



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

March 22, 2013

San Juan Basin Royalty Trust (SJT) Drill and It Shale Set You Free

<i>Symbol</i>	SJT	<i>Ebitda Next Twelve Months ending 3/31/14 (US\$mm)</i>	76
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	97
<i>Price (US\$/sh)</i>	15.20	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	3/21/13	<i>Adjusted Reserves/Production NTM</i>	10.3
<i>Shares (mm)</i>	47	<i>EV/Ebitda</i>	9.4
<i>Market Capitalization (US\$mm)</i>	710	<i>PV/Ebitda</i>	12.9
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	3
<i>Enterprise Value (EV) (US\$mm)</i>	710	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	3.19
<i>Present Value (PV) (US\$mm)</i>	980	<i>Present Value Proven Reserves(US\$/boe)</i>	23.56
<i>Net Present Value (US\$/unit)</i>	21	<i>Oil and Gas Ebitda Margin (%)</i>	66
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	1.08
<i>McDep Ratio - EV/PV</i>	0.72	<i>Price/Earnings Next Twelve Months</i>	14
<i>Distribution Yield (%/year)</i>	7.1	<i>Distribution Next Twelve Months (US\$/sh)</i>	1.08
Note: Estimated cash flow and earnings tied to one-year futures prices for 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 bu.			
For historical analysis of SJT since 2000 see www.mcdep.com/4sjt.htm			

Summary and Recommendation

Buy-recommended **San Juan Basin Royalty (SJT)** as well as **Cross Timbers Royalty (CRT)** and **Mesa Royalty (MTR)** offer investors participation in the early stages of what may be a big play in the Mancos Shale according to presenters at the San Juan Basin Energy Conference in Farmington, New Mexico on March 18-19. Independent producer T. Greg Merrion, the creator of the subtitle above, outlined the opportunity. The industry is just three years into the early stages with the drilling of 22 horizontal wells (see [Timeline](#) on page 2). Ultimately thousands of wells could be drilled into the thick Mancos formation covering 4000 square miles (see calculation by Mr. Merrion on page 2). The Mancos divides into three “windows” – dry gas, wet gas and oil (see map on page 3). Marvelously detailed in a presentation by Ken McQueen, WPX Energy has proven the commercial viability of the dry gas area. Most of the activity to date has been in the shallower oil area where large cap **Encana (ECA)** has had some good wells and some not so good, suggesting both the promise of the opportunity and the need for more work. Shale wells typically get better with experience. Large cap **ConocoPhillips (COP)** has the only completion in the wet gas area, the Yert well that we have previously indicated as an unconfirmed success. Perhaps half or more of SJT acreage may be in the wet gas area, the window that may be the most profitable. Because drilling on SJT rights has to be paid from cash flow that would otherwise be distributed, there is no distribution for the current month (see table [Monthly Distributions](#) on page 3). Helped by a rising trend for natural gas price, cash flow supports our estimate of a 7.1% distribution yield, though we could be surprised by the timing of drilling deductions (see table [Financial Estimates](#) on page 4). Outside the San Juan Basin, practically all of our remaining income and small cap stocks have upside in one or more plays from horizontal drilling and fracking (see [ISC-1](#) to [ISC-4](#) on pages 5-8).

Kurt H. Wulff, CFA

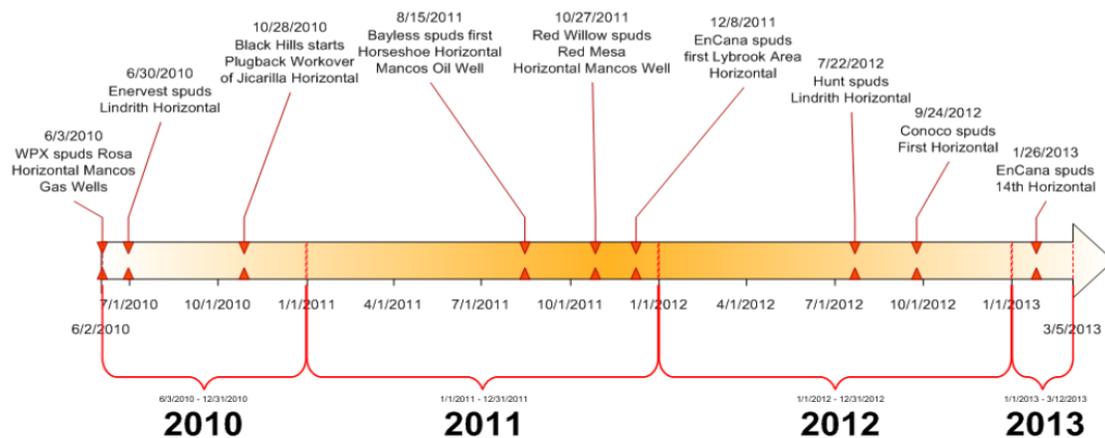


Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

March 22, 2013

Timeline



Possible Mancos Investment

120 townships X 36 sections/twnshp X 4 wells/section = **17,280** wells

17,280 * \$5MM/well =

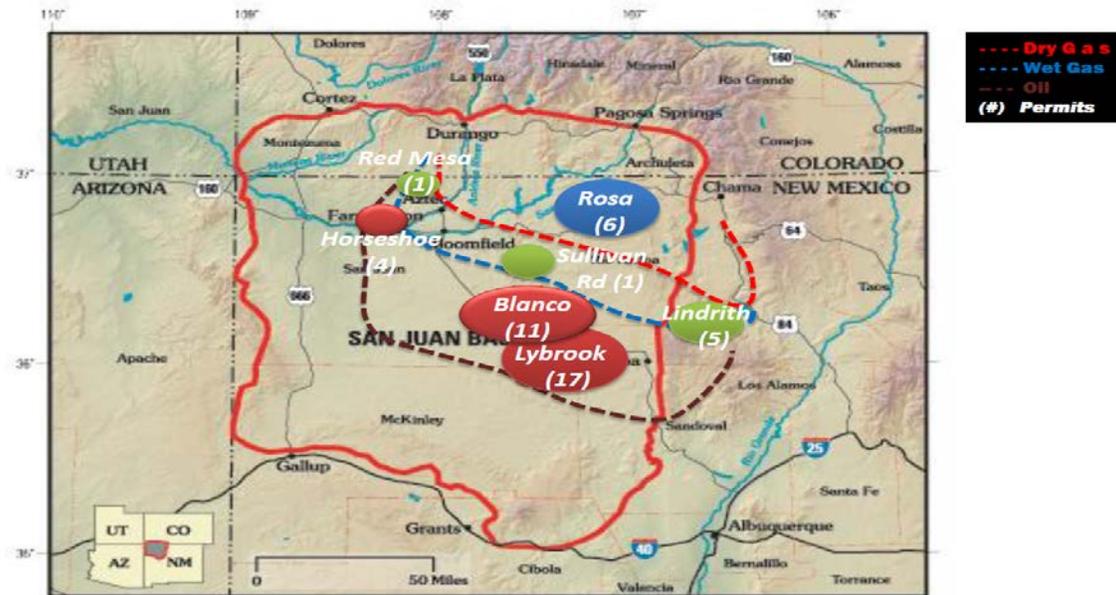
\$86 billion



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

March 22, 2013



San Juan Basin Royalty Trust									
Monthly Declarations									
	Jan-12	Feb-12	Mar-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13
Volume									
Natural gas (mmbtu)	2.91	3.00	2.97	2.48	2.93	3.14	2.86	2.76	2.43
Heat Content(btu/cf)	1,072	1,075	1,098	1,127	1,097	1,098	1,098	1,095	1,102
Natural gas (bcf)	2.72	2.79	2.71	2.20	2.67	2.86	2.60	2.52	2.20
Natural Gas (mmcf)	91	90	87	71	89	92	87	81	71
Days	30	31	31	31	30	31	30	31	31
Price									
Natural gas industry quotes lagged two months (\$/mmbtu)									
Henry Hub Index/Futures	3.52	3.37	3.08	3.01	2.63	3.03	3.47	3.71	3.35
San Juan Monthly Index	3.38	3.28	3.08	2.79	2.48	2.79	3.31	3.56	3.24
San Juan Index/Henry Hub	0.96	0.97	1.00	0.93	0.94	0.92	0.95	0.96	0.97
SJT/San Juan Index	1.24	1.27	1.20	1.32	1.07	1.07	1.01	0.96	0.98
SJT (\$/mmbtu)	4.18	4.18	3.70	3.67	2.66	2.98	3.34	3.42	3.17
SJT (\$/mcf)	4.48	4.49	4.07	4.14	2.92	3.27	3.67	3.74	3.50
Revenue (\$mm)									
Natural Gas	12.2	12.5	11.0	9.1	7.8	9.4	9.5	9.4	7.7
Other	0.8	0.1	0.2	0.3	0.2	0.1	0.3	(0.1)	2.0
Cost (\$mm)									
Severance tax	1.2	1.2	0.8	1.0	0.9	1.0	1.0	1.0	0.9
Operating	2.8	2.9	2.6	3.5	4.0	3.1	2.8	3.0	3.0
Total	4.0	4.0	3.5	4.4	4.9	4.1	3.8	4.0	3.9
Cash flow (\$mm)									
Development	1.6	1.8	2.5	1.6	3.1	3.7	3.1	3.7	5.7
Net proceeds (\$mm)									
	7.4	6.8	5.3	3.4	0.1	1.7	2.9	1.7	-
Royalty income (\$mm)									
	5.5	5.1	4.0	2.5	0.0	1.3	2.2	1.2	-
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%	75%	75%	75%
Distributable income (\$mm)									
	5.5	5.1	4.0	2.5	0.0	1.3	2.2	1.2	-
Units (millions)									
	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6
Distribution (\$/unit)									
	0.12	0.11	0.09	0.05	0.00	0.03	0.05	0.03	-



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

March 22, 2013

San Juan Basin Royalty Trust									
Next Twelve Months Operating and Financial Estimates									
	Q2	Year	Q1E	Q2E	Q3E	Q4E	Year	Q1E	Next Twelve Months
	6/30/12	2012	3/31/13	6/30/13	9/30/13	12/31/13	2013E	3/31/14	3/31/14
Highlights									
Revenue (\$mm) (75%)	20.8	85.3	20.8	28.5	27.6	28.1	104.9	30.0	114.1
Cash flow (\$mm) (75%)	13.7	51.1	12.0	19.0	18.0	18.5	67.5	20.2	75.7
Per unit	0.29	1.10	0.26	0.41	0.39	0.40	1.45	0.43	1.62
Distributable Income (\$mm)	10.4	33.5	3.4	12.7	11.7	12.2	40.0	13.9	50.5
Per unit	0.22	0.72	0.07	0.27	0.25	0.26	0.86	0.30	1.08
Units (millions)	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6
Volume									
Natural gas (mmbtu)	8.9	35.6	8.0	8.4	8.7	8.7	33.8	8.7	34.5
Heat Content(btu/cf)	1,096	1,093	1,099	1,099	1,099	1,099	1,099	1,099	1,099
Natural gas (bcf)	8.1	32.6	7.3	7.7	7.9	7.9	30.8	7.9	31.4
Natural Gas (mmcf)	90.3	89.0	79.6	86.0	86.0	86.0	84.4	86.0	86.0
Days	90	366	92	89	92	92	365	92	365
Oil (mb)	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oil (mbd)	0.1	0.1	0.2	0.1	0.2	0.1	0.1	0.2	0.1
Days	90	366	92	89	92	92	365	92	365
Total gas & oil (bcf)	8.2	32.9	7.4	7.7	8.0	8.0	31.1	8.0	31.7
Price									
Natural gas (\$/mmbtu) (Henry Hub lagged two months)									
Henry Hub (\$/mmbtu)	2.43	2.76	3.51	4.02	3.73	3.81	3.77	4.07	3.91
Differential (%)	(24)	(11)	6	(10)	(10)	(10)	(7)	(10)	(10)
Net to SJT (\$/mmbtu)	3.02	3.08	3.32	4.42	4.10	4.19	4.02	4.47	4.30
Natural gas (\$/mcf)	3.31	3.36	3.64	4.86	4.51	4.60	4.41	4.91	4.72
Oil (\$/bbl) (WTI Cushing lagged two months)									
WTI Cushing	103.93	95.89	89.97	92.87	92.71	92.82	92.10	91.96	92.59
SJT	90.26	82.80	77.69	80.19	80.05	80.15	79.43	79.31	79.89
Total gas & oil (\$/mcf)	3.39	3.46	3.75	4.92	4.60	4.68	4.50	5.00	4.80
Revenue (\$mm)									
Natural Gas	26.9	109.6	26.7	37.2	35.7	36.4	135.9	38.9	148.1
Oil	0.9	4.2	1.1	0.8	1.1	1.0	4.0	1.1	4.0
Total	27.7	113.8	27.8	37.9	36.8	37.4	139.9	40.0	152.1
Cost (\$mm)									
Severance tax	2.6	10.8	3.0	4.1	3.9	4.0	15.0	4.3	16.3
Operating	6.9	34.8	8.8	8.5	8.8	8.8	34.9	8.8	34.9
Total	9.5	45.6	11.8	12.6	12.7	12.8	49.9	13.1	51.2
Cash flow (\$mm)									
Development	3.9	22.2	12.5	8.0	8.0	8.0	36.5	8.0	32.0
Net proceeds (\$mm)									
Royalty/Net proceeds	14.3	46.0	3.4	17.4	16.1	16.6	53.5	18.9	68.9
Royalty income (\$mm)									
Royalty/Net proceeds	10.8	34.5	2.6	13.0	12.0	12.5	40.1	14.2	51.7
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%	75%	75%	75%
Administration	0.2	0.8	(0.8)	0.3	0.3	0.3	0.1	0.3	1.2
One-time	0.2	0.2					-		-
Distributable income (\$mm)	10.4	33.5	3.4	12.7	11.7	12.2	40.0	13.9	50.5



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

March 22, 2013

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	21-Mar	Market	Value	Nat	Ebitda	NTM	Yield	McDep		
CB (see below)	2013	Cap	(\$mm)	Gas	Oil	NTM	(\$/un)	(%)	Ratio	
Small Cap Independent Producers										
PDC Energy	PDCE	49.93	1.39	2,150	30	70	10.6	-	-	1.00
Peyto Exploration and Developmen	PEYUF	26.44	1.18	4,510	76	24	10.0	0.70	2.6	0.98
Range Resources	RRC B	81.74	1.26	16,430	68	32	15.7	0.16	0.2	0.93
Continental Resources (32%)	CLR B	86.17	1.24	6,310	21	79	7.1	-	-	0.88
Halcón Resources	HK	6.83	2.98	4,650	14	86	6.1	-	-	0.87
Berry Petroleum Company	BRY	45.82	1.73	4,360	12	88	6.8	0.32	0.7	0.76
Birchcliff Energy Ltd.	BIREF B	8.20	1.37	1,840	67	33	9.8	-	-	0.75
Denbury Resources Inc.	DNR	18.36	1.36	9,550	5	95	6.1	-	-	0.72
Cimarex Energy Company	XEC B	74.29	1.20	7,710	41	59	5.7	0.56	0.8	0.71
Whiting Petroleum Corporation	WLL B	49.24	1.40	8,200	6	94	4.4	-	-	0.64
<i>Total or Median</i>			<i>1.37</i>	<i>65,700</i>	<i>26</i>	<i>74</i>	<i>6.9</i>			<i>0.82</i>
Leveraged Cash Payers										
Linn Energy, LLC	LINE	36.91	1.67	14,390	43	57	12.1	2.90	7.9	1.13
Vanguard Natural Resources, LLC	VNR	28.29	1.61	2,420	33	67	11.8	2.40	8.5	1.08
Legacy Reserves L.P.	LGCY	26.61	1.57	2,500	19	81	10.0	2.28	8.6	0.92
Enerplus Corporation	ERF	14.64	1.60	4,600	32	68	6.5	1.05	7.2	0.79
<i>Total or Median</i>			<i>1.61</i>	<i>23,900</i>	<i>32</i>	<i>68</i>	<i>10.9</i>		<i>8.2</i>	<i>1.00</i>
RTF Cash Payers										
Freehold Royalties Ltd.	FRHLF	22.69	TL	1,560	27	73	11.2	1.63	7.2	1.08
Dorchester Minerals, L.P.	DMLP B	23.09	TL	710	61	39	11.6	1.93	8.3	0.85
Enduro Royalty Trust (40%)	NDRO	15.90	BL	210	48	52	7.7	1.57	9.9	0.76
San Juan Basin Royalty Trust	SJT B	15.20	BL	710	100	-	9.4	1.08	7.1	0.72
Sabine Royalty Trust	SBR	46.02	TL	670	45	55	11.4	4.02	8.7	0.71
Cross Timbers Royalty Trust	CRT	27.23	TL	160	80	20	11.9	2.04	7.5	0.62
Permian Basin RT	PBT	12.28	TL	570	31	69	7.6	0.91	7.4	0.61
Hugoton RoyaltyTrust	HGT	8.16	BL	330	89	11	7.4	0.44	5.4	0.58
Mesa RoyaltyTrust	MTR	23.20	BL	43	75	25	8.6	2.15	9.3	0.58
<i>Total or Median</i>				<i>5,000</i>	<i>61</i>	<i>39</i>	<i>9.4</i>		<i>7.5</i>	<i>0.71</i>
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										



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

March 22, 2013

Table ISC-2							
McDep Income and Small Cap Energy Portfolio							
Net Present Value and McDep Ratio							
		Price			Net		
	Symbol/	(\$/sh)	Shares	Market	Present	Debt/	
	Rating	21-Mar	(mm)	Cap	Value	Present	McDep
		2013		(\$mm)	(\$/un)	Value	Ratio
Small Cap Independent Producers							
PDC Energy	PDCE	49.93	31.0	1,550	50.00	0.28	1.00
Peyto Exploration and Development Cor	PEYUF	26.44	145.0	3,830	27.00	0.15	0.98
Range Resources	RRC	B	81.74	160.0	13,080	90.00	0.19
Continental Resources (32%)	CLR	B	86.17	59.2	5,100	100.00	0.17
Halcón Resources	HK	6.83	228.0	1,560	10.00	0.58	0.87
Berry Petroleum Company	BRY	45.82	55.3	2,530	70.00	0.32	0.76
Birchcliff Energy Ltd.	BIREF	B	8.20	163.0	1,340	12.00	0.20
Denbury Resources Inc.	DNR	18.36	383.0	7,030	28.00	0.19	0.72
Cimarex Energy Company	XEC	B	74.29	86.7	6,440	110.00	0.12
Whiting Petroleum Corporation	WLL	B	49.24	119.0	5,860	88.00	0.18
<i>Total or Median</i>				48,320		0.19	0.82
Leveraged Cash Payers							
Linn Energy, LLC	LINE	36.91	233.0	8,600	30.00	0.45	1.13
Vanguard Natural Resources, LLC	VNR	28.29	53.1	1,500	25.00	0.41	1.08
Legacy Reserves L.P.	LGCY	26.61	60.0	1,600	30.00	0.33	0.92
Enerplus Corporation	ERF	14.64	196.0	2,870	21.00	0.30	0.79
<i>Total or Median</i>				14,570		0.37	1.00
RTF Cash Payers							
Freehold Royalties Ltd.	FRHLF	22.69	66.2	1,500	21.00	0.04	1.08
Dorchester Minerals, L.P.	DMLP	B	23.09	30.7	710	27.00	-
Enduro Royalty Trust (40%)	NDRO	15.90	13.2	210	21.00	-	0.76
San Juan Basin Royalty Trust	SJT	B	15.20	46.6	710	21.00	-
Sabine Royalty Trust	SBR	46.02	14.6	670	65.00	-	0.71
Cross Timbers Royalty Trust	CRT	27.23	6.0	160	44.00	-	0.62
Permian Basin RT	PBT	12.28	46.6	570	20.00	-	0.61
Hugoton RoyaltyTrust	HGT	8.16	40.0	330	14.00	-	0.58
Mesa RoyaltyTrust	MTR	23.20	1.9	43	40.00	-	0.58
<i>Total or Median</i>				4,900			0.71
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.							



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

March 22, 2013

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		21-Mar 2013	Royalty (%)	Ebitda	NTM	NTM	NTM
Small Cap Independent Producers								
	RRC	B	81.74		-	14.0	17.0	15.7
	PDCE		49.93		-	16.7	10.6	10.6
	PEYUF		26.44		0.26	9.2	10.2	10.0
	BIREF	B	8.20		-	19.5	13.1	9.8
	CLR	B	86.17		-	10.8	8.0	7.1
	BRY		45.82		-	12.1	8.9	6.8
	HK		6.83		-	4.7	7.1	6.1
	DNR		18.36		-	14.1	8.5	6.1
	XEC	B	74.29		-	7.9	8.0	5.7
	WLL	B	49.24		-	8.8	6.9	4.4
	<i>Median</i>					11.4	8.7	6.9
Leveraged Cash Payers								
	LINE		36.91		1.04	13.9	10.7	12.1
	VNR		28.29		1.05	13.2	10.9	11.8
	LGCY		26.61		0.82	11.0	10.8	10.0
	ERF		14.64		0.41	6.7	8.3	6.5
	<i>Median</i>					12.1	10.8	10.9
RTF Cash Payers								
	CRT		27.23	95	0.89	13.0	19.2	11.9
	DMLP	B	23.09	77	0.97	6.4	13.6	11.6
	SBR		46.02	100	1.00	9.1	16.2	11.4
	FRHLF		22.69	88	0.81	4.6	10.4	11.2
	SJT	B	15.20		0.67	10.3	12.9	9.4
	MTR		23.20		0.81	7.8	15.0	8.6
	NDRO		15.90		0.76	7.2	10.1	7.7
	PBT		12.28	58	0.56	12.7	12.3	7.6
	HGT		8.16		0.40	12.4	12.6	7.4
	<i>Median</i>					9.1	12.9	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).								



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

March 22, 2013

Table ISC-4									
McDep Income and Small Cap Energy Portfolio									
Total Return and Enterprise Value Momentum									
			Price (\$/sh)	Equity Total	Enterprise Value/				
	Symbol/		21-Mar	Return	52Wk	52Wk	50 Day	200 Day	McDep
	Rating		2013	YTD (%)	High	Low	Avg.	Avg.	Ratio
Small Cap Independent Producers									
PDC Energy	PDCE		49.93	50	0.95	1.79	1.11	1.34	1.00
Cimarex Energy Company	XEC	B	74.29	29	0.94	1.46	1.09	1.19	0.71
Range Resources	RRC	B	81.74	30	0.99	1.39	1.10	1.17	0.93
Peyto Exploration and Development C	PEYUF		26.44	15	0.97	1.61	1.08	1.14	0.98
Berry Petroleum Company	BRY		45.82	37	0.94	1.25	1.07	1.11	0.76
Continental Resources (32%)	CLR	B	86.17	17	0.93	1.31	1.01	1.11	0.88
Birchcliff Energy Ltd.	BIREF	B	8.20	10	0.91	1.41	1.07	1.11	0.75
Denbury Resources Inc.	DNR		18.36	13	0.95	1.27	1.01	1.09	0.72
Whiting Petroleum Corporation	WLL	B	49.24	14	0.88	1.25	1.01	1.07	0.64
Halcón Resources	HK		6.83	(1)	0.82		0.97	0.97	0.87
	<i>Median</i>			16	0.94	1.39	1.07	1.11	0.82
Leveraged Cash Payers									
Enerplus Corporation	ERF		14.64	15	0.73	1.16	1.05	1.02	0.79
Vanguard Natural Resources, LLC	VNR		28.29	10	0.96	1.14	1.00	1.01	1.08
Legacy Reserves L.P.	LGCY		26.61	14	0.93	1.11	1.02	1.01	0.92
Linn Energy, LLC	LINE		36.91	7	0.92	1.04	0.99	0.97	1.13
	<i>Median</i>			12	0.92	1.13	1.01	1.01	1.00
RTF Cash Payers									
Hugoton RoyaltyTrust	HGT		8.16	13	0.53	1.43	0.99	1.10	0.58
Freehold Royalties Ltd.	FRHLF		22.69	4	0.93	1.34	1.00	1.10	1.08
Dorchester Minerals, L.P.	DMLP	B	23.09	16	0.88	1.16	1.01	1.05	0.85
San Juan Basin Royalty Trust	SJT	B	15.20	14	0.74	1.26	0.96	1.04	0.72
Sabine Royalty Trust	SBR		46.02	18	0.73	1.18	0.99	0.94	0.71
Mesa RoyaltyTrust	MTR		23.20	22	0.54	1.23	0.99	0.92	0.58
Enduro Royalty Trust (40%)	NDRO		15.90	(4)	0.73	1.06	0.96	0.92	0.76
Cross Timbers Royalty Trust	CRT		27.23	2	0.60	1.15	0.93	0.87	0.62
Permian Basin RT	PBT		12.28	1	0.53	1.03	0.92	0.81	0.61
	<i>Median</i>			13	0.73	1.18	0.99	0.94	0.71

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

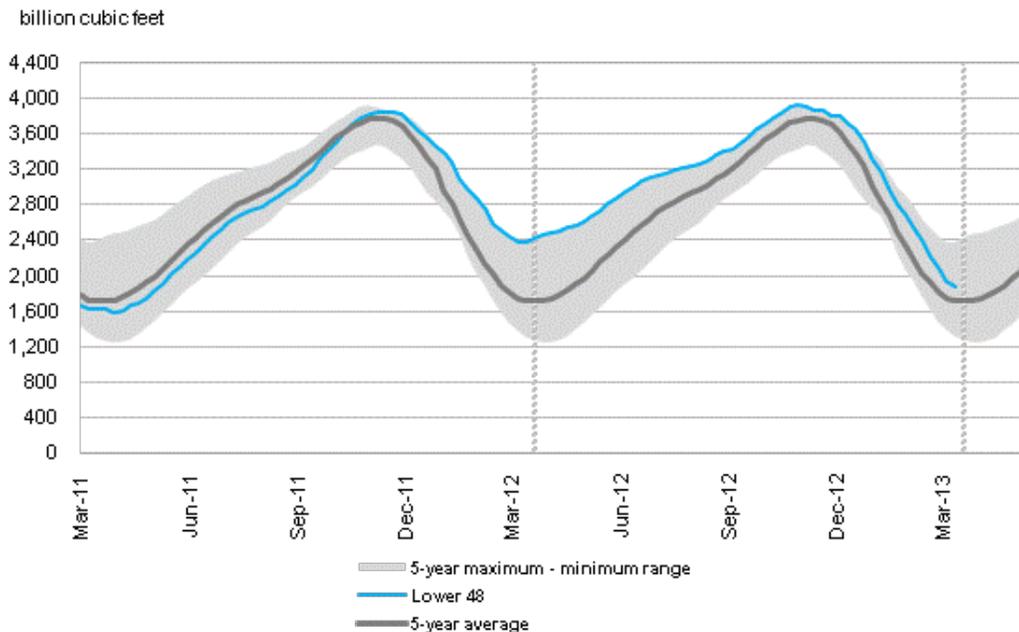


Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

March 22, 2013

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



 Source: U.S. Energy Information Administration

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