



# Independent Stock Idea

June 13, 2012

rating: contrarian buy, s&p 500: 1324

## Enerplus Corporation (ERF) Dividend Reduced by Half

Symbol	ERF	Ebitda Next Twelve Months ending 6/30/13 (US\$mm)	720
Rating	Contrarian Buy	North American Natural Gas/Ebitda (%)	16
Price (US\$/sh)	13.16	Natural Gas and Oil Production/Ebitda (%)	100
Pricing Date	6/12/12	Adjusted Reserves/Production NTM	6.3
Shares (mm)	196	EV/Ebitda	5.9
Market Capitalization (US\$mm)	2,580	PV/Ebitda	8.0
Debt (US\$mm)	1,660	Undeveloped Reserves (%)	16
Enterprise Value (EV) (US\$mm)	4,240	Natural Gas and Oil Ebitda (US\$/boe)	28.80
Present Value (PV) (US\$mm)	5,780	Present Value Proven Reserves(US\$/boe)	33.30
Net Present Value (US\$/share)	21	Oil and Gas Ebitda Margin (%)	65
Debt/Present Value	0.29	Earnings Next Twelve Months (US\$/sh)	0.60
McDep Ratio - EV/PV	0.73	Price/Earnings Next Twelve Months	22
Dividend Yield (%/year)	10.0	Indicated Annual Dividend (US\$/sh)	1.32
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\$100 a barrel and natural gas, \$6 a million btu.			

### Summary and Recommendation

The widely anticipated bad news of a dividend cut is now out as Contrarian Buy **Enerplus (ERF)** announces a new monthly dividend rate of C\$0.09 a share down from C\$0.18. At the same time, stock price at US\$13 a share is down by more from its 52-week high of \$32. We supported management's firm commitment to an income strategy and we believe the previous payout could have been maintained longer. Nonetheless, the market made the decision obvious, i.e. if the stock price does not reflect the higher payout, there is no benefit in maintaining it. In that spirit, we also reduce our estimate of Net Present Value (NPV) to US\$21 a share from US\$26 to make it equal to an approximation by cash flow multiple depending on the life of proven reserves consistent with our estimates for most of the large stocks in our coverage (see table [Functional Cash Flow and Present Value](#) on page 4 and [Next Twelve Months Operating and Financial Estimates](#) on page 2). At a McDep Ratio of 0.73 the stock offers similar value and more stock market liquidity than our two other Contrarian Buys among Cash Payers (see [Table ISC-1](#) on page 3). With the dividend news behind us, investors can again focus on ERF's fundamental appeal of rapidly growing oil production from North Dakota's Bakken Shale and future natural gas production from Pennsylvania's Marcellus Shale.

Kurt H. Wulff, CFA

*As a shareholder in ERF on the same basis as those clients who acted on our recommendation, we feel the pain of a steep price decline. The explanation appears to be more in stock market forces than in any apparent reduction in projected cash flow, or any misinformation from the company that we have uncovered.*



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Enerplus Corporation									
Next Twelve Months Operating and Financial Estimates									
									<i>Next Twelve Months</i>
	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	
	<i>2011</i>	<i>3/31/12</i>	<i>6/30/12</i>	<i>9/30/12</i>	<i>12/31/12</i>	<i>2012E</i>	<i>3/31/13</i>	<i>6/30/13</i>	<i>6/30/13</i>
<b>Volume</b>									
Natural Gas (mmcf)	<b>251</b>	247	250	250	260	<b>252</b>	260	250	<b>255</b>
Days	<b>365</b>	91	91	92	92	<b>366</b>	90	91	<b>365</b>
Oil (mbd)	<b>33.5</b>	38	39	42	44	<b>40.8</b>	44	45	<b>43.8</b>
Total (mb)	<b>27.49</b>	7.21	7.34	7.70	8.03	<b>30.29</b>	7.86	7.89	<b>31.49</b>
Total (mbd)	<b>75.3</b>	79.2	80.7	83.7	87.3	<b>82.7</b>	87.3	86.8	<b>86.3</b>
<b>Price</b>									
Henry Hub (\$/mmbtu)	<b>4.04</b>	2.73	2.21	2.26	2.73	<b>2.48</b>	3.21	3.24	<b>2.86</b>
Currency (US\$/C\$)	<b>1.01</b>	1.00	0.97	0.97	0.97	<b>0.98</b>	0.97	0.97	<b>0.97</b>
Henry Hub (C\$/mmbtu)	<b>4.00</b>	2.73	2.27	2.32	2.80	<b>2.53</b>	3.29	3.32	<b>2.93</b>
Differential (\$/mmbtu)	<b>0.27</b>	0.46	0.38	0.39	0.47	<b>0.43</b>	0.56	0.56	<b>0.50</b>
Company (\$/mcf)	<b>3.73</b>	2.27	1.89	1.92	2.33	<b>2.10</b>	2.73	2.76	<b>2.43</b>
WTI Cushing (\$/bbl)	<b>95.12</b>	102.93	97.42	83.56	84.46	<b>92.09</b>	85.12	85.26	<b>84.60</b>
WTI Cushing (C\$/bbl)	<b>94.02</b>	103.04	99.93	85.71	86.63	<b>93.89</b>	87.31	87.45	<b>86.78</b>
Differential	<b>12.37</b>	20.20	13.15	11.28	11.40	<b>14.34</b>	11.49	13.36	<b>11.88</b>
Company (\$/bbl)	<b>81.65</b>	82.85	86.79	74.44	75.23	<b>79.54</b>	75.83	74.09	<b>74.90</b>
Total (\$/bbl)	<b>48.72</b>	46.88	47.81	43.12	44.83	<b>45.61</b>	46.33	46.46	<b>45.20</b>
<b>Revenue (C\$m)</b>									
Natural Gas	<b>341</b>	51	43	44	56	<b>194</b>	64	63	<b>227</b>
Oil	<b>998</b>	287	308	288	305	<b>1,187</b>	300	304	<b>1,196</b>
Royalty	<b>(245)</b>	(67)	(70)	(66)	(71)	<b>(274)</b>	(72)	(73)	<b>(282)</b>
Total	<b>1,094</b>	271	281	266	289	<b>1,107</b>	292	294	<b>1,141</b>
<b>Expense</b>									
Operating	<b>281</b>	72							
Other	<b>94</b>	21							
Total	<b>375</b>	93	98	93	101	<b>384</b>	102	102	<b>398</b>
<b>Ebitda</b>	<b>719</b>	178	183	173	188	<b>723</b>	190	192	<b>743</b>
Deprec., Deplet., & Amort.	<b>433</b>	119	121	127	133	<b>500</b>	130	130	<b>520</b>
Other Non Cash	<b>79</b>	89				<b>89</b>			<b>-</b>
<b>Ebit</b>	<b>207</b>	(30)	62	46	56	<b>135</b>	61	61	<b>224</b>
Interest	<b>60</b>	16	16	16	16	<b>64</b>	16	16	<b>64</b>
<b>Ebt</b>	<b>147</b>	(46)	46	30	40	<b>71</b>	45	45	<b>160</b>
Income Tax	<b>37</b>	(11)	12	8	10	<b>18</b>	11	11	<b>40</b>
<b>Net Income (\$mm)</b>	<b>110</b>	(34)	35	23	30	<b>53</b>	33	34	<b>120</b>
Per Share (\$)	<b>0.62</b>	(0.18)	0.18	0.12	0.15	<b>0.26</b>	0.17	0.17	<b>0.61</b>
<b>Shares (millions)</b>	<b>177</b>	190	196	196	196	<b>200</b>	196	196	<b>196</b>
<b>Distributions (\$mm)</b>	<b>389</b>	103	106	53	53	<b>314</b>	53	106	<b>265</b>
Per Share (\$)	<b>2.16</b>	0.54	0.54	0.27	0.27	<b>1.62</b>	0.27	0.54	<b>1.35</b>
Ebitda Margin	<b>66%</b>	66%	65%	65%	65%	<b>65%</b>	65%	65%	<b>65%</b>
Tax rate	<b>25%</b>	25%	25%	25%	25%	<b>25%</b>	25%	25%	<b>25%</b>



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Table ISC-1												
McDep Income and Small Cap Energy Portfolio												
Debt, Segments, Cash Flow, Income and McDep Ratio												
			Price			Enterprise		PV(%)		EV/	Dist.	Dist.
Symbol/Rating	B = Buy	(US\$/sh)	12-Jun	EV/	Market	Value	Nat	Oil	Ebitda	NTM	Yield	McDep
CB (see below)		2012	Cap		(\$mm)	Gas			NTM	(\$/un)	(%)	Ratio
<b>Small Cap Independent Producers</b>												
Range Resources	RRC	CB	56.18	1.30	11,680	71	29	14.4	0.16	0.3	0.84	
Peyto Exploration and Development	PEYUF		16.78	1.21	2,810	77	23	9.8	0.70	4.2	0.74	
PDC Energy	PETD		22.55	1.99	1,070	56	44	7.5	-	-	0.72	
Berry Petroleum Company	BRY		37.70	1.76	3,620	13	87	6.0	0.32	0.8	0.67	
Denbury Resources Inc.	DNR		14.64	1.48	8,490	6	94	5.8	-	-	0.62	
Birchcliff Energy Ltd.	BIREF	CB	5.90	1.50	1,340	62	38	9.9	-	-	0.59	
Whiting Petroleum Corporation	WLL	CB	41.37	1.38	6,790	8	92	4.7	-	-	0.55	
Cimarex Energy Company	XEC	CB	49.38	1.25	5,290	42	58	4.9	0.48	1.0	0.50	
<i>Total or Median</i>					41,100			6.7			0.65	
<b>Top Line Cash Payers</b>												
Permian Basin RT	PBT		17.37	1.00	810	37	63		1.30	7.5	0.87	
Freehold Royalties Ltd.	FRHLF		17.11	1.04	1,160	16	84		1.64	9.6	0.82	
Cross Timbers Royalty Trust	CRT		33.74	1.00	200	70	30		2.11	6.3	0.77	
Sabine Royalty Trust	SBR		49.50	1.00	720	55	45		3.25	6.6	0.76	
Dorchester Minerals, L.P.	DMLP	CB	20.37	1.00	630	57	43		1.68	8.2	0.75	
<i>Total or Median</i>					3,500					7.5	0.77	
<b>Bottom Line Cash Payers</b>												
Linn Energy, LLC	LINE		36.17	1.68	11,700	40	60	12.6	2.90	8.0	1.11	
Vanguard Natural Resources, LLC	VNR		25.03	1.52	2,000	27	74	10.7	2.37	9.5	1.00	
Legacy Reserves L.P.	LGCY		25.90	1.40	1,720	23	77	8.9	2.22	8.6	0.90	
Enduro Royalty Trust (40%)	NDRO		16.10	1.00	210	42	58	7.2	1.42	8.8	0.77	
Enerplus Corporation	ERF	CB	13.16	1.65	4,200	26	74	5.9	1.32	10.0	0.73	
Mesa RoyaltyTrust	MTR		26.40	1.00	49	75	25	11.7	1.78	6.7	0.66	
San Juan Basin Royalty Trust	SJT	CB	12.56	1.00	590	100	-	10.5	0.85	6.7	0.60	
Hugoton RoyaltyTrust	HGT		6.65	1.00	270	89	11	8.2	0.08	1.3	0.48	
<i>Total or Median</i>					20,700			9.7		8.3	0.75	
<b>Composite</b>												
<i>Enterprise Value Weighting</i>					65,300	38	62					0.73
<i>Equal Weighting</i>						47	53					0.74
<i>Equal Weighted Buys</i>						45	55					0.64

CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.

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

Present Value (PV) presumes long-term prices of \$100 a barrel for oil and \$6 a million btu for natural gas.

Dist. = Income distribution. NTM = Next Twelve Months Ended June 30, 2013. Enterprise Value = Market Cap and Debt.



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<b>Enerplus Corporation</b>					
<b>Functional Cash Flow and Present Value</b>					
				<i>Present</i>	
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Value</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>(US\$mm)</i>	
North American Natural Gas	110	5.5	13.6	1,500	26%
Oil	610	7.1	7.0	4,260	74%
	720	6.3	8.0	5,760	100%
Debt (US\$mm)					1,660
Net Present Value (US\$mm)					4,100
Shares (mm)					196
Net Present Value - Standard Estimate (US\$/sh)					21
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					21

**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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