



Oil & Gas Income Stocks

A Weekly Analysis

December 5, 2008

High Income, Low Stock Price

Summary and Recommendation

Indicated and estimated distribution yields rise to a median 12% for 2009 while several income stocks decline to new lows in stock price. January oil settled at \$43.67 a barrel in contrast to the average for the next six years at \$69.40. December 4 settlement prices for futures for next twelve months deliveries of Light, Sweet Crude Oil at \$51.20 a barrel and Louisiana Natural Gas at \$6.45 a million btu are in our estimates. Despite the low near-term prices, the U.S. Royalty Trusts would distribute a median 9.9% next year. Similarly, the low current futures prices support an estimated distribution yield of 9.2% for buy-recommended **Canadian Oil Sands Trust (COSWF)**. Indicated distribution yield of 18.9% at **Enerplus Resources Fund (ERF)** is covered by equity cash flow while **Pengrowth Energy Trust (PGH)** and hold-rated **Penn West Energy Trust (PWE)** would not be able to sustain the current distribution rate if current oil and gas futures prices materialize. To pay a distribution yield of 21.6%, **Linn Energy Energy (LINE)** has derivative contracts that pay oil and gas prices higher than the current futures prices, but similar hedging has not insulated **Encore Energy Partners (ENP)**, nor PWE, PGH and ERF from steep stock price declines. As a result, owners of Linn should seriously consider switching to other income stocks because a wide McDep Ratio gap has opened between Linn and the rest.

Experienced taxable investors are familiar with the potential to generate a positive tax benefit from selling a stock at a loss while preserving opportunity by simultaneously buying a similar stock. The substitute stock may be held only long enough until the original stock can be repurchased without undoing the tax benefit or it may become a new long-term investment. Subject to differing stock market liquidity, investors harvesting a tax loss might interchange buy-recommended **Hugoton Royalty Trust (HGT)**, hold-rated **San Juan Basin Royalty Trust (SJT)**, **Dorchester Minerals L.P. (DMLP)**, **Cross Timbers Royalty Trust (CRT)** and **Mesa Royalty Trust (MTR)**. The three Canadian income trusts holding conventional oil and gas resources, ERF, PGH, and PWE, appear readily substitutable on the basis of resource emphasis, moderately-high debt, and high income level. Investors in COSWF may find the most closely related investment characteristics, except for distribution or dividend policy, in hold-rated **Suncor (SU)** (see *Meter Reader*). Surprises in stock price action can diminish the benefit of tax-motivated transactions.

Kurt H. Wulff, CFA



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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		4-Dec 2008	Shares (mm)				
U.S. Royalty Trusts								
Sabine Royalty Trust	SBR		38.36	14.6	560	47.00	-	0.82
Permian Basin RT	PBT		14.14	46.6	660	19.00	-	0.74
San Juan Basin Royalty Trust	SJT	H	25.27	46.6	1,180	34.00	-	0.74
Mesa RoyaltyTrust	MTR		40.60	1.9	80	67.00	-	0.61
Cross Timbers Royalty Trust	CRT		24.25	6.0	150	42.00	-	0.58
Hugoton RoyaltyTrust	HGT	B	16.37	40.0	660	30.00	-	0.55
<i>Total or Median</i>					3,300			0.68
Canadian Income Trusts (US\$)								
Pengrowth Energy Trust	PGH		7.52	249.0	1,870	16.00	0.31	0.63
Penn West Energy Trust	PWE	H	11.31	389.9	4,410	27.00	0.26	0.57
Enerplus Resources Fund	ERF		18.96	164.9	3,130	44.00	0.09	0.48
Canadian Oil Sands Trust	COSWF	B	16.15	482.0	7,780	42.00	0.04	0.41
<i>Total or Median</i>					17,200		0.18	0.53
U.S. Master Limited Partnerships (MLPs)								
Linn Energy, LLC	LINE		11.68	114.0	1,330	14.00	0.52	0.92
Dorchester Minerals, L.P.	DMLP		17.02	28.2	480	24.00	-	0.71
Encore Energy Partners, L.P. (32%)	ENP		10.30	10.6	110	19.00	0.23	0.65
<i>Total or Median</i>					1,900		0.23	0.71
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.								

Natural Gas and Oil Income Stocks - Rank by EV/Ebitda								
			Price (\$/sh)	Adjstd Resrvs/ Prod	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
	Symbol/ Rating		4-Dec 2008					
U.S. Royalty Trusts								
San Juan Basin Royalty Trust	SJT	H	25.27	10.7	13.8	10.3	12.7	7.9
Sabine Royalty Trust	SBR		38.36	9.2	12.2	10.0	10.0	10.0
Permian Basin RT	PBT		14.14	8.8	12.2	9.1	10.2	9.8
Cross Timbers Royalty Trust	CRT		24.25	14.1	13.4	7.7	8.1	12.3
Mesa RoyaltyTrust	MTR		40.60	21.1	12.0	7.3	8.3	12.0
Hugoton RoyaltyTrust	HGT	B	16.37	13.1	13.2	7.2	10.4	9.6
<i>Median</i>				11.9	12.7	8.4	10.1	9.9
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	B	16.15	21.0	20.2	8.3	13.9	9.2
Pengrowth Energy Trust	PGH		7.52	9.1	10.1	6.4		28.2
Penn West Energy Trust	PWE	H	11.31	7.7	9.2	5.3	38.7	28.3
Enerplus Resources Fund	ERF		18.96	10.0	10.2	4.9	10.5	18.9
<i>Median</i>				9.6	10.2	5.8	13.9	23.5
U.S. Master Limited Partnerships (MLPs)								
Dorchester Minerals, L.P.	DMLP		17.02	8.5	12.0	8.5	13.1	11.8
Linn Energy, LLC	LINE		11.68	13.6	9.0	8.3		21.6
Encore Energy Partners, L.P.	ENP		10.30	12.7	10.0	6.5		16.8
<i>Median</i>				12.7	10.0	8.3	13.1	16.8
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2009; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



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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	(\$mn)	(\$/un)	(%)
U.S. Royalty Trusts								
San Juan Basin Royalty Trust	SJT	-	99	0.81	0.81	93	1.99	7.9
Hugoton Royalty Trust	HGT	-	89	0.69	0.69	63	1.57	9.6
Permian Basin RT	PBT	32	41	0.89	0.89	65	1.39	9.8
Sabine Royalty Trust	SBR	100	66	1.00	1.00	56	3.84	10.0
Mesa Royalty Trust	MTR	-	72	0.88	0.88	9	4.89	12.0
Cross Timbers Royalty Trust	CRT	84	73	0.95	0.95	18	2.99	12.3
<i>Total or Median</i>			72	0.88	0.88	300		9.9
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	-	(10)	0.69	0.72	718	1.49	9.2
Enerplus Resources Fund	ERF	-	49	0.75	0.83	590	3.58	18.9
Pengrowth Energy Trust	PGH	-	42	0.93	1.34	527	2.12	28.2
Penn West Energy Trust	PWE	-	35	0.81	1.09	1,248	3.20	28.3
<i>Total or Median</i>			39	0.78	0.96	3,100		23.5
U.S. Master Limited Partnerships (MLPs)								
Dorchester Minerals, L.P.	DMLP	64	76	1.00	1.00	57	2.00	11.8
Encore Energy Partners, L.P.	ENP		22	0.70	0.91	18	1.73	16.8
Linn Energy, LLC	LINE		51	0.77	1.61	287	2.52	21.6
<i>Total or Median</i>			51	0.77	1.00	400		16.8
NTM = Next Twelve Months Ended December 31, 2009								
Ebitda = Earnings before interest, tax, depreciation and amortization								

Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC. 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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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.