



Independent Stock Idea

February 29, 2016

Dorchester Minerals, L.P. (DMLP) Oil Income for All Seasons

<i>Symbol</i>	DMLP	<i>Ebitda Next Twelve Months ending 12/31/16 (US\$mm)</i>	20
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	29
<i>Price (US\$/sh)</i>	9.60	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/26/16	<i>Adjusted Reserves/Production NTM</i>	6.8
<i>Units (mm)</i>	30.68	<i>EV/Ebitda</i>	14.4
<i>Market Capitalization (US\$mm)</i>	294	<i>PV/Ebitda</i>	36.0
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$mm)</i>	294	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	1.67
<i>Present Value (PV) (US\$mm)</i>	736	<i>Present Value Proven Reserves(US\$/boe)</i>	52.92
<i>Net Present Value (US\$/unit)</i>	24	<i>Oil and Gas Ebitda Margin (%)</i>	47%
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	0.34
<i>McDep Ratio - EV/PV</i>	0.40	<i>Price/Earnings Next Twelve Months</i>	28
<i>Distribution Yield (%/year)</i>	6.7	<i>Distribution Next Twelve Months (US\$/sh)</i>	0.64
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and 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\$70 a barrel and natural gas, \$4.00 a million b			
For historical analysis of DMLP since 2000 see www.mcdep.com/4dhulz.htm			

Summary and Recommendation

The common units of **Dorchester Minerals (DMLP)** offer oil income for all seasons. In a down market for oil, DMLP continues to distribute oil royalty income in direct proportion to oil price free of any obligation to cover drilling or operating cost. In an up market for oil DMLP's effective Ebitda (cash flow) would rise faster than oil price. Expanded drilling would boost volume for both Royalty (Top Line) and Net Profits (Bottom Line). Moreover operating leverage would accelerate net profits as costs are covered by a widening margin. An annual regulatory filing on February 26 disclosed continued growth in Top Line royalty oil volume (see chart [Quarterly Volume](#) on page 2). We believe DMLP stock has potential to appreciate 150% to \$24 a unit in a stronger oil price framework (see table [Present Value](#) on page 2). Our latest projections of Ebitda from Bottom Line sources may be understated as management discontinued in the latest quarter the disclosure of operating cost and capital expenditure for properties not contributing to distributions (see table [Operating and Financial Estimates](#) on page 3). In any case, 88% of the estimated 6.7% cash yield for 2016 depends on the straight forward estimate of Top Line volume and oil price. Patient investors can take comfort that the partnership is financially strong with no debt. We recommend buying zero-debt DMLP today for high income with downside resistance and upside operating leverage.

Permian May Exceed Bakken in Future Shale Oil Growth

Currently we have oil accounting for 77% of Net Present Value (NPV), 69% Top Line and 8% Bottom Line. Both are growing rapidly in the same areas. Perhaps half of current volume is primarily made up of stable, mature production from the Permian Basin in West Texas. Most of



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the other half, which has provided the rapid growth in recent years, stems from the Bakken/Three Forks trend in the Williston Basin of North Dakota.

Most future oil growth may derive from the Permian Basin, which is less mature than the Bakken in the development of shale oil. Consider that DMLP's rich Bakken position is just 9000 net acres of perpetual mineral interests on 70,000 gross acres. In the Midland Basin portion of the Permian Basin, DMLP has 22,000 net acres of mineral interests on 264,000 gross acres. Also in the Midland Basin DMLP has Net Profits Royalty Interests (NPRI) and Overriding Royalty Interests (ORRI) on 155,000 gross acres (see slide Permian on page 4). In other words, the Midland Basin may have double, triple or more potential for DMLP than the Bakken. A larger acreage position in the Central Basin Platform likely contains mostly mature fields. Those areas are not yet a large source of incremental production, but that could change down the road considering the impressive advancements in drilling and fracking. Finally, Other Permian contains some acreage that is likely prospective in the Delaware Basin considered comparable or better than the Midland Basin for big new wells. While acreage comparisons can be sketchy, DMLP's diversified land base is likely to have more positive surprises awaiting an improved industry outlook.

Hidden Value in Bottom Line

The original Hugoton natural gas properties of DMLP predecessor Dorchester Hugoton account for nearly all of Bottom Line natural gas production. Low natural gas price has reduced cash flow contribution to a low level. The cash flow may even be negative today, but the contribution to cash distribution cannot be less than zero. The deficit, if any, is repaid before distributions resume. Once costs are covered and then exceeded, the operating leverage on higher natural gas price would be noticeable in cash distributions.

Nearly all of Bottom Line oil properties are in the Minerals NPI (Net Profits Interests), as management calls the properties that were undeveloped when DMLP was formed in 2002. Volume is growing rapidly as the Bakken and Permian develop. What lower cash flow is generated at today's oil price is consumed apparently by capital expenditures which are deducted from cash flow before distributing cash. Ultimately cash flow from higher volume and price would exceed drilling that eventually slows. The resulting cash would boost income and the hidden value would then be in plain sight.

Better Disclosures of Past Performance Could Help DMLP Stock

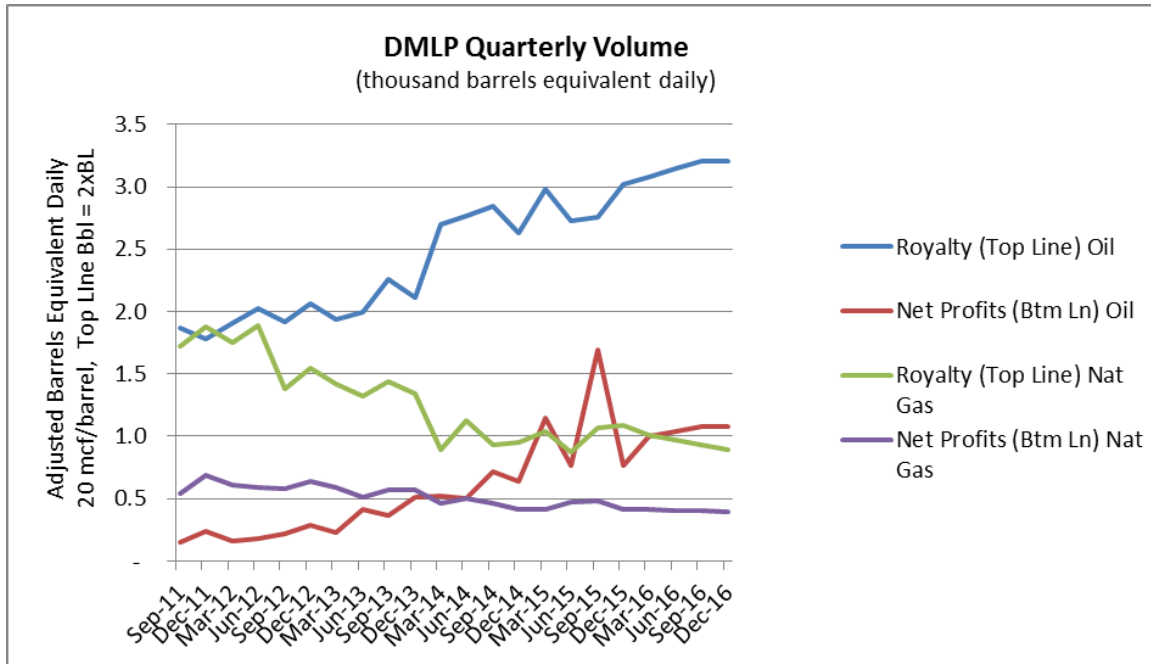
Disclosures could be more helpful in summarizing the operating expense, capital spending and evolution of deficit in bottom line properties. The trustee of **Permian Basin Royalty Trust (PBT)** has begun making those disclosures on a monthly basis separately for Bottom Line properties. DMLP management considers PBT as a member of its peer group for performance comparison.

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Dorchester Minerals, L.P.					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i> <i>(US\$mm)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$mm)</i>	
<u>Top Line - Royalty Interests</u>					
North American Natural Gas	4	6.8	33.2	140	19%
Oil	13	8.0	39.1	510	69%
<u>Bottom Line - Net Profits Interests</u>					
North American Natural Gas	1	8.7	28.0	30	4%
Oil	2	2.7	28.5	60	8%
<u>Total Top and Bottom</u>					
North American Natural Gas	6	7.7	28.3	170	23%
Oil	14	5.9	40.7	570	77%
	20	6.8	37.0	740	100%
Debt (US\$mm)					-
Net Present Value (US\$mm)					740
Shares (mm)					31
Net Present Value - Standard Estimate (US\$/sh)					24
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					28
Top Line Approximation at 1.5 times Cash Flow Multiple Depending on Reserve Life					



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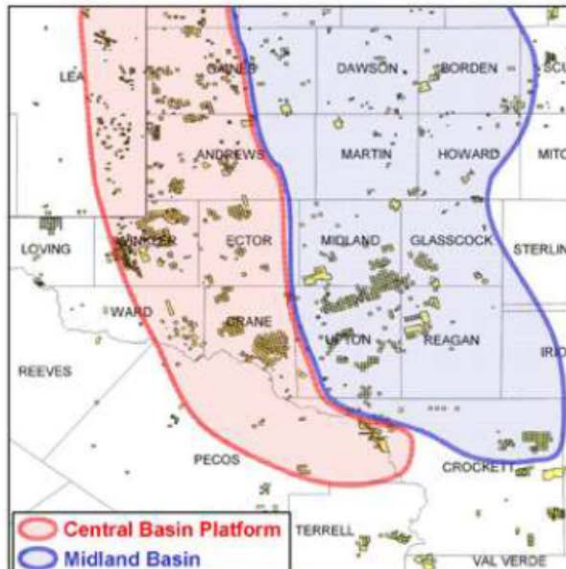
Dorchester Minerals, L.P.										
Operating and Financial Performance										
	Q1	Q2	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Next Twelve Months
	3/31/15	6/30/15	9/30/15	12/31/15	2015	3/31/16	6/30/16	9/30/16	12/31/16	12/31/16
Volume										
Nat Gas (mmcf) - Top Line	10.4	8.7	10.7	10.9	10.1	10.1	9.7	9.3	8.9	9.5
Nat Gas (mmcf) - Btm Line	8.3	9.4	9.6	8.3	8.9	8.2	8.1	8.1	8.0	8.1
Oil (mbd) - Top Line	1.49	1.36	1.38	1.51	1.44	1.54	1.57	1.60	1.60	1.58
Oil (mbd) - Bottom Line	1.14	0.77	1.70	0.76	1.09	1.00	1.04	1.08	1.08	1.05
Days	90	91	92	92	365	91	91	92	92	366
Total (bcfe)	3.1	2.8	3.6	3.0	12.5	3.1	3.1	3.1	3.0	12.2
Total (mmcf)	34	31	39	33	34	34	34	33	33	33
Price										
Henry Hub (\$/mmbtu)	2.99	2.66	2.76	2.28	2.67	2.12	1.87	2.06	2.26	2.08
Top Line (\$/mcf)	2.66	2.31	2.40	1.86	2.30	1.73	1.53	1.68	1.85	1.70
Bottom Line (\$/mcf)	2.63	2.56	2.90	1.80	2.49	2.23	1.96	2.16	2.37	2.18
WTI Cushing (\$/bbl)	48.62	57.94	46.39	42.21	48.79	31.73	34.40	37.39	39.02	35.64
Top Line (\$/bbl)	43.26	50.07	37.22	38.82	42.23	28.55	30.96	33.65	32.78	31.49
Bottom Line (\$/bbl)	41.74	53.65	58.43	36.64	49.46	28.55	30.96	33.65	39.02	33.05
Total (\$/mcf)	4.69	4.98	5.27	3.71	4.68	3.23	3.33	3.69	3.94	3.55
Revenue (\$mm)										
Natural Gas - Top Line	2.5	1.8	2.4	1.9	8.5	1.6	1.3	1.4	1.5	5.9
Oil - Top Line	5.8	6.2	4.7	5.4	22.1	4.0	4.4	5.0	4.8	18.2
Total - Top Line	8.3	8.0	7.1	7.3	30.6	5.6	5.8	6.4	6.4	24.1
Natural Gas - Bottom Line	2.0	2.2	2.6	1.4	8.1	1.7	1.5	1.6	1.7	6.5
Oil - Bottom Line	4.3	3.8	9.1	2.6	19.7	2.6	2.9	3.3	3.9	12.8
Total - Bottom Line	6.3	5.9	11.7	3.9	27.8	4.3	4.4	5.0	5.6	19.2
Total	14.5	14.0	18.8	11.2	58.5	9.9	10.2	11.4	12.0	43.4
Expense										
Operating, incl. Prod Tax	1.0	1.0	0.6	1.3	3.9	0.6	0.6	0.7	0.7	2.6
General and Administrative	1.3	1.1	1.1	1.5	5.0	1.5	1.5	1.5	1.5	5.9
General Partner	0.2	0.1	0.1	0.1	0.5	0.1	0.1	0.1	0.1	0.4
Unreported	5.8	5.7	11.4	3.9	26.8	3.5	3.5	3.5	3.5	14.0
Total	8.3	8.0	13.1	6.8	36.2	5.7	5.7	5.8	5.8	22.9
Ebitda										
Top Line	6.3	6.0	5.6	4.4	22.3	4.2	3.9	4.6	4.6	17.3
Bottom Line						0.6	1.0	1.5	1.5	3.2
Total Ebitda	6.3	6.0	5.6	4.4	22.3	4.2	4.5	5.6	6.2	20.4
Deprec., Deplet., & Amort.	2.5	2.3	3.0	2.2	10.1	2.5	2.5	2.5	2.4	9.9
Lease Bonus and Other	(0.2)	(0.0)	0.1	(0.6)	(0.7)					-
Ebit	4.0	3.7	2.5	2.8	12.9	1.7	2.0	3.1	3.7	10.6
Ebt	4.0	3.7	2.5	2.8	12.9	1.7	2.0	3.1	3.7	10.6
Net Income (\$mm)	4.0	3.7	2.5	2.8	12.9	1.7	2.0	3.1	3.7	10.6
Units (millions)	30.7	30.7	30.7	30.7	30.7	30.7	30.7	30.7	30.7	30.7
Net Income Per Unit (\$)	0.13	0.12	0.08	0.09	0.42	0.06	0.07	0.10	0.12	0.34
Distribution - Cash Accounting (\$mm)										
Top Line Revenue	9.1	6.8	7.1	7.6	30.6	5.6	5.8	6.4	6.4	24.1
Bottom Line Net Revenue	2.5	0.4	0.4	0.7	4.0	-	0.6	1.0	1.5	3.2
Lease Bonus	0.1	0.0	-	0.1	0.2	0.1	0.1	0.1	0.1	0.4
Cash Expense	(2.3)	(2.1)	(1.5)	(2.0)	(7.9)	(2.0)	(2.0)	(2.0)	(2.0)	(8.0)
Distribution	9.4	5.1	6.0	6.4	26.9	3.7	4.5	5.5	6.0	19.7
Distribution Per Unit (\$)	0.31	0.17	0.19	0.20	0.87	0.12	0.15	0.18	0.20	0.64



Permian Basin

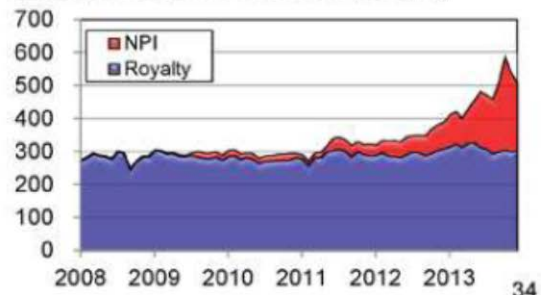
- Legacy Permian and emerging Wolfcamp

– Unleased at some depth in numerous tracts



Region	Gross Mineral Acres	Net Mineral Acres	Gross NPRU/ORRI Acres
Midland Basin	263,750	22,207	155,469
Central Basin Platform	334,979	35,603	143,585
Other Permian Basin	124,971	17,917	40,394
Total	723,700	75,727	339,448

Midland Basin Production (boepd)



Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC. 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.

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