



Independent Stock Idea

April 21, 2014

Mesa Royalty Trust (MTR) Underpayment Uncovered, Upside Commodity Leverage

<i>Symbol</i>	MTR	<i>Ebitda Next Twelve Months ending 3/31/15 (US\$m)</i>	6
<i>Rating</i>	RTF Stock	<i>North American Natural Gas/Ebitda (%)</i>	61
<i>Price (US\$/sh)</i>	26.01	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	4/17/14	<i>Adjusted Reserves/Production NTM</i>	6.4
<i>Shares (mm)</i>	1.86	<i>EV/Ebitda</i>	8.5
<i>Market Capitalization (US\$m)</i>	48	<i>PV/Ebitda</i>	9.1
<i>Debt (US\$m)</i>	0	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$m)</i>	48	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	2.86
<i>Present Value (PV) (US\$m)</i>	52	<i>Present Value Proven Reserves(US\$/boe)</i>	24.50
<i>Net Present Value (US\$/unit)</i>	28	<i>Oil and Gas Ebitda Margin (%)</i>	65
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	3.10
<i>McDep Ratio - EV/PV</i>	0.93	<i>Price/Earnings Next Twelve Months</i>	8
<i>Distribution Yield (%/year)</i>	11.9	<i>Distribution Next Twelve Months (US\$/sh)</i>	3.10
Note: Estimated cash flow and earnings tied to one-year futures prices for 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\$90 a barrel and natural gas, \$6 a million btu.			
For historical analysis of MTR since 2004 see www.mcdep.com/5mtr.htm			

Summary and Recommendation

Royalty Trust Fund (RTF) stock **Mesa Royalty Trust (MTR)** will pay a monthly distribution of \$0.75 for April compared to a nominal run rate of \$0.20 in recent years. \$0.47 of the distribution is a recoupment of past underpayment by the working interest owner in the Hugoton Field of Kansas, which we presume to be Pioneer Natural Resources. The remaining \$0.28 also looks strong for ongoing operations both for the Hugoton Field near \$0.11 and the San Juan Basin of New Mexico near \$0.18. The news was reported after the market close on April 17. The recoupment is well-deserved, we believe, because the reporting of Hugoton cash flow and reserves seemed unjustifiably low to us. We raise our estimate of Net Present Value (NPV) to \$28 from \$27 last week and \$25 a month ago (see table Present Value on page 2). Chances of a better gain seem favorable considering a new uptrend in commodity price with the six-year average for natural gas trading at \$4.49 a million Btu compared to the rising 40-week average of the six-year average at \$4.25 (see chart Six-Year Commodity Meter on page 2). The change in trend coincides with record low natural gas in underground storage. Threatened instability of natural gas supply piped through Ukraine further enhances the value of U.S. energy for export to global markets. Microcap MTR should benefit along with other natural gas producers.

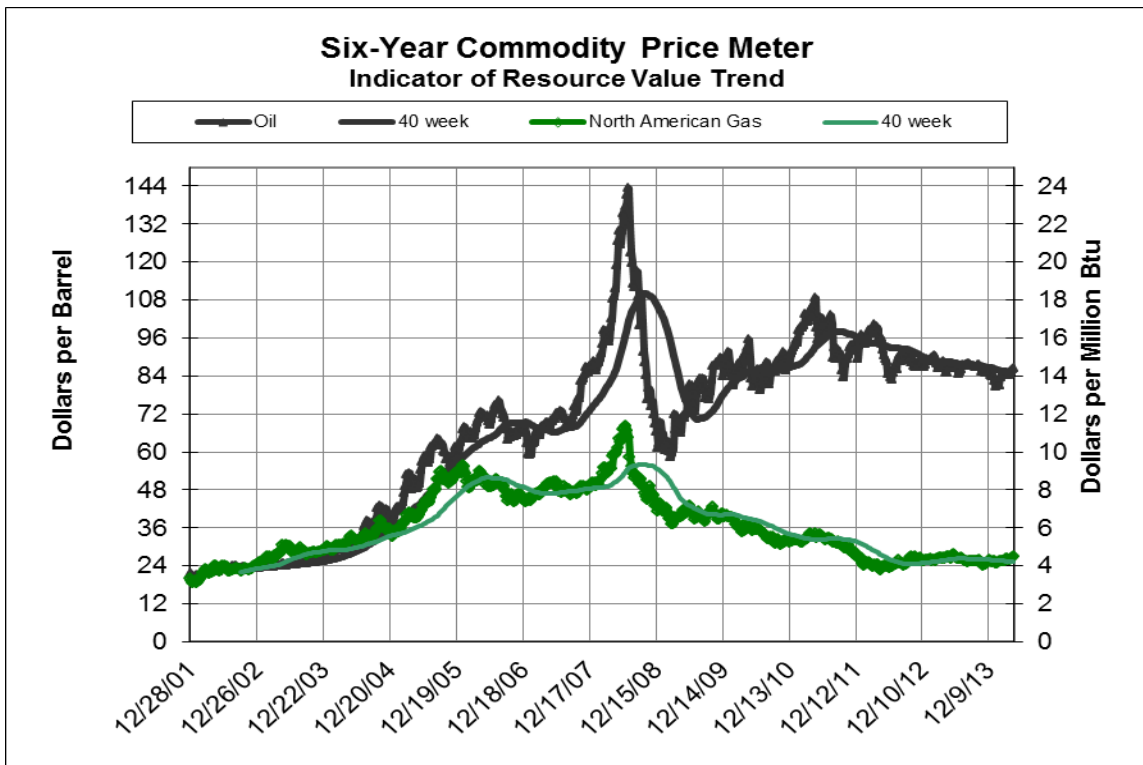
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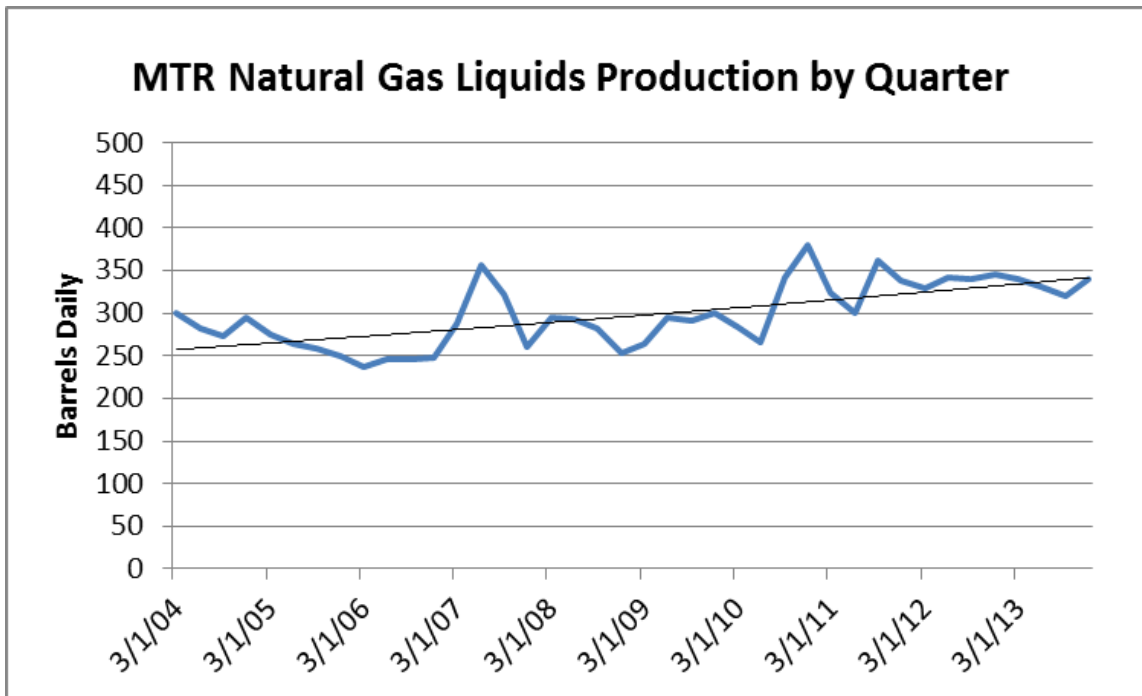
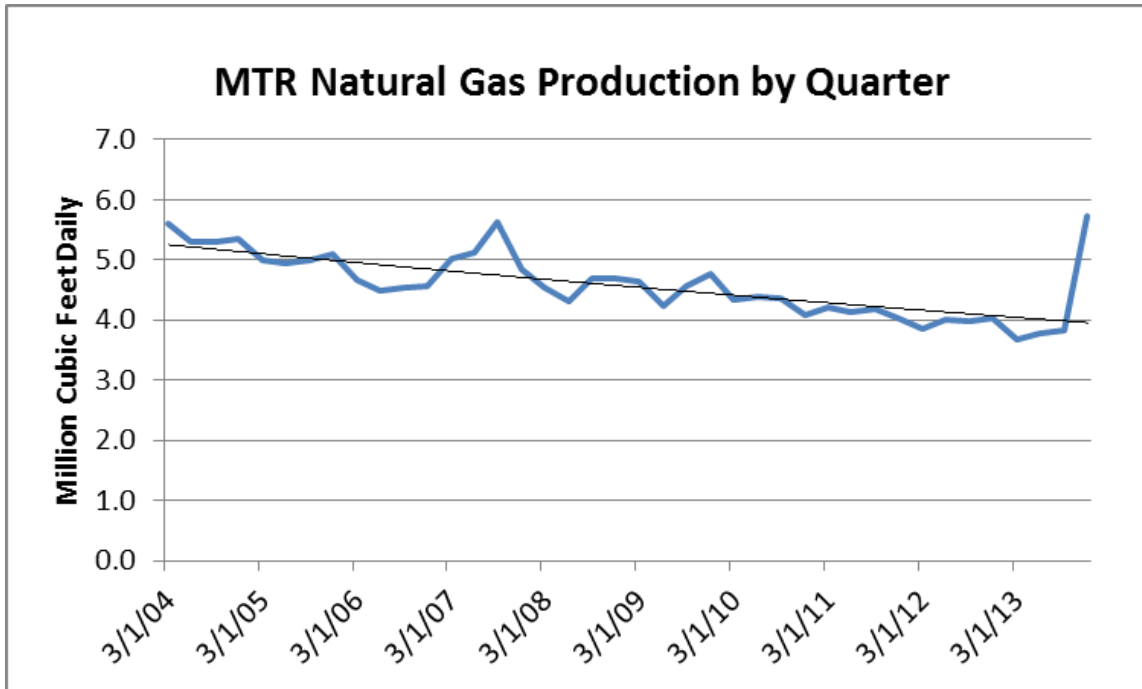
Mesa Royalty Trust					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	3.9	6.4	9.4	37	71%
Oil	2.5	6.4	6.1	15	29%
	6.4	6.4	8.1	52	100%
Debt (US\$mm)					-
Net Present Value (US\$mm)					52
Units (mm)					1.86
Net Present Value - Standard Estimate (US\$/sh)					28
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					30





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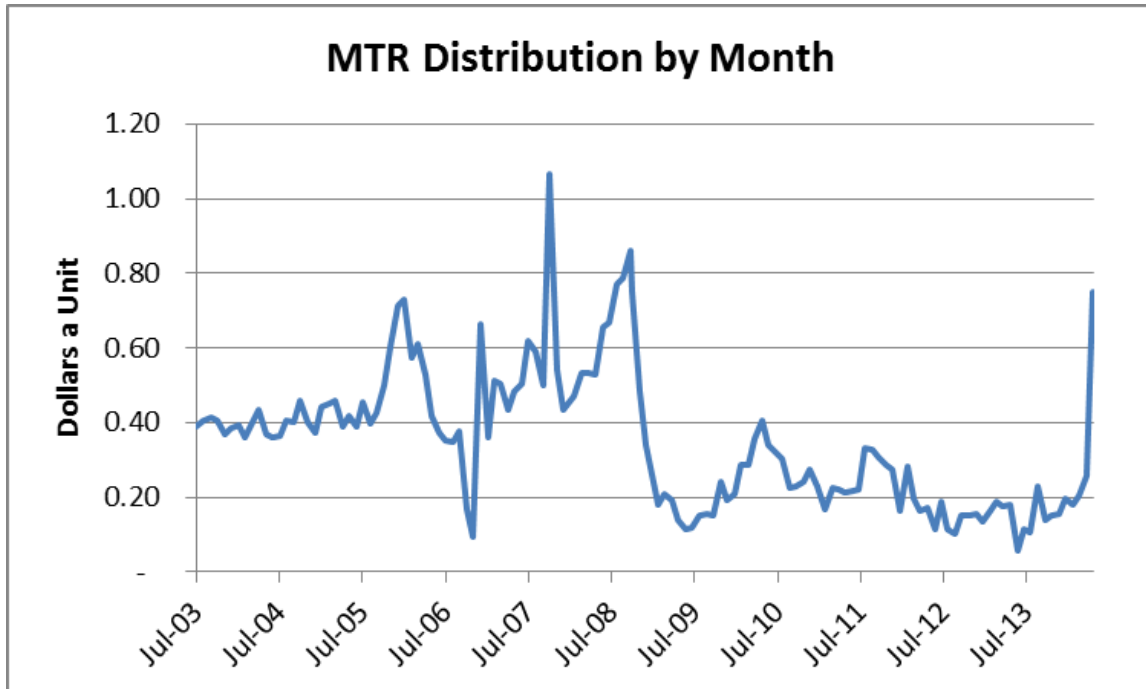
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