

## A Royalty Out for Syncrude

### Summary and Recommendation

Stock price of buy-recommended **Canadian Oil Sands Trust (COSWF)** may have overreacted since the release of “Our Fair Share” (OFS) by the Alberta Royalty Review Panel (see *Industry Idea Flash*, September 19, 2007). We make no change to estimated Net Present Value because Syncrude and Suncor have “Crown Agreements” fixing royalties to 2015 regardless of what “Our Fair Share” may say. Summarizing the Crown Agreements on page 82 of its report, the panel qualifies its recommendation with the statement “Should proposed changes in the royalty rates be applied to [Syncrude (37% COSWF) and buy-recommended **Suncor (SU)**], they might have legal recourse.” The panel further backs off by saying the assessment of the costs of breaking those agreements is beyond the scope of the panel’s work. Nonetheless the great damage Premier “Honest Ed” Stelmach has done to investor perceptions of the investment climate in Canada may encourage investors to take a new look at U.S. oil and gas production income stocks. For six U.S. royalty trusts and two production master limited partnerships our expected median distribution yield is 9.2% for the next twelve months.

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### Natural Gas and Oil Income Stocks - Rank by McDep Ratio

	Symbol/ Rating	Price (\$/sh) 20-Sep 2007	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
<b>U.S. Royalty Trusts</b>							
Sabine Royalty Trust	SBR	42.84	14.6	630	45.00	-	0.95
Permian Basin RT	PBT	15.35	46.6	720	16.50	-	0.93
Mesa RoyaltyTrust	MTR	61.00	1.9	110	70.00	-	0.87
Cross Timbers Royalty Trust	CRT	40.22	6.0	240	46.00	-	0.87
San Juan Basin Royalty Trust	SJT	B 33.02	46.6	1,540	40.00	-	0.83
Hugoton RoyaltyTrust	HGT	B 23.64	40.0	950	34.00	-	0.70
<i>Total or Median</i>				4,200			0.87
<b>Canadian Income Trusts (US\$)</b>							
Pengrowth Energy Trust	PGH	17.00	246.0	4,180	17.00	0.27	1.00
Enerplus Resources Fund	ERF	45.26	128.0	5,790	52.00	0.12	0.89
Penn West Energy Trust	PWE	B 28.89	241.5	6,980	36.00	0.19	0.84
Canadian Oil Sands Trust	COSWF	B 31.54	479.0	15,110	39.00	0.07	0.82
<i>Total or Median</i>				32,100		0.16	0.86
<b>U.S. Master Limited Partnerships (MLPs)</b>							
Kinder Morgan Energy Partners, L.P.	KMP	S 49.80	178.6	8,900	17.00	0.53	1.91
Encore Energy Partners, L.P. (39%)	ENP	21.97	9.0	200	18.00	0.14	1.19
Dorchester Minerals, L.P.	DMLP	20.05	28.2	570	27.00	-	0.74
<i>Total or Median</i>				9,700		0.14	1.19

B = Buy, S = Sell

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at [www.mcdep.com](http://www.mcdep.com). Analyses are prepared from sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Mr. Wulff is not paid by covered companies. Neither he nor his spouse trade a subject stock within a week before or after a change in rating.

## Natural Gas and Oil Income Stocks - Rank by EV/Ebitda

	Symbol/ Rating		Price (\$/sh) 20-Sep 2007	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
<b>U.S. Royalty Trusts</b>								
San Juan Basin Royalty Trust	SJT	B	33.02	10.0	12.9	10.7	13.2	7.6
Cross Timbers Royalty Trust	CRT		40.22	12.0	11.8	10.3	11.0	9.1
Sabine Royalty Trust	SBR		42.84	9.6	10.1	9.6	9.6	10.4
Mesa RoyaltyTrust	MTR		61.00	21.9	11.0	9.6	10.9	9.2
Permian Basin RT	PBT		15.35	8.1	8.9	8.3	10.4	9.6
Hugoton RoyaltyTrust	HGT	B	23.64	13.9	11.8	8.2	11.9	8.4
		<i>Median</i>		<i>11.0</i>	<i>11.4</i>	<i>9.6</i>	<i>10.9</i>	<i>9.2</i>
<b>Canadian Income Trusts (US\$)</b>								
Canadian Oil Sands Trust	COSWF	B	31.54	20.9	10.2	8.4	10.2	9.6
Enerplus Resources Fund	ERF		45.26	9.4	9.0	7.9	16.3	10.6
Pengrowth Energy Trust	PGH		17.00	7.1	7.4	7.4	40.5	16.6
Penn West Energy Trust	PWE	B	28.89	7.7	7.9	6.6	13.2	13.4
		<i>Median</i>		<i>8.5</i>	<i>8.4</i>	<i>7.7</i>	<i>14.8</i>	<i>12.0</i>
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S	49.80	7.6	8.0	15.3	34.3	6.8
Encore Energy Partners, L.P.	ENP		21.97	12.7	8.8	10.5	40.8	6.4
Dorchester Minerals, L.P.	DMLP		20.05	9.1	12.0	8.9	13.8	11.3
		<i>Median</i>		<i>9.1</i>	<i>8.8</i>	<i>10.5</i>	<i>34.3</i>	<i>6.8</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2008; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

## Natural Gas and Oil Income Stocks - Rank by NTM Distribution Yield

	Symbol	Revenue Royalty (%)	Natural Gas/ Ebitda (%)	Dist/ Ebitda	Dist/ Equity Ebitda	NTM Distribution (\$mm)	Dist. Yield (\$/un) (%)
<b>U.S. Royalty Trusts</b>							
San Juan Basin Royalty Trust	SJT	-	98	0.81	0.81	117	2.51
Hugoton RoyaltyTrust	HGT	-	88	0.69	0.69	80	1.99
Cross Timbers Royalty Trust	CRT	84	67	0.94	0.94	22	3.67
Mesa RoyaltyTrust	MTR	-	70	0.88	0.88	10	5.59
Permian Basin RT	PBT	35	35	0.80	0.80	69	1.48
Sabine Royalty Trust	SBR	100	56	1.00	1.00	65	4.47
		<i>Total or Median</i>	<i>68</i>	<i>0.84</i>	<i>0.84</i>	<i>400</i>	<i>9.2</i>
<b>Canadian Income Trusts (US\$)</b>							
Canadian Oil Sands Trust	COSWF	-	(7)	0.74	0.80	1,456	3.04
Enerplus Resources Fund	ERF	-	41	0.72	0.82	613	4.79
Penn West Energy Trust	PWE	-	35	0.68	0.85	936	3.88
Pengrowth Energy Trust	PGH	-	40	0.89	1.23	692	2.81
		<i>Total or Median</i>	<i>38</i>	<i>0.73</i>	<i>0.84</i>	<i>3,700</i>	<i>12.0</i>
<b>U.S. Master Limited Partnerships (MLPs)</b>							
Encore Energy Partners, L.P.	ENP		16	0.59	0.68	13	1.40
Kinder Morgan Energy Partners, L.P.	KMP		-	0.76	1.60	607	3.40
Dorchester Minerals, L.P.	DMLP	64	72	1.00	1.00	64	2.26
		<i>Total or Median</i>					

NTM = Next Twelve Months Ended September 30, 2008  
Ebitda = Earnings before interest, tax, depreciation and amortization

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