



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

February 5, 2010

## Syncrude Transaction in the Works

### Summary and Recommendation

Buy-recommended income stock **Canadian Oil Sands Trust (COSWF)**, owner of 36.7% of the Syncrude oil sands mine and upgrader, may increase its interest if it can be done on accretive, i.e. advantageous, terms. Bloomberg quotes Chief Executive Jim Mulva of **ConocoPhillips (COP)** as aiming to finalize a divestment of its 9% interest in Syncrude over the next several months. The higher McDep Ratio for COSWF at 0.72 compared to the lower McDep Ratio for COP of 0.60 suggests there may be room for a deal that suits both sides. Better buyers at a wider McDep Ratio spread would be **CNOOC (CEO)** at 1.12 McDep Ratio, or **Imperial Oil (IMO)**, the 25% owner and operator of Syncrude, at 0.77 McDep Ratio.

Our simple definition of accretive is that the current COSWF unitholders have more Syncrude to Enterprise Value after the transaction than before, assuming no change in unit price. The challenge is that the seller, COP, likely wants cash that COSWF would have to raise in the capital markets. Suppose a transaction is announced and COSWF stock price remains at US\$26 a unit and that \$US1.3 billion of debt increases the Enterprise Value to \$14 billion for 36.7% of Syncrude. On that basis COSWF might sell \$3.4 billion of equity and debt securities. After paying fees of perhaps 7%, it could pay COP \$3.2 billion, or perhaps \$3.0 billion to make the transaction accretive. Would COP sell 9% of Syncrude, worth \$4.8 billion in our present value framework, for \$3.0 billion? The numbers imply a McDep Ratio of 0.62 while COP has a McDep Ratio of 0.60. It could happen, but the margin is slim.

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	Symbol/Rating	Price (US\$/sh)	EV/ Market	Enterprise Value (\$mm)	Present Value by Segment (%)					McDep Ratio
					NAmer. Natural Gas	Oil Prod'n	Dist. NTM (\$/un)	Dist. Yield (%)		
	B = Buy CB (see below)	4-Feb 2010	Cap							
<b>Canadian Income Trusts (US\$)</b>										
Peyto Energy Trust	PEYUF	12.22	1.28	1,790	72	28	1.35	11.0	0.95	
Penn West Energy Trust	PWE	17.51	1.55	11,400	22	78	1.68	9.6	0.95	
Pengrowth Energy Trust	PGH	10.42	1.49	4,500	35	65	0.79	7.5	0.91	
Enerplus Resources Fund	ERF	21.63	1.23	4,500	42	58	2.02	9.3	0.76	
Canadian Oil Sands Trust	COSWF B	26.41	1.10	14,100		100	1.30	4.9	0.72	
<i>Total or Median</i>				36,300					0.91	
<b>Small Cap Independent Producers</b>										
Birchcliff Energy Ltd. (US\$)	BIREF	8.91	1.17	1,360	64	36	-	-	0.99	
Encore Acquisition Company	EAC	48.79	1.64	4,180	22	78	-	-	0.98	
Whiting Petroleum Corporation	WLL	65.71	1.29	5,070	17	83	-	-	0.88	
Berry Petroleum Company	BRY	26.35	1.94	2,290	31	69	0.30	1.1	0.85	
Cimarex Energy Company	XEC B	49.41	1.20	4,850	67	33	0.24	0.5	0.85	
<i>Total or Median</i>				17,800					0.88	
<b>Top Line Cash Payers</b>										
Sabine Royalty Trust	SBR	43.02	1.00	630	39	61	2.81	6.5	0.96	
Cross Timbers Royalty Trust	CRT	30.77	1.00	190	71	29	2.69	8.7	0.91	
Freehold Royalty Trust (US\$)	FRHLF	14.15	1.21	850	25	75	1.61	11.4	0.86	
Permian Basin RT	PBT	15.10	1.00	700	27	73	1.11	7.4	0.84	
Dorchester Minerals, L.P.	DMLP B	21.99	1.03	670	67	33	1.73	7.9	0.82	
<i>Total or Median</i>				3,000					0.86	
<b>Bottom Line Cash Payers</b>										
Linn Energy, LLC	LINE	25.18	1.56	4,480	40	60	2.52	10.0	1.26	
Encore Energy Partners, L.P. (52%)	ENP	19.48	1.29	590	24	76	2.15	11.0	1.11	
San Juan Basin Royalty Trust	SJT B	20.59	1.00	960	100	-	1.84	8.9	0.98	
Mesa Royalty Trust	MTR	39.99	1.00	75	75	25	4.20	10.5	0.84	
Hugoton Royalty Trust	HGT B	16.93	1.00	680	88	12	1.50	8.9	0.81	
<i>Total or Median</i>				6,800					0.98	
<b>Composite (excl COSWF)</b>										
<i>Enterprise Value Weighting</i>				49,800	37	63			0.92	
<i>Equal Weighting</i>					49	51			0.92	
<i>Equal Weighted Buys</i>					73	27			0.86	
CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.										
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses.										
Present Value presumes long-term prices of \$75 a barrel for oil and \$8 a million btu for natural gas.										
Dist. = Income distribution. NTM = Next Twelve Months Ended December 31, 2010. Enterprise Value = Market Cap and Debt.										



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Table 2								
Oil and Gas Income and Small Cap Stocks								
Net Present Value and McDep Ratio								
			Price (\$/sh)	Shares	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		4-Feb 2010	(mm)				
<b>Canadian Income Trusts (US\$)</b>								
	PEYUF		12.22	114.9	1,400	13.00	0.21	0.95
	PWE		17.51	420.0	7,350	19.00	0.34	0.95
	PGH		10.42	290.0	3,020	12.00	0.30	0.91
	ERF		21.63	169.0	3,660	30.00	0.14	0.76
	COSWF	B	26.41	484.0	12,780	38.00	0.07	0.72
	<i>Total or Median</i>				28,200		0.21	0.91
<b>Small Cap Independent Producers</b>								
	BIREF		8.91	129.8	1,160	9.00	0.15	0.99
	EAC		48.79	52.3	2,550	50.00	0.38	0.98
	WLL		65.71	59.0	3,930	78.00	0.20	0.88
	BRY		26.35	44.9	1,180	35.00	0.41	0.85
	XEC	B	49.41	82.2	4,060	60.00	0.14	0.85
	<i>Total or Median</i>				12,880		0.20	0.88
<b>Top Line Cash Payers</b>								
	SBR		43.02	14.6	630	45.00	-	0.96
	CRT		30.77	6.0	190	34.00	-	0.91
	FRHLF		14.15	49.6	700	17.00	0.15	0.86
	PBT		15.10	46.6	700	18.00	-	0.84
	DMLP	B	21.99	29.8	660	27.00	0.02	0.82
	<i>Total or Median</i>				2,880			0.86
<b>Bottom Line Cash Payers</b>								
	LINE		25.18	114.0	2,870	17.00	0.45	1.26
	ENP		19.48	23.2	450	17.00	0.25	1.11
	SJT	B	20.59	46.6	960	21.00	-	0.98
	MTR		39.99	1.9	75	48.00	-	0.84
	HGT	B	16.93	40.0	680	21.00	-	0.81
	<i>Total or Median</i>				5,040			0.98
B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
Present Value presumes long-term prices of \$75 a barrel for oil and \$8 a million btu for natural gas.								



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Table 3								
Oil and Gas Income and Small Cap Stocks								
Value Multiples - Rank by EV/Ebitda								
			Price (\$/sh)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda
	Symbol/ Rating		4-Feb 2010	Royalty (%)	Ebitda	NTM	NTM	NTM
<b>Canadian Income Trusts (US\$)</b>								
	PEYUF		12.22		1.20	18.2	11.6	11.0
	COSWF	B	26.41		0.50	23.1	14.6	10.4
	PWE		17.51		0.71	8.3	8.0	7.6
	PGH		10.42		0.48	8.3	7.4	6.7
	ERF		21.63		0.57	9.8	8.5	6.4
	<i>Median</i>					9.8	8.5	7.6
<b>Small Cap Independent Producers</b>								
	BIREF		8.91		-	10.6	13.9	13.8
	EAC		48.79		-	11.7	7.6	7.5
	WLL		65.71		-	9.8	7.3	6.4
	BRY		26.35		-	12.4	7.3	6.3
	XEC	B	49.41		-	7.6	5.7	4.8
	<i>Median</i>					10.6	7.3	6.4
<b>Top Line Cash Payers</b>								
	SBR		43.02	100	1.00	12.0	16.0	15.3
	PBT		15.10	32	0.90	11.5	14.5	12.2
	DMLP	B	21.99	64	0.91	7.8	14.2	11.6
	CRT		30.77	84	0.95	12.6	12.0	10.9
	FRHLF		14.15	71	0.87	6.8	9.2	7.9
	<i>Median</i>					11.5	14.2	11.6
<b>Bottom Line Cash Payers</b>								
	LINE		25.18		1.70	18.3	11.5	14.5
	ENP		19.48		1.06	12.5	8.4	9.3
	SJT	B	20.59		0.80	9.0	9.2	9.0
	MTR		39.99		0.93	8.0	10.6	8.9
	HGT	B	16.93		0.76	13.4	10.7	8.6
	<i>Median</i>					12.5	10.6	9.0
B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.								
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation								
and amortization; NTM = Next Twelve Months Ended December 31, 2010; P/E = Stock Price to								
Earnings; PV = Present Value of oil and gas and other businesses								
Top Line Cash Payers defined as those having Revenue Royalty (see fifth column from right).								



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