



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

April 9, 2010

## Add Ultra, Range, and Petrohawk to Coverage

### Summary and Recommendation

We add small cap independent producers, **Ultra Petroleum (UPL)**, **Range Resources (RRC)** and **Petrohawk (HK)**, to our coverage at initial McDep Ratios of 0.95, 1.28 and 1.25 respectively (see Tables 1-2). Cash flow multiples are at the high end of the range (see Table 3). Each stock has scored impressive price gains that have slowed to the point where RRC and HK trade below their 200-day averages. Six-year natural gas also trades below its 40-week average. In other words, the stocks may not appreciate immediately. Yet, the long-term potential remains strong as the three companies have the resources to support expanding natural gas production. As a result, we'll be refining and updating our analysis as we watch for timely opportunities.

### Ultra Adds Marcellus Action to Rockies Base

Ultra's investment value today lies in its concentrated position in the Pinedale Anticline of western Wyoming, one of the top ten natural gas fields in the U.S. The tight formation offers abundant further development opportunity. The problem is that the market does not need new capacity now. For more current action, UPL has taken a position in the Marcellus shale of Pennsylvania where operators are scrambling to identify and lock up resources that can be produced by latest horizontal multi stage fracturing technology. Meanwhile, debt is low at 0.12 times present value and cash flow multiples (EV/Ebitda and PV/Ebitda) relate normally to Adjusted Reserve Life. A high 59% of proven reserves are undeveloped.

### Range Resources a Marcellus Pioneer

Who would have thought that the long, long life, low producing rate Appalachian natural gas resource could be become a quickly profitable, high-rate producer? Range did. Today almost any story about the West Virginia, Pennsylvania and New York clean fuel boom mentions the early adaptor, RRC. Thus, it is little surprise that the McDep Ratio for a popular stock looks high at 1.28. Nonetheless, the outlook for the stock appears bright in our natural gas framework as continued rapid growth may soon justify higher valuation. Meanwhile, debt is also high at 0.26 times present value that includes undeveloped reserves at 45% of proven. The debt position appears more benign with a 1.26 ratio of Enterprise Value to Market Cap.



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## **Petrohawk an Early Haynesville Producer**

The most prominent small cap independent in the shale gas exploration of Louisiana, Petrohawk, was among the first to alert investors to the new exploitable resource. As a result, HK has been a popular stock and understandably scores a higher McDep Ratio. At the same time, risk is also high with debt at 0.35 times present value and undeveloped reserves at 67% of proven. Yet, the financial vulnerability could be an attraction to a well-capitalized acquirer. Meanwhile, as financial conditions are likely to continue to improve, HK may be able to manage its leverage and achieve further high growth.

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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
					N.Amer. Natural Gas	Oil Prod'n				
	B = Buy CB (see below)	8-Apr 2010	Cap							
<b>Canadian Income Trusts (US\$)</b>										
Penn West Energy Trust	PWE	21.46	1.46	13,200	22	78	1.79	8.4	1.09	
Pengrowth Energy Trust	PGH	11.68	1.44	4,900	37	63	0.84	7.2	1.04	
Peyto Energy Trust	PEYUF	13.40	1.27	1,950	80	20	1.44	10.7	0.91	
Enerplus Resources Fund	ERF	23.90	1.22	5,200	40	60	2.15	9.0	0.83	
Canadian Oil Sands Trust	COSWF B	30.43	1.09	16,100		100	1.39	4.6	0.81	
<i>Total or Median</i>				<i>41,400</i>					<i>0.91</i>	
<b>Small Cap Independent Producers</b>										
Range Resources	RRC	48.33	1.26	9,730	70	30	0.12	0.2	1.28	
Petro-Hawk	HK	22.18	1.40	9,350	104	(4)	-	-	1.25	
Whiting Petroleum Corporation	WLL	84.98	1.31	6,560	15	85	-	-	1.07	
Cimarex Energy Company	XEC B	61.47	1.14	5,780	62	38	0.32	0.5	0.95	
Ultra Petroleum	UPL	47.52	1.14	8,120	94	6	-	-	0.95	
Berry Petroleum Company	BRY	31.75	1.81	2,590	31	69	0.30	0.9	0.95	
Birchcliff Energy Ltd. (US\$)	BIREF	9.09	1.20	1,460	77	23	-	-	0.85	
<i>Total or Median</i>				<i>42,100</i>					<i>1.01</i>	
<b>Top Line Cash Payers</b>										
Sabine Royalty Trust	SBR	49.33	1.00	720	39	61	3.66	7.4	1.10	
Permian Basin RT	PBT	18.25	1.00	850	27	73	1.35	7.4	1.01	
Freehold Royalty Trust (US\$)	FRHLF	17.11	1.11	1,090	29	71	1.67	9.8	1.01	
Cross Timbers Royalty Trust	CRT	33.50	1.00	200	78	22	2.79	8.3	0.99	
Dorchester Minerals, L.P.	DMLP B	23.07	1.02	700	67	33	1.96	8.5	0.86	
<i>Total or Median</i>				<i>3,600</i>					<i>1.01</i>	
<b>Bottom Line Cash Payers</b>										
Linn Energy, LLC	LINE	26.39	1.49	4,490	44	56	2.52	9.5	1.31	
Encore Energy Partners, L.P. (52%)	ENP	21.11	1.28	630	23	77	2.15	10.2	1.18	
San Juan Basin Royalty Trust	SJT B	23.00	1.00	1,070	100	-	1.56	6.8	1.00	
Mesa Royalty Trust	MTR	43.30	1.00	81	75	25	3.73	8.6	0.91	
Hugoton Royalty Trust	HGT B	17.48	1.00	700	90	10	1.37	7.8	0.83	
<i>Total or Median</i>				<i>7,000</i>					<i>1.00</i>	
<b>Composite (excl COSWF)</b>										
<i>Enterprise Value Weighting</i>				<i>79,400</i>	<i>56</i>	<i>44</i>			<i>1.06</i>	
<i>Equal Weighting</i>					<i>57</i>	<i>43</i>			<i>1.02</i>	
<i>Equal Weighted Buys</i>					<i>70</i>	<i>30</i>			<i>0.91</i>	

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 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 March 31, 2011. Enterprise Value = Market Cap and Debt.



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		<i>Price</i>			<i>Net</i>		
		<i>(\$/sh)</i>		<i>Market</i>	<i>Present</i>	<i>Debt/</i>	
	<i>Symbol/</i>	<i>8-Apr</i>	<i>Shares</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	<i>McDep</i>
	<i>Rating</i>	<i>2010</i>	<i>(mm)</i>	<i>(\$mm)</i>	<i>(\$/un)</i>	<i>Value</i>	<i>Ratio</i>
<b>Canadian Income Trusts (US\$)</b>							
Penn West Energy Trust	PWE	21.46	420.7	9,030	19.00	0.34	1.09
Pengrowth Energy Trust	PGH	11.68	290.0	3,390	11.00	0.32	1.04
Peyto Energy Trust	PEYUF	13.40	114.9	1,540	15.00	0.19	0.91
Enerplus Resources Fund	ERF	23.90	177.0	4,230	30.00	0.15	0.83
Canadian Oil Sands Trust	COSWF	B	30.43	14,730	38.00	0.07	0.81
<i>Total or Median</i>				32,900		0.19	0.91
<b>Small Cap Independent Producers</b>							
Range Resources	RRC	48.33	160.0	7,730	35.00	0.26	1.28
Petro-Hawk	HK	22.18	302.0	6,700	16.00	0.35	1.25
Whiting Petroleum Corporation	WLL	84.98	59.0	5,010	78.00	0.25	1.07
Cimarex Energy Company	XEC	B	61.47	5,080	65.00	0.12	0.95
Ultra Petroleum	UPL	47.52	151.0	7,130	50.00	0.12	0.95
Berry Petroleum Company	BRY	31.75	45.0	1,430	35.00	0.42	0.95
Birchcliff Energy Ltd. (US\$)	BIREF	9.09	134.0	1,220	11.00	0.14	0.85
<i>Total or Median</i>				34,300		0.25	0.95
<b>Top Line Cash Payers</b>							
Sabine Royalty Trust	SBR	49.33	14.6	720	45.00	-	1.10
Permian Basin RT	PBT	18.25	46.6	850	18.00	-	1.01
Freehold Royalty Trust (US\$)	FRHLF	17.11	57.2	980	17.00	0.10	1.01
Cross Timbers Royalty Trust	CRT	33.50	6.0	200	34.00	-	0.99
Dorchester Minerals, L.P.	DMLP	B	23.07	690	27.00	0.02	0.86
<i>Total or Median</i>				3,440			1.01
<b>Bottom Line Cash Payers</b>							
Linn Energy, LLC	LINE	26.39	114.0	3,010	17.00	0.43	1.31
Encore Energy Partners, L.P. (52%)	ENP	21.11	23.4	490	17.00	0.26	1.18
San Juan Basin Royalty Trust	SJT	B	23.00	1,070	23.00	-	1.00
Mesa Royalty Trust	MTR	43.30	1.9	81	48.00	-	0.91
Hugoton Royalty Trust	HGT	B	17.48	700	21.00	-	0.83
<i>Total or Median</i>				5,350			1.00

B=Buy; 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 presumes long-term prices of \$75 a barrel for oil and \$8 a million btu for natural gas.



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			<i>Price (\$/sh)</i>	<i>Revenue</i>	<i>Dist/ Equity</i>	<i>Adjstd Resrvs/ Prod</i>	<i>PV/ Ebitda</i>	<i>EV/ Ebitda</i>
	<i>Symbol/ Rating</i>		<i>8-Apr 2010</i>	<i>Royalty (%)</i>	<i>Ebitda</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>
<b>Canadian Income Trusts (US\$)</b>								
Peyto Energy Trust	PEYUF		13.40		1.19	25.0	12.4	11.3
Canadian Oil Sands Trust	COSWF	B	30.43		0.39	31.4	10.7	8.7
Penn West Energy Trust	PWE		21.46		0.73	9.9	7.7	8.4
Pengrowth Energy Trust	PGH		11.68		0.61	9.7	8.0	8.3
Enerplus Resources Fund	ERF		23.90		0.59	9.7	8.3	6.8
	<i>Median</i>					9.9	8.3	8.4
<b>Small Cap Independent Producers</b>								
Range Resources	RRC		48.33		-	13.5	11.4	14.6
Birchcliff Energy Ltd. (US\$)	BIREF		9.09		-	12.0	15.4	13.1
Ultra Petroleum	UPL		47.52		-	14.7	12.8	12.2
Petro-Hawk	HK		22.18		-	7.8	9.4	11.7
Berry Petroleum Company	BRY		31.75		-	12.9	7.9	7.5
Whiting Petroleum Corporation	WLL		84.98		-	10.9	6.7	7.1
Cimarex Energy Company	XEC	B	61.47		-	7.0	5.8	5.5
	<i>Median</i>					12.0	9.4	11.7
<b>Top Line Cash Payers</b>								
Sabine Royalty Trust	SBR		49.33	100	1.00	9.4	12.3	13.5
Permian Basin RT	PBT		18.25	32	0.90	21.2	12.0	12.2
Cross Timbers Royalty Trust	CRT		33.50	84	0.97	13.4	11.8	11.6
Dorchester Minerals, L.P.	DMLP	B	23.07	64	0.97	7.9	13.4	11.5
Freehold Royalty Trust (US\$)	FRHLF		17.11	71	0.80	8.3	8.1	8.2
	<i>Median</i>					9.4	12.0	11.6
<b>Bottom Line Cash Payers</b>								
Linn Energy, LLC	LINE		26.39		1.72	19.3	11.6	15.2
San Juan Basin Royalty Trust	SJT	B	23.00		0.80	13.7	11.7	11.7
Mesa Royalty Trust	MTR		43.30		0.91	8.5	11.7	10.6
Hugoton Royalty Trust	HGT	B	17.48		0.76	12.3	11.6	9.6
Encore Energy Partners, L.P.	ENP		21.11		1.04	12.6	8.2	9.7
	<i>Median</i>					12.6	11.6	10.6
B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.								
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2011; 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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