



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

March 27, 2009

Making Money in Oil and Gas Stocks Calgary Presentation, April 2, 2009

Summary and Recommendation

After other speakers present views on energy demand, supply, environmental and geopolitical expectations, we (I) will present ideas for acting on those views at a conference on Investing in Energy sponsored by the *CFA Institute* with the *Calgary CFA Society*. The slides for my talk are in a separate file accompanying this weekly analysis. Expecting a diversified global equity portfolio to have an energy component that might typically range from 10 to 20%, I also note that in my own case as an energy analyst, energy equity accounts for half of the portfolio with the other half primarily in inflation-linked bonds, along with gold and cash. I explain that my recommendations cover six energy sectors. Three are mostly geographic. The first is Europe. In the second I combine Brazil/China/Russia. The third is Canada. The other three sectors are mostly U.S. stocks – Integrated, Independent and Income and Small Cap. Essentially, I am suggesting an equal weighting in each of these six sectors. Since my research concentrates on oil and gas producers, I have no recommendations in other sectors such as oil service or energy utilities. Depending on the stocks selected the portfolio would have representation in four business segments. The approximate weightings I like may be 30% North American Natural Gas, 10% Rest of World Natural Gas, 50% Oil Production and 10% Downstream. The twelve stocks I expect to talk about for a diversified energy portfolio are my current buy recommendations including the three in this weekly analysis, **Canadian Oil Sands Trust (COSWF)**, **Cimarex Energy (XEC)**, and **Hugoton Royalty Trust (HGT)**. I briefly describe how to analyze stocks with the McDep Ratio and present value estimates. I may have text available to go with the slides after the talk.

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Table 1										
McDep Income and Small Cap Energy Portfolio										
Debt, Business Segments and Income Yield										
						Present Value by Segment (%)				
	Symbol/Rating	Price (US\$/sh)	EV/ Market Cap	Enterprise Value (\$mm)	NAmer. Natural Gas	Oil Prod'n	Dist. NTM (\$/un)	Dist. Yield (%)	McDep Ratio	
	B = Buy H = Hold	26-Mar 2009								
Canadian Income Trusts (US\$)										
Penn West Energy Trust	PWE	H	11.54	1.75	8,300	29	71	2.24	19.4	0.60
Pengrowth Energy Trust	PGH		6.39	2.00	3,300	35	65	0.98	15.3	0.57
Canadian Oil Sands Trust	COSWF	B	21.14	1.11	11,300		100	0.49	2.3	0.53
Enerplus Resources Fund	ERF		18.05	1.26	3,800	56	44	1.76	9.7	0.47
<i>Total or Median</i>					26,700					
Small Cap Independent Producers										
Encore Acquisition Company	EAC	H	25.00	1.86	2,450	26	74	-	-	0.71
Birchcliff Energy Ltd. (US\$)	BIR.TO		5.65	1.32	910	72	28	-	-	0.63
Berry Petroleum Company	BRY	H	12.61	2.93	1,670	36	64	0.30	2.4	0.57
Cimarex Energy Company	XEC	B	20.59	1.51	2,570	66	34	0.24	1.2	0.47
<i>Total or Median</i>					7,600					
U.S. Royalty Trusts										
Sabine Royalty Trust	SBR		37.43	1.00	550	54	46	2.70	7.2	0.80
Permian Basin RT	PBT		10.57	1.00	490	33	67	0.96	9.0	0.56
Cross Timbers Royalty Trust	CRT		19.90	1.00	120	76	24	2.01	10.1	0.47
San Juan Basin Royalty Trust	SJT	H	15.47	1.00	720	100	-	1.07	6.9	0.45
Mesa RoyaltyTrust	MTR		28.25	1.00	50	75	25	2.88	10.2	0.42
Hugoton RoyaltyTrust	HGT	B	10.23	1.00	410	91	9	0.93	9.1	0.37
<i>Total or Median</i>					2,340					
U.S. Master Limited Partnerships (MLPs)										
Linn Energy, LLC	LINE		15.22	2.01	3,480	48	52	2.52	16.6	1.04
Encore Energy Partners, L.P. (ENP		16.62	1.22	220	34	66	2.00	12.0	0.98
Dorchester Minerals, L.P.	DMLP		17.59	1.00	500	68	32	1.42	8.1	0.73
<i>Total or Median</i>					4,200					
Composite (excl COSWF)										
<i>Enterprise Value Weighting</i>					29,500	44	56			0.59
<i>Equal Weighting</i>						56	44			0.62
<i>Equal Weighted Buys</i>						69	31			0.42
* 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		26-Mar 2009	Shares (mm)				
Canadian Income Trusts (US\$)								
Penn West Energy Trust	PWE	H	11.54	410.0	4,730	25.00	0.26	0.60
Pengrowth Energy Trust	PGH		6.39	255.5	1,630	16.00	0.28	0.57
Canadian Oil Sands Trust	COSWF	B	21.14	482.0	10,190	42.00	0.05	0.53
Enerplus Resources Fund	ERF		18.05	165.3	2,980	44.00	0.10	0.47
<i>Total or Median</i>						19,500	0.18	0.55
Small Cap Independent Producers								
Encore Acquisition Company	EAC	H	25.00	52.6	1,320	44.00	0.33	0.71
Birchcliff Energy Ltd. (US\$)	BIR.TO		5.65	122.0	690	10.00	0.15	0.63
Berry Petroleum Company	BRY	H	12.61	45.2	570	40.00	0.38	0.57
Cimarex Energy Company	XEC	B	20.59	83.2	1,710	55.00	0.16	0.47
<i>Total or Median</i>						4,290	0.24	0.60
U.S. Royalty Trusts								
Sabine Royalty Trust	SBR		37.43	14.6	550	47.00	-	0.80
Permian Basin RT	PBT		10.57	46.6	490	19.00	-	0.56
Cross Timbers Royalty Trust	CRT		19.90	6.0	120	42.00	-	0.47
San Juan Basin Royalty Trust	SJT	H	15.47	46.6	720	34.00	-	0.45
Mesa RoyaltyTrust	MTR		28.25	1.9	50	67.00	-	0.42
Hugoton RoyaltyTrust	HGT	B	10.23	40.0	410	28.00	-	0.37
<i>Total or Median</i>						2,340		0.46
U.S. Master Limited Partnerships (MLPs)								
Linn Energy, LLC	LINE		15.22	114.0	1,740	14.00	0.52	1.04
Encore Energy Partners, L.P. (32%)	ENP		16.62	10.6	180	17.00	0.18	0.98
Dorchester Minerals, L.P.	DMLP		17.59	28.2	500	24.00	-	0.73
<i>Total or Median</i>						2,420	0.18	0.98
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)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda
	Symbol/ Rating		26-Mar 2009	Royalty (%)	Ebitda	NTM	NTM	NTM
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	B	21.14		0.21	23.4	17.8	9.5
Pengrowth Energy Trust	PGH		6.39		0.84	7.8	13.7	7.8
Penn West Energy Trust	PWE	H	11.54		0.96	8.2	10.7	6.4
Enerplus Resources Fund	ERF		18.05		0.47	8.9	11.8	5.5
	<i>Median</i>					8.5	12.8	7.1
Small Cap Independent Producers								
Birchcliff Energy Ltd. (US\$)	BIR.TO		5.65		-	9.5	20.0	12.6
Encore Acquisition Company	EAC	H	25.00		-	12.0	11.2	8.0
Berry Petroleum Company	BRY	H	12.61		-	11.8	13.3	7.6
Cimarex Energy Company	XEC	B	20.59		-	7.3	9.1	4.3
	<i>Median</i>					10.7	12.3	7.8
U.S. Royalty Trusts								
Sabine Royalty Trust	SBR		37.43	100	1.00	9.6	17.4	13.8
San Juan Basin Royalty Trust	SJT	H	15.47		0.79	9.2	25.1	11.4
Permian Basin RT	PBT		10.57	32	0.87	10.4	17.3	9.6
Cross Timbers Royalty Trust	CRT		19.90	84	0.93	12.4	19.5	9.2
Mesa RoyaltyTrust	MTR		28.25		0.87	22.6	20.3	8.6
Hugoton RoyaltyTrust	HGT	B	10.23		0.63	12.1	18.8	6.9
	<i>Median</i>					11.3	19.1	9.4
U.S. Master Limited Partnerships (MLPs)								
Linn Energy, LLC	LINE		15.22		4.07	17.7	22.6	23.5
Encore Energy Partners, L.P.	ENP		16.62		1.57	10.9	13.3	13.1
Dorchester Minerals, L.P.	DMLP		17.59	64	0.95	8.2	16.0	11.7
	<i>Median</i>					10.9	16.0	13.1
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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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.