Oil & Gas Income Stocks

A Weekly Analysis
September 5, 2008

Long-Term Oil Price in Uptrend

Summary and Recommendation

Stock prices for oil and gas income stocks are declining less in difficult financial markets. The main fundamental indicator continues to trend upward, perhaps surprisingly. Light, sweet crude oil for delivery over the next six years settled in the futures market on September 4 at $112 a barrel, holding above the 40-week average of $108. High current distribution yield of a median 10.5% a year suggests that some stock price decline can be tolerated within the bounds of a reasonable return. Valuation is attractive at a median McDep Ratio of 0.81 (see table below). Unlevered market cash flow multiple (EV/Ebitda) is as low as 5.2 times (see table, page 2). Estimates of distributions and cash flow for the Next Twelve Months (NTM) have been rolled forward to the period ending September 30, 2009 from the period ending June 30, 2009 with little effect on the rankings. We have confidence in our buy recommendations at the same time we acknowledge that the unwinding of excessive leverage in U.S. financial markets is affecting the pricing of practically all assets.

Kurt H. Wulff, CFA

Natural Gas and Oil Income Stocks - Rank by McDep Ratio

	Symbol/ Rating		*Price ($/sh) 4-Sep 2008*	*Shares (mm)*	*Market Cap ($mm)*	*Net Present Value ($/un)*	*Debt/ Present Value*	*McDep Ratio*
U.S. Royalty Trusts								
Sabine Royalty Trust	SBR		63.15	14.6	920	60.00	-	1.05
Permian Basin RT	PBT		23.61	46.6	1,100	23.00	-	1.03
Cross Timbers Royalty Trust	CRT		48.68	6.0	290	57.00	-	0.85
San Juan Basin Royalty Trust	SJT	B	38.84	46.6	1,810	48.00	-	0.81
Mesa RoyaltyTrust	MTR		73.37	1.9	140	93.00	-	0.79
Hugoton RoyaltyTrust	HGT	B	29.29	40.0	1,170	42.00	-	0.70
Total or Median					*5,400*			*0.83*
Canadian Income Trusts (US$)								
Pengrowth Energy Trust	PGH		16.79	248.0	4,160	24.00	0.26	0.78
Penn West Energy Trust	PWE	B	27.15	380.0	10,320	40.00	0.26	0.76
Canadian Oil Sands Trust	COSWF	B	41.93	479.5	20,110	57.00	0.04	0.75
Enerplus Resources Fund	ERF		41.25	164.5	6,790	63.00	0.13	0.70
Total or Median					*41,400*		*0.19*	*0.75*
U.S. Master Limited Partnerships (MLPs)								
Dorchester Minerals, L.P.	DMLP		28.06	28.2	790	33.00	-	0.85
Linn Energy, LLC	LINE		20.58	114.0	2,350	30.00	0.49	0.84
Encore Energy Partners, L.P. (32%)	ENP		23.11	10.0	230	29.00	0.17	0.83
Total or Median					*3,400*		*0.17*	*0.84*
B = Buy, S = Sell								
McDep Ratio = **M**arket **c**ap and **De**bt to **p**resent 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	*Adjstd*					*Divd or*
			($/sh)	*Resrvs/*	*PV/*	*EV/*			*Distrib*
	Symbol/		*4-Sep*	*Prod*	*Ebitda*	*Ebitda*	*P/E*		*NTM*
		Rating	*2008*	*NTM*	*NTM*	*NTM*	*NTM*		*(%)*
U.S. Royalty Trusts									
San Juan Basin Royalty Trust	SJT	B	38.84	10.5	13.1	10.6	12.9		7.8
Sabine Royalty Trust	SBR		63.15	8.9	9.1	9.6	9.6		10.5
Cross Timbers Royalty Trust	CRT		48.68	13.9	10.8	9.3	9.8		10.2
Mesa RoyaltyTrust	MTR		73.37	21.1	11.2	8.9	10.1		9.9
Permian Basin RT	PBT		23.61	8.6	8.6	8.8	9.1		11.0
Hugoton RoyaltyTrust	HGT	B	29.29	13.1	11.6	8.1	11.6		8.7
Median				*11.8*	*11.0*	*9.1*	*10.0*		*10.0*
Canadian Income Trusts (US$)									
Canadian Oil Sands Trust	COSWF	B	41.93	21.3	9.4	7.0	8.0		13.5
Enerplus Resources Fund	ERF		41.25	9.6	7.9	5.5	14.9		12.8
Pengrowth Energy Trust	PGH		16.79	9.1	6.8	5.3	24.4		15.1
Penn West Energy Trust	PWE	B	27.15	7.5	6.8	5.2	11.4		14.1
Median				*9.3*	*7.4*	*5.4*	*13.1*		*13.8*
U.S. Master Limited Partnerships (MLPs)									
Dorchester Minerals, L.P.	DMLP		28.06	8.5	11.3	9.6	12.9		10.4
Linn Energy, LLC	LINE		20.58	17.1	10.7	8.9	16.1		12.2
Encore Energy Partners, L.P.	ENP		23.11	11.9	7.3	6.0	18.8		10.3
Median				*11.9*	*10.7*	*8.9*	*16.1*		*10.4*
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation									
and amortization; NTM = Next Twelve Months Ended September 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/*		*Dist/*			*Dist.*
	Symbol	*Royalty*	*Ebitda*	*Dist/*	*Equity*	*NTM Distribution*		*Yield*
		(%)	*(%)*	*Ebitda*	*Ebitda*	*($mm)*	*($/un)*	*(%)*
U.S. Royalty Trusts								
San Juan Basin Royalty Trust	SJT	-	98	0.82	0.82	140	3.01	7.8
Hugoton RoyaltyTrust	HGT	-	85	0.70	0.70	101	2.53	8.7
Mesa RoyaltyTrust	MTR	-	62	0.88	0.88	14	7.28	9.9
Cross Timbers Royalty Trust	CRT	84	67	0.94	0.94	30	4.96	10.2
Sabine Royalty Trust	SBR	100	55	1.00	1.00	96	6.60	10.5
Permian Basin RT	PBT	32	31	0.97	0.97	121	2.59	11.0
Total or Median			*65*	*0.91*	*0.91*	*500*		*10.0*
Canadian Income Trusts (US$)								
Enerplus Resources Fund	ERF	-	40	0.58	0.66	871	5.29	12.8
Canadian Oil Sands Trust	COSWF	-	(6)	0.89	0.93	2,709	5.65	13.5
Penn West Energy Trust	PWE	-	27	0.48	0.65	1,455	3.83	14.1
Pengrowth Energy Trust	PGH	-	30	0.53	0.72	628	2.53	15.1
Total or Median			*28*	*0.55*	*0.69*	*5,700*		*13.8*
U.S. Master Limited Partnerships (MLPs)								
Encore Energy Partners, L.P.	ENP		17	0.50	0.60	24	2.38	10.3
Dorchester Minerals, L.P.	DMLP	64	66	1.00	1.00	82	2.92	10.4
Linn Energy, LLC	LINE		42	0.46	0.90	287	2.52	12.2
Total or Median			*42*	*0.50*	*0.90*	*400*		*10.4*
NTM = Next Twelve Months Ended September 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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