



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

December 16, 2011

Hits Offset Misses in Small Cap Producers

Summary and Recommendation

Amid a difficult time to make money in global equities, the McDep Ratio and our Buy recommendations scored well in 2011 with Small Cap Independent Producers. Among seven stocks ranked for all of the past 52 weeks, the two highest McDep Ratio issues a year ago registered a total return of minus 23% while the two lowest McDep Ratio issues registered a total return of plus 38% (see table [Total Return](#) on page 2). Though we expect high McDep Ratio stocks to gain less than low McDep Ratio stocks, the differential of 61% is unusually strong. At the same time, the three Buy recommendations in place for the whole year averaged a total return of 15% compared to 2% for all seven stocks in continuous coverage. Two additional Buy recommendations averaged a total return of 37% for the partial periods during which they were effective.

Looking ahead, Buy recommendations **Whiting Petroleum (WLL)** and **Cimarex (XEC)** after lagging in the past year are looking stronger for the next year, having the lowest McDep Ratios at 0.55 and 0.54 (see [Table ISC-1](#) on page 3 and [Table ISC-2](#) on page 4). Unlevered cash flow multiples (EV/Ebitda) are also lowest at 4.0 and 4.6 times (see [Table ISC-3](#) on page 5). Buy recommendations **Range Resources (RRC)** and **Birchcliff Energy (BIREF)** have higher McDep Ratios at 0.88 and 0.83, but not above 1.00 as was the case for five of the stocks a year ago. EV/Ebitda multiples are high at 14.5 and 12.0 times. RRC has declined the most recently as measured by enterprise value to 50-day average at 0.89 (see [Table ISC-4](#) on page 6). New commitments to RRC stock may be timely with current price having fallen to the 200-day average.

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Small Cap Independent Producers						
One-Year and Part-Year Total Return						
			Price	McDep	Total	Total
		Rating	(\$/sh)	Ratio	Return	Return
	Symbol/	16-Dec	16-Dec	16-Dec	15-Dec	Partial
		2010	2010	2010	2011	Year
Denbury Resources Inc.	DNR		18.79	1.16	-23%	
Whiting Petroleum	WLL		56.70	1.16	-23%	-38%
Berry Petroleum Company	BRY		42.67	1.14	-15%	
Cimarex Energy Company	XEC	B	88.40	1.10	-31%	
Peyto Exploration and Development Corp.	PEYUF		18.35	1.02	30%	
Range Resources	RRC	B	42.26	0.95	42%	
Petrohawk	HK	B	18.41	0.95		111%
Ultra Petroleum	UPL		46.84	0.95		
Birchcliff Energy Ltd.	BIREF	B	9.57	0.73	33%	
PDC Energy	PETD					52%
Average 2 Highest McDep Ratio					-23%	
Average 7 Stocks					2%	
Average of Buys					15%	37%
Average 2 Lowest McDep Ratio					38%	
<i>Notes</i>						
Buy removed on HK 7/22/11						
UPL omitted from coverage on 6/17/11						
WLL recommended Buy on 4/14/11 at McDep Ratio of 0.80						
PETD added to coverage on 10/20/11 at McDep Ratio of 0.82						
Total Return from <i>Bloomberg</i>						



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Table ISC-1											
McDep Income and Small Cap Energy Portfolio											
Debt, Segments, Cash Flow, Income and McDep Ratio											
		Price									
Symbol/Rating		(US\$/sh)	EV/	Enterprise	PV(%)		EV/	Dist.	Dist.		
	B = Buy	15-Dec	Market	Value	Nat	Oil	Ebitda	NTM	Yield	McDep	
CB (see below)		2011	Cap	(\$mm)	Gas		NTM	(\$/un)	(%)	Ratio	
Small Cap Independent Producers											
PDC Energy	PETD		34.53	1.66	1,360	57	43	8.2	-	-	0.97
Peyto Exploration and Developmen	PEYUF		23.04	1.17	3,610	75	25	11.0	0.71	3.1	0.97
Range Resources	RRC	B	59.71	1.23	11,690	66	34	14.5	0.16	0.3	0.88
Birchcliff Energy Ltd.	BIREF	CB	12.65	1.24	2,070	56	44	12.0	-	-	0.83
Berry Petroleum Company	BRY		35.99	1.73	3,410	21	79	5.3	0.32	0.9	0.65
Denbury Resources Inc.	DNR		14.50	1.43	8,330	4	96	5.3	-	-	0.60
Whiting Petroleum Corporation	WLL	CB	43.40	1.31	6,770	11	89	4.0	-	-	0.55
Cimarex Energy Company	XEC	CB	60.34	1.15	5,960	46	54	4.6	0.40	0.7	0.54
<i>Total or Median</i>					43,200			6.8			0.74
Top Line Cash Payers											
Cross Timbers Royalty Trust	CRT		47.94	1.00	290	87	13		2.85	5.9	1.07
Sabine Royalty Trust	SBR		64.11	1.00	940	51	49		4.15	6.5	0.92
Permian Basin RT	PBT		19.88	1.00	930	42	58		1.40	7.1	0.90
Freehold Royalties Ltd.	FRHLF		18.36	1.06	1,150	18	82		1.65	9.0	0.84
Dorchester Minerals, L.P.	DMLP	CB	21.87	1.00	670	61	39		1.86	8.5	0.73
<i>Total or Median</i>					4,000					7.1	0.90
Bottom Line Cash Payers											
Linn Energy, LLC	LINE		37.19	1.45	9,510	31	69	13.5	2.76	7.4	1.06
Vanguard Natural Resources, LLC	VNR		26.38	1.57	2,010	27	73	9.8	2.31	8.8	0.99
San Juan Basin Royalty Trust	SJT	CB	22.86	1.00	1,070	100	-	16.9	0.99	4.3	0.91
Legacy Reserves L.P.	LGCY		25.85	1.45	1,640	22	78	7.9	2.18	8.4	0.90
Hugoton RoyaltyTrust	HGT		19.74	1.00	790	88	13	17.6	0.98	5.0	0.90
Enduro Royalty Trust (40%)	NDRO		19.33	1.00	260	47	53	8.3	1.62	8.4	0.88
Mesa RoyaltyTrust	MTR		41.73	1.00	78	75	25	11.1	3.34	8.0	0.79
Enerplus Corporation	ERF	CB	23.90	1.30	5,600	29	71	7.3	2.12	8.9	0.70
<i>Total or Median</i>					21,000			10.5		8.2	0.90
Composite											
<i>Enterprise Value Weighting</i>					68,100	38	62				0.75
<i>Equal Weighting</i>						48	52				0.84
<i>Equal Weighted Buys</i>						45	55				0.73

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 December 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		Market	Net		
	Symbol/	(\$/sh)	Shares	Cap	Present	Debt/	
	Rating	15-Dec	(mm)	(\$mm)	Value	Present	McDep
		2011			(\$/un)	Value	Ratio
Small Cap Independent Producers							
PDC Energy	PETD	34.53	23.8	820	36.00	0.39	0.97
Peyto Exploration and Development Cor	PEYUF	23.04	133.1	3,070	24.00	0.14	0.97
Range Resources	RRC	B	59.71	159.0	9,490	70.00	0.17
Birchcliff Energy Ltd.	BIREF	CB	12.65	131.0	1,660	16.00	0.16
Berry Petroleum Company	BRY		35.99	54.7	1,970	70.00	0.27
Denbury Resources Inc.	DNR		14.50	403.0	5,840	28.00	0.18
Whiting Petroleum Corporation	WLL	CB	43.40	119.0	5,160	90.00	0.13
Cimarex Energy Company	XEC	CB	60.34	86.2	5,200	120.00	0.07
<i>Total or Median</i>					33,210		0.16
Top Line Cash Payers							
Cross Timbers Royalty Trust	CRT		47.94	6.0	290	45.00	-
Sabine Royalty Trust	SBR		64.11	14.6	940	70.00	-
Permian Basin RT	PBT		19.88	46.6	930	22.00	-
Freehold Royalties Ltd.	FRHLF		18.36	58.8	1,080	22.00	0.05
Dorchester Minerals, L.P.	DMLP	CB	21.87	30.7	670	30.00	-
<i>Total or Median</i>					3,910		0.90
Bottom Line Cash Payers							
Linn Energy, LLC	LINE		37.19	176.0	6,550	34.00	0.33
Vanguard Natural Resources, LLC	VNR		26.38	48.8	1,290	27.00	0.36
San Juan Basin Royalty Trust	SJT	CB	22.86	46.6	1,070	25.00	-
Legacy Reserves L.P.	LGCY		25.85	43.6	1,130	30.00	0.28
Hugoton Royalty Trust	HGT		19.74	40.0	790	22.00	-
Enduro Royalty Trust (40%)	NDRO		19.33	13.2	260	22.00	-
Mesa Royalty Trust	MTR		41.73	1.9	78	53.00	-
Enerplus Corporation	ERF	CB	23.90	180.6	4,320	37.00	0.16
<i>Total or Median</i>					15,490		0.90
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		15-Dec 2011	Royalty (%)	Ebitda	NTM	NTM	NTM
Small Cap Independent Producers								
Range Resources	RRC	B	59.71		-	14.0	16.6	14.5
Birchcliff Energy Ltd.	BIREF	CB	12.65		-	19.3	14.5	12.0
Peyto Exploration and Development Corp	PEYUF		23.04		0.34	12.9	11.4	11.0
PDC Energy	PETD		34.53		-	8.1	8.4	8.2
Berry Petroleum Company	BRY		35.99		-	11.4	8.3	5.3
Denbury Resources Inc.	DNR		14.50		-	12.6	8.8	5.3
Cimarex Energy Company	XEC	CB	60.34		-	6.9	8.7	4.6
Whiting Petroleum Corporation	WLL	CB	43.40		-	8.5	7.2	4.0
	<i>Median</i>					12.0	8.7	6.8
Top Line Cash Payers								
Cross Timbers Royalty Trust	CRT		47.94	80	0.97	14.0	15.3	16.3
Sabine Royalty Trust	SBR		64.11	100	1.00	7.3	16.9	15.4
Permian Basin RT	PBT		19.88	32	0.98	17.2	15.4	13.9
Dorchester Minerals, L.P.	DMLP	CB	21.87	77	0.83	6.1	13.4	9.8
Freehold Royalties Ltd.	FRHLF		18.36	71	0.84	6.7	11.2	9.4
	<i>Median</i>					7.3	15.3	13.9
Bottom Line Cash Payers								
Hugoton Royalty Trust	HGT		19.74		0.88	14.3	19.6	17.6
San Juan Basin Royalty Trust	SJT	CB	22.86		0.73	8.7	18.5	16.9
Linn Energy, LLC	LINE		37.19		1.03	16.2	12.7	13.5
Mesa Royalty Trust	MTR		41.73		0.89	13.9	14.1	11.1
Vanguard Natural Resources, LLC	VNR		26.38		0.85	8.7	10.0	9.8
Enduro Royalty Trust (40%)	NDRO		19.33		0.70	7.4	9.5	8.3
Legacy Reserves L.P.	LGCY		25.85		0.64	9.9	8.8	7.9
Enerplus Corporation	ERF	CB	23.90		0.59	8.4	10.3	7.3
	<i>Median</i>					9.3	11.5	10.5
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 December 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		15-Dec 2011	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	McDep Ratio
Small Cap Independent Producers								
Peyto Exploration and Development C	PEYUF		23.04	0.91	1.25	1.03	1.06	0.97
PDC Energy	PETD		34.53	0.79	1.51	1.11	1.03	0.97
Range Resources	RRC	B	59.71	0.81	1.33	0.89	1.00	0.88
Birchcliff Energy Ltd.	BIREF	CB	12.65	0.85	1.27	0.94	0.97	0.83
Berry Petroleum Company	BRY		35.99	0.71	1.10	0.93	0.85	0.65
Denbury Resources Inc.	DNR		14.50	0.64	1.26	0.95	0.84	0.60
Whiting Petroleum Corporation	WLL	CB	43.40	0.64	1.34	0.97	0.83	0.55
Cimarex Energy Company	XEC	CB	60.34	0.55	1.16	0.96	0.76	0.54
	<i>Median</i>			<i>0.75</i>	<i>1.26</i>	<i>0.95</i>	<i>0.91</i>	<i>0.74</i>
Top Line Cash Payers								
Cross Timbers Royalty Trust	CRT		47.94	0.99	1.27	1.02	1.07	1.07
Sabine Royalty Trust	SBR		64.11	0.91	1.35	0.98	1.00	0.92
Permian Basin RT	PBT		19.88	0.85	1.10	1.00	0.94	0.90
Freehold Royalties Ltd.	FRHLF		18.36	0.77	1.32	1.03	0.92	0.84
Dorchester Minerals, L.P.	DMLP	CB	21.87	0.73	1.05	0.92	0.85	0.73
	<i>Median</i>			<i>0.85</i>	<i>1.27</i>	<i>1.00</i>	<i>0.94</i>	<i>0.90</i>
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		37.19	0.93	1.13	1.00	0.99	1.06
Vanguard Natural Resources, LLC	VNR		26.38	0.85	1.12	0.98	0.95	0.99
San Juan Basin Royalty Trust	SJT	CB	22.86	0.82	1.12	0.95	0.94	0.91
Mesa RoyaltyTrust	MTR		41.73	0.82	1.07	0.97	0.93	0.79
Legacy Reserves L.P.	LGCY		25.85	0.83	1.11	0.95	0.93	0.90
Hugoton RoyaltyTrust	HGT		19.74	0.80	1.03	0.92	0.89	0.90
Enerplus Corporation	ERF	CB	23.90	0.77	1.08	0.93	0.86	0.70
	<i>Median</i>			<i>0.82</i>	<i>1.11</i>	<i>0.95</i>	<i>0.93</i>	<i>0.90</i>

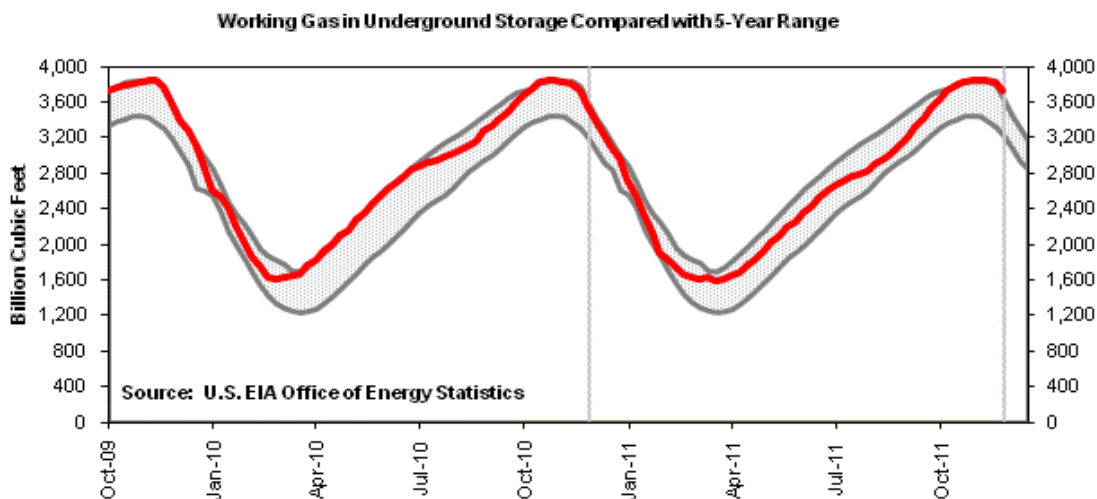
CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.



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Research Methodology/Ratings Description: McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the forty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.