

## Penn West for Contrarians

### Summary and Recommendation

The units of buy-recommended **Penn West Energy Trust (PWE)** offer the highest distribution yield at 15.9% and the lowest unlevered cash flow multiple at 5.4 times after declining 16% in stock price during the past four weeks. The unfavorable stock price momentum suggests patience in looking for appreciation. Though two acquisitions in progress may be in jeopardy as a result of declining stock price, PWE can do well with or without the prospective purchases. A 2009 tax increase to 40% from 25% by the province of Alberta may feel demoralizing now, but would be covered by higher commodity price already in the futures market compared to our valuation. On a more positive note, the same Finance Minister of Canada who would effectively end income trusts with a tax of about 31% in 2011 has lately been talking of lowering the corporate income tax to 15% at the same time. Meanwhile, PWE's ratio of distributions to unlevered cash flow (Ebitda), 0.62, leaves a cushion against fluctuations in oil and gas price. Finally, PWE's cash flow stream concentrated 70% on oil, mostly light, and 30% on natural gas appears attractively priced at a McDep Ratio of 0.83.

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### Natural Gas and Oil Income Stocks - Rank by McDep Ratio

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 29-Nov 2007</i>	<i>Shares (mm)</i>	<i>Market Cap (\$mm)</i>	<i>Net Present Value (\$/un)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>
<b>U.S. Royalty Trusts</b>							
Sabine Royalty Trust	SBR	48.05	14.6	700	45.00	-	1.07
Mesa Royalty Trust	MTR	69.10	1.9	130	70.00	-	0.99
Permian Basin RT	PBT	15.05	46.6	700	16.50	-	0.91
Cross Timbers Royalty Trust	CRT	40.34	6.0	240	46.00	-	0.88
San Juan Basin Royalty Trust	SJT	B 34.58	46.6	1,610	40.00	-	0.86
Hugoton Royalty Trust	HGT	B 23.06	40.0	920	34.00	-	0.68
<i>Total or Median</i>				4,300			0.89
<b>Canadian Income Trusts (US\$)</b>							
Pengrowth Energy Trust	PGH	18.10	247.0	4,470	17.00	0.27	1.05
Canadian Oil Sands Trust	COSWF	B 35.05	479.0	16,790	39.00	0.07	0.91
Penn West Energy Trust	PWE	B 26.46	242.6	6,420	34.00	0.22	0.83
Enerplus Resources Fund	ERF	40.65	129.4	5,260	52.00	0.14	0.81
<i>Total or Median</i>				32,900		0.18	0.87
<b>U.S. Master Limited Partnerships (MLPs)</b>							
Kinder Morgan Energy Partners, L.P.	KMP	S 50.07	179.3	8,980	17.00	0.54	1.90
Encore Energy Partners, L.P. (39%)	ENP	20.00	9.0	180	18.00	0.16	1.09
Linn Energy, LLC	LINE	26.12	114.0	2,980	25.00	0.32	1.03
Dorchester Minerals, L.P.	DMLP	20.16	28.2	570	27.00	-	0.75
<i>Total or Median</i>				12,700		0.24	1.06

B = Buy, S = Sell

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

**Please see disclosures on the final page.**

## Natural Gas and Oil Income Stocks - Rank by EV/Ebitda

	Symbol/ Rating	Price (\$/sh) 29-Nov 2007	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)	
<b>U.S. Royalty Trusts</b>								
San Juan Basin Royalty Trust	SJT	B	34.58	10.2	12.0	10.4	12.7	7.9
Sabine Royalty Trust	SBR		48.05	9.2	9.1	9.7	9.7	10.3
Mesa RoyaltyTrust	MTR		69.10	21.1	9.7	9.6	10.9	9.2
Cross Timbers Royalty Trust	CRT		40.34	13.1	10.7	9.4	10.0	10.0
Hugoton RoyaltyTrust	HGT	B	23.06	13.8	10.7	7.2	10.1	9.9
Permian Basin RT	PBT		15.05	8.2	7.8	7.1	7.9	12.6
	<i>Median</i>			<i>11.7</i>	<i>10.2</i>	<i>9.5</i>	<i>10.1</i>	<i>9.9</i>
<b>Canadian Income Trusts (US\$)</b>								
Canadian Oil Sands Trust	COSWF	B	35.05	20.9	7.9	7.1	8.2	10.0
Pengrowth Energy Trust	PGH		18.10	7.4	6.3	6.6	19.5	15.4
Enerplus Resources Fund	ERF		40.65	9.7	7.9	6.4	10.9	12.8
Penn West Energy Trust	PWE	B	26.46	7.8	6.5	5.4	9.4	15.9
	<i>Median</i>			<i>8.7</i>	<i>7.2</i>	<i>6.5</i>	<i>10.2</i>	<i>14.1</i>
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S	50.07	7.6	7.9	15.0	31.7	7.0
Linn Energy, LLC	LINE		26.12	20.8	12.7	13.1	35.6	8.7
Dorchester Minerals, L.P.	DMLP		20.16	9.2	11.3	8.4	12.5	11.9
Encore Energy Partners, L.P.	ENP		20.00	12.2	7.0	7.7	36.5	7.0
	<i>Median</i>			<i>10.7</i>	<i>9.6</i>	<i>10.7</i>	<i>33.6</i>	<i>7.9</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2008; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

## Natural Gas and Oil Income Stocks - Rank by NTM Distribution Yield

	Symbol	Revenue Royalty (%)	Natural Gas/ Ebitda (%)	Dist/ Ebitda	Dist/ Equity Ebitda	NTM Distribution (\$mm)	Dist. Yield (\$/un) (%)	
<b>U.S. Royalty Trusts</b>								
San Juan Basin Royalty Trust	SJT	-	98	0.82	0.82	127	2.73	7.9
Mesa RoyaltyTrust	MTR	-	65	0.88	0.88	12	6.33	9.2
Hugoton RoyaltyTrust	HGT	-	87	0.71	0.71	91	2.28	9.9
Cross Timbers Royalty Trust	CRT	84	64	0.94	0.94	24	4.03	10.0
Sabine Royalty Trust	SBR	100	51	1.00	1.00	72	4.97	10.3
Permian Basin RT	PBT	35	33	0.89	0.89	89	1.90	12.6
	<i>Total or Median</i>		<i>64</i>	<i>0.89</i>	<i>0.89</i>	<i>400</i>		<i>9.9</i>
<b>Canadian Income Trusts (US\$)</b>								
Canadian Oil Sands Trust	COSWF	-	(6)	0.66	0.71	1,679	3.50	10.0
Enerplus Resources Fund	ERF	-	38	0.68	0.79	673	5.20	12.8
Pengrowth Energy Trust	PGH	-	36	0.76	1.04	689	2.79	15.4
Penn West Energy Trust	PWE	-	30	0.62	0.80	1,022	4.21	15.9
	<i>Total or Median</i>		<i>33</i>	<i>0.67</i>	<i>0.80</i>	<i>4,100</i>		<i>14.1</i>
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Kinder Morgan Energy Partners, L.P.	KMP		-	0.75	1.64	631	3.52	7.0
Encore Energy Partners, L.P.	ENP		15	0.46	0.55	13	1.40	7.0
Linn Energy, LLC	LINE		65	0.79	1.16	260	2.28	8.7
Dorchester Minerals, L.P.	DMLP	64	68	1.00	1.00	68	2.39	11.9
	<i>Total or Median</i>		<i>40</i>	<i>0.77</i>	<i>1.08</i>	<i>1,000</i>		<i>7.9</i>

NTM = Next Twelve Months Ended December 31, 2008

Ebitda = Earnings before interest, tax, depreciation and amortization

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