



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

January 14, 2011

## All Stock Price Trends Up

### Summary and Recommendation

Each and every stock of the 24 trusts, partnerships and small cap corporations in our weekly coverage is in a stock price uptrend (see Table 4 – Rank by Enterprise Value to 200-Day Average on page 5). A positive trend for stocks globally helps. Oil price trends are supportive with the futures quote for the next six years at \$94 a barrel compared to the 40-week average of \$87. Natural gas price may have ended a downtrend on a 12-month basis with the current quote near \$4.60 a million btu, practically on the 40-week average. On a six-year basis, the recent quote near \$5.30 remains below the 40-week average near \$5.60. At a third the price of oil, the steep discount for natural gas points to accelerating demand as operating changes and new investments are made to take advantage of the clean fuel bargain. Finally, the stock price trend is supported by attractive valuation with Cash Payers offering a median distribution yield of 6.7% a year. Small Cap Independent Producers are priced at a median McDep Ratio of 0.96 (see Tables 1-2 on pages 2-3). Unlevered cash flow multiple (EV/Ebitda) for independent producers is 10.7 times for an adjusted reserve life of 11.8. EV/Ebitda for Bottom Line Cash Payers is 11.6 times for an adjusted reserve life of 12.6 (see Table 3 on page 8).

### Trend Up for Energy Customers

Unlike the decade of the 2000s when energy stocks did well while U.S. stocks stagnated, the year ahead looks good for the customers of energy, too. The underlying reason we are optimistic that the trend may continue for now is our experience that financial panics as the world experienced in 2008 do not occur very often. New booms are born when popular opinion focuses on the negative of the most recent past. A second reason is “Don’t Fight the Fed”. The leader of the U.S. central bank could not be more forceful in his efforts to restore confidence with rising prices. A third reason is a reaffirmation of the four-year election cycle. Ahead of the next vote, the U.S. president has shifted from rewarding big government and labor union socialists to cultivating the capitalists among the rest of the population who are the creators of prosperity. As always, a negative surprise could turn the stock price trend prematurely. By definition, we cannot know what surprise may occur. As a result, we’ll go with the trend while remaining vigilant.

Kurt H. Wulff, CFA



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**Table 1**

## McDep Income and Small Cap Energy Portfolio Debt, Business Segments and Income Yield

	Symbol/Rating	Price (US\$/sh)	EV/ Market	Enterprise Value (\$mm)	Present Value by Segment (%)		Dist. NTM (\$/un)	Dist. Yield (%)	McDep Ratio	
					NAmer. Natural Gas	Oil Prod'n				
	B = Buy CB (see below)	13-Jan 2011	Cap							
<b>Small Cap Independent Producers</b>										
Cimarex Energy Company	XEC	B	95.96	1.08	8,860	52	48	0.32	0.3	1.04
Berry Petroleum Company	BRY		46.61	1.41	3,590	26	74	0.30	0.6	1.00
Petrohawk Energy Corporation	HK	B	19.77	1.57	9,370	96	4	-	-	0.99
Range Resources	RRC	B	48.16	1.28	9,660	68	32	0.16	0.3	0.97
Peyto Exploration and Development	PEYUF		19.06	1.19	2,770	69	31	0.73	3.8	0.96
Ultra Petroleum	UPL		46.63	1.21	8,660	90	10	-	-	0.91
Denbury Resources Inc.	DNR		19.06	1.45	11,050	12	88	-	-	0.90
Whiting Petroleum Corporation	WLL		116.18	1.17	8,030	11	89	-	-	0.80
Birchcliff Energy Ltd.	BIREF	B	9.91	1.27	1,600	62	38	-	-	0.67
<i>Total or Median</i>					63,600				-	0.96
<b>Top Line Cash Payers</b>										
Cross Timbers Royalty Trust	CRT		42.91	1.00	260	69	31	2.73	6.4	1.16
Sabine Royalty Trust	SBR		63.10	1.00	920	38	62	4.11	6.5	1.07
Permian Basin RT	PBT		22.56	1.00	1,050	31	69	1.56	6.9	1.02
Freehold Royalties Ltd.	FRHLF		22.18	1.07	1,380	20	80	1.69	7.6	1.01
Dorchester Minerals, L.P.	DMLP	B	27.95	1.02	870	60	40	1.76	6.3	0.93
<i>Total or Median</i>					4,500				6.5	1.02
<b>Bottom Line Cash Payers</b>										
Linn Energy, LLC	LINE		38.76	1.39	7,910	38	62	2.64	6.8	1.25
Vanguard Natural Resources, LLC	VNR		30.44	1.38	1,250	31	69	2.20	7.2	1.09
Legacy Reserves L.P.	LGCY		30.19	1.32	1,590	13	87	2.08	6.9	1.06
San Juan Basin Royalty Trust	SJT	B	24.73	1.00	1,150	100	-	1.43	5.8	0.99
Hugoton Royalty Trust	HGT	B	21.41	1.00	860	86	14	1.34	6.3	0.97
Encore Energy Partners, L.P.	ENP		22.00	1.25	1,240	19	81	2.00	9.1	0.97
Pengrowth Energy Corporation	PGH		13.34	1.34	5,400	29	71	0.84	6.3	0.96
Mesa Royalty Trust	MTR		49.61	1.00	92	75	25	3.65	7.3	0.93
Enerplus Corporation	ERF		32.75	1.18	6,800	34	66	2.16	6.6	0.90
<i>Total or Median</i>					26,300				6.8	0.97
<b>Composite</b>										
<i>Enterprise Value Weighting</i>					94,400	48	52			0.96
<i>Equal Weighting</i>						49	51			0.98
<i>Equal Weighted Buys</i>						73	27			0.94

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 \$100 a barrel for oil and \$8 a million btu for natural gas.

Dist. = Income distribution. NTM = Next Twelve Months Ended December 31, 2011. Enterprise Value = Market Cap and Debt.



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			<i>Price (\$/sh)</i>	<i>Shares</i>	<i>Market Cap (\$mm)</i>	<i>Net Present Value (\$/un)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>
	<i>Symbol/ Rating</i>		<i>13-Jan 2011</i>	<i>(mm)</i>				
<b>Small Cap Independent Producers</b>								
Cimarex Energy Company	XEC	B	95.96	85.8	8,230	92.00	0.07	1.04
Berry Petroleum Company	BRY		46.61	54.4	2,540	47.00	0.29	1.00
Petrohawk Energy Corporation	HK	B	19.77	302.0	5,970	20.00	0.36	0.99
Range Resources	RRC	B	48.16	157.1	7,570	50.00	0.21	0.97
Peyto Exploration and Development Cor	PEYUF		19.06	121.8	2,320	20.00	0.16	0.96
Ultra Petroleum	UPL		46.63	154.0	7,180	52.00	0.16	0.91
Denbury Resources Inc.	DNR		19.06	401.0	7,640	22.00	0.28	0.90
Whiting Petroleum Corporation	WLL		116.18	59.0	6,850	150.00	0.12	0.80
Birchcliff Energy Ltd.	BIREF	B	9.91	127.3	1,260	16.00	0.14	0.67
<i>Total or Median</i>					<i>49,560</i>		<i>0.16</i>	<i>0.96</i>
<b>Top Line Cash Payers</b>								
Cross Timbers Royalty Trust	CRT		42.91	6.0	260	37.00	-	1.16
Sabine Royalty Trust	SBR		63.10	14.6	920	59.00	-	1.07
Permian Basin RT	PBT		22.56	46.6	1,050	22.00	-	1.02
Freehold Royalties Ltd.	FRHLF		22.18	58.4	1,300	22.00	0.06	1.01
Dorchester Minerals, L.P.	DMLP	B	27.95	30.7	860	30.00	0.02	0.93
<i>Total or Median</i>					<i>4,390</i>			<i>1.02</i>
<b>Bottom Line Cash Payers</b>								
Linn Energy, LLC	LINE		38.76	146.5	5,680	28.00	0.35	1.25
Vanguard Natural Resources, LLC	VNR		30.44	29.8	910	27.00	0.30	1.09
Legacy Reserves L.P.	LGCY		30.19	40.1	1,210	28.00	0.25	1.06
San Juan Basin Royalty Trust	SJT	B	24.73	46.6	1,150	25.00	-	0.99
Hugoton RoyaltyTrust	HGT	B	21.41	40.0	860	22.00	-	0.97
Encore Energy Partners, L.P.	ENP		22.00	45.3	1,000	23.00	0.19	0.97
Pengrowth Energy Corporation	PGH		13.34	299.0	3,990	14.00	0.25	0.96
Mesa RoyaltyTrust	MTR		49.61	1.9	92	53.00	-	0.93
Enerplus Corporation	ERF		32.75	177.5	5,810	37.00	0.14	0.90
<i>Total or Median</i>					<i>20,700</i>			<i>0.97</i>
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 \$100 a barrel for oil and \$8 a million btu for natural gas.								



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Table 3								
McDep Income and Small Cap Energy Portfolio								
Value Multiples - Rank by EV/Ebitda								
			Price (\$/sh)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda
	Symbol/ Rating		13-Jan 2011	Royalty (%)	Ebitda	NTM	NTM	NTM
<b>Small Cap Independent Producers</b>								
	RRC	B	48.16		-	11.8	16.1	15.6
	PEYUF		19.06		0.49	17.3	13.4	12.9
	BIREF	B	9.91		-	17.6	17.4	11.7
	UPL		46.63		-	12.6	12.7	11.6
	HK	B	19.77		-	7.0	10.8	10.7
	BRY		46.61		-	11.3	9.1	9.1
	DNR		19.06		-	12.9	9.4	8.5
	XEC	B	95.96		-	6.2	7.3	7.6
	WLL		116.18		-	9.3	8.8	7.1
	<i>Median</i>					11.8	10.8	10.7
<b>Top Line Cash Payers</b>								
	SBR		63.10	100	1.00	7.8	14.4	15.4
	CRT		42.91	84	0.96	13.2	13.1	15.2
	PBT		22.56	32	0.98	13.2	13.9	14.2
	DMLP	B	27.95	77	0.87	6.7	14.7	13.7
	FRHLF		22.18	71	0.85	8.1	11.1	11.1
	<i>Median</i>					8.1	13.9	14.2
<b>Bottom Line Cash Payers</b>								
	LINE		38.76		1.42	18.3	15.0	18.8
	SJT	B	24.73		0.82	13.6	14.3	14.1
	HGT	B	21.41		0.86	12.6	14.0	13.6
	MTR		49.61		0.91	8.7	13.2	12.3
	LGCY		30.19		0.82	12.0	11.0	11.6
	VNR		30.44		0.79	13.0	9.7	10.6
	ENP		22.00		0.93	13.5	10.7	10.3
	PGH		13.34		0.53	9.6	8.9	8.6
	ERF		32.75		0.55	9.7	9.5	8.5
	<i>Median</i>					12.6	11.0	11.6
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, 2011; 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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Table 4									
Oil and Gas Income and Small Cap Stocks									
Rank by Enterprise Value to 200 Day Average									
			Price (\$/sh)		Enterprise Value/				
	Symbol/ Rating		13-Jan 2011	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	McDep Ratio	
<b>Small Cap Independent Producers</b>									
	Cimarex Energy Company	XEC	B	95.96	0.99	1.84	1.11	1.27	1.04
	Berry Petroleum Company	BRY		46.61	0.99	1.52	1.10	1.26	1.00
	Peyto Exploration and Development C	PEYUF		19.06	0.96	1.54	1.05	1.21	0.96
	Whiting Petroleum Corporation	WLL		116.18	0.98	1.65	1.03	1.19	0.80
	Range Resources	RRC	B	48.16	0.91	1.35	1.09	1.11	0.97
	Denbury Resources Inc.	DNR		19.06	0.97	1.26	1.01	1.08	0.90
	Birchcliff Energy Ltd.	BIREF	B	9.91	0.95	1.21	1.04	1.06	0.67
	Petrohawk Energy Corporation	HK	B	19.77	0.82	1.23	1.04	1.05	0.99
	Ultra Petroleum	UPL		46.63	0.89	1.20	0.99	1.03	0.91
	<i>Median</i>				0.96	1.35	1.04	1.11	0.96
<b>Top Line Cash Payers</b>									
	Freehold Royalties Ltd.	FRHLF		22.18	0.99	1.52	1.11	1.26	1.01
	Sabine Royalty Trust	SBR		63.10	0.99	1.52	1.08	1.19	1.07
	Cross Timbers Royalty Trust	CRT		42.91	0.99	1.52	1.05	1.16	1.16
	Permian Basin RT	PBT		22.56	0.95	1.61	1.01	1.14	1.02
	Dorchester Minerals, L.P.	DMLP	B	27.95	0.95	1.35	1.03	1.07	0.93
	<i>Median</i>				0.99	1.52	1.05	1.16	1.02
<b>Bottom Line Cash Payers</b>									
	Enerplus Corporation	ERF		32.75	0.99	1.97	1.09	1.25	0.90
	Linn Energy, LLC	LINE		38.76	0.99	1.94	1.04	1.18	1.25
	Legacy Reserves L.P.	LGCY		30.19	0.99	1.49	1.09	1.16	1.06
	Vanguard Natural Resources, LLC	VNR		30.44	1.00	1.47	1.08	1.16	1.09
	Pengrowth Energy Corporation	PGH		13.34	0.99	2.04	1.03	1.15	0.96
	Encore Energy Partners, L.P.	ENP		22.00	0.97	1.84	1.04	1.11	0.97
	Hugoton Royalty Trust	HGT	B	21.41	0.97	1.43	1.04	1.08	0.97
	Mesa Royalty Trust	MTR		49.61	0.91	1.35	1.00	1.06	0.93
	San Juan Basin Royalty Trust	SJT	B	24.73	0.87	1.26	1.02	1.02	0.99
	<i>Median</i>				0.99	1.49	1.04	1.15	0.97

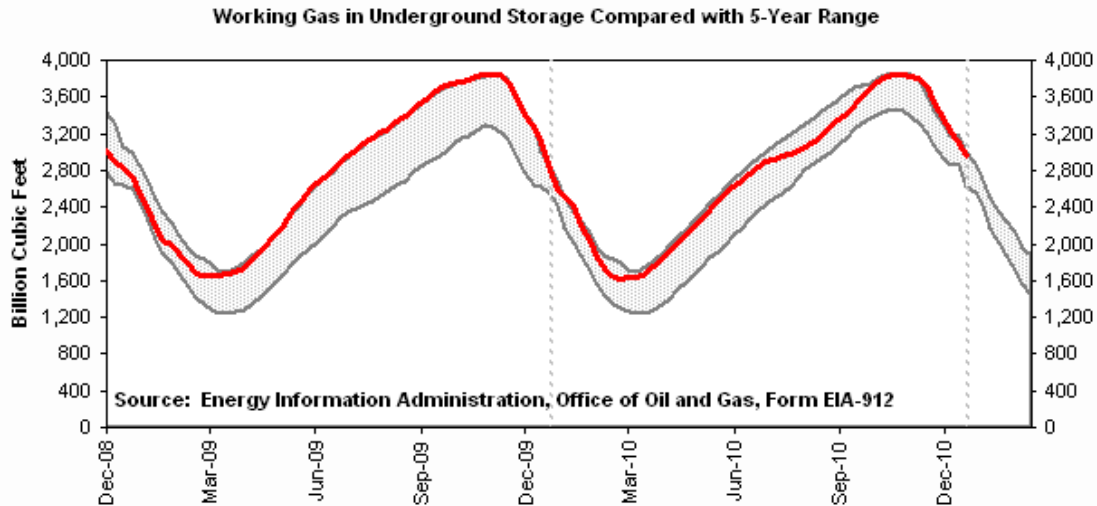
CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.



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