



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

December 30, 2011

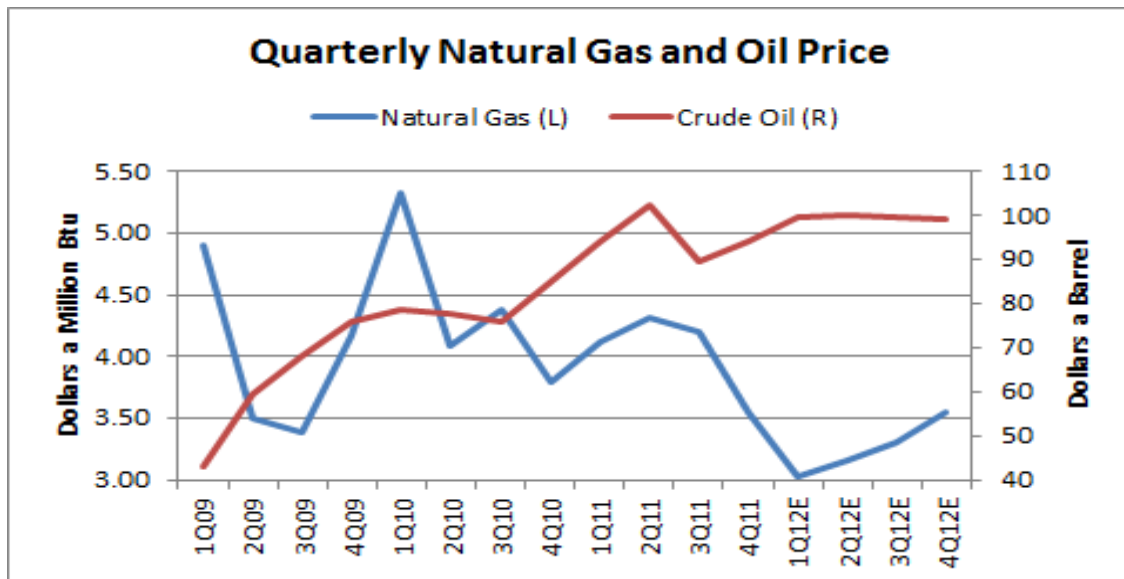
## Income for 2012

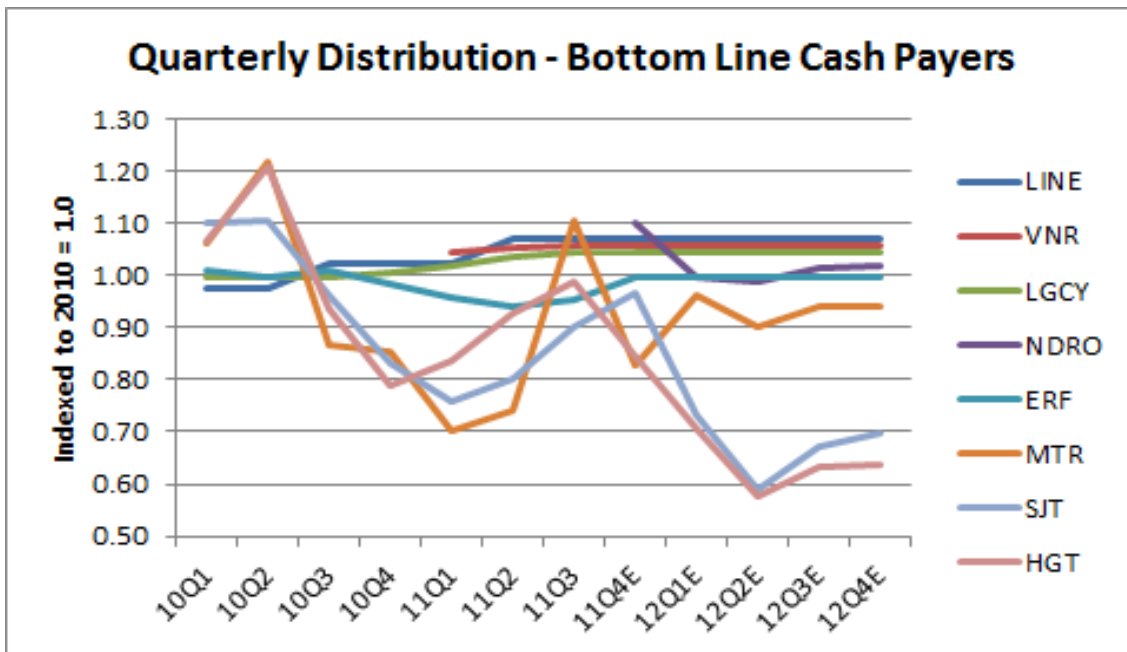
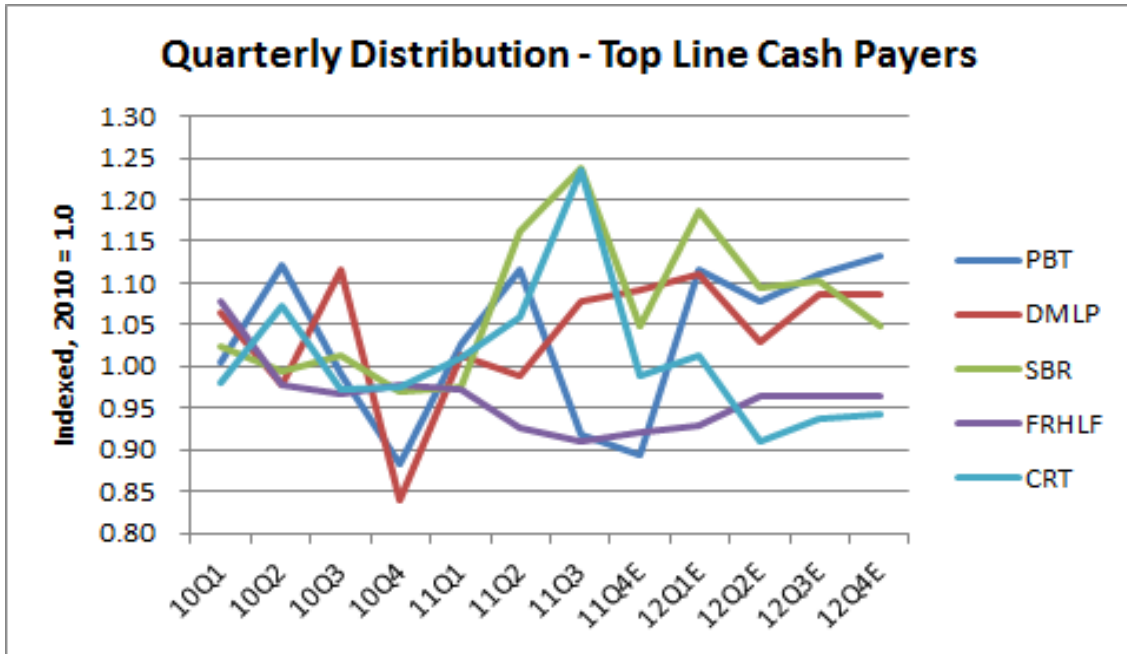
### Summary and Recommendation

Distribution yields for 13 oil and gas income stocks may be in the range of 5-8% in 2012 (see [Table ISC-1](#) on page 3). Distributions vary directly with oil and/or natural gas price for four of five Top Line Cash Payers (TLCP) and for four of eight Bottom Line Cash Payers (BLCP) (see charts [TLCP](#) and [BLCP](#) on page 2). Increases in oil prices in 2011 may be sustained in 2012 while a declining trend for natural gas price in 2011 may continue in 2012, according to the futures market as of December 29 (see chart [Quarterly Price](#) below). If those price trends hold, the three stocks most concentrated on natural gas will likely yield the lowest. Yet, even a low yield near 5% can be attractive compared to traditional income alternatives.

McDep Ratios near 1.0 attest to the attractiveness of the income model for publicly traded cash generating assets, as we see it. Among recommendations, we think Contrarian Buy **Enerplus (ERF)** should get more recognition for its income strategy than indicated in its McDep Ratio of 0.76. Similarly, Contrarian Buy **Dorchester Minerals (DMLP)** seems underappreciated at a McDep Ratio of 0.84 for growing volumes from oil and gas wells drilled on its properties and paid for by others. Contrarian Buy **San Juan Basin Royalty Trust (SJT)**, though well-recognized at a McDep Ratio of 1.09 on reduced natural gas price expectations, is backed by a resource that will still be there for any swing up again in a volatile market. Demonstrating its staying power, SJT stock with distributions is up 23 times in thirty years for an unlevered total return of 11.2 % a year according to *Bloomberg*.

Kurt H. Wulff, CFA







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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	29-Dec	Market	Value	Nat	Ebitda	NTM	Yield	McDep			
CB (see below)	2011	Cap	(\$mm)	Gas	Oil	NTM	(\$/un)	(%)	Ratio		
<b>Small Cap Independent Producers</b>											
Peyto Exploration and Developmen	PEYUF		23.78	1.17	3,700	75	25	11.8	0.70	3.0	0.99
PDC Energy	PETD		35.23	1.65	1,380	57	43	8.4	-	-	0.99
Range Resources	RRC	B	62.45	1.22	12,130	66	34	15.5	0.16	0.3	0.91
Birchcliff Energy Ltd.	BIREF	B	13.42	1.23	2,160	56	44	12.8	-	-	0.87
Berry Petroleum Company	BRY		41.52	1.63	3,710	17	83	5.8	0.32	0.8	0.70
Denbury Resources Inc.	DNR		15.17	1.41	8,600	4	96	5.4	-	-	0.62
Cimarex Energy Company	XEC	CB	62.20	1.14	6,120	41	59	4.8	0.40	0.6	0.60
Whiting Petroleum Corporation	WLL	CB	46.28	1.29	7,120	9	91	4.1	-	-	0.59
<i>Total or Median</i>					44,900			7.1			0.78
<b>Top Line Cash Payers</b>											
Cross Timbers Royalty Trust	CRT		49.13	1.00	300	87	13		2.65	5.4	1.12
Permian Basin RT	PBT		20.45	1.00	950	37	63		1.53	7.5	1.02
Sabine Royalty Trust	SBR		63.46	1.00	930	55	45		4.10	6.5	0.98
Freehold Royalties Ltd.	FRHLF		19.19	1.06	1,200	14	86		1.64	8.5	0.92
Dorchester Minerals, L.P.	DMLP	CB	22.74	1.00	700	57	43		1.82	8.0	0.84
<i>Total or Median</i>					4,100					7.5	0.98
<b>Bottom Line Cash Payers</b>											
Linn Energy, LLC	LINE		37.94	1.44	9,640	29	71	13.6	2.76	7.3	1.17
Hugoton RoyaltyTrust	HGT		19.18	1.00	770	87	13	17.0	0.99	5.2	1.13
San Juan Basin Royalty Trust	SJT	CB	22.98	1.00	1,070	100	-	15.7	1.13	4.9	1.09
Vanguard Natural Resources, LLC	VNR		27.54	1.54	2,070	26	74	10.1	2.31	8.4	1.06
Enduro Royalty Trust (40%)	NDRO		20.49	1.00	270	45	55	8.5	1.69	8.2	0.97
Legacy Reserves L.P.	LGCY		28.36	1.41	1,750	19	81	8.4	2.18	7.7	0.96
Mesa RoyaltyTrust	MTR		40.00	1.00	75	75	25	10.9	3.27	8.2	0.84
Enerplus Corporation	ERF	CB	25.07	1.29	5,800	26	74	7.5	2.11	8.4	0.76
<i>Total or Median</i>					21,400			10.5		7.9	1.02
<b>Composite</b>											
<i>Enterprise Value Weighting</i>					70,400	37	63				0.80
<i>Equal Weighting</i>						47	53				0.91
<i>Equal Weighted Buys</i>						43	57				0.81

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 December 31, 2012. Enterprise Value = Market Cap and Debt.





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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		29-Dec 2011	Royalty (%)	Ebitda	NTM	NTM	NTM
<b>Small Cap Independent Producers</b>								
Range Resources	RRC	B	62.45		-	14.0	17.0	15.5
Birchcliff Energy Ltd.	BIREF	B	13.42		-	19.3	14.8	12.8
Peyto Exploration and Development Corp	PEYUF		23.78		0.35	12.9	11.8	11.8
PDC Energy	PETD		35.23		-	8.1	8.5	8.4
Berry Petroleum Company	BRY		41.52		-	11.4	8.2	5.8
Denbury Resources Inc.	DNR		15.17		-	12.6	8.6	5.4
Cimarex Energy Company	XEC	CB	62.20		-	6.9	8.0	4.8
Whiting Petroleum Corporation	WLL	CB	46.28		-	8.5	7.0	4.1
	<i>Median</i>					12.0	8.5	7.1
<b>Top Line Cash Payers</b>								
Cross Timbers Royalty Trust	CRT		49.13	80	0.96	14.1	16.0	17.9
Sabine Royalty Trust	SBR		63.46	100	1.00	7.3	15.9	15.5
Permian Basin RT	PBT		20.45	32	0.98	17.2	12.9	13.2
Dorchester Minerals, L.P.	DMLP	CB	22.74	77	0.83	6.1	12.4	10.4
Freehold Royalties Ltd.	FRHLF		19.19	71	0.83	6.7	10.6	9.7
	<i>Median</i>					7.3	12.9	13.2
<b>Bottom Line Cash Payers</b>								
Hugoton Royalty Trust	HGT		19.18		0.88	14.0	15.1	17.0
San Juan Basin Royalty Trust	SJT	CB	22.98		0.77	8.5	14.3	15.7
Linn Energy, LLC	LINE		37.94		1.07	16.2	11.7	13.6
Mesa Royalty Trust	MTR		40.00		0.88	13.9	13.0	10.9
Vanguard Natural Resources, LLC	VNR		27.54		0.87	8.7	9.5	10.1
Enduro Royalty Trust (40%)	NDRO		20.49		0.70	6.6	8.7	8.5
Legacy Reserves L.P.	LGCY		28.36		0.63	9.9	8.7	8.4
Enerplus Corporation	ERF	CB	25.07		0.59	8.4	9.8	7.5
	<i>Median</i>					9.3	10.8	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		29-Dec 2011	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	McDep Ratio
<b>Small Cap Independent Producers</b>								
Peyto Exploration and Development C	PEYUF		23.78	0.93	1.29	1.03	1.08	0.99
PDC Energy	PETD		35.23	0.80	1.53	1.07	1.06	0.99
Range Resources	RRC	B	62.45	0.84	1.31	0.93	1.03	0.91
Birchcliff Energy Ltd.	BIREF	B	13.42	0.89	1.33	0.98	1.02	0.87
Berry Petroleum Company	BRY		41.52	0.78	1.19	1.01	0.93	0.70
Whiting Petroleum Corporation	WLL	CB	46.28	0.67	1.41	1.00	0.89	0.59
Denbury Resources Inc.	DNR		15.17	0.66	1.30	0.97	0.88	0.62
Cimarex Energy Company	XEC	CB	62.20	0.56	1.19	0.97	0.80	0.60
	<i>Median</i>			<i>0.79</i>	<i>1.31</i>	<i>0.99</i>	<i>0.97</i>	<i>0.78</i>
<b>Top Line Cash Payers</b>								
Cross Timbers Royalty Trust	CRT		49.13	0.96	1.30	1.03	1.09	1.12
Sabine Royalty Trust	SBR		63.46	0.90	1.34	0.97	0.99	0.98
Permian Basin RT	PBT		20.45	0.87	1.14	1.02	0.97	1.02
Freehold Royalties Ltd.	FRHLF		19.19	0.80	1.37	1.05	0.96	0.92
Dorchester Minerals, L.P.	DMLP	CB	22.74	0.76	1.09	0.97	0.89	0.84
	<i>Median</i>			<i>0.87</i>	<i>1.30</i>	<i>1.02</i>	<i>0.97</i>	<i>0.98</i>
<b>Bottom Line Cash Payers</b>								
Linn Energy, LLC	LINE		37.94	0.94	1.14	1.01	1.00	1.17
Legacy Reserves L.P.	LGCY		28.36	0.88	1.19	1.02	0.99	0.96
Vanguard Natural Resources, LLC	VNR		27.54	0.87	1.15	1.01	0.98	1.06
San Juan Basin Royalty Trust	SJT	CB	22.98	0.82	1.13	0.96	0.95	1.09
Enerplus Corporation	ERF	CB	25.07	0.80	1.12	0.97	0.90	0.76
Mesa RoyaltyTrust	MTR		40.00	0.80	1.03	0.93	0.90	0.84
Hugoton RoyaltyTrust	HGT		19.18	0.78	1.01	0.91	0.86	1.13
	<i>Median</i>			<i>0.82</i>	<i>1.13</i>	<i>0.97</i>	<i>0.95</i>	<i>1.06</i>

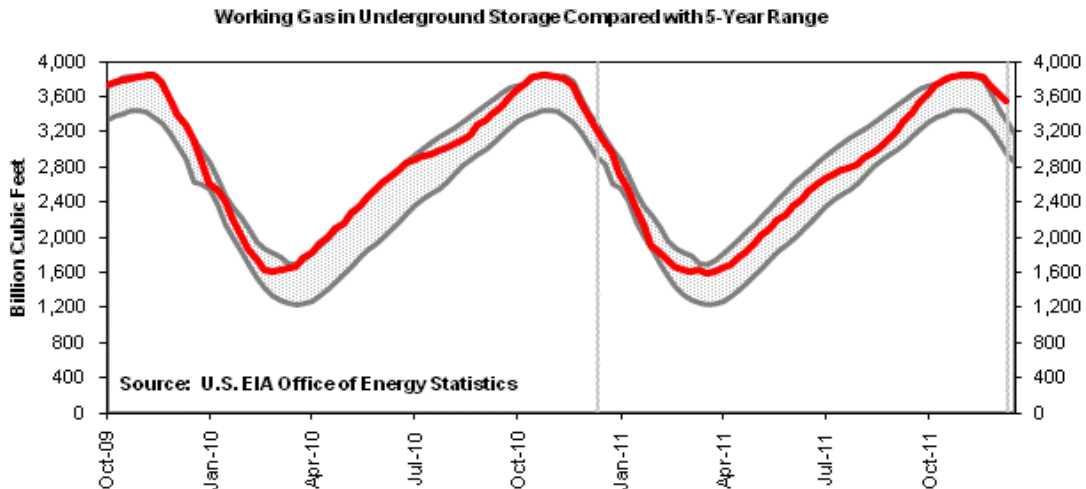
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