Functional Cash Flow and Present Value](#)). We wish we could have been smarter in anticipating that last year's estimated NPV would more than double in a year, but we are thankful that the company has been successful beyond expectations. The outlook remains positive presuming the Cimarex team can continue doing what it has done. Aside from commodity prices, the main risk may be costs of drilling and completion equipment and services, which appear to be under control for now.

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Cimarex Energy Company									
Next Twelve Months Operating and Financial Performance									
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Next Twelve Months
	12/31/09	9/30/10	12/31/10	2010	3/31/11	6/30/11	9/30/11	12/31/11	12/31/11
<b>Volume</b>									
Natural Gas (bcf)	30.4	32.4	31.4	133	29.7	30.9	31.3	31.3	123
Natural Gas (mmcf)	330	353	342	364	330	340	340	340	338
Days	92	92	92	365	90	91	92	92	365
Oil (mmb)	2.1	3.8	4.0	14.1	3.9	4.1	4.3	4.6	16.9
Oil (mbd)	22.9	41.3	43.8	38.7	43.8	45.0	47.3	49.6	46.4
Total (bcfe)	43.0	55.2	55.6	217	53.4	55.5	57.4	58.7	225
Total (mmcf)	468	600	604	596	593	610	624	638	616
<b>Price</b>									
Henry Hub (\$/mmbtu)	4.16	4.38	3.80	4.40	4.16	4.07	4.21	4.48	4.23
Differential (\$/mmbtu)	(1.14)	(0.10)	(0.38)	(0.52)	(0.21)	(0.20)	(0.21)	(0.22)	(0.21)
Company (\$/mcf)	5.30	4.48	4.18	4.92	4.37	4.27	4.42	4.70	4.44
WTI Cushing (\$/bbl)	76.09	76.08	85.10	79.43	90.37	91.83	96.29	97.86	94.09
Differential	3.82	17.80	19.83	14.32	21.05	21.39	22.43	22.80	21.79
Company (\$/bbl)	72.27	58.28	65.27	65.11	69.32	70.43	73.86	75.06	72.30
Total (\$/bbl)	43.65	39.83	42.56	43.00	45.31	45.45	48.04	50.08	47.29
<b>Revenue (\$mm)</b>									
Natural Gas	161	145	131	653	130	132	138	147	547
Oil	152	221	263	919	273	288	321	343	1,225
Other	(0)			(14)					
Total	313	366	394	1,559	403	421	459	490	1,772
<b>Expense</b>									
Operating	39	60	70	239					
Production taxes	25	28	33	121					
General and administrative	14	11	12	51					
Total	78	99	115	411	121	126	138	147	532
<b>Ebitda</b>	235	267	279	1,148	282	294	321	343	1,241
Deprec., Deplet., & Amort	64	80	84	311	96	100	103	106	405
Other Non Cash	14	(11)	(13)	(25)					-
<b>Ebit</b>	157	198	209	862	186	194	218	237	836
Interest	1	-	-	-	-	-	-	-	-
<b>Ebt</b>	156	198	209	862	186	194	218	237	836
Income Tax	55	69	73	302	65	68	76	83	293
<b>Net Income (\$mm)</b>	102	129	136	560	121	126	142	154	543
Per Share (\$)	1.23	1.50	1.58	6.54	1.41	1.47	1.65	1.80	6.33
<b>Shares (millions)</b>									
Operating (\$/mcf)	0.91	1.09	1.26	1.10					
Production taxes (%rev)	8.0	7.6	8.4	7.8					
General and admin (\$/mcf)	0.33	0.20	0.22	0.23					
Deprec., D,& A (\$/mcf)	1.49	1.45	1.51	1.43	1.80	1.80	1.80	1.80	1.80
Ebitda Margin	75%	73%	71%	74%	70%	70%	70%	70%	70%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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<b>Cimarex Energy Company</b>					
<b>Functional Cash Flow and Present Value</b>					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	380	8.8	12.9	4,900	45%
Oil	861	5.8	7.0	6,050	55%
	1,241	7.4	8.8	10,950	100%
Debt (US\$mm)					650
Net Present Value (US\$mm)					10,300
Shares (mm)					86
Net Present Value - Standard Estimate (US\$/sh)					120
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					123

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