

## Caution in Buoyant Times

### Summary and Recommendation

We believe eleven of the fourteen income stocks in our weekly analysis offer sound long-term investment potential at current stock price while the remaining three stocks trigger our warning measure on the sustainability of the current distribution. We think income trusts or partnerships potentially mislead investors when the amount of cash being distributed exceeds cash flow allocated to equity holders. Violating that measure for years and underperforming accordingly, sell-recommended **Kinder Morgan Energy Partners (KMP)** has a distribution to equity cash flow ratio of 1.60 (see column Dist./Equity Ebitda, table [Rank by Distribution Yield](#)). Despite a recent reduction in distribution, **Pengrowth Energy Trust (PGH)** still is in our warning zone and may reduce distribution further unless commodity prices or operating results are better than expected. **Linn Energy, LLC (LINE)** also exceeds our warning measure. Unlike PGH, which has a long, successful history, LINE has only been operating at its current level since it closed a company changing acquisition little more than a month ago.

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### 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)	NTM Distribution (\$/un)	Dist. Yield (%)
<b>U.S. Royalty Trusts</b>								
San Juan Basin Royalty Trust	SJT	-	98	0.81	0.81	113	2.42	6.9
Hugoton RoyaltyTrust	HGT	-	87	0.69	0.69	78	1.95	7.9
Mesa RoyaltyTrust	MTR	-	68	0.88	0.88	10	5.56	8.5
Cross Timbers Royalty Trust	CRT	84	65	0.94	0.94	22	3.67	9.2
Sabine Royalty Trust	SBR	100	54	1.00	1.00	65	4.49	9.7
Permian Basin RT	PBT	35	34	0.80	0.80	71	1.52	10.1
	<i>Total or Median</i>		67	0.84	0.84	400		8.8
<b>Canadian Income Trusts (US\$)</b>								
Canadian Oil Sands Trust	COSWF	-	(7)	0.72	0.78	1,498	3.13	9.4
Enerplus Resources Fund	ERF	-	39	0.74	0.85	660	5.16	11.2
Penn West Energy Trust	PWE	-	33	0.69	0.87	1,009	4.18	13.3
Pengrowth Energy Trust	PGH	-	39	0.93	1.28	718	2.92	16.0
	<i>Total or Median</i>		36	0.73	0.86	3,900		12.2
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Encore Energy Partners, L.P.	ENP		15	0.53	0.62	13	1.40	6.7
Kinder Morgan Energy Partners,  KMP			-	0.76	1.60	607	3.40	6.8
Linn Energy, LLC	LINE		66	0.90	1.32	260	2.28	7.6
Dorchester Minerals, L.P.	DMLP	64	70	1.00	1.00	64	2.25	10.1
	<i>Total or Median</i>		40	0.83	1.16	900		7.2

NTM = Next Twelve Months Ended September 30, 2008

Ebitda = Earnings before interest, tax, depreciation and amortization

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 McDep Ratio

	Symbol/ Rating	Price (\$/sh) 11-Oct 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	46.10	14.6	670	45.00	-	1.02	
Mesa RoyaltyTrust	MTR	65.80	1.9	120	70.00	-	0.94	
Permian Basin RT	PBT	15.07	46.6	700	16.50	-	0.91	
San Juan Basin Royalty Trust	SJT	B	35.05	46.6	1,630	40.00	-	0.88
Cross Timbers Royalty Trust	CRT		39.92	6.0	240	46.00	-	0.87
Hugoton RoyaltyTrust	HGT	B	24.85	40.0	990	34.00	-	0.73
<i>Total or Median</i>				4,400			0.89	
<b>Canadian Income Trusts (US\$)</b>								
Pengrowth Energy Trust	PGH	18.28	246.0	4,500	17.00	0.28	1.05	
Enerplus Resources Fund	ERF	46.26	128.0	5,920	52.00	0.13	0.90	
Penn West Energy Trust	PWE	B	31.40	241.5	7,580	36.00	0.21	0.90
Canadian Oil Sands Trust	COSWF	B	33.19	479.0	15,900	39.00	0.08	0.86
<i>Total or Median</i>				33,900		0.17	0.90	
<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		21.01	9.0	190	18.00	0.14	1.14
Linn Energy, LLC	LINE		29.81	114.0	3,400	25.00	0.31	1.13
Dorchester Minerals, L.P.	DMLP		22.22	28.2	630	27.00	-	0.82
<i>Total or Median</i>				13,100		0.23	1.14	

B = Buy, S = Sell

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

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

	Symbol/ Rating	Price (\$/sh) 11-Oct 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	35.05	10.0	13.4	11.7	14.5	6.9
Mesa RoyaltyTrust	MTR		65.80	21.9	11.0	10.4	11.8	8.5
Sabine Royalty Trust	SBR		46.10	9.6	10.0	10.3	10.3	9.7
Cross Timbers Royalty Trust	CRT		39.92	12.0	11.8	10.2	10.9	9.2
Hugoton RoyaltyTrust	HGT	B	24.85	13.9	12.0	8.8	12.7	7.9
Permian Basin RT	PBT		15.07	8.1	8.8	8.0	9.9	10.1
<i>Median</i>				11.0	11.4	10.2	11.4	8.8
<b>Canadian Income Trusts (US\$)</b>								
Canadian Oil Sands Trust	COSWF	B	33.19	21.7	9.7	8.4	10.1	9.4
Pengrowth Energy Trust	PGH		18.28	7.1	7.5	7.9	49.7	16.0
Enerplus Resources Fund	ERF		46.26	9.4	8.6	7.7	16.2	11.2
Penn West Energy Trust	PWE	B	31.40	7.7	7.5	6.7	13.8	13.3
<i>Median</i>				8.5	8.0	7.8	15.0	12.2
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Linn Energy, LLC	LINE		29.81	21.1	14.4	16.3	78.7	7.6
Kinder Morgan Energy Partners, L.P.	KMP	S	49.80	7.6	8.0	15.3	34.3	6.8
Dorchester Minerals, L.P.	DMLP		22.22	9.1	12.0	9.9	15.4	10.1
Encore Energy Partners, L.P.	ENP		21.01	12.7	7.9	9.0	26.4	6.7
<i>Median</i>				10.9	10.0	12.6	30.3	7.2

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

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