



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

July 24, 2009

## Trend Setters

### Summary and Recommendation

Canadian Income and Small Cap stocks are trend setters with all seven in our coverage in an upward stock price trend defined by price above the 200-day average. Low McDep Ratios give fundamental support (see Tables 1 and 2). Buy- recommended **Canadian Oil Sands Trust (COSWF)** has the appeal of long-life oil outside the U.S. and its income potential rises with oil price. Shorter-life, oil-oriented Canadian Income Trusts, namely hold-rated **Penn West Energy Trust (PWE)**, ERF and PGH, have joined the stock price uptrend by crossing above their 200-day average. Adding to McDep Ratio coverage in April and classified in our newly designated Top Line Cash Payer group, **Freehold Royalty Trust (FRHLF)** has been in a stock price uptrend for weeks. Looking past the next few months of excess natural gas supply, investors in the past few days have taken \$US stock price into an uptrend above the 200-day average for Canadian Small Cap **Birchcliff (BIREF)** and Canadian Income Trust **Peyto (PEYUF)**.

Investors are seeing 200-day stock price uptrend in five of twelve U.S. stocks. Small Cap Independent Producer buy recommendations **Cimarex (XEC)** and **Encore (EAC)** are appreciating by that standard along with Top Line Income Payer buy recommendation **Dorchester Minerals (DMLP)**.

The most out-of-favor stocks and classic McDep Ratio opportunities are four U.S. royalty trusts, buy-recommended **Hugoton (HGT)**, hold-rated **San Juan (SJT)**, Bottom Line Cash Payer MTR and Top Line Cash Payer PBT. The fundamental characteristics are not much different than those of trend setters, while the return potential appears high. A built-in two to three month lag in income payments may contribute to a lag in stock price uptrend. Patient investors are likely to be rewarded, we believe.

Kurt H. Wulff, CFA



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Table 1										
McDep Income and Small Cap Energy Portfolio										
Debt, Business Segments and Income Yield										
						Present Value by Segment (%)				
	Symbol/Rating	Price (US\$/sh)	EV/ Market	Enterprise Value (\$mm)	NAmer. Natural Gas	Oil Prod'n	Dist. NTM (\$/un)	Dist. Yield (%)	McDep Ratio	
	B = Buy H = Hold	23-Jul 2009	Cap							
<b>Canadian Income Trusts (US\$)</b>										
Peyto Energy Trust	PEYUF	8.35	1.47	1,300	68	32	1.30	15.6	0.72	
Pengrowth Energy Trust	PGH	8.14	1.88	3,900	34	66	1.08	13.3	0.72	
Penn West Energy Trust	PWE H	13.23	1.75	9,500	27	73	1.63	12.3	0.70	
Enerplus Resources Fund	ERF	21.32	1.25	4,400	43	57	1.95	9.2	0.64	
Canadian Oil Sands Trust	COSWF B	25.22	1.11	13,500		100	2.08	8.3	0.62	
<i>Total or Median</i>				32,600					0.70	
<b>Small Cap Independent Producers</b>										
Encore Acquisition Company	EAC B	36.35	1.85	3,580	22	78	-	-	0.90	
Cimarex Energy Company	XEC B	35.11	1.30	3,740	62	38	0.24	0.7	0.81	
Berry Petroleum Company	BRY H	23.89	1.90	2,040	33	67	0.30	1.3	0.81	
Birchcliff Energy Ltd. (US\$)	BIREF	5.92	1.34	960	70	30	-	-	0.72	
<i>Total or Median</i>				10,320					0.81	
<b>Top Line Cash Payers</b>										
Cross Timbers Royalty Trust	CRT	24.47	1.00	150	64	36	1.52	6.2	0.88	
Dorchester Minerals, L.P.	DMLP B	22.47	1.00	670	63	38	1.35	6.0	0.83	
Freehold Royalty Trust (US\$)	FRHLF	13.71	1.21	820	25	63	1.08	7.9	0.83	
Sabine Royalty Trust	SBR	40.19	1.00	590	38	63	2.63	6.5	0.73	
Permian Basin RT	PBT	10.43	1.00	490	27	73	0.80	7.7	0.58	
<i>Total or Median</i>				2,720					0.83	
<b>Bottom Line Cash Payers</b>										
Linn Energy, LLC	LINE	21.14	1.58	3,820	48	52	2.52	11.9	1.43	
Encore Energy Partners, L.P. (52%)	ENP	14.89	1.33	460	24	76	2.15	14.4	0.90	
San Juan Basin Royalty Trust	SJT H	13.41	1.00	630	100	-	0.83	6.2	0.64	
Hugoton Royalty Trust	HGT B	12.97	1.00	520	89	11	0.82	6.3	0.56	
Mesa Royalty Trust	MTR	24.00	1.00	50	75	25	2.28	9.5	0.43	
<i>Total or Median</i>				5,480					0.64	
<b>Composite (excl COSWF)</b>										
<i>Enterprise Value Weighting</i>				37,600	40	60			0.77	
<i>Equal Weighting</i>					51	49			0.77	
<i>Equal Weighted Buys</i>					47	53			0.78	
* Percentages in Symbol column refer to current market Enterprise Value weightings; Rating column, equal weightings.										
* Percentages in Price column refer to equal weighted buys.										



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Table 2								
Oil and Gas Income and Small Cap Stocks								
Net Present Value and McDep Ratio								
			Price (\$/sh)	Shares	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		23-Jul 2009	(mm)				
<b>Canadian Income Trusts (US\$)</b>								
	PEYUF		8.35	105.9	880	13.00	0.23	0.72
	PGH		8.14	257.0	2,090	14.00	0.34	0.72
	PWE	H	13.23	410.0	5,420	23.00	0.30	0.70
	ERF		21.32	165.7	3,530	36.00	0.13	0.64
	COSWF	B	25.22	482.2	12,160	42.00	0.06	0.62
	<i>Total or Median</i>				24,100		0.23	0.70
<b>Small Cap Independent Producers</b>								
	EAC	B	36.35	53.3	1,940	44.00	0.41	0.90
	XEC	B	35.11	81.7	2,870	46.00	0.19	0.81
	BRY	H	23.89	44.6	1,070	35.00	0.38	0.81
	BIREF		5.92	122.0	720	9.00	0.18	0.72
	<i>Total or Median</i>				6,600		0.29	0.81
<b>Top Line Cash Payers</b>								
	CRT		24.47	6.0	150	28.00	-	0.88
	FRHLF		13.71	49.5	680	17.00	0.15	0.83
	DMLP	B	22.47	29.8	670	27.00	-	0.83
	SBR		40.19	14.6	590	55.00	-	0.73
	PBT		10.43	46.6	490	18.00	-	0.58
	<i>Total or Median</i>				2,580			0.83
<b>Bottom Line Cash Payers</b>								
	LINE		21.14	114.0	2,410	11.00	0.53	1.43
	ENP		14.89	23.4	350	17.00	0.23	0.90
	SJT	H	13.41	46.6	630	21.00	-	0.64
	HGT	B	12.97	40.0	520	23.00	-	0.56
	MTR		24.00	1.9	50	56.00	-	0.43
	<i>Total or Median</i>				3,960			0.64
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 \$8 a million btu for natural gas.								



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Table 3								
Oil and Gas Income and Small Cap Stocks								
Value Multiples - Rank by EV/Ebitda								
			Price (\$/sh)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda
	Symbol/ Rating		23-Jul 2009	Royalty (%)	Ebitda	NTM	NTM	NTM
<b>Canadian Income Trusts (US\$)</b>								
	COSWF	B	25.22		0.81	21.5	16.3	10.2
	PEYUF		8.35		1.25	17.1	12.5	9.0
	PGH		8.14		0.89	8.1	11.5	8.3
	PWE	H	13.23		0.83	8.3	11.7	8.2
	ERF		21.32		0.68	9.3	12.6	8.1
	<i>Median</i>					9.3	12.5	8.3
<b>Small Cap Independent Producers</b>								
	BIREF		5.92		-	9.9	27.1	19.5
	BRY	H	23.89		-	11.7	13.4	10.8
	EAC	B	36.35		-	11.4	11.3	10.2
	XEC	B	35.11		-	7.2	7.9	6.4
	<i>Median</i>					10.7	12.4	10.5
<b>Top Line Cash Payers</b>								
	DMLP	B	22.47	64	0.93	8.1	18.7	15.6
	SBR		40.19	100	1.00	10.0	20.9	15.3
	CRT		24.47	84	0.92	13.0	16.9	14.8
	PBT		10.43	32	0.85	10.9	19.0	11.0
	FRHLF		13.71	71	0.70	6.3	11.0	9.2
	<i>Median</i>					10.0	18.7	14.8
<b>Bottom Line Cash Payers</b>								
	LINE		21.14		5.35	18.3	23.4	33.5
	ENP		14.89		1.56	12.9	12.3	11.1
	SJT	H	13.41		0.68	9.2	17.3	11.0
	HGT	B	12.97		0.66	13.1	18.6	10.5
	MTR		24.00		0.90	14.4	22.2	9.6
	<i>Median</i>					13.1	18.6	11.0
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2010; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



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