



Independent Stock Idea

November 22, 2009

rating: buy
s&p 500: 1200

San Juan Basin Royalty Trust (SJT) Distribution Yield 5.8%, Not 4.6%

<i>Symbol</i>	SJT	<i>Ebitda Next Twelve Months ending 12/31/11 (US\$mm)</i>	79
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	97
<i>Price (US\$/sh)</i>	24.27	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/19/10	<i>Adjusted Reserves/Production NTM</i>	13.7
<i>Shares (mm)</i>	47	<i>EV/Ebitda</i>	14.4
<i>Market Capitalization (US\$mm)</i>	1,130	<i>PV/Ebitda</i>	14.8
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	4
<i>Enterprise Value (EV) (US\$mm)</i>	1,130	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	3.08
<i>Present Value (PV) (US\$mm)</i>	1,170	<i>Present Value Proven Reserves(US\$/boe)</i>	19.62
<i>Net Present Value (US\$/unit)</i>	25	<i>Oil and Gas Ebitda Margin (%)</i>	68
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	1.40
<i>McDep Ratio - EV/PV</i>	0.97	<i>Price/Earnings Next Twelve Months</i>	17
<i>Distribution Yield (%/year)</i>	5.8	<i>Distribution Next Twelve Months (US\$/sh)</i>	1.40
Note: Estimated cash flow and earnings tied to one-year futures prices for natural gas.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$75 a barrel and natural gas, \$8 a million btu.			
For historical analysis of SJT since 2000 see www.mcdep.com/4sjt.htm			

Summary and Recommendation

At an exciting time for natural gas stocks we are embarrassed that a dumb mistake caused us to underestimate the near month distribution for buy-recommended **San Juan Basin Royalty Trust (SJT)** for the past several months. Our current estimate for distribution yield for the next twelve months is a more reasonable 5.8% instead of 4.6% relayed in the latest *Income and Small Cap Weekly*. Updating futures prices and rolling the measurement period forward to the next twelve months ended December 31, 2011 account for half the improvement. The remaining half of the change reflects the correction of our underestimate. Though we learned the difference in engineering school long ago, we confused million btu with thousand cubic feet in estimating next month price net to the trust. Market prices, as in futures, are commonly quoted in heating value while operators report by volume. Since SJT's natural gas has higher than normal heating value, the difference can be about 10%. The error was limited to just the next few months, which we have now corrected for the estimated December distribution (see tables Monthly Declarations and Next Twelve Months Operating and Financial Estimates). Meanwhile all natural gas stocks in our income and small cap coverage are now in stock price up trends compared to the 200-day average. We are heartened that natural gas price looks to be forming a bottom and that a price up trend compared to the 40-week average may be near (see chart Natural Gas One-Year Futures Strip and 40-Week Average on page 4).

Kurt H. Wulff, CFA



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San Juan Basin Royalty Trust									
Monthly Declarations									
	Oct-09	Nov-09	Dec-09	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
Distribution (\$/unit)									
Declared	0.10	0.05	0.11	0.14	0.10	0.17	0.13	0.11	
Projected									0.11
Volume									
Natural gas (mmbtu)	3.38	3.11	3.41	3.17	2.87	3.17	3.23	3.31	3.08
Heat Content(btu/cf)	1,088	1,089	1,091	1,098	1,101	1,108	1,106	1,103	1,099
Natural gas (bcf)	3.11	2.85	3.12	2.89	2.61	2.86	2.92	3.00	2.81
Natural Gas (mmcf)	100	95	101	93	87	92	94	100	91
Days	31	30	31	31	30	31	31	30	31
Price									
Natural gas industry quotes lagged two months (\$/mmbtu)									
Henry Hub Index/Futures	3.38	2.83	3.72	4.27	4.16	4.72	4.78	3.64	3.84
San Juan Monthly Index	3.18	2.48	3.42	3.80	3.67	4.29	4.08	3.22	3.59
San Juan Index/Henry Hub	0.94	0.88	0.92	0.89	0.88	0.91	0.85	0.88	0.93
SJT/San Juan Index	1.00	1.09	1.10	1.08	1.03	1.14	1.03	1.12	1.04
SJT (\$/mmbtu)	3.17	2.71	3.76	4.12	3.78	4.90	4.21	3.61	3.75
SJT (\$/mcf)	3.45	2.95	4.10	4.53	4.17	5.42	4.65	3.97	4.12
Revenue (\$mm)									
Natural Gas	10.7	8.4	12.8	13.1	10.9	15.5	13.6	11.9	11.6
Other	0.2	0.2	0.3	0.4	0.2	0.3	0.3	0.3	0.3
Cost (\$mm)									
Severance tax	1.1	0.9	1.2	1.3	1.1	1.6	1.4	1.2	1.2
Operating	2.2	2.1	3.3	2.9	2.3	2.9	2.9	2.7	2.7
Total	3.3	3.0	4.5	4.3	3.4	4.5	4.3	3.9	3.9
Cash flow (\$mm)									
Development	7.6	5.6	8.6	9.2	7.7	11.3	9.5	8.3	7.9
	1.3	2.2	1.7	0.6	1.4	1.0	1.3	1.6	1.1
Net proceeds (\$mm)									
	6.3	3.4	6.9	8.6	6.2	10.3	8.2	6.7	6.8
Royalty income (\$mm)									
Royalty/Net proceeds	4.7	2.5	5.2	6.4	4.7	7.7	6.2	5.1	5.1
One time	75%	75%	75%	75%	75%	75%	75%	75%	75%
Distributable income (\$mm)									
	4.7	2.5	5.2	6.4	4.7	7.7	6.2	5.1	5.1
Units (millions)									
	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6
Distribution (\$/unit)									
	0.10	0.05	0.11	0.14	0.10	0.17	0.13	0.11	0.11



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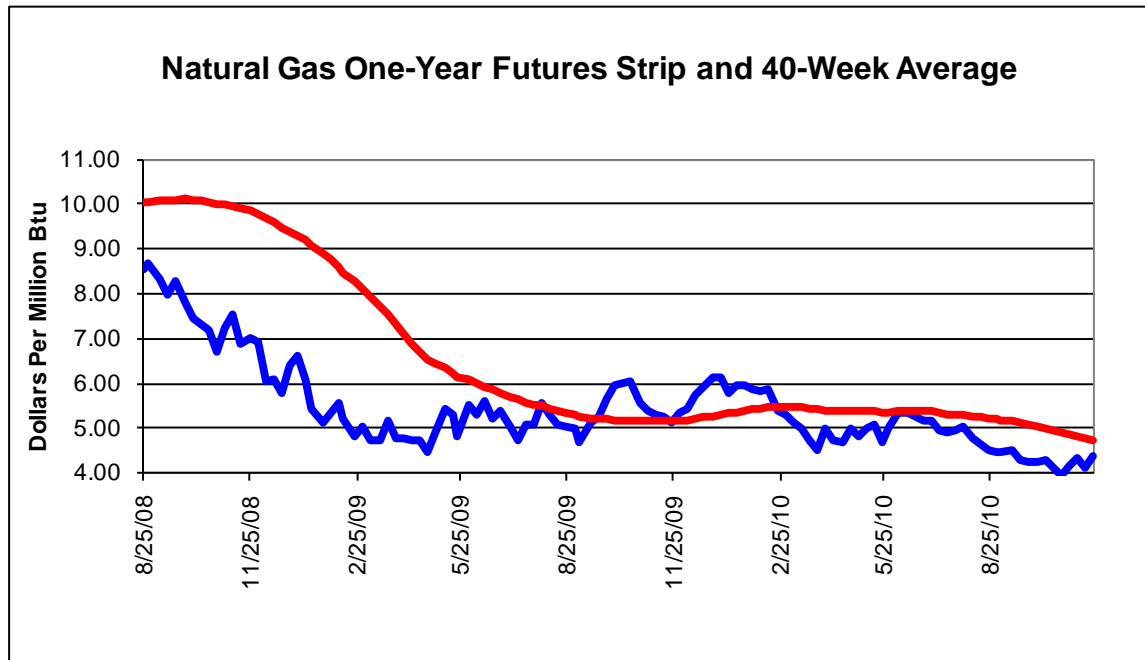
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San Juan Basin Royalty Trust									
Next Twelve Months Operating and Financial Estimates									
	Q4	Q3	Q4E	Year	Q1E	Q2E	Q3E	Q4E	Year
	12/31/09	9/30/10	12/31/10	2010E	3/31/11	6/30/11	9/30/11	12/31/11	2011E
Highlights									
Revenue (\$mm) (75%)	24.7	30.4	28.6	123.2	27.4	28.5	29.4	30.0	115.2
Cash flow (\$mm) (75%)	16.6	21.3	19.6	87.0	18.4	19.4	20.2	20.7	78.8
Per unit	0.36	0.46	0.42	1.87	0.40	0.42	0.43	0.45	1.69
Distributable Income (\$mm)	12.4	18.8	16.4	78.4	15.0	16.1	16.8	17.4	65.3
Per unit	0.27	0.40	0.35	1.68	0.32	0.34	0.36	0.37	1.40
Units (millions)	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6
Volume									
Natural gas (mmbtu)	9.9	9.2	9.6	36.7	9.5	9.1	9.3	9.2	37.2
Heat Content(btu/cf)	1,089	1,103	1,103	1,100	1,103	1,103	1,103	1,103	1,103
Natural gas (bcf)	9.1	8.4	8.7	33.3	8.6	8.3	8.5	8.4	33.8
Natural Gas (mmcf)	98.7	90.8	94.9	91.3	93.9	93.0	92.0	91.1	92.5
Days	92	92	92	365	92	89	92	92	365
Oil (mb)	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1
Oil (mbd)	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Days	92	92	92	365	92	89	92	92	365
Total gas & oil (bcf)	9.2	8.5	8.8	33.7	8.7	8.4	8.6	8.5	34.2
Price									
Natural gas (\$/mmbtu) (Henry Hub lagged two months)									
Henry Hub (\$/mmbtu)	3.31	4.38	4.09	4.50	3.92	4.28	4.31	4.44	4.24
Differential (%)	2	2	6	3	6	6	6	6	6
Net to SJT (\$/mmbtu)	3.23	4.28	3.85	4.37	3.70	4.03	4.06	4.19	3.99
Natural gas (\$/mcf)	3.52	4.72	4.25	4.80	4.08	4.45	4.47	4.62	4.40
Oil (\$/bbl) (WTI Cushing lagged two months)									
WTI Cushing	72.10	75.14	77.96	77.69	87.10	86.31	87.09	87.75	87.06
SJT	62.79	63.48	65.86	66.90	75.01	74.33	75.00	75.57	74.98
Total gas & oil (\$/mcf)	3.58	4.80	4.33	4.88	4.18	4.54	4.57	4.71	4.50
Revenue (\$mm)									
Natural Gas	31.9	39.4	37.1	160.1	35.2	36.8	37.9	38.7	148.6
Oil	0.9	1.1	1.1	4.2	1.3	1.2	1.3	1.3	5.0
Total	32.9	40.6	38.2	164.3	36.5	38.0	39.1	40.0	153.6
Cost (\$mm)									
Severance tax	3.1	4.0	3.8	16.1	3.6	3.8	3.9	4.0	15.3
Operating	7.6	8.1	8.3	32.1	8.3	8.3	8.3	8.3	33.3
Total	10.7	12.1	12.1	48.2	12.0	12.1	12.2	12.3	48.6
Cash flow (\$mm)									
Development	5.3	3.1	4.0	12.7	4.0	4.0	4.0	4.0	15.8
Net proceeds (\$mm)									
	16.8	25.3	22.1	103.4	20.6	22.0	23.0	23.7	89.2
Royalty income (\$mm)									
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%	75%	75%	75%
Administration	0.2	0.2	0.2	1.7	0.4	0.4	0.4	0.4	1.6
One-time				(2.6)					-
Distributable income (\$mm)									
	12.4	18.8	16.4	78.4	15.0	16.1	16.8	17.4	65.3



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