



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

April 24, 2009

## Low McDep Ratios for Peyto and Freehold

### Summary and Recommendation

Initially estimating Net Present Value (NPV) of \$16 a unit for **Peyto Energy Trust (PEYUF)** and \$18 for **Freehold Royalty Trust (FRHLF)**, we add the two stocks to our coverage of Canadian Income Trusts (see Table 1, Table 2 and Table 3). Peyto is concentrated entirely on natural gas, with associated liquids, in Canada's Deep Basin where it enjoys a long reserve life and low operating costs. Peyto's high distribution yield of 14% for the next twelve months looks reinforced by a high minimum price for half its production as a result of commodity hedges. Freehold is the successor to valuable mineral rights originally granted to Hudson's Bay Company in the historic development of the Canadian West. Freehold is the only Canadian trust we know with revenue royalty, as we call it. The trust receives an off-the-top percentage of oil and gas price on 71% of its production with no obligation to pay the cost of operations including the drilling of new wells. Both Peyto and Freehold appear to have low McDep Ratios that fall within a tight range for Canadian income stocks backed by valuable energy resources.

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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	23-Apr	Market	Value	Natural	Oil	NTM	Yield	McDep	
	H = Hold	2009	Cap	(\$mm)	Gas	Prod'n	(\$/un)	(%)	Ratio	
<b>Canadian Income Trusts (US\$)</b>										
Peyto Energy Trust	PEYUF		8.11	1.45	1,250	79	21	1.19	14.6	0.60
Freehold Royalty Trust	FRHLF		9.64	1.27	610	29	70	0.97	10.1	0.60
Penn West Energy Trust	PWE	H	10.92	1.79	8,000	30	70	1.46	13.3	0.58
Pengrowth Energy Trust	PGH		6.36	2.00	3,200	40	60	0.97	15.3	0.57
Canadian Oil Sands Trust	COSWF	B	21.64	1.11	11,500		100	0.48	2.2	0.54
Enerplus Resources Fund	ERF		18.90	1.25	3,900	46	54	1.75	9.2	0.48
<i>Total or Median</i>					28,500					
<b>Small Cap Independent Producers</b>										
Encore Acquisition Company	EAC	H	28.54	1.75	2,650	23	77	-	-	0.76
Berry Petroleum Company	BRY	H	16.17	2.51	1,830	36	64	0.30	1.9	0.63
Birchcliff Energy Ltd. (US\$)	BIREF		5.20	1.34	850	72	28	-	-	0.59
Cimarex Energy Company	XEC	B	26.15	1.40	3,040	66	34	0.24	0.9	0.56
<i>Total or Median</i>					8,370					
<b>U.S. Royalty Trusts</b>										
Sabine Royalty Trust	SBR		37.23	1.00	540	43	57	2.33	6.3	0.62
Cross Timbers Royalty Trust	CRT		19.37	1.00	120	69	31	1.45	7.5	0.60
San Juan Basin Royalty Trust	SJT	H	14.02	1.00	650	100	-	0.79	5.6	0.54
Permian Basin RT	PBT		8.89	1.00	410	33	67	0.70	7.9	0.47
Mesa RoyaltyTrust	MTR		27.00	1.00	50	75	25	2.88	10.7	0.40
Hugoton RoyaltyTrust	HGT	B	10.40	1.00	420	91	9	0.72	6.9	0.37
<i>Total or Median</i>					2,190					
<b>U.S. Master Limited Partnerships (MLPs)</b>										
Linn Energy, LLC	LINE		15.83	1.97	3,550	48	52	2.52	15.9	1.06
Encore Energy Partners, L.P. (3	ENP		14.87	1.25	200	34	66	2.00	13.4	0.90
Dorchester Minerals, L.P.	DMLP		17.69	1.00	500	51	49	1.43	8.1	0.55
<i>Total or Median</i>					4,250					
<b>Composite (excl COSWF)</b>										
<i>Enterprise Value Weighting</i>					31,400	44	56			0.61
<i>Equal Weighting</i>						54	46			0.62
<i>Equal Weighted Buys</i>						69	31			0.47
* 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		23-Apr 2009	Shares (mm)				
<b>Canadian Income Trusts (US\$)</b>								
Peyto Energy Trust	PEYUF		8.11	105.9	860	16.00	0.19	0.60
Freehold Royalty Trust	FRHLF		9.64	49.5	480	18.00	0.13	0.60
Penn West Energy Trust	PWE	H	10.92	410.0	4,480	25.00	0.26	0.58
Pengrowth Energy Trust	PGH		6.36	255.5	1,620	16.00	0.28	0.57
Canadian Oil Sands Trust	COSWF	B	21.64	482.0	10,430	42.00	0.05	0.54
Enerplus Resources Fund	ERF		18.90	165.3	3,120	44.00	0.10	0.48
<i>Total or Median</i>					<i>21,000</i>		<i>0.16</i>	<i>0.57</i>
<b>Small Cap Independent Producers</b>								
Encore Acquisition Company	EAC	H	28.54	53.3	1,520	44.00	0.33	0.76
Berry Petroleum Company	BRY	H	16.17	45.2	730	40.00	0.38	0.63
Birchcliff Energy Ltd. (US\$)	BIREF		5.20	122.0	630	10.00	0.15	0.59
Cimarex Energy Company	XEC	B	26.15	83.2	2,180	55.00	0.16	0.56
<i>Total or Median</i>					<i>5,060</i>		<i>0.24</i>	<i>0.61</i>
<b>U.S. Royalty Trusts</b>								
Sabine Royalty Trust	SBR		37.23	14.6	540	60.00	-	0.62
Cross Timbers Royalty Trust	CRT		19.37	6.0	120	32.00	-	0.60
San Juan Basin Royalty Trust	SJT	H	14.02	46.6	650	26.00	-	0.54
Permian Basin RT	PBT		8.89	46.6	410	19.00	-	0.47
Mesa Royalty Trust	MTR		27.00	1.9	50	67.00	-	0.40
Hugoton Royalty Trust	HGT	B	10.40	40.0	420	28.00	-	0.37
<i>Total or Median</i>					<i>2,190</i>			<i>0.50</i>
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Linn Energy, LLC	LINE		15.83	114.0	1,810	14.00	0.52	1.06
Encore Energy Partners, L.P. (32%)	ENP		14.87	10.6	160	17.00	0.18	0.90
Dorchester Minerals, L.P.	DMLP		17.69	28.2	500	32.00	-	0.55
<i>Total or Median</i>					<i>2,470</i>		<i>0.18</i>	<i>0.90</i>
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		23-Apr 2009	Royalty (%)	Ebitda	NTM	NTM	NTM
<b>Canadian Income Trusts (US\$)</b>								
	COSWF	B	21.64		0.25	23.2	21.4	11.5
	PEYUF		8.11		1.25	16.7	16.8	10.1
	PGH		6.36		0.96	7.8	15.7	8.9
	FRHLF		9.64	71	0.68	6.1	12.6	7.5
	PWE	H	10.92		0.71	8.2	12.1	7.1
	ERF		18.90		0.52	8.9	13.2	6.4
	<i>Median</i>					8.5	14.5	8.2
<b>Small Cap Independent Producers</b>								
	BIREF		5.20		-	9.5	21.4	12.6
	BRY	H	16.17		-	11.8	15.8	9.9
	EAC	H	28.54		-	11.5	12.6	9.6
	XEC	B	26.15		-	7.3	10.0	5.6
	<i>Median</i>					10.5	14.2	9.8
<b>U.S. Royalty Trusts</b>								
	SBR		37.23	100	1.00	9.7	25.7	16.0
	CRT		19.37	84	0.92	12.5	20.4	12.3
	SJT	H	14.02		0.68	9.1	22.4	12.1
	PBT		8.89	32	0.83	10.4	22.4	10.5
	HGT	B	10.40		0.57	12.6	22.3	8.3
	MTR		27.00		0.87	13.5	20.3	8.1
	<i>Median</i>					11.5	22.3	11.3
<b>U.S. Master Limited Partnerships (MLPs)</b>								
	LINE		15.83		5.09	17.7	28.3	30.0
	ENP		14.87		1.72	10.9	14.6	13.1
	DMLP		17.69	64	0.94	7.9	21.0	11.6
	<i>Median</i>					10.9	21.0	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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