



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

January 2, 2009

## Exceptional Deflation Resistance in Dorchester Minerals

### Summary and Recommendation

At a McDep Ratio of 0.66, the competitive value looks attractive in **Dorchester Minerals, L.P. (DMLP)**, a high-quality energy income producer with no debt and no obligation to pay operating expenses on some 64% of oil and gas production (see Table 1 on page 2). The favorable operating statistic appears in our regular weekly table for income stocks (see column headed “Revenue Royalty” in Table 3 on page 4). With the downside well protected, DMLP also has unusual upside potential in its trove of “mineral” interests in oil and gas prospective areas with some rights dating back a hundred years. Nor does the partnership report “undeveloped” reserves that might typically account for a third of proven reserves in leading companies. The hidden quality in DLMP might readily be missed in an interpretation of the statistical comparison by cash flow multiple and reserve life as we show regularly (see Table 2 on page three). Instead, our estimated Net Present Value of \$24 a unit gives some recognition to the partnership’s advantages. Assured of DMLP’s deflation resistance and inflation protection, investors can enjoy an estimated distribution yield of 11% for 2009.

DMLP could complement or substitute for buy-recommended **Hugoton Royalty Trust (HGT)**, which has less than a billion dollars of market cap. We suggest a one-sixth weighting by Enterprise Value in the McDep Energy Portfolio spread among Income and Small Cap stocks. If limited to buy recommendations, the one-sixth weighting would be about 8% in income stock HGT and 8% in small cap **Cimarex (XEC)**. We suggest another 8% in buy-recommended **Canadian Oil Sands Trust (COSWF)** that we count in the Canadian portion of Large Cap stocks covered in our companion weekly analysis, *Meter Reader*. COSWF is the only stock that now appears in both weekly analyses.

Finally, median distribution yield for the thirteen income stocks rises to 10.9% amid continually changing prices. Settlement prices for futures are from December 31 for deliveries of Light, Sweet Crude Oil at \$54.01 a barrel and Louisiana Natural Gas at \$6.21 a million btu over the twelve months ended January 2010. The commodity prices combine with other projections to support our estimate of distributions (see table Dorchester Minerals – Distributable Income on page 5 and chart Quarterly Distributions – Revenue Royalty Trusts on page 6).

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Table 1								
Oil and Gas Income and Small Cap Stocks								
Net Present Value and McDep Ratio								
			Price (\$/sh)		Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		31-Dec 2008	Shares (mm)				
<b>Canadian Income Trusts (US\$)</b>								
Pengrowth Energy Trust	PGH		7.62	249.0	1,900	16.00	0.32	0.64
Penn West Energy Trust	PWE	H	11.12	389.9	4,340	27.00	0.27	0.57
Enerplus Resources Fund	ERF		19.58	164.9	3,230	44.00	0.10	0.50
Canadian Oil Sands Trust	COSWF	B	17.32	482.0	8,350	42.00	0.04	0.44
<i>Total or Median</i>					17,800		0.18	0.53
<b>Small Cap Independent Producers</b>								
Encore Acquisition Company	EAC	H	25.52	53.5	1,370	48.00	0.36	0.70
Berry Petroleum Company	BRY	H	7.56	45.5	340	40.00	0.43	0.54
Birchcliff Energy Ltd. (US\$)	BIR.TO		4.14	117.0	480	10.00	0.14	0.49
Cimarex Energy Company	XEC	B	26.78	84.5	2,260	70.00	0.09	0.44
<i>Total or Median</i>					4,450		0.25	0.52
<b>U.S. Royalty Trusts</b>								
San Juan Basin Royalty Trust	SJT	H	30.97	46.6	1,440	34.00	-	0.91
Sabine Royalty Trust	SBR		40.96	14.6	600	47.00	-	0.87
Permian Basin RT	PBT		13.70	46.6	640	19.00	-	0.72
Cross Timbers Royalty Trust	CRT		27.85	6.0	170	42.00	-	0.66
Mesa Royalty Trust	MTR		39.99	1.9	80	67.00	-	0.60
Hugoton Royalty Trust	HGT	B	16.05	40.0	640	28.00	-	0.57
<i>Total or Median</i>					3,570			0.69
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Linn Energy, LLC	LINE		14.97	114.0	1,710	14.00	0.52	1.03
Encore Energy Partners, L.P. (32%)	ENP		12.98	10.6	140	19.00	0.23	0.76
Dorchester Minerals, L.P.	DMLP		15.87	28.2	450	24.00	-	0.66
<i>Total or Median</i>					2,300		0.23	0.76
B = Buy, H = Hold								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
Present Value presumes long-term prices of \$75 a barrel for oil and \$10 a million btu for natural gas.								



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Table 2							
Oil and Gas Income and Small Cap Stocks							
Value Multiples - Rank by EV/Ebitda							
			Price (\$/sh)	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	Ebitda P/E
	Symbol/ Rating		31-Dec 2008	NTM	NTM	NTM	NTM
							Margin (%)
<b>Canadian Income Trusts (US\$)</b>							
Canadian Oil Sands Trust	COSWF	B	17.32	23.3	29.7	13.0	44
Pengrowth Energy Trust	PGH		7.62	9.5	10.8	7.0	70
Enerplus Resources Fund	ERF		19.58	10.6	10.8	5.4	74
Penn West Energy Trust	PWE	H	11.12	7.7	9.4	5.3	75
	<i>Median</i>			<i>10.0</i>	<i>10.8</i>	<i>6.2</i>	<i>72</i>
<b>Small Cap Independent Producers</b>							
Birchcliff Energy Ltd. (US\$)	BIR.TO		4.14	6.9	18.1	8.9	73
Encore Acquisition Company	EAC		25.52	13.4	12.0	8.4	53
Berry Petroleum Company	BRY		7.56	9.6	10.6	5.7	5.5 60
Cimarex Energy Company	XEC		26.78	7.4	9.2	4.0	61
	<i>Median</i>			<i>8.5</i>	<i>11.3</i>	<i>7.1</i>	<i>61</i>
<b>U.S. Royalty Trusts</b>							
San Juan Basin Royalty Trust	SJT	H	30.97	10.8	15.1	13.7	17.0 72
Sabine Royalty Trust	SBR		40.96	9.2	13.4	11.7	11.7 97
Permian Basin RT	PBT		13.70	8.8	14.2	10.3	11.7 77
Cross Timbers Royalty Trust	CRT		27.85	14.5	15.2	10.1	10.6 74
Mesa RoyaltyTrust	MTR		39.99	21.1	13.5	8.1	9.2 82
Hugoton RoyaltyTrust	HGT	B	16.05	13.1	12.9	7.4	10.7 67
	<i>Median</i>			<i>12.0</i>	<i>13.8</i>	<i>10.2</i>	<i>11.2</i> 76
<b>U.S. Master Limited Partnerships (MLPs)</b>							
Linn Energy, LLC	LINE		14.97	13.6	9.8	10.2	70
Encore Energy Partners, L.P.	ENP		12.98	12.7	13.3	10.0	70
Dorchester Minerals, L.P.	DMLP		15.87	8.5	13.7	9.1	15.0 88
	<i>Median</i>			<i>12.7</i>	<i>13.3</i>	<i>10.0</i>	<i>15.0</i> 70
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2009; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses							



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Table 3								
Oil and Gas Income and Small Cap Stocks								
Next Twelve Months Distribution Yield								
			<i>Natural</i>					
		<i>Revenue</i>	<i>Gas</i>		<i>Dist/</i>			<i>Dist.</i>
	<i>Symbol</i>	<i>Royalty</i>	<i>%</i>	<i>Dist/</i>	<i>Equity</i>	<i>NTM Distribution</i>		<i>Yield</i>
		<i>(%)</i>	<i>NPV</i>	<i>Ebitda</i>	<i>Ebitda</i>	<i>(\$mm)</i>	<i>(\$/un)</i>	<i>(%)</i>
<b>Canadian Income Trusts (US\$)</b>								
Pengrowth Energy Trust	PGH	-	34	0.77	1.14	417	1.67	22.0
Penn West Energy Trust	PWE	-	28	0.50	0.68	768	1.97	17.7
Enerplus Resources Fund	ERF	-	56	0.55	0.61	406	2.46	12.6
Canadian Oil Sands Trust	COSWF	-	-	0.55	0.58	396	0.82	4.7
<i>Total or Median</i>			<i>31</i>	<i>0.55</i>	<i>0.64</i>	<i>2,000</i>		<i>15.1</i>
<b>Small Cap Independent Producers</b>								
Berry Petroleum Company	BRY	-	42	0.05	0.08	14	0.30	4.0
Cimarex Energy Company	XEC	-	65	0.03	0.03	20	0.24	0.9
Birchcliff Energy Ltd. (US\$)	BIR.TO	-	75	-	-	-	-	-
Encore Acquisition Company	EAC	-	18	-	-	-	-	-
<i>Total or Median</i>			<i>53</i>					
<b>U.S. Royalty Trusts</b>								
Mesa RoyaltyTrust	MTR	-	75	0.87	0.87	8	4.35	10.9
Hugoton RoyaltyTrust	HGT	-	91	0.69	0.69	60	1.50	9.4
Cross Timbers Royalty Trust	CRT	84	76	0.95	0.95	16	2.62	9.4
Sabine Royalty Trust	SBR	100	54	1.00	1.00	51	3.50	8.5
Permian Basin RT	PBT	32	33	0.87	0.87	54	1.17	8.5
San Juan Basin Royalty Trust	SJT	-	100	0.81	0.81	85	1.82	5.9
<i>Total or Median</i>			<i>76</i>	<i>0.87</i>	<i>0.87</i>	<i>270</i>		<i>9.0</i>
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Linn Energy, LLC	LINE		48	0.85	1.77	287	2.52	16.8
Encore Energy Partners, L.P.	ENP		30	0.93	1.21	18	1.73	13.3
Dorchester Minerals, L.P.	DMLP	64	68	0.99	0.99	49	1.74	11.0
<i>Total or Median</i>			<i>48</i>	<i>0.93</i>	<i>1.21</i>	<i>350</i>		<i>13.3</i>
NTM = Next Twelve Months Ended December 31, 2009								
Ebitda = Earnings before interest, tax, depreciation and amortization								



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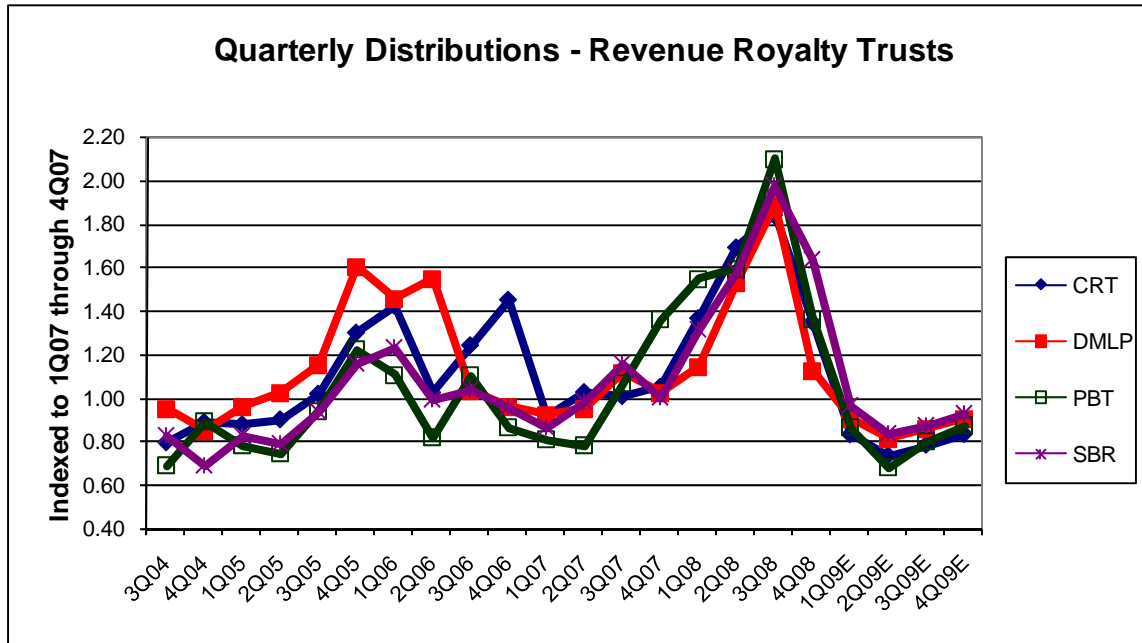
Dorchester Minerals, L.P.									
Distributable Income									
									<i>Next</i>
	<i>Q4</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Twelve</i>
	<i>12/31/07</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008E</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>Months</i>
	<i>12/31/07</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008E</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>12/31/09</i>
<b>Volume</b>									
Natural Gas (bcf)	2.07	1.96	1.97	<b>7.76</b>	1.93	1.95	1.97	1.97	<b>7.83</b>
Natural Gas (mmcf)	22.5	21.3	21.5	<b>21.2</b>	21.5	21.5	21.5	21.5	<b>21.5</b>
Days	92	92	92	<b>366</b>	90	91	92	92	<b>365</b>
Oil (mb)	0.07	0.08	0.08	<b>0.3</b>	0.08	0.08	0.08	0.08	<b>0.3</b>
Oil (mbd)	0.80	0.86	0.85	<b>0.86</b>	0.85	0.85	0.85	0.85	<b>0.85</b>
Total (bcfe)	2.5	2.4	2.4	<b>9.7</b>	2.4	2.4	2.4	2.4	<b>9.7</b>
Total (mmcf)	27	26	27	<b>26</b>	27	27	27	27	<b>27</b>
<b>Price</b>									
Henry Hub (\$/mmbtu)	6.97	10.25	6.95	<b>9.04</b>	5.63	5.81	6.11	6.71	<b>6.07</b>
Differential (\$/mmbtu)	0.53	1.65	1.12	<b>0.64</b>	0.23	0.23	0.24	0.27	<b>0.24</b>
Company (\$/mcf)	6.45	8.60	5.84	<b>8.40</b>	5.41	5.58	5.87	6.44	<b>5.83</b>
WTI Cushing (\$/bbl)	90.67	117.99	57.91	<b>99.45</b>	45.93	51.90	55.32	57.93	<b>52.77</b>
Differential	4.10	2.37	1.16	<b>3.38</b>	1.56	7.27	7.75	8.11	<b>6.15</b>
Company	86.58	115.62	56.75	<b>96.07</b>	44.37	44.63	47.58	49.82	<b>46.62</b>
Total (\$/mcf)	7.86	10.68	6.53	<b>9.89</b>	5.79	5.93	6.26	6.80	<b>6.20</b>
<b>Revenue (\$mm)</b>									
Natural Gas	13.3	16.9	11.5	<b>65.2</b>	10.4	10.9	11.6	12.7	<b>45.6</b>
Oil	6.4	9.1	4.5	<b>30.4</b>	3.4	3.5	3.7	3.9	<b>14.5</b>
Other	(1.4)	(1.5)	(0.9)	<b>(5.8)</b>	(0.8)	(0.9)	(0.9)	(1.0)	<b>(3.6)</b>
Total	18.3	24.5	15.0	<b>89.8</b>	13.0	13.5	14.4	15.6	<b>56.5</b>
<b>Expense</b>									
Operating	1.0	1.5	0.9	<b>4.9</b>	0.8	0.8	0.9	1.0	<b>3.4</b>
General and administrative	1.1	0.7	0.9	<b>3.5</b>	0.9	0.9	0.9	0.9	<b>3.6</b>
Total	2.2	2.2	1.8	<b>8.5</b>	1.7	1.7	1.8	1.9	<b>7.0</b>
<b>Ebitda</b>									
Deprec., Deplet., & Amort.	3.9	3.8	4.9	<b>15.5</b>	4.8	4.8	4.9	4.9	<b>19.4</b>
Other Non Cash	(0.0)	(0.2)	(0.2)	<b>(0.0)</b>	(0.2)	(0.2)	(0.2)	(0.2)	<b>(0.8)</b>
<b>Ebit</b>									
Ebit	12.2	18.7	8.5	<b>65.9</b>	6.7	7.1	7.9	9.1	<b>30.8</b>
<b>Ebt</b>									
Ebt	12.2	18.7	8.5	<b>65.9</b>	6.7	7.1	7.9	9.1	<b>30.8</b>
General Partner	0.4	0.6	0.3	<b>2.0</b>	0.2	0.2	0.2	0.3	<b>0.9</b>
<b>Net Income (\$mm)</b>									
Net Income (\$mm)	11.9	18.1	8.3	<b>63.9</b>	6.5	6.9	7.7	8.8	<b>29.9</b>
Per Share (\$)	0.42	0.64	0.29	<b>2.26</b>	0.23	0.24	0.27	0.31	<b>1.06</b>
<b>Shares (millions)</b>									
Shares (millions)	28.2	28.2	28.2	<b>28.2</b>	28.2	28.2	28.2	28.2	<b>28.2</b>
<b>Distribution (\$/unit)</b>									
Distribution (\$/unit)	0.51	0.95	0.56	<b>2.85</b>	0.45	0.41	0.43	0.45	<b>1.74</b>
<b>Operating (\$/mcf)</b>									
Operating (\$/mcf)	0.41	0.61	0.37	<b>0.51</b>	0.33	0.34	0.36	0.39	<b>0.35</b>
<b>General and admin (\$/mcf)</b>									
General and admin (\$/mcf)	0.46	0.31	0.37	<b>0.36</b>	0.38	0.37	0.37	0.37	<b>0.37</b>
<b>Deprec., D, &amp; A (\$/mcf)</b>									
Deprec., D, & A (\$/mcf)	1.56	1.55	2.00	<b>1.61</b>	2.00	2.00	2.00	2.00	<b>2.00</b>
<b>Ebitda Margin</b>									
Ebitda Margin	88%	91%	88%	<b>91%</b>	87%	87%	88%	88%	<b>88%</b>
<b>GP</b>									
GP	3%	3%	3%	<b>3%</b>	3%	3%	3%	3%	<b>3%</b>
<b>Distribution/Ebitda</b>									
Distribution/Ebitda	0.90	1.20	1.20	<b>0.99</b>	1.12	0.98	0.97	0.92	<b>0.99</b>



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