



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

January 8, 2010

Bottom-Line Cash Payers Income Accelerating for Unhedged Natural Gas Trusts

Summary and Recommendation

Rising natural gas price stimulated by cold weather and economic recovery leads us to increase estimated distributions for the next twelve months to \$1.77 and \$1.50 a unit respectively, implying cash yields of 9.7% and 8.7% for buy recommendations **San Juan Basin Royalty Trust (SJT)** and **Hugoton Royalty Trust (HGT)** (see Table 1 on page 5). Micro cap **Mesa Royalty Trust (MTR)** may pay 11.3%. The three unhedged natural gas trusts declined more in stock price in the financial panic of 2008 than did hedged oil income stocks **Encore Energy Partners (ENP)** and **Linn Energy (LINE)** (see charts on page 2, Unlevered Total Return and McDep Ratio). The government bailout allowed financial institutions to give cash in satisfaction of hedges to ENP and LINE. That enabled the two stocks to maintain level distributions despite more volatile underlying cash flow from the higher cost of oil operations (see charts on page 3, Distributions and Ebitda). Then in 2009 the delayed price recovery of natural gas relative to oil delayed the stock price recovery of natural gas trusts. Throughout the financial panic, each of the five stocks recorded a rising volume trend when we adjust for the units issued, debt raised and cash reinvested, distorted only by fluctuations in the value of hedges in Linn's case (see charts on page 4, Volume Unadjusted and Volume per Unit Adjusted for Debt and Distributions).

Lower HGT NPV to \$21 a Unit from \$23 to Match SJT

At the same time that economic and industry timing appears to favor buying HGT and SJT, we make a modest correction to estimated Net Present Value (NPV). A year ago, HGT's relatively better volume trend in 2008 gave us a reason to set NPV above that of SJT. The relative trends reversed in 2009 with HGT slipping relative to SJT. As a result we lower NPV for HGT to \$21 a unit from \$23 where it matches SJT, coincidentally. With a sharp eye, one can see undulating trends with advantage shifting each year between SJT and HGT (see charts on page 4, Volume Unadjusted and Volume per Unit Adjusted for Debt and Distributions). More important than the small differences, both stocks are pure plays on the upside potential of natural gas in the 2010s.

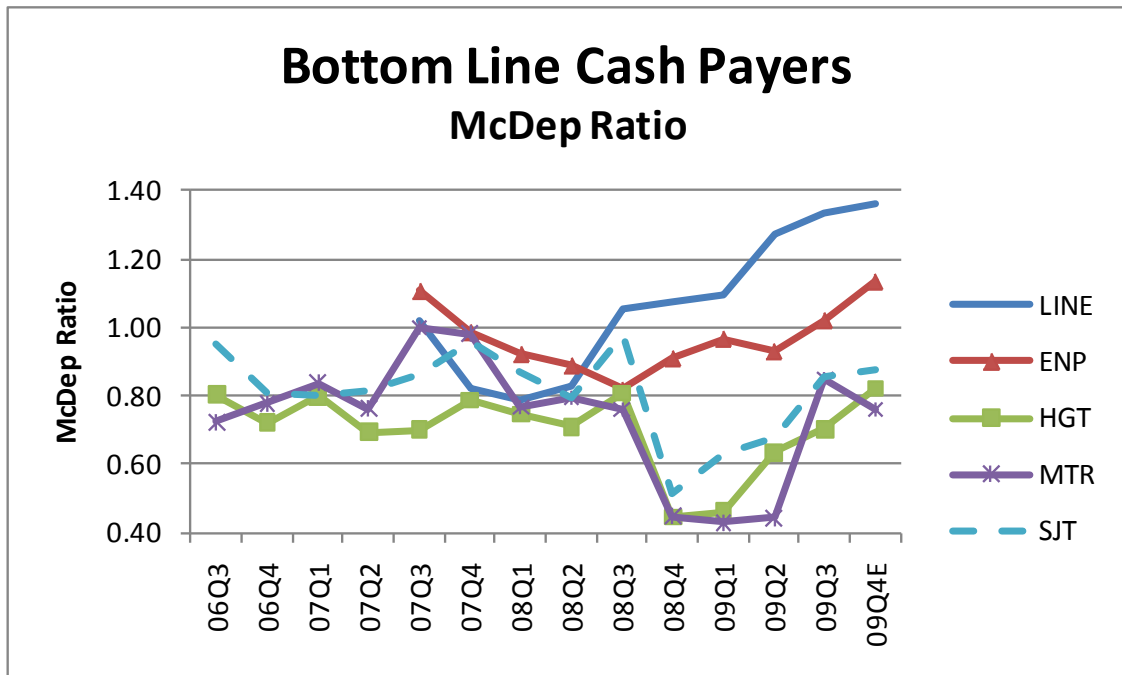
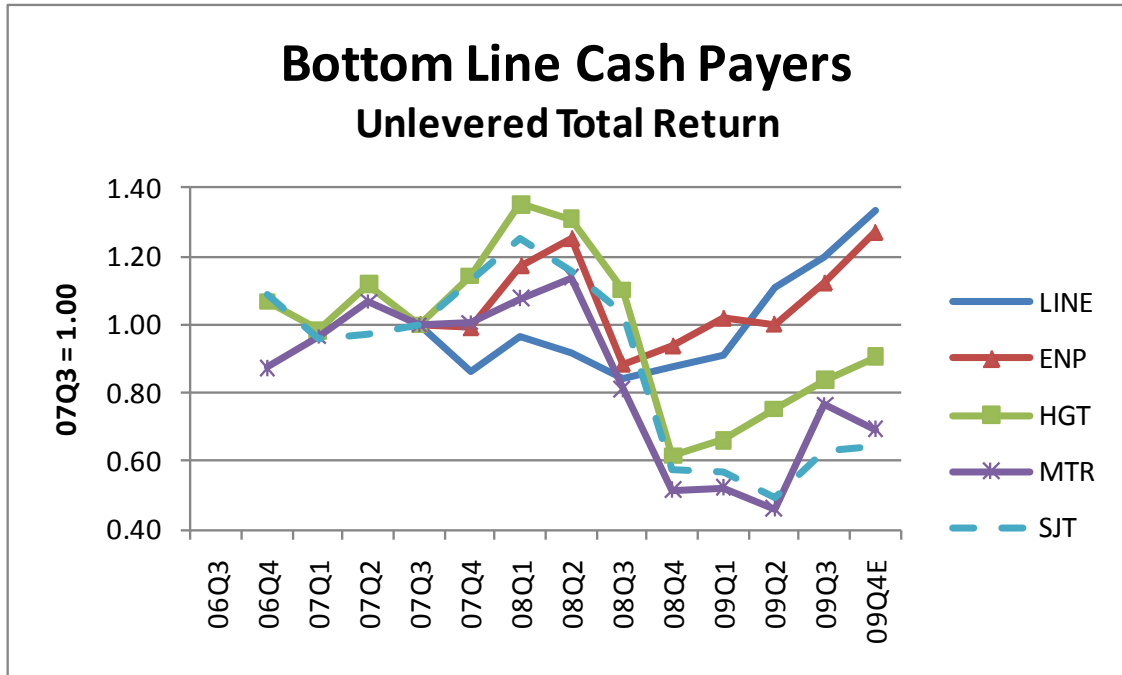
Kurt H. Wulff, CFA



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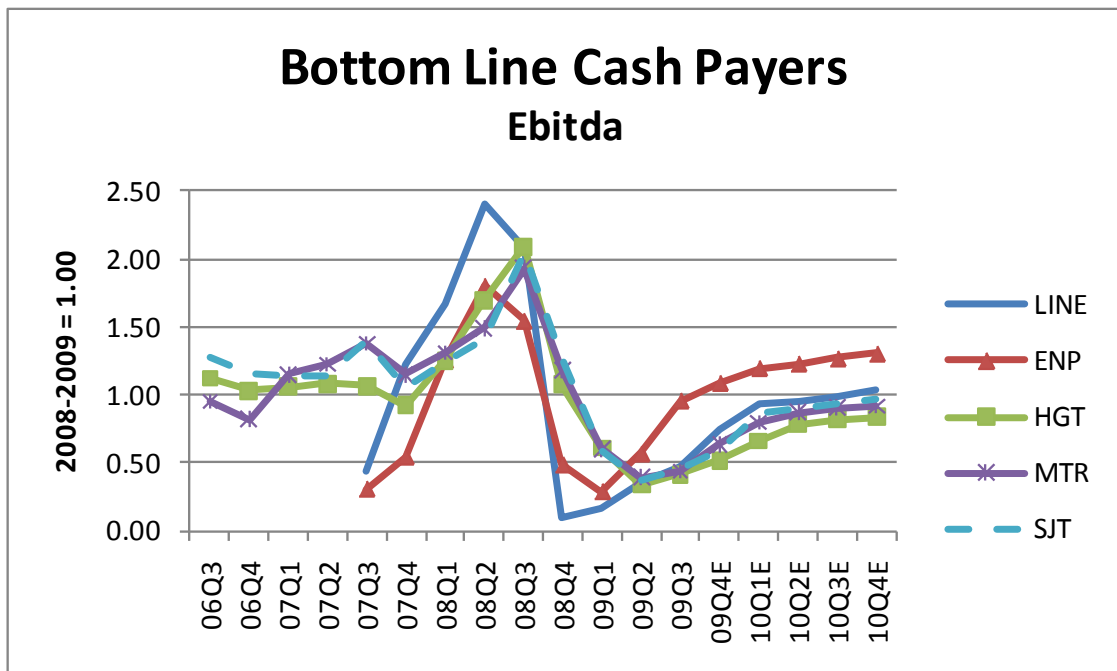
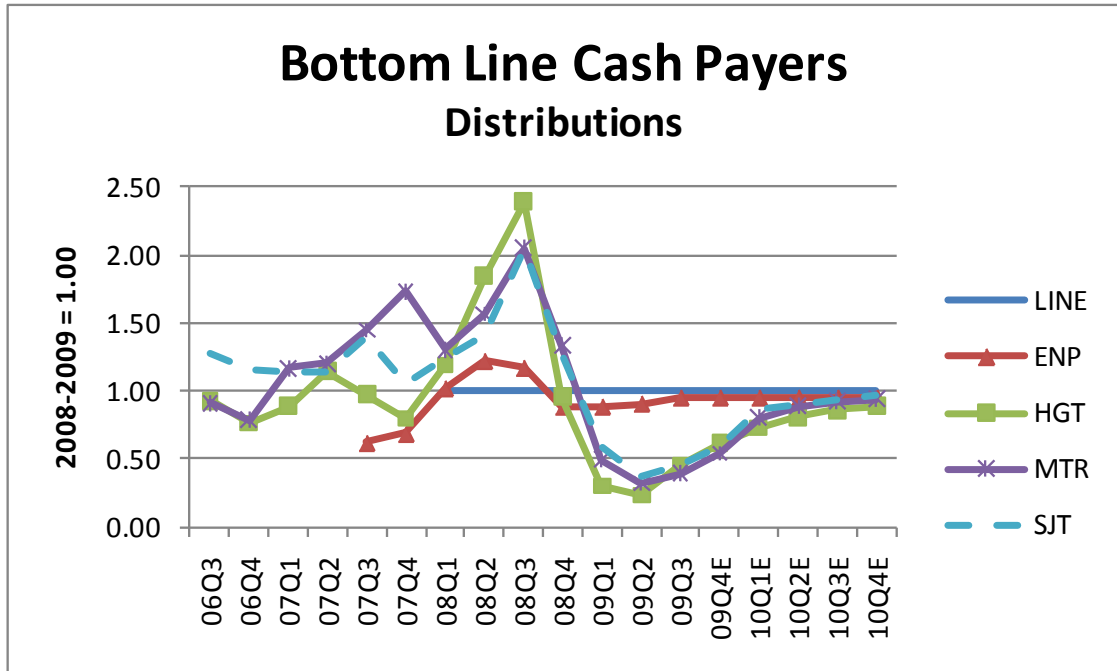




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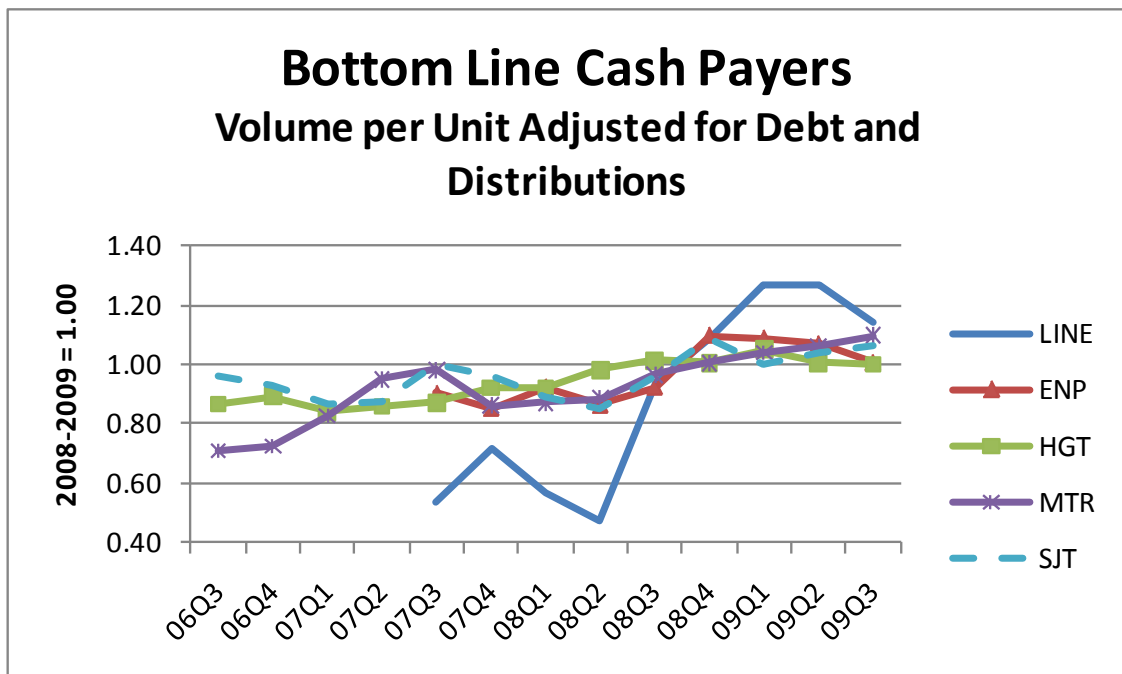
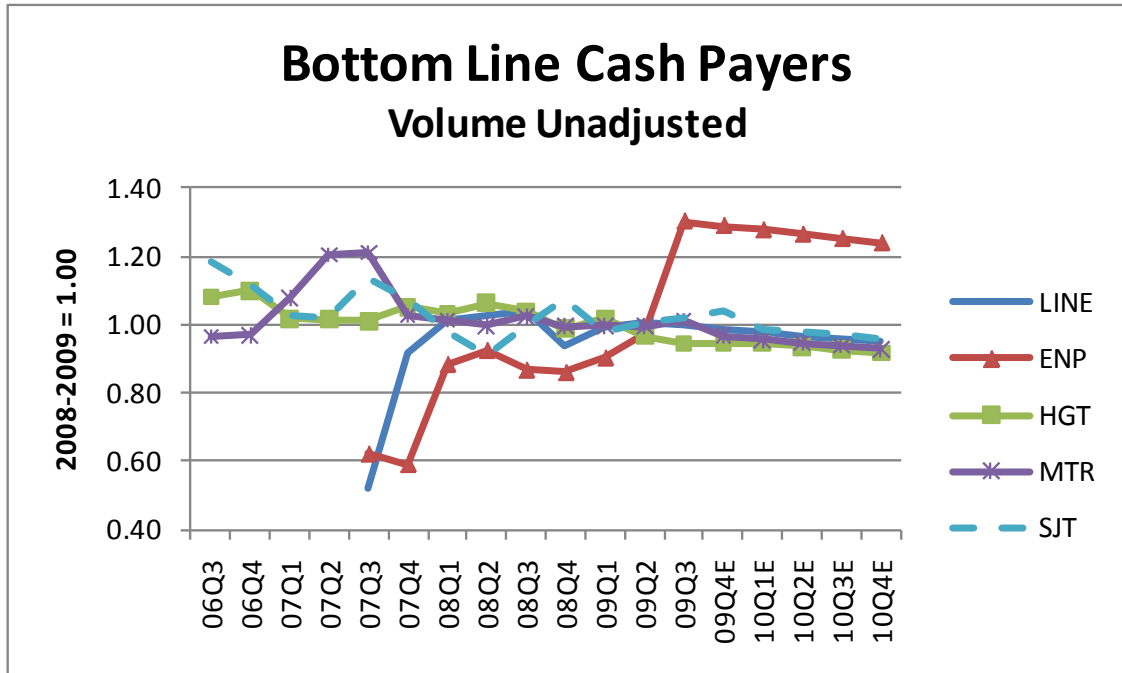




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	Symbol/Rating	Price (US\$/sh)	EV/ Market	Enterprise Value (\$mm)	Present Value by Segment (%)		Dist. NTM (\$/un)	Dist. Yield (%)	McDep Ratio
					NAmer. Natural Gas	Oil Prod'n			
	B = Buy H = Hold	7-Jan 2010	Cap						
Canadian Income Trusts (US\$)									
Peyto Energy Trust	PEYUF	13.72	1.25	1,980	71	29	1.38	10.0	1.05
Penn West Energy Trust	PWE	18.64	1.53	12,000	22	78	1.72	9.2	0.99
Pengrowth Energy Trust	PGH	10.42	1.50	4,500	35	65	0.80	7.7	0.91
Enerplus Resources Fund	ERF	23.82	1.21	4,900	42	58	2.06	8.7	0.82
Canadian Oil Sands Trust	COSWF B	29.08	1.10	15,500		100	1.77	6.1	0.71
<i>Total or Median</i>				38,900					0.91
Small Cap Independent Producers									
Cimarex Energy Company	XEC B	54.12	1.18	5,240	67	33	0.24	0.4	1.07
Birchcliff Energy Ltd. (US\$)	BIREF	9.23	1.18	1,380	63	37	-	-	1.02
Encore Acquisition Company	EAC	49.89	1.63	4,240	22	78	-	-	1.00
Whiting Petroleum Corporation	WLL	76.74	1.27	5,360	17	83	-	-	0.93
Berry Petroleum Company	BRY	30.83	1.81	2,490	31	69	0.30	1.0	0.93
<i>Total or Median</i>				18,700					1.00
Top Line Cash Payers									
Cross Timbers Royalty Trust	CRT	34.56	1.00	210	71	29	2.69	7.8	1.01
Sabine Royalty Trust	SBR	42.79	1.00	620	39	61	2.98	7.0	0.95
Freehold Royalty Trust (US\$)	FRHLF	14.83	1.21	890	25	75	1.64	11.1	0.89
Permian Basin RT	PBT	15.12	1.00	710	27	73	1.11	7.4	0.84
Dorchester Minerals, L.P.	DMLP B	22.31	1.03	680	67	33	1.80	8.0	0.83
<i>Total or Median</i>				3,100					0.89
Bottom Line Cash Payers									
Linn Energy, LLC	LINE	28.21	1.50	4,820	40	60	2.52	8.9	1.36
Encore Energy Partners, L.P. (52%)	ENP	20.00	1.29	600	24	76	2.15	10.8	1.13
San Juan Basin Royalty Trust	SJT B	18.34	1.00	860	100	-	1.77	9.7	0.87
Hugoton Royalty Trust	HGT B	17.27	1.00	690	88	12	1.50	8.7	0.82
Mesa Royalty Trust	MTR	37.03	1.00	69	75	25	4.20	11.3	0.77
<i>Total or Median</i>				7,000					0.87
Composite (excl COSWF)									
<i>Enterprise Value Weighting</i>				52,200	37	63			0.98
<i>Equal Weighting</i>					49	51			0.96
<i>Equal Weighted Buys</i>					73	27			0.90
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses.									
Present Value presumes long-term prices of \$75 a barrel for oil and \$8 a million btu for natural gas.									
Dist. = Income distribution. NTM = Next Twelve Months Ended December 31, 2010. Enterprise Value = Market Cap and Debt.									



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Table 2								
Oil and Gas Income and Small Cap Stocks								
Net Present Value and McDep Ratio								
			Price (\$/sh)	Shares	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		7-Jan 2010	(mm)				
Canadian Income Trusts (US\$)								
	PEYUF		13.72	114.9	1,580	13.00	0.21	1.05
	PWE		18.64	420.0	7,830	19.00	0.34	0.99
	PGH		10.42	290.0	3,020	12.00	0.30	0.91
	ERF		23.82	169.0	4,030	30.00	0.15	0.82
	COSWF	B	29.08	484.0	14,070	42.00	0.07	0.71
	<i>Total or Median</i>				30,500		0.21	0.91
Small Cap Independent Producers								
	XEC	B	54.12	82.2	4,450	50.00	0.16	1.07
	BIREF		9.23	126.4	1,170	9.00	0.15	1.02
	EAC		49.89	52.3	2,610	50.00	0.38	1.00
	WLL		76.74	59.0	4,220	78.00	0.20	0.93
	BRY		30.83	44.9	1,380	35.00	0.41	0.93
	<i>Total or Median</i>				13,830		0.20	1.00
Top Line Cash Payers								
	CRT		34.56	6.0	210	34.00	-	1.01
	SBR		42.79	14.6	620	45.00	-	0.95
	FRHLF		14.83	49.6	740	17.00	0.15	0.89
	PBT		15.12	46.6	710	18.00	-	0.84
	DMLP	B	22.31	29.8	670	27.00	0.02	0.83
	<i>Total or Median</i>				2,950			0.89
Bottom Line Cash Payers								
	LINE		28.21	114.0	3,220	17.00	0.45	1.36
	ENP		20.00	23.2	470	17.00	0.25	1.13
	SJT	B	18.34	46.6	860	21.00	-	0.87
	HGT	B	17.27	40.0	690	21.00	-	0.82
	MTR		37.03	1.9	69	48.00	-	0.77
	<i>Total or Median</i>				5,310			0.87
B = Buy. McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
Present Value presumes long-term prices of \$75 a barrel for oil and \$8 a million btu for natural gas.								



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Table 3								
Oil and Gas Income and Small Cap Stocks								
Value Multiples - Rank by EV/Ebitda								
			Price (\$/sh)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda
	Symbol/ Rating		7-Jan 2010	Royalty (%)	Ebitda	NTM	NTM	NTM
Canadian Income Trusts (US\$)								
	PEYUF		13.72		1.23	18.2	11.7	12.2
	COSWF	B	29.08		0.53	23.1	12.7	9.0
	PWE		18.64		0.74	8.3	8.2	8.1
	ERF		23.82		0.59	9.8	8.6	7.1
	PGH		10.42		0.50	8.3	7.5	6.8
	<i>Median</i>					9.8	8.6	8.1
Small Cap Independent Producers								
	BIREF		9.23		-	10.6	13.8	14.1
	EAC		49.89		-	11.7	7.6	7.6
	WLL		76.74		-	9.8	7.3	6.8
	BRY		30.83		-	12.4	7.3	6.8
	XEC	B	54.12		-	7.6	4.9	5.2
	<i>Median</i>					10.6	7.3	6.8
Top Line Cash Payers								
	SBR		42.79	100	1.00	12.0	15.1	14.4
	CRT		34.56	84	0.95	12.6	12.0	12.2
	PBT		15.12	32	0.90	11.5	14.5	12.2
	DMLP	B	22.31	64	0.91	7.8	13.7	11.3
	FRHLF		14.83	71	0.89	6.8	9.2	8.2
	<i>Median</i>					11.5	13.7	12.2
Bottom Line Cash Payers								
	LINE		28.21		1.70	18.3	11.5	15.6
	ENP		20.00		1.07	13.2	8.4	9.6
	HGT	B	17.27		0.76	13.4	10.7	8.8
	SJT	B	18.34		0.79	9.2	9.4	8.2
	MTR		37.03		0.93	8.0	10.6	8.2
	<i>Median</i>					13.2	10.6	8.8
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2010; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								
Top Line Cash Payers defined as those having Revenue Royalty (see fifth column from right).								



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