



## Shoot the Speculator

### Summary and Recommendation

Believing that higher oil and gas price without undue interference is good economics and positive for oil and gas income stocks, we resist charges that speculators cause lasting price increases. The pioneering analyst of futures markets, Holbrook Working, demonstrated the beneficial role of commodity traders some fifty years ago. Yes, we see short-lived distortions when a lending broker restricts credit to a particular trader, forcing that speculator to sell at a steep loss to the lender and other traders. Similarly, wide swings from day to day seem exaggerated. Stripping out those appearances, we believe oil prices are trending higher because supply is not likely to be developed fast enough in the future to meet current trends in demand. Thus, we see a stretch of credibility in the cover story in *Barron's* on March 31 that suggested commodity prices were artificially inflated not just by speculators, but by dumb speculators, described as “\$250 billion of naïve money”. Further, if that amount of money seems large, it pales next to the size of just the crude oil portion of the commodities market that would total \$18 trillion dollars over the next six-years, our favorite time period for recording futures prices. The good thing about loose accusations charging speculators is that it seems to diminish loose accusations blaming oil companies.

Kurt H. Wulff, CFA

Natural Gas and Oil Income Stocks - Rank by McDep Ratio								
			Price (\$/sh)	Shares	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		4-Apr 2008	(mm)				
<b>U.S. Royalty Trusts</b>								
Permian Basin RT	PBT		23.04	46.6	1,070	18.00	-	1.28
Sabine Royalty Trust	SBR		52.52	14.6	770	48.00	-	1.09
Cross Timbers Royalty Trust	CRT		49.02	6.0	290	47.00	-	1.04
Mesa RoyaltyTrust	MTR		68.12	1.9	130	70.00	-	0.97
San Juan Basin Royalty Trust	SJT	B	37.36	46.6	1,740	40.00	-	0.93
Hugoton RoyaltyTrust	HGT	B	27.66	40.0	1,110	34.00	-	0.81
<i>Total or Median</i>					5,100			1.01
<b>Canadian Income Trusts (US\$)</b>								
Pengrowth Energy Trust	PGH		19.21	247.0	4,740	19.00	0.25	1.01
Canadian Oil Sands Trust	COSWF	B	42.36	479.0	20,290	45.00	0.05	0.94
Enerplus Resources Fund	ERF		44.51	153.0	6,810	52.00	0.16	0.88
Penn West Energy Trust	PWE	B	28.63	372.6	10,670	37.00	0.23	0.83
<i>Total or Median</i>					42,500		0.19	0.91
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S	56.65	179.9	10,190	17.00	0.56	2.03
Encore Energy Partners, L.P. (32%)	ENP		21.39	10.2	220	20.00	0.24	1.05
Linn Energy, LLC	LINE		21.45	114.0	2,450	27.00	0.34	0.86
Dorchester Minerals, L.P.	DMLP		20.99	28.2	590	27.00	-	0.78
<i>Total or Median</i>					13,500		0.29	0.96
B = Buy, S = Sell								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								

# Oil and Gas Income Stocks

A Weekly Analysis

April 4, 2008



Natural Gas and Oil Income Stocks - Rank by EV/Ebitda								
			Price (\$/sh)	Adjstd Resrvs/	PV/	EV/		Divd or Distrib
	Symbol/		4-Apr	Prod	Ebitda	Ebitda	P/E	NTM
	Rating		2008	NTM	NTM	NTM	NTM	(%)
<b>U.S. Royalty Trusts</b>								
San Juan Basin Royalty Trust	SJT	B	37.36	10.2	9.9	9.2	11.3	8.8
Sabine Royalty Trust	SBR		52.52	9.4	8.4	9.2	9.2	10.9
Permian Basin RT	PBT		23.04	8.2	7.1	9.1	9.8	10.2
Cross Timbers Royalty Trust	CRT		49.02	13.4	8.7	9.0	9.5	10.5
Mesa RoyaltyTrust	MTR		68.12	21.1	8.1	7.9	8.9	11.2
Hugoton RoyaltyTrust	HGT	B	27.66	13.1	9.1	7.4	9.8	10.2
	<i>Median</i>			11.6	8.5	9.1	9.7	10.4
<b>Canadian Income Trusts (US\$)</b>								
Canadian Oil Sands Trust	COSWF	B	42.36	23.1	9.5	9.0	10.8	8.2
Enerplus Resources Fund	ERF		44.51	9.6	7.2	6.3	9.5	11.0
Pengrowth Energy Trust	PGH		19.21	7.5	5.9	5.9	12.0	13.7
Penn West Energy Trust	PWE	B	28.63	7.3	6.5	5.3	12.8	13.9
	<i>Median</i>			8.5	6.8	6.1	11.4	12.4
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S	56.65	8.5	7.9	15.9	29.5	6.5
Encore Energy Partners, L.P.	ENP		21.39	12.4	7.7	8.2	(48.3)	7.2
Linn Energy, LLC	LINE		21.45	19.1	9.4	8.1	(3.3)	11.7
Dorchester Minerals, L.P.	DMLP		20.99	8.6	9.0	7.0	9.3	14.4
	<i>Median</i>			10.5	8.4	8.1	3.0	9.5
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2009; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								

Natural Gas and Oil Income Stocks - Rank by NTM Distribution Yield								
			Natural Gas/					Dist.
	Symbol	Revenue Royalty (%)	Ebitda (%)	Dist/ Ebitda	Equity Ebitda	NTM Distribution (\$mm)	NTM Distribution (\$/un)	Yield (%)
<b>U.S. Royalty Trusts</b>								
San Juan Basin Royalty Trust	SJT	-	98	0.82	0.82	154	3.30	8.8
Permian Basin RT	PBT	32	37	0.93	0.93	110	2.35	10.2
Hugoton RoyaltyTrust	HGT	-	87	0.75	0.75	113	2.82	10.2
Cross Timbers Royalty Trust	CRT	84	71	0.95	0.95	31	5.15	10.5
Sabine Royalty Trust	SBR	100	57	1.00	1.00	84	5.73	10.9
Mesa RoyaltyTrust	MTR	-	69	0.88	0.88	14	7.61	11.2
	<i>Total or Median</i>		70	0.90	0.90	500		10.4
<b>Canadian Income Trusts (US\$)</b>								
Canadian Oil Sands Trust	COSWF	-	(8)	0.70	0.74	1,661	3.47	8.2
Enerplus Resources Fund	ERF	-	51	0.57	0.68	751	4.91	11.0
Pengrowth Energy Trust	PGH	-	37	0.62	0.82	651	2.64	13.7
Penn West Energy Trust	PWE	-	34	0.53	0.69	1,485	3.98	13.9
	<i>Total or Median</i>		36	0.59	0.72	4,500		12.4
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Kinder Morgan Energy Partners, KMP			-	0.75	1.70	662	3.68	6.5
Encore Energy Partners, L.P.	ENP		26	0.46	0.60	16	1.55	7.2
Linn Energy, LLC	LINE		67	0.58	0.88	287	2.52	11.7
Dorchester Minerals, L.P.	DMLP	64	72	1.00	1.00	85	3.02	14.4
	<i>Total or Median</i>		47	0.67	0.94	1,100		9.5
NTM = Next Twelve Months Ended March 31, 2009								
Ebitda = Earnings before interest, tax, depreciation and amortization								

## ***Oil and Gas Income Stocks***

*A Weekly Analysis*

April 4, 2008



**Disclaimer:** This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was doing business as McDep Associates. 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 does no investment banking business. McDep is not paid by covered companies including revenue from advertising, trading, consulting, subscriptions or research service. McDep shall not own more than 1% of outstanding stock in a covered company. No one at McDep is on the Board of Directors at a covered company nor is anyone at a covered company on the Board of Directors of McDep.

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.