



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

October 26, 2012

RTF Distributions Turn Up

Summary and Recommendation

Distributions to be paid in October are higher than those in September for five of the six royalty trusts making their disclosures of monthly distributions on October 19. Month-to-month increases are 406% for SJT, 32% for CRT, 22% for PBT, 11% for HGT, 1% for MTR and -1% for NDRO (see charts [Monthly Distributions](#) on page 2). Among the remaining three cash payers in our nine-stock model Royalty Trust Fund, SBR declares at the beginning of the next month, FRHLF seldom varies from month to month and DMLP declares quarterly. About 60% of the value of the cash payers is concentrated on natural gas price which recovered from an abnormally low price in the spring and is now rising ahead of the next winter. Today's natural gas price would show up in distributions after two months usually and in some cases as late as five months. Taking future price, volume and costs into account, we estimate that the model RTF will pay cash at the rate of 8.3% of current value over the next twelve months (see table [The \\$20 Million RTF](#) below). McDep Ratio for the whole RTF remains near the same low level as when we introduced the RTF idea on October 5. HGT offers unusual appreciation potential with the expectation that normal distributions will resume by the third quarter of next year when deductions for a legal settlement may be mostly satisfied. CRT looks timely on a drop in McDep Ratio to 0.63 from 0.72 even as monthly distribution was up 32%. HGT and CRT have earned negative returns of 62% and 41% in 2012, perhaps stimulating frustrated selling just as it sets up stronger upside potential for next year.

Kurt H. Wulff, CFA

The \$20 Million RTF (Royalty Trust Fund)										
			Price	Fund						
	Symbol/Rating	(US\$/sh)	Shares	Market	Top	PV(%)		Dist.	Dist.	McDep
	B = Buy	25-Oct	or Units	Value	Line	Nat	Oil	NTM	Yield	Ratio
	CB (see below)	2012	(thous.)	(\$mm)	(%)	Gas		(\$/un)	(%)	
Freehold Royalties Ltd.	FRHLF	20.37	110	2.2	71	16	84	1.70	8.4	0.97
Enduro Royalty Trust (40%)	NDRO	18.91	130	2.5	0	39	61	1.77	9.3	0.90
Dorchester Minerals, L.P.	DMLP CB	22.44	100	2.2	77	57	43	1.89	8.4	0.83
Sabine Royalty Trust	SBR	49.36	50	2.5	100	55	45	3.88	7.9	0.76
Permian Basin RT	PBT	14.25	150	2.1	47	37	63	1.07	7.5	0.71
San Juan Basin Royalty Trust	SJT CB	14.37	160	2.3	0	100	-	1.20	8.4	0.68
Cross Timbers Royalty Trust	CRT	27.75	70	1.9	78	70	30	2.62	9.5	0.63
Mesa Royalty Trust	MTR	25.46	90	2.3	0	75	25	2.19	8.6	0.63
Hugoton Royalty Trust	HGT	6.81	350	2.4	0	88	13	0.45	6.6	0.49
	<i>Total</i>				20.5	60	40		8.3	0.71

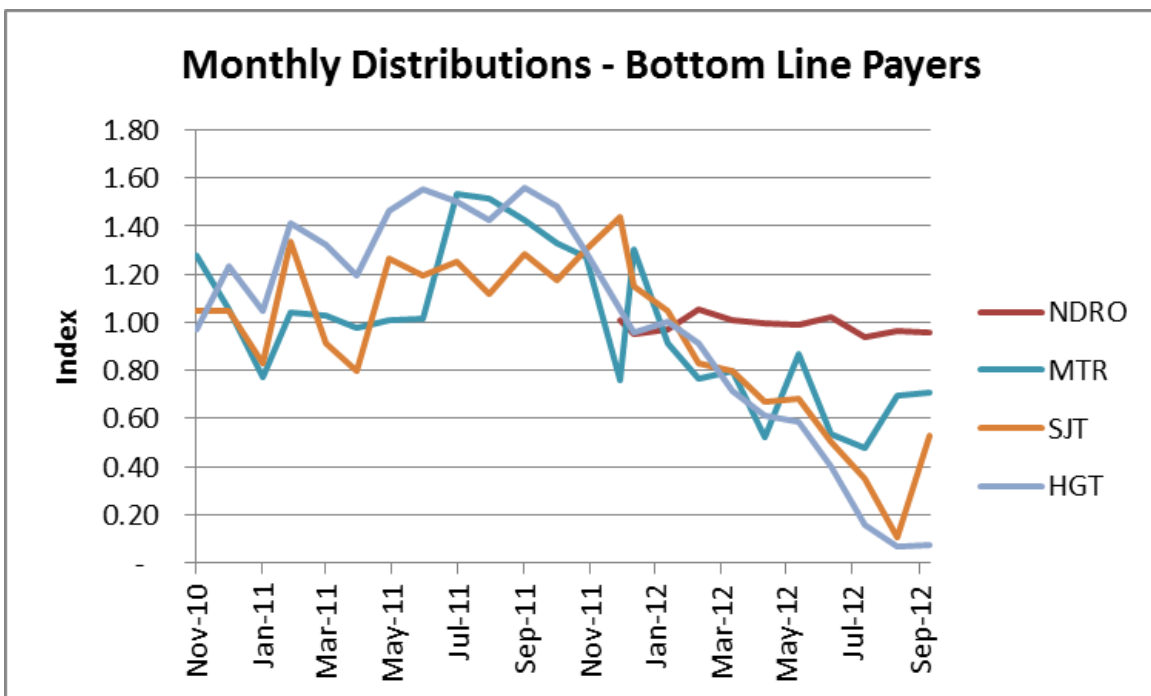
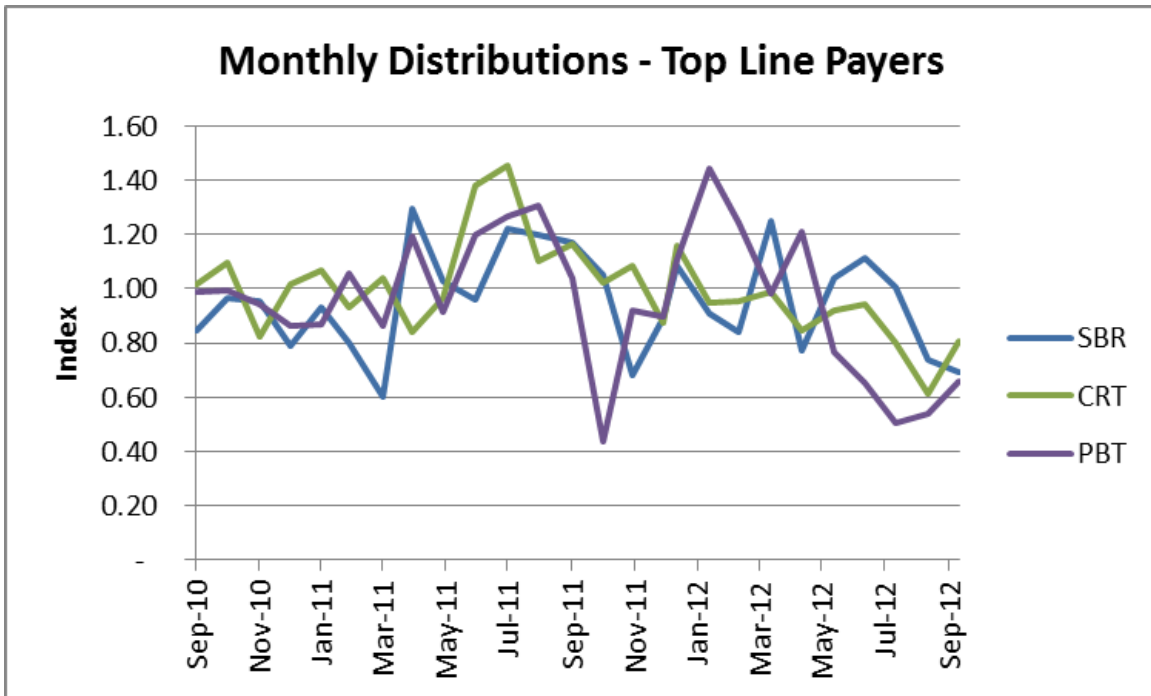
CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.
 McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses.
 Present Value (PV) presumes long-term prices of \$100 a barrel for oil and \$6 a million btu for natural gas.
 Dist. = Income distribution. NTM = Next Twelve Months Ended September 30, 2013. Enterprise Value = Market Cap and Debt.



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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	25-Oct	Market	Value	Nat	Ebitda	NTM	Yield	McDep		
CB (see below)	2012	Cap	(\$mm)	Gas	Oil	NTM	(\$/un)	(%)	Ratio	
Small Cap Independent Producers										
Peyto Exploration and Development	PEYUF	24.90	1.17	4,180	77	23	10.4	0.73	2.9	1.03
PDC Energy	PDCE	29.86	1.76	1,640	54	46	9.8	-	-	1.00
Range Resources	RRC B	66.45	1.30	13,800	74	26	13.3	0.16	0.2	0.96
Continental Resources (32%)	CLR CB	72.50	1.20	5,030	20	80	7.3	-	-	0.76
Birchcliff Energy Ltd.	BIREF B	8.22	1.42	1,730	63	37	10.5	-	-	0.76
Halcón Resources	HK	6.60	1.39	2,650	12	88	6.6	-	-	0.73
Berry Petroleum Company	BRY	38.29	1.78	3,710	13	87	5.3	-	-	0.68
Denbury Resources Inc.	DNR	15.28	1.53	9,110	6	94	5.7	-	-	0.65
Cimarex Energy Company	XEC CB	58.55	1.25	6,300	45	55	5.2	0.48	0.8	0.59
Whiting Petroleum Corporation	WLL CB	42.91	1.42	7,240	9	91	4.7	-	-	0.57
<i>Total or Median</i>				55,400			6.9			0.74
Top Line Cash Payers										
Freehold Royalties Ltd.	FRHLF	20.37	1.04	1,370	16	84		1.70	8.4	0.97
Dorchester Minerals, L.P.	DMLP CB	22.44	1.00	690	57	43		1.89	8.4	0.83
Sabine Royalty Trust	SBR	49.36	1.00	720	55	45		3.88	7.9	0.76
Permian Basin RT	PBT	14.25	1.00	660	37	63		1.07	7.5	0.71
Cross Timbers Royalty Trust	CRT	27.75	1.00	170	70	30		2.62	9.5	0.63
<i>Total or Median</i>				3,600					8.4	0.76
Bottom Line Cash Payers										
Linn Energy, LLC	LINE	41.95	1.73	14,340	40	60	13.7	2.90	6.9	1.20
Vanguard Natural Resources, LLC	VNR	29.98	1.66	2,600	23	77	10.8	2.40	8.0	1.11
Legacy Reserves L.P.	LGCY	29.27	1.31	1,820	24	76	9.2	2.24	7.7	0.98
Enduro Royalty Trust (40%)	NDRO	18.91	1.00	250	39	61	8.3	1.77	9.3	0.90
Enerplus Corporation	ERF CB	16.04	1.59	5,000	30	70	6.7	1.10	6.8	0.84
San Juan Basin Royalty Trust	SJT CB	14.37	1.00	670	100	-	8.9	1.20	8.4	0.68
Mesa Royalty Trust	MTR	25.46	1.00	47	75	25	8.6	2.19	8.6	0.63
Hugoton Royalty Trust	HGT	6.81	1.00	270	88	13	5.8	0.45	6.6	0.49
<i>Total or Median</i>				25,000			8.8		7.8	0.87
Composite										
<i>Enterprise Value Weighting</i>				84,000	38	62				0.81
<i>Equal Weighting</i>					45	55				0.80
<i>Equal Weighted Buys</i>					49	51				0.75

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.

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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		25-Oct 2012	Royalty (%)	Ebitda	NTM	NTM	NTM
Small Cap Independent Producers								
Range Resources	RRC	B	66.45		-	13.8	13.9	13.3
Birchcliff Energy Ltd.	BIREF	B	8.22		-	20.9	13.9	10.5
Peyto Exploration and Development Corp	PEYUF		24.90		0.31	9.1	10.1	10.4
PDC Energy	PDCE		29.86		-	8.6	9.8	9.8
Continental Resources (32%)	CLR	CB	72.50		-	9.7	9.6	7.3
Halcón Resources	HK		6.60		-	5.6	9.0	6.6
Denbury Resources Inc.	DNR		15.28		-	13.0	8.9	5.7
Berry Petroleum Company	BRY		38.29		-	11.4	7.8	5.3
Cimarex Energy Company	XEC	CB	58.55		-	7.7	8.8	5.2
Whiting Petroleum Corporation	WLL	CB	42.91		-	9.3	8.3	4.7
	<i>Median</i>					9.5	9.3	6.9
Top Line Cash Payers								
Sabine Royalty Trust	SBR		49.36	100	1.00	7.9	16.8	12.7
Freehold Royalties Ltd.	FRHLF		20.37	71	1.00	5.6	12.3	12.0
Dorchester Minerals, L.P.	DMLP	CB	22.44	77	0.90	6.4	12.9	10.7
Cross Timbers Royalty Trust	CRT		27.75	78	0.96	17.9	16.2	10.2
Permian Basin RT	PBT		14.25	47	0.73	9.4	13.7	9.7
	<i>Median</i>					7.9	13.7	10.7
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		41.95		1.11	15.1	11.4	13.7
Vanguard Natural Resources, LLC	VNR		29.98		0.94	14.0	9.7	10.8
Legacy Reserves L.P.	LGCY		29.27		0.70	11.4	9.4	9.2
San Juan Basin Royalty Trust	SJT	CB	14.37		0.75	8.6	13.1	8.9
Mesa RoyaltyTrust	MTR		25.46		0.75	7.7	13.6	8.6
Enduro Royalty Trust (40%)	NDRO		18.91		0.78	7.2	9.2	8.3
Enerplus Corporation	ERF	CB	16.04		0.42	6.3	8.1	6.7
Hugoton RoyaltyTrust	HGT		6.81		0.38	13.4	11.9	5.8
	<i>Median</i>					10.0	10.6	8.8
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 September 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	25-Oct 2012	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	McDep Ratio	
Small Cap Independent Producers								
Peyto Exploration and Development C	PEYUF		24.90	0.95	1.55	1.06	1.23	1.03
Range Resources	RRC	B	66.45	0.92	1.20	0.98	1.05	0.96
Birchcliff Energy Ltd.	BIREF	B	8.22	0.62	1.39	1.09	1.01	0.76
PDC Energy	PDCE		29.86	0.84	1.25	0.99	1.00	1.00
Continental Resources (32%)	CLR	CB	72.50	0.78	1.22	0.96	0.95	0.76
Cimarex Energy Company	XEC	CB	58.55	0.71	1.20	0.98	0.95	0.59
Berry Petroleum Company	BRY		38.29	0.78	1.10	0.98	0.94	0.68
Denbury Resources Inc.	DNR		15.28	0.79	1.10	0.96	0.94	0.65
Whiting Petroleum Corporation	WLL	CB	42.91	0.74	1.14	0.94	0.92	0.57
Halcón Resources	HK		6.60	0.57		0.91		0.73
	<i>Median</i>			<i>0.78</i>	<i>1.20</i>	<i>0.98</i>	<i>0.95</i>	<i>0.74</i>
Top Line Cash Payers								
Freehold Royalties Ltd.	FRHLF		20.37	0.96	1.21	1.02	1.05	0.97
Dorchester Minerals, L.P.	DMLP	CB	22.44	0.84	1.13	1.01	0.98	0.83
Sabine Royalty Trust	SBR		49.36	0.73	1.08	0.95	0.89	0.76
Permian Basin RT	PBT		14.25	0.61	1.02	0.91	0.75	0.71
Cross Timbers Royalty Trust	CRT		27.75	0.55	1.04	0.84	0.72	0.63
	<i>Median</i>			<i>0.73</i>	<i>1.08</i>	<i>0.95</i>	<i>0.89</i>	<i>0.76</i>
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		41.95	1.00	1.12	1.02	1.05	1.20
Vanguard Natural Resources, LLC	VNR		29.98	1.00	1.17	1.02	1.05	1.11
Legacy Reserves L.P.	LGCY		29.27	0.96	1.19	1.02	1.04	0.98
Enerplus Corporation	ERF	CB	16.04	0.66	1.22	0.99	0.94	0.84
San Juan Basin Royalty Trust	SJT	CB	14.37	0.57	1.19	1.01	0.88	0.68
Mesa RoyaltyTrust	MTR		25.46	0.56	1.10	0.98	0.77	0.63
Hugoton RoyaltyTrust	HGT		6.81	0.30	1.19	1.02	0.66	0.49
	<i>Median</i>			<i>0.66</i>	<i>1.19</i>	<i>1.02</i>	<i>0.94</i>	<i>0.84</i>

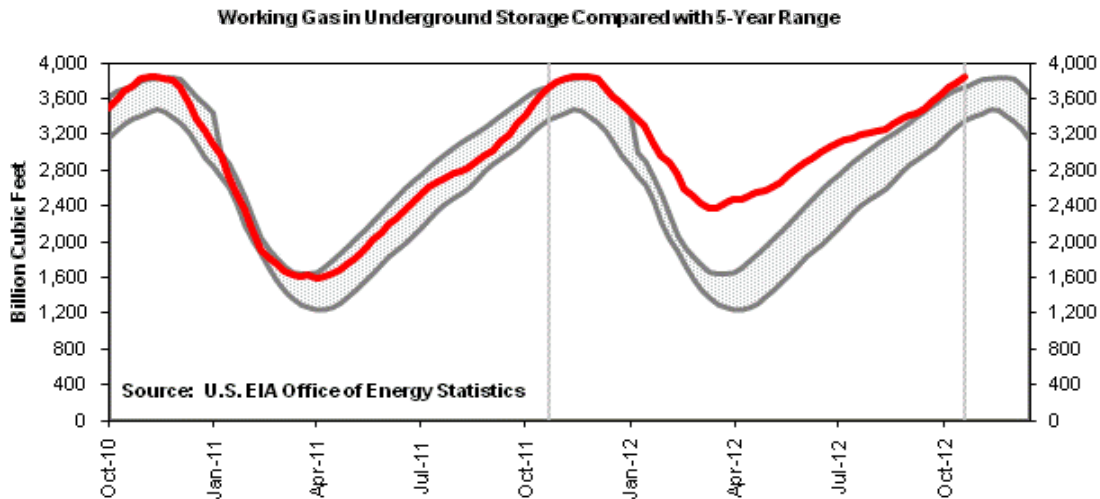
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