

# McDep Energy Income Producers

A Weekly Analysis of Royalty Trusts and Master Limited Partnerships

February 10, 2004

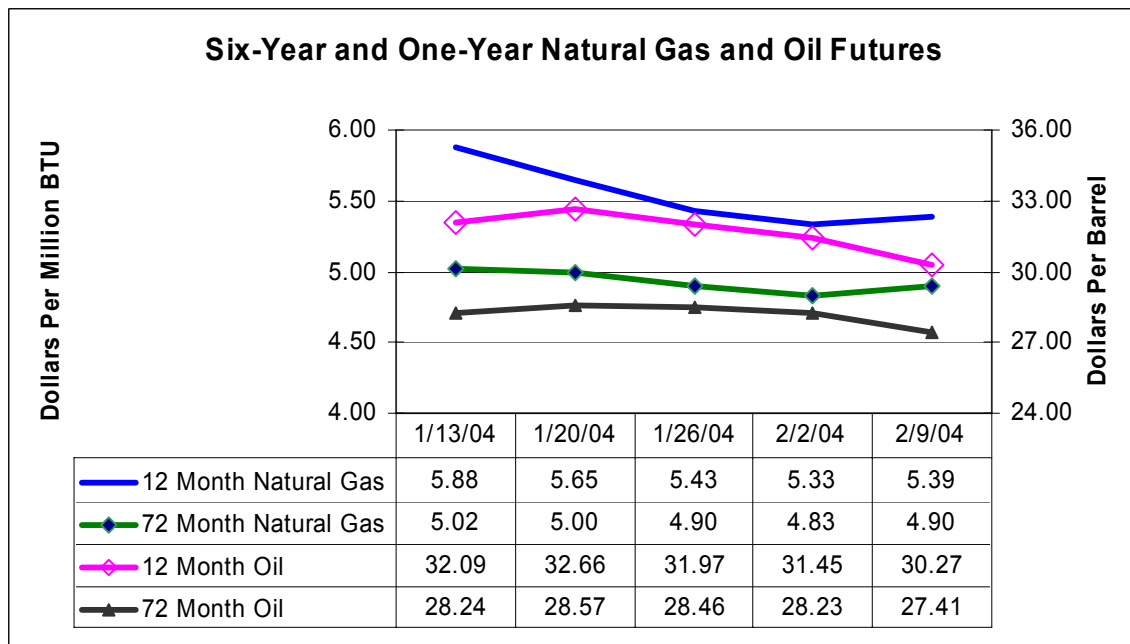
## Trusts as Futures

### Summary and Recommendation

Recommended royalty trusts offer an alternative to futures contracts for investors looking for long-term growth in oil and gas commodity value or for protection from dropping currency value. Stock price for recommended **Canadian Oil Sands Trust (COS)** ought to track the rising trend for six-year oil futures and then surpass it as the trust's volume expands and its distribution multiplies. Stock price for recommended **San Juan Basin Royalty Trust (SJT)** ought to track or exceed the trend of six-year natural gas futures. Six-year gas, in turn, ought to be pulled up by six-year oil and then exceed it as the natural gas/oil price ratio continues its upward trend. In addition to the price appreciation potential, the trusts distribute more cash than the typical stock, are efficiently structured and have low or no debt.

### First, the Weekly Tables

The next page and a half presents recent commodity price trends and McDep Ratios as we do every week. Beginning on page three we offer additional charts and comments with an emphasis on COS, SJT and futures.



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### McDep Energy Income Producers Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/ Rating		Price (\$/sh) 9-Feb 2004	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
<b>Master Limited Partnerships and Canadian Royalty Trusts</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S	46.20	140.1	6,470	14.00	0.48	2.19
Kinder Morgan Management, LLC	KMR	S	41.88	48.6	2,040	14.00	0.48	2.03
Pengrowth Energy Trust	PGH		13.92	120.0	1,670	12.00	0.13	1.14
Enerplus Resources Fund	ERF		28.42	88.5	2,520	25.00	0.14	1.12
Dorchester Minerals, L.P.	DMLP		17.82	27.0	480	17.00	-	1.05
Provident Energy Trust	PVX		7.90	70.6	560	7.50	0.25	1.04
Canadian Oil Sands Trust (US\$)	COSWF	B	35.69	86.9	3,100	50.00	0.22	0.78
	<i>Total or Median</i>				16,800		0.22	1.12
<b>U.S. Royalty Trusts</b>								
Sabine Royalty Trust	SBR		27.97	14.6	410	26.00	-	1.08
Permian Basin RT (41%)	PBT		8.06	19.1	150	7.50	-	1.07
Cross Timbers Royalty Trust	CRT		26.50	6.0	159	25.00	-	1.06
Hugoton RoyaltyTrust (46%)	HGT		18.97	18.4	350	20.00	-	0.95
San Juan Basin Royalty Trust	SJT	B	19.14	46.6	890	22.00	-	0.87
	<i>Total or Median</i>				2,000		-	1.06

Buy/Sell rating after symbol: B - Buy, S - Sell

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

### McDep Energy Income Producers Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	Symbol/ Rating		Price (\$/sh) 9-Feb 2004	EV/ Sales NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)	PV/ Ebitda NTM
<b>Master Limited Partnerships and Canadian Royalty Trusts</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S	46.20	3.3	19.6	23	5.9	8.9
Kinder Morgan Management, LLC	KMR	S	41.88	3.1	18.1	21	6.5	8.9
Dorchester Minerals, L.P.	DMLP		17.82	9.1	10.0	25	10.0	9.5
Canadian Oil Sands Trust (US\$)	COSWF	B	35.69	4.9	9.6	16	4.2	12.4
Enerplus Resources Fund	ERF		28.42	5.3	7.2	12	11.1	6.5
Pengrowth Energy Trust	PGH		13.92	4.8	6.9	12	13.6	6.0
Provident Energy Trust	PVX		7.90	3.8	5.7	30	13.7	5.4
	<i>Median</i>			4.8	9.6	21	10.0	8.9
<b>U.S. Royalty Trusts</b>								
Cross Timbers Royalty Trust	CRT		26.50	8.1	11.4	12	8.6	10.8
Sabine Royalty Trust	SBR		27.97	9.7	10.0	10	10.0	9.3
Permian Basin RT (41%)	PBT		8.06	6.8	9.6	11	9.3	8.9
Hugoton RoyaltyTrust (46%)	HGT		18.97	6.2	8.2	10	10.0	8.6
San Juan Basin Royalty Trust	SJT	B	19.14	6.4	7.9	10	10.4	9.0
	<i>Median</i>			6.8	9.6	10	10.0	9.0

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2004; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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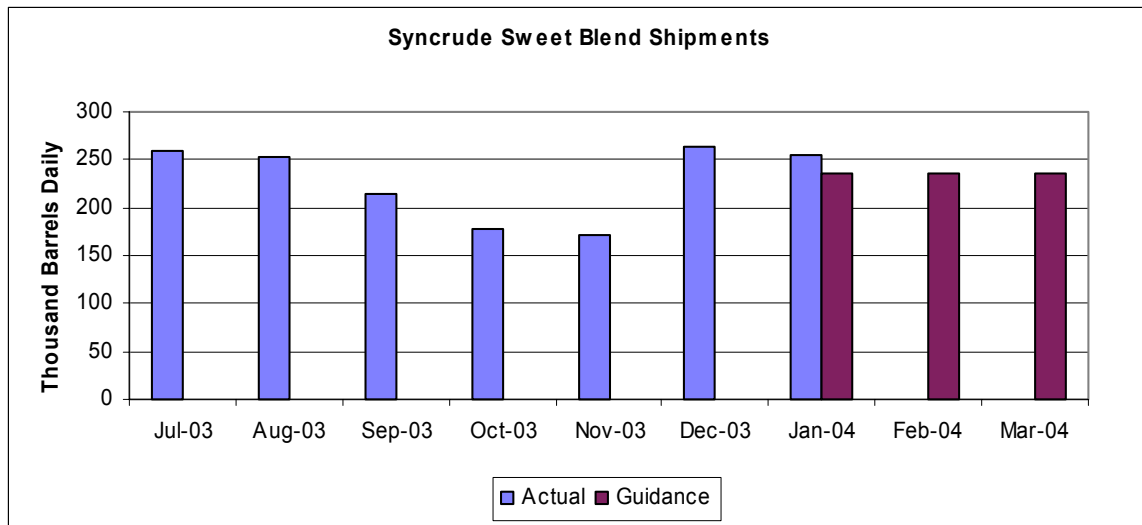
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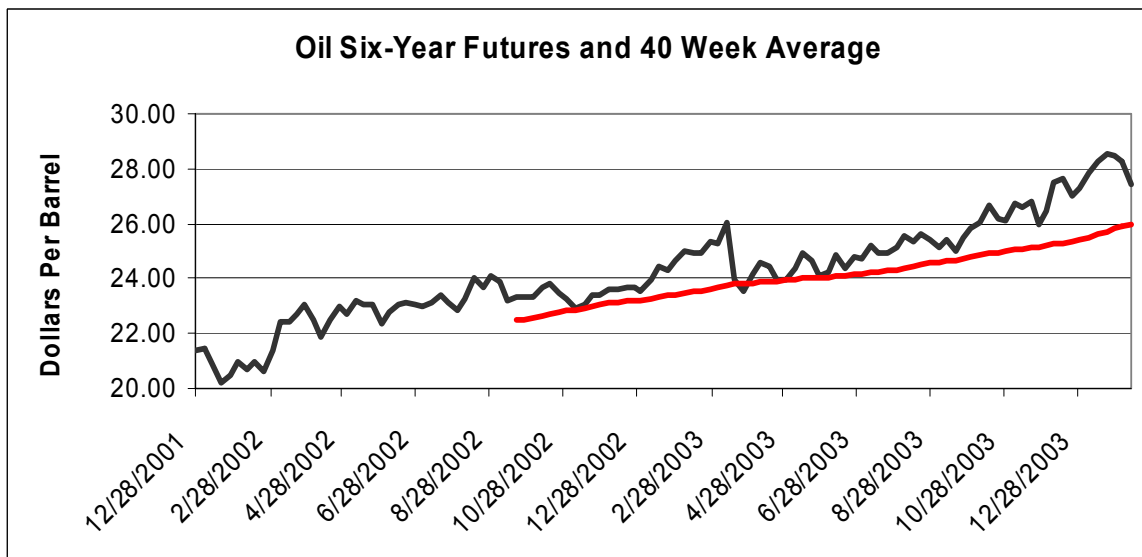
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### Canadian Oil Sands Trust January Volume Beats Expectation for 2004 Average

The trust's 35% owned mining and refining venture produced 256 thousand barrels a day (mbd) of Syncrude Sweet Blend in the first month of 2004. That is close to the December 2003 record high level of 264 mbd and is better than budgeted volume for the year of 235 mbd (see Chart).



### Six-Year Oil Trends Upward Strongly



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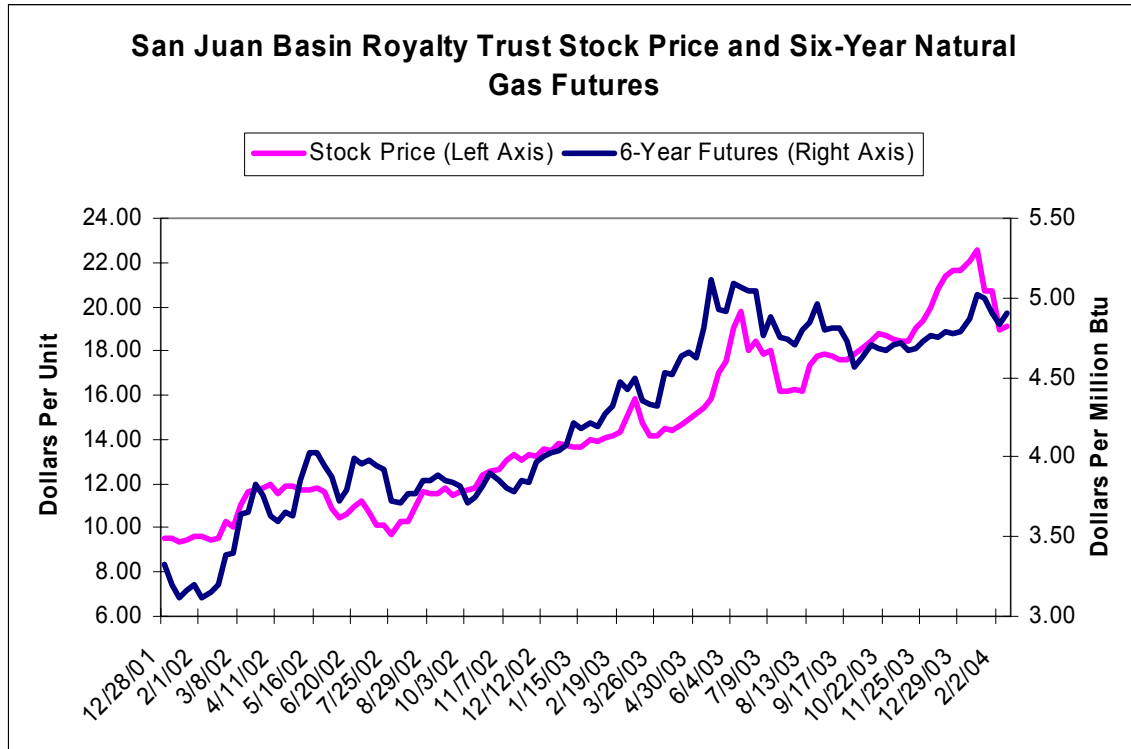
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### SJT Tracks Futures

A gap that opened late last year closed a few weeks ago. Then both stock price and futures turned down temporarily (see Chart).



### Six-Year Natural Gas Futures Trend Up

The days of coldest average winter temperature are passed, but winter is not yet over. After sharp gains a year ago, six-year natural gas futures are now back to the 40 week upward trending moving average.

Presuming normal weather for the rest of winter, the strongest influence on natural gas futures may be oil futures. The ratio of natural gas to oil has returned to near heating parity (see Chart). That ratio is in a long-term upward trend reflecting the increasingly appreciated environmental advantages of the cleanest fossil fuel.

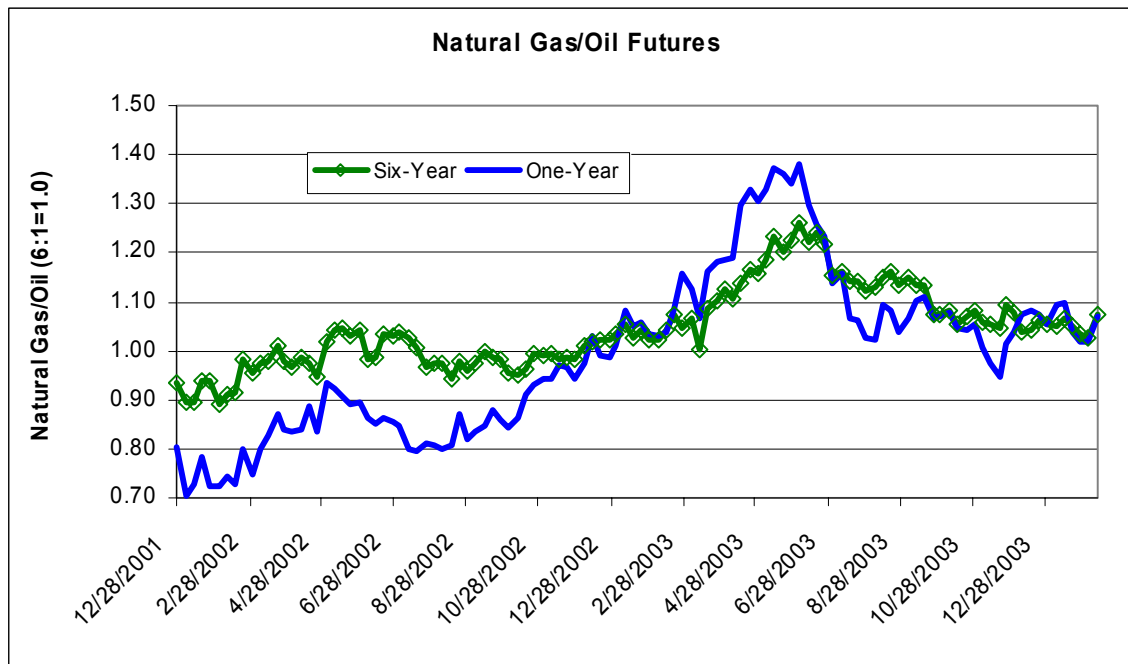
Finally, while summer is usually not the strongest season for natural gas price we can be surprised if demand for natural gas for electrical generation gets boosted by hot weather.

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### Higher Distributions Soon at SJT

Working entirely with historical trust disclosures and industry price trends we project distributions of \$0.15, \$0.21 and \$0.18 per unit for the next three months (see Table SJT-3). Random factors could contribute an average variation of \$0.02 from the projected level. Expect the next distribution to be declared on Tuesday, February 17.

In a press release dated February 6, the trust announced capital spending plans by the operator of the trust's properties, Burlington Resources. As a result we project that distributions will be reduced by \$0.07 per unit more in 2004 than in 2003. Because the capital projects add natural gas producing capacity at low cost, the outlays add value to the trust in the form of higher future production than would otherwise be the case.

We refine our monthly projections by applying a seasonal adjustment derived from the pattern of monthly capital outlays the past three years. During that time capital outlays have been highest in January, followed by November and then February.

### No Reserves Problem at COS or SJT

An investor asks, "Do you really think SJT is down because the cold winter is ending? We've seen Royal Dutch and Pengrowth Energy lower reserve estimates rather substantially. Pengrowth is suggesting that many other royalty trusts are going to end up having to lower reserve estimates as well. This is not a small issue."

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We have commented separately on Royal Dutch and without comment we reduced our present value estimate last week for **Pengrowth (PGH)**. While it may be painful to make downward revisions, we have little concern about having to do the same for COS or SJT. In the first place, we use our own estimates in those cases. COS has such abundant reserves we arbitrarily limit those to which we assess value. SJT reports reserves on an artificially construed royalty interest basis that is of little use and SJT's engineer gives only minimal credit for undeveloped reserves. The San Juan Basin has a long production history and future volumes are more readily predictable.

Perhaps the most important distinction to make about revisions at Royal Dutch and Pengrowth is that the fields in question were new. At Royal Dutch it was primarily an issue of timing. When should new reserves be booked so that the numbers become comparable to those of other companies? For Pengrowth reserves from new fields offshore Nova Scotia necessarily had to be estimated without much operating history. Unfortunately actual results fell short of expectations.

Ironically, a shortfall in reserves is good news for investors in existing high-quality properties. Finding oil and gas is not an easy business. There is no printing press that reproduces reliable reserves at will. Existing resources have greater dollar value, in our opinion, than widely perceived.

Kurt H. Wulff, CFA

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**Table SJT-3**  
**San Juan Basin Royalty Trust**  
**Monthly Declarations**

	<i>Nov-03</i>	<i>Dec-03</i>	<i>Jan-04</i>	<i>Feb-04</i>	<i>Mar-04</i>	<i>Apr-04</i>
<b>Distribution</b> (\$/unit)						
Declared	0.17	0.15	0.12			
Projected				0.15	0.21	0.18
<b>Volume</b>						
Natural gas (mmbtu)	4.45	4.10	4.10	4.17	4.17	3.90
Heat Content(btu/cf)	1,064	1,103	1,086	1,086	1,086	1,086
Natural gas (bcf)	4.19	3.71	3.77	3.84	3.84	3.59
Natural Gas (mmcf)	140	120	126	124	124	124
Days	30	31	30	31	31	29
<b>Price</b>						
Natural gas industry quotes lagged two months (\$/mmbtu)						
Henry Hub Daily/Futures	4.62	4.65	4.47	6.13	6.15	5.54
San Juan Monthly Index	4.44	3.95	3.96	4.23	5.13	5.01
San Juan Index/Henry Hub	0.96	0.85	0.89	0.69	0.83	0.90
SJT/San Juan Index	0.78	0.85	0.86	0.84	0.84	0.84
SJT (\$/mmbtu)	3.46	3.34	3.41	3.55	4.31	4.21
SJT (\$/mcf)	3.68	3.68	3.71	3.86	4.68	4.57
<b>Revenue</b> (\$mm)						
Natural Gas	15.4	13.7	14.0	14.8	18.0	16.4
Other	0.1	0.0	(0.1)	(0.0)	(0.0)	(0.0)
<b>Cost</b> (\$mm)						
Severance tax	1.6	1.5	1.4	1.5	1.9	1.7
Operating	1.1	1.2	1.6	1.2	1.2	1.2
Total	2.8	2.7	3.0	2.8	3.1	2.9
<b>Cash flow</b> (\$mm)	12.7	11.0	11.0	12.0	14.8	13.5
Development	2.4	1.7	3.8	2.8	1.9	2.0
<b>Net proceeds</b> (\$mm)	10.3	9.3	7.2	9.2	12.9	11.5
<b>Royalty income</b> (\$mm)	7.8	7.0	5.4	6.9	9.7	8.6
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%
One time						
<b>Distributable income</b> (\$mm)	7.8	7.0	5.4	6.9	9.7	8.6
<b>Units</b> (millions)	46.6	46.6	46.6	46.6	46.6	46.6
<b>Distribution</b> (\$/unit)	0.17	0.15	0.12	0.15	0.21	0.18
<i>Latest Twelve Month Average</i>						
Heat Content(btu/cf)	1,082	1,087	1,086			
Natural Gas (mmcf)	124	124	124			
San Juan Index/Henry Hub	0.79	0.81	0.82			
SJT/San Juan Index	0.84	0.84	0.84			
Other revenue	(0.0)	(0.0)	(0.0)			
Operating	1.2	1.2	1.2			
Development	1.7	1.7	1.8			
Severance tax/revenue	10.7%	10.5%	10.4%			

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