



Independent Stock Idea

Intraday August 11, 2016

Cimarex Energy (XEC) Raise NPV to \$120 from \$90

<i>Symbol</i>	XEC	<i>Ebitda Next Twelve Months ending 6/30/17 (US\$m)</i>	748
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	35
<i>Price (\$/sh)</i>	130.66	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/11/16	<i>Adjusted Reserves/Production NTM</i>	7.0
<i>Shares (mm)</i>	93	<i>EV/Ebitda</i>	18.0
<i>Market Capitalization (\$mm)</i>	12,160	<i>PV/Ebitda</i>	16.7
<i>Debt (\$mm)</i>	1,300	<i>Undeveloped Reserves (%)</i>	25
<i>Enterprise Value (EV) (\$mm)</i>	13,460	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	12.20
<i>Present Value (PV) (\$mm)</i>	12,470	<i>Present Value Proven Reserves(\$/boe)</i>	25.70
<i>Net Present Value (\$/share)</i>	120	<i>Oil and Gas Ebitda Margin (%)</i>	55
<i>Debt/Present Value</i>	0.10	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.17
<i>McDep Ratio - EV/PV</i>	1.08	<i>Price/Earnings Next Twelve Months</i>	112
<i>Dividend Yield (%/year)</i>	0.2	<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\$70 a barrel and natural gas, \$4.00 a million bt			
For historical analysis of XEC since 2003 see www.mcdep.com/4xec.htm			

Summary and Recommendation

We raise estimated Net Present Value (NPV) for Cimarex Energy (XEC) to \$120 a share from \$90 following better than expected results announced August 4. Volume is tracking higher and costs lower than previous management guidance (see tables Operating and Financial Estimates and Present Value on page 2). A McDep Ratio of 1.08 holds us back from recommending an official buy today. Nonetheless, we like the company's high quality management, long impressive track record and attractive prospects. Current capital spending emphasizes the Delaware Wolfcamp and Bone Spring in the Permian Basin and the Woodford and Meramec in the Midcontinent area (see slide 2016 Investment on page 3). Cimarex is drilling on 230,000 net acres in the Wolfcamp fairway including a joint development with Chevron (see slide Biggest Opportunity on page 3). Early drilling is achieving promising results in a newer play in Oklahoma (see slide Meramec on page 4). With a little bit luck, the company may be on the start of a new uptrend in NPV such as it enjoyed from 2009 to 2014 (see slide NPV on page 4). For downside protection, the company has a low 0.10 ratio of Debt to Present Value. The stock price chart looks good for further gains since scoring a golden cross a few months ago where the 50-day average moved above the 200-day average. Valuation rankings update comparisons among 24 stocks in our research (see Tables 1-4 on pages 5-8).

Kurt H. Wulff, CFA



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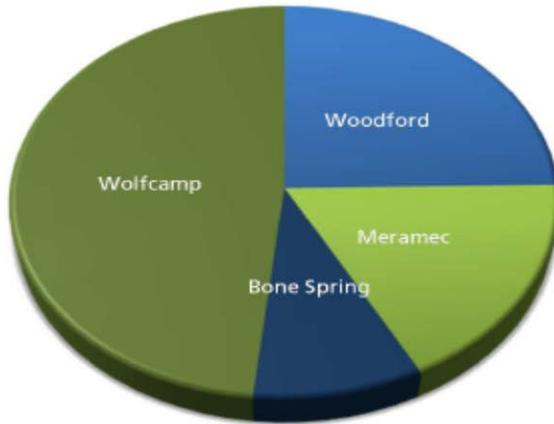
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Cimarex Energy Company										
Next Twelve Months Operating and Financial Performance										
	Q2	Year	Q1	Q2	Q3E	Q4E	Year	Q1E	Q2E	Next Twelve Months
	6/30/15	2015	3/31/16	6/30/16	9/30/16	12/31/16	2016E	3/31/17	6/30/17	6/30/17
Volume										
Natural Gas (mmcf)	466	463	473	462	463	464	465	464	464	464
Oil (mbd)	93.4	86.9	83.4	85.4	88.8	92.4	87.5	92.4	92.4	91.5
Total (bcfe)	93.4	359	87.6	88.7	90.6	92.6	360	91.6	91.6	367
Total (mmcf)	1,026	984	973	974	996	1,018	990	1,018	1,018	1,012
Price										
Henry Hub (\$/mmbtu)	2.66	2.67	2.09	1.95	2.79	3.00	2.46	3.32	3.03	3.03
Company (\$/mcf)	2.51	2.53	1.92	1.82	2.60	2.79	2.28	3.09	2.82	2.83
WTI Cushing (\$/bbl)	57.94	48.79	33.47	45.66	42.79	43.36	41.32	45.24	46.39	44.44
Company (\$/bbl)	36.36	31.19	19.89	27.52	25.79	26.13	24.91	27.27	27.96	26.79
Total (\$/bbl)	26.69	23.67	15.82	19.65	21.05	21.86	19.64	23.29	22.94	22.29
Revenue (\$mm)										
Natural Gas	106	428	82	77	109	118	386	129	118	474
Oil	309	989	149	214	208	220	791	227	232	887
Total	416	1,418	231	290	318	338	1,177	356	350	1,361
Expense										
Operating	115	482	117	101	113	116	447	115	115	458
Production taxes	26	85	14	14	18	19	66	20	20	78
General and administrative	14	74	14	21	19	19	73	19	19	77
Total	155	641	145	136	151	155	586	154	154	613
Ebitda	261	777	86	154	167	183	591	201	196	748
Deprec., Deplet., & Amort	219	788	130	126	127	130	513	128	128	513
Other Non Cash	8	22	(2)	3			2			-
Ebit	34	(33)	(42)	25	40	53	76	73	68	235
Interest	12	52	15	15	16	17	63	17	18	68
Ebt	22	(85)	(57)	10	24	36	13	56	50	167
Income Tax	8	(30)	(20)	4	9	13	5	20	18	58
Net Income (\$mm)	14	(55)	(37)	7	16	24	9	37	33	109
Per Share (\$)	0.15	(0.62)	(0.40)	0.07	0.17	0.25	0.09	0.39	0.35	1.17
Shares (millions)	95	93	93	93	93	93	93	93	93	93
Ebitda Margin	63%	55%	37%	53%	53%	54%	50%	57%	56%	55%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%

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	260	7.9	16.5	4,300	34%
Oil	488	6.2	16.8	8,200	66%
	748	7.0	16.7	12,500	100%
Debt (US\$mm)					1,300
Net Present Value (US\$mm)					11,200
Shares (mm)					93
Net Present Value - Standard Estimate (US\$/sh)					120
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					119

2016 E&D Investment

Drilling & Completion Capital
~\$600 million



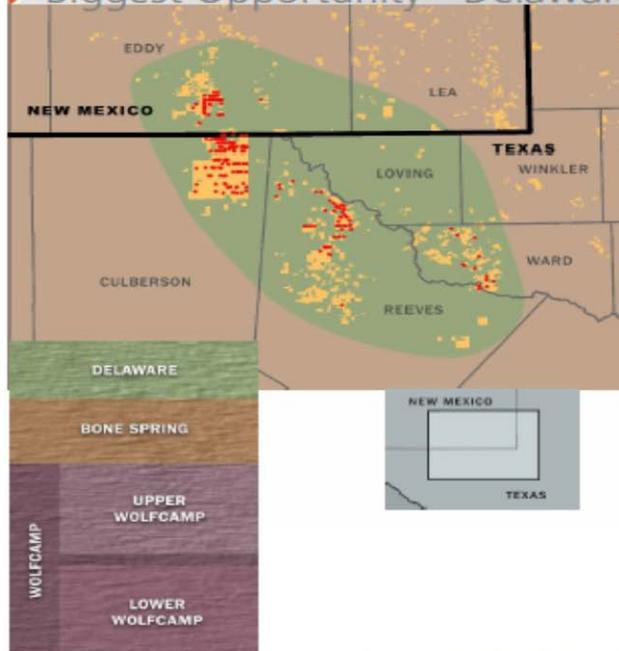
- \$750mm (up from previous \$650-\$700mm guidance)
- Multiple projects/multiple zones
- Delaware Basin
 - Acreage obligations
 - Upper & Lower Wolfcamp in Culberson County
 - Reeves infill development
- Mid-Continent region
 - Meramec delineation and acreage retention
 - Continue Woodford infill
- Flexibility to right size capital

NYSE: XEC

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Biggest Opportunity - Delaware Basin Wolfcamp

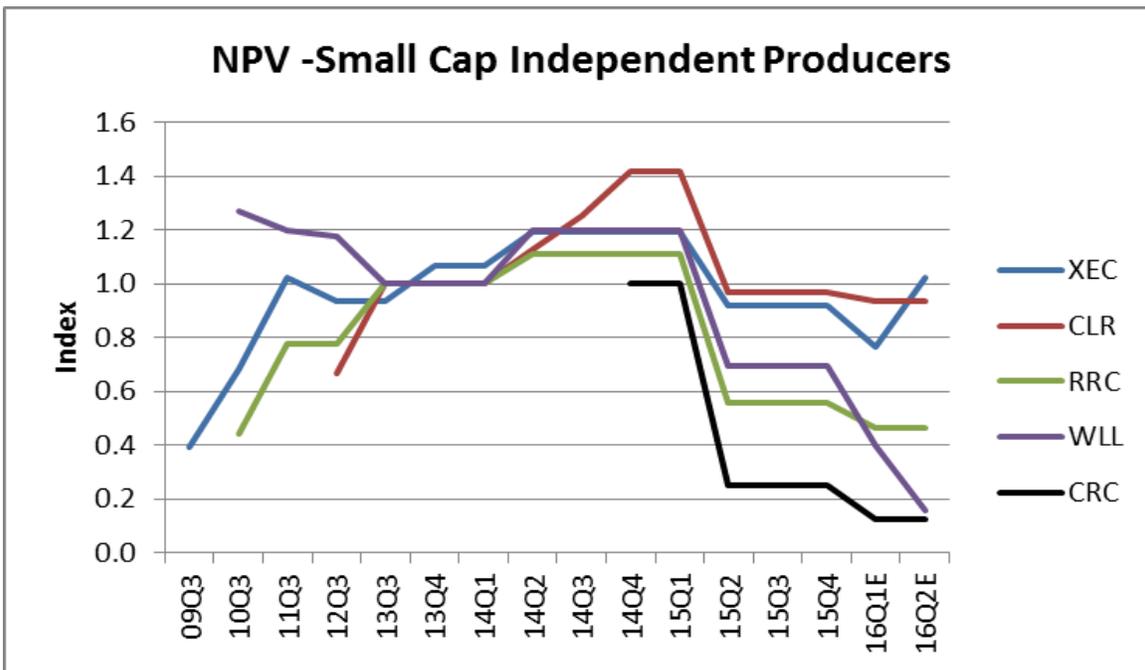
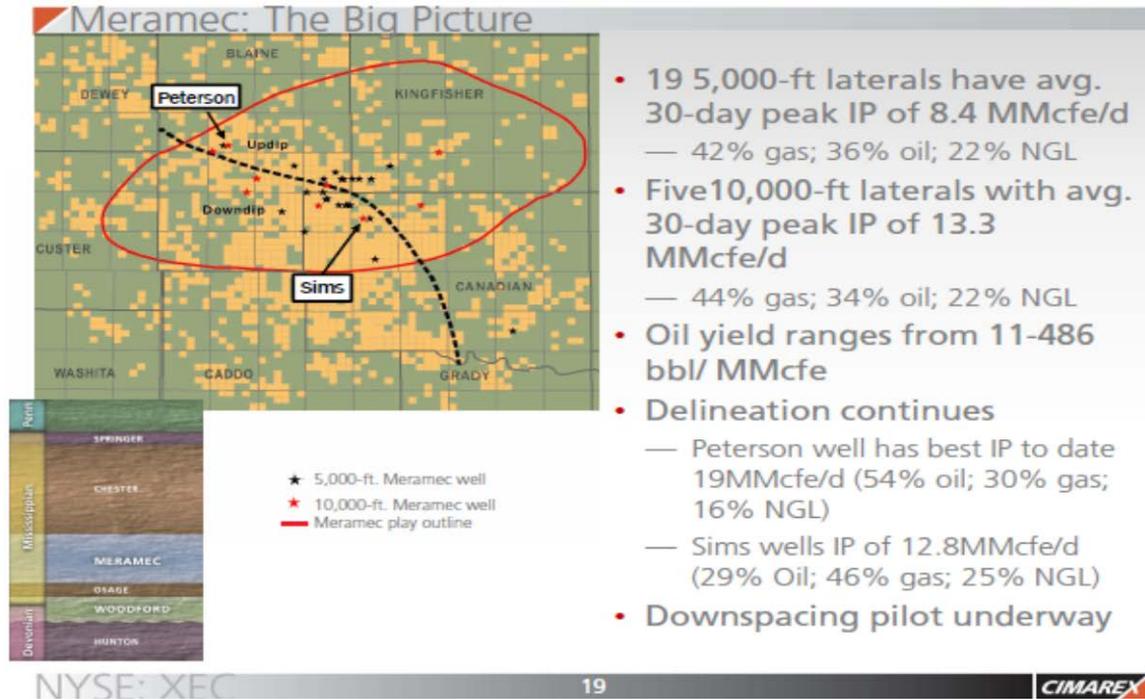


- ~230,000 net acres in the fairway
- Multiple Wolfcamp Targets
 - Culberson/White City Area
 - 100,000+ net acres
 - Upper & Lower Wolfcamp
 - JDA with Chevron
 - Reeves County
 - 80,000 net acres
 - Upper Wolfcamp

NYSE: XEC

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Symbol/Rating	Price (US\$/sh)	EV/ Market Cap	Enterprise Value (\$mm)	Present Value by Segment (%)				Dist. Yield	NTM (%)	McDep Ratio
				North Amer.	Rest of World	Oil Prod'n	Down- stream			
				Natural Gas	Natural Gas					
Global Integrated										
Exxon Mobil Corporation	XOM	86.82	1.26	457,000	6	16	55	23	3.5	0.89
Chevron Corporation	CVX	101.62	1.35	257,000	2	13	66	19	4.2	0.80
Royal Dutch Shell	RDS-A B	50.14	1.68	337,000	2	21	54	24	7.5	0.74
Total S.A.	TOT B	48.47	1.52	175,000		20	58	22	5.6	0.64
<i>Total or Median</i>			<i>1.43</i>	<i>1,226,000</i>			<i>56</i>	<i>23</i>	<i>4.9</i>	<i>0.77</i>
Large Independent										
EOG Resources, Inc.	EOG	90.80	1.15	57,000	11	1	87		0.7	1.18
Devon Energy Corporation	DVN	41.41	1.51	32,300	28		62	10	0.6	1.16
Occidental Petroleum Corp.	OXY	74.28	1.18	66,800	4	2	86	7	4.0	0.99
Marathon Oil Corporation	MRO B	14.55	1.62	19,900	10	2	88		1.4	0.81
ConocoPhillips	COP B	41.58	1.76	91,000	13	13	75		2.4	0.72
<i>Total or Median</i>			<i>1.51</i>	<i>267,000</i>	<i>11</i>		<i>86</i>		<i>1.4</i>	<i>0.99</i>
Small Independent										
Cimarex Energy Company	XEC	130.66	1.11	13,500	34		66		0.2	1.08
Range Resources	RRC	38.73	1.47	9,500	70		30		0.2	0.95
Continental Resources (32%)	CLR B	46.56	1.41	7,800	22		78		-	0.87
Whiting Petroleum Corporation	WLL	7.83	3.15	7,000	10		90		-	0.86
California Resources	CRC	11.75	15.47	7,300	13		88		-	0.83
<i>Total or Median</i>			<i>1.47</i>	<i>45,000</i>	<i>22</i>		<i>78</i>		<i>-</i>	<i>0.87</i>
Income										
San Juan Basin Royalty Trust	SJT	6.12	1.00	290	100		-		8.3	0.76
Sabine Royalty Trust	SBR B	40.25	1.00	590	38		62		6.0	0.67
Dorchester Minerals, L.P.	DMLP B	15.47	1.00	480	28		72		7.3	0.65
Cross Timbers Royalty Trust	CRT	18.68	1.00	110	57		43		7.3	0.64
Permian Basin RT	PBT	6.73	1.00	310	23		77		8.7	0.61
<i>Total or Median</i>			<i>1.00</i>	<i>1,800</i>	<i>38</i>		<i>62</i>		<i>7.3</i>	<i>0.65</i>
Canada										
EnCana Corporation	ECA	9.13	2.09	16,300	43		57		0.7	1.20
Imperial Oil Limited (30%)	IMO	31.58	1.34	10,800	0		63	36	1.4	0.87
Suncor Energy	SU	28.02	1.34	62,500	-		84	16	3.1	0.84
Cenovus Energy Inc.	CVE	14.85	1.33	16,400	7		76	16	1.0	0.79
Birchcliff Energy Ltd.	BIREF B	6.65	1.61	1,600	74		26		-	0.71
<i>Total or Median</i>			<i>1.34</i>	<i>108,000</i>			<i>63</i>		<i>1.0</i>	<i>0.84</i>
Estimated present value presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.00 a million btu.										
Estimated present value capped by unlevered cash flow multiple (EV/Ebitda)										
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses										
For historical research see www.mcdep.com										



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Table 2								
McDep Energy Stocks								
Net Present Value and McDep Ratio								
			Price (US\$/sh)	Shares	Market Cap (US\$mm)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
	Symbol/Rating		11-Aug 2016	(mm)				
	B = Buy							
Global Integrated								
Exxon Mobil Corporation	XOM		86.82	4,178	363,000	100.00	0.18	0.89
Chevron Corporation	CVX		101.62	1,872	190,000	135.00	0.21	0.80
Royal Dutch Shell	RDS-A	B	50.14	4,008	201,000	80.00	0.30	0.74
Total S.A.	TOT	B	48.47	2,379	115,000	90.00	0.22	0.64
	<i>Total or Median</i>				869,000		0.21	0.77
Large Independent								
EOG Resources, Inc.	EOG		90.80	547	49,700	75.00	0.15	1.18
Devon Energy Corporation	DVN		41.41	516	21,400	33.00	0.39	1.16
Occidental Petroleum Corp.	OXY		74.28	764	56,800	75.00	0.15	0.99
Marathon Oil Corporation	MRO	B	14.55	847	12,330	20.00	0.31	0.81
ConocoPhillips	COP	B	41.58	1,245	52,000	70.00	0.31	0.72
	<i>Total or Median</i>				192,200		0.31	0.99
Small Independent								
Cimarex Energy Company	XEC		130.66	93	12,200	120.00	0.10	1.08
Range Resources	RRC		38.73	167	6,500	42.00	0.30	0.95
Continental Resources (32%)	CLR	B	46.56	118	5,500	56.00	0.26	0.87
Whiting Petroleum Corporation	WLL		7.83	285	2,200	12.00	0.58	0.86
California Resources	CRC		11.75	40	500	50.00	0.77	0.83
	<i>Total or Median</i>				27,000		0.30	0.87
Income								
San Juan Basin Royalty Trust	SJT		6.12	47	290	8.00	-	0.76
Sabine Royalty Trust	SBR	B	40.25	15	590	60.00	-	0.67
Dorchester Minerals, L.P.	DMLP	B	15.47	31	480	24.00	-	0.65
Cross Timbers Royalty Trust	CRT		18.68	6	110	29.00	-	0.64
Permian Basin RT	PBT		6.73	47	310	11.00	-	0.61
	<i>Total or Median</i>				1,800		-	0.65
Canada								
EnCana Corporation	ECA		9.13	850	7,800	6.00	0.63	1.20
Imperial Oil Limited (30%)	IMO		31.58	255	8,100	38.00	0.22	0.87
Suncor Energy	SU		28.02	1,665	46,700	35.00	0.21	0.84
Cenovus Energy Inc.	CVE		14.85	833	12,400	20.00	0.19	0.79
Birchcliff Energy Ltd.	BIREF	B	6.65	153	1,000	11.00	0.27	0.71
	<i>Total or Median</i>				76,000		0.22	0.84
Estimated present value presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.00 a million btu.								
Estimated present value capped by unlevered cash flow multiple (EV/Ebitda)								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
For historical research see www.mcdep.com								



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Table 3							
McDep Energy Stocks							
Value Multiples and Dividend							
Ranked by EV/Ebitda							
			Price (US\$/sh)	Adjustd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	Dividend
	Symbol/Rating		11-Aug 2016	NTM	NTM	NTM	NTM
	B = Buy						(\$/sh)
Global Integrated							
Exxon Mobil Corporation	XOM		86.82	14.5	14.1	12.6	38
Chevron Corporation	CVX		101.62	9.2	14.3	11.5	69
Royal Dutch Shell	RDS-A	B	50.14	9.8	12.1	9.0	38
Total S.A.	TOT	B	48.47	9.9	11.3	7.2	17
	<i>Median</i>			9.8	13.1	10.2	38
Large Independent							
Devon Energy Corporation	DVN		41.41	9.0	16.5	19.1	0.24
EOG Resources, Inc.	EOG		90.80	8.2	16.1	18.9	0.67
Occidental Petroleum Corp.	OXY		74.28	8.3	17.0	16.9	3.00
Marathon Oil Corporation	MRO	B	14.55	12.7	18.8	15.3	0.20
ConocoPhillips	COP	B	41.58	11.2	18.5	13.4	1.00
	<i>Median</i>			9.0	17.0	16.9	
Small Independent							
Range Resources	RRC		38.73	14.4	21.7	20.6	0.08
Cimarex Energy Company	XEC		130.66	7.0	16.7	18.0	0.32
Continental Resources (32%)	CLR	B	46.56	11.4	19.5	17.0	-
California Resources	CRC		11.75	11.7	18.2	15.1	-
Whiting Petroleum Corporation	WLL		7.83	9.4	14.8	12.7	-
	<i>Median</i>			11.4	18.2	17.0	
Income							
Sabine Royalty Trust	SBR	B	40.25	9.6	24.8	16.7	17
Dorchester Minerals, L.P.	DMLP	B	15.47	6.7	20.2	13.0	17
Cross Timbers Royalty Trust	CRT		18.68	6.6	18.9	12.2	14
San Juan Basin Royalty Trust	SJT		6.12	9.9	15.1	11.6	12
Permian Basin RT	PBT		6.73	8.6	18.9	11.5	12
	<i>Median</i>			8.6	18.9	12.2	14
Canada							
EnCana Corporation	ECA		9.13	5.4	13.0	15.6	0.06
Imperial Oil Limited (30%)	IMO		31.58	35.8	15.2	13.2	0.45
Cenovus Energy Inc.	CVE		14.85	16.7	15.6	12.3	0.15
Suncor Energy	SU		28.02	21.6	13.5	11.4	0.88
Birchcliff Energy Ltd.	BIREF	B	6.65	15.1	15.3	10.9	-
	<i>Median</i>			16.7	15.2	12.3	
	<i>Grand Median</i>			10	17	13	

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2017; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

For historical research see www.mcdep.com



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Table 4										
McDep Energy Stocks										
Total Return Year-to-Date 2016										
Ranked by Unlevered Total Return										
			Price	Price	Price	Cash	Equity	Unlevered		
	Symbol/Rati		(\$/sh)	(\$/sh)	Change	Distrib.	Total	Debt	Return	McDep
			11-Aug	31-Dec	(%)	(%)	(%)	(\$/sh)	(%)	Ratio
			2016	2015						
Global Integrated										
	Chevron Corporation	CVX	101.62	89.96	13	2	15	36	11	0.80
	Exxon Mobil Corporation	XOM	86.82	77.95	11	2	13	23	10	0.89
	Royal Dutch Shell	RDS-A B	50.14	45.79	9	4	14	34	8	0.74
	Total S.A.	TOT B	48.47	44.95	8	3	11	25	7	0.64
	<i>Median</i>				10		13		9	0.77
Large Independent										
	EOG Resources, Inc.	EOG	90.80	70.79	28	1	29	13	24	1.18
	Devon Energy Corporation	DVN	41.41	32.00	29	1	30	21	18	1.16
	Occidental Petroleum Corp.	OXY	74.28	67.61	10	2	12	13	10	0.99
	Marathon Oil Corporation	MRO B	14.55	12.58	16	1	16	9	10	0.81
	ConocoPhillips	COP B	41.58	46.69	(11)	1	(10)	32	(6)	0.72
	<i>Median</i>				16		16		10	0.99
Small Independent										
	Continental Resources (32%)	CLR B	46.56	22.98	103	-	103	19	56	0.87
	Cimarex Energy Company	XEC	130.66	89.38	46	0	46	14	40	1.08
	Range Resources	RRC	38.73	24.62	57	0	57	18	33	0.95
	California Resources	CRC	11.75	23.30	(50)	-	(50)	170	(6)	0.83
	Whiting Petroleum Corporation	WLL	7.83	9.44	(17)	-	(17)	17	(6)	0.86
	<i>Median</i>				46		46		33	0.87
Income										
	Dorchester Minerals, L.P.	DMLP B	15.47	9.89	56	6	63	-	63	0.65
	Sabine Royalty Trust	SBR B	40.25	26.26	53	4	57	-	57	0.67
	San Juan Basin Royalty Trust	SJT	6.12	4.14	48	3	50	-	50	0.76
	Cross Timbers Royalty Trust	CRT	18.68	13.01	44	5	48	-	48	0.64
	Permian Basin RT	PBT	6.73	5.06	33	3	36	-	36	0.61
	<i>Median</i>				48		50		50	0.65
Canada										
	Birchcliff Energy Ltd.	BIREF B	6.65	2.93	127	-	127	4	53	0.71
	EnCana Corporation	ECA	9.13	5.09	79	1	80	10	27	1.20
	Cenovus Energy Inc.	CVE	14.85	12.62	18	1	18	5	13	0.79
	Suncor Energy	SU	28.02	25.80	9	2	10	9	8	0.84
	Imperial Oil Limited (30%)	IMO	31.58	32.52	(3)	1	(2)	11	(2)	0.87
	<i>Median</i>				18		18		13	0.84
	<i>Grand Median</i>				23		24		16	0.82
	Natural Gas (\$/mmbtu)		2.54	2.33	9					
	Oil - West Texas Intermediate (\$/bbl)		43.56	37.06	18					
	S&P 500		2,187	2,044	7					
Source: McDep LLC, Yahoo, CME Group, Bloomberg					For historical research see www.mcdep.com					



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