



Oil & Gas Income Stocks

A Weekly Analysis

August 29, 2008

Opportunity in Long-Term Natural Gas Futures

Summary and Recommendation

While we recommend both oil income stocks and natural gas income stocks, the oil issues appear to be priced at a discount to commodity futures and the natural gas issues appear priced at a premium to commodity futures. A median McDep Ratio for income stocks of 0.85 suggests that the stocks are priced for \$85 oil (0.85 times \$100 a barrel long-term oil price in present value calculation) and \$12 natural gas (0.85 times \$14). At the same time latest futures quotes for delivery over the next six years are \$117 for oil and less than \$9 for natural gas. For trading oriented investors, there appears to be a clear opportunity to buy long-term natural gas futures. As a practical matter, large volume in futures contracts is available only with counterparties who have low credit quality. Meanwhile in generally high credit quality income stocks, we see McDep Ratios ranging from 0.72 to 1.09 (see table below). Thirteen income stocks have a median unlevered market cash flow multiple (EV/Ebitda) of 8.5 times, a low valuation for a median adjusted reserve life of 10.8 years (see table, page 2). Median estimated distribution yield is a high 10.8% (see table, page 2).

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Natural Gas and Oil Income Stocks - Rank by McDep Ratio								
			Price (\$/sh)		Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		28-Aug 2008	Shares (mm)				
U.S. Royalty Trusts								
Sabine Royalty Trust	SBR		65.63	14.6	960	60.00	-	1.09
Permian Basin RT	PBT		24.20	46.6	1,130	23.00	-	1.05
Cross Timbers Royalty Trust	CRT		49.34	6.0	300	57.00	-	0.87
San Juan Basin Royalty Trust	SJT	B	40.69	46.6	1,900	48.00	-	0.85
Mesa Royalty Trust	MTR		75.62	1.9	140	93.00	-	0.81
Hugoton Royalty Trust	HGT	B	30.75	40.0	1,230	42.00	-	0.73
<i>Total or Median</i>					5,700			0.86
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	B	48.82	479.9	23,430	57.00	0.04	0.86
Pengrowth Energy Trust	PGH		17.79	248.0	4,410	24.00	0.27	0.81
Penn West Energy Trust	PWE	B	29.24	380.0	11,110	40.00	0.26	0.80
Enerplus Resources Fund	ERF		42.35	164.5	6,970	63.00	0.13	0.72
<i>Total or Median</i>					45,900		0.20	0.81
U.S. Master Limited Partnerships (MLPs)								
Encore Energy Partners, L.P. (32%)	ENP		24.93	10.0	250	29.00	0.17	0.88
Linn Energy, LLC	LINE		21.62	114.0	2,470	30.00	0.49	0.86
Dorchester Minerals, L.P.	DMLP		28.18	28.2	800	33.00	-	0.85
<i>Total or Median</i>					3,500		0.17	0.86
B = Buy, S = Sell								
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 \$14 a million btu for natural gas.								



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Natural Gas and Oil Income Stocks - Rank by EV/Ebitda							
			Price (\$/sh)	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	Divd or Distrib NTM (%)
	Symbol/ Rating		28-Aug 2008	Prod NTM	Ebitda NTM	Ebitda NTM	P/E NTM
U.S. Royalty Trusts							
San Juan Basin Royalty Trust	SJT	B	40.69	10.6	11.7	10.0	11.7 8.5
Sabine Royalty Trust	SBR		65.63	8.9	8.5	9.3	9.3 10.7
Cross Timbers Royalty Trust	CRT		49.34	13.9	10.2	8.8	9.4 10.7
Mesa Royalty Trust	MTR		75.62	21.1	10.4	8.5	9.6 10.4
Permian Basin RT	PBT		24.20	8.6	8.0	8.4	8.7 11.5
Hugoton Royalty Trust	HGT	B	30.75	13.1	10.4	7.6	10.1 9.9
	<i>Median</i>			11.8	10.3	8.7	9.5 10.5
Canadian Income Trusts (US\$)							
Canadian Oil Sands Trust	COSWF	B	48.82	22.2	9.8	8.5	9.8 11.0
Enerplus Resources Fund	ERF		42.35	9.6	7.7	5.5	
Pengrowth Energy Trust	PGH		17.79	9.1	6.6	5.3	14.5
Penn West Energy Trust	PWE	B	29.24	7.5	6.6	5.3	11.4 13.3
	<i>Median</i>			9.3	7.2	5.4	10.6 12.9
U.S. Master Limited Partnerships (MLPs)							
Dorchester Minerals, L.P.	DMLP		28.18	8.5	10.9	9.3	12.3 10.8
Linn Energy, LLC	LINE		21.62	17.1	10.4	8.9	
Encore Energy Partners, L.P.	ENP		24.93	11.9	7.2	6.3	
	<i>Median</i>			11.9	10.4	8.9	12.3 10.8

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2009; 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							
			Natural Revenue Gas/ Ebitda	Dist/ Ebitda	Dist/ Equity Ebitda	NTM Distribution (\$mm)	Dist. Yield (\$/un) (%)
	Symbol		Royalty (%)	(%)	Ebitda	Ebitda	(%)
U.S. Royalty Trusts							
San Juan Basin Royalty Trust	SJT		-	98	0.85	0.85	161 3.46 8.5
Hugoton Royalty Trust	HGT		-	86	0.75	0.75	121 3.03 9.9
Mesa Royalty Trust	MTR		-	64	0.88	0.88	15 7.84 10.4
Cross Timbers Royalty Trust	CRT		84	68	0.94	0.94	32 5.27 10.7
Sabine Royalty Trust	SBR		100	56	1.00	1.00	103 7.05 10.7
Permian Basin RT	PBT		32	33	0.97	0.97	130 2.78 11.5
	<i>Total or Median</i>			66	0.91	0.91	600 10.5
Canadian Income Trusts (US\$)							
Canadian Oil Sands Trust	COSWF		-	(6)	0.89	0.92	2,571 5.36 11.0
Enerplus Resources Fund	ERF		-	41	0.57	0.65	871 5.29 12.5
Penn West Energy Trust	PWE		-	27	0.48	0.64	1,481 3.90 13.3
Pengrowth Energy Trust	PGH		-	31	0.52	0.71	640 2.58 14.5
	<i>Total or Median</i>			29	0.54	0.68	5,600 12.9
U.S. Master Limited Partnerships (MLPs)							
Encore Energy Partners, L.P.	ENP			18	0.50	0.60	24 2.42 9.7
Dorchester Minerals, L.P.	DMLP		64	66	1.00	1.00	86 3.04 10.8
Linn Energy, LLC	LINE			43	0.45	0.88	287 2.52 11.7
	<i>Total or Median</i>			43	0.50	0.88	400 10.8

NTM = Next Twelve Months Ended June 30, 2009
Ebitda = Earnings before interest, tax, depreciation and amortization



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Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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