



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

December 14, 2012

Cash Payers: Leveraged and RTF

Summary and Recommendation

The regular weekly ranking tables have a new look for income stocks with a dual focus on four Leveraged Cash Payers (LCP) and nine RTF (Royalty Trust Fund) Cash Payers (see Tables [ISC - 1](#) to [ISC - 4](#) on pages 2-5). Debt is moderately high for LCP stocks whether measured by the market at a median EV/Market Cap of 1.67 ([ISC-1](#)) or by our estimates at a median 0.36 ([ISC-2](#)). Offsetting the extra risk, LCP's buy oil and gas price insurance. The leading LCP, **Linn Energy (LINE)**, has navigated the risks with astute financial leadership and compounded value with profitable oil shale drilling especially in the Texas Panhandle and Western Oklahoma. The lowest McDep Ratio LCP, Contrarian Buy **Enerplus (ERF)**, has an appealing stock price after retreating to a lower income distribution while continuing to offer Bakken shale oil growth. Top RTF performer, **Freehold Royalties (FRHLF)**, thrives on light oil growth in Canada, financed by others on freehold lands that date back to the beginning of Canada in some cases. Similarly, Contrarian Buy **Dorchester Minerals (DMLP)** has Bakken shale oil lands with rapidly expanding production financed by others while it works on a deal that may accelerate payment to unit holders. Contrarian Buy **San Juan Basin Royalty Trust (SJT)** holds undervalued rights in a great gas field that has seen its first horizontal fracks in shale gas and shale oil only in recent months. Among remaining RTF stocks, we are excited to see more appreciation potential in currently low valuation for the high quality characteristics of long-life production, pure play resource, hidden exposure to shale oil and shale and gas upside, debt-free financial strength, high income, top line cash, and publicly-traded liquidity (see table [RTF](#) below).

Kurt H. Wulff, CFA

The \$20 Million RTF (Royalty Trust Fund)

		Price	Fund							
Symbol/Rating		(US\$/sh)	Shares	Market	Top	PV(%)		Dist.	Dist.	
B = Buy	13-Dec		or Units	Value	Line	Nat		NTM	Yield	McDep
CB (see below)	2012		(thous.)	(\$mm)	(%)	Gas	Oil	(\$/un)	(%)	Ratio
Freehold Royalties Ltd.	FRHLF	22.72	110	2.5	76	16	84	1.70	7.5	1.08
Enduro Royalty Trust (40%)	NDRO	17.04	130	2.2	0	43	57	1.70	10.0	0.81
Dorchester Minerals, L.P.	DMLP CB	20.11	100	2.0	77	57	43	1.78	8.9	0.74
Sabine Royalty Trust	SBR	44.54	50	2.2	100	51	49	3.90	8.8	0.68
Permian Basin RT	PBT	12.69	150	1.9	52	33	67	1.03	8.1	0.63
San Juan Basin Royalty Trust	SJT CB	12.76	160	2.0	0	100	-	1.17	9.2	0.61
Cross Timbers Royalty Trust	CRT	24.42	70	1.7	78	70	30	2.62	10.7	0.56
Hugoton Royalty Trust	HGT	7.65	350	2.7	0	88	13	0.57	7.4	0.55
Mesa Royalty Trust	MTR	20.82	90	1.9	0	75	25	1.99	9.6	0.52
<i>Total</i>				<i>19.2</i>		<i>59</i>	<i>41</i>		<i>8.8</i>	<i>0.66</i>



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Table ISC-1											
McDep Income and Small Cap Energy Portfolio											
Debt, Segments, Cash Flow, Income and McDep Ratio											
			Price								
Symbol/Rating	(US\$/sh)	EV/	Enterprise	PV(%)	EV/	Dist.	Dist.				
B = Buy	13-Dec	Market	Value	Nat	Ebitda	NTM	Yield	McDep			
CB (see below)	2012	Cap	(\$mm)	Gas	Oil	NTM	(\$/un)	(%)	Ratio		
Small Cap Independent Producers											
PDC Energy	PDCE		31.75	1.82	1,750	52	48	13.5	-	-	1.03
Range Resources	RRC	B	63.56	1.34	13,600	75	25	16.8	0.16	0.3	0.93
Peyto Exploration and Developmen	PEYUF		24.00	1.21	4,180	76	24	10.9	0.73	3.0	0.91
Halcón Resources	HK		7.09	1.44	4,460	13	87	6.9	-	-	0.78
Continental Resources (32%)	CLR	CB	72.71	1.23	5,220	24	76	7.2	-	-	0.77
Birchcliff Energy Ltd.	BIREF	B	7.77	1.45	1,680	63	37	10.0	-	-	0.73
Denbury Resources Inc.	DNR		15.86	1.52	9,420	6	94	6.2	-	-	0.66
Berry Petroleum Company	BRY		32.90	1.97	3,580	12	88	5.3	-	-	0.64
Cimarex Energy Company	XEC	CB	56.72	1.28	6,320	41	59	5.1	0.48	0.8	0.58
Whiting Petroleum Corporation	WLL	CB	42.07	1.42	7,140	9	91	4.7	-	-	0.57
<i>Total or Median</i>				1.43	57,400	33	67	7.0			0.75
Leveraged Cash Payers											
Linn Energy, LLC	LINE		36.70	1.68	14,340	43	57	12.9	2.90	7.9	1.12
Vanguard Natural Resources, LLC	VNR		26.28	1.66	2,310	33	67	11.7	2.40	9.1	1.03
Legacy Reserves L.P.	LGCY		22.80	1.54	1,660	25	75	8.9	2.26	9.9	0.83
Enerplus Corporation	ERF	CB	12.94	1.71	4,300	31	69	6.3	1.09	8.4	0.73
<i>Total or Median</i>				1.67	22,600	32	68	10.3		8.8	0.93
RTF Cash Payers											
Freehold Royalties Ltd.	FRHLF		22.72	TL	1,560	16	84	11.4	1.70	7.5	1.08
Enduro Royalty Trust (40%)	NDRO		17.04	BL	230	43	57	9.4	1.70	10.0	0.81
Dorchester Minerals, L.P.	DMLP	CB	20.11	TL	620	57	43	10.2	1.78	8.9	0.74
Sabine Royalty Trust	SBR		44.54	TL	650	51	49	11.4	3.90	8.8	0.68
Permian Basin RT	PBT		12.69	TL	590	33	67	8.6	1.03	8.1	0.63
San Juan Basin Royalty Trust	SJT	CB	12.76	BL	600	100	-	8.3	1.17	9.2	0.61
Cross Timbers Royalty Trust	CRT		24.42	TL	150	70	30	9.0	2.62	10.7	0.56
Hugoton RoyaltyTrust	HGT		7.65	BL	310	88	13	6.7	0.57	7.4	0.55
Mesa RoyaltyTrust	MTR		20.82	BL	39	75	25	8.3	1.99	9.6	0.52
<i>Total or Median</i>					4,700	57	43	9.0		8.9	0.63
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 (PV) presumes long-term prices of \$100 a barrel for oil and \$6 a million btu for natural gas.											
Dist. = Income distribution. NTM = Next Twelve Months Ended December 31, 2013. Enterprise Value = Market Cap and Debt.											
TL = Top Line income sources, BL = Bottom Line income sources											

Table ISC-2

McDep Income and Small Cap Energy Portfolio
Net Present Value and McDep Ratio

			<i>Price</i>		<i>Market</i>	<i>Net</i>		
			<i>(\$/sh)</i>		<i>Cap</i>	<i>Present</i>	<i>Debt/</i>	
	<i>Symbol/</i>		<i>13-Dec</i>	<i>Shares</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	<i>McDep</i>
	<i>Rating</i>		<i>2012</i>	<i>(mm)</i>	<i>(\$mm)</i>	<i>(\$/un)</i>	<i>Value</i>	<i>Ratio</i>
Small Cap Independent Producers								
PDC Energy	PDCE		31.75	30.2	960	30.00	0.46	1.03
Range Resources	RRC	B	63.56	160.0	10,170	70.00	0.23	0.93
Peyto Exploration and Development Cor	PEYUF		24.00	143.2	3,440	27.00	0.16	0.91
Halcón Resources	HK		7.09	436.0	3,090	10.00	0.24	0.78
Continental Resources (32%)	CLR	CB	72.71	58.6	4,260	100.00	0.14	0.77
Birchcliff Energy Ltd.	BIREF	B	7.77	149.0	1,160	12.00	0.23	0.73
Denbury Resources Inc.	DNR		15.86	391.0	6,200	28.00	0.23	0.66
Berry Petroleum Company	BRY		32.90	55.3	1,820	70.00	0.31	0.64
Cimarex Energy Company	XEC	CB	56.72	86.9	4,930	110.00	0.13	0.58
Whiting Petroleum Corporation	WLL	CB	42.07	119.0	5,010	88.00	0.17	0.57
<i>Total or Median</i>					41,040		0.23	0.75
Leveraged Cash Payers								
Linn Energy, LLC	LINE		36.70	233.0	8,550	30.00	0.45	1.12
Vanguard Natural Resources, LLC	VNR		26.28	53.1	1,400	25.00	0.41	1.03
Legacy Reserves L.P.	LGCY		22.80	47.5	1,080	30.00	0.29	0.83
Enerplus Corporation	ERF	CB	12.94	196.0	2,540	21.00	0.30	0.73
<i>Total or Median</i>					13,570		0.36	0.93
RTF Cash Payers								
Freehold Royalties Ltd.	FRHLF		22.72	65.7	1,490	21.00	0.05	1.08
Enduro Royalty Trust (40%)	NDRO		17.04	13.2	230	21.00	-	0.81
Dorchester Minerals, L.P.	DMLP	CB	20.11	30.7	620	27.00	-	0.74
Sabine Royalty Trust	SBR		44.54	14.6	650	65.00	-	0.68
Permian Basin RT	PBT		12.69	46.6	590	20.00	-	0.63
San Juan Basin Royalty Trust	SJT	CB	12.76	46.6	600	21.00	-	0.61
Cross Timbers Royalty Trust	CRT		24.42	6.0	150	44.00	-	0.56
Hugoton Royalty Trust	HGT		7.65	40.0	310	14.00	-	0.55
Mesa Royalty Trust	MTR		20.82	1.9	39	40.00	-	0.52
<i>Total or Median</i>					4,680			0.63

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 \$100 a barrel for oil and \$6 a million btu for natural gas.



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			Price (\$/sh)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda
	Symbol/ Rating		13-Dec 2012	Royalty (%)	Ebitda	NTM	NTM	NTM
Small Cap Independent Producers								
Range Resources	RRC	B	63.56		-	13.5	18.1	16.8
PDC Energy	PDCE		31.75		-	9.9	13.1	13.5
Peyto Exploration and Development Corp	PEYUF		24.00		0.32	9.2	12.0	10.9
Birchcliff Energy Ltd.	BIREF	B	7.77		-	19.4	13.7	10.0
Continental Resources (32%)	CLR	CB	72.71		-	9.0	9.4	7.2
Halcón Resources	HK		7.09		-	5.5	8.8	6.9
Denbury Resources Inc.	DNR		15.86		-	13.0	9.3	6.2
Berry Petroleum Company	BRY		32.90		-	11.3	8.3	5.3
Cimarex Energy Company	XEC	CB	56.72		-	7.3	8.8	5.1
Whiting Petroleum Corporation	WLL	CB	42.07		-	9.1	8.2	4.7
	<i>Median</i>					9.5	9.4	7.0
Leveraged Cash Payers								
Linn Energy, LLC	LINE		36.70		1.11	14.0	11.5	12.9
Vanguard Natural Resources, LLC	VNR		26.28		1.09	13.2	11.4	11.7
Legacy Reserves L.P.	LGCY		22.80		0.81	11.0	10.7	8.9
Enerplus Corporation	ERF	CB	12.94		0.45	6.3	8.6	6.3
	<i>Median</i>					12.1	11.1	10.3
RTF Cash Payers								
Sabine Royalty Trust	SBR		44.54	100	1.00	7.6	16.7	11.4
Freehold Royalties Ltd.	FRHLF		22.72	76	0.85	5.1	10.5	11.4
Dorchester Minerals, L.P.	DMLP	CB	20.11	77	0.90	6.8	13.6	10.2
Enduro Royalty Trust (40%)	NDRO		17.04		0.94	7.2	11.6	9.4
Cross Timbers Royalty Trust	CRT		24.42	78	0.96	16.5	16.2	9.0
Permian Basin RT	PBT		12.69	52	0.70	9.9	13.5	8.6
Mesa RoyaltyTrust	MTR		20.82		0.79	7.7	16.0	8.3
San Juan Basin Royalty Trust	SJT	CB	12.76		0.76	9.1	13.7	8.3
Hugoton RoyaltyTrust	HGT		7.65		0.50	13.6	12.2	6.7
	<i>Median</i>					7.7	13.6	9.0
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, 2013; 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).								



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Table ISC-4								
McDep Income and Small Cap Energy Portfolio								
Rank by Enterprise Value to 200 Day Average								
			Price (\$/sh)	Enterprise Value/				
	Symbol/ Rating	13-Dec 2012	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	McDep Ratio	
Small Cap Independent Producers								
Peyto Exploration and Development C	PEYUF		24.00	0.92	1.48	0.97	1.14	0.91
Birchcliff Energy Ltd.	BIREF	B	7.77	0.64	1.34	1.00	1.04	0.73
PDC Energy	PDCE		31.75	0.87	1.27	1.00	1.03	1.03
Range Resources	RRC	B	63.56	0.89	1.15	0.96	1.00	0.93
Denbury Resources Inc.	DNR		15.86	0.81	1.13	1.01	0.98	0.66
Continental Resources (32%)	CLR	CB	72.71	0.78	1.15	0.99	0.97	0.77
Cimarex Energy Company	XEC	CB	56.72	0.70	1.17	0.96	0.94	0.58
Whiting Petroleum Corporation	WLL	CB	42.07	0.73	1.12	0.96	0.93	0.57
Berry Petroleum Company	BRY		32.90	0.73	1.04	0.96	0.90	0.64
Halcón Resources	HK		7.09	0.62		1.06	0.89	0.78
	<i>Median</i>			<i>0.76</i>	<i>1.15</i>	<i>0.98</i>	<i>0.97</i>	<i>0.75</i>
Leveraged Cash Payers								
Vanguard Natural Resources, LLC	VNR		26.28	0.92	1.09	0.95	0.97	1.03
Linn Energy, LLC	LINE		36.70	0.91	1.04	0.95	0.97	1.12
Legacy Reserves L.P.	LGCY		22.80	0.83	1.00	0.90	0.89	0.83
Enerplus Corporation	ERF	CB	12.94	0.62	1.08	0.93	0.87	0.73
	<i>Median</i>			<i>0.87</i>	<i>1.06</i>	<i>0.94</i>	<i>0.93</i>	<i>0.93</i>
RTF Cash Payers								
Freehold Royalties Ltd.	FRHLF		22.72	1.03	1.34	1.09	1.16	1.08
Dorchester Minerals, L.P.	DMLP	CB	20.11	0.76	1.01	0.92	0.89	0.74
Hugoton RoyaltyTrust	HGT		7.65	0.37	1.34	1.07	0.84	0.55
Sabine Royalty Trust	SBR		44.54	0.67	1.03	0.92	0.84	0.68
San Juan Basin Royalty Trust	SJT	CB	12.76	0.53	1.06	0.92	0.82	0.61
Permian Basin RT	PBT		12.69	0.55	1.06	0.91	0.71	0.63
Mesa RoyaltyTrust	MTR		20.82	0.48	1.02	0.87	0.70	0.52
Cross Timbers Royalty Trust	CRT		24.42	0.48	1.04	0.88	0.69	0.56
	<i>Median</i>			<i>0.54</i>	<i>1.05</i>	<i>0.92</i>	<i>0.83</i>	<i>0.62</i>

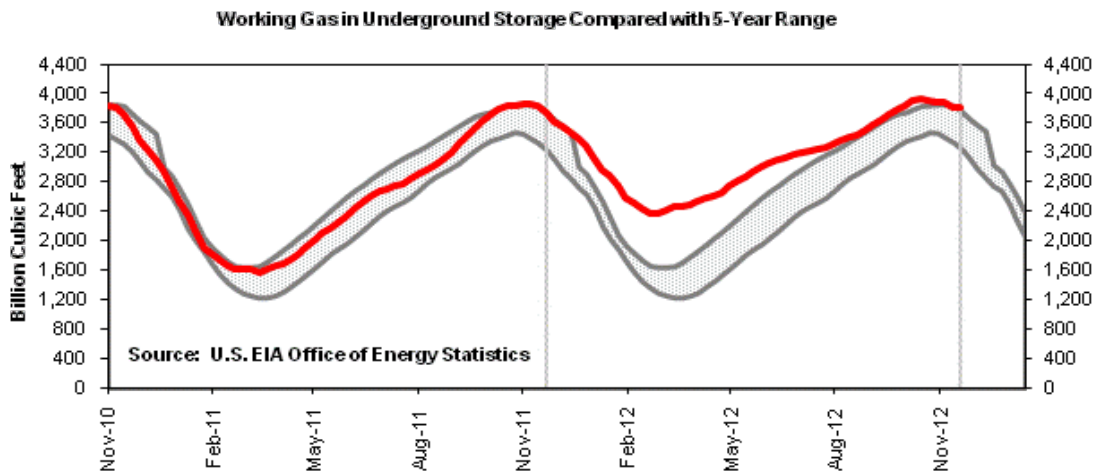
CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.



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Research Methodology/Ratings Description: McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the forty 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.