



Oil & Gas Income Stocks

A Weekly Analysis

July 25, 2008

Income Stability

Summary and Recommendation

While stability is a relative term, oil and gas income stocks are resisting market price decline more than oil and gas operating companies. Getting paid while you wait may have more appeal when stock prices in general have not been rising recently. In any event we like low McDep Ratios for new commitments (see table [Rank by McDep Ratio](#)). No sooner did we upgrade our estimates last week on **Encore Energy Partners (ENP)** and the stock fell 17% to a McDep Ratio of 0.81. The appeal of **Enerplus Resources Fund**, a Canadian Income Trust at a McDep Ratio of 0.69, is bolstered by a low cash flow multiple (see table [Rank by EV/Ebitda](#)). Income stocks that pay distributions sensitive to recent commodity price may distribute a median 7% less over the next twelve months compared to our estimates of a week ago (see table [NTM Distribution Yield](#)). Expected income from natural gas is lower because of unusual decline in natural gas price that we attribute mainly to unpredictable volatility when seasonal demand is low. Oil price remains in an uptrend above the 200-day or 40-week average for the near month, next twelve months or next six years. Prices in this week's delayed analysis are intraday on July 25.

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		25-Jul 2008	Shares (mm)					
U.S. Royalty Trusts									
Sabine Royalty Trust	SBR		60.04	14.6	880	60.00	-	-	1.00
Permian Basin RT	PBT		21.75	46.6	1,010	23.00	-	-	0.95
Cross Timbers Royalty Trust	CRT		52.14	6.0	310	57.00	-	-	0.92
Mesa RoyaltyTrust	MTR		76.19	1.9	140	93.00	-	-	0.82
San Juan Basin Royalty Trust	SJT	B	37.96	46.6	1,770	48.00	-	-	0.79
Hugoton RoyaltyTrust	HGT	B	31.04	40.0	1,240	42.00	-	-	0.74
<i>Total or Median</i>						5,400			0.87
Canadian Income Trusts (US\$)									
Canadian Oil Sands Trust	COSWF	B	46.91	479.0	22,470	57.00	0.04		0.83
Penn West Energy Trust	PWE	B	30.11	376.8	11,350	40.00	0.25		0.81
Pengrowth Energy Trust	PGH		17.46	247.0	4,310	24.00	0.25		0.79
Enerplus Resources Fund	ERF		39.89	153.0	6,100	63.00	0.14		0.69
<i>Total or Median</i>						44,200		0.20	0.80
U.S. Master Limited Partnerships (MLPs)									
Kinder Morgan Energy Partners, L.P.	KMP	S	57.23	184.2	10,540	17.00	0.60		1.95
Dorchester Minerals, L.P.	DMLP		29.72	28.2	840	33.00	-		0.90
Encore Energy Partners, L.P. (32%)	ENP		22.51	10.2	230	29.00	0.17		0.81
Linn Energy, LLC	LINE		21.25	114.0	2,420	35.00	0.38		0.76
<i>Total or Median</i>						14,000		0.27	0.86
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 and Oil Income Stocks - Rank by EV/Ebitda								
			Price (\$/sh)	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	P/E	Divd or Distrib NTM (%)
	Symbol/ Rating		25-Jul 2008	NTM	NTM	NTM	NTM	
U.S. Royalty Trusts								
Cross Timbers Royalty Trust	CRT		52.14	13.9	9.7	8.8	9.3	10.7
Sabine Royalty Trust	SBR		60.04	9.1	8.8	8.8	8.8	11.4
San Juan Basin Royalty Trust	SJT	B	37.96	10.4	10.6	8.4	10.3	9.7
Mesa RoyaltyTrust	MTR		76.19	21.1	9.8	8.0	9.2	10.9
Permian Basin RT	PBT		21.75	8.4	7.6	7.2	7.7	13.0
Hugoton RoyaltyTrust	HGT	B	31.04	13.1	9.4	7.0	10.0	10.0
	<i>Median</i>			11.8	9.5	8.2	9.3	10.8
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	B	46.91	22.0	8.5	7.1	8.0	12.4
Pengrowth Energy Trust	PGH		17.46	8.9	6.6	5.2		15.2
Enerplus Resources Fund	ERF		39.89	9.6	7.0	4.8	9.0	12.4
Penn West Energy Trust	PWE	B	30.11	7.2	5.8	4.7	10.4	13.6
	<i>Median</i>			9.2	6.8	5.0	9.0	13.0
U.S. Master Limited Partnerships (MLPs)								
Kinder Morgan Energy Partners, L.P.	KMP	S	57.23	8.0	7.8	15.3	23.2	6.9
Dorchester Minerals, L.P.	DMLP		29.72	8.5	10.3	9.3	12.6	10.8
Linn Energy, LLC	LINE		21.25	17.4	10.9	8.2		11.9
Encore Energy Partners, L.P.	ENP		22.51	11.9	7.4	6.0		13.0
	<i>Median</i>			10.2	9.1	8.8	17.9	11.3
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)	NTM Distribution (\$/un)	Dist. Yield (%)
	Symbol	Revenue (%)	(%)	Ebitda	Ebitda			
U.S. Royalty Trusts								
San Juan Basin Royalty Trust	SJT	-	98	0.82	0.82	172	3.69	9.7
Hugoton RoyaltyTrust	HGT	-	86	0.70	0.70	124	3.10	10.0
Cross Timbers Royalty Trust	CRT	84	69	0.94	0.94	33	5.58	10.7
Mesa RoyaltyTrust	MTR	-	64	0.88	0.88	16	8.32	10.9
Sabine Royalty Trust	SBR	100	54	1.00	1.00	99	6.82	11.4
Permian Basin RT	PBT	32	32	0.94	0.94	132	2.84	13.0
	<i>Total or Median</i>		66	0.91	0.91	600		10.8
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	-	(7)	0.84	0.87	2,790	5.82	12.4
Enerplus Resources Fund	ERF	-	44	0.47	0.55	759	4.96	12.4
Penn West Energy Trust	PWE	-	30	0.44	0.59	1,548	4.11	13.6
Pengrowth Energy Trust	PGH	-	33	0.55	0.73	656	2.66	15.2
	<i>Total or Median</i>		32	0.51	0.66	5,800		13.0
U.S. Master Limited Partnerships (MLPs)								
Kinder Morgan Energy Partners, L.P.	KMP	-	-	0.73	1.82	730	3.96	6.9
Dorchester Minerals, L.P.	DMLP	64	69	1.00	1.00	90	3.20	10.8
Linn Energy, LLC	LINE	-	52	0.49	0.78	287	2.52	11.9
Encore Energy Partners, L.P.	ENP	-	18	0.62	0.75	30	2.92	13.0
	<i>Total or Median</i>		35	0.68	0.89	1,100		11.3
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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