



Independent Stock Idea

February 21, 2014

Dorchester Minerals, L.P. (DMLP) Raise NPV to \$28 on Shale Oil

<i>Symbol</i>	DMLP	<i>Ebitda Next Twelve Months ending 12/31/14 (US\$mm)</i>	79
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	43
<i>Price (US\$/sh)</i>	24.96	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/20/14	<i>Adjusted Reserves/Production NTM</i>	7.3
<i>Units (mm)</i>	30.68	<i>EV/Ebitda</i>	9.7
<i>Market Capitalization (US\$mm)</i>	766	<i>PV/Ebitda</i>	10.9
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$mm)</i>	766	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	6.37
<i>Present Value (PV) (US\$mm)</i>	859	<i>Present Value Proven Reserves(US\$/boe)</i>	56.88
<i>Net Present Value (US\$/unit)</i>	28	<i>Oil and Gas Ebitda Margin (%)</i>	82%
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	1.55
<i>McDep Ratio - EV/PV</i>	0.89	<i>Price/Earnings Next Twelve Months</i>	16
<i>Distribution Yield (%/year)</i>	7.8	<i>Distribution Next Twelve Months (US\$/sh)</i>	1.93
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$90 a barrel and natural gas, \$6 a million btu.			
For historical analysis of DMLP since 2000 see www.mcdep.com/4dhulz.htm			

Summary and Recommendation

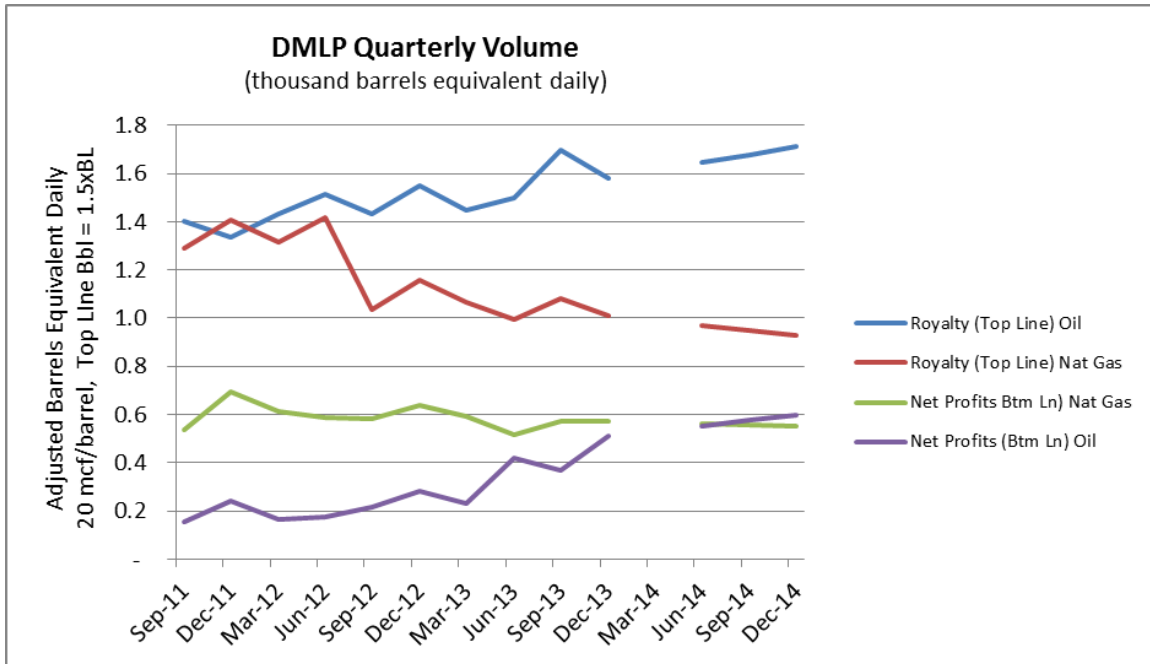
We raise estimated Net Present Value (NPV) for buy-recommended **Dorchester Minerals (DMLP)** to \$28 from \$26 on growing shale oil. Reported in the 10-K regulatory filing on February 20, oil reserves increased 42% in 2013. After taking into account a decrease in natural gas reserves, the increase in NPV is in line with the increase in total reported reserves. Bolstered by more wells in the Bakken and Permian shale trends, oil production advanced 18% in 2013 (see chart [Quarterly Volume](#) on page 2). Reflecting the good news, we raise oil's share to 50% of NPV (see table [Present Value](#) on page 2). Expected gains in 2014 contribute to a higher estimated next twelve months distribution of \$1.93 a unit, a 7.8% distribution yield (see table [Operating and Financial Estimates](#) on page 3). Not to be overlooked, the prospects for more rewarding natural gas price are strengthened by a continuation of a startling decline in natural gas inventories as reported on February 20 by the Energy Information Administration (see chart [Underground Storage](#) on page 4). Moreover, the February 20 update of the National Weather Service forecast for the next 6-14 days displays strong expectations of continued colder than normal temperatures that would draw heavily on natural gas inventories. We like DMLP stock for an attractive return that is less volatile because of the partnership's preferred royalty position and high income payments.

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Dorchester Minerals, L.P.					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
			<i>(US\$mm)</i>		
<u>Top Line - Royalty Interests</u>					
North American Natural Gas	19	6.9	15.0	290	
Oil	32	10.6	10.9	350	
<u>Bottom Line - Net Profits Interests</u>					
North American Natural Gas	14	7.1	10.0	140	
Oil	14	3.9	5.9	80	
<u>Total Top and Bottom</u>					
North American Natural Gas	34	6.9	12.6	430	50%
Oil	45	8.4	9.6	430	50%
	79	7.3	10.9	860	100%
Debt (US\$mm)					-
Net Present Value (US\$mm)					860
Shares (mm)					31
Net Present Value - Standard Estimate (US\$/sh)					28
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					28
Top Line Approximation at 1.5 times Cash Flow Multiple Depending on Reserve Life					



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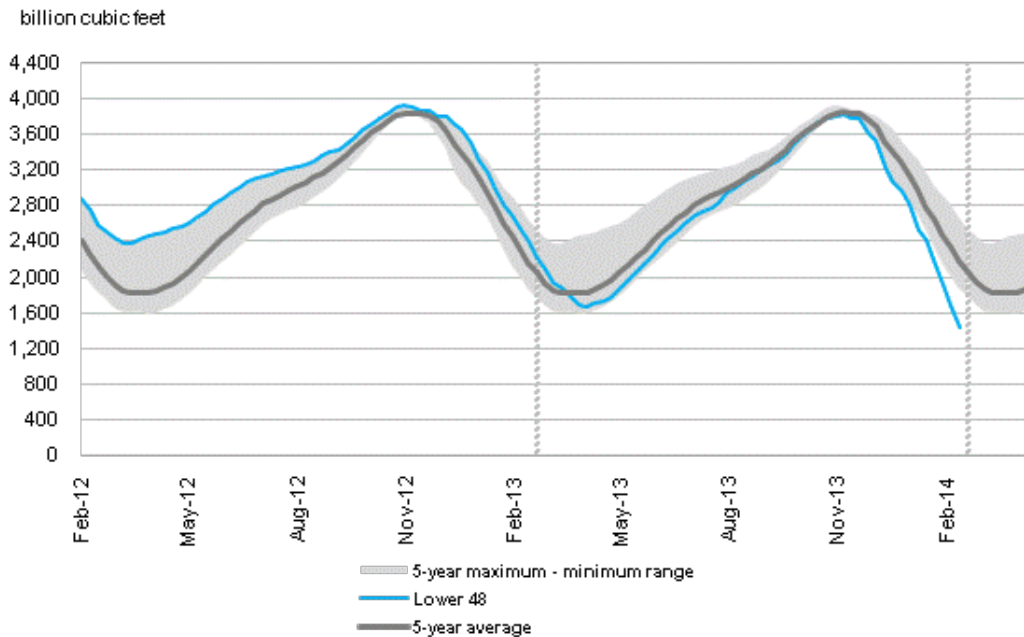
Dorchester Minerals, L.P.										
Operating and Financial Performance										
	Q4	Year	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Next Twelve Months
	12/31/12	2012	9/30/13	12/31/13	2013	3/31/14	6/30/14	9/30/14	12/31/14	12/31/14
Volume										
Nat Gas (mmcf) - Top Line	15.4	16.4	14.4	13.5	13.8	13.2	12.9	12.7	12.4	12.8
Nat Gas (mmcf) - Btm Line	12.8	12.1	11.4	11.5	11.3	11.3	11.2	11.1	11.0	11.2
Oil (mbd) - Top Line	1.03	0.99	1.13	1.05	1.04	1.08	1.10	1.12	1.14	1.11
Oil (mbd) - Bottom Line	0.28	0.21	0.37	0.51	0.38	0.53	0.55	0.57	0.60	0.56
Total (bcfe)	3.3	13.1	3.2	3.2	12.3	3.1	3.1	3.1	3.1	12.4
Total (mmcf)	36	36	35	34	34	34	34	34	34	34
Price										
Henry Hub (\$/mmbtu)	3.40	2.79	3.58	3.60	3.65	5.14	4.68	4.68	4.74	4.81
Top Line (\$/mcf)	3.86	2.82	3.28	3.57	3.44	5.10	4.64	4.64	4.69	4.77
Bottom Line (\$/mcf)	5.84	3.33	3.46	5.83	4.15	4.98	4.53	4.53	4.58	4.65
WTI Cushing (\$/bbl)	88.18	94.16	105.83	97.46	97.98	98.57	99.86	97.39	94.89	97.68
Top Line (\$/bbl)	82.03	89.21	102.89	90.84	94.15	91.87	93.08	90.78	88.44	91.04
Bottom Line (\$/bbl)	87.01	87.67	98.28	89.44	91.85	90.46	91.65	89.38	87.09	89.64
Total (\$/mcf)	6.75	5.41	6.87	7.47	6.76	7.92	7.74	7.72	7.73	7.78
Revenue (\$mm)										
Natural Gas - Top Line	5.5	16.9	4.4	4.4	17.4	6.1	5.5	5.4	5.4	22.3
Oil - Top Line	7.8	32.3	10.7	8.8	35.7	8.9	9.3	9.3	9.3	36.8
Total - Top Line	13.3	49.2	15.1	13.2	53.1	14.9	14.7	14.8	14.6	59.1
Natural Gas - Bottom Line	6.9	14.7	3.6	6.1	17.1	5.1	4.6	4.6	4.6	19.0
Oil - Bottom Line	2.3	6.8	3.3	4.2	12.9	4.3	4.6	4.7	4.8	18.4
Total - Bottom Line	9.1	21.5	7.0	10.3	29.9	9.4	9.2	9.4	9.4	37.4
Total	22.4	70.7	22.0	23.6	83.0	24.4	24.0	24.1	24.1	96.5
Expense										
BL Production (estimated)	0.8	2.4	0.9	1.2	3.6	1.2	1.2	1.3	1.3	4.9
Tax (other than income)	1.1	4.8	1.3	1.3	5.1	1.7	1.7	1.7	1.7	6.8
General and Administrative	1.4	3.8	0.8	1.5	4.2	1.0	1.0	1.0	1.0	4.0
General Partner	0.4	1.3	0.4	0.4	1.5	0.5	0.5	0.5	0.5	1.8
Total	3.7	12.4	3.5	4.4	14.4	4.3	4.3	4.4	4.4	17.5
Ebitda										
Top Line	11.5	42.3	13.3	11.4	46.1	13.0	12.8	12.8	12.7	51.4
Bottom Line	7.2	16.1	5.3	7.8	22.4	7.0	6.8	6.9	6.9	27.6
Total Ebitda	18.7	58.4	18.6	19.2	68.5	20.0	19.6	19.7	19.6	79.0
Deprec., Deplet., & Amort.	3.8	16.6	3.5	2.9	13.1	3.7	3.7	3.7	3.7	14.9
BL Capital (estimated)	3.0	11.4	4.7	5.8	16.1	5.8	5.8	5.8	3.0	20.5
Lease Bonus and Other	(1.5)	(6.5)	(0.1)	(2.2)	(2.7)	(1.0)	(1.0)	(1.0)	(1.0)	(4.0)
Ebit	13.5	36.8	10.4	12.6	42.0	11.5	11.1	11.1	13.9	47.6
Ebt	13.5	36.8	10.4	12.6	42.0	11.5	11.1	11.1	13.9	47.6
Net Income (\$mm)	13.5	36.8	10.4	12.6	42.0	11.5	11.1	11.1	13.9	47.6
Units (millions)	30.7	30.7	30.7	30.7	30.7	30.7	30.7	30.7	30.7	30.7
Net Income Per Unit (\$)	0.44	1.20	0.34	0.41	1.37	0.37	0.36	0.36	0.45	1.55
Ebitda Margin - Top Line	87%	82%	88%	86%	87%	87%	87%	87%	87%	87%
Ebitda Margin - Bottom Line	79%	75%	76%	75%	75%	75%	74%	73%	73%	74%
Distribution - Cash Accounting (\$mm)										
Top Line Revenue	12.4	47.2	13.8	13.1	49.3					
Bottom Line Net Revenue	1.8	9.1	2.2	1.2	10.3					
Lease Bonus	1.2	5.5	0.2	2.1	2.4					
Cash Expense	(2.1)	(7.4)	(2.2)	(2.0)	(7.8)					
Distribution	13.3	54.4	14.0	14.4	54.2	14.4	14.1	14.1	16.8	59.3
Distribution Per Unit (\$)	0.43	1.77	0.46	0.47	1.77	0.47	0.46	0.46	0.55	1.93



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Working gas in underground storage compared with the 5-year maximum and minimum



Source: U.S. Energy Information Administration

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