



Oil & Gas Income Stocks

A Weekly Analysis

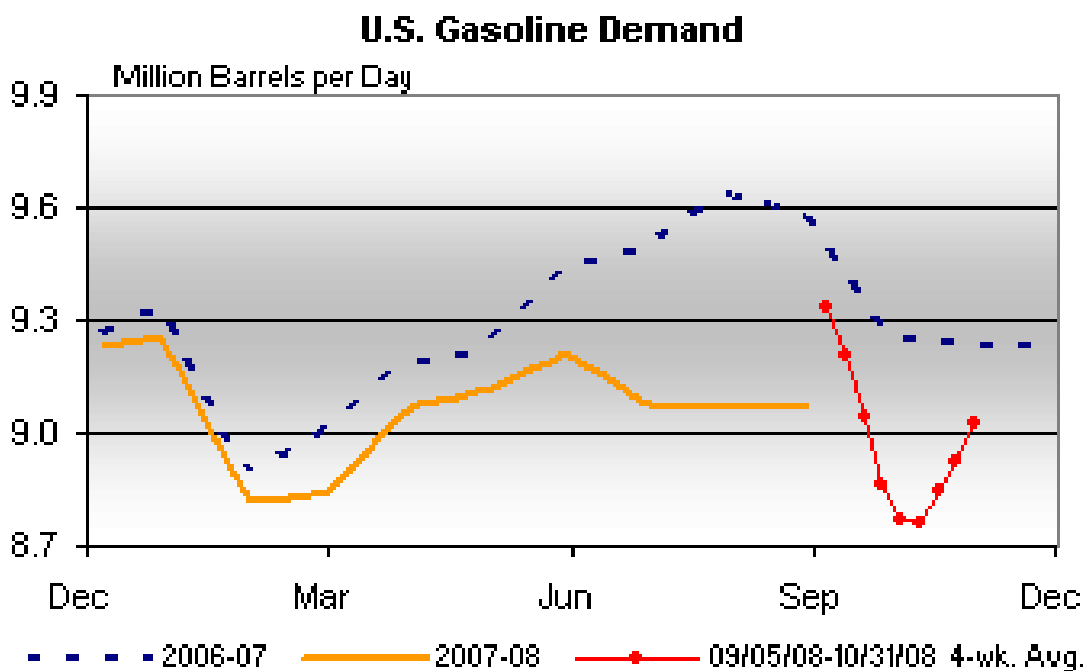
November 7, 2008

Tentative Recovery in Gasoline Demand

Summary and Recommendation

A four week recovery in gasoline demand may be a sign that oil price has declined enough for the weak economic environment. The U.S. Energy Information Administration plots a turnaround in demand in the country's largest petroleum product market of 300,000 barrels daily, or 3%, from a month ago (see chart below [U.S. Gasoline Demand](#)). As encouraging as the sign may be, our sense is that government and industry statistics are a lagging indicator for commodity price that in turn is a lagging indicator for stock price. We rely on simple conviction that the value is attractive in our buy recommendations. We hedge with hold ratings where we are waiting for momentum in industry trends, commodity price and stock price to be confirmed. In any event, our mental picture is that over a long period of time oil and gas income stocks have been priced for an attractive annual distribution rate in high price and low price commodity environments. Indeed, the median distribution yield is 10.5% for the next twelve months by our latest calculations. Estimates are made using closing quotes on November 6 for stock prices and settlement prices on November 3 for next twelve months deliveries of Light, Sweet Crude Oil at \$67.60 a barrel and Louisiana Natural Gas at \$7.10 a million btu.

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Natural Gas and Oil Income Stocks - Rank by NTM Distribution Yield								
			Natural					
		Revenue	Gas/		Dist/			Dist.
	Symbol	Royalty	Ebitda	Dist/	Equity	NTM Distribution		Yield
		(%)	(%)	Ebitda	Ebitda	(\$mm)	(\$/un)	(%)
U.S. Royalty Trusts								
San Juan Basin Royalty Trust	SJT	-	99	0.82	0.82	110	2.35	6.7
Permian Basin RT	PBT	32	38	0.95	0.95	79	1.70	8.0
Cross Timbers Royalty Trust	CRT	84	71	0.95	0.95	21	3.54	8.2
Hugoton RoyaltyTrust	HGT	-	86	0.71	0.71	78	1.96	8.3
Mesa RoyaltyTrust	MTR	-	69	0.88	0.88	10	5.60	10.6
Sabine Royalty Trust	SBR	100	62	1.00	1.00	74	5.06	10.6
<i>Total or Median</i>			70	0.91	0.91	400		8.2
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	-	(8)	0.82	0.86	1,224	2.54	10.5
Enerplus Resources Fund	ERF	-	49	0.62	0.74	635	3.86	15.4
Penn West Energy Trust	PWE	-	34	0.68	0.99	1,312	3.45	20.7
Pengrowth Energy Trust	PGH	-	38	0.73	1.08	567	2.28	22.2
<i>Total or Median</i>			36	0.70	0.92	3,700		18.1
U.S. Master Limited Partnerships (MLPs)								
Dorchester Minerals, L.P.	DMLP	64	73	1.00	1.00	59	2.10	10.0
Encore Energy Partners, L.P.	ENP		21	0.64	0.83	18	1.75	10.3
Linn Energy, LLC	LINE		51	0.67	2.04	287	2.52	16.5
<i>Total or Median</i>			51	0.67	1.00	400		10.3
NTM = Next Twelve Months Ended September 30, 2009								
Ebitda = Earnings before interest, tax, depreciation and amortization								

Natural Gas and Oil Income Stocks - Rank by McDep Ratio								
			Price			Net		
			(\$/sh)		Market	Present	Debt/	
	Symbol/	6-Nov	Shares	Cap	Value	Present	McDep	
	Rating	2008	(mm)	(\$mm)	(\$/un)	Value	Ratio	
U.S. Royalty Trusts								
Permian Basin RT	PBT		21.20	46.6	990	19.00	-	1.12
San Juan Basin Royalty Trust	SJT	H	35.20	46.6	1,640	34.00	-	1.04
Cross Timbers Royalty Trust	CRT		43.00	6.0	260	42.00	-	1.02
Sabine Royalty Trust	SBR		47.79	14.6	700	47.00	-	1.02
Mesa RoyaltyTrust	MTR		52.99	1.9	100	67.00	-	0.79
Hugoton RoyaltyTrust	HGT	B	23.69	40.0	950	30.00	-	0.79
<i>Total or Median</i>					4,600			1.02
Canadian Income Trusts (US\$)								
Pengrowth Energy Trust	PGH		10.31	248.0	2,560	16.00	0.33	0.76
Penn West Energy Trust	PWE	H	16.64	380.0	6,320	27.00	0.32	0.74
Enerplus Resources Fund	ERF		25.06	164.5	4,120	44.00	0.16	0.64
Canadian Oil Sands Trust	COSWF	B	24.28	482.0	11,700	42.00	0.05	0.60
<i>Total or Median</i>					24,700		0.24	0.69
U.S. Master Limited Partnerships (MLPs)								
Linn Energy, LLC	LINE		15.25	114.0	1,740	14.00	0.67	1.03
Encore Energy Partners, L.P. (32%)	ENP		17.04	10.6	180	19.00	0.23	0.92
Dorchester Minerals, L.P.	DMLP		20.93	28.2	590	24.00	-	0.87
<i>Total or Median</i>					2,500		0.23	0.92
B = Buy, H = Hold								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
Present Value presumes long-term prices of \$75 a barrel for oil and \$10 a million btu for natural gas.								



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Natural Gas and Oil Income Stocks - Rank by EV/Ebitda								
			Price	Adjstd				Divd or
			(\$/sh)	Resrvs/	PV/	EV/		Distrib
	Symbol/		6-Nov	Prod	Ebitda	Ebitda	P/E	NTM
	Rating		2008	NTM	NTM	NTM	NTM	(%)
U.S. Royalty Trusts								
San Juan Basin Royalty Trust	SJT	H	35.20	10.8	11.9	12.3	15.0	6.7
Permian Basin RT	PBT		21.20	8.6	10.6	11.8	12.5	8.0
Cross Timbers Royalty Trust	CRT		43.00	14.1	11.2	11.5	12.2	8.2
Sabine Royalty Trust	SBR		47.79	8.9	9.3	9.5	9.4	10.6
Hugoton RoyaltyTrust	HGT	B	23.69	13.0	10.8	8.6	12.1	8.3
Mesa RoyaltyTrust	MTR		52.99	21.1	10.5	8.3	9.5	10.6
	<i>Median</i>			11.9	10.7	10.5	12.1	8.2
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	B	24.28	21.6	14.2	8.5	12.1	10.5
Pengrowth Energy Trust	PGH		10.31	9.1	7.6	5.8		22.2
Penn West Energy Trust	PWE	H	16.64	7.5	7.7	5.7	8.9	20.7
Enerplus Resources Fund	ERF		25.06	9.6	8.4	5.4	52.3	15.4
	<i>Median</i>			9.3	8.1	5.7	12.1	18.1
U.S. Master Limited Partnerships (MLPs)								
Linn Energy, LLC	LINE		15.25	17.1	11.3	11.6		16.5
Dorchester Minerals, L.P.	DMLP		20.93	8.5	11.4	10.0	15.0	10.0
Encore Energy Partners, L.P.	ENP		17.04	12.7	9.1	8.4		10.3
	<i>Median</i>			12.7	11.3	10.0	15.0	10.3
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2009; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								

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Research Methodology/Ratings Description: McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.