



Independent Stock Idea

October 22, 2008

rating: buy
s&p 500: 955

Cimarex Energy (XEC) Woodford Shale Leader

<i>Symbol</i>	XEC	<i>Ebitda Next Twelve Months ending 9/30/09 (US\$m)</i>	1,090
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	59
<i>Price (\$/sh)</i>	40.24	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	10/21/08	<i>Adjusted Reserves/Production NTM</i>	7.4
<i>Shares (mm)</i>	86	<i>EV/Ebitda</i>	3.7
<i>Market Capitalization (\$mm)</i>	3,440	<i>PV/Ebitda</i>	8.4
<i>Debt (\$mm)</i>	590	<i>Undeveloped Reserves (%)</i>	22
<i>Enterprise Value (EV) (\$mm)</i>	4,030	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	37.00
<i>Present Value (PV) (\$mm)</i>	9,150	<i>Present Value Proven Reserves(\$/boe)</i>	37.30
<i>Net Present Value (\$/share)</i>	100	<i>Present Value Proven Reserves(\$/mcfe)</i>	6.20
<i>Debt/Present Value</i>	0.06	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.36
<i>McDep Ratio - EV/PV</i>	0.44	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	0.6	<i>Indicated Annual Dividend (US\$/sh)</i>	0.24
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, \$14 a million btu.			
For historical analysis of XEC since 2003 see www.mcdep.com/4xec.htm			

Summary and Recommendation

Buy-recommended **Cimarex Energy (XEC)** is taking advantage of its operating and financial strength to acquire promising shale gas acreage in western Oklahoma from **Chesapeake Energy (CHK)** for \$180 million. The acquired leases cover most of the same land where XEC has already participated in 18 of the 23 industry wells drilled to tap natural gas in the Woodford Shale formation. The low-debt, cash-rich buyer will use internal funds to acquire an asset from a cash-strapped seller at an opportune time. Cimarex may ultimately spend \$2 billion in the Woodford area to develop more than a trillion cubic feet of reserves over the next decade. Meanwhile XEC is reducing the number of drilling rigs it employs currently in order to keep spending within cash flow generation. Some well projects in the Texas Panhandle and in West Texas would be marginal at \$6 a million btu, should natural gas price drop to that level. While we keep estimated net present value (NPV) at \$100 a share, investors can readily make an approximation that the McDep Ratio of 0.44 implies that XEC stock is priced for oil at \$44 a barrel and natural gas at little more than \$6 a million btu. Current futures prices for the next six years are more than \$80 a barrel and almost \$8 a million btu (see chart [Six-Year Commodity Price Meter](#)). XEC Chairman Mick Merelli has shown in the past that tough times can be times of opportunity for the well-run company.

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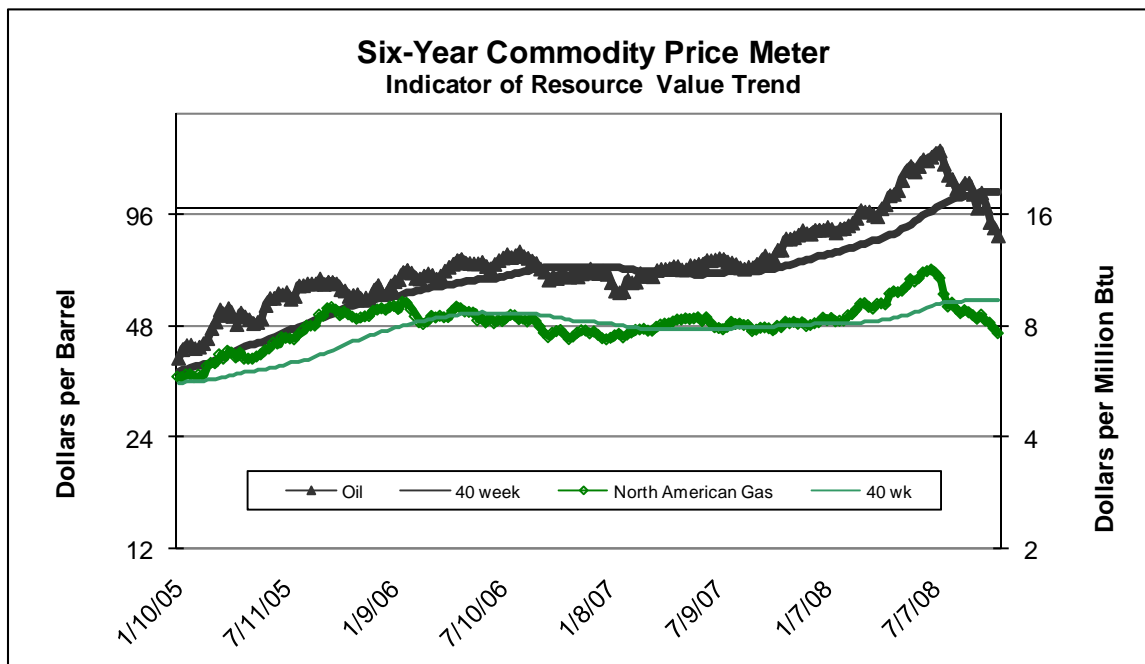
Cimarex Energy Company									
Next Twelve Months Operating and Financial Performance									
									<i>Next</i>
	<i>Q3</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Twelve</i>
	<i>9/30/07</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008E</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>Months</i>
	<i>9/30/09</i>								<i>9/30/09</i>
Volume									
Natural Gas (bcf)	29.9	32.2	32.1	32.1	127	31.4	31.8	32.1	127
Natural Gas (mmcf)	325	354	349	349	348	349	349	349	349
Days	92	91	92	92	366	90	91	92	365
Oil (mmb)	1.9	2.0	2.1	2.1	8	2.0	2.1	2.1	8
Oil (mbd)	20.5	22.5	22.6	22.6	22.6	22.6	22.6	22.6	22.6
Total (bcfe)	41.3	44.4	44.6	44.6	177	43.6	44.1	44.6	177
Total (mmcf)	448	488	485	485	484	485	485	485	485
Price									
Henry Hub (\$/mmbtu)	6.16	10.93	10.25	7.09	9.07	7.24	7.55	7.19	7.27
Differential (\$/mmbtu)	0.12	0.36	0.34	0.24	0.15	0.24	0.25	0.24	0.24
Company (\$/mcf)	6.04	10.57	9.91	6.86	8.93	7.00	7.30	6.95	7.03
WTI Cushing (\$/bbl)	75.48	123.97	117.99	76.61	104.13	75.43	86.27	75.25	78.39
Differential	3.85	2.33	2.34	1.52	2.52	1.50	1.71	1.61	1.59
Company (\$/bbl)	71.63	121.64	115.65	75.09	101.61	73.94	84.56	73.64	76.80
Revenue (\$mm)									
Natural Gas	181	340	318	220	1,137	220	232	223	896
Oil	135	249	241	156	841	150	174	153	634
Other									
Total	316	589	559	377	1,978	371	406	376	1,530
Expense									
Operating	67	60	87	61	267	62	73	69	265
Production taxes	22	40	42	28	141	28	30	28	115
General and administrative	14	16	22	15	67	15	16	14	60
Total	103	116	150	104	475	105	119	111	439
Ebitda	213	473	409	272	1,503	266	287	265	1,090
Deprec., Deplet., & Amort.	120	135	127	127	515	124	126	127	504
Other Non Cash	(26)	(18)			(29)				-
Ebit	119	356	282	145	1,016	141	161	138	586
Interest	4	3	3	3	12	3	3	3	12
Ebt	115	353	279	142	1,004	138	158	135	574
Income Tax	40	124	98	50	352	48	55	47	201
Net Income (\$mm)	75	229	181	92	653	90	103	88	373
Per Share (\$)	0.89	2.68	2.12	1.08	7.64	1.05	1.20	1.03	4.36
Shares (millions)									
Operating (\$/mcfe)	1.62	1.34	1.94	1.36	1.51	1.43	1.64	1.55	1.50
Production taxes (%rev)	7.0	6.8	7.5	7.5	7.1	7.5	7.5	7.5	7.5
General and admin (\$/mcfe)	0.34	0.36	0.49	0.34	0.38	0.33	0.36	0.31	0.34
Deprec., D,& A (\$/mcfe)	2.91	3.04	2.85	2.85	2.91	2.85	2.85	2.85	2.85
Ebitda Margin	67%	80%	73%	72%	76%	72%	71%	70%	71%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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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	640	7.7	8.8	5,600	61%
Oil	450	6.6	8.0	3,590	39%
	1,090	7.4	8.4	9,190	100%
Debt (US\$mm)					590
Net Present Value (US\$mm)					8,600
Shares (mm)					86
Net Present Value - Standard Estimate (US\$/sh)					100
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					114





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