

# Oil and Gas Income Stocks

A Weekly Analysis

May 23, 2008



## Stocks Lag Oil Price

### Summary and Recommendation

At McDep Ratios near a median 0.9 on \$100 oil, we might say that income stocks are priced for oil at \$90 a barrel (see table [Rank by McDep Ratio](#)). Oil price could rest awhile until the 200-day or 40-week average catches up to bring the gap with current quote within the narrower range of the past several years. At the same time, calls for higher price have precedence in the last cycle from 28 years ago. In those days the most widely watched quote was the spot price for Arab Light crude oil, which started its decade-long move at \$2 a barrel and ended it at \$40 a barrel. We don't expect to replicate that 20-fold change and have picked a more conservative vision of \$150 in 2010 for Light Sweet Crude Oil, 7.5 times the average for the decade of the 1990s. We are also pleased to see that the current futures price for oil in 2016 at \$136 a barrel is higher than the quote for July 2008 at \$130. In our mind, the ideal shape of the futures curve is a higher price down the road that consumers and producers can use for planning purposes and a lower price currently for a smoother transition to the new energy environment. Higher price is a fairer mechanism for economic change than policies dreamed up by our political leaders. Finally, check out the rising trend of monthly distributions for U.S. royalty trusts after the latest declarations in the past few days (see charts [Monthly Distributions](#)).

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		22-May 2008	(mm)				
<b>U.S. Royalty Trusts</b>								
Permian Basin RT	PBT		24.17	46.6	1,130	23.00	-	1.05
Sabine Royalty Trust	SBR		60.29	14.6	880	60.00	-	1.00
Cross Timbers Royalty Trust	CRT		52.13	6.0	310	57.00	-	0.92
San Juan Basin Royalty Trust	SJT	B	42.24	46.6	1,970	48.00	-	0.88
Hugoton RoyaltyTrust	HGT	B	32.90	40.0	1,320	42.00	-	0.78
Mesa RoyaltyTrust	MTR		73.11	1.9	140	93.00	-	0.78
<i>Total or Median</i>					5,800			0.90
<b>Canadian Income Trusts (US\$)</b>								
Canadian Oil Sands Trust	COSWF	B	51.92	479.0	24,870	57.00	0.04	0.91
Pengrowth Energy Trust	PGH		21.03	247.0	5,190	24.00	0.25	0.91
Penn West Energy Trust	PWE	B	34.40	364.1	12,530	45.00	0.24	0.82
Enerplus Resources Fund	ERF		48.92	153.0	7,480	63.00	0.15	0.81
<i>Total or Median</i>					50,100		0.19	0.86
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S	59.47	188.2	11,200	17.00	0.57	2.08
Encore Energy Partners, L.P. (32%)	ENP		25.45	10.2	260	26.00	0.18	0.98
Dorchester Minerals, L.P.	DMLP		27.82	28.2	790	33.00	-	0.84
Linn Energy, LLC	LINE		23.28	114.0	2,650	35.00	0.38	0.79
<i>Total or Median</i>					14,900		0.28	0.91
B = Buy, S = Sell								
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 \$14 a million btu for natural gas.								

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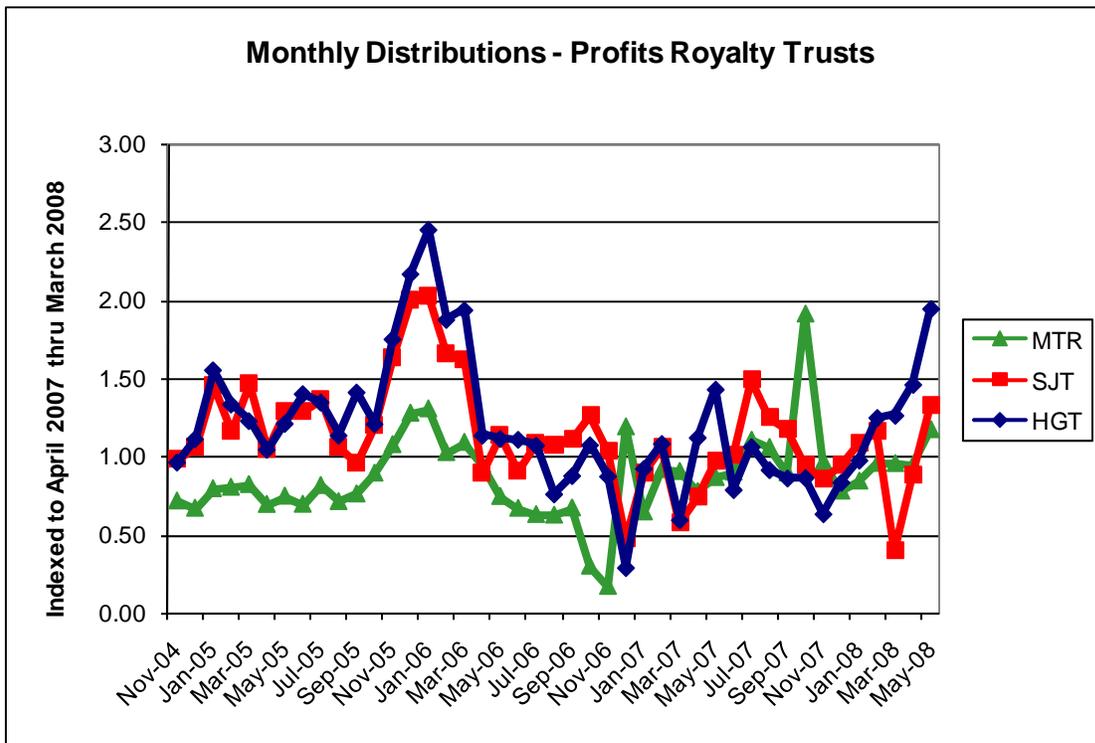
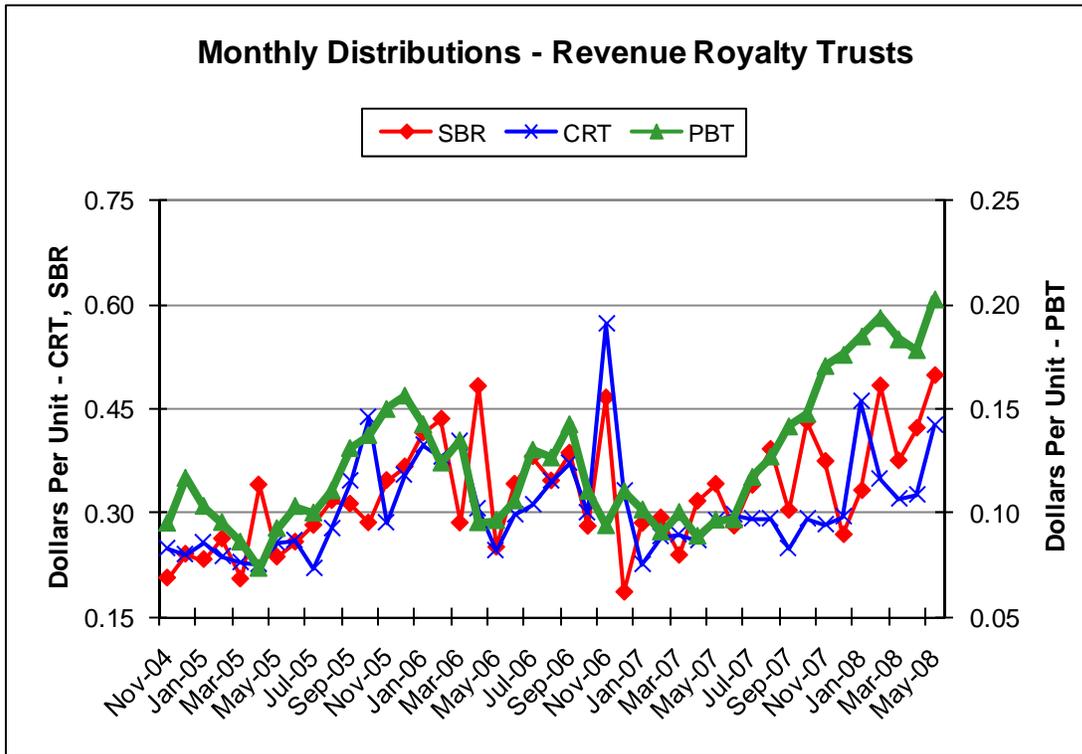
Natural Gas and Oil Income Stocks - Rank by EV/Ebitda								
			Price (\$/sh)	Adjstd Resrvs/	PV/	EV/		Divd or Distrib
	Symbol/		22-May	Prod	Ebitda	Ebitda	P/E	NTM
		Rating	2008	NTM	NTM	NTM	NTM	(%)
<b>U.S. Royalty Trusts</b>								
Cross Timbers Royalty Trust	CRT		52.13	13.7	9.9	9.1	9.6	10.4
Sabine Royalty Trust	SBR		60.29	9.1	8.9	9.0	9.0	11.2
San Juan Basin Royalty Trust	SJT	B	42.24	10.7	9.8	8.6	10.5	9.6
Permian Basin RT	PBT		24.17	8.4	7.8	8.2	8.7	11.5
Mesa RoyaltyTrust	MTR		73.11	21.1	9.6	7.5	8.6	11.6
Hugoton RoyaltyTrust	HGT	B	32.90	13.1	8.9	6.9	9.7	10.3
	<i>Median</i>			11.9	9.3	8.4	9.3	10.8
<b>Canadian Income Trusts (US\$)</b>								
Canadian Oil Sands Trust	COSWF	B	51.92	23.2	9.4	8.6	9.9	7.8
Pengrowth Energy Trust	PGH		21.03	8.9	6.1	5.5		12.9
Enerplus Resources Fund	ERF		48.92	9.6	6.4	5.2	9.3	10.4
Penn West Energy Trust	PWE	B	34.40	7.3	5.7	4.7	12.6	12.0
	<i>Median</i>			9.2	6.3	5.4	9.9	11.2
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S	59.47	8.0	7.4	15.3	22.9	6.2
Linn Energy, LLC	LINE		23.28	17.4	10.0	7.9		10.8
Dorchester Minerals, L.P.	DMLP		27.82	8.5	9.3	7.8	10.2	12.8
Encore Energy Partners, L.P.	ENP		25.45	12.4	6.8	6.7		9.0
	<i>Median</i>			10.4	8.3	7.9	16.5	9.9
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/			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	0.83	0.83	188	4.04	9.6
Hugoton RoyaltyTrust	HGT	-	88	0.72	0.72	136	3.39	10.3
Cross Timbers Royalty Trust	CRT	84	67	0.94	0.94	33	5.42	10.4
Sabine Royalty Trust	SBR	100	55	1.00	1.00	98	6.74	11.2
Permian Basin RT	PBT	32	35	0.94	0.94	130	2.78	11.5
Mesa RoyaltyTrust	MTR	-	66	0.88	0.88	16	8.50	11.6
	<i>Total or Median</i>		67	0.91	0.91	600		10.8
<b>Canadian Income Trusts (US\$)</b>								
Canadian Oil Sands Trust	COSWF	-	(8)	0.64	0.66	1,932	4.03	7.8
Enerplus Resources Fund	ERF	-	47	0.44	0.52	777	5.08	10.4
Penn West Energy Trust	PWE	-	32	0.40	0.52	1,498	4.11	12.0
Pengrowth Energy Trust	PGH	-	37	0.52	0.69	672	2.72	12.9
	<i>Total or Median</i>		35	0.48	0.59	4,900		11.2
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Kinder Morgan Energy Partners, KMP			-	0.69	1.59	693	3.68	6.2
Encore Energy Partners, L.P.	ENP		17	0.49	0.60	23	2.30	9.0
Linn Energy, LLC	LINE		56	0.45	0.72	287	2.52	10.8
Dorchester Minerals, L.P.	DMLP	64	72	1.00	1.00	101	3.56	12.8
	<i>Total or Median</i>		37	0.59	0.86	1,100		9.9
NTM = Next Twelve Months Ended March 31, 2009								
Ebitda = Earnings before interest, tax, depreciation and amortization								

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