

Seven Eleven

Summary and Recommendation

“The Account” of seven natural gas income stocks has reached its first anniversary with a total return of more than 50%. Last week the regular analysis was expanded to eleven income stocks with the addition of four Canadian issues including buy-recommended **Canadian Oil Sands Trust (COSWF)** and **Penn West Energy Trust (PWTF)**. Meanwhile just a continuation of current market quotes for oil and natural gas price promises attractive income distributions. Yet with no signs of reversal in the upward trend, oil price may have two to three-fold gains in the years ahead and natural gas is cheap compared to oil in our opinion.

Stocks Parallel Commodity Price

Seven U.S. income stocks promise an average distribution yield of 11.4% for the next twelve months (see table The Account). Total return for the past year from 9/30/2004 to 9/29/2005 ranged from 28% to 71% and averaged 53%. Over the same period six-year natural gas commodity price gained 60%.

U.S. Natural Gas and Oil Royalty Trusts

The Account - Final Presentation

	<i>Symbol</i>	<i>Price (\$/un) 29-Sep 2005</i>	<i>Units</i>	<i>Market Value (\$)</i>	<i>Next Twelve Months Distrib. (\$/un)</i>	<i>NTM Distrib. Yield (%/yr)</i>	<i>One- Year Total Return (%)</i>
Cross Timbers Royalty Trust	CRT	54.10	400	21,640	5.19	9.6	71
Sabine Royalty Trust	SBR	51.90	400	20,760	5.30	10.2	36
San Juan Basin Royalty Trust	SJT	49.02	500	24,510	5.39	11.0	68
Dorchester Minerals, L.P.	DMLP	30.11	700	21,077	3.58	11.9	58
Permian Basin Royalty Trust	PBT	16.90	1,200	20,280	2.06	12.2	55
Hugoton Royalty Trust	HGT	40.97	500	20,485	5.16	12.6	53
Mesa RoyaltyTrust	MTR	72.07	200	14,414	9.23	12.8	28
	<i>Total</i>			<i>143,166</i>		<i>11.4</i>	<i>53</i>
Futures Strip							
12 Month - Oil (\$/bbl)		66.66					45
12 Month - Natural Gas (\$/mmbtu)		12.47					95
72 Month - Oil (\$/bbl)		62.92					64
72 Month - Natural Gas (\$/mmbtu)		9.04					60

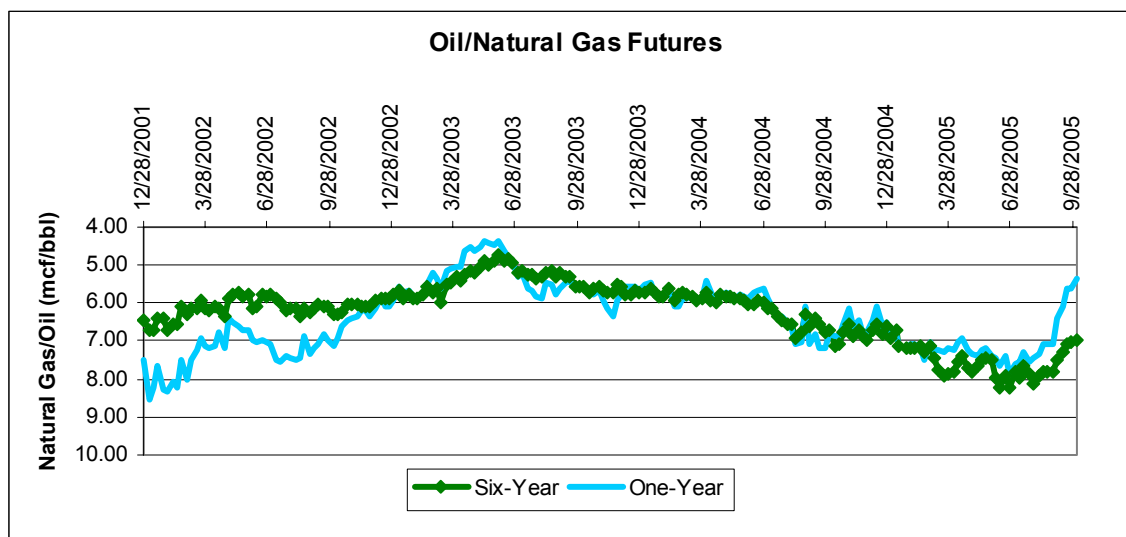
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Hurricane Effect Playing Out in Natural Gas Price

It appears that natural forces can be a bit stronger than engineers expected when designing offshore platforms and onshore processing facilities. Billion dollar deep water structures - BP's Thunderhorse, Shell's Mars and Chevron's Typhoon – have billion dollar headaches. Thunderhorse couldn't stay up straight, Mars had its deck facilities turned into a twisted wreck and Typhoon lies floating upside down 70 miles away from its producing site.

All of this misfortune comes at a time when there is little oil and gas producing capacity to spare. Crude oil price pressures are being contained temporarily thanks to the availability of strategic storage. Without the same cushion available for natural gas, price is rising well in advance of winter.

Not knowing today whether the winter will be colder or warmer than normal we conclude that natural gas price can advance further relative to oil than it has to date (see chart Oil/Natural Gas Futures). One-year natural gas currently at oil price divided by 5.35 could reach oil price divided by 4.5 as it did only two years ago. Six-year natural gas price currently at oil divided by 7 could reach 5 that we believe is a reasonable approximation of long-term market balance for the next few years.



Stock Price near Present Value

Royalty Trusts appear to be valued near Present Value that would yield a 7% real return on our current long-term assumptions of \$50 a barrel for oil and \$10 a million btu for natural gas (see table Rank by McDep Ratio). Estimated next twelve months distribution yield for U.S. royalty trusts varies directly with expected commodity price. Estimated next twelve months distribution yield for Canadian royalty trusts is fixed at the currently

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declared amount. Because estimated Ebitda varies directly with expected commodity price for both U.S. and Canadian trusts, we use that measure for comparative ranking (see table Rank by Enterprise Value to Ebitda).

Kurt H. Wulff, CFA

Index of Recent Royalty Trust Research

Single Trust Analyses

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
18-Aug	* SJJ	San Juan Basin Royalty Trust	Sharp Stock Price Drop
11-Aug	* PWTFF	Penn West Energy Trust	Undiscovered by U.S. Investors
22-Jul	* COSWF	Canadian Oil Sands Trust	Distribution Capability Blossoming
20-Jul	* MTR	Mesa Royalty Trust	Improved Distribution Declared
13-May	* DMLP	Dorchester Minerals, L.P.	Royalty Volume Increasing

Natural Gas and Oil Royalty Trusts - A Weekly Analysis

30-Sep		Seven Eleven
23-Sep		Canada Looks at Income Trusts
16-Sep	*	Yield Support
9-Sep	*	Invest Direct
19-Aug	*	Supply Creation
	* Archived on www.mcdep.com	

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Natural Gas and Oil Royalty Trusts
Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 29-Sep 2005</i>	<i>Shares (mm)</i>	<i>Market Cap (\$mm)</i>	<i>Net Present Value (\$/sh)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>
U.S. Royalty Trusts							
Sabine Royalty Trust	SBR	51.90	14.6	760	42.00		1.24
San Juan Basin Royalty Trust	SJT H	49.02	46.6	2,290	40.00		1.23
Hugoton RoyaltyTrust (46%)	HGT	40.97	18.4	750	34.00		1.21
Cross Timbers Royalty Trust	CRT	54.10	6.0	330	45.00		1.20
Dorchester Minerals, L.P.	DMLP	30.11	28.2	850	26.00		1.16
Permian Basin RT (57%)	PBT	16.90	26.6	450	15.00		1.13
Mesa RoyaltyTrust	MTR	72.07	1.9	130	75.00		0.96
	<i>Total or Median</i>			5,600			1.20
Canadian Income Trusts							
Pengrowth Energy Trust	PGH	25.64	156.7	4,020	20.00	0.17	1.24
Penn West Energy Trust	PWTFF B	30.97	173.7	5,380	28.00	0.16	1.09
Enerplus Resources Fund	ERF	46.44	104.9	4,870	42.00	0.13	1.09
Canadian Oil Sands Trust (US\$)	COSWF B	108.03	92.9	10,130	136.00	0.12	0.83
	<i>Total or Median</i>			24,400		0.14	1.09

B = Buy, H = Hold

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

Natural Gas and Oil Royalty Trusts
Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 29-Sep 2005</i>	<i>Adjstd Resrvs/ Prod NTM</i>	<i>PV/ Ebitda NTM</i>	<i>EV/ Ebitda NTM</i>	<i>P/E NTM</i>	<i>Divd or Distrib NTM (%)</i>
U.S. Royalty Trusts							
Cross Timbers Royalty Trust	CRT	54.10	17.8	8.6	10.4	10.4	9.6
Sabine Royalty Trust	SBR	51.90	11.9	7.9	9.8	9.8	10.2
San Juan Basin Royalty Trust	SJT H	49.02	12.0	7.0	8.5	9.1	11.0
Dorchester Minerals, L.P.	DMLP	30.11	12.1	6.8	7.9	10.6	11.9
Permian Basin RT (57%)	PBT	16.90	14.5	6.8	7.7	8.2	12.2
Mesa RoyaltyTrust	MTR	72.07	20.0	7.7	7.4	7.8	12.8
Hugoton RoyaltyTrust (46%)	HGT	40.97	13.6	5.7	6.9	7.9	12.6
	<i>Median</i>		13.6	7.0	7.9	9.1	11.9
Canadian Income Trusts							
Canadian Oil Sands Trust (US\$)	COSWF B	108.03	20.0	9.6	7.9	8.5	1.5
Pengrowth Energy Trust	PGH	25.64	7.6	4.9	6.1	8.3	9.2
Enerplus Resources Fund	ERF	46.44	9.8	5.0	5.5	7.6	7.9
Penn West Energy Trust	PWTFF B	30.97	8.0	4.0	4.4	6.1	8.6
	<i>Median</i>		8.9	5.0	5.8	8.0	8.2

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2006; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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