



Independent Stock Idea

November 6, 2009

rating: buy
s&p 500: 1069

Dorchester Minerals, L.P. (DMLP) More Drilling on DMLP Land

<i>Symbol</i>	DMLP	<i>Ebitda Next Twelve Months ending 9/30/10 (US\$mm)</i>	52
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	65
<i>Price (US\$/sh)</i>	22.00	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/6/09	<i>Adjusted Reserves/Production NTM</i>	7.8
<i>Units (mm)</i>	29.83	<i>EV/Ebitda</i>	12.5
<i>Market Capitalization (US\$mm)</i>	656	<i>PV/Ebitda</i>	15.4
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$mm)</i>	656	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	4.80
<i>Present Value (PV) (US\$mm)</i>	805	<i>Present Value Proven Reserves(US\$/boe)</i>	56.72
<i>Net Present Value (US\$/unit)</i>	27	<i>Oil and Gas Ebitda Margin (%)</i>	84
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	0.89
<i>McDep Ratio - EV/PV</i>	0.81	<i>Price/Earnings Next Twelve Months</i>	25
<i>Distribution Yield (%/year)</i>	6.9	<i>Distribution Next Twelve Months (US\$/sh)</i>	1.52
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\$75 a barrel and natural gas, \$8 a million btu.			
For historical analysis of DMLP since 2000 see www.mcdep.com/4dhulz.htm			

Summary and Recommendation

Analyzing third quarter results filed as Form 10-Q with the Securities and Exchange Commission after the market close on November 5, we reaffirm estimated Net Present Value (NPV) of \$27 a unit for buy-recommended **Dorchester Minerals (DMLP)**. On that basis unlevered appreciation potential is 23% to a McDep Ratio of 1.0 where stock price would equal NPV. Volume, unlevered cash flow (Ebitda), Minerals Net Profits Interest, and earnings per unit were all slightly ahead of estimates from three months ago despite a decline in natural gas price. Futures prices contribute to rising cash flow in the quarters ahead (see table Next Twelve Months Operating and Financial Estimates). After lagging real-time price by two months, the cash distribution ought to follow projected cash flow. NPV appears to imply an unusually high multiple of cash flow until we remind ourselves that 80% or more of "Ebitda" is a percentage of revenue from oil and gas production from which no expenses need to be deducted (see table Functional Cash Flow and Present Value). Moreover, all the drilling on DMLP's lands in the hot Bakken Trend in North Dakota, for example, requires no capital outlay by DMLP. Activity by industry operators on DMLP lands is responding to the uptrend in oil price signaled by futures for the next six years trading above the 40-week average (see chart Six-Year Commodity Price Meter).

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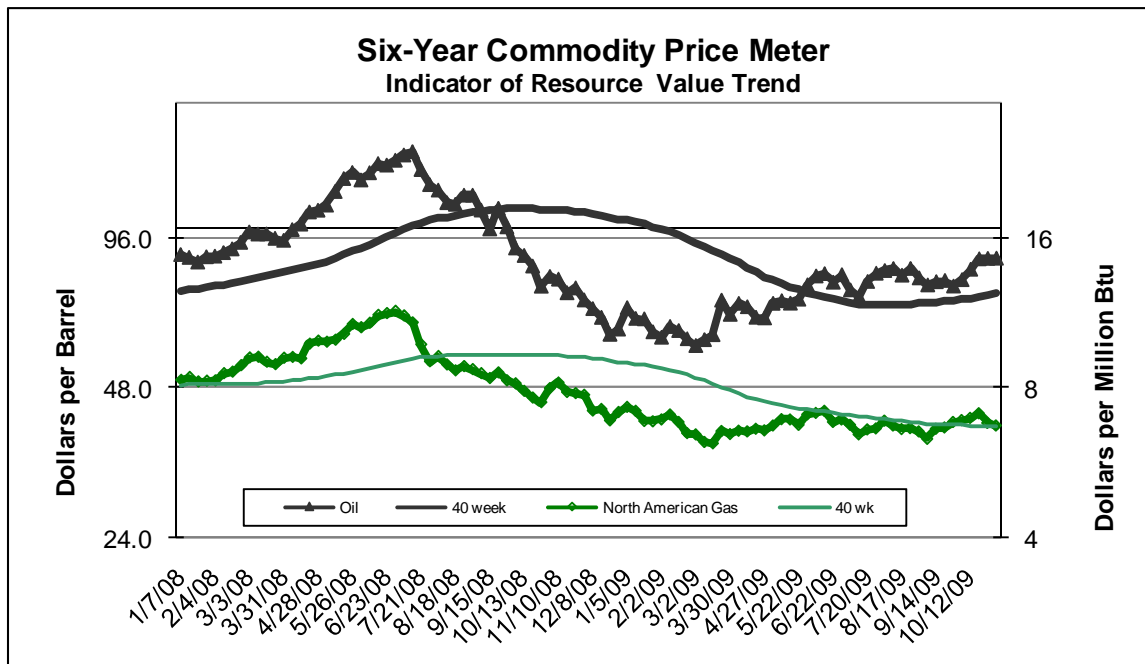
Dorchester Minerals, L.P.									
Next Twelve Months Operating and Financial Performance									
									<i>Next Twelve Months</i>
	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>9/30/10</i>
	<i>9/30/08</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>2009E</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>9/30/10</i>	<i>9/30/10</i>
Volume									
Natural Gas (bcf)	2.09	2.08	2.27	2.27	8.69	2.22	2.24	2.27	9.00
Natural Gas (mmcf)	22.7	22.8	24.7	24.7	23.8	24.7	24.7	24.7	24.7
Days	92	91	92	92	365	90	91	92	365
Oil (mb)	0.09	0.09	0.08	0.08	0.3	0.08	0.08	0.08	0.3
Oil (mbd)	0.92	0.97	0.87	0.87	0.91	0.87	0.87	0.87	0.87
Total (bcfe)	2.6	2.6	2.7	2.7	10.7	2.7	2.7	2.7	10.9
Total (mmcf)	28	29	30	30	29	30	30	30	30
Price									
Henry Hub (\$/mmbtu)	10.25	3.50	3.39	4.28	4.02	5.20	5.28	5.54	5.07
Differential (\$/mmbtu)	2.18	0.51	0.45	0.57	0.74	0.69	0.70	0.73	0.67
Company (\$/mcf)	8.07	2.99	2.94	3.71	3.27	4.51	4.58	4.81	4.40
WTI Cushing (\$/bbl)	117.99	59.52	68.22	77.22	61.98	79.30	81.15	82.28	79.99
Differential	10.53	6.82	9.10	10.29	8.92	11.41	11.36	11.52	11.14
Company	107.46	52.70	59.12	66.92	53.06	67.89	69.79	70.76	68.84
Total (\$/mcf)	10.00	4.16	4.15	5.01	4.31	5.70	5.81	6.03	5.63
Revenue (\$mm)									
Natural Gas	16.9	6.2	6.7	8.4	28.4	10.0	10.3	10.9	39.6
Oil	9.1	4.6	4.7	5.3	17.6	5.3	5.5	5.6	21.8
Other	0.6	(0.4)	0.3	0.3	(0.3)	0.3	0.3	0.3	1.2
Total	26.7	10.4	11.7	14.1	45.8	15.6	16.1	16.9	62.6
Expense									
Operating	1.8	1.0	1.2	1.5	4.7	1.7	1.7	1.8	6.7
General and administrative	0.7	0.8	0.8	0.9	3.5	0.9	0.9	0.9	3.6
Total	2.5	1.9	2.0	2.4	8.2	2.6	2.6	2.7	10.3
Ebitda	24.1	8.6	9.7	11.7	37.6	13.0	13.5	14.2	52.3
Minerals NPI	1.9	0.6	0.8	0.8	2.7	0.8	0.8	0.8	3.0
Deprec., Deplet., & Amort.	3.8	3.5	4.5	5.5	16.8	5.4	5.4	5.5	21.8
Other Non Cash	1.7	0.4	0.8	0.8	2.6	0.8	0.8	0.8	3.3
Ebit	18.7	4.7	4.3	5.3	18.2	6.9	7.2	7.8	27.3
Ebt	18.7	4.7	4.3	5.3	18.2	6.9	7.2	7.8	27.3
General Partner	0.6	0.2	0.2	0.2	0.6	0.2	0.2	0.2	0.8
Net Income (\$mm)	18.1	4.5	4.2	5.2	17.6	6.6	7.0	7.6	26.4
Per Share (\$)	0.64	0.16	0.14	0.17	0.60	0.22	0.23	0.26	0.89
Shares (millions)	28.2	28.3	29.8	29.8	29.8	29.8	29.8	29.8	29.8
Distribution (\$/unit)	0.95	0.27	0.29	0.28	1.24	0.38	0.42	0.44	1.52



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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>	
North American Natural Gas	34	7.0	16.2	550	68%
Oil	18	11.7	14.4	260	32%
	52	7.8	15.6	810	100%
Debt (US\$mm)					-
Net Present Value (US\$mm)					810
Shares (mm)					30
Net Present Value - Standard Estimate (US\$/sh)					27





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