



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

November 26, 2010

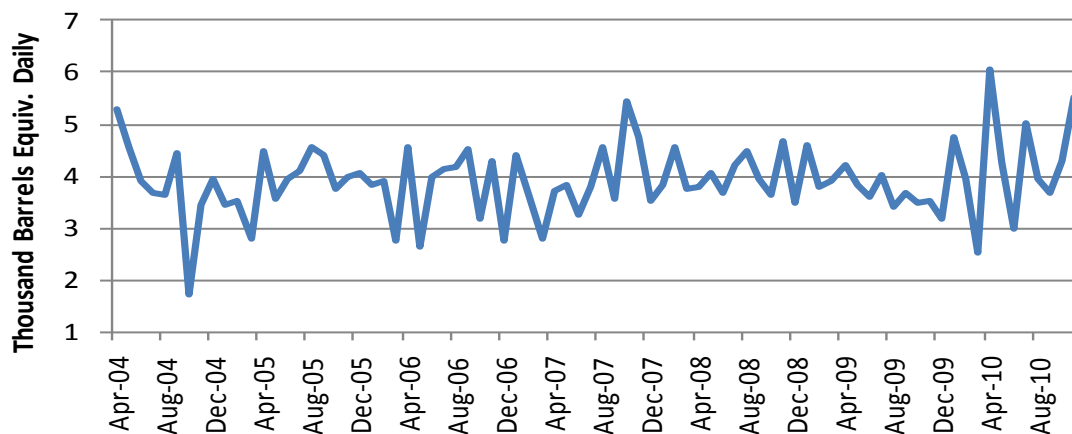
## Sabine Royalty Trust (SBR) Raise NPV on Proven Performance

### Summary and Recommendation

Units of Sabine Royalty Trust (SBR) are outperforming our expectations as they have most of the time since the trust was formed in 1982. We raise our estimate of Net Present Value (NPV) to \$50 a unit, which may be low as was our previous estimate of \$45, apparently. One of the confounding factors is that despite reporting minimal proven reserves, the trust has experienced no decline in oil equivalent production for the past six years (see chart [Volume](#) below). With output stable, oil and gas price explains most of the variation in monthly distributions (see chart [Distribution v. Price Index](#) on page 2). Thus, we could simply use futures prices for oil and gas to estimate distributions for the next twelve months (see chart [Price-Implied Distribution Trend](#) on page 2). Consistent with that trend, we estimate a breakdown in as much detail as past disclosures support (see table [Next Twelve Months Operating and Financial Performance](#) on page 3). The expected monthly payouts imply a nice cash yield of 6.9% for 2011 (find SBR in Top Line Cash Payer group in [Table 1](#) on page 4). Though stock price is above NPV, the trust has no debt while it ranks by McDep Ratio in the middle of a high-quality group (see [Table 2](#) on page 5). SBR's unlevered multiple of enterprise value to cash flow is close to 14.3, which is the theoretical multiple of a constant free cash flow stream delivering the 7% return that is our discount rate for estimating present value (see [Table 3](#) on page 6). The stock's actual return for 28 years has been 15% a year according to Bloomberg.

Kurt H. Wulff, CFA

**Sabine Royalty Trust  
Volume, 2004-2010**

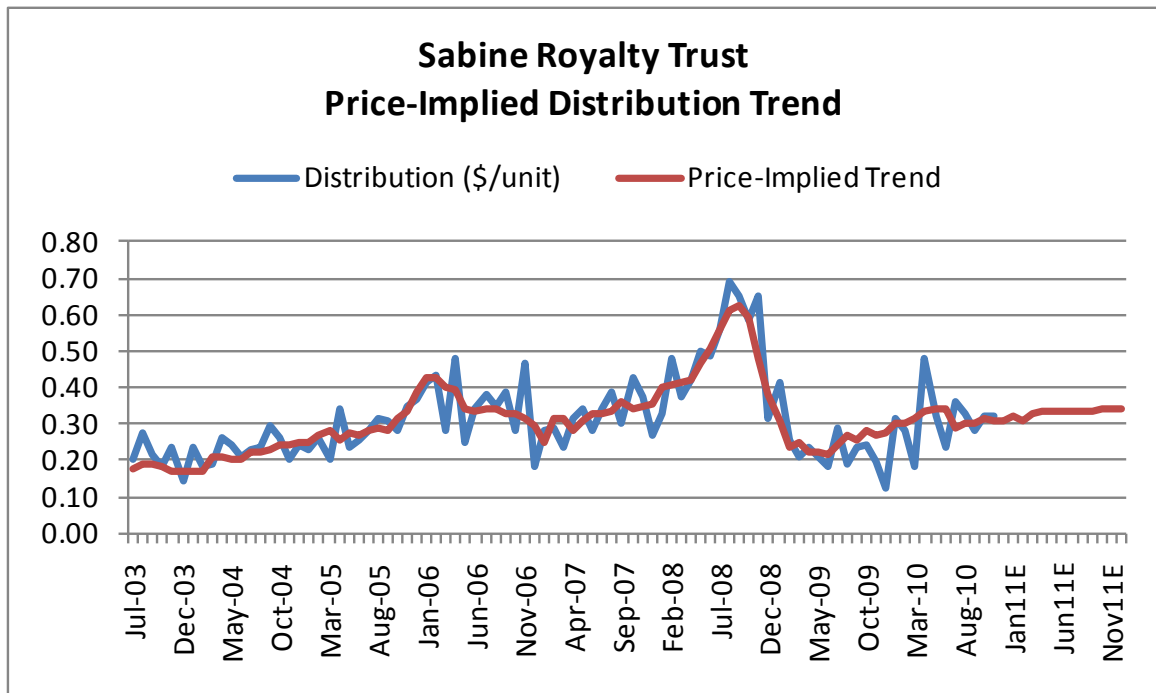
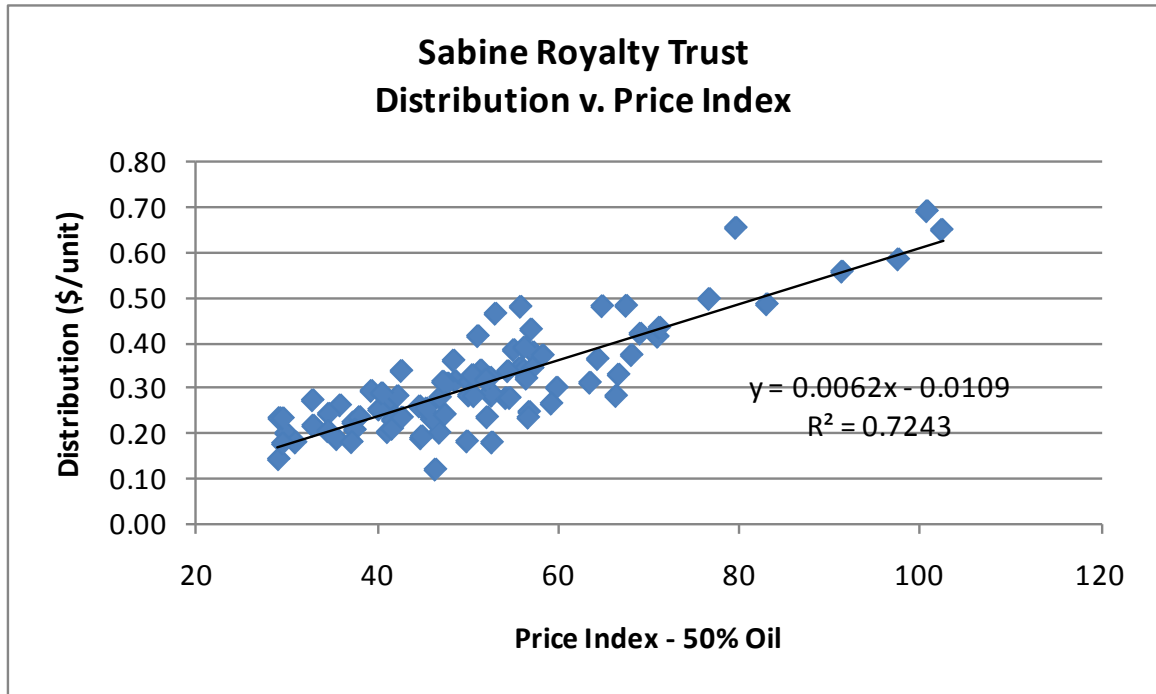




# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

November 26, 2010





# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

November 26, 2010

Sabine Royalty Trust									
Next Twelve Months Operating and Financial Performance									
	Q4	Q3	Q4E	Year	Q1E	Q2E	Q3E	Q4E	Year
	12/31/09	9/30/10	12/31/10	2010E	3/31/11	6/30/11	9/30/11	12/31/11	2011E
<b>Volume</b>									
Natural Gas (bcf)	1.49	1.51	2.11	<b>6.89</b>	1.89	1.85	1.87	1.89	<b>7.48</b>
Natural Gas (mmcf)	16.2	16.6	22.9	<b>18.9</b>	20.5	20.5	20.5	20.5	<b>20.5</b>
Days	92	91	92	<b>365</b>	92	90	91	92	<b>365</b>
Oil (mmb)	0.119	0.114	0.105	<b>0.421</b>	0.104	0.101	0.101	0.101	<b>0.407</b>
Oil (mbd)	1.30	1.24	1.14	<b>1.15</b>	1.13	1.12	1.11	1.10	<b>1.12</b>
Days	92	92	92	<b>365</b>	92	89	92	92	<b>365</b>
Total (bcfe)	2.21	2.19	2.74	<b>9.42</b>	2.51	2.45	2.47	2.49	<b>9.93</b>
Total (mmcf)	24.0	24.0	29.8	<b>25.8</b>	27.3	27.2	27.2	27.1	<b>27.2</b>
<b>Price</b> (Henry Hub natural gas lagged three months; WTI Cushing oil, two months)									
Henry Hub (\$/mmbtu)	3.39	4.09	4.38	<b>4.49</b>	3.79	4.40	4.36	4.49	<b>4.26</b>
Differential (%)	(9)	(16)	1	<b>(3)</b>	(2)	(2)	(2)	(2)	<b>(2)</b>
Company (\$/mcf)	3.69	4.75	4.35	<b>4.63</b>	3.87	4.48	4.45	4.58	<b>4.34</b>
WTI Cushing (\$/bbl)	72.10	75.14	77.93	<b>77.68</b>	83.93	85.17	85.83	86.39	<b>85.33</b>
Differential	12.60	4.14	4.63	<b>4.44</b>	4.98	5.06	5.10	5.13	<b>5.08</b>
Company (\$/bbl)	59.50	71.00	73.30	<b>73.24</b>	78.95	80.11	80.74	81.26	<b>80.25</b>
Total (\$/bcfe)	5.71	6.96	6.16	<b>6.66</b>	6.18	6.67	6.66	6.76	<b>6.57</b>
<b>Revenue (\$mm)</b>									
Natural Gas	5.5	7.2	9.2	<b>31.9</b>	7.3	8.3	8.3	8.6	<b>32.5</b>
Oil	7.1	8.1	7.7	<b>30.8</b>	8.2	8.1	8.2	8.2	<b>32.7</b>
Other	(2.9)	(1.2)	(2.6)	<b>(5.9)</b>	(0.9)	(1.0)	(1.2)	(2.6)	<b>(5.7)</b>
Total	9.7	14.1	14.3	<b>56.8</b>	14.6	15.4	15.2	14.3	<b>59.5</b>
<b>Expense</b>									
General and administrative	0.5	0.4	0.5	<b>2.1</b>	0.5	0.4	0.4	0.5	<b>1.8</b>
<b>Ebitda</b>	9.2	13.7	13.8	<b>54.7</b>	14.1	15.0	14.8	13.8	<b>57.7</b>
<b>Ebit</b>	9.2	13.7	13.8	<b>54.7</b>	14.1	15.0	14.8	13.8	<b>57.7</b>
<b>Ebt</b>	9.2	13.7	13.8	<b>54.7</b>	14.1	15.0	14.8	13.8	<b>57.7</b>
<b>Distributable Income (\$mm)</b>	9.2	13.7	13.8	<b>54.7</b>	14.1	15.0	14.8	13.8	<b>57.7</b>
<b>Units (millions)</b>	14.6	14.6	14.6	<b>14.6</b>	14.6	14.6	14.6	14.6	<b>14.6</b>
Per Unit (\$)	0.63	0.94	0.93	<b>3.73</b>	0.97	1.03	1.02	0.94	<b>3.96</b>



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

November 26, 2010

Table 1										
McDep Income and Small Cap Energy Portfolio										
Debt, Business Segments and Income Yield										
Symbol/Rating	Price (US\$/sh)	EV/Market	Enterprise Value (\$mm)	Present Value by Segment (%)			Dist. NTM (\$/un)	Dist. Yield (%)	McDep Ratio	
				N.Amer. Natural Gas	Oil Prod'n					
B = Buy CB (see below)	26-Nov 2010	Market Cap								
<b>Canadian Income Trusts (US\$)</b>										
Pengrowth Energy Trust	PGH	12.72	1.36	5,100	34	66	0.82	6.5	1.11	
Penn West Energy Trust	PWE	21.83	1.34	12,900	22	78	1.06	4.9	0.96	
Peyto Energy Trust	PEYUF	16.84	1.21	2,490	76	24	0.71	4.2	0.95	
Enerplus Resources Fund	ERF	27.71	1.21	5,900	41	59	2.12	7.6	0.94	
Canadian Oil Sands Trust	COSWF CB	26.59	1.12	14,400		100	1.57	5.9	0.72	
<i>Total or Median</i>				40,800				5.9	0.95	
<b>Small Cap Independent Producers</b>										
Denbury Resources Inc.	DNR	18.04	1.47	10,640	16	84	-	-	1.13	
Whiting Petroleum Corporation	WLL	108.75	1.18	7,600	15	85	-	-	1.12	
Petrohawk Energy Corporation	HK	17.80	1.63	8,780	95	5	-	-	1.07	
Berry Petroleum Company	BRY	37.85	1.51	3,110	32	68	0.30	0.8	1.05	
Range Resources	RRC	42.52	1.31	8,770	81	19	-	-	1.05	
Cimarex Energy Company	XEC B	81.71	1.09	7,640	58	42	0.32	0.4	1.02	
Ultra Petroleum	UPL	47.24	1.20	8,750	93	7	-	-	0.95	
Birchcliff Energy Ltd. (US\$)	BIREF B	9.74	1.27	1,570	69	31	-	-	0.74	
<i>Total or Median</i>				56,900					1.05	
<b>Top Line Cash Payers</b>										
Permian Basin RT	PBT	22.04	1.00	1,030	38	62	1.46	6.6	1.22	
Cross Timbers Royalty Trust	CRT	40.40	1.00	240	75	25	2.59	6.4	1.19	
Sabine Royalty Trust	SBR	57.68	1.00	840	45	55	3.96	6.9	1.15	
Freehold Royalty Trust (US\$)	FRHLF	19.36	1.07	1,210	25	75	1.65	8.5	1.13	
Dorchester Minerals, L.P.	DMLP B	26.92	1.02	840	66	34	1.69	6.3	1.00	
<i>Total or Median</i>				4,200				6.6	1.15	
<b>Bottom Line Cash Payers</b>										
Linn Energy, LLC	LINE	36.48	1.42	7,580	45	55	2.64	7.2	1.43	
Legacy Reserves L.P.	LGCY	26.15	1.37	1,430	17	83	2.08	8.0	1.21	
Vanguard Natural Resources, LLC	VNR	26.30	1.44	1,130	38	62	2.20	8.4	1.20	
Encore Energy Partners, L.P. (52%)	ENP	20.16	1.27	600	25	75	2.00	9.9	1.14	
Mesa Royalty Trust	MTR	49.98	1.00	93	75	25	3.51	7.0	1.04	
Hugoton Royalty Trust	HGT B	20.71	1.00	830	90	10	1.32	6.4	0.99	
San Juan Basin Royalty Trust	SJT B	24.44	1.00	1,140	100	-	1.44	5.9	0.98	
<i>Total or Median</i>				12,800				7.2	1.14	
<b>Composite (excl COSWF)</b>										
<i>Enterprise Value Weighting</i>				100,200	50	50			1.05	
<i>Equal Weighting</i>					53	47			1.07	
<i>Equal Weighted Buys</i>					67	33			0.94	

CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.

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 \$8 a million btu for natural gas.

Dist. = Income distribution. NTM = Next Twelve Months Ended December 31, 2011. Enterprise Value = Market Cap and Debt.

Please see disclosures on the final page.

Page 4



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

November 26, 2010

	<i>Symbol/</i>	<i>Price</i>	<i>Shares</i>	<i>Market</i>	<i>Net</i>	<i>Debt/</i>		
	<i>Rating</i>	<i>(\$/sh)</i>	<i>(mm)</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	<i>Value</i>	<i>McDep</i>
		<i>26-Nov</i>		<i>(\$mm)</i>	<i>(\$/un)</i>			<i>Ratio</i>
		<i>2010</i>						
<b>Canadian Income Trusts (US\$)</b>								
Pengrowth Energy Trust	PGH	12.72	299.0	3,800	11.00	0.29		1.11
Penn West Energy Trust	PWE	21.83	439.6	9,600	23.00	0.25		0.96
Peyto Energy Trust	PEYUF	16.84	121.8	2,050	18.00	0.17		0.95
Enerplus Resources Fund	ERF	27.71	177.5	4,920	30.00	0.16		0.94
Canadian Oil Sands Trust	COSWF	CB	26.59	484.0	12,870	38.00	0.08	0.72
<i>Total or Median</i>					33,200		0.17	0.95
<b>Small Cap Independent Producers</b>								
Denbury Resources Inc.	DNR	18.04	401.0	7,230	15.00	0.36		1.13
Whiting Petroleum Corporation	WLL	108.75	59.0	6,420	95.00	0.17		1.12
Petrohawk Energy Corporation	HK	17.80	302.0	5,380	16.00	0.41		1.07
Berry Petroleum Company	BRY	37.85	54.4	2,060	35.00	0.35		1.05
Range Resources	RRC	42.52	157.1	6,680	40.00	0.25		1.05
Cimarex Energy Company	XEC	B	81.71	85.8	7,010	80.00	0.08	1.02
Ultra Petroleum	UPL	47.24	154.0	7,270	50.00	0.16		0.95
Birchcliff Energy Ltd. (US\$)	BIREF	B	9.74	127.3	1,240	14.00	0.16	0.74
<i>Total or Median</i>					43,290		0.21	1.05
<b>Top Line Cash Payers</b>								
Permian Basin RT	PBT	22.04	46.6	1,030	18.00	-		1.22
Cross Timbers Royalty Trust	CRT	40.40	6.0	240	34.00	-		1.19
Sabine Royalty Trust	SBR	57.68	14.6	840	50.00	-		1.15
Freehold Royalty Trust (US\$)	FRHLF	19.36	58.4	1,130	17.00	0.08		1.13
Dorchester Minerals, L.P.	DMLP	B	26.92	30.7	830	27.00	0.02	1.00
<i>Total or Median</i>					4,070			1.15
<b>Bottom Line Cash Payers</b>								
Linn Energy, LLC	LINE	36.48	146.5	5,340	21.00	0.42		1.43
Legacy Reserves L.P.	LGCY	26.15	40.1	1,050	20.00	0.32		1.21
Vanguard Natural Resources, LLC	VNR	26.30	29.8	780	20.00	0.37		1.20
Encore Energy Partners, L.P. (52%)	ENP	20.16	23.6	480	17.00	0.24		1.14
Mesa Royalty Trust	MTR	49.98	1.9	93	48.00	-		1.04
Hugoton Royalty Trust	HGT	B	20.71	40.0	830	21.00	-	0.99
San Juan Basin Royalty Trust	SJT	B	24.44	46.6	1,140	25.00	-	0.98
<i>Total or Median</i>					9,710			1.14

B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.  
 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 \$8 a million btu for natural gas.



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

November 26, 2010

			Price (\$/sh)	Revenue Royalty (%)	Dist/ Equity Ebitda	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM
	Symbol/ Rating		26-Nov 2010					
<b>Canadian Income Trusts (US\$)</b>								
Peyto Energy Trust	PEYUF		16.84		0.49	18.4	12.5	11.8
Canadian Oil Sands Trust	COSWF	CB	26.59		0.52	29.2	12.6	9.1
Penn West Energy Trust	PWE		21.83		0.42	9.9	9.1	8.7
Pengrowth Energy Trust	PGH		12.72		0.58	9.6	7.8	8.7
Enerplus Resources Fund	ERF		27.71		0.59	9.7	8.3	7.8
	<i>Median</i>					9.9	9.1	8.7
<b>Small Cap Independent Producers</b>								
Range Resources	RRC		42.52		-	11.8	13.9	14.6
Birchcliff Energy Ltd. (US\$)	BIREF	B	9.74		-	19.8	16.0	11.9
Ultra Petroleum	UPL		47.24		-	12.6	12.4	11.8
Petrohawk Energy Corporation	HK		17.80		-	7.0	9.5	10.2
Denbury Resources Inc.	DNR		18.04		-	12.9	7.8	8.8
Berry Petroleum Company	BRY		37.85		-	11.3	8.0	8.4
Whiting Petroleum Corporation	WLL		108.75		-	9.3	6.4	7.2
Cimarex Energy Company	XEC	B	81.71		-	6.2	6.8	6.9
	<i>Median</i>					11.5	8.8	9.5
<b>Top Line Cash Payers</b>								
Cross Timbers Royalty Trust	CRT		40.40	84	0.96	13.2	12.6	15.0
Permian Basin RT	PBT		22.04	32	0.98	13.2	12.1	14.8
Sabine Royalty Trust	SBR		57.68	100	1.00	7.8	12.6	14.6
Dorchester Minerals, L.P.	DMLP	B	26.92	77	0.86	6.7	13.8	13.8
Freehold Royalty Trust (US\$)	FRHLF		19.36	71	0.90	8.4	9.3	10.5
	<i>Median</i>					8.4	12.6	14.6
<b>Bottom Line Cash Payers</b>								
Linn Energy, LLC	LINE		36.48		1.68	18.3	13.3	19.0
San Juan Basin Royalty Trust	SJT	B	24.44		0.83	13.7	14.4	14.1
Hugoton Royalty Trust	HGT	B	20.71		0.86	12.6	13.6	13.4
Mesa Royalty Trust	MTR		49.98		0.91	8.7	12.4	12.9
Legacy Reserves L.P.	LCY		26.15		0.96	12.0	9.3	11.2
Encore Energy Partners, L.P.	ENP		20.16		1.06	13.5	9.0	10.3
Vanguard Natural Resources, LLC	VNR		26.30		0.93	13.0	8.5	10.2
	<i>Median</i>					13.0	12.4	12.9
B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.								
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2011; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								
Top Line Cash Payers defined as those having Revenue Royalty (see fifth column from right).								



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

November 26, 2010

Table 4									
Oil and Gas Income and Small Cap Stocks									
Rank by Enterprise Value to 200 Day Average									
			Price (\$/sh)	Enterprise Value/					
	Symbol/ Rating		26-Nov 2010	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	McDep Ratio	
<b>Canadian Income Trusts (US\$)</b>									
	Peyto Energy Trust	PEYUF	16.84	0.94	1.42	1.06	1.15	0.95	
	Pengrowth Energy Trust	PGH	12.72	0.98	1.98	1.06	1.14	1.11	
	Enerplus Resources Fund	ERF	27.71	0.94	1.72	1.03	1.13	0.94	
	Penn West Energy Trust	PWE	21.83	0.93	1.25	1.01	1.06	0.96	
	Canadian Oil Sands Trust	COSWF	CB	26.59	0.83	1.13	1.02	0.99	0.72
	<i>Median</i>			<i>0.94</i>	<i>1.42</i>	<i>1.03</i>	<i>1.13</i>	<i>0.95</i>	
<b>Small Cap Independent Producers</b>									
	Whiting Petroleum Corporation	WLL		108.75	0.99	1.59	1.06	1.19	1.12
	Cimarex Energy Company	XEC	B	81.71	0.98	1.68	1.09	1.16	1.02
	Berry Petroleum Company	BRY		37.85	0.98	1.31	1.06	1.14	1.05
	Denbury Resources Inc.	DNR		18.04	0.94	1.25	1.03	1.07	1.13
	Birchcliff Energy Ltd. (US\$)	BIREF	B	9.74	0.93	1.31	1.08	1.06	0.74
	Ultra Petroleum	UPL		47.24	0.89	1.22	1.08	1.05	0.95
	Range Resources	RRC		42.52	0.82	1.23	1.08	0.99	1.05
	Petrohawk Energy Corporation	HK		17.80	0.75	1.16	1.03	0.97	1.07
	<i>Median</i>			<i>0.94</i>	<i>1.28</i>	<i>1.07</i>	<i>1.06</i>	<i>1.05</i>	
<b>Top Line Cash Payers</b>									
	Permian Basin RT	PBT		22.04	0.93	1.71	1.05	1.16	1.22
	Freehold Royalty Trust (US\$)	FRHLF		19.36	0.98	1.35	1.06	1.15	1.13
	Sabine Royalty Trust	SBR		57.68	0.97	1.45	1.05	1.13	1.15
	Cross Timbers Royalty Trust	CRT		40.40	0.96	1.43	1.07	1.13	1.19
	Dorchester Minerals, L.P.	DMLP	B	26.92	0.92	1.34	0.99	1.07	1.00
	<i>Median</i>			<i>0.96</i>	<i>1.43</i>	<i>1.05</i>	<i>1.13</i>	<i>1.15</i>	
<b>Bottom Line Cash Payers</b>									
	Linn Energy, LLC	LINE		36.48	0.99	1.86	1.06	1.18	1.43
	Mesa RoyaltyTrust	MTR		49.98	0.92	1.43	1.05	1.10	1.04
	Hugoton RoyaltyTrust	HGT	B	20.71	0.94	1.38	1.02	1.08	0.99
	Legacy Reserves L.P.	LGCY		26.15	0.96	1.34	1.01	1.08	1.21
	Vanguard Natural Resources, LLC	VNR		26.30	0.99	1.33	1.01	1.06	1.20
	Encore Energy Partners, L.P. (52%)	ENP		20.16	0.94	1.71	1.02	1.04	1.14
	San Juan Basin Royalty Trust	SJT	B	24.44	0.86	1.46	1.00	1.03	0.98
	<i>Median</i>			<i>0.94</i>	<i>1.43</i>	<i>1.02</i>	<i>1.08</i>	<i>1.14</i>	

CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

November 26, 2010

**Disclaimer:** This analysis was prepared by Kurt Wulff, Manager of McDep LLC. 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.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

**Certification:** I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

**Research Methodology/Ratings Description:** McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.