



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

March 6, 2009

## Accumulate Away

### Summary and Recommendation

Unstable markets are presenting persistently attractive opportunity to accumulate low McDep Ratio, low debt, oil and gas income and small cap stocks. Noting the 200-day average has yet to reach low stock prices, we may see more time elapse before stock prices enter an uptrend. The low stock prices provide a cushion against adverse outcomes such as threats of higher oil and gas taxes. We are happy to see the pendulum swinging back toward lower taxes in Alberta (see *Stock Idea*, [Birchcliff Energy](#), March 4, 2009). It is dismaying to learn that the new U.S. Secretary of the Treasury apparently believes oil and gas companies should be taxed punitively because the fuel contributes to global warming. We have problems with the morality behind singling out a specific industry for attack. We have problems with taxing profits to reduce pollution. We don't tax punitively the profits of hamburger sellers because beef comes from cows that emit methane gas more toxic in theoretical atmospheric warming than the products of combustion. It is sensible to attack pollution, not profits. Pollution should be restricted; oil and gas should be unrestricted so as to promote economic growth that contributes to global well-being. Finally we recall that when the Carter administration implemented punitive taxes on oil and gas in the late 1970s, unemployment and inflation went ballistic.

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Table 1										
McDep Income and Small Cap Energy Portfolio										
Debt, Business Segments and Income Yield										
						Present Value				
		Price				by Segment (%)				
	Symbol/Rating	(US\$/sh)	EV/	Enterprise	NAmer.		Dist.	Dist.		
	B = Buy	5-Mar	Market	Value	Natural	Oil	NTM	Yield	McDep	
	H = Hold	2009	Cap	(\$mm)	Gas	Prod'n	(\$/un)	(%)	Ratio	
<b>Canadian Income Trusts (US\$)</b>										
Pengrowth Energy Trust	PGH	4.80	2.27	2,800	35	65	0.93	19.4	0.49	
Penn West Energy Trust	PWE	H 7.29	2.14	6,400	30	70	2.15	29.4	0.47	
Canadian Oil Sands Trust	COSWF	B 14.87	1.15	8,200		100	0.47	3.1	0.39	
Enerplus Resources Fund	ERF	13.65	1.33	3,000	56	44	1.68	12.3	0.37	
<i>Total or Median</i>				20,400						
<b>Small Cap Independent Producers</b>										
Encore Acquisition Company	EAC	H 18.73	2.15	2,120	26	74	-	-	0.62	
Berry Petroleum Company	BRY	H 5.69	5.73	1,490	41	59	0.30	5.3	0.49	
Birchcliff Energy Ltd. (US\$)	BIR.TO	3.86	1.40	630	75	25	-	-	0.47	
Cimarex Energy Company	XEC	B 16.68	1.62	2,250	66	34	0.24	1.4	0.41	
<i>Total or Median</i>				6,490						
<b>U.S. Royalty Trusts</b>										
Sabine Royalty Trust	SBR	28.88	1.00	420	54	46	2.79	9.7	0.61	
Permian Basin RT	PBT	8.82	1.00	410	33	67	0.86	9.8	0.46	
San Juan Basin Royalty Trust	SJT	H 13.39	1.00	620	100	-	1.23	9.2	0.39	
Cross Timbers Royalty Trust	CRT	14.65	1.00	90	76	24	2.09	14.3	0.35	
Hugoton Royalty Trust	HGT	B 8.45	1.00	340	91	9	0.85	10.1	0.30	
Mesa Royalty Trust	MTR	19.34	1.00	40	75	25	2.78	14.4	0.29	
<i>Total or Median</i>				1,920						
<b>U.S. Master Limited Partnerships (MLPs)</b>										
Linn Energy, LLC	LINE	13.36	2.15	3,270	48	52	2.52	18.9	0.98	
Encore Energy Partners, L.P. (3)	ENP	14.32	1.26	190	34	66	2.00	14.0	0.87	
Dorchester Minerals, L.P.	DMLP	14.76	1.00	420	68	32	1.39	9.4	0.62	
<i>Total or Median</i>				3,880						
<b>Composite (excl COSWF)</b>										
<i>Enterprise Value Weighting</i>				29,890	37	63			0.60	
<i>Equal Weighting</i>					57	43			0.51	
<i>Equal Weighted Buys</i>					69	31			0.36	
* Percentages in Symbol column refer to current market Enterprise Value weightings; Rating column, equal weightings.										
* Percentages in Price column refer to equal weighted buys.										



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Table 2								
Oil and Gas Income and Small Cap Stocks								
Net Present Value and McDep Ratio								
			Price (\$/sh)		Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		5-Mar 2009	Shares (mm)				
<b>Canadian Income Trusts (US\$)</b>								
Pengrowth Energy Trust	PGH		4.80	255.5	1,230	16.00	0.28	0.49
Penn West Energy Trust	PWE	H	7.29	410.0	2,990	25.00	0.25	0.47
Canadian Oil Sands Trust	COSWF	B	14.87	482.0	7,170	42.00	0.05	0.39
Enerplus Resources Fund	ERF		13.65	165.3	2,260	44.00	0.09	0.37
<i>Total or Median</i>					13,700		0.17	0.43
<b>Small Cap Independent Producers</b>								
Encore Acquisition Company	EAC	H	18.73	52.6	990	44.00	0.33	0.62
Berry Petroleum Company	BRY	H	5.69	45.2	260	40.00	0.40	0.49
Birchcliff Energy Ltd. (US\$)	BIR.TO		3.86	117.0	450	10.00	0.13	0.47
Cimarex Energy Company	XEC	B	16.68	83.2	1,390	55.00	0.16	0.41
<i>Total or Median</i>					3,090		0.24	0.48
<b>U.S. Royalty Trusts</b>								
Sabine Royalty Trust	SBR		28.88	14.6	420	47.00	-	0.61
Permian Basin RT	PBT		8.82	46.6	410	19.00	-	0.46
San Juan Basin Royalty Trust	SJT	H	13.39	46.6	620	34.00	-	0.39
Cross Timbers Royalty Trust	CRT		14.65	6.0	90	42.00	-	0.35
Hugoton Royalty Trust	HGT	B	8.45	40.0	340	28.00	-	0.30
Mesa Royalty Trust	MTR		19.34	1.9	40	67.00	-	0.29
<i>Total or Median</i>					1,920			0.37
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Linn Energy, LLC	LINE		13.36	114.0	1,520	14.00	0.52	0.98
Encore Energy Partners, L.P. (32%)	ENP		14.32	10.6	150	17.00	0.18	0.87
Dorchester Minerals, L.P.	DMLP		14.76	28.2	420	24.00	-	0.62
<i>Total or Median</i>					2,090		0.18	0.87
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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Table 3								
Oil and Gas Income and Small Cap Stocks								
Value Multiples - Rank by EV/Ebitda								
			Price (\$/sh)	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	Revenue Royalty (%)	Dist/ Equity Ebitda
	Symbol/ Rating		5-Mar 2009	NTM	NTM	NTM		
<b>Canadian Income Trusts (US\$)</b>								
Canadian Oil Sands Trust	COSWF	B	14.87	23.3	27.8	10.7		0.31
Pengrowth Energy Trust	PGH		4.80	7.8	17.6	8.7		1.03
Penn West Energy Trust	PWE	H	7.29	8.2	13.1	6.1		1.12
Enerplus Resources Fund	ERF		13.65	8.9	13.6	5.1		0.52
	<i>Median</i>			8.5	15.6	7.4		
<b>Small Cap Independent Producers</b>								
Birchcliff Energy Ltd. (US\$)	BIR.TO		3.86	6.9	29.9	14.0		-
Berry Petroleum Company	BRY		5.69	11.2	20.1	9.9		-
Encore Acquisition Company	EAC		18.73	11.4	12.1	7.5		-
Cimarex Energy Company	XEC	B	16.68	7.3	10.4	4.3		-
	<i>Median</i>			9.3	16.1	8.7		
<b>U.S. Royalty Trusts</b>								
Sabine Royalty Trust	SBR		28.88	9.2	16.8	10.3	100	1.00
San Juan Basin Royalty Trust	SJT	H	13.39	10.7	21.8	8.6		0.79
Permian Basin RT	PBT		8.82	8.8	18.4	8.6	32	0.84
Hugoton RoyaltyTrust	HGT	B	8.45	12.1	22.6	6.8		0.69
Cross Timbers Royalty Trust	CRT		14.65	12.2	19.0	6.6	84	0.95
Mesa RoyaltyTrust	MTR		19.34	22.6	21.0	6.1		0.87
	<i>Median</i>			11.4	20.0	7.7		
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Linn Energy, LLC	LINE		13.36	17.7	31.4	30.7		5.65
Encore Energy Partners, L.P.	ENP		14.32	10.9	16.1	14.0		1.89
Dorchester Minerals, L.P.	DMLP		14.76	8.2	16.3	10.0	64	0.94
	<i>Median</i>			10.9	16.3	14.0		
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2010; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



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