

Stable Present Value

Summary and Recommendation

When we raised present value (PV) estimates about 10% on May 29 on a long-term oil price increase to \$66 a barrel from \$60, we kept PV unchanged for nine of the eleven income stocks covered here. Stable rather than rising present value mainly reflects the logic that stocks paying out 10% a year in cash would not increase as much in PV as stocks in the same industry where all the cash is reinvested. We also pay attention to the comparison of PV to cash flow (PV/Ebitda) and try to keep that ratio from getting too high or too low. The median PV/Ebitda multiple for income stocks is about the same as for operating companies considering reserve life and royalty features. In any event, a median McDep Ratio of 0.84 for the eleven stocks appears low compared to 1.0 where the expected unlevered return would be 7% a year before inflation. Meanwhile, cash flow projections taking account of recent futures prices and operating trends signify median distribution yield for the next twelve months of 9.4% for seven U.S. stocks and 10.3% for four Canadian stocks (see table, page 2, Distribution Yield). Finally, noting relative stock price advance we shifted a half unlevered weight in the illustrative McDep Energy Portfolio to **Hugoton Royalty Trust (HGT)**, increasing it to a full position, from **Penn West Energy Trust (PWT)**, lowering it to a full position (see page 4, *Meter Reader*, May 29, 2007).

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Natural Gas and Oil Royalty Trusts

Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 31-May 2007</i>	<i>Shares (mm)</i>	<i>Market Cap (\$mm)</i>	<i>Net Present Value (\$/un)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>
U.S. Royalty Trusts							
	CRT	44.19	6.0	270	46.00	-	0.96
	SBR	42.99	14.6	630	45.00	-	0.96
	DMLP	22.62	28.2	640	27.00	-	0.84
	PBT	13.74	46.6	640	16.50	-	0.83
	MTR	57.40	1.9	110	70.00	-	0.82
	SJT	B 32.46	46.6	1,510	40.00	-	0.81
	HGT	B 27.22	40.0	1,090	34.00	-	0.80
	<i>Total or Median</i>			4,900			0.83
Canadian Income Trusts (US\$)							
	PGH	18.73	244.0	4,570	17.00	0.29	1.07
	PWE	B 34.95	239.7	8,380	36.00	0.17	0.98
	ERF	48.84	123.4	6,030	52.00	0.13	0.95
	COSWF	B 30.27	479.0	14,500	39.00	0.08	0.79
	<i>Total or Median</i>			33,500		0.15	0.96

B = Buy

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

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Natural Gas and Oil Royalty Trusts Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	Symbol/ Rating	Price (\$/sh) 31-May 2007	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
U.S. Royalty Trusts							
Cross Timbers Royalty Trust	CRT	44.19	12.9	11.3	10.8	11.1	9.0
Sabine Royalty Trust	SBR	42.99	10.2	11.2	10.7	10.7	9.4
Dorchester Minerals, L.P.	DMLP	22.62	9.1	10.8	9.1	13.6	11.0
San Juan Basin Royalty Trust	SJT	B	32.46	10.2	10.8	8.8	10.8
Mesa RoyaltyTrust	MTR		57.40	23.7	10.7	8.7	10.0
Permian Basin RT	PBT		13.74	8.7	9.7	8.1	9.7
Hugoton RoyaltyTrust	HGT	B	27.22	14.0	9.6	7.7	10.7
	<i>Median</i>			<i>10.2</i>	<i>10.8</i>	<i>8.8</i>	<i>10.7</i>
Canadian Income Trusts (US\$)							
Canadian Oil Sands Trust	COSWF	B	30.27	21.1	11.8	9.3	12.6
Pengrowth Energy Trust	PGH		18.73	7.5	7.4	7.9	25.8
Enerplus Resources Fund	ERF		48.84	9.0	7.6	7.2	13.4
Penn West Energy Trust	PWE	B	34.95	7.6	7.4	7.2	15.0
	<i>Median</i>			<i>8.3</i>	<i>7.5</i>	<i>7.6</i>	<i>14.2</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2008; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

Natural Gas and Oil Royalty Trusts Rank by NTM Distribution Yield

	Symbol	Revenue Royalty (%)	Natural Gas/ Ebitda (%)	Dist/ Ebitda	Dist/ Equity Ebitda	NTM Distribution (\$mm)	Dist. Yield (\$/un) (%)
U.S. Royalty Trusts							
Cross Timbers Royalty Trust	CRT	84	74	0.98	0.98	24	3.98
San Juan Basin Royalty Trust	SJT	-	98	0.82	0.82	141	3.02
Hugoton RoyaltyTrust	HGT	-	92	0.71	0.71	101	2.54
Sabine Royalty Trust	SBR	100	59	1.00	1.00	59	4.02
Mesa RoyaltyTrust	MTR	-	76	0.88	0.88	11	5.75
Permian Basin RT	PBT	35	42	0.83	0.83	66	1.41
Dorchester Minerals, L.P.	DMLP	64	76	1.00	1.00	71	2.50
	<i>Total or Median</i>		<i>76</i>	<i>0.88</i>	<i>0.88</i>	<i>500</i>	<i>9.4</i>
Canadian Income Trusts (US\$)							
Canadian Oil Sands Trust	COSWF	-	(10)	0.55	0.59	939	1.96
Enerplus Resources Fund	ERF	-	49	0.60	0.69	581	4.71
Penn West Energy Trust	PWE	-	42	0.65	0.78	913	3.81
Pengrowth Energy Trust	PGH	-	47	0.86	1.21	684	2.80
	<i>Total or Median</i>		<i>45</i>	<i>0.63</i>	<i>0.74</i>	<i>3,100</i>	<i>10.3</i>
Kinder Morgan Energy Partners	KMP			0.80	1.75		6.0

NTM = Next Twelve Months Ended June 30, 2008

Ebitda = Earnings before interest, tax, depreciation and amortization

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