

# Oil and Gas Income Stocks

A Weekly Analysis

March 28, 2008



## Record Natural Gas for Power

### Summary and Recommendation

Continuing strong growth of natural gas for power generation boosts the outlook for cash distributions from oil and gas income stocks, including our buy recommendations. Natural gas deliveries to the U.S. electric power sector grew at an accelerated rate of 11% in 2007 to 6.9 trillion cubic feet (tcf), compared to a compound annual growth rate of 5% for the past ten years, according to statistics released by the Energy Information Administration (EIA). That bolsters our confidence that natural gas price in million btus is headed to oil price in barrels divided by 5, equivalent to twice today's level. Natural gas for electric power is approaching a third of total natural gas consumption, which grew 7% in 2007 to 23.1 tcf, a level exceeded only by the all-time record of 23.3 tcf in 2000. Domestic marketed production grew 4% to 20.2 tcf still short of the all-time record of 22.6 tcf in 1973. Meanwhile, developing restrictions on carbon dioxide (CO<sub>2</sub>) emissions add to the comparative advantage of natural gas and oil over coal. We are skeptical of the global warming justification for controlling CO<sub>2</sub> emissions as it may be about as reliable as a long-range weather forecast. Nonetheless, the solid fuel produces the greatest concentration of emissions, whether they are CO<sub>2</sub> or more noxious compounds.

Kurt H. Wulff, CFA

Natural Gas and Oil Income Stocks - Rank by McDep Ratio								
			Price (\$/sh)		Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		28-Mar 2008	Shares (mm)				
<b>U.S. Royalty Trusts</b>								
Permian Basin RT	PBT		22.20	46.6	1,040	18.00	-	1.23
Sabine Royalty Trust	SBR		50.27	14.6	730	48.00	-	1.05
Cross Timbers Royalty Trust	CRT		49.05	6.0	290	47.00	-	1.04
Mesa Royalty Trust	MTR		68.10	1.9	130	70.00	-	0.97
San Juan Basin Royalty Trust	SJT	B	37.11	46.6	1,730	40.00	-	0.93
Hugoton Royalty Trust	HGT	B	27.48	40.0	1,100	34.00	-	0.81
	<i>Total or Median</i>				5,000			1.01
<b>Canadian Income Trusts (US\$)</b>								
Pengrowth Energy Trust	PGH		19.16	247.0	4,730	19.00	0.25	1.01
Canadian Oil Sands Trust	COSWF	B	41.03	479.0	19,650	45.00	0.05	0.92
Enerplus Resources Fund	ERF		42.71	129.4	5,530	52.00	0.13	0.84
Penn West Energy Trust	PWE	B	27.95	372.6	10,410	37.00	0.23	0.81
	<i>Total or Median</i>				40,300		0.18	0.88
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S	54.44	179.9	9,790	17.00	0.56	1.97
Encore Energy Partners, L.P. (32%)	ENP		21.46	10.2	220	20.00	0.24	1.06
Linn Energy, LLC	LINE		18.98	101.1	1,920	27.00	0.36	0.81
Dorchester Minerals, L.P.	DMLP		20.69	28.2	580	27.00	-	0.77
	<i>Total or Median</i>				12,500		0.30	0.93
B = Buy, S = Sell								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								

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Natural Gas and Oil Income Stocks - Rank by EV/Ebitda								
			Price (\$/sh)	Adjstd Resrvs/	PV/	EV/		Divd or Distrib
	Symbol/	28-Mar	Prod	Ebitda	Ebitda	P/E	NTM	
	Rating	2008	NTM	NTM	NTM	NTM	NTM	(%)
<b>U.S. Royalty Trusts</b>								
Cross Timbers Royalty Trust	CRT		49.05	13.7	9.3	9.7	10.3	9.7
Sabine Royalty Trust	SBR		50.27	9.4	9.1	9.6	9.6	10.4
Permian Basin RT	PBT		22.20	8.2	7.7	9.5	10.0	10.0
San Juan Basin Royalty Trust	SJT	B	37.11	10.2	9.9	9.2	11.2	8.9
Mesa RoyaltyTrust	MTR		68.10	21.1	9.2	9.0	10.2	9.8
Hugoton RoyaltyTrust	HGT	B	27.48	13.1	9.1	7.3	9.7	10.3
	<i>Median</i>			11.6	9.2	9.4	10.1	9.9
<b>Canadian Income Trusts (US\$)</b>								
Canadian Oil Sands Trust	COSWF	B	41.03	23.1	9.5	8.7	10.5	8.5
Pengrowth Energy Trust	PGH		19.16	7.5	5.9	5.9	12.0	13.8
Enerplus Resources Fund	ERF		42.71	9.7	6.7	5.7	8.2	11.5
Penn West Energy Trust	PWE	B	27.95	7.3	6.5	5.2	12.5	14.3
	<i>Median</i>			8.6	6.6	5.8	11.2	12.6
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S	54.44	8.5	7.9	15.5	28.3	6.8
Encore Energy Partners, L.P.	ENP		21.46	12.4	8.1	8.5	(36.4)	7.2
Linn Energy, LLC	LINE		18.98	19.0	9.4	7.6	(2.7)	13.3
Dorchester Minerals, L.P.	DMLP		20.69	8.5	9.8	7.5	10.2	13.4
	<i>Median</i>			10.5	8.7	8.1	3.8	10.2
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 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								
			Natural Gas/ Revenue	Dist/ Ebitda	Dist/ Equity Ebitda	NTM Distribution (\$mm)	NTM Distribution (\$/un)	Dist. Yield
	Symbol	Royalty (%)	(%)	Ebitda	Ebitda			(%)
<b>U.S. Royalty Trusts</b>								
San Juan Basin Royalty Trust	SJT	-	98	0.82	0.82	154	3.30	8.9
Cross Timbers Royalty Trust	CRT	84	69	0.95	0.95	29	4.78	9.7
Mesa RoyaltyTrust	MTR	-	66	0.88	0.88	12	6.71	9.8
Permian Basin RT	PBT	32	34	0.95	0.95	104	2.22	10.0
Hugoton RoyaltyTrust	HGT	-	87	0.75	0.75	113	2.82	10.3
Sabine Royalty Trust	SBR	100	54	1.00	1.00	77	5.25	10.4
	<i>Total or Median</i>		67	0.91	0.91	500		9.9
<b>Canadian Income Trusts (US\$)</b>								
Canadian Oil Sands Trust	COSWF	-	(8)	0.70	0.74	1,661	3.47	8.5
Enerplus Resources Fund	ERF	-	39	0.55	0.64	637	4.92	11.5
Pengrowth Energy Trust	PGH	-	37	0.62	0.82	651	2.64	13.8
Penn West Energy Trust	PWE	-	34	0.53	0.69	1,485	3.98	14.3
	<i>Total or Median</i>		36	0.58	0.72	4,400		12.6
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Kinder Morgan Energy Partners, L.P.	KMP	-	-	0.75	1.70	662	3.68	6.8
Encore Energy Partners, L.P.	ENP	-	24	0.48	0.63	16	1.55	7.2
Linn Energy, LLC	LINE	-	65	0.56	0.88	255	2.52	13.3
Dorchester Minerals, L.P.	DMLP	64	70	1.00	1.00	78	2.77	13.4
	<i>Total or Median</i>		44	0.65	0.94	1,000		10.2
NTM = Next Twelve Months Ended December 31, 2008								
Ebitda = Earnings before interest, tax, depreciation and amortization								

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