



# Independent Stock Idea

February 18, 2009

rating: buy  
s&p 500: 789

## Cimarex Energy (XEC) Lower NPV to \$55 a Share

<i>Symbol</i>	XEC	<i>Ebitda Next Twelve Months ending 12/31/09 (US\$m)</i>	537
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	60
<i>Price (\$/sh)</i>	24.83	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/17/09	<i>Adjusted Reserves/Production NTM</i>	7.2
<i>Shares (mm)</i>	83	<i>EV/Ebitda</i>	5.3
<i>Market Capitalization (\$mm)</i>	1,970	<i>PV/Ebitda</i>	10.1
<i>Debt (\$mm)</i>	860	<i>Undeveloped Reserves (%)</i>	17
<i>Enterprise Value (EV) (\$mm)</i>	2,830	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	19.10
<i>Present Value (PV) (\$mm)</i>	5,440	<i>Present Value Proven Reserves(\$/boe)</i>	24.40
<i>Net Present Value (\$/share)</i>	55	<i>Oil and Gas Ebitda Margin (%)</i>	61
<i>Debt/Present Value</i>	0.16	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.82
<i>McDep Ratio - EV/PV</i>	0.52	<i>Price/Earnings Next Twelve Months</i>	29
<i>Dividend Yield (%/year)</i>	1.0	<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\$75 a barrel and natural gas, \$10 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

Estimated Net Present Value (NPV) of \$55 a share, down from \$70, is about 120% higher than stock price for low-debt, buy-recommended **Cimarex Energy (XEC)**. Released today, fourth quarter results displayed rapid cost reduction in the face of lower unlevered cash flow (Ebitda) driven by crude oil and natural gas prices (see table [Next Twelve Months Operating and Financial Estimates](#)). Customarily disclosing in advance on February 9, management reported higher production in the latest quarter along with greater decline in natural gas price than in the industry benchmark. Already fortified by a strong balance sheet, the company further protected its financial position by reducing contracted drilling rigs from a peak of 42 last August to five by the end of next month. The advance disclosure of a reduction in proven reserves along with lower estimated production in 2009 contributes to lower NPV. Our valuation capitalizes cash flow at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) for natural gas and oil. Latest calculations result in NPV concentrated 66% on natural gas and 34% on oil (see table [Functional Cash Flow and Present Value](#)). Pointing to expected oil price recovery, futures prices for the next six years averaged US\$62 a barrel recently (see charts [Six-Year Commodity Price Meter](#) and [Six-Year and One-Year Natural Gas and Oil Futures](#)). We justify our optimistic view on the stock in fearful times on the basis of the company's conservative financial position and trustworthy management all in the context of a diversified portfolio fortified against negative surprise.

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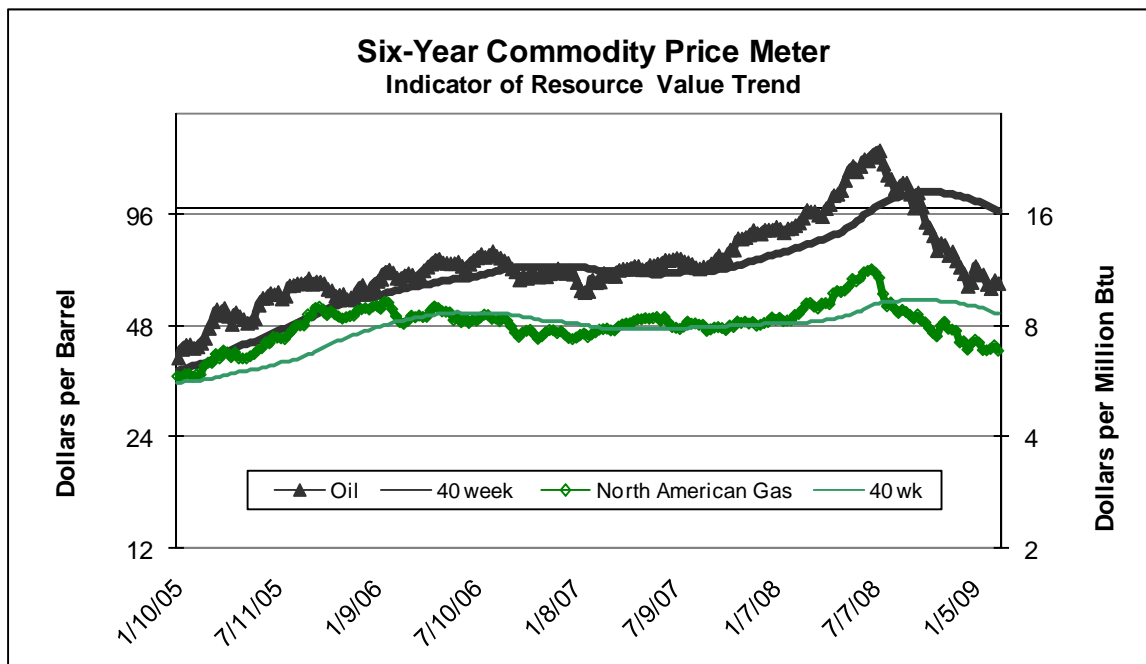
Cimarex Energy Company									
Next Twelve Months Operating and Financial Performance									
									<i>Next</i>
	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Twelve</i>
	<i>12/31/07</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>Months</i>
									<i>12/31/09</i>
<b>Volume</b>									
Natural Gas (bcf)	31.4	32.1	32.2	<b>127</b>	30.7	30.4	30.2	29.5	<b>121</b>
Natural Gas (mmcf)	341	349	350	<b>348</b>	341	334	328	321	<b>331</b>
Days	92	92	92	<b>366</b>	90	91	92	92	<b>365</b>
Oil (mmb)	2.0	2.1	2.2	<b>8.4</b>	2.0	2.0	2.0	1.9	<b>8.0</b>
Oil (mbd)	21.7	22.6	23.9	<b>22.9</b>	22.5	22.0	21.6	21.2	<b>21.8</b>
Total (bcfe)	43.3	44.6	45.4	<b>178</b>	42.9	42.5	42.1	41.2	<b>169</b>
Total (mmcf)	448	485	494	<b>486</b>	476	467	457	457	<b>462</b>
<b>Price</b>									
Henry Hub (\$/mmbtu)	6.97	10.25	6.95	<b>9.04</b>	5.02	4.56	4.90	5.61	<b>5.02</b>
Differential (\$/mmbtu)	(0.49)	0.46	2.26	<b>0.69</b>	1.00	0.46	0.49	0.56	<b>0.63</b>
Company (\$/mcf)	7.46	9.79	4.69	<b>8.35</b>	4.02	4.11	4.41	5.05	<b>4.39</b>
WTI Cushing (\$/bbl)	90.67	117.99	58.45	<b>99.59</b>	40.12	44.53	49.20	51.74	<b>46.40</b>
Differential	2.60	3.12	2.49	<b>3.56</b>	1.71	1.89	2.21	2.33	<b>2.09</b>
Company (\$/bbl)	88.07	114.87	55.96	<b>96.03</b>	38.41	42.63	46.98	49.41	<b>44.30</b>
<b>Revenue (\$mm)</b>									
Natural Gas	234	315	151	<b>1,064</b>	123	125	133	149	<b>530</b>
Oil	176	239	123	<b>806</b>	78	85	93	96	<b>353</b>
Other									
Total	410	554	274	<b>1,870</b>	201	211	226	245	<b>883</b>
<b>Expense</b>									
Operating	50	78	62	<b>260</b>	62	62	62	62	<b>248</b>
Production taxes	27	39	21	<b>131</b>	14	15	16	17	<b>62</b>
General and administrative	16	15	9	<b>54</b>	9	9	9	9	<b>36</b>
Total	93	132	92	<b>445</b>	85	86	87	88	<b>346</b>
<b>Ebitda</b>	316	422	182	<b>1,426</b>	116	125	139	157	<b>537</b>
Deprec., Deplet., & Amort.	122	149	141	<b>551</b>	107	107	107	107	<b>429</b>
Other Non Cash	(9)	(14)	(1)	<b>(44)</b>					<b>-</b>
<b>Ebit</b>	203	287	42	<b>918</b>	9	18	32	50	<b>109</b>
Interest	4	2	1	<b>9</b>	1	1	1	1	<b>4</b>
<b>Ebt</b>	199	285	41	<b>909</b>	8	17	31	49	<b>105</b>
Income Tax	70	100	14	<b>318</b>	3	6	11	17	<b>37</b>
<b>Net Income (\$mm)</b>	130	185	27	<b>591</b>	5	11	20	32	<b>68</b>
Per Share (\$)	1.54	2.19	0.32	<b>6.95</b>	0.06	0.13	0.24	0.38	<b>0.82</b>
<b>Shares (millions)</b>	84	85	83	<b>83</b>	83	83	83	83	<b>83</b>
Operating (\$/mcf)	1.15	1.75	1.36	<b>1.46</b>	1.45	1.46	1.47	1.50	<b>1.47</b>
Production taxes (%rev)	6.6	7.0	7.7	<b>7.0</b>	7.0	7.0	7.0	7.0	<b>7.0</b>
General and admin (\$/mcf)	0.38	0.34	0.20	<b>0.30</b>	0.21	0.21	0.21	0.22	<b>0.21</b>
Deprec., D, & A (\$/mcf)	2.81	3.34	3.10	<b>3.10</b>	2.50	2.52	2.55	2.60	<b>2.54</b>
Ebitda Margin	77%	76%	66%	<b>76%</b>	58%	59%	62%	64%	<b>61%</b>
Tax rate	35%	35%	35%	<b>35%</b>	35%	35%	35%	35%	<b>35%</b>



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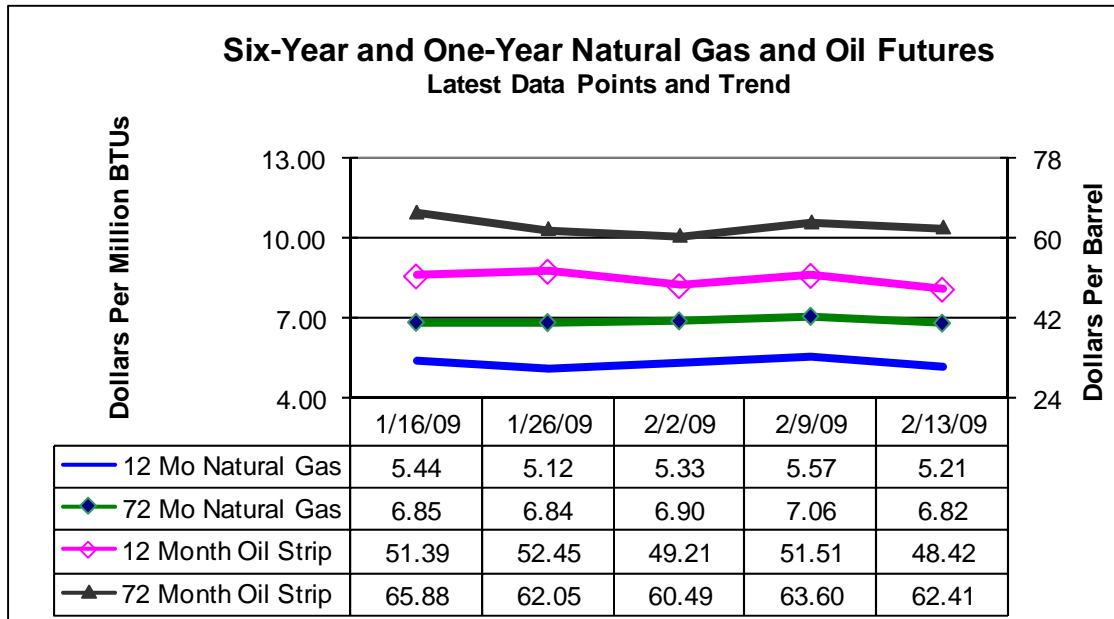
Cimarex Energy Company					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
North American Natural Gas	320	7.9	11.3	3,600	66%
Oil	217	5.7	8.6	1,860	34%
	537	7.2	10.2	5,460	100%
Debt (US\$mm)					860
Net Present Value (US\$mm)					4,600
Shares (mm)					83
Net Present Value - Standard Estimate (US\$/sh)					55
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					56





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