



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

May 6, 2011

Raise NPV for BRY, DNR and LINE as Oil Price Swings

Summary and Recommendation

On the basis of projected next twelve months cash flow using latest futures prices while considering results from the first quarter of 2011 and expected reserve life, we raise estimated Net Present Value (NPV) for **Berry Petroleum (BRY)** to \$60 a share from \$55, **Denbury Resources (DNR)** to \$25 from \$22 and **Linn Energy (LINE)** to \$34 from \$28. Among the three well-managed oil producers, BRY and DNR have lower McDep Ratios of 0.85 and 0.86 respectively. LINE has an appealing 7.2% distribution yield. Though still somewhat high at 1.05, Linn's McDep Ratio has receded from higher levels as a result of favorable operating performance, timely acquisitions and advantageous unit offerings (see Tables 1-3 on pages 3-5).

Despite declining sharply in the past few days, oil price for the next six years trades in an uptrend at \$97 a barrel compared to its 40-week average at \$94 (see tables [Six-Year and One-Year Natural Gas and Oil Futures](#) and [Six-Year Commodity Price Meter](#) on page 2). The moderating of oil price is good for consumers while remaining attractive for producers.

Similarly, the increase in oil price in recent years is further moderated by record low natural gas price compared to oil. That boon to consumers has been a disappointment to producers. Nonetheless, from a low level, natural gas price may be transitioning to an uptrend. Six-year natural gas trades at \$5.55 a million btu compared to its 40-week average of \$5.39. The decline in the 40-week average appears to be stabilizing and may begin rising in a few more months to confirm an uptrend by the popular price analysis measure.

Buy recommendations and most stocks also trend up compared to the 200-day average. At the same time, most of the stocks trade below the 50-day average (see [Table 4](#) on page 6). The range between the 50-day and 200-day is a chance to buy opportunistically on a short-term basis while the intermediate trend is up.

Our conviction about the outlook for oil and gas income and small cap stocks rests on a belief in global economic growth. We all want to grow and we need energy to do it. Market pricing, though it may swing wildly at times, will help us get the energy we need. The companies who provide that energy are likely to be rewarding investments.

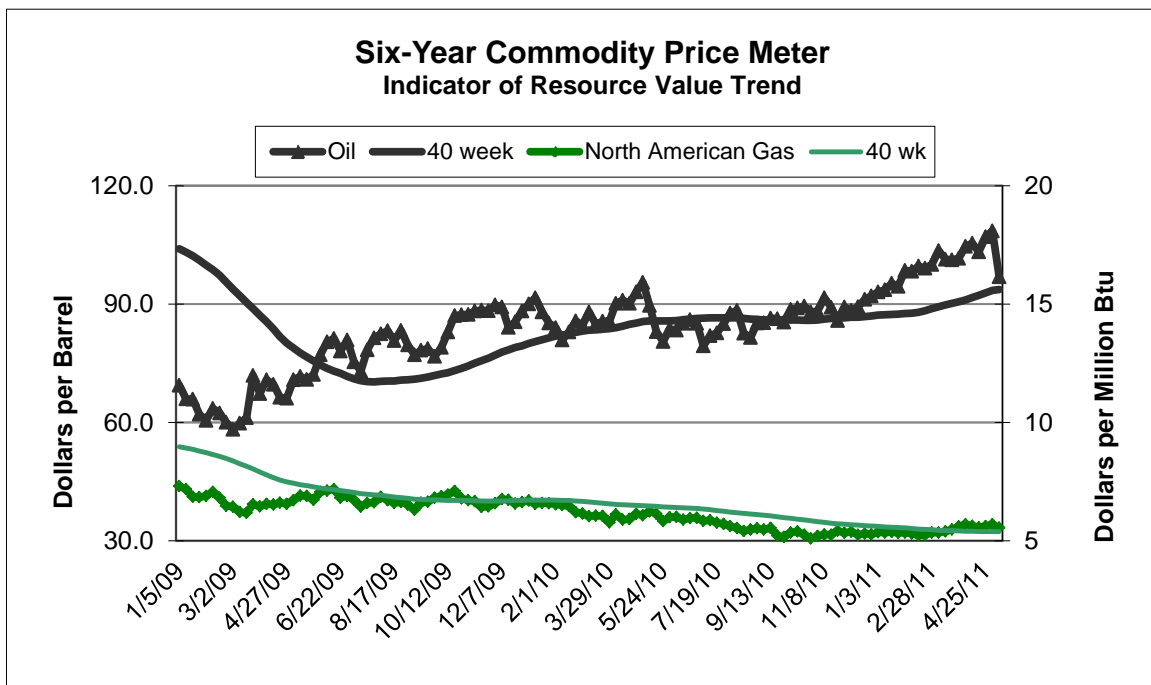
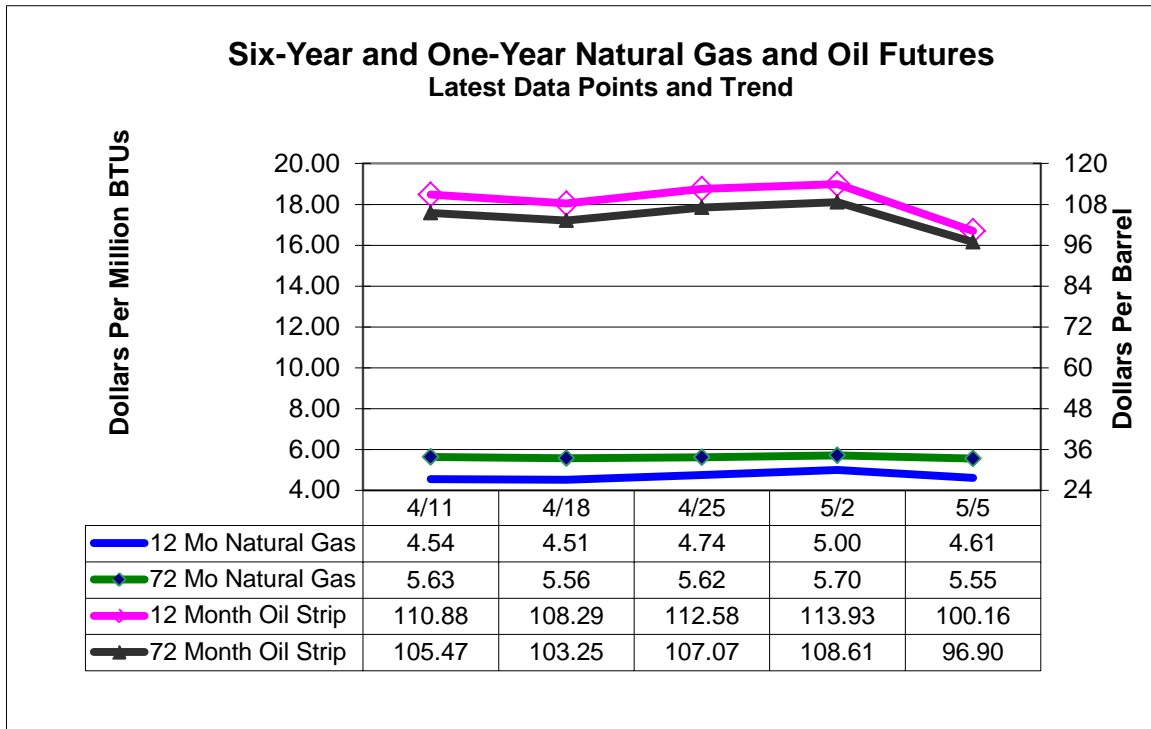
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Table ISC-1											
McDep Income and Small Cap Energy Portfolio											
Debt, Segments, Cash Flow, Income and McDep Ratio											
			Price		Enterprise	PV(%)		EV/	Dist.	Dist.	
Symbol/Rating		(US\$/sh)	EV/	Value	Nat	Oil	Ebitda	NTM	Yield	McDep	
CB (see below)		5-May	Market	(\$mm)	Gas		NTM	(\$/un)	(%)	Ratio	
		2011	Cap								
Small Cap Independent Producers											
Petrohawk Energy Corporation	HK	B	24.14	1.54	11,330	83	17	10.1	-	-	1.00
Range Resources	RRC	B	52.08	1.21	9,990	76	24	14.2	0.16	0.3	0.89
Denbury Resources Inc.	DNR		20.74	1.28	10,560	6	94	8.0	-	-	0.86
Peyto Exploration and Developmen	PEYUF		20.06	1.16	2,930	76	24	12.6	0.74	3.7	0.86
Berry Petroleum Company	BRY		46.94	1.56	3,950	26	74	8.3	0.30	0.6	0.85
Birchcliff Energy Ltd.	BIREF	B	12.95	1.22	2,000	58	42	11.4	-	-	0.84
Cimarex Energy Company	XEC	B	97.76	1.08	9,040	45	55	6.7	0.30	0.3	0.83
Ultra Petroleum	UPL		47.47	1.20	8,790	92	8	11.6	-	-	0.82
Whiting Petroleum Corporation	WLL	B	61.97	1.22	8,900	11	89	6.6	-	-	0.73
<i>Total or Median</i>					67,500			10.1		-	0.85
Top Line Cash Payers											
Sabine Royalty Trust	SBR		64.05	1.00	930	50	50		4.95	7.7	1.09
Freehold Royalties Ltd.	FRHLF		21.85	1.07	1,360	18	82		1.74	8.0	0.99
Permian Basin RT	PBT		20.10	1.00	940	37	63		1.73	8.6	0.91
Dorchester Minerals, L.P.	DMLP	B	27.32	1.00	840	61	39		1.76	6.5	0.91
Cross Timbers Royalty Trust	CRT		39.55	1.00	240	87	13		2.97	7.5	0.88
<i>Total or Median</i>					4,300					7.7	0.91
Bottom Line Cash Payers											
Vanguard Natural Resources, LLC	VNR		29.75	1.64	1,580	28	72	12.6	2.24	7.5	1.06
Linn Energy, LLC	LINE		36.66	1.43	8,560	35	65	12.6	2.64	7.2	1.05
Hugoton RoyaltyTrust	HGT	B	22.22	1.00	890	88	13	13.8	1.38	6.2	1.01
Legacy Reserves L.P.	LGCY		28.31	1.44	1,770	19	81	10.2	2.12	7.5	1.01
Encore Energy Partners, L.P.	ENP		22.61	1.24	1,260	18	82	9.8	1.96	8.7	0.99
Pengrowth Energy Corporation	PGH		12.90	1.37	5,300	28	72	7.9	0.87	6.7	0.94
San Juan Basin Royalty Trust	SJT		23.27	1.00	1,090	100	-	13.7	1.43	6.1	0.93
Mesa RoyaltyTrust	MTR		45.52	1.00	85	75	25	11.0	3.45	7.6	0.86
Enerplus Corporation	ERF	B	30.05	1.23	6,600	34	66	7.5	2.23	7.4	0.84
<i>Total or Median</i>					27,100			11.0		7.4	0.99
Composite											
<i>Enterprise Value Weighting</i>					98,900	47	53				0.88
<i>Equal Weighting</i>						50	50				0.92
<i>Equal Weighted Buys</i>						70	30				0.92
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 \$8 a million btu for natural gas.											
Dist. = Income distribution. NTM = Next Twelve Months Ended March 31, 2012. Enterprise Value = Market Cap and Debt.											



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Table ISC-2								
McDep Income and Small Cap Energy Portfolio								
Net Present Value and McDep Ratio								
			Price (\$/sh)	Shares	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		5-May 2011	(mm)				
Small Cap Independent Producers								
Petrohawk Energy Corporation	HK	B	24.14	305.0	7,360	24.00	0.35	1.00
Range Resources	RRC	B	52.08	158.0	8,230	60.00	0.16	0.89
Denbury Resources Inc.	DNR		20.74	397.0	8,230	25.00	0.19	0.86
Peyto Exploration and Development Cor	PEYUF		20.06	125.7	2,520	24.00	0.12	0.86
Berry Petroleum Company	BRY		46.94	54.0	2,530	60.00	0.30	0.85
Birchcliff Energy Ltd.	BIREF	B	12.95	126.0	1,630	16.00	0.15	0.84
Cimarex Energy Company	XEC	B	97.76	85.8	8,390	120.00	0.06	0.83
Ultra Petroleum	UPL		47.47	154.0	7,310	60.00	0.14	0.82
Whiting Petroleum Corporation	WLL	B	61.97	118.0	7,310	90.00	0.13	0.73
<i>Total or Median</i>					53,510		0.15	0.85
Top Line Cash Payers								
Sabine Royalty Trust	SBR		64.05	14.6	930	59.00	-	1.09
Freehold Royalties Ltd.	FRHLF		21.85	58.4	1,280	22.00	0.06	0.99
Permian Basin RT	PBT		20.10	46.6	940	22.00	-	0.91
Dorchester Minerals, L.P.	DMLP	B	27.32	30.7	840	30.00	-	0.91
Cross Timbers Royalty Trust	CRT		39.55	6.0	240	45.00	-	0.88
<i>Total or Median</i>					4,230			0.91
Bottom Line Cash Payers								
Vanguard Natural Resources, LLC	VNR		29.75	32.4	960	27.00	0.41	1.06
Linn Energy, LLC	LINE		36.66	163.0	5,980	34.00	0.32	1.05
Hugoton Royalty Trust	HGT	B	22.22	40.0	890	22.00	-	1.01
Legacy Reserves L.P.	LGCY		28.31	43.5	1,230	28.00	0.31	1.01
Encore Energy Partners, L.P.	ENP		22.61	45.0	1,020	23.00	0.19	0.99
Pengrowth Energy Corporation	PGH		12.90	299.0	3,860	14.00	0.25	0.94
San Juan Basin Royalty Trust	SJT		23.27	46.6	1,090	25.00	-	0.93
Mesa Royalty Trust	MTR		45.52	1.9	85	53.00	-	0.86
Enerplus Corporation	ERF	B	30.05	178.0	5,350	37.00	0.16	0.84
<i>Total or Median</i>					20,470			0.99
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 \$100 a barrel for oil and \$8 a million btu for natural gas.								



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Table ISC-3									
McDep Income and Small Cap Energy Portfolio									
Value Multiples - Rank by EV/Ebitda									
			Price (\$/sh)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	
	Symbol/ Rating		5-May 2011	Royalty (%)	Ebitda	NTM	NTM	NTM	
Small Cap Independent Producers									
Range Resources	RRC	B	52.08		-	17.4	16.0	14.2	
Peyto Exploration and Development Corp	PEYUF		20.06		0.46	19.7	14.8	12.6	
Ultra Petroleum	UPL		47.47		-	27.1	14.1	11.6	
Birchcliff Energy Ltd.	BIREF	B	12.95		-	20.2	13.7	11.4	
Petrohawk Energy Corporation	HK	B	24.14		-	7.6	10.0	10.1	
Berry Petroleum Company	BRY		46.94		-	12.0	9.8	8.3	
Denbury Resources Inc.	DNR		20.74		-	13.6	9.3	8.0	
Cimarex Energy Company	XEC	B	97.76		-	7.3	8.1	6.7	
Whiting Petroleum Corporation	WLL	B	61.97		-	9.6	9.1	6.6	
<i>Median</i>							<i>13.6</i>	<i>10.0</i>	<i>10.1</i>
Top Line Cash Payers									
Dorchester Minerals, L.P.	DMLP	B	27.32	77	0.87	7.6	14.8	13.5	
Sabine Royalty Trust	SBR		64.05	100	1.00	6.7	11.9	12.9	
Cross Timbers Royalty Trust	CRT		39.55	80	0.97	14.5	14.6	12.8	
Permian Basin RT	PBT		20.10	32	0.96	13.2	12.2	11.1	
Freehold Royalties Ltd.	FRHLF		21.85	71	0.82	8.1	10.4	10.3	
<i>Median</i>							<i>8.1</i>	<i>12.2</i>	<i>12.8</i>
Bottom Line Cash Payers									
Hugoton Royalty Trust	HGT	B	22.22		0.86	13.6	13.7	13.8	
San Juan Basin Royalty Trust	SJT		23.27		0.84	9.1	14.7	13.7	
Linn Energy, LLC	LINE		36.66		0.93	17.5	12.0	12.6	
Vanguard Natural Resources, LLC	VNR		29.75		0.99	13.1	11.9	12.6	
Mesa Royalty Trust	MTR		45.52		0.83	8.8	12.8	11.0	
Legacy Reserves L.P.	LGCY		28.31		0.77	12.0	10.2	10.2	
Encore Energy Partners, L.P.	ENP		22.61		0.85	13.0	9.9	9.8	
Pengrowth Energy Corporation	PGH		12.90		0.52	9.0	8.4	7.9	
Enerplus Corporation	ERF	B	30.05		0.54	8.2	8.9	7.5	
<i>Median</i>							<i>12.0</i>	<i>11.9</i>	<i>11.0</i>
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, 2012; 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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Table ISC-4									
Oil and Gas Income and Small Cap Stocks									
Rank by Enterprise Value to 200 Day Average									
			Price (\$/sh)	Enterprise Value/					
	Symbol/ Rating		5-May 2011	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	McDep Ratio	
Small Cap Independent Producers									
	BIRCLIFF Energy Ltd.	BIREF	B	12.95	0.91	1.50	1.04	1.20	0.84
	Petrohawk Energy Corporation	HK	B	24.14	0.92	1.38	1.02	1.16	1.00
	Range Resources	RRC	B	52.08	0.89	1.46	0.98	1.14	0.89
	Peyto Exploration and Development C	PEYUF		20.06	0.94	1.63	0.98	1.13	0.86
	Berry Petroleum Company	BRY		46.94	0.92	1.45	0.96	1.10	0.85
	Cimarex Energy Company	XEC	B	97.76	0.84	1.59	0.89	1.09	0.83
	Whiting Petroleum Corporation	WLL	B	61.97	0.84	1.54	0.92	1.08	0.73
	Denbury Resources Inc.	DNR		20.74	0.83	1.34	0.91	1.06	0.86
	Ultra Petroleum	UPL		47.47	0.90	1.22	1.01	1.05	0.82
	<i>Median</i>				<i>0.90</i>	<i>1.46</i>	<i>0.98</i>	<i>1.10</i>	<i>0.85</i>
Top Line Cash Payers									
	Freehold Royalties Ltd.	FRHLF		21.85	0.90	1.46	0.95	1.10	0.99
	Sabine Royalty Trust	SBR		64.05	0.91	1.50	1.01	1.10	1.09
	Dorchester Minerals, L.P.	DMLP	B	27.32	0.91	1.15	0.97	1.01	0.91
	Cross Timbers Royalty Trust	CRT		39.55	0.81	1.27	0.86	0.97	0.88
	Permian Basin RT	PBT		20.10	0.85	1.40	0.93	0.96	0.91
	<i>Median</i>				<i>0.90</i>	<i>1.40</i>	<i>0.95</i>	<i>1.01</i>	<i>0.91</i>
Bottom Line Cash Payers									
	Hugoton RoyaltyTrust	HGT	B	22.22	0.90	1.32	0.97	1.06	1.01
	Encore Energy Partners, L.P.	ENP		22.61	0.91	1.88	0.97	1.06	0.99
	Pengrowth Energy Corporation	PGH		12.90	0.91	1.97	0.97	1.05	0.94
	Enerplus Corporation	ERF	B	30.05	0.92	1.79	0.96	1.05	0.84
	Vanguard Natural Resources, LLC	VNR		29.75	0.93	1.36	0.96	1.03	1.06
	Linn Energy, LLC	LINE		36.66	0.93	1.85	0.96	1.02	1.05
	Legacy Reserves L.P.	LGCY		28.31	0.88	1.34	0.93	1.02	1.01
	Mesa RoyaltyTrust	MTR		45.52	0.84	1.12	0.95	0.96	0.86
	San Juan Basin Royalty Trust	SJT		23.27	0.82	1.12	0.90	0.94	0.93
	<i>Median</i>				<i>0.91</i>	<i>1.36</i>	<i>0.96</i>	<i>1.03</i>	<i>0.99</i>

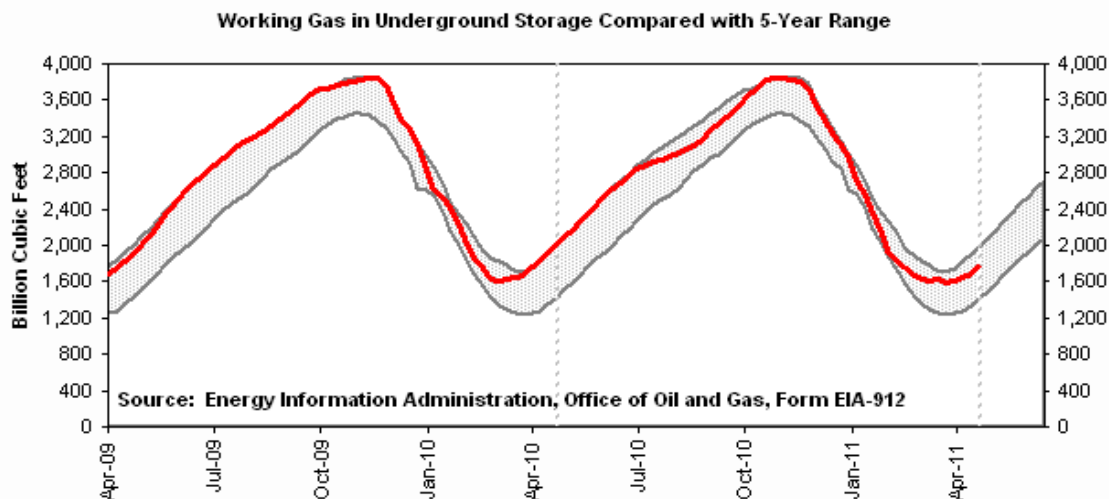
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