



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

April 12, 2013

## Mesa Royalty Trust (MTR) RTF Stealth Play on Long-Life Natural Gas

<i>Symbol</i>	MTR	<i>Ebitda Next Twelve Months ending 3/31/14 (US\$mm)</i>	5
<i>Rating</i>	RTF Stock	<i>North American Natural Gas/Ebitda (%)</i>	59
<i>Price (US\$/sh)</i>	25.35	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	4/11/13	<i>Adjusted Reserves/Production NTM</i>	4.9
<i>Shares (mm)</i>	1.86	<i>EV/Ebitda</i>	9.6
<i>Market Capitalization (US\$mm)</i>	47	<i>PV/Ebitda</i>	12.1
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$mm)</i>	47	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	2.55
<i>Present Value (PV) (US\$mm)</i>	60	<i>Present Value Proven Reserves(US\$/boe)</i>	36.60
<i>Net Present Value (US\$/unit)</i>	32	<i>Oil and Gas Ebitda Margin (%)</i>	67
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	2.12
<i>McDep Ratio - EV/PV</i>	0.79	<i>Price/Earnings Next Twelve Months</i>	12
<i>Distribution Yield (%/year)</i>	8.4	<i>Distribution Next Twelve Months (US\$/sh)</i>	2.12
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 btu.			
For historical analysis of MTR since 2004 see <a href="http://www.mcdep.com/5mtr.htm">www.mcdep.com/5mtr.htm</a>			

### Summary and Recommendation

We like **Mesa Royalty Trust (MTR)** as one of the nine investments in the RTF (Royalty Trust Fund) that we recommend investors accumulate for long-life natural gas and oil production enhanced by the revolutionary potential of shale gas and shale oil. About two-thirds of the value in MTR is in the San Juan Basin where shale discoveries increase the upside. Meanwhile, crushing declines for natural gas price, MTR stock price and official disclosures help set up the current opportunity. As natural gas price for next month delivery fell 90% to below \$2 a million btu in 2012 from above \$15 in 2005, MTR stock price fell 75% to \$19 a unit in 2012 from above \$70 in 2005. Further exaggerating volatility, the government-regulated standardized measure of reserve value fell more than 90% to less than \$12 million in 2012 from \$126 million in 2005. Reported reserve life, which we derive from regulated estimates, declined unrealistically to 4.9 years in 2012 from 20 years in 2005. The real numbers tell another story. Ten-year natural gas volume decline of 3% a year points to reserve life of 30 years or more (see chart [MTR Natural Gas Production](#) on page 2). Oil, actually liquids extracted from natural gas, *increased* 2% a year (see chart [MTR Liquids Production](#) on page 2). Taking volume trends as a better indication of reserve life, we estimate Net Present Value (NPV) of \$32 a unit, which implies an unlevered cash flow multiple (PV/Ebitda) similar to that for closely related, natural gas oriented, net profits interest royalty trusts, **Hugoton Royalty Trust (HGT)** and buy-recommended **San Juan Basin Royalty Trust (SJT)** (see tables [Operating and Financial Performance](#) and [Net Present Value](#) on page 3). Though down from \$40, NPV implies attractive investment potential for MTR along with all the RTF stocks (see [Tables ISC-1 to ISC-4](#)).

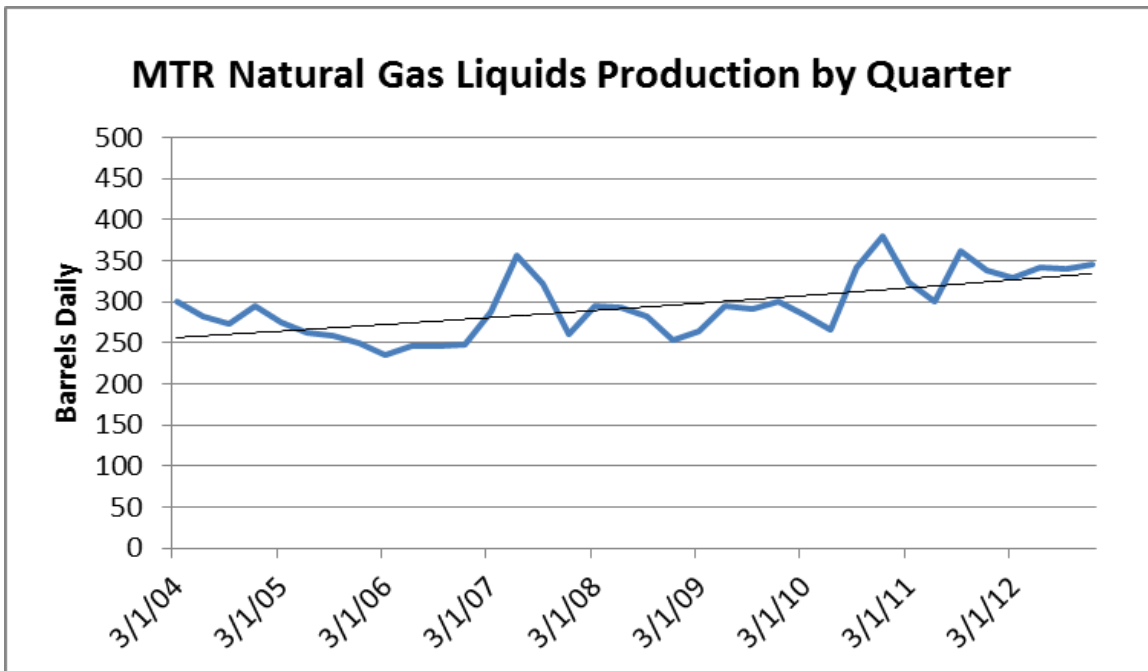
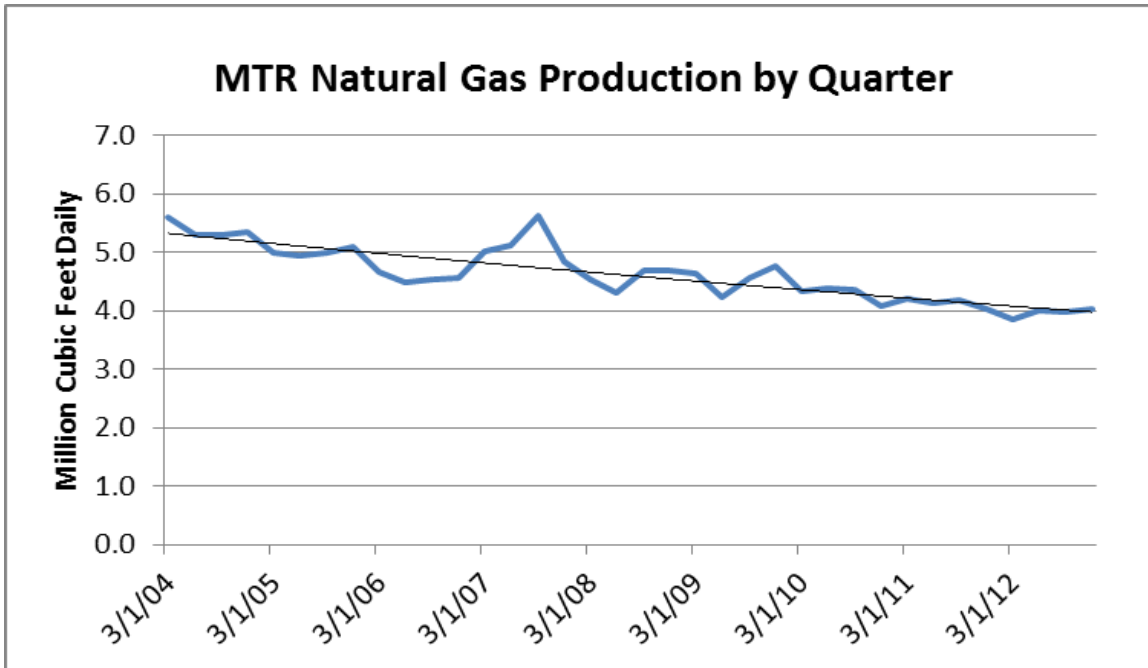
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Mesa Royalty Trust									
Next Twelve Months Operating and Financial Performance									
	Q1	Q4	Year	Q1E	Q2E	Q3E	Q4E	Year	Next Twelve Months
	3/31/12	12/31/12	2012	3/31/13	6/30/13	9/30/12	12/31/13	2013E	3/31/14
<b>Volume (90% of working interest)</b>									
Natural Gas (mmcf)	3.4	3.6	<b>3.6</b>	3.6	3.5	3.5	3.5	<b>3.5</b>	<b>3.5</b>
Oil (mbd)	0.29	0.31	<b>0.30</b>	0.31	0.30	0.30	0.30	<b>0.30</b>	<b>0.30</b>
Total (bcfe)	0.48	0.50	<b>1.97</b>	0.50	0.48	0.49	0.48	<b>1.95</b>	<b>1.93</b>
Total (mmcf)	5.2	5.5	<b>5.4</b>	5.4	5.3	5.3	5.2	<b>5.3</b>	<b>5.3</b>
<b>Price (Henry Hub and WTI Cushing lagged two months)</b>									
Henry Hub (\$/mmbtu)	3.32	2.89	<b>2.76</b>	3.51	3.55	4.12	4.18	<b>3.84</b>	<b>4.05</b>
Differential (%)	9	18	<b>15</b>	18	17	16	15	<b>16</b>	<b>17</b>
Trust (\$/mcf)	3.01	2.37	<b>2.34</b>	2.88	2.94	3.46	3.55	<b>3.21</b>	<b>3.38</b>
WTI Cushing (\$/bbl)	98.69	92.76	<b>95.89</b>	89.97	93.94	93.64	93.77	<b>92.83</b>	<b>93.52</b>
Differential	60.84	65.46	<b>64.21</b>	63.49	66.29	66.08	66.17	<b>65.52</b>	<b>66.00</b>
Trust (\$/bbl)	37.85	27.30	<b>31.68</b>	26.48	27.65	27.56	27.60	<b>27.32</b>	<b>27.53</b>
Total (\$/mcf)	4.13	3.11	<b>3.34</b>	3.40	3.51	3.85	3.91	<b>3.66</b>	<b>3.79</b>
<b>Revenue (\$mm)</b>									
Natural Gas	0.95	0.78	<b>3.05</b>	0.94	0.93	1.11	1.13	<b>4.12</b>	<b>4.30</b>
Oil	1.02	0.78	<b>3.53</b>	0.74	0.75	0.76	0.75	<b>3.01</b>	<b>3.00</b>
Total	1.97	1.56	<b>6.58</b>	1.69	1.69	1.87	1.88	<b>7.13</b>	<b>7.30</b>
<b>Expense</b>									
	0.52	0.57	<b>2.11</b>	0.55	0.55	0.61	0.62	<b>2.33</b>	<b>2.39</b>
<b>Ebitda</b>									
	1.45	0.99	<b>4.47</b>	1.14	1.14	1.26	1.27	<b>4.80</b>	<b>4.91</b>
Development (90%)	0.19	0.14	<b>0.69</b>	0.17	0.17	0.19	0.19	<b>0.74</b>	<b>0.76</b>
<b>Royalty Income</b>									
Hugoton	0.47	0.30	<b>1.45</b>						-
San Juan	0.79	0.55	<b>2.33</b>						-
Total Royalty Income	1.27	0.86	<b>3.78</b>	0.96	0.96	1.07	1.07	<b>4.06</b>	<b>4.16</b>
Administrative	0.07	0.02	<b>0.18</b>	0.05	0.05	0.05	0.05	<b>0.20</b>	<b>0.20</b>
<b>Distributable Income (\$mm)</b>									
	1.20	0.83	<b>3.60</b>	0.91	0.91	1.02	1.02	<b>3.86</b>	<b>3.96</b>
Per Unit (\$)	0.64	0.45	<b>1.93</b>	0.49	0.49	0.55	0.55	<b>2.07</b>	<b>2.12</b>
<b>Units (millions)</b>									
	1.86	1.86	<b>1.86</b>	1.86	1.86	1.86	1.86	<b>1.86</b>	<b>1.86</b>
Ebitda Margin	74%	63%	<b>68%</b>	67%	67%	67%	67%	<b>67%</b>	<b>67%</b>

Mesa Royalty Trust					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$m)	R/P	Ebitda	Value	
	(US\$m)		(US\$m)	(US\$m)	
North American Natural Gas	2.9	4.9	14.5	42	70%
Oil	2.0	4.9	8.9	18	30%
	4.9	4.9	12.2	60	100%
Debt (US\$m)					-
Net Present Value (US\$m)					60
Units (mm)					1.86
Net Present Value - Standard Estimate (US\$/sh)					32
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					23



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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	11-Apr	Market	Value	Nat	Ebitda	NTM	Yield	McDep		
CB (see below)	2013	Cap	(\$mm)	Gas	Oil	NTM	(\$/un)	(%)	Ratio	
<b>Small Cap Independent Producers</b>										
PDC Energy	PDCE	45.99	1.42	2,030	30	70	9.8	-	-	0.94
Halcón Resources	HK	7.97	2.70	4,910	14	86	6.4	-	-	0.91
Range Resources	RRC B	80.29	1.26	16,200	68	32	14.7	0.16	0.2	0.91
Peyto Exploration and Development Corp	PEYUF	27.71	1.17	4,710	77	23	9.8	0.71	2.6	0.88
Continental Resources (32%)	CLR B	82.31	1.25	6,080	21	79	6.7	-	-	0.85
Berry Petroleum Company	BRY	47.49	1.70	4,460	12	88	6.9	0.32	0.7	0.78
Birchcliff Energy Ltd.	BIREF B	8.42	1.37	1,880	68	32	9.5	-	-	0.76
Denbury Resources Inc.	DNR	18.40	1.36	9,570	5	95	6.1	-	-	0.72
Cimarex Energy Company	XEC B	73.07	1.20	7,610	41	59	5.4	0.56	0.8	0.70
Whiting Petroleum Corporation	WLL B	49.86	1.39	8,270	6	94	4.4	-	-	0.65
<i>Total or Median</i>				1.36	65,700	26	74	6.8		0.82
<b>Leveraged Cash Payers</b>										
Linn Energy, LLC	LINE	38.28	1.65	14,710	43	57	12.0	2.90	7.6	1.15
Vanguard Natural Resources, LLC	VNR	28.26	1.61	2,420	33	67	11.4	2.40	8.5	1.08
Legacy Reserves L.P.	LGCY	27.90	1.54	2,580	19	81	10.1	2.28	8.2	0.95
Enerplus Corporation	ERF	14.15	1.63	4,500	32	68	6.2	1.06	7.5	0.77
<i>Total or Median</i>				1.62	24,200	32	68	10.8	7.9	1.02
<b>RTF Cash Payers</b>										
Freehold Royalties Ltd.	FRHLF	23.63	TL	1,630	27	73	11.3	1.65	7.0	1.12
Enduro Royalty Trust (40%)	NDRO	16.53	BL	220	41	59	7.9	1.58	9.6	0.87
Dorchester Minerals, L.P.	DMLP B	23.40	TL	720	61	39	11.1	2.05	8.7	0.87
Sabine Royalty Trust	SBR	50.08	TL	730	45	55	12.5	4.01	8.0	0.77
San Juan Basin Royalty Trust	SJT B	15.63	BL	730	100	-	9.2	1.17	7.5	0.74
Mesa Royalty Trust	MTR	25.35	BL	47	75	25	9.6	2.12	8.4	0.79
Hugoton Royalty Trust	HGT	9.54	BL	380	89	11	8.2	0.49	5.2	0.68
Cross Timbers Royalty Trust	CRT	29.39	TL	180	80	20	12.2	2.16	7.4	0.67
Permian Basin RT	PBT	12.87	TL	600	31	69	7.8	0.94	7.3	0.64
<i>Total or Median</i>				5,200	61	39	9.6		7.5	0.77
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)	Shares	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		11-Apr 2013	(mm)				
<b>Small Cap Independent Producers</b>								
PDC Energy	PDCE		45.99	31.0	1,430	50.00	0.28	0.94
Halcón Resources	HK		7.97	228.0	1,820	10.00	0.58	0.91
Range Resources	RRC	B	80.29	160.0	12,850	90.00	0.19	0.91
Peyto Exploration and Development Corp.	PEYUF		27.71	145.0	4,020	32.00	0.13	0.88
Continental Resources (32%)	CLR	B	82.31	59.2	4,870	100.00	0.17	0.85
Berry Petroleum Company	BRY		47.49	55.3	2,630	70.00	0.32	0.78
Birchcliff Energy Ltd.	BIREF	B	8.42	163.0	1,370	12.00	0.21	0.76
Denbury Resources Inc.	DNR		18.40	383.0	7,050	28.00	0.19	0.72
Cimarex Energy Company	XEC	B	73.07	86.7	6,340	110.00	0.12	0.70
Whiting Petroleum Corporation	WLL	B	49.86	119.0	5,930	88.00	0.18	0.65
<i>Total or Median</i>					48,310		0.19	0.82
<b>Leveraged Cash Payers</b>								
Linn Energy, LLC	LINE		38.28	233.0	8,920	30.00	0.45	1.15
Vanguard Natural Resources, LLC	VNR		28.26	53.1	1,500	25.00	0.41	1.08
Legacy Reserves L.P.	LGCY		27.90	60.0	1,670	30.00	0.33	0.95
Enerplus Corporation	ERF		14.15	196.0	2,770	21.00	0.30	0.77
<i>Total or Median</i>					14,860		0.37	1.02
<b>RTF Cash Payers</b>								
Freehold Royalties Ltd.	FRHLF		23.63	66.2	1,570	21.00	0.04	1.12
Enduro Royalty Trust (40%)	NDRO		16.53	13.2	220	19.00	-	0.87
Dorchester Minerals, L.P.	DMLP	B	23.40	30.7	720	27.00	-	0.87
Mesa Royalty Trust	MTR		25.35	1.9	47	32.00	-	0.79
Sabine Royalty Trust	SBR		50.08	14.6	730	65.00	-	0.77
San Juan Basin Royalty Trust	SJT	B	15.63	46.6	730	21.00	-	0.74
Hugoton Royalty Trust	HGT		9.54	40.0	380	14.00	-	0.68
Cross Timbers Royalty Trust	CRT		29.39	6.0	180	44.00	-	0.67
Permian Basin RT	PBT		12.87	46.6	600	20.00	-	0.64
<i>Total or Median</i>					5,180			0.77
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		11-Apr 2013	Royalty (%)	Ebitda	NTM	NTM	NTM
<b>Small Cap Independent Producers</b>								
Range Resources	RRC	B	80.29		-	14.0	16.1	14.7
Peyto Exploration and Development Corp	PEYUF		27.71		0.25	10.6	11.1	9.8
PDC Energy	PDCE		45.99		-	16.7	10.4	9.8
Birchcliff Energy Ltd.	BIREF	B	8.42		-	19.5	12.5	9.5
Berry Petroleum Company	BRY		47.49		-	12.1	8.8	6.9
Continental Resources (32%)	CLR	B	82.31		-	10.8	7.8	6.7
Halcón Resources	HK		7.97		-	4.7	7.0	6.4
Denbury Resources Inc.	DNR		18.40		-	14.1	8.4	6.1
Cimarex Energy Company	XEC	B	73.07		-	7.9	7.7	5.4
Whiting Petroleum Corporation	WLL	B	49.86		-	8.8	6.8	4.4
	<i>Median</i>					11.4	8.6	6.8
<b>Leveraged Cash Payers</b>								
Linn Energy, LLC	LINE		38.28		1.00	13.9	10.4	12.0
Vanguard Natural Resources, LLC	VNR		28.26		1.02	13.2	10.6	11.4
Legacy Reserves L.P.	LGCY		27.90		0.80	11.0	10.6	10.1
Enerplus Corporation	ERF		14.15		0.41	6.7	8.1	6.2
	<i>Median</i>					12.1	10.5	10.8
<b>RTF Cash Payers</b>								
Sabine Royalty Trust	SBR		50.08	100	1.00	8.9	16.2	12.5
Cross Timbers Royalty Trust	CRT		29.39	95	0.90	13.0	18.3	12.2
Freehold Royalties Ltd.	FRHLF		23.63	88	0.79	4.6	10.1	11.3
Dorchester Minerals, L.P.	DMLP	B	23.40	77	0.97	6.4	12.8	11.1
Mesa Royalty Trust	MTR		25.35		0.81	4.9	12.1	9.6
San Juan Basin Royalty Trust	SJT	B	15.63		0.68	10.3	12.3	9.2
Hugoton Royalty Trust	HGT		9.54		0.43	12.4	12.0	8.2
Enduro Royalty Trust (40%)	NDRO		16.53		0.76	6.2	9.1	7.9
Permian Basin RT	PBT		12.87	58	0.57	12.7	12.1	7.8
	<i>Median</i>					8.9	12.1	9.6
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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Table ISC-4										
McDep Income and Small Cap Energy Portfolio										
Total Return and Enterprise Value Momentum										
			Price (\$/sh)	Equity Total	Enterprise Value/					
	Symbol/ Rating		11-Apr 2013	Return YTD (%)	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	McDep Ratio	
<b>Small Cap Independent Producers</b>										
	PDC Energy	PDCE	45.99	38	0.90	1.69	1.00	1.22	0.94	
	Peyto Exploration and Development C	PEYUF	27.71	21	0.99	1.67	1.09	1.16	0.88	
	Cimarex Energy Company	XEC	B	73.07	27	0.93	1.44	1.04	1.15	0.70
	Range Resources	RRC	B	80.29	28	0.97	1.37	1.05	1.14	0.91
	Berry Petroleum Company	BRY		47.49	42	0.99	1.27	1.05	1.13	0.78
	Birchcliff Energy Ltd.	BIREF	B	8.42	12	0.96	1.43	1.06	1.11	0.76
	Denbury Resources Inc.	DNR		18.40	14	0.95	1.27	1.00	1.09	0.72
	Whiting Petroleum Corporation	WLL	B	49.86	15	0.89	1.26	1.01	1.07	0.65
	Continental Resources (32%)	CLR	B	82.31	12	0.90	1.26	0.97	1.06	0.85
	Halcón Resources	HK		7.97	15	0.87		1.03	1.03	0.91
	<i>Median</i>				18	0.94	1.37	1.04	1.12	0.82
<b>Leveraged Cash Payers</b>										
	Legacy Reserves L.P.	LGCY		27.90	20	0.95	1.15	1.04	1.04	0.95
	Vanguard Natural Resources, LLC	VNR		28.26	11	0.96	1.14	1.00	1.01	1.08
	Enerplus Corporation	ERF		14.15	12	0.81	1.14	1.01	1.00	0.77
	Linn Energy, LLC	LINE		38.28	11	0.94	1.07	1.01	0.99	1.15
	<i>Median</i>				12	0.95	1.14	1.01	1.00	1.02
<b>RTF Cash Payers</b>										
	Hugoton RoyaltyTrust	HGT		9.54	34	0.67	1.67	1.14	1.26	0.68
	Freehold Royalties Ltd.	FRHLF		23.63	9	0.97	1.39	1.04	1.13	1.12
	San Juan Basin Royalty Trust	SJT	B	15.63	17	0.82	1.30	0.99	1.06	0.74
	Dorchester Minerals, L.P.	DMLP	B	23.40	17	0.90	1.18	1.01	1.05	0.87
	Sabine Royalty Trust	SBR		50.08	29	0.81	1.29	1.06	1.03	0.77
	Mesa RoyaltyTrust	MTR		25.35	34	0.64	1.35	1.07	1.01	0.79
	Enduro Royalty Trust (40%)	NDRO		16.53	0	0.78	1.10	1.02	0.95	0.87
	Cross Timbers Royalty Trust	CRT		29.39	11	0.70	1.24	1.02	0.95	0.67
	Permian Basin RT	PBT		12.87	6	0.58	1.08	0.98	0.87	0.64
	<i>Median</i>				17	0.78	1.29	1.02	1.03	0.77

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



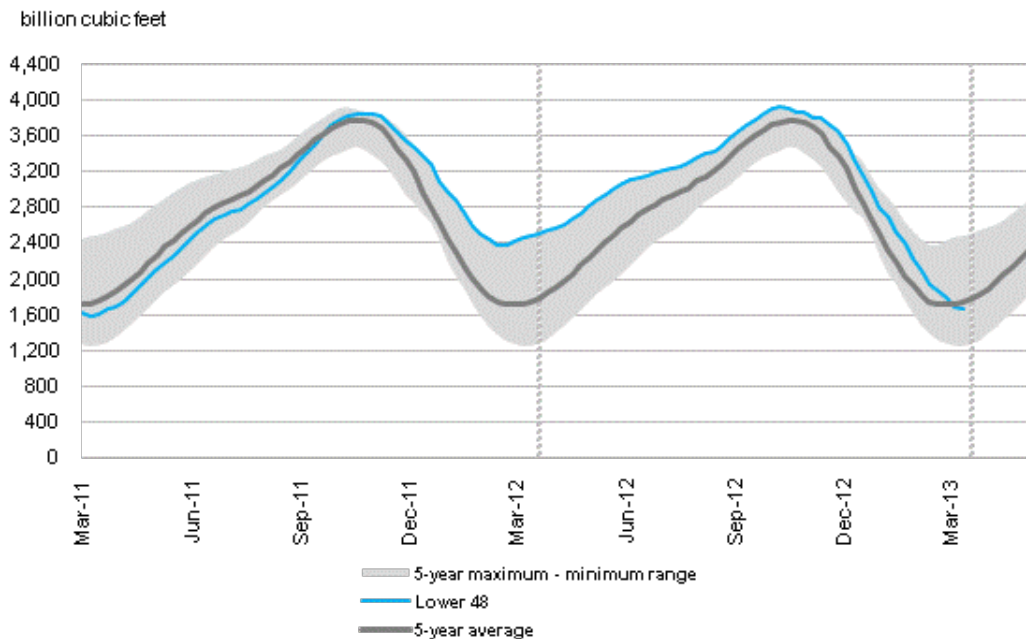


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**Working gas in underground storage compared with the 5-year maximum and minimum**



 Source: U.S. Energy Information Administration

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