



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

February 13, 2009

## Revisions, Differentials and Anomalies

### Summary and Recommendation

Low year-end oil and gas prices cause producers to make some adjustment to proven reserves under accounting rules. Weak economic conditions are also translating to wider geographic price differentials in a dynamic industry. We further see a wide anomaly in the price of benchmark Light Sweet Crude Oil compared to European benchmark Brent Crude Oil. Notwithstanding revisions to our estimates, we believe stock prices have declined by more than enough to compensate and to justify our buy recommendations from a value point of view. We await more confirmation that trends have turned up again before expanding the number of buys.

In a separate analysis, we reduced Net Present Value (NPV) for hold-rated **Encore Acquisition (EAC)**. In the weekly valuation tables that follow, we also reduce NPV for the income stock **Encore Energy Partners (ENP)** to \$17 a unit from \$19. Technically, the reserves still exist in our analytical framework where we use \$75 a barrel as the long-term price. Yet, some companies show more sensitivity than others which leads us to make adjustments to keep NPV at higher price aligned with reserve life and cash flow at lower price. We may also adjust NPV for buy-recommended **Cimarex Energy (XEC)** when it releases full financial results having already disclosed modest revisions in year-end reserves.

No sooner did we write two weeks ago of the “quirk” in natural gas index price for November, than we saw it reappear for February. Perhaps anticipating subsequently low distributions in April for buy-recommended **Hugoton Royalty Trust (HGT)** and hold-rated **San Juan Basin Royalty Trust (SJT)**, stock prices for HGT and SJT reached new lows and more attractive McDep Ratios for patient investors.

Lastly, Light, Sweet Crude, also known as WTI (West Texas Intermediate) or Nymex (New York Mercantile Exchange) Crude, is currently trading at about a \$9 a barrel discount to Brent when it normally trades at a premium. Strange things are happening in the futures market driving the near month Nymex WTI quote to an unsustainable spread compared to the 12-month or 60-month average.

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Table 1								
Oil and Gas Income and Small Cap Stocks								
Net Present Value and McDep Ratio								
			Price (\$/sh)		Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		12-Feb 2009	Shares (mm)				
<b>Canadian Income Trusts (US\$)</b>								
Pengrowth Energy Trust	PGH		8.09	249.0	2,010	16.00	0.31	0.66
Penn West Energy Trust	PWE	H	10.87	410.0	4,460	25.00	0.26	0.58
Enerplus Resources Fund	ERF		19.25	164.9	3,170	44.00	0.10	0.49
Canadian Oil Sands Trust	COSWF	B	16.70	482.0	8,050	42.00	0.05	0.43
<i>Total or Median</i>					17,700		0.18	0.54
<b>Small Cap Independent Producers</b>								
Encore Acquisition Company	EAC	H	25.40	52.6	1,340	44.00	0.37	0.73
Berry Petroleum Company	BRY	H	7.93	45.5	360	40.00	0.43	0.54
Birchcliff Energy Ltd. (US\$)	BIR.TO		3.66	117.0	430	10.00	0.14	0.45
Cimarex Energy Company	XEC	B	25.09	84.5	2,120	70.00	0.09	0.42
<i>Total or Median</i>					4,250		0.25	0.50
<b>U.S. Royalty Trusts</b>								
Sabine Royalty Trust	SBR		41.57	14.6	610	47.00	-	0.88
Cross Timbers Royalty Trust	CRT		30.15	6.0	180	42.00	-	0.72
Permian Basin RT	PBT		12.52	46.6	580	19.00	-	0.66
San Juan Basin Royalty Trust	SJT	H	17.40	46.6	810	34.00	-	0.51
Mesa Royalty Trust	MTR		30.00	1.9	60	67.00	-	0.45
Hugoton Royalty Trust	HGT	B	12.47	40.0	500	28.00	-	0.45
<i>Total or Median</i>					2,740			0.59
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Linn Energy, LLC	LINE		16.07	114.0	1,830	14.00	0.52	1.07
Encore Energy Partners, L.P. (32%)	ENP		15.20	10.6	160	17.00	0.18	0.92
Dorchester Minerals, L.P.	DMLP		18.04	28.2	510	24.00	-	0.75
<i>Total or Median</i>					2,500		0.18	0.92
B = Buy, H = Hold								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
Present Value presumes long-term prices of \$75 a barrel for oil and \$10 a million btu for natural gas.								



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Table 2								
Oil and Gas Income and Small Cap Stocks								
Value Multiples - Rank by EV/Ebitda								
			Price (\$/sh)	Adjstd Resrvs/	PV/	EV/	Ebitda	
	Symbol/ Rating		12-Feb 2009	Prod NTM	Ebitda NTM	Ebitda NTM	P/E NTM	Margin (%)
<b>Canadian Income Trusts (US\$)</b>								
	Canadian Oil Sands Trust	COSWF	B	16.70	23.3	26.5	11.4	42
	Pengrowth Energy Trust	PGH		8.09	9.5	11.9	7.8	70
	Penn West Energy Trust	PWE	H	10.87	8.3	10.7	6.2	75
	Enerplus Resources Fund	ERF		19.25	10.6	11.9	5.9	74
	<i>Median</i>				10.0	11.9	7.0	72
<b>Small Cap Independent Producers</b>								
	Encore Acquisition Company	EAC		25.40	11.4	12.0	8.8	53
	Birchcliff Energy Ltd. (US\$)	BIR.TO		3.66	6.9	20.0	9.1	73
	Berry Petroleum Company	BRY		7.93	9.6	11.5	6.3	7.8
	Cimarex Energy Company	XEC		25.09	7.2	12.0	5.0	55
	<i>Median</i>				8.4	12.0	7.5	58
<b>U.S. Royalty Trusts</b>								
	Cross Timbers Royalty Trust	CRT		30.15	14.5	16.6	11.9	12.5
	Sabine Royalty Trust	SBR		41.57	9.2	14.6	12.9	12.9
	San Juan Basin Royalty Trust	SJT	H	17.40	10.6	19.5	10.0	12.7
	Permian Basin RT	PBT		12.52	8.8	15.7	10.3	12.0
	Mesa RoyaltyTrust	MTR		30.00	21.1	14.8	6.6	7.6
	Hugoton RoyaltyTrust	HGT	B	12.47	13.1	17.8	7.9	11.4
	<i>Median</i>				11.9	16.1	10.2	12.3
<b>U.S. Master Limited Partnerships (MLPs)</b>								
	Dorchester Minerals, L.P.	DMLP		18.04	8.5	15.5	11.7	21.0
	Linn Energy, LLC	LINE		16.07	13.6	10.9	11.6	70
	Encore Energy Partners, L.P.	ENP		15.20	10.9	16.1	14.7	50
	<i>Median</i>				10.9	15.5	11.7	70
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2009; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



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Table 3								
Oil and Gas Income and Small Cap Stocks								
Next Twelve Months Distribution Yield								
			<i>Natural</i>					
		<i>Revenue</i>	<i>Gas</i>		<i>Dist/</i>			<i>Dist.</i>
	<i>Symbol</i>	<i>Royalty</i>	<i>%</i>	<i>Dist/</i>	<i>Equity</i>	<i>NTM Distribution</i>		<i>Yield</i>
		<i>(%)</i>	<i>NPV</i>	<i>Ebitda</i>	<i>Ebitda</i>	<i>(\$mm)</i>	<i>(\$/un)</i>	<i>(%)</i>
<b>Canadian Income Trusts (US\$)</b>								
Canadian Oil Sands Trust	COSWF	-	-	0.30	0.31	238	0.49	3.0
Enerplus Resources Fund	ERF	-	56	0.44	0.49	296	1.79	9.3
Pengrowth Energy Trust	PGH	-	34	0.83	1.22	409	1.64	20.3
Penn West Energy Trust	PWE	-	29	0.70	0.95	910	2.22	20.4
<i>Total or Median</i>			32	0.57	0.72	1,900		14.8
<b>Small Cap Independent Producers</b>								
Birchcliff Energy Ltd. (US\$)	BIR.TO	-	75	-	-	-	-	-
Encore Acquisition Company	EAC	-	25	-	-	-	-	-
Cimarex Energy Company	XEC	-	65	0.04	0.04	20	0.24	1.0
Berry Petroleum Company	BRY	-	42	0.05	0.09	14	0.30	3.8
<i>Total or Median</i>			53					
<b>U.S. Royalty Trusts</b>								
Sabine Royalty Trust	SBR	100	54	1.00	1.00	47	3.22	7.7
San Juan Basin Royalty Trust	SJT	-	100	0.79	0.79	64	1.37	7.9
Cross Timbers Royalty Trust	CRT	84	76	0.95	0.95	14	2.40	8.0
Permian Basin RT	PBT	32	33	0.86	0.86	49	1.04	8.3
Hugoton RoyaltyTrust	HGT	-	91	0.69	0.69	44	1.09	8.7
Mesa RoyaltyTrust	MTR	-	75	0.87	0.87	7	3.95	13.2
<i>Total or Median</i>			76	0.87	0.87	220		8.2
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Dorchester Minerals, L.P.	DMLP	64	68	1.01	1.01	44	1.57	8.7
Encore Energy Partners, L.P.	ENP		34	1.56	1.90	21	2.00	13.2
Linn Energy, LLC	LINE		48	0.93	1.96	287	2.52	15.7
<i>Total or Median</i>			48	1.01	1.90	350		13.2
NTM = Next Twelve Months Ended December 31, 2009								
Ebitda = Earnings before interest, tax, depreciation and amortization								



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