



Independent Stock Idea

March 3, 2017 Intraday

Dorchester Minerals, L.P. (DMLP) Shale Oil Royalties Rising

<i>Symbol</i>	DMLP	<i>Ebitda Next Twelve Months ending 12/31/17 (US\$mm)</i>	43
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	49
<i>Price (US\$/sh)</i>	16.20	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	3/3/17	<i>Adjusted Reserves/Production NTM</i>	6.9
<i>Units (mm)</i>	30.68	<i>EV/Ebitda</i>	11.5
<i>Market Capitalization (US\$mm)</i>	497	<i>PV/Ebitda</i>	17.0
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$mm)</i>	497	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	3.56
<i>Present Value (PV) (US\$mm)</i>	736	<i>Present Value Proven Reserves(US\$/boe)</i>	52.76
<i>Net Present Value (US\$/unit)</i>	24	<i>Oil and Gas Ebitda Margin (%)</i>	69
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	1.05
<i>McDep Ratio - EV/PV</i>	0.68	<i>Price/Earnings Next Twelve Months</i>	15
<i>Distribution Yield (%/year)</i>	8.0	<i>Distribution Next Twelve Months (US\$/sh)</i>	1.30
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 btu.			
For historical analysis of DMLP since 2000 see www.mcdep.com/4dhulz.htm			

Summary and Recommendation

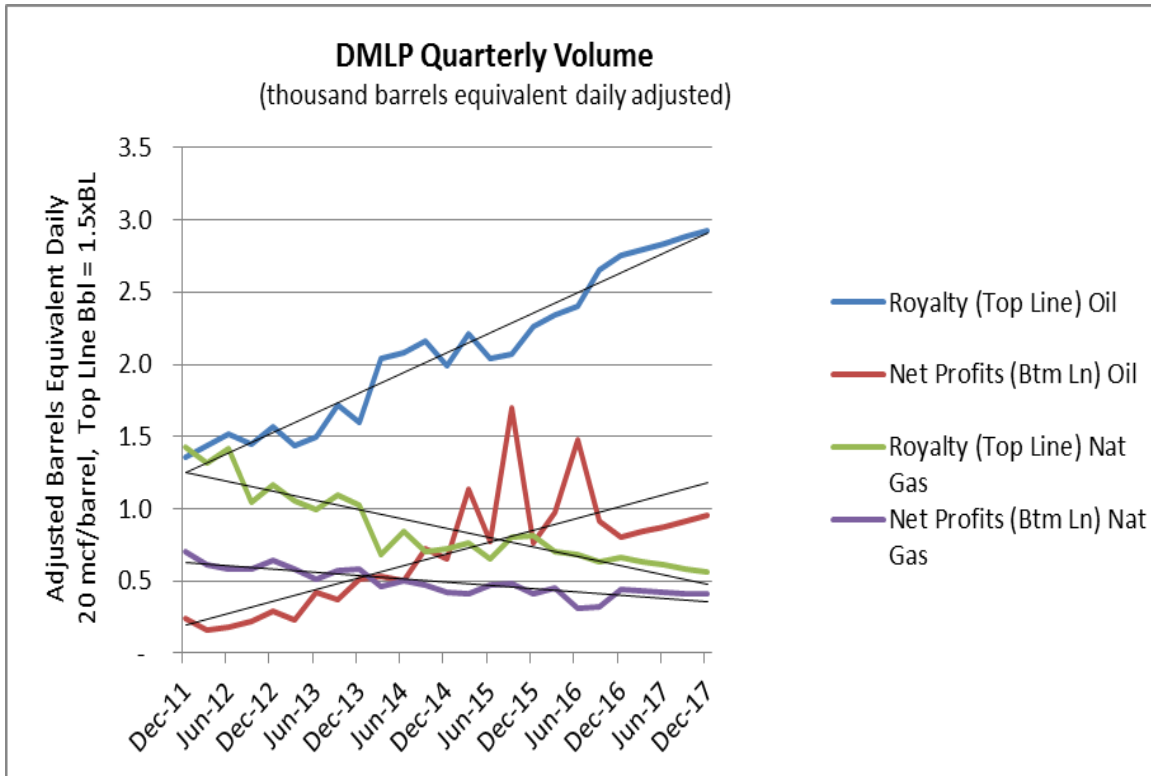
We recommend the common units of **Dorchester Minerals (DMLP)** for a distribution yield of 8% derived from accelerating oil production in the Permian Basin and North Dakota. Final disclosures for the fourth quarter of 2016, filed with the regulators yesterday, confirm a 14% a year trend in royalty oil (see chart [Quarterly Volume](#) on page 2). That trend showed no noticeable slowing as U.S. oil volumes declined from peak levels before the oil price panic last year. Now the U.S. shale oil trend is strengthening again as more drilling rigs go back to work. Meanwhile, better-than-expected financial results just disclosed help assuage a lower-than-expected distribution declared on January 19. Not that our estimates can be that accurate anyway, we draw those conclusions by comparison with our most recent detailed estimates published on November 22, 2017. Fourth quarter 2016 cash flow (Ebitda) for Top Line (royalty) operations was about \$7.6 million compared to \$7.1 million (see table [Operating and Financial Estimates](#) on page 3). In contrast fourth quarter distribution was \$0.24 compared to \$0.26 estimated. Timing differences between cash accounting for the distribution and accrual accounting for the full results were \$0.03 a unit, which appears to explain the slight shortfall in distribution. At the same time, the stronger quarterly trend for royalty volumes tips the estimated portion of value attributable to bottom line operations to a low 9% (see table [Present Value](#) on page 4). Strategically, we think that income-producing, real assets like DMLP units are attractive to own in an investment portfolio constructed to thrive in a range of economic and political outcomes.

Kurt H. Wulff, CFA



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Dorchester Minerals, L.P.										
Operating and Financial Performance										
	Q4	Year	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Next Twelve Months
	12/31/15	2015	9/30/16	12/31/16	2016	3/31/17	6/30/17	9/30/17	12/13/17	12/31/17
TOP LINE										
Volume										
Natural Gas (mmcf)	10.9	10.1	8.4	8.8	8.9	8.5	8.1	7.8	7.5	8.0
Oil (mbd)	1.51	1.44	1.77	1.84	1.69	1.86	1.89	1.92	1.95	1.91
Price										
Henry Hub (\$/mmbtu)	2.28	2.67	2.81	2.98	2.46	3.32	2.76	2.99	3.04	3.03
WTI Cushing (\$/bbl)	42.21	48.79	44.91	49.21	43.31	53.35	54.29	54.86	54.92	54.36
Natural Gas (\$/mcf)	1.86	2.30	2.42	2.39	2.05	2.66	2.21	2.40	2.44	2.43
Oil (\$/bbl)	38.82	42.23	38.72	41.84	37.18	48.02	48.86	49.38	49.43	48.92
Revenue (\$mm)										
Natural Gas	1.9	8.5	1.9	1.9	6.7	2.0	1.6	1.7	1.7	7.1
Oil	5.4	22.1	6.3	7.1	23.1	8.1	8.4	8.7	8.9	34.1
Total Revenue	7.3	30.6	8.2	9.0	29.8	10.1	10.0	10.4	10.5	41.1
Expense (allocated)	1.9	5.2	1.4	1.4	5.3	1.3	1.3	1.3	1.3	5.4
Ebitda	5.4	25.4	6.8	7.6	24.4	8.8	8.7	9.1	9.2	35.8
BOTTOM LINE										
Volume										
Natural Gas (mmcf)	8.3	8.9	6.5	8.8	7.7	8.6	8.5	8.3	8.1	8.4
Oil (mbd)	0.76	1.09	0.91	0.80	1.04	0.84	0.88	0.92	0.96	0.90
Price										
Natural Gas (\$/mcf)	1.80	2.49	2.33	2.10	2.08	2.75	2.29	2.48	2.52	2.51
Oil (\$/bbl)	36.64	49.46	36.10	38.74	34.64	42.68	43.43	43.89	43.93	43.48
Revenue (\$mm)										
Natural Gas	1.4	8.1	1.4	1.7	5.8	2.1	1.8	1.9	1.9	7.7
Oil	2.6	19.7	3.0	2.9	13.2	3.2	3.5	3.7	3.9	14.3
Total Revenue	3.9	27.8	4.4	4.6	19.0	5.4	5.2	5.6	5.8	22.0
Expense (allocated)										
Partnership	1.0	4.1	0.8	0.7	3.5	0.9	0.9	0.9	0.9	3.5
Net Profits Interests	1.7	6.9	2.2	2.3	9.5	2.7	2.6	2.8	2.9	11.0
Total Expense	2.7	11.0	3.0	3.0	12.9	3.6	3.5	3.7	3.8	14.5
Ebitda	1.2	16.8	1.4	1.6	6.1	1.8	1.7	1.9	2.0	7.5
Development (estimated)	1.2	15.8	0.6	0.8	4.8	0.8	0.8	0.8	0.9	3.3
NET INCOME										
Top Line	5.4	25.4	6.8	7.6	24.4	8.8	8.7	9.1	9.2	35.8
Bottom Line	0.0	1.0	0.8	0.8	1.4	1.0	1.0	1.1	1.1	4.2
Lease Bonus and residual	0.4	3.5	(0.9)	(0.0)	(3.0)					-
Deprec., Deplet., & Amort.	2.2	10.1	2.1	1.9	8.5	1.9	1.9	1.9	1.9	7.6
Total Net Income	2.8	12.9	6.4	6.4	20.2	7.9	7.8	8.3	8.4	32.3
Units (mm)	30.7	30.7	30.7	30.7	30.7	30.7	30.7	30.7	30.7	30.7
Net Income Per Unit (\$)	0.09	0.42	0.21	0.21	0.66	0.26	0.25	0.27	0.27	1.05
DISTRIBUTION										
Top Line Revenue	7.6	30.6	6.5	8.1	26.2	9.7	9.6	10.0	10.1	39.5
Bottom Line Net Revenue	0.7	4.0	1.9	0.9	5.6	1.9	1.8	2.0	2.0	7.7
Lease Bonus and Other	0.1	0.2	0.9	0.2	2.8	0.2	0.1	0.1	0.1	0.5
Cash Expense	(2.3)	(8.2)	(1.6)	(1.8)	(7.1)	(1.8)	(2.0)	(2.0)	(2.0)	(7.8)
Distribution	6.1	26.6	7.7	7.4	27.5	9.9	9.6	10.1	10.2	39.8
Distribution Per Unit (\$)	0.20	0.87	0.25	0.24	0.90	0.32	0.31	0.33	0.33	1.30
TIMING DIFFERENCE (\$/unit)										
Dist - Net Inc - DDA	0.04	0.12	(0.03)	(0.03)	(0.04)	0.01	(0.00)	(0.00)	(0.00)	(0.00)



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Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
<u>Top Line - Royalty Interests</u>					
North American Natural Gas	6	7.9	24.4	150	20%
Oil	30	8.1	17.6	520	70%
<u>Bottom Line - Net Profits Interests</u>					
North American Natural Gas	3	5.9	11.5	30	4%
Oil	5	4.4	8.2	40	5%
<u>Total Top and Bottom</u>					
North American Natural Gas	9	6.9	20.5	180	24%
Oil	34	6.9	16.2	560	76%
	43	6.9	17.1	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)					26
Top Line Approximation at 1.8 times Cash Flow Multiple Depending on Reserve Life					

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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