



# Oil & Gas Income Stocks

A Weekly Analysis

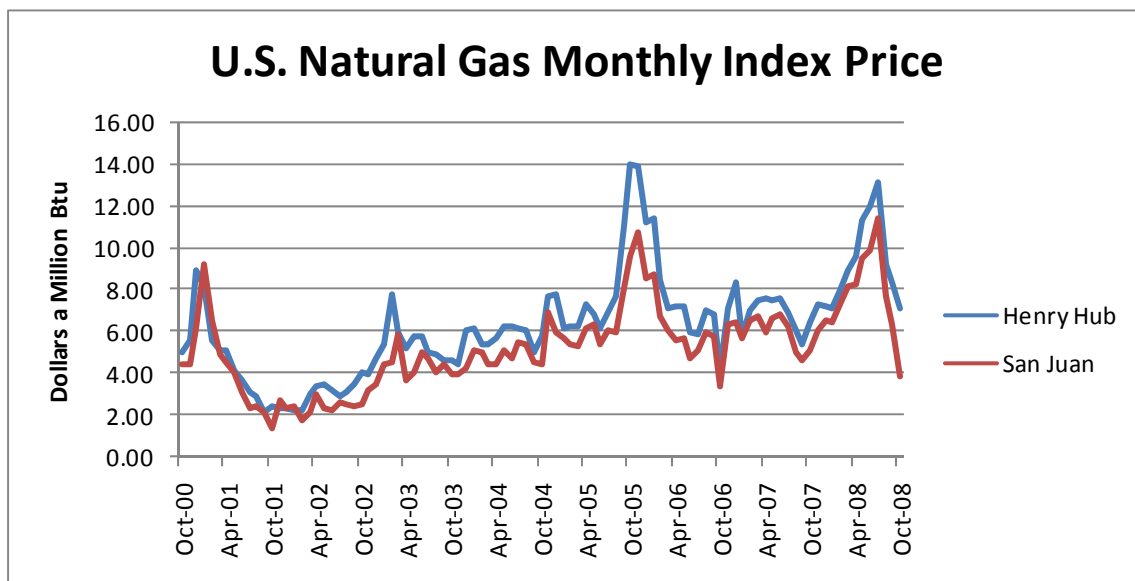
October 3, 2008

## Seasonal Swing

### Summary and Recommendation

Considering the current depressed level of investor sentiment generally, natural gas income investors should keep in mind that the month of October has marked the seasonal low in natural gas price in eight of the past nine years. The decline for the San Juan Basin, also representative of West Texas, the Rockies and the Midcontinent producing regions, has been particularly sharp in 2008 (see chart below). The situation may change rapidly soon as November through March mark the highest months of the year on average. Nonetheless, the low seasonal prices in August, September and October point to low distributions to be declared in October, November and December by U.S. royalty trusts such as **San Juan Basin Royalty Trust (SJT)** and **Hugoton Royalty Trust (HGT)**. By the time the low December declaration is paid in January, natural gas price should be at its highest seasonally, pointing to higher income a few months ahead. In any case, latest stock prices and futures prices indicate a median 11.6% distribution yield for the next twelve months for thirteen stocks. We like the long-term prospects for low-debt, low McDep Ratio oil and gas stocks at the same time we acknowledge a need for patience in the face of asset-selling pressure in a bear market for overly leveraged parties.

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Natural Gas and Oil Income Stocks - Rank by McDep Ratio								
			Price (\$/sh)		Market	Net		
	Symbol/ Rating		2-Oct 2008	Shares (mm)	Cap (\$mm)	Present Value (\$/un)	Debt/ Present Value	McDep Ratio
<b>U.S. Royalty Trusts</b>								
Permian Basin RT	PBT		22.42	46.6	1,050	23.00	-	0.97
Sabine Royalty Trust	SBR		54.99	14.6	800	60.00	-	0.92
Cross Timbers Royalty Trust	CRT		44.34	6.0	270	57.00	-	0.78
San Juan Basin Royalty Trust	SJT		35.65	46.6	1,660	48.00	-	0.74
Hugoton Royalty Trust	HGT		24.85	40.0	990	42.00	-	0.59
Mesa Royalty Trust	MTR		52.52	1.9	100	93.00	-	0.57
<i>Total or Median</i>					4,900			0.76
<b>Canadian Income Trusts (US\$)</b>								
Pengrowth Energy Trust	PGH		13.84	248.0	3,430	24.00	0.27	0.69
Penn West Energy Trust	PWE		22.05	380.0	8,380	40.00	0.26	0.67
Enerplus Resources Fund	ERF		34.78	164.5	5,720	63.00	0.13	0.61
Canadian Oil Sands Trust	COSWF	B	31.19	481.0	15,000	57.00	0.04	0.57
<i>Total or Median</i>					32,500		0.19	0.64
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Linn Energy, LLC	LINE		15.29	114.0	1,740	30.00	0.49	0.75
Encore Energy Partners, L.P. (32%)	ENP		19.99	10.0	200	29.00	0.17	0.74
Dorchester Minerals, L.P.	DMLP		21.85	28.2	620	33.00	-	0.66
<i>Total or Median</i>					2,600		0.17	0.74
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.								

Natural Gas and Oil Income Stocks - Rank by EV/Ebitda									
			Price (\$/sh)	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	Divd or Distrib		
	Symbol/ Rating		2-Oct 2008	NTM	NTM	NTM	P/E NTM	NTM (%)	
<b>U.S. Royalty Trusts</b>									
San Juan Basin Royalty Trust	SJT		35.65	10.6	14.9	11.1	13.6	7.3	
Permian Basin RT	PBT		22.42	8.6	10.2	10.0	10.4	9.6	
Cross Timbers Royalty Trust	CRT		44.34	13.9	12.2	9.5	10.0	10.0	
Sabine Royalty Trust	SBR		54.99	8.9	10.3	9.4	9.4	10.6	
Hugoton Royalty Trust	HGT		24.85	13.1	13.2	7.8	10.9	9.1	
Mesa Royalty Trust	MTR		52.52	21.1	12.7	7.2	8.2	12.3	
<i>Median</i>					11.8	12.4	9.4	10.2	9.8
<b>Canadian Income Trusts (US\$)</b>									
Canadian Oil Sands Trust	COSWF	B	31.19	21.6	12.6	7.1	8.5	13.5	
Enerplus Resources Fund	ERF		34.78	9.6	9.3	5.7	23.9	15.0	
Pengrowth Energy Trust	PGH		13.84	9.1	8.0	5.5		18.7	
Penn West Energy Trust	PWE		22.05	7.5	8.1	5.4	10.9	17.2	
<i>Median</i>					9.3	8.7	5.6	10.9	16.1
<b>U.S. Master Limited Partnerships (MLPs)</b>									
Linn Energy, LLC	LINE		15.29	17.1	12.6	9.4	33.0	16.5	
Dorchester Minerals, L.P.	DMLP		21.85	8.5	13.1	8.6	12.1	11.6	
Encore Energy Partners, L.P.	ENP		19.99	11.9	8.8	6.5	56.9	9.9	
<i>Median</i>					11.9	12.6	8.6	33.0	11.6
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									



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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)		(%)
<b>U.S. Royalty Trusts</b>								
San Juan Basin Royalty Trust	SJT	-	98	0.81	0.81	122	2.62	7.3
Hugoton Royalty Trust	HGT	-	86	0.71	0.71	91	2.27	9.1
Permian Basin RT	PBT	32	33	0.96	0.96	101	2.16	9.6
Cross Timbers Royalty Trust	CRT	84	70	0.95	0.95	27	4.43	10.0
Sabine Royalty Trust	SBR	100	58	1.00	1.00	85	5.84	10.6
Mesa Royalty Trust	MTR	-	65	0.88	0.88	12	6.44	12.3
<i>Total or Median</i>			67	0.91	0.91	400		9.8
<b>Canadian Income Trusts (US\$)</b>								
Canadian Oil Sands Trust	COSWF	-	(7)	0.89	0.93	2,021	4.20	13.5
Enerplus Resources Fund	ERF	-	43	0.68	0.77	861	5.23	15.0
Penn West Energy Trust	PWE	-	29	0.57	0.77	1,438	3.78	17.2
Pengrowth Energy Trust	PGH	-	31	0.64	0.87	642	2.59	18.7
<i>Total or Median</i>			30	0.66	0.82	5,000		16.1
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Encore Energy Partners, L.P.	ENP		19	0.50	0.60	20	1.97	9.9
Dorchester Minerals, L.P.	DMLP	64	69	1.00	1.00	71	2.53	11.6
Linn Energy, LLC	LINE		45	0.54	1.06	287	2.52	16.5
<i>Total or Median</i>			45	0.54	1.00	400		11.6
NTM = Next Twelve Months Ended September 30, 2009								
Ebitda = Earnings before interest, tax, depreciation and amortization								

**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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