

## **Founding Father Speaks**

### **Summary and Recommendation**

Boone Pickens continues to believe that royalty trusts are a superior form of ownership for the mature properties of major oil companies. At the same time Mr. Pickens suggested that there may be tax hurdles in forming new royalty trusts. The man whose founding of **Mesa Royalty Trust (MTR)** in 1979 preceded the formation of the remaining six stocks in this weekly analysis gave those views in an energy discussion broadcast by Bloomberg on February 16. One logical extension we make of those thoughts is that perhaps the U.S. tax laws ought to be modified to encourage royalty trust formation. Meanwhile, distributions declared for February continue at an attractive level (see chart [Monthly Distributions](#)). The estimated distribution yield for the next twelve months remains near 8% as the market value of roughly equal holdings in seven stocks reached a new high (see table [The Account](#)). Values are reasonable in the McDep framework that relates to present value calculated on a long-term real oil price of \$40 a barrel for Light, Sweet Crude (see table [Rank by McDep Ratio](#)).

### **Founding Father at a Bloomberg Energy Seminar**

We include these observations here because royalty trusts are part of Boone Pickens' legacy. His most audacious move was to propose, around 1985, that Gulf Oil, one of the Seven Sisters, be turned into a royalty trust. Gulf stock multiplied and the company was acquired by Chevron.

Holding forth in a room of investors two generations younger, the 76 year old oilman expounded on most of the big energy issues. There is no incremental supply, demand is roaring in Asia. Only a world recession would derail oil price. Saudi Arabia will see its government toppled in favor of a democracy. Russia will act in its self-interest to foster higher oil price, but not too high. Mr. Pickens sees a \$50 floor eventually.

Boone tells of a reporter calling when oil price looked like it was going through \$40 on the downside. "You are wrong on 60 before 40, now what do you say?" Mr. Pickens recalled the man who jumped out the tenth floor of a building and as he passed the fifth floor thought "I am not dead yet!" Oil bottomed at \$40.40 and Boone's forecast still lives.

Among other topics, one of Mr. Pickens' best lines was that President Bush found more oil in the White House than he did in West Texas. The U.S. is much better off in energy

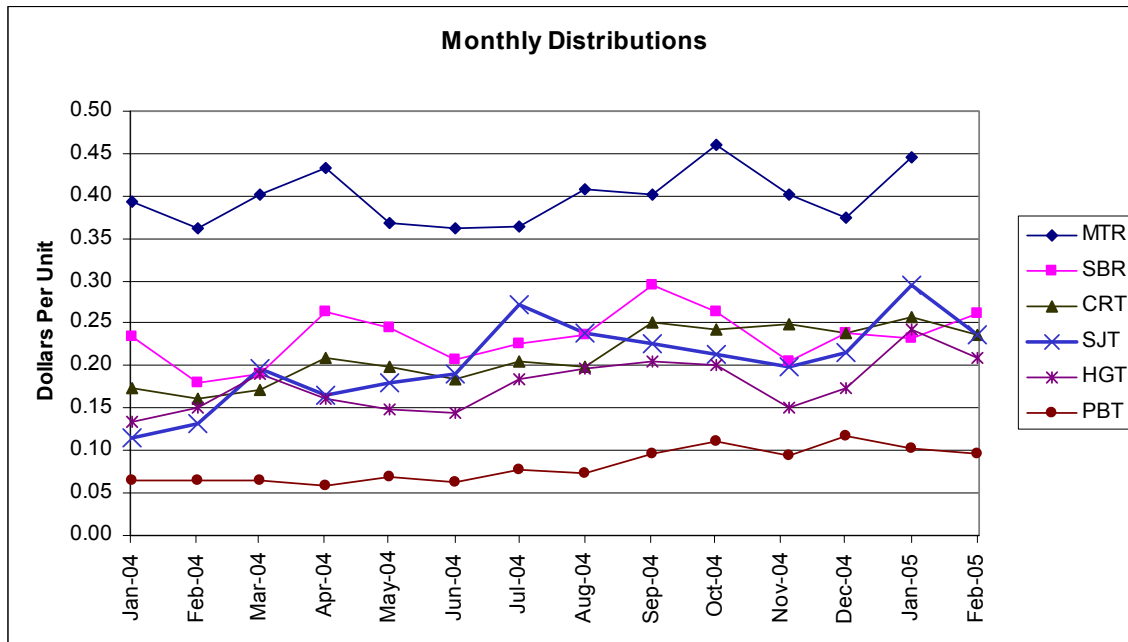
Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at [www.mcdep.com](http://www.mcdep.com). Analyses are prepared from sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Mr. Wulff is not paid by covered companies. Neither he nor his spouse trade a subject stock within a week before or after a change in rating.

# U.S. Natural Gas Royalty Trusts

A Weekly Analysis  
February 18, 2005

now that our military is based in Qatar, the country with the world's largest natural gas field in which ExxonMobil is the largest operator.

Kurt H. Wulff, CFA



## U.S. Natural Gas and Oil Royalty Trusts

### The Account

	Symbol	Price (\$/un) 17-Feb 2005	Units	Market Value (\$)	Next Twelve Months Distrib. (\$/un)	NTM Distrib. Yield (%/yr)
Cross Timbers Royalty Trust	CRT	44.75	400	17,900	2.88	6.4
Dorchester Minerals, L.P.	DMLP	23.26	700	16,282	2.00	8.6
Hugoton Royalty Trust	HGT	29.15	500	14,575	2.20	7.5
Mesa RoyaltyTrust	MTR	64.00	200	12,800	5.25	8.2
Permian Basin Royalty Trust	PBT	14.33	1,200	17,196	1.14	8.0
Sabine Royalty Trust	SBR	40.71	400	16,284	3.32	8.2
San Juan Basin Royalty Trust	SJT	34.29	500	17,145	2.68	7.8
<i>Total</i>				<i>112,182</i>		<i>7.8</i>
Futures Strip						
12 Month - Oil (\$/bbl)		47.51				
12 Month - Natural Gas (\$/mmbtu)		6.45				
72 Month - Oil (\$/bbl)		42.31				
72 Month - Natural Gas (\$/mmbtu)		5.83				

Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at [www.mcdep.com](http://www.mcdep.com). Analyses are prepared from sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Mr. Wulff is not paid by covered companies. Neither he nor his spouse trade a subject stock within a week before or after a change in rating.

#### U.S. Natural Gas and Oil Royalty Trusts Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol</i>	<i>Price (\$/sh) 17-Feb 2005</i>	<i>Shares (mm)</i>	<i>Market Cap (\$mm)</i>	<i>Net Present Value (\$/sh)</i>	<i>EV/ Ebitda</i>	<i>McDep Ratio</i>
Permian Basin RT (41%)	PBT	14.33	19.1	270	11.00	11.4	1.30
Cross Timbers Royalty Trust	CRT	44.75	6.0	270	36.00	15.4	1.25
Sabine Royalty Trust	SBR	40.71	14.6	590	33.00	12.3	1.23
San Juan Basin Royalty Trust	SJT	34.29	46.6	1,600	30.00	11.2	1.14
Dorchester Minerals, L.P.	DMLP	23.26	27.0	630	21.00	11.6	1.11
Hugoton RoyaltyTrust (46%)	HGT	29.15	18.4	540	27.00	10.4	1.08
Mesa RoyaltyTrust	MTR	64.00	1.9	120	60.00	11.8	1.06
<i>Total or Median</i>				<i>4,000</i>		<i>11.6</i>	<i>1.14</i>

#### Index of Recent U.S. Royalty Trust Research

##### Single Trust Analyses

<i>Date</i>	<i>Symbol</i>	<i>Stock</i>	<i>Theme</i>
11-Feb	HGT	Hugoton Royalty Trust	Improving Volume Trend
3-Feb	SJT	San Juan Basin Royalty Trust	Real Value with Income
22-Nov	* MTR	Mesa Royalty Trust	Hugoton Predictability, San Juan Surprise
12-Nov	* CRT	Cross Timbers Royalty Trust	Low Risk, Long Life

##### U.S. Natural Gas Royalty Trusts - A Weekly Analysis

11-Feb		New High
4-Feb	*	Pioneer's Hugoton Deal
28-Jan	*	Present Value at \$40 Oil
21-Jan	*	Overlooked Asset Class
13-Jan	*	Green on the Screen
7-Jan	*	All Barrels Are Not the Same
31-Dec	*	Charitable Gifts

\* Archived on [www.mcdep.com](http://www.mcdep.com)

Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at [www.mcdep.com](http://www.mcdep.com). Analyses are prepared from sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Mr. Wulff is not paid by covered companies. Neither he nor his spouse trade a subject stock within a week before or after a change in rating.