



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

March 1, 2013

## Enerplus Corporation (ERF) Back on Track, Discontinue Buy

<i>Symbol</i>	ERF	<i>Ebitda Next Twelve Months ending 3/31/14 (US\$mm)</i>	710
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	21
<i>Price (US\$/sh)</i>	13.56	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/28/13	<i>Adjusted Reserves/Production NTM</i>	6.7
<i>Shares (mm)</i>	196	<i>EV/Ebitda</i>	6.2
<i>Market Capitalization (US\$mm)</i>	2,660	<i>PV/Ebitda</i>	8.2
<i>Debt (US\$mm)</i>	1,720	<i>Undeveloped Reserves (%)</i>	20
<i>Enterprise Value (EV) (US\$mm)</i>	4,380	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	29.00
<i>Present Value (PV) (US\$mm)</i>	5,840	<i>Present Value Proven Reserves(US\$/boe)</i>	32.10
<i>Net Present Value (US\$/share)</i>	21	<i>Oil and Gas Ebitda Margin (%)</i>	62
<i>Debt/Present Value</i>	0.29	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.52
<i>McDep Ratio - EV/PV</i>	0.75	<i>Price/Earnings Next Twelve Months</i>	26
<i>Dividend Yield (%/year)</i>	7.7	<i>Indicated Annual Dividend (US\$/sh)</i>	1.05
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$100 a barrel and natural gas, \$6 a million btu.			

### Summary and Recommendation

We remove our buy recommendation of the common stock of **Enerplus Corporation (ERF)** after seeing fourth quarter cash flow (Ebitda) reported on February 22 beat our expectations. The Canadian/U.S oil and gas income stock is running smoothly again after last year's dividend reduction. Rising volume and lower expenses helped cash flow margin recover from a depressed level (see table Operating and Financial Estimates on page 2). Despite a short life of proven reserves having a restraining influence on multiple of present value to cash flow (PV/Ebitda), estimated Net Present Value (NPV) of \$21 a share points to further stock price gain (see table Present Value on page 2). Probable reserves at 52% more than proven reserves and contingent resources at 105% of proven and probable reserves strengthen ERF's resource base. Bakken shale oil on the Ft. Berthold leases drives incremental production, reserves and contingent resources. High drilling costs reaching \$12-13 million a well are being brought down by \$2 million. Good Three Forks formation wells in addition to the Bakken penetrations improve the economics. Taking all of it into account, ERF's McDep Ratio of 0.75 is lowest in our recently formed Leveraged Cash Payer group. While technically that remains within buy range, we have redirected more of our new idea interest from Leveraged Cash Payers to RTF Cash Payers, a group that also seemed to have declined more in stock price last year than we believe was justified in a longer term context.

Kurt H. Wulff, CFA



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Enerplus Corporation											
Next Twelve Months Operating and Financial Estimates											
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Year	Q1E	Next Twelve Months
	12/31/11	9/30/12	12/31/12	2012	3/31/13	6/30/13	9/30/13	12/31/13	2013E	3/31/14	3/31/14
<b>Volume</b>											
Natural Gas (mmcf/d)	253	247	260	252	255	252	250	247	251	250	250
Oil (mbd)	35	40	42	40.1	41	42	42	42	41.6	44	42.3
Total (mb)	7.10	7.49	7.87	30.04	7.54	7.61	7.67	7.65	30.47	7.71	30.64
Total (mbd)	77.2	81.5	85.5	82.1	83.8	83.6	83.4	83.2	83.5	85.7	83.9
<b>Price</b>											
Henry Hub (\$/mmbtu)	3.55	2.80	3.40	2.79	3.33	3.52	3.64	3.81	3.58	4.05	3.76
Currency (US\$/C\$)	0.98	1.00	1.01	1.00	0.97	0.97	0.97	0.97	0.97	0.97	0.97
Henry Hub (C\$/mmbtu)	3.63	2.79	3.37	2.79	3.43	3.63	3.76	3.93	3.69	4.18	3.87
Differential (\$/mmbtu)	0.22	0.59	0.36	0.39	0.37	0.39	0.40	0.42	0.40	0.45	0.42
Company (\$/mcf)	3.41	2.20	3.01	2.39	3.06	3.24	3.35	3.51	3.29	3.73	3.45
WTI Cushing (\$/bbl)	94.06	92.22	88.18	94.16	94.50	93.53	94.33	94.06	94.11	93.25	93.79
WTI Cushing (C\$/bbl)	96.20	91.79	87.41	94.10	97.38	96.39	97.20	96.93	96.98	96.09	96.65
Differential	10.46	17.87	16.25	19.00	18.10	19.46	19.62	19.57	19.20	19.40	19.51
Company (\$/bbl)	85.75	73.93	71.16	75.11	79.28	76.93	77.58	77.37	77.78	76.69	77.14
Total (\$/bbl)	50.07	43.24	44.25	44.05	48.42	48.01	48.88	49.46	48.69	50.27	49.16
<b>Revenue (C\$mm)</b>											
Natural Gas	79	50	72	220	70	74	77	80	301	84	315
Oil	276	274	276	1,103	295	291	298	299	1,182	304	1,191
Royalty	(68)	(65)	(75)	(269)	(77)	(77)	(79)	(79)	(312)	(81)	(316)
Total	287	259	273	1,054	288	288	296	299	1,172	306	1,190
<b>Expense</b>											
Operating	82	94	73	320							
Other	24	24	18	84							
Total	106	118	91	404	111	111	114	115	451	118	457
<b>Ebitda</b>	181	141	182	650	178	178	182	184	721	188	732
Deprec., Deplet., & Amort.	120	133	131	511	128	129	130	130	518	131	521
Other Non Cash	445	(95)	245	108					-		-
<b>Ebit</b>	(383)	103	(194)	31	49	48	52	54	203	57	211
Interest	17	19	18	70	18	18	18	18	72	18	72
<b>Ebt</b>	(400)	84	(212)	(39)	31	30	34	36	131	39	139
Income Tax	(100)	21	(53)	(10)	8	8	8	9	33	10	35
<b>Net Income (\$mm)</b>	(300)	63	(159)	(29)	23	23	25	27	98	29	104
Per Share (\$)	(1.66)	0.32	(0.80)	(0.15)	0.12	0.12	0.13	0.14	0.50	0.15	0.53
<b>Shares (millions)</b>	181	198	198	195	196	196	196	196	196	196	196
<b>Distributions (\$mm)</b>	98	53	54	316	53	53	53	53	212	53	212
Per Share (\$)	0.54	0.27	0.27	1.62	0.27	0.27	0.27	0.27	1.08	0.27	1.08
Ebitda Margin	63%	54%	67%	62%	62%	62%	62%	62%	62%	62%	62%
Tax rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%

Enerplus Corporation					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
North American Natural Gas	150	5.7	12.3	1,840	32%
Oil	560	7.6	7.1	3,980	68%
	710	6.7	8.2	5,820	100%
Debt (US\$mm)					1,720
Net Present Value (US\$mm)					4,100
Shares (mm)					196
Net Present Value - Standard Estimate (US\$/sh)					21
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					19



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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	28-Feb	Market	Value	Nat	Oil	Ebitda	NTM	Yield	McDep
CB (see below)		2013	Cap	(\$mm)	Gas		NTM	(\$/un)	(%)	Ratio
<b>Small Cap Independent Producers</b>										
PDC Energy	PDCE	46.64	1.54	2,240	43	57	12.8	-	-	1.10
Range Resources	RRC B	76.80	1.28	15,720	72	28	17.9	0.16	0.2	1.07
Peyto Exploration and Development	PEYUF	24.42	1.20	4,240	76	24	10.3	0.71	2.9	0.92
Continental Resources (32%)	CLR B	88.00	1.19	6,110	24	76	7.7	-	-	0.90
Halcón Resources	HK	7.10	1.61	3,880	15	85	5.2	-	-	0.80
Berry Petroleum Company	BRY	45.77	1.70	4,290	12	88	6.4	-	-	0.76
Denbury Resources Inc.	DNR	18.12	1.45	10,300	4	96	6.6	-	-	0.73
Birchcliff Energy Ltd.	BIREF B	7.61	1.41	1,750	68	32	9.4	-	-	0.71
Cimarex Energy Company	XEC B	67.31	1.22	7,110	41	59	5.2	0.56	0.8	0.66
Whiting Petroleum Corporation	WLL B	48.70	1.37	7,930	9	91	4.7	-	-	0.63
<i>Total or Median</i>				1.39	63,600	33	67	7.1		0.78
<b>Leveraged Cash Payers</b>										
Linn Energy, LLC	LINE	38.01	1.65	14,650	43	57	12.3	2.90	7.6	1.15
Vanguard Natural Resources, LLC	VNR	27.81	1.62	2,390	33	67	11.6	2.40	8.6	1.07
Legacy Reserves L.P.	LGCY	26.38	1.46	1,830	25	75	9.3	2.26	8.6	0.91
Enerplus Corporation	ERF	13.56	1.65	4,400	32	68	6.2	1.05	7.7	0.75
<i>Total or Median</i>				1.63	23,300	32	68	10.4	8.1	0.99
<b>RTF Cash Payers</b>										
Freehold Royalties Ltd.	FRHLF	20.87	TL	1,430	16	84	10.3	1.65	7.9	0.99
Dorchester Minerals, L.P.	DMLP B	23.57	TL	720	61	39	12.0	1.91	8.1	0.87
Enduro Royalty Trust (40%)	NDRO	16.09	BL	210	48	52	7.8	1.55	9.6	0.76
San Juan Basin Royalty Trust	SJT B	15.96	BL	740	100	-	10.8	1.07	6.7	0.76
Sabine Royalty Trust	SBR	46.58	TL	680	51	49	11.5	4.04	8.7	0.72
Permian Basin RT	PBT	13.29	TL	620	33	67	8.4	0.88	6.6	0.66
Cross Timbers Royalty Trust	CRT	28.43	TL	170	70	30	8.8	3.13	11.0	0.65
Mesa Royalty Trust	MTR	24.09	BL	45	75	25	9.4	2.07	8.6	0.60
Hugoton Royalty Trust	HGT	7.96	BL	320	88	13	7.0	0.46	5.8	0.57
<i>Total or Median</i>				4,900	61	39	9.4		8.1	0.72
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 March 31, 2014. Enterprise Value = Market Cap and Debt.										
TL = Top Line income sources, BL = Bottom Line income sources										



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Table ISC-2								
McDep Income and Small Cap Energy Portfolio								
Net Present Value and McDep Ratio								
		Price (\$/sh)		Market	Net			
	Symbol/ Rating	28-Feb 2013	Shares (mm)	Cap (\$mm)	Present Value (\$/un)	Debt/ Present Value	McDep Ratio	
<b>Small Cap Independent Producers</b>								
PDC Energy	PDCE	46.64	31.0	1,450	40.00	0.39	1.10	
Range Resources	RRC	B	76.80	160.0	12,290	70.00	0.23	1.07
Peyto Exploration and Development Cor	PEYUF		24.42	144.0	3,520	27.00	0.16	0.92
Continental Resources (32%)	CLR	B	88.00	58.6	5,150	100.00	0.14	0.90
Halcón Resources	HK		7.10	339.0	2,410	10.00	0.30	0.80
Berry Petroleum Company	BRY		45.77	55.3	2,530	70.00	0.31	0.76
Denbury Resources Inc.	DNR		18.12	391.0	7,080	28.00	0.23	0.73
Birchcliff Energy Ltd.	BIREF	B	7.61	163.0	1,240	12.00	0.21	0.71
Cimarex Energy Company	XEC	B	67.31	86.7	5,840	110.00	0.12	0.66
Whiting Petroleum Corporation	WLL	B	48.70	119.0	5,800	88.00	0.17	0.63
<i>Total or Median</i>					47,310		0.22	0.78
<b>Leveraged Cash Payers</b>								
Linn Energy, LLC	LINE		38.01	233.0	8,860	30.00	0.45	1.15
Vanguard Natural Resources, LLC	VNR		27.81	53.1	1,480	25.00	0.41	1.07
Legacy Reserves L.P.	LGCY		26.38	47.5	1,250	30.00	0.29	0.91
Enerplus Corporation	ERF		13.56	196.0	2,660	21.00	0.29	0.75
<i>Total or Median</i>					14,250		0.35	0.99
<b>RTF Cash Payers</b>								
Freehold Royalties Ltd.	FRHLF		20.87	65.7	1,370	21.00	0.04	0.99
Dorchester Minerals, L.P.	DMLP	B	23.57	30.7	720	27.00	-	0.87
Enduro Royalty Trust (40%)	NDRO		16.09	13.2	210	21.00	-	0.76
San Juan Basin Royalty Trust	SJT	B	15.96	46.6	740	21.00	-	0.76
Sabine Royalty Trust	SBR		46.58	14.6	680	65.00	-	0.72
Permian Basin RT	PBT		13.29	46.6	620	20.00	-	0.66
Cross Timbers Royalty Trust	CRT		28.43	6.0	170	44.00	-	0.65
Mesa RoyaltyTrust	MTR		24.09	1.9	45	40.00	-	0.60
Hugoton RoyaltyTrust	HGT		7.96	40.0	320	14.00	-	0.57
<i>Total or Median</i>					4,880			0.72
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		28-Feb 2013	Royalty (%)	Ebitda	NTM	NTM	NTM
<b>Small Cap Independent Producers</b>								
	RRC	B	76.80		-	14.6	16.7	17.9
	PDCE		46.64		-	14.5	11.6	12.8
	PEYUF		24.42		0.29	8.9	11.2	10.3
	BIREF	B	7.61		-	19.5	13.3	9.4
	CLR	B	88.00		-	11.0	8.6	7.7
	DNR		18.12		-	13.6	9.1	6.6
	BRY		45.77		-	12.1	8.5	6.4
	XEC	B	67.31		-	7.9	7.9	5.2
	HK		7.10		-	5.0	6.5	5.2
	WLL	B	48.70		-	9.0	7.5	4.7
	<i>Median</i>					11.6	8.8	7.1
<b>Leveraged Cash Payers</b>								
	LINE		38.01		1.04	13.9	10.7	12.3
	VNR		27.81		1.04	13.2	10.9	11.6
	LGCY		26.38		0.76	11.0	10.1	9.3
	ERF		13.56		0.41	6.7	8.2	6.2
	<i>Median</i>					12.1	10.4	10.4
<b>RTF Cash Payers</b>								
	DMLP	B	23.57	77	0.97	6.4	13.7	12.0
	SBR		46.58	100	1.00	8.1	16.1	11.5
	SJT	B	15.96		0.72	9.2	14.1	10.8
	FRHLF		20.87	80	0.81	5.0	10.3	10.3
	MTR		24.09		0.80	7.8	15.5	9.4
	CRT		28.43	78	0.97	14.2	13.6	8.8
	PBT		13.29	52	0.55	9.9	12.6	8.4
	NDRO		16.09		0.75	7.2	10.2	7.8
	HGT		7.96		0.41	13.7	12.4	7.0
	<i>Median</i>					8.1	13.6	9.4
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, 2014; 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).								

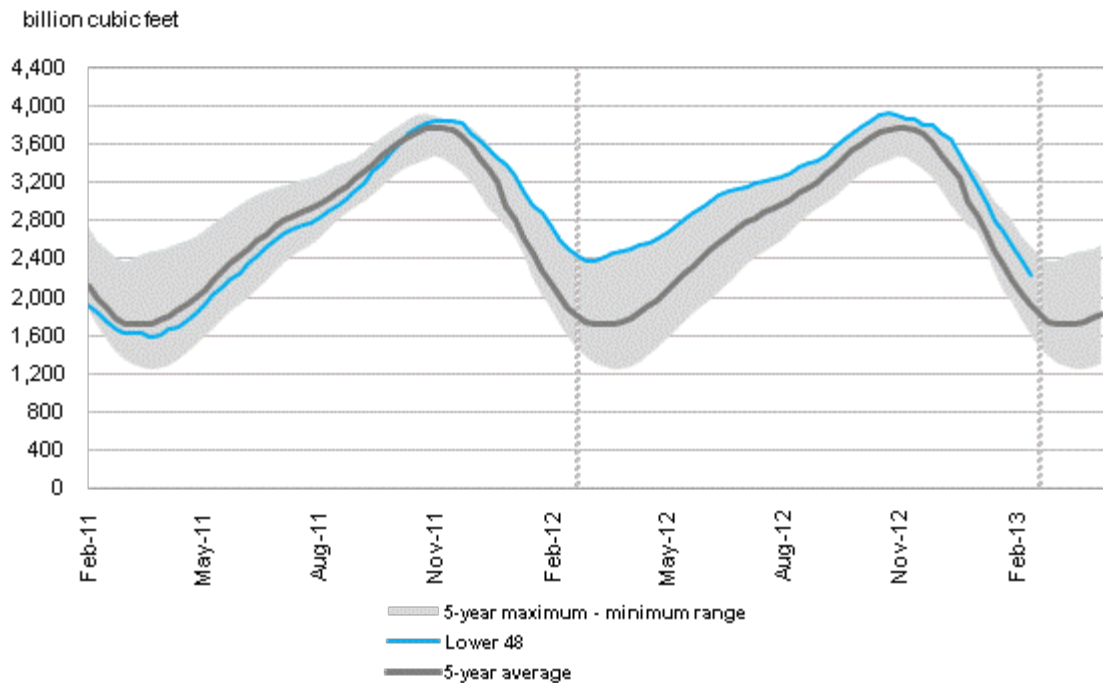


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**Working gas in underground storage compared with the 5-year maximum and minimum**



Source: U.S. Energy Information Administration

**Disclaimer:** This analysis was prepared by Kurt Wulff, Manager of McDep LLC. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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