



Independent Stock Idea

May 23, 2016 Intraday

Dorchester Minerals, L.P. (DMLP) Raise Distribution to 9%

<i>Symbol</i>	DMLP	<i>Ebitda Next Twelve Months ending 3/31/17 (US\$mm)</i>	39
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	52
<i>Price (US\$/sh)</i>	12.15	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	5/23/16	<i>Adjusted Reserves/Production NTM</i>	6.8
<i>Units (mm)</i>	30.68	<i>EV/Ebitda</i>	9.6
<i>Market Capitalization (US\$mm)</i>	373	<i>PV/Ebitda</i>	19.0
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$mm)</i>	373	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	3.16
<i>Present Value (PV) (US\$mm)</i>	736	<i>Present Value Proven Reserves(US\$/boe)</i>	52.92
<i>Net Present Value (US\$/unit)</i>	24	<i>Oil and Gas Ebitda Margin (%)</i>	67%
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	0.89
<i>McDep Ratio - EV/PV</i>	0.51	<i>Price/Earnings Next Twelve Months</i>	14
<i>Distribution Yield (%/year)</i>	9.3	<i>Distribution Next Twelve Months (US\$/sh)</i>	1.13
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 bbl.			
For historical analysis of DMLP since 2000 see www.mcdep.com/4dhulz.htm			

Summary and Recommendation

We recommend current purchase of the common units of **Dorchester Minerals (DMLP)** for a distribution yield of 9.3% derived from growing oil production in the Permian Basin. The prospect is magnified by the positive operating leverage of Bottom Line Net Profits Interests on a strong base of low risk Top Line Royalty Interests. Faced with the improving fundamental outlook, DMLP stock price appears just days away from tracing the golden cross, a potentially promising chart pattern. From \$0.95 a unit two weeks ago (*Meter Reader* 5/20/16), we raise estimated distribution to \$1.13 for the next twelve months (see table Operating and Financial Estimates on page 2). The rebuilt quarterly model more explicitly illustrates how cash distributions can increase should Bottom Line Ebitda outstrip Development spending as we project. Current expectations also support increasing the Bottom Line proportion of value to 23% from 12% (see table Present Value on page 3). The remainder of estimated Net Present Value of \$24 a unit, almost twice stock price, depends on high quality Top Line operations. Both Bottom Line and Top Line results are buoyed by a rising oil volume trend (see chart Quarterly Volume on page 3). Though actual results are almost sure to be different from our projection, we were encouraged by management's annual presentation to unitholders in Dallas on May 18. General Partner Casey McManemin highlighted the partnership's piece of the action in the Midland Basin of the Permian Basin in West Texas by leading operators Pioneer Natural Resources (PXD), Diamondback Energy (FANG) and RSP Permian (RSPP) (see slides Core Midland, Glasscock County and Midland County on pages 4-5). Finally, DMLP stock price may be pointing to future appreciation signified by the golden cross when the 50 day average crosses above the 200-day average (see chart on page 5).

Kurt H. Wulff, CFA



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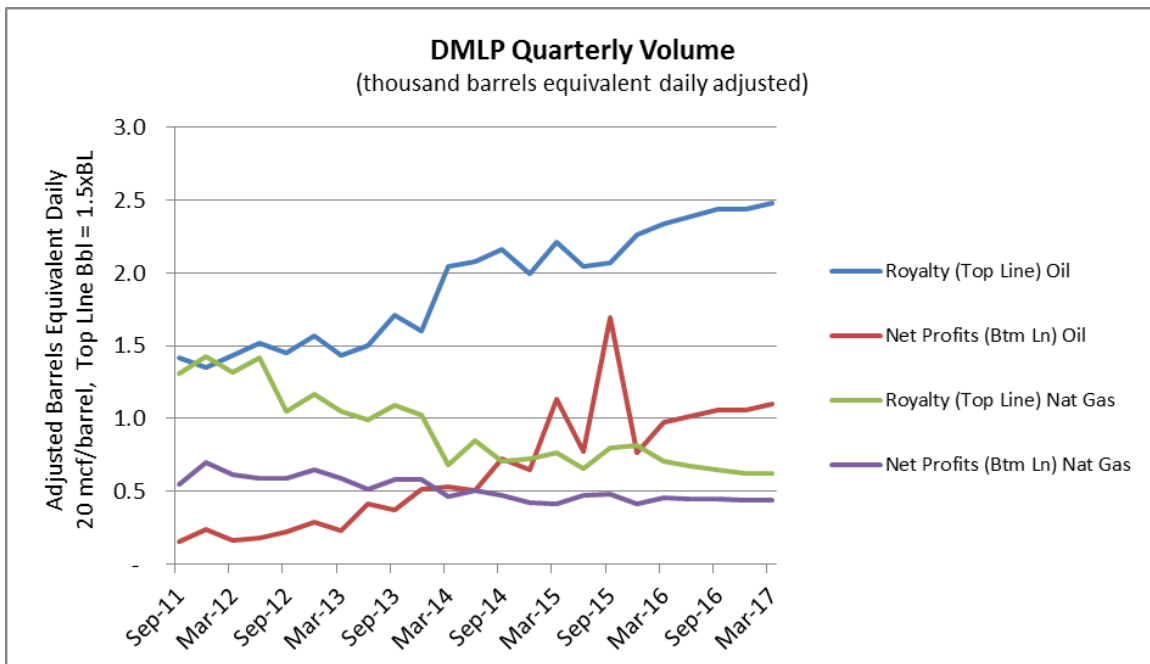
Dorchester Minerals, L.P.												
Operating and Financial Performance												
	Q1	Q2	Q3	Q4	Year	Q1	Q2E	Q3E	Q4E	Year	Q1E	Next Twelve Months
	3/31/15	6/30/15	9/30/15	12/31/15	2015	3/31/16	6/30/16	9/30/16	12/31/16	2016E	3/31/17	3/31/17
TOP LINE												
Volume												
Natural Gas (mmcf)	10.4	8.7	10.7	10.9	10.1	9.4	9.0	8.6	8.3	8.8	8.3	8.6
Oil (mbd)	1.49	1.36	1.38	1.51	1.44	1.56	1.59	1.62	1.62	1.60	1.66	1.62
Price												
Henry Hub (\$/mmbtu)	2.99	2.66	2.76	2.28	2.67	2.09	2.04	2.34	2.85	2.33	2.93	2.54
WTI Cushing (\$/bbl)	48.62	57.94	46.39	42.21	48.79	33.47	44.90	48.83	49.81	44.25	50.30	48.46
Natural Gas (\$/mcf)	2.66	2.31	2.40	1.86	2.30	1.80	1.75	2.02	2.45	2.00	2.52	2.19
Oil (\$/bbl)	43.26	50.07	37.22	38.82	42.23	29.90	40.11	43.63	44.50	39.65	45.27	43.38
Revenue (\$mm)												
Natural Gas	2.5	1.8	2.4	1.9	8.5	1.5	1.4	1.6	1.9	6.5	1.9	6.8
Oil	5.8	6.2	4.7	5.4	22.1	4.2	5.8	6.5	6.6	23.2	6.8	25.8
Total Revenue	8.3	8.0	7.1	7.3	30.6	5.8	7.2	8.1	8.5	29.7	8.7	32.6
Expense (allocated)	1.4	1.3	0.7	1.9	5.2	1.4	1.4	1.4	1.4	5.5	1.4	5.5
Ebitda	6.9	6.7	6.4	5.4	25.4	4.4	5.9	6.7	7.1	24.1	7.3	27.1
BOTTOM LINE												
Volume												
Natural Gas (mmcf)	8.3	9.4	9.6	8.3	8.9	9.1	9.0	8.9	8.8	9.0	8.8	8.9
Oil (mbd)	1.14	0.77	1.70	0.76	1.09	0.98	1.02	1.06	1.06	1.03	1.10	1.06
Price												
Natural Gas (\$/mcf)	2.63	2.56	2.90	1.80	2.49	2.10	2.05	2.35	2.86	2.34	2.94	2.55
Oil (\$/bbl)	41.74	53.65	58.43	36.64	49.46	30.83	41.36	44.99	45.88	40.98	45.27	44.38
Revenue (\$mm)												
Natural Gas	2.0	2.2	2.6	1.4	8.1	1.7	1.7	1.9	2.3	7.7	2.4	8.3
Oil	4.3	3.8	9.1	2.6	19.7	2.7	3.8	4.4	4.5	15.4	4.5	17.2
Total Revenue	6.3	5.9	11.7	3.9	27.8	4.5	5.5	6.3	6.8	23.1	6.9	25.5
Expense (allocated)												
Partnership	1.1	1.0	1.1	1.0	4.1	1.1	1.1	1.1	1.1	4.3	1.1	4.3
Net Profits Interests	1.4	1.7	2.1	1.7	6.9	2.2	2.3	2.4	2.4	9.2	2.5	9.5
Total Expense	2.5	2.7	3.2	2.7	11.0	3.3	3.3	3.4	3.4	13.5	3.5	13.7
Ebitda	3.8	3.3	8.5	1.2	16.8	1.2	2.2	2.9	3.4	9.6	3.4	11.8
Development	3.4	3.1	8.2	1.2	15.8	1.2	1.3	1.3	1.3	5.1	1.3	5.2
NET INCOME												
Top Line	6.9	6.7	6.4	5.4	25.4	4.4	5.9	6.7	7.1	24.1	7.3	27.1
Bottom Line	0.4	0.2	0.3	0.0	1.0	0.0	0.9	1.6	2.1	4.5	2.1	6.6
Lease Bonus and Other	0.9	0.9	1.2	0.4	3.5	0.7	0.7	0.7	0.7	2.6	0.7	2.6
Deprec., Deplet., & Amort.	2.5	2.3	3.0	2.2	10.1	2.2	2.2	2.3	2.2	9.0	2.2	8.9
Total Net Income	4.0	3.7	2.5	2.8	12.9	1.5	5.2	6.7	7.6	21.0	7.8	27.3
Units (mm)	30.7	30.7	30.7	30.7	30.7	30.7	30.7	30.7	30.7	30.7	30.7	30.7
Net Income Per Unit (\$)	0.13	0.12	0.08	0.09	0.42	0.05	0.17	0.22	0.25	0.68	0.26	0.89
DISTRIBUTION												
Top Line Revenue	9.1	6.8	7.1	7.6	30.6	5.8	7.0	7.8	8.2	28.7	8.4	31.3
Bottom Line Net Revenue	2.5	0.4	0.4	0.7	4.0	0.5	1.9	2.6	3.1	8.2	3.1	10.8
Lease Bonus and Other	0.1	0.0	-	0.1	0.2	0.2	0.1	0.1	0.1	0.5	0.1	0.4
Cash Expense	(2.3)	(2.1)	(1.5)	(2.3)	(8.2)	(2.0)	(2.0)	(2.0)	(2.0)	(8.0)	(2.0)	(8.0)
Distribution	9.4	5.1	6.0	6.1	26.6	4.5	7.0	8.5	9.4	29.5	9.6	34.5
Distribution Per Unit (\$)	0.31	0.17	0.19	0.20	0.87	0.15	0.23	0.28	0.31	0.96	0.31	1.13
TIMING DIFFERENCE (\$/unit)												
Dist - Net Inc - DDA	0.10	(0.03)	0.01	0.04	0.12	0.02	(0.01)	(0.01)	(0.01)	(0.02)	(0.01)	(0.06)



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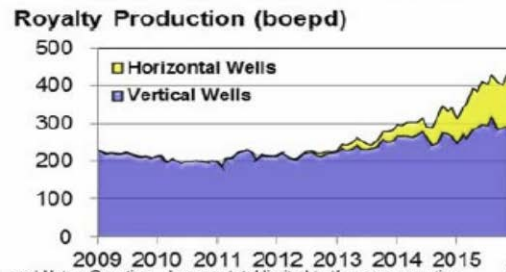
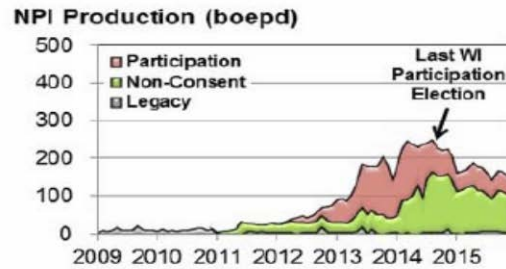
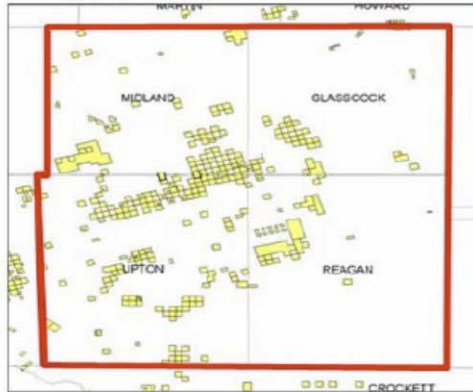
Dorchester Minerals, L.P.					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
<u>Top Line - Royalty Interests</u>					
North American Natural Gas	6	7.5	24.7	140	19%
Oil	21	7.8	20.1	430	58%
<u>Bottom Line - Net Profits Interests</u>					
North American Natural Gas	4	7.9	18.3	70	9%
Oil	8	2.7	12.6	100	14%
<u>Total Top and Bottom</u>					
North American Natural Gas	9	7.7	22.1	210	28%
Oil	29	5.8	18.1	530	72%
	39	6.8	19.1	740	100%
Debt (US\$mm)					-
Net Present Value (US\$mm)					740
Shares (mm)					31
Net Present Value - Standard Estimate (US\$/sh)					24
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					26
Top Line Approximation at 1.5 times Cash Flow Multiple Depending on Reserve Life					





Core Midland Basin

- **Wolfcamp/Spraberry**
 - 229,000 gross ac (11,500 net ac)
 - Unleased at some depth in numerous tracts



Note: Production graph limited to "in pay" volumes from Glasscock, Midland, Reagan, and Upton Counties. Acreage total limited to the same counties. 20

- **Glasscock County Example**
 - 10,240 gross ac (1,120 net ac) with average NRI of 1.688%
 - Horizontal activity on 4 of 16 sections



Note: IP30 data from public company investor presentations.

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- Midland County Example

- 2,749 gross ac (412 net ac) with average NRI of 1.875%
- Produced 518,000 boe from six wells in first four months



Note: IP's as reported on RRC W-2

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