



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

August 2, 2013

Top Line Cash (DMLP, SBR, PBT, CRT, FRHLF) Advantaged Shale Investment

Summary and Recommendation

Buy-recommended **Dorchester Minerals, L.P. (DMLP)** and fellow RTF (Royalty Trust Fund) selections **Sabine Royalty Trust (SBR)**, **Permian Basin Royalty Trust (PBT)**, **Cross Timbers Royalty Trust (CRT)** and **Freehold Royalties, Ltd. (FRHLF)** offer rich cash participation in the North American oil and gas renaissance without being charged the high costs of horizontal drilling and fracking. Current cash distributions range in annual rate from 6.8 to 9.2% (see chart [Quarterly Distribution](#) on page 2). Growth in natural gas volume awaits gradual growth in demand as fracking has developed more supply than can be consumed currently (see chart [Natural Gas](#) on page 2). Growth in oil volume is occurring now, though there are infrastructure constraints acting temporarily (see chart [Quarterly Oil Volume](#) on page 3). Only in the past few months, oil growth has accelerated for PBT (see chart [Monthly Oil Volume](#) on page 3). Meanwhile, McDep Ratios range from 0.65 for CRT to 1.09 for Freehold (see [Table ISC-1](#) on page 4). Remarkably, U.S. Top Line Cash Payers are debt-free while the Canadian stock, Freehold, has minimal debt (see [Table ISC-2](#) on page 5). Life of reported reserves, ranging from 4.7 to 12.7 years, may be just a fraction of realistic assessment because operators provide little information on reserves to royalty owners (see [Table ISC-3](#) on page 6). SBR receives all cash on a Top Line, or Revenue Royalty, basis while others receive a percentage from 98% to 69%. Only CRT has yet to join the other four Top Line stocks to trade above its 200-day average (see [Table ISC-4](#) on page 7). Our official buy is DMLP and we recommend RTF stocks as a group.

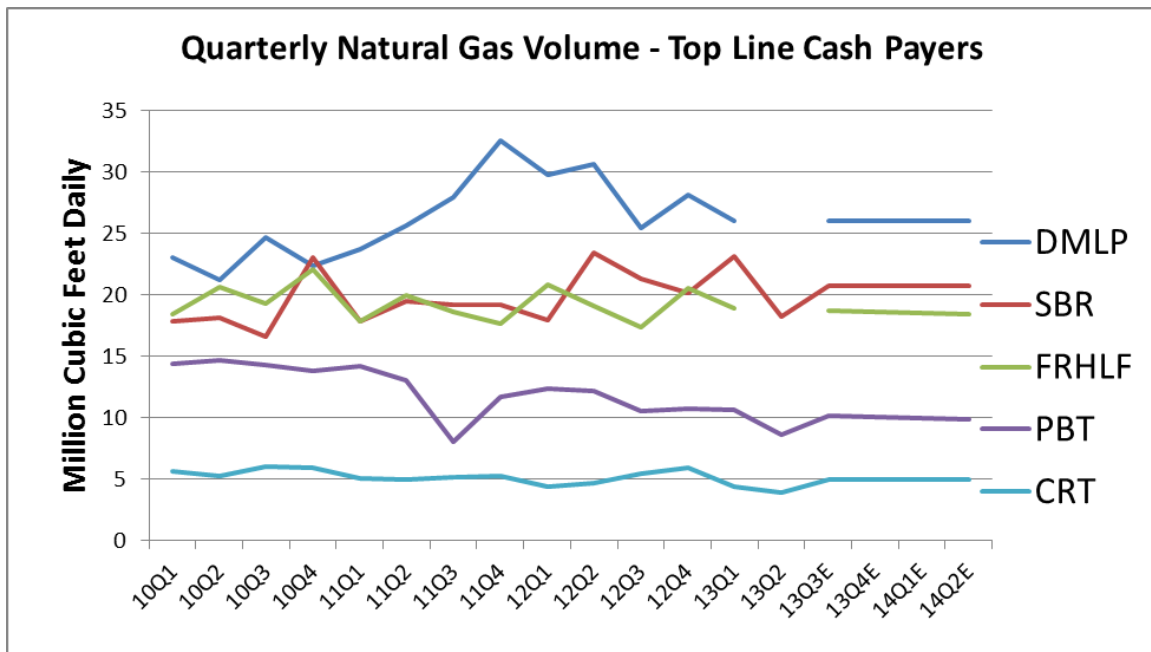
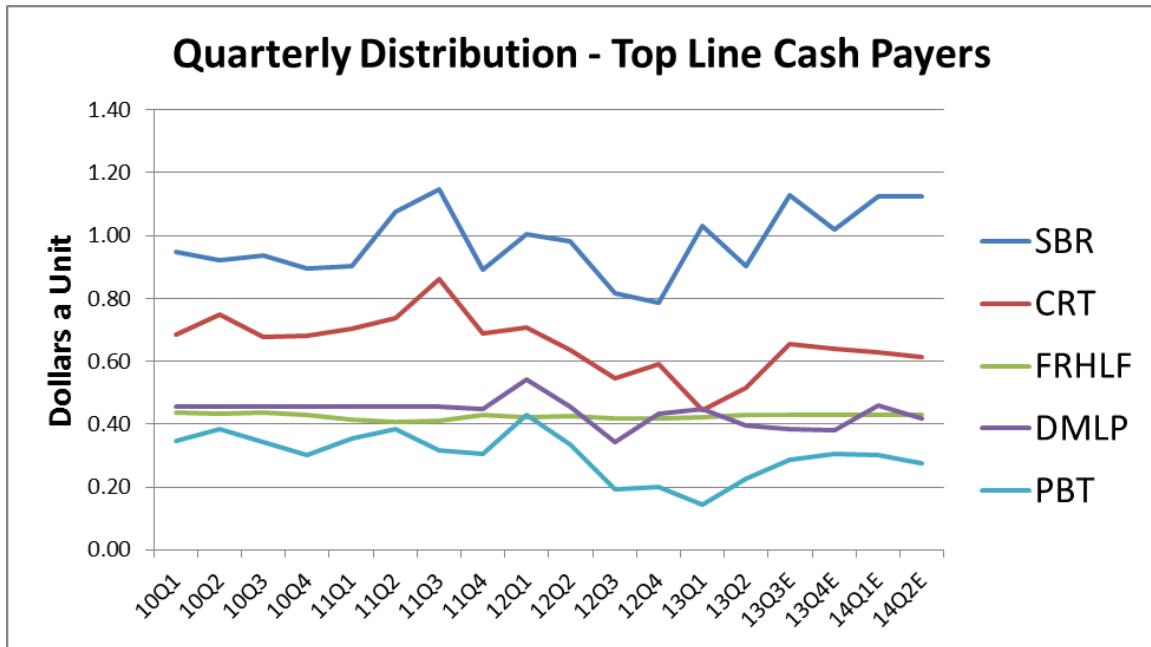
Long-Life Heritage

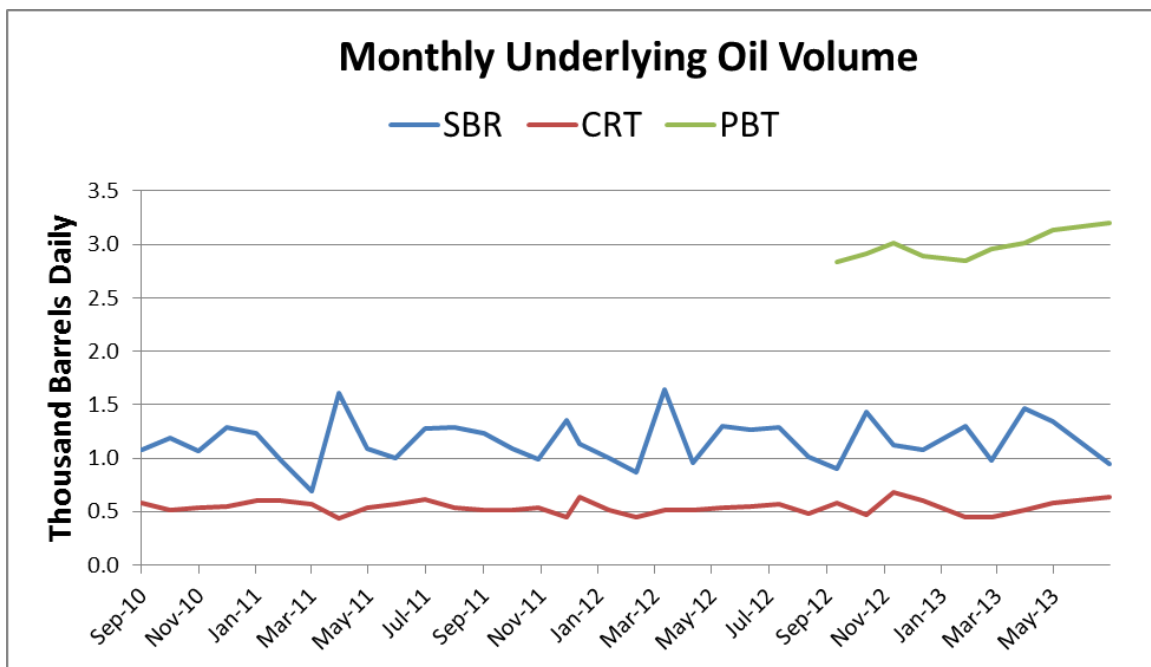
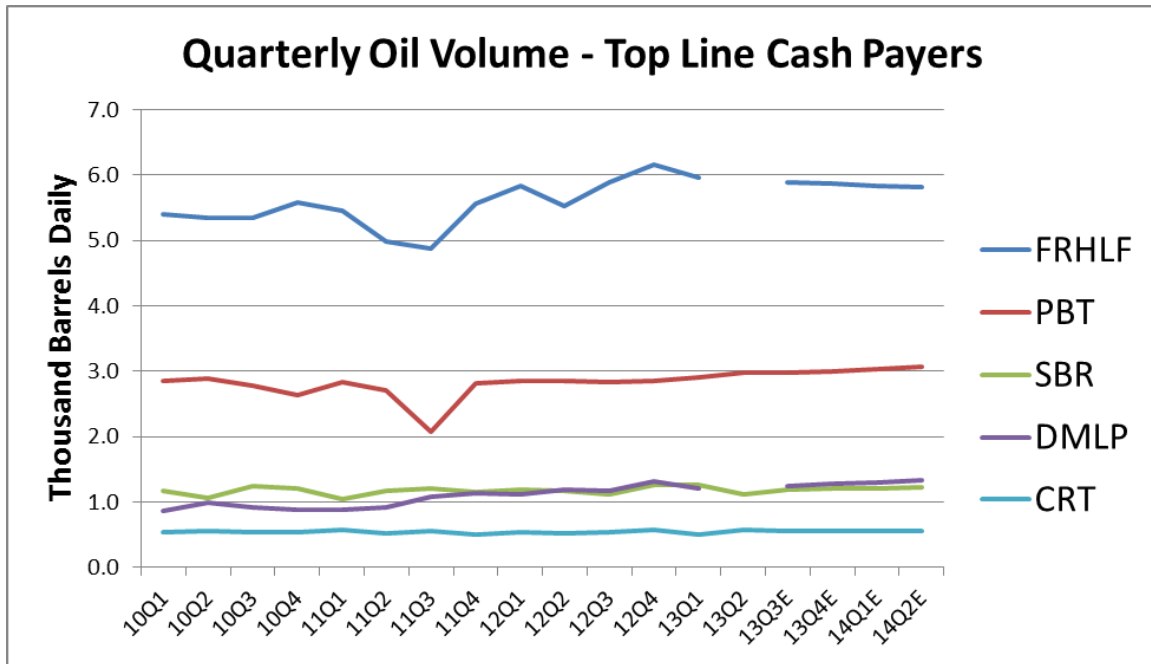
DMLP and FRHLF own mineral rights in perpetuity dating from the beginning of industry and the early settlement of the continent. SBR, PBT and CRT own royalty rights that typically expire when production expires at some indefinite time, likely decades away.

Shale Plays from Texas to North Dakota and Canada

DMLP and SBR have important concentration on the Permian Basin of Texas, the area of exclusive concentration for PBT and minor concentration for CRT. As the largest historical oil source in North America, the Permian Basin may yet be the biggest in fracking of shale and tight rock. After Permian, North Dakota is the next most important current source of incremental cash for DMLP. Freehold has Canada covered from the Bakken to Pembina to Duvernay. CRT is mostly in the San Juan Basin of New Mexico where WPX Energy highlighted the first thousand barrel a day oil frack in its quarterly disclosures on August 1.

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	1-Aug	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		53.39	1.48	2,450	32	68	10.5	-	-	1.12
Halcón Resources	HK		5.85	2.18	5,350	9	91	6.6	-	-	0.92
Range Resources	RRC	B	80.51	1.27	16,450	74	26	14.7	0.16	0.2	0.91
Continental Resources (32%)	CLR	B	96.27	1.23	7,030	18	82	6.7	-	-	0.90
Peyto Exploration and Development Corp	PEYUF		28.85	1.18	5,090	80	20	9.9	0.82	2.8	0.87
Denbury Resources Inc.	DNR		18.11	1.50	10,170	5	95	5.9	-	-	0.85
Cimarex Energy Company	XEC	B	80.48	1.20	8,380	46	54	5.9	0.56	0.7	0.83
Berry Petroleum Company	BRY		41.89	1.79	4,150	14	86	6.2	0.32	0.8	0.82
Whiting Petroleum Corporation	WLL	B	53.35	1.36	8,620	8	92	4.2	-	-	0.77
Birchcliff Energy Ltd.	BIREF	CB	7.43	1.45	1,760	72	28	8.8	-	-	0.70
<i>Total or Median</i>				<i>1.40</i>	<i>69,500</i>	<i>25</i>	<i>75</i>	<i>6.7</i>			<i>0.86</i>
Leveraged Cash Payers											
Vanguard Natural Resources, LLC	VNR		27.19	1.60	2,830	44	56	10.6	2.46	9.0	1.14
Legacy Reserves L.P.	LGCY		27.18	1.60	2,480	28	72	9.9	2.30	8.5	1.05
Linn Energy, LLC	LINE		26.99	1.99	12,510	47	53	11.0	2.90	10.7	1.02
Enerplus Corporation	ERF		16.64	1.55	5,000	35	65	6.6	1.05	6.3	0.95
<i>Total or Median</i>				<i>1.60</i>	<i>22,800</i>	<i>39</i>	<i>61</i>	<i>10.2</i>		<i>8.8</i>	<i>1.04</i>
RTF Cash Payers											
Freehold Royalties Ltd.	FRHLF		22.95	TL	1,600	16	84	12.0	1.64	7.1	1.09
Dorchester Minerals, L.P.	DMLP	B	24.19	TL	740	64	36	13.9	1.64	6.8	0.93
Enduro Royalty Trust (40%)	NDRO		15.50	BL	210	48	52	9.2	1.51	9.7	0.91
Sabine Royalty Trust	SBR		51.25	TL	750	52	48	11.7	4.40	8.6	0.80
San Juan Basin Royalty Trust	SJT	B	16.34	BL	760	100	-	12.1	0.81	5.0	0.78
Mesa RoyaltyTrust	MTR		22.34	BL	42	75	25	9.2	2.00	9.0	0.75
Permian Basin RT	PBT		13.31	TL	620	19	81	7.3	1.17	8.8	0.74
Hugoton RoyaltyTrust	HGT		8.29	BL	330	90	10	8.3	0.88	10.7	0.69
Cross Timbers Royalty Trust	CRT		27.50	TL	170	83	17	9.9	2.54	9.2	0.65
<i>Total or Median</i>					<i>5,200</i>	<i>64</i>	<i>36</i>	<i>9.9</i>		<i>8.8</i>	<i>0.78</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 \$90 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)		Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	
	Symbol/ Rating		1-Aug 2013	Shares (mm)				McDep Ratio
Small Cap Independent Producers								
PDC Energy	PDCE		53.39	31.0	1,660	45.00	0.36	1.12
Halcón Resources	HK		5.85	420.0	2,460	7.00	0.50	0.92
Range Resources	RRC	B	80.51	161.0	12,960	90.00	0.19	0.91
Continental Resources (32%)	CLR	B	96.27	59.2	5,700	110.00	0.17	0.90
Peyto Exploration and Development Corp.	PEYUF		28.85	149.0	4,300	34.00	0.13	0.87
Denbury Resources Inc.	DNR		18.11	373.0	6,760	23.00	0.28	0.85
Cimarex Energy Company	XEC	B	80.48	86.6	6,970	100.00	0.14	0.83
Berry Petroleum Company	BRY		41.89	55.3	2,320	58.00	0.36	0.82
Whiting Petroleum Corporation	WLL	B	53.35	119.0	6,350	75.00	0.20	0.77
Birchcliff Energy Ltd.	BIREF	CB	7.43	164.0	1,220	12.00	0.22	0.70
	<i>Total or Median</i>				50,700		0.21	0.86
Leveraged Cash Payers								
Vanguard Natural Resources, LLC	VNR		27.19	64.8	1,760	22.00	0.43	1.14
Legacy Reserves L.P.	LGCY		27.18	57.1	1,550	25.00	0.39	1.05
Linn Energy, LLC	LINE		26.99	233.0	6,290	26.00	0.51	1.02
Enerplus Corporation	ERF		16.64	196.0	3,260	18.00	0.34	0.95
	<i>Total or Median</i>				12,860		0.41	1.04
RTF Cash Payers								
Freehold Royalties Ltd.	FRHLF		22.95	66.5	1,530	21.00	0.05	1.09
Dorchester Minerals, L.P.	DMLP	B	24.19	30.7	740	26.00	-	0.93
Enduro Royalty Trust (40%)	NDRO		15.50	13.2	210	17.00	-	0.91
Sabine Royalty Trust	SBR		51.25	14.6	750	64.00	-	0.80
San Juan Basin Royalty Trust	SJT	B	16.34	46.6	760	21.00	-	0.78
Mesa RoyaltyTrust	MTR		22.34	1.9	42	30.00	-	0.75
Permian Basin RT	PBT		13.31	46.6	620	18.00	-	0.74
Hugoton RoyaltyTrust	HGT		8.29	40.0	330	12.00	-	0.69
Cross Timbers Royalty Trust	CRT		27.50	6.0	170	42.00	-	0.65
	<i>Total or Median</i>				5,150			0.78
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 \$90 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		1-Aug 2013	Royalty (%)	Ebitda	NTM	NTM	NTM
Small Cap Independent Producers								
Range Resources	RRC	B	80.51		-	13.6	16.1	14.7
PDC Energy	PDCE		53.39		-	15.0	9.4	10.5
Peyto Exploration and Development Corp	PEYUF		28.85		0.27	9.3	11.4	9.9
Birchcliff Energy Ltd.	BIREF	CB	7.43		-	18.8	12.5	8.8
Continental Resources (32%)	CLR	B	96.27		-	9.8	7.5	6.7
Halcón Resources	HK		5.85		-	5.0	7.2	6.6
Berry Petroleum Company	BRY		41.89		-	12.1	7.5	6.2
Cimarex Energy Company	XEC	B	80.48		-	7.6	7.1	5.9
Denbury Resources Inc.	DNR		18.11		-	13.9	6.9	5.9
Whiting Petroleum Corporation	WLL	B	53.35		-	8.7	5.5	4.2
	<i>Median</i>					10.9	7.5	6.7
Leveraged Cash Payers								
Linn Energy, LLC	LINE		26.99		1.21	14.0	10.8	11.0
Vanguard Natural Resources, LLC	VNR		27.19		1.04	11.0	9.3	10.6
Legacy Reserves L.P.	LGCY		27.18		0.86	11.0	9.4	9.9
Enerplus Corporation	ERF		16.64		0.41	6.5	7.0	6.6
	<i>Median</i>					11.0	9.4	10.2
RTF Cash Payers								
Dorchester Minerals, L.P.	DMLP	B	24.19	77	0.94	7.0	14.9	13.9
San Juan Basin Royalty Trust	SJT	B	16.34		0.60	10.2	15.5	12.1
Freehold Royalties Ltd.	FRHLF		22.95	86	0.86	4.7	11.0	12.0
Sabine Royalty Trust	SBR		51.25	100	1.00	9.0	14.6	11.7
Cross Timbers Royalty Trust	CRT		27.50	98	0.91	12.7	15.1	9.9
Enduro Royalty Trust (40%)	NDRO		15.50		0.90	5.8	10.1	9.2
Mesa Royalty Trust	MTR		22.34		0.82	5.2	12.2	9.2
Hugoton Royalty Trust	HGT		8.29		0.88	13.0	11.9	8.3
Permian Basin RT	PBT		13.31	69	0.65	12.7	9.9	7.3
	<i>Median</i>					9.0	12.2	9.9
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 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/		1-Aug	Return	52Wk	52Wk	50 Day	200 Day	McDep	
	Rating		2013	YTD (%)	High	Low	Avg.	Avg.	Ratio	
Small Cap Independent Producers										
	Cimarex Energy Company	XEC	B	80.48	40	0.99	1.39	1.10	1.16	0.83
	PDC Energy	PDCE		53.39	61	0.95	1.62	1.01	1.15	1.12
	Continental Resources (32%)	CLR	B	96.27	31	0.99	1.42	1.07	1.14	0.90
	Whiting Petroleum Corporation	WLL	B	53.35	23	0.98	1.26	1.08	1.10	0.77
	Range Resources	RRC	B	80.51	28	0.96	1.25	1.03	1.08	0.91
	Peyto Exploration and Development C	PEYUF		28.85	27	0.92	1.36	0.98	1.08	0.87
	Denbury Resources Inc.	DNR		18.11	12	0.95	1.17	1.01	1.03	0.85
	Berry Petroleum Company	BRY		41.89	25	0.91	1.19	0.99	1.02	0.82
	Birchcliff Energy Ltd.	BIREF	CB	7.43	(2)	0.88	1.10	0.94	0.97	0.70
	Halcón Resources	HK		5.85	(15)	0.82	1.25	1.02	0.94	0.92
	<i>Median</i>				26	0.95	1.26	1.01	1.08	0.86
Leveraged Cash Payers										
	Enerplus Corporation	ERF		16.64	35	0.97	1.25	1.05	1.10	0.95
	Legacy Reserves L.P.	LGCY		27.18	22	0.94	1.13	1.01	1.02	1.05
	Vanguard Natural Resources, LLC	VNR		27.19	10	0.94	1.07	0.99	0.98	1.14
	Linn Energy, LLC	LINE		26.99	(20)	0.78	1.14	0.94	0.85	1.02
	<i>Median</i>				16	0.94	1.13	1.00	1.00	1.04
RTF Cash Payers										
	San Juan Basin Royalty Trust	SJT	B	16.34	24	0.91	1.32	1.02	1.08	0.78
	Sabine Royalty Trust	SBR		51.25	35	0.91	1.32	0.99	1.06	0.80
	Dorchester Minerals, L.P.	DMLP	B	24.19	26	0.94	1.22	0.98	1.05	0.93
	Freehold Royalties Ltd.	FRHLF		22.95	9	0.94	1.18	0.99	1.02	1.09
	Permian Basin RT	PBT		13.31	12	0.69	1.11	1.00	1.01	0.74
	Hugoton RoyaltyTrust	HGT		8.29	20	0.83	1.45	0.93	1.00	0.69
	Cross Timbers Royalty Trust	CRT		27.50	6	0.69	1.17	0.99	0.98	0.65
	Mesa RoyaltyTrust	MTR		22.34	21	0.73	1.20	1.01	0.97	0.75
	Enduro Royalty Trust (40%)	NDRO		15.50	(3)	0.79	1.06	0.99	0.94	0.91
	<i>Median</i>				20	0.83	1.20	0.99	1.01	0.78

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

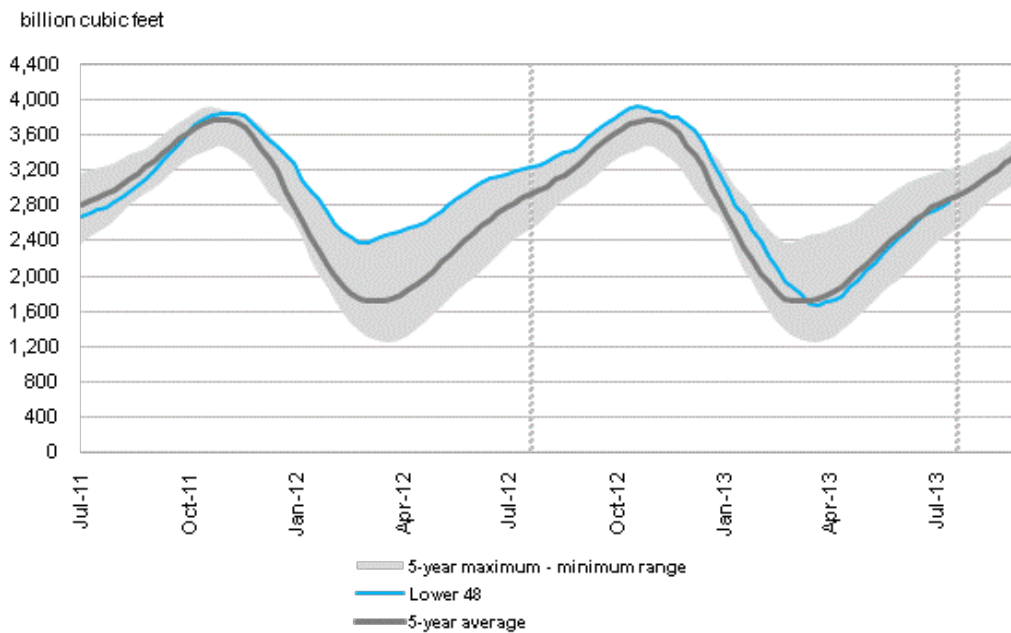


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Working gas in underground storage compared with the 5-year maximum and minimum



Source: U.S. Energy Information Administration

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.

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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.