



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

July 13, 2012

## Low-Priced Stocks

### Summary and Recommendation

Four Contrarian Buys -- **Enerplus Corporation (ERF)**, **Birchcliff Energy (BIREF)**, **Whiting Petroleum (WLL)** and **Cimarex Energy (XEC)** -- and three more low-priced stocks -- **Hugoton Royalty Trust (HGT)**, **Permian Basin Royalty Trust (PBT)** and **Halcón Resources (HK)** -- may be timely for new commitments because each ranks among the three lowest in at least one of five price measures (see table Low-Priced Stocks below). One measure, the McDep Ratio depends on fundamental factors (see Tables ISC-1 to ISC-3 on pages 2 to 4). Four measures depend on past price action, which we neutralize for financial leverage. By adding debt per share to the numerator and denominator we get unlevered ratios that allow comparisons on the basis of total enterprise value controlled by equity holders (see Table ISC-4 on page 5). Unfavorable developments that contributed to stock price declines in each case are likely to be reversed, we expect, though the timing may be less assured. Economic, political, business and company trends are exaggerated by emotions all of which are inherently cyclical. By experience, we have learned that some of the best opportunities in stocks we know well occur when we feel pain and most investors appear fearful.

Kurt H. Wulff, CFA

Low-Priced Stocks								
Three Lowest by Price Measure								
Symbol/ Rating			Price (\$/sh)		Enterprise Value/			McDep Ratio
			12-Jul 2012	52Wk Low	50 Day Avg.	200 Day Avg.	52Wk High	
<b>Small Cap Independent Producers</b>								
Birchcliff Energy Ltd.	BIREF	CB	5.97			0.67	0.48	0.60
Cimarex Energy Company	XEC	CB	51.19	1.09				
Halcón Resources	HK		8.43		0.88			
Whiting Petroleum Corporation	WLL	CB	39.21		0.92			
<b>Top Line Cash Payers</b>								
Permian Basin RT	PBT		17.92	1.09				
<b>Bottom Line Cash Payers</b>								
Enerplus Corporation	ERF	CB	12.69	1.07		0.70	0.52	0.72
Hugoton RoyaltyTrust	HGT		7.54		0.84	0.49	0.32	0.54



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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	12-Jul	Market	Value	Nat	Oil	Ebitda	NTM	Yield	McDep		
CB (see below)	2012	Cap	(\$mm)	Gas		NTM	(\$/un)	(%)	Ratio		
<b>Small Cap Independent Producers</b>											
Continental Resources	CLR	65.43	1.20	14,110	27	73	8.1	-	-	0.95	
Range Resources	RRC CB	57.50	1.29	11,890	71	29	12.9	0.16	0.3	0.86	
Halcón Resources	HK	8.43	1.08	1,540	20	80	7.6	-	-	0.86	
Payto Exploration and Developmen	PEYUF	19.52	1.18	3,190	77	23	10.1	0.70	3.6	0.84	
PDC Energy	PEID	25.09	1.89	1,130	56	44	7.5	-	-	0.76	
Berry Petroleum Company	BRY	38.45	1.74	3,660	13	87	5.8	0.32	0.8	0.68	
Birchcliff Energy Ltd.	BIREF CB	5.97	1.50	1,350	62	38	9.3	-	-	0.60	
Denbury Resources Inc.	DNR	13.74	1.51	8,090	6	94	5.4	-	-	0.59	
Whiting Petroleum Corporation	WLL CB	39.00	1.40	6,510	8	92	4.4	-	-	0.53	
Cimarex Energy Company	XEC CB	51.19	1.24	5,450	42	58	4.8	0.48	0.9	0.52	
<i>Total or Median</i>				56,900			7.6			0.72	
<b>Top Line Cash Payers</b>											
Permian Basin RT	PBT	17.92	1.00	840	37	63		1.30	7.3	0.90	
Freehold Royalties Ltd.	FRHLF	17.57	1.04	1,190	16	84		1.64	9.4	0.84	
Sabine Royalty Trust	SBR	53.87	1.00	790	55	45		3.42	6.4	0.83	
Cross Timbers Royalty Trust	CRT	36.37	1.00	220	70	30		2.24	6.2	0.83	
Dorchester Minerals, L.P.	DMLP CB	22.03	1.00	680	57	43		1.83	8.3	0.82	
<i>Total or Median</i>				3,700					7.3	0.83	
<b>Bottom Line Cash Payers</b>											
Linn Energy, LLC	LINE	39.19	1.62	12,280	40	60	12.5	2.90	7.4	1.17	
Vanguard Natural Resources, LLC	VNR	27.75	1.47	2,150	27	74	10.9	2.37	8.5	1.07	
Legacy Reserves L.P.	LGCY	26.39	1.39	1,740	23	77	8.5	2.22	8.4	0.91	
Enduro Royalty Trust (40%)	NDRO	16.82	1.00	220	42	58	7.4	1.46	8.7	0.80	
San Juan Basin Royalty Trust	SJT CB	15.90	1.00	740	100	-	11.9	1.02	6.4	0.76	
Mesa RoyaltyTrust	MTR	30.00	1.00	56	75	25	9.9	2.59	8.6	0.75	
Enerplus Corporation	ERF CB	12.69	1.67	4,200	26	74	5.5	1.32	10.4	0.72	
Hugoton RoyaltyTrust	HGT	7.54	1.00	300	89	11	7.8	0.11	1.4	0.54	
<i>Total or Median</i>				21,700			9.2		8.5	0.78	
<b>Composite</b>											
<i>Enterprise Value Weighting</i>				82,300	36	64				0.77	
<i>Equal Weighting</i>					45	55				0.79	
<i>Equal Weighted Buys</i>					46	54				0.68	

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 June 30, 2013. 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			Net		
		(\$/sh)		Market	Present	Debt/	
	Symbol/	12-Jul	Shares	Cap	Value	Present	McDep
	Rating	2012	(mm)	(\$mm)	(\$/un)	Value	Ratio
<b>Small Cap Independent Producers</b>							
Continental Resources	CLR	65.43	180.0	11,780	70.00	0.16	0.95
Range Resources	RRC CB	57.50	160.0	9,200	70.00	0.19	0.86
Halcón Resources	HK	8.43	169.1	1,430	10.00	0.06	0.86
Peyto Exploration and Development Cor	PEYUF	19.52	138.3	2,700	24.00	0.13	0.84
PDC Energy	PETD	25.09	23.9	600	40.00	0.36	0.76
Berry Petroleum Company	BRY	38.45	54.7	2,100	70.00	0.29	0.68
Birchcliff Energy Ltd.	BIREF CB	5.97	150.6	900	12.00	0.20	0.60
Denbury Resources Inc.	DNR	13.74	391.0	5,370	28.00	0.20	0.59
Whiting Petroleum Corporation	WLL CB	39.00	119.0	4,640	88.00	0.15	0.53
Cimarex Energy Company	XEC CB	51.19	86.1	4,410	110.00	0.10	0.52
<i>Total or Median</i>				43,130		0.17	0.72
<b>Top Line Cash Payers</b>							
Permian Basin RT	PBT	17.92	46.6	840	20.00	-	0.90
Freehold Royalties Ltd.	FRHLF	17.57	64.7	1,140	21.00	0.03	0.84
Sabine Royalty Trust	SBR	53.87	14.6	790	65.00	-	0.83
Cross Timbers Royalty Trust	CRT	36.37	6.0	220	44.00	-	0.83
Dorchester Minerals, L.P.	DMLP CB	22.03	30.7	680	27.00	-	0.82
<i>Total or Median</i>				3,670			0.83
<b>Bottom Line Cash Payers</b>							
Linn Energy, LLC	LINE	39.19	193.0	7,560	30.00	0.45	1.17
Vanguard Natural Resources, LLC	VNR	27.75	52.5	1,460	25.00	0.34	1.07
Legacy Reserves L.P.	LGCY	26.39	47.5	1,250	30.00	0.26	0.91
Enduro Royalty Trust (40%)	NDRO	16.82	13.2	220	21.00	-	0.80
San Juan Basin Royalty Trust	SJT CB	15.90	46.6	740	21.00	-	0.76
Mesa RoyaltyTrust	MTR	30.00	1.9	56	40.00	-	0.75
Enerplus Corporation	ERF CB	12.69	196.0	2,490	21.00	0.29	0.72
Hugoton RoyaltyTrust	HGT	7.54	40.0	300	14.00	-	0.54
<i>Total or Median</i>				14,080			0.78
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 \$6 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		12-Jul 2012	Royalty (%)	Ebitda	NTM	NTM	NTM
<b>Small Cap Independent Producers</b>								
Range Resources	RRC	CB	57.50		-	13.2	15.0	12.9
Peyto Exploration and Development Corp	PEYUF		19.52		0.35	10.0	12.1	10.1
Birchcliff Energy Ltd.	BIREF	CB	5.97		-	21.6	15.5	9.3
Continental Resources	CLR		65.43		-	9.6	8.5	8.1
Halcón Resources	HK		8.43		-	7.1	8.9	7.6
PDC Energy	PETD		25.09		-	8.1	9.8	7.5
Berry Petroleum Company	BRY		38.45		-	11.8	8.6	5.8
Denbury Resources Inc.	DNR		13.74		-	13.1	9.0	5.4
Cimarex Energy Company	XEC	CB	51.19		-	8.1	9.2	4.8
Whiting Petroleum Corporation	WLL	CB	39.00		-	9.5	8.3	4.4
	<i>Median</i>					9.8	9.1	7.6
<b>Top Line Cash Payers</b>								
Sabine Royalty Trust	SBR		53.87	100	1.00	8.7	19.0	15.7
Cross Timbers Royalty Trust	CRT		36.37	78	0.96	17.7	18.8	15.5
Permian Basin RT	PBT		17.92	32	0.88	9.7	13.6	12.1
Dorchester Minerals, L.P.	DMLP	CB	22.03	77	1.00	6.6	14.7	12.0
Freehold Royalties Ltd.	FRHLF		17.57	71	0.88	5.4	11.2	9.5
	<i>Median</i>					8.7	14.7	12.1
<b>Bottom Line Cash Payers</b>								
Linn Energy, LLC	LINE		39.19		1.03	14.3	10.7	12.5
San Juan Basin Royalty Trust	SJT	CB	15.90		0.76	8.6	15.7	11.9
Vanguard Natural Resources, LLC	VNR		27.75		0.97	13.6	10.2	10.9
Mesa Royalty Trust	MTR		30.00		0.85	8.0	13.1	9.9
Legacy Reserves L.P.	LGCY		26.39		0.69	11.3	9.4	8.5
Hugoton Royalty Trust	HGT		7.54		0.11	13.6	14.4	7.8
Enduro Royalty Trust (40%)	NDRO		16.82		0.64	5.5	9.2	7.4
Enerplus Corporation	ERF	CB	12.69		0.48	6.3	7.6	5.5
	<i>Median</i>					10.0	10.5	9.2
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 June 30, 2013; 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	12-Jul 2012	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	McDep Ratio	
<b>Small Cap Independent Producers</b>								
Peyto Exploration and Development C	PEYUF		19.52	0.79	1.27	1.08	1.00	0.84
Range Resources	RRC	CB	57.50	0.79	1.09	0.96	0.94	0.86
Berry Petroleum Company	BRY		38.45	0.75	1.13	1.00	0.94	0.68
Continental Resources	CLR		65.43	0.71	1.42	0.93	0.91	0.95
PDC Energy	PETD		25.09	0.76	1.27	0.99	0.90	0.76
Denbury Resources Inc.	DNR		13.74	0.73	1.21	0.93	0.88	0.59
Whiting Petroleum Corporation	WLL	CB	39.00	0.69	1.23	0.92	0.86	0.53
Cimarex Energy Company	XEC	CB	51.19	0.60	1.09	0.95	0.83	0.52
Birchcliff Energy Ltd.	BIREF	CB	5.97	0.48	1.13	0.99	0.67	0.60
Halcón Resources	HK		8.43	0.65		0.88		0.86
	<i>Median</i>			<i>0.72</i>	<i>1.21</i>	<i>0.95</i>	<i>0.90</i>	<i>0.72</i>
<b>Top Line Cash Payers</b>								
Freehold Royalties Ltd.	FRHLF		17.57	0.78	1.27	0.99	0.95	0.84
Dorchester Minerals, L.P.	DMLP	CB	22.03	0.78	1.11	1.00	0.94	0.82
Sabine Royalty Trust	SBR		53.87	0.80	1.18	1.05	0.89	0.83
Permian Basin RT	PBT		17.92	0.77	1.09	0.98	0.89	0.90
Cross Timbers Royalty Trust	CRT		36.37	0.71	1.14	0.99	0.84	0.83
	<i>Median</i>			<i>0.78</i>	<i>1.14</i>	<i>0.99</i>	<i>0.89</i>	<i>0.83</i>
<b>Bottom Line Cash Payers</b>								
Linn Energy, LLC	LINE		39.19	0.97	1.15	1.03	1.03	1.17
Vanguard Natural Resources, LLC	VNR		27.75	0.91	1.17	1.05	1.02	1.07
Legacy Reserves L.P.	LGCY		26.39	0.89	1.14	1.01	0.97	0.91
San Juan Basin Royalty Trust	SJT	CB	15.90	0.63	1.32	1.04	0.81	0.76
Mesa RoyaltyTrust	MTR		30.00	0.61	1.20	0.99	0.78	0.75
Enerplus Corporation	ERF	CB	12.69	0.52	1.07	0.94	0.70	0.72
Hugoton RoyaltyTrust	HGT		7.54	0.32	1.18	0.84	0.49	0.54
	<i>Median</i>			<i>0.63</i>	<i>1.17</i>	<i>1.01</i>	<i>0.81</i>	<i>0.76</i>

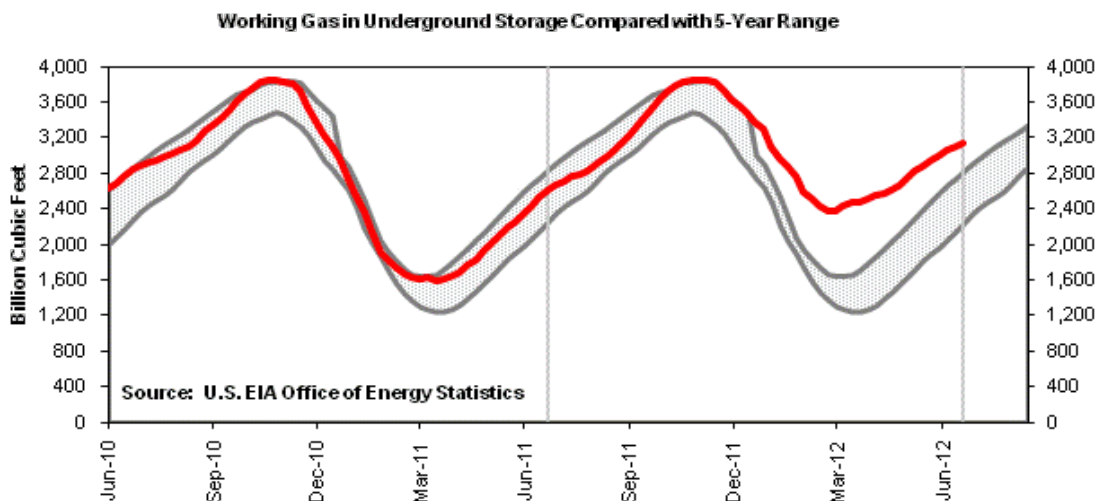
CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.



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