



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

June 28, 2013

Innovators Profiting from Shale Oil at \$90 a Barrel Lower Long-Term Oil Price from \$100

Summary and Recommendation

Small Cap Independent Producers and RTF (Royalty Trust Fund) Cash Payers remain attractively priced at median McDep Ratios near 0.8 despite 10-15% lower oil present value along with our reduction in assumed long-term oil price to \$90 a barrel from \$100 (see Tables ISC-1 to ISC-2 on pages 2-4). For North Dakota Bakken shale oil pioneer, buy-recommended **Continental Resources (CLR)**, a few more months of 25-40% a year growth offsets the change in our long-term oil price to keep Net Present Value (NPV) at \$110 a share. For Bakken competitor with less intensive concentration on shale oil, Contrarian Buy **Whiting Petroleum (WLL)**, we lower NPV to \$75 a share from \$88 as growth may take longer to make up for a lower oil price assumption. For Permian Basin oil fracker and new Chevron (CVX) partner, buy-recommended **Cimarex (XEC)**, we lower NPV to \$100 a share from \$110. For buy recommendations more concentrated on natural gas where our price assumption of \$6 a million Btu is unchanged, we lower NPV to \$26 a unit from \$27 for **Dorchester Minerals (DMLP)** and keep NPV unchanged for **Range Resources (RRC)**, **Birchcliff (BIREF)**, and **San Juan (SJT)**.

Transactions and Futures Trigger Oil Price Revision

A second deal involving small cap stocks in our coverage appears to be priced below a McDep Ratio of 0.8. On February 21, **Linn Energy (LINE)** agreed to acquire **Berry Petroleum (BRY)** for a McDep Ratio of 0.77. On June 24, WLL agreed to sell the Postle oil field for cash at a McDep Ratio that may be similar to the Linn/Berry transaction. That deal is for a specific property that represents less than 10% of the value of all the seller's properties. At the same time, futures for oil to be delivered over the next six years trade currently at \$85 a barrel, which is less than the 40-week average of \$88. Six-year oil price appears to be in a gradual downtrend, or at best in a trading range between \$84 and \$90. In contrast, the near-month oil future at \$97 is above the 200-day average of \$92, suggesting an uptrend. Whether the long-term price is \$90 or \$100, it looks like a profitable business for oil producers.

Rising Trend for Small Cap Producers

Almost everyone wins with North American shale gas and shale oil. Producers win on volume while consumers do better than otherwise on price. The outlook for companies like CLR, which discovered the Bakken shale oil, and RRC, which discovered the Marcellus shale gas seems to promise further gains. Stock price trends are positive with 6 of 7 buy recommendations trading above their 200-day averages. Total returns in 2013 of a median 15% for the Independent Producers and 21% for the RTF Cash Payers may be the beginning of more advances in the 2010s decade (see Table ISC-4 on page 5).

Kurt H. Wulff, CFA



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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	27-Jun	Market	Value	Nat	Ebitda	NTM	Yield	McDep		
CB (see below)	2013	Cap	(\$mm)	Gas	Oil	NTM	(\$/un)	(%)	Ratio	
Small Cap Independent Producers										
PDC Energy	PDCE	53.14	1.48	2,440	32	68	11.2	-	-	1.12
Range Resources	RRC B	78.94	1.28	16,310	74	26	14.2	0.16	0.2	0.90
Halcón Resources	HK	5.54	2.24	5,220	9	91	7.0	-	-	0.90
Peyto Exploration and Development Corp	PEYUF	28.64	1.18	5,040	80	20	9.7	0.80	2.8	0.86
Berry Petroleum Company	BRY	42.69	1.78	4,190	14	86	6.8	0.32	0.7	0.83
Denbury Resources Inc.	DNR	17.32	1.53	9,870	5	95	6.2	-	-	0.82
Continental Resources (32%)	CLR B	85.03	1.27	6,360	18	82	6.6	-	-	0.81
Birchcliff Energy Ltd.	BIREF B	7.75	1.42	1,800	72	28	9.3	-	-	0.72
Cimarex Energy Company	XEC B	65.57	1.25	7,090	46	54	5.3	0.56	0.9	0.70
Whiting Petroleum Corporation	WLL CB	44.69	1.48	7,890	8	92	4.2	-	-	0.69
<i>Total or Median</i>			<i>1.45</i>	<i>66,200</i>	<i>25</i>	<i>75</i>	<i>6.9</i>			<i>0.83</i>
Leveraged Cash Payers										
Vanguard Natural Resources, LLC	VNR	27.82	1.59	2,870	44	56	11.3	2.46	8.8	1.15
Linn Energy, LLC	LINE	33.13	1.81	13,940	47	53	12.9	2.90	8.8	1.14
Legacy Reserves L.P.	LGCY	26.71	1.61	2,450	28	72	10.5	2.30	8.6	1.04
Enerplus Corporation	ERF	14.65	1.62	4,600	35	65	6.5	1.04	7.1	0.88
<i>Total or Median</i>			<i>1.61</i>	<i>23,900</i>	<i>40</i>	<i>60</i>	<i>10.9</i>		<i>8.7</i>	<i>1.09</i>
RTF Cash Payers										
Freehold Royalties Ltd.	FRHLF	22.64	TL	1,580	16	84	13.5	1.62	7.2	1.07
Dorchester Minerals, L.P.	DMLP B	24.68	TL	760	64	36	14.7	1.58	6.4	0.95
Enduro Royalty Trust (40%)	NDRO	15.96	BL	210	48	52	10.0	1.43	9.0	0.94
Sabine Royalty Trust	SBR	51.69	TL	750	52	48	12.6	4.12	8.0	0.81
San Juan Basin Royalty Trust	SJT B	16.07	BL	750	100	-	11.1	0.90	5.6	0.77
Mesa RoyaltyTrust	MTR	22.75	BL	42	75	25	9.3	1.98	8.7	0.75
Permian Basin RT	PBT	13.20	TL	620	18	82	9.2	0.89	6.8	0.73
Hugoton RoyaltyTrust	HGT	8.60	BL	340	90	10	8.2	0.92	10.7	0.72
Cross Timbers Royalty Trust	CRT	26.95	TL	160	83	17	11.5	2.10	7.8	0.64
<i>Total or Median</i>				<i>5,200</i>	<i>64</i>	<i>36</i>	<i>11.1</i>		<i>7.8</i>	<i>0.77</i>
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 June 30, 2014. Enterprise Value = Market Cap and Debt.										
TL = Top Line income sources, BL = Bottom Line income sources										



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Table ISC-2								
McDep Income and Small Cap Energy Portfolio								
Net Present Value and McDep Ratio								
			Price (\$/sh)	Shares	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		27-Jun 2013	(mm)				
Small Cap Independent Producers								
PDC Energy	PDCE		53.14	31.0	1,650	45.00	0.36	1.12
Range Resources	RRC	B	78.94	161.0	12,710	90.00	0.20	0.90
Halcón Resources	HK		5.54	420.0	2,330	7.00	0.50	0.90
Peyto Exploration and Development Corp.	PEYUF		28.64	149.0	4,270	34.00	0.13	0.86
Berry Petroleum Company	BRY		42.69	55.3	2,360	58.00	0.36	0.83
Denbury Resources Inc.	DNR		17.32	373.0	6,460	23.00	0.28	0.82
Continental Resources (32%)	CLR	B	85.03	59.2	5,030	110.00	0.17	0.81
Birchcliff Energy Ltd.	BIREF	B	7.75	164.0	1,270	12.00	0.21	0.72
Cimarex Energy Company	XEC	B	65.57	86.6	5,680	100.00	0.14	0.70
Whiting Petroleum Corporation	WLL	CB	44.69	119.0	5,320	75.00	0.22	0.69
<i>Total or Median</i>					47,080		0.22	0.83
Leveraged Cash Payers								
Vanguard Natural Resources, LLC	VNR		27.82	64.8	1,800	22.00	0.43	1.15
Linn Energy, LLC	LINE		33.13	233.0	7,720	26.00	0.51	1.14
Legacy Reserves L.P.	LGCY		26.71	57.1	1,530	25.00	0.39	1.04
Enerplus Corporation	ERF		14.65	196.0	2,870	18.00	0.33	0.88
<i>Total or Median</i>					13,920		0.41	1.09
RTF Cash Payers								
Freehold Royalties Ltd.	FRHLF		22.64	66.5	1,510	21.00	0.05	1.07
Dorchester Minerals, L.P.	DMLP	B	24.68	30.7	760	26.00	-	0.95
Enduro Royalty Trust (40%)	NDRO		15.96	13.2	210	17.00	-	0.94
Sabine Royalty Trust	SBR		51.69	14.6	750	64.00	-	0.81
San Juan Basin Royalty Trust	SJT	B	16.07	46.6	750	21.00	-	0.77
Mesa Royalty Trust	MTR		22.75	1.9	42	30.00	-	0.75
Permian Basin RT	PBT		13.20	46.6	620	18.00	-	0.73
Hugoton Royalty Trust	HGT		8.60	40.0	340	12.00	-	0.72
Cross Timbers Royalty Trust	CRT		26.95	6.0	160	42.00	-	0.64
<i>Total or Median</i>					5,140			0.77
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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Table ISC-3								
McDep Income and Small Cap Energy Portfolio								
Value Multiples - Rank by EV/Ebitda								
			Price (\$/sh)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda
	Symbol/ Rating		27-Jun 2013	Royalty (%)	Ebitda	NTM	NTM	NTM
Small Cap Independent Producers								
Range Resources	RRC	B	78.94		-	13.6	15.8	14.2
PDC Energy	PDCE		53.14		-	15.0	10.0	11.2
Peyto Exploration and Development Corp	PEYUF		28.64		0.26	9.3	11.3	9.7
Birchcliff Energy Ltd.	BIREF	B	7.75		-	18.8	12.9	9.3
Halcón Resources	HK		5.54		-	5.0	7.8	7.0
Berry Petroleum Company	BRY		42.69		-	12.1	8.2	6.8
Continental Resources (32%)	CLR	B	85.03		-	9.8	8.1	6.6
Denbury Resources Inc.	DNR		17.32		-	13.9	7.6	6.2
Cimarex Energy Company	XEC	B	65.57		-	7.6	7.5	5.3
Whiting Petroleum Corporation	WLL	CB	44.69		-	8.4	6.0	4.2
	<i>Median</i>					10.9	8.1	6.9
Leveraged Cash Payers								
Linn Energy, LLC	LINE		33.13		1.27	14.0	11.4	12.9
Vanguard Natural Resources, LLC	VNR		27.82		1.09	11.0	9.8	11.3
Legacy Reserves L.P.	LGCY		26.71		0.93	11.0	10.1	10.5
Enerplus Corporation	ERF		14.65		0.43	6.5	7.4	6.5
	<i>Median</i>					11.0	9.9	10.9
RTF Cash Payers								
Dorchester Minerals, L.P.	DMLP	B	24.68	77	0.94	7.0	15.5	14.7
Freehold Royalties Ltd.	FRHLF		22.64	86	0.97	4.9	12.5	13.5
Sabine Royalty Trust	SBR		51.69	100	1.00	8.9	15.5	12.6
Cross Timbers Royalty Trust	CRT		26.95	98	0.89	13.0	17.9	11.5
San Juan Basin Royalty Trust	SJT	B	16.07		0.63	10.2	14.5	11.1
Enduro Royalty Trust (40%)	NDRO		15.96		0.89	5.8	10.6	10.0
Mesa RoyaltyTrust	MTR		22.75		0.82	5.2	12.4	9.3
Permian Basin RT	PBT		13.20	33	0.62	12.7	12.5	9.2
Hugoton RoyaltyTrust	HGT		8.60		0.88	13.0	11.5	8.2
	<i>Median</i>					8.9	12.5	11.1
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 June 30, 2014; 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									
Total Return and Enterprise Value Momentum									
			Price (\$/sh)	Equity Total	Enterprise Value/				
	Symbol/		27-Jun	Return	52Wk	52Wk	50 Day	200 Day	McDep
	Rating	2013	YTD (%)	High	Low	Avg.	Avg.	Ratio	
Small Cap Independent Producers									
PDC Energy	PDCE		53.14	60	0.97	1.73	1.06	1.20	1.12
Peyto Exploration and Development C	PEYUF		28.64	26	0.92	1.47	0.98	1.10	0.86
Range Resources	RRC	B	78.94	26	0.96	1.28	1.03	1.08	0.90
Continental Resources (32%)	CLR	B	85.03	16	0.92	1.29	1.02	1.05	0.81
Berry Petroleum Company	BRY		42.69	28	0.92	1.20	0.97	1.03	0.83
Birchcliff Energy Ltd.	BIREF	B	7.75	4	0.91	1.34	0.97	1.01	0.72
Denbury Resources Inc.	DNR		17.32	7	0.92	1.18	0.97	1.00	0.82
Cimarex Energy Company	XEC	B	65.57	14	0.85	1.29	0.94	1.00	0.70
Whiting Petroleum Corporation	WLL	CB	44.69	3	0.87	1.13	0.98	0.97	0.69
Halcón Resources	HK		5.54	(20)	0.71	1.15	0.97	0.91	0.90
	<i>Median</i>			15	0.92	1.29	0.98	1.02	0.83
Leveraged Cash Payers									
Enerplus Corporation	ERF		14.65	17	0.89	1.15	1.00	1.01	0.88
Legacy Reserves L.P.	LGCY		26.71	17	0.93	1.11	1.00	1.01	1.04
Vanguard Natural Resources, LLC	VNR		27.82	12	0.95	1.09	0.98	0.99	1.15
Linn Energy, LLC	LINE		33.13	(2)	0.86	1.07	0.97	0.93	1.14
	<i>Median</i>			14	0.91	1.10	0.99	1.00	1.09
RTF Cash Payers									
San Juan Basin Royalty Trust	SJT	B	16.07	21	0.90	1.30	1.04	1.09	0.77
Dorchester Minerals, L.P.	DMLP	B	24.68	26	0.96	1.24	1.01	1.08	0.95
Sabine Royalty Trust	SBR		51.69	35	0.92	1.33	1.00	1.07	0.81
Hugoton RoyaltyTrust	HGT		8.60	23	0.86	1.51	0.95	1.07	0.72
Freehold Royalties Ltd.	FRHLF		22.64	6	0.93	1.32	0.97	1.02	1.07
Permian Basin RT	PBT		13.20	11	0.68	1.10	1.02	0.98	0.73
Mesa RoyaltyTrust	MTR		22.75	22	0.63	1.20	0.94	0.96	0.75
Enduro Royalty Trust (40%)	NDRO		15.96	(1)	0.81	1.05	0.99	0.94	0.94
Cross Timbers Royalty Trust	CRT		26.95	3	0.68	1.14	0.95	0.94	0.64
	<i>Median</i>			21	0.86	1.24	0.99	1.02	0.77

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

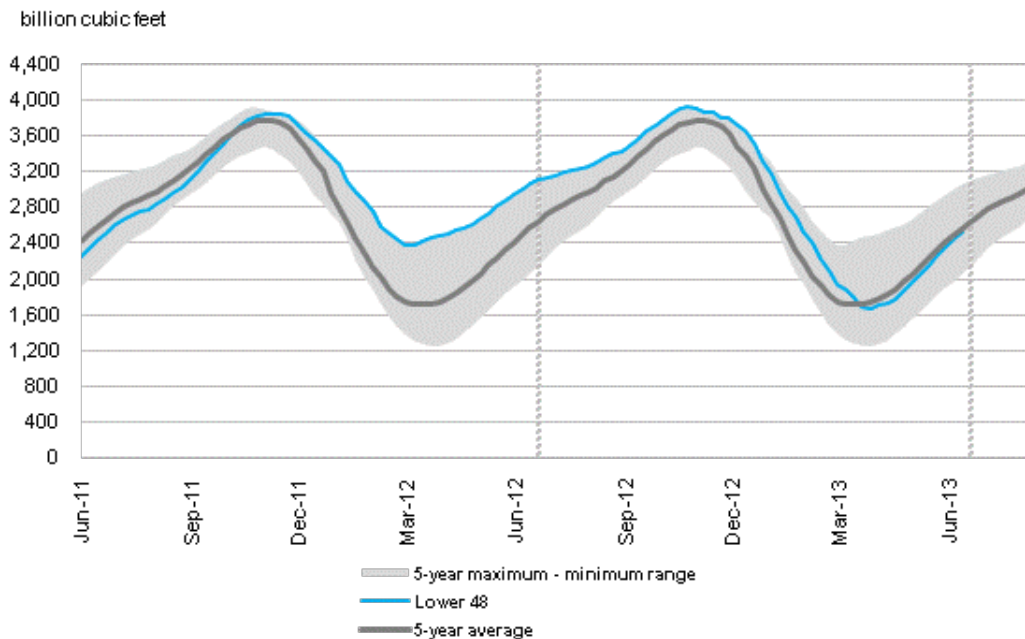


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Working gas in underground storage compared with the 5-year maximum and minimum



 Source: U.S. Energy Information Administration

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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.