

Oil and Gas Income Stocks

A Weekly Analysis

May 30, 2008



Portfolio Builders

Summary and Recommendation

Income stocks can be helpful in building portfolio representation in natural gas because half of the dozen stocks in our coverage most concentrated on the clean fuel are income stocks (see table, page 2, [Natural Gas Producers](#)). In fact, buy recommendations **San Juan Basin Royalty Trust (SJT)** and **Hugoton Royalty Trust (HGT)** are the purest with 100% concentration. Because natural gas has more investment growth potential than oil, we recommend a disproportionate 42% weighting in the McDep Energy Portfolio (see companion weekly analysis, *Meter Reader*). It can be difficult to get that much natural gas focus for investors holding oil-heavy portfolios with legacy positions in major oil companies or large unrealized gains in successful oil producers. Thus, stocks highly concentrated on natural gas may be prized attractions. To help gauge current values of income stocks, multiply McDep Ratio by 100 for a rough indication of long-term oil price represented in stock price (see table [Rank by McDep Ratio](#)). Meanwhile, estimated distribution yields for the next twelve months ending June 30, 2009 range up to 14% (see table [Rank by Distribution Yield](#)).

Kurt H. Wulff, CFA

Natural Gas and Oil Income Stocks - Rank by McDep Ratio								
			Price (\$/sh)	Shares	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		29-May 2008	(mm)				
U.S. Royalty Trusts								
Sabine Royalty Trust	SBR		62.80	14.6	920	60.00	-	1.05
Permian Basin RT	PBT		22.31	46.6	1,040	23.00	-	0.97
Cross Timbers Royalty Trust	CRT		52.02	6.0	310	57.00	-	0.91
San Juan Basin Royalty Trust	SJT	B	41.80	46.6	1,950	48.00	-	0.87
Mesa Royalty Trust	MTR		74.59	1.9	140	93.00	-	0.80
Hugoton Royalty Trust	HGT	B	32.91	40.0	1,320	42.00	-	0.78
<i>Total or Median</i>					5,700			0.89
Canadian Income Trusts (US\$)								
Pengrowth Energy Trust	PGH		20.44	247.0	5,050	24.00	0.25	0.89
Canadian Oil Sands Trust	COSWF	B	50.05	479.0	23,980	57.00	0.04	0.88
Penn West Energy Trust	PWE	B	32.25	366.7	11,830	45.00	0.24	0.78
Enerplus Resources Fund	ERF		46.22	153.0	7,070	63.00	0.15	0.77
<i>Total or Median</i>					47,900		0.19	0.83
U.S. Master Limited Partnerships (MLPs)								
Kinder Morgan Energy Partners, L.P.	KMP	S	58.43	189.1	11,050	17.00	0.57	2.06
Encore Energy Partners, L.P. (32%)	ENP		25.05	10.2	260	26.00	0.18	0.97
Dorchester Minerals, L.P.	DMLP		27.00	28.2	760	33.00	-	0.82
Linn Energy, LLC	LINE		22.59	114.0	2,580	35.00	0.38	0.78
<i>Total or Median</i>					14,700		0.28	0.89
B = Buy, S = Sell								
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 \$14 a million btu for natural gas.								

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Natural Gas Producers

(Income Stocks in **Bold**)

	<i>Natural Gas</i>		
	<i>Present Value</i>		<i>McDep</i>
	<i>(US\$mm)</i>	<i>(%)</i>	<i>Ratio</i>
San Juan Basin Royalty Trust	2,240	100	0.87
Hugoton Royalty Trust	1,680	100	0.79
Chesapeake Energy Corporation	50,000	91	0.75
Gazprom	450,000	80	0.72
EOG Resources	28,000	76	0.92
Dorchester Minerals, L.P.	700	75	0.82
XTO Energy Inc.	39,000	75	0.75
Cross Timbers Royalty Trust	250	73	0.91
Encana Corporation	66,200	72	0.91
Birchcliff Energy Ltd. (US\$)	1,200	69	0.86
Mesa Royalty Trust	120	67	0.80
Linn Energy, LLC	4,200	66	0.78
Cimarex Energy Company	5,800	64	0.70
Sabine Royalty Trust	500	57	1.05
Devon Energy Corporation	45,000	53	0.71
Anadarko Petroleum Corp.	33,000	51	0.81
Enerplus Resources Fund	5,700	51	0.77
Energy Partners Ltd.	600	41	0.68
Pengrowth Energy Trust	2,700	34	0.89
Statoil ASA	64,000	34	0.77
Permian Basin RT	340	32	0.97
Encore Energy Partners, L.P.	300	29	0.97
Penn West Energy Trust	6,300	29	0.78
Berry Petroleum Company	1,000	27	0.84
Exxon Mobil Corporation	154,000	23	0.77
ConocoPhillips	62,000	22	0.67
Royal Dutch Shell plc	79,000	19	0.74
BP plc	68,000	18	0.74
Total S.A.	52,000	17	0.73
Encore Acquisition Company	900	17	0.89
Petro-Canada	7,000	14	0.67
Marathon Oil Corporation	9,000	14	0.74
Occidental Petroleum Corp.	14,000	13	0.77
Chevron Corporation	40,000	12	0.75
CNOOC Limited	7,000	9	0.98
PetroChina Company Ltd	36,000	9	0.65
Imperial Oil Limited	3,500	6	0.89
Suncor Energy	2,000	3	0.91

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Natural Gas and Oil Income Stocks - Rank by EV/Ebitda								
			Price (\$/sh)	Adjstd Resrvs/	PV/	EV/		Divd or Distrib
	Symbol/ Rating		29-May 2008	Prod NTM	Ebitda NTM	Ebitda NTM	P/E NTM	NTM (%)
U.S. Royalty Trusts								
Sabine Royalty Trust	SBR		62.80	9.1	7.9	8.3	8.3	12.1
Cross Timbers Royalty Trust	CRT		52.02	13.4	8.9	8.1	8.6	11.6
San Juan Basin Royalty Trust	SJT	B	41.80	10.4	8.4	7.3	9.0	11.1
Mesa RoyaltyTrust	MTR		74.59	21.1	8.6	6.9	7.9	12.7
Permian Basin RT	PBT		22.31	8.4	7.0	6.8	7.1	14.0
Hugoton RoyaltyTrust	HGT	B	32.91	13.1	7.9	6.2	8.9	11.2
	<i>Median</i>			11.8	8.2	7.1	8.4	11.9
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	B	50.05	22.1	8.3	7.3	8.3	8.1
Pengrowth Energy Trust	PGH		20.44	8.9	5.7	5.1		13.4
Enerplus Resources Fund	ERF		46.22	9.6	6.0	4.6	7.6	11.0
Penn West Energy Trust	PWE	B	32.25	7.3	5.4	4.3	9.6	12.8
	<i>Median</i>			9.2	5.9	4.9	8.3	11.9
U.S. Master Limited Partnerships (MLPs)								
Kinder Morgan Energy Partners, L.P.	KMP	S	58.43	8.0	7.4	15.2	22.6	6.3
Linn Energy, LLC	LINE		22.59	17.4	9.4	7.3		11.2
Dorchester Minerals, L.P.	DMLP		27.00	8.5	8.6	7.0	9.0	14.3
Encore Energy Partners, L.P.	ENP		25.05	12.4	6.4	6.2		9.2
	<i>Median</i>			10.4	8.0	7.1	15.8	10.2
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2009; 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/ Ebitda	Dist/ Ebitda	Dist/ Equity Ebitda	NTM Distribution (\$mm)	Dist. Yield (\$/un)	Dist. Yield (%)
	Symbol	Revenue Royalty (%)	(%)	Ebitda	Ebitda			
U.S. Royalty Trusts								
San Juan Basin Royalty Trust	SJT	-	99	0.82	0.82	217	4.65	11.1
Hugoton RoyaltyTrust	HGT	-	88	0.70	0.70	148	3.70	11.2
Cross Timbers Royalty Trust	CRT	84	68	0.94	0.94	36	6.05	11.6
Sabine Royalty Trust	SBR	100	57	1.00	1.00	111	7.60	12.1
Mesa RoyaltyTrust	MTR	-	67	0.88	0.88	18	9.45	12.7
Permian Basin RT	PBT	32	35	0.95	0.95	146	3.13	14.0
	<i>Total or Median</i>		68	0.91	0.91	700		11.9
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	-	(8)	0.56	0.59	1,932	4.03	8.1
Enerplus Resources Fund	ERF	-	48	0.42	0.49	780	5.10	11.0
Penn West Energy Trust	PWE	-	33	0.38	0.50	1,513	4.13	12.8
Pengrowth Energy Trust	PGH	-	37	0.49	0.65	674	2.73	13.4
	<i>Total or Median</i>		35	0.45	0.54	4,900		11.9
U.S. Master Limited Partnerships (MLPs)								
Kinder Morgan Energy Partners,	KMP	-	-	0.69	1.60	696	3.68	6.3
Encore Energy Partners, L.P.	ENP	-	18	0.46	0.57	23	2.30	9.2
Linn Energy, LLC	LINE	-	57	0.42	0.67	287	2.52	11.2
Dorchester Minerals, L.P.	DMLP	64	73	1.00	1.00	109	3.85	14.3
	<i>Total or Median</i>		37	0.58	0.84	1,100		10.2
NTM = Next Twelve Months Ended June 30, 2009								
Ebitda = Earnings before interest, tax, depreciation and amortization								

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Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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