



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

September 11, 2009

Natural Gas Low Set

Income and Small Cap stocks, including buy recommendations **San Juan Basin Royalty Trust (SJT)**, **Dorchester Minerals, L.P. (DMLP)**, **Hugoton Royalty Trust (HGT)** and **Cimarex Energy (XEC)**, offer some of the purest opportunities to buy natural gas at the lowest commodity price in seven years. The low may have been set on September 4 when October futures touched \$2.409 a million btu and the national average cash price dipped below \$2.00 to \$1.97 as reported by *Platt's Gas Daily*. Stock prices seemed to anticipate short duration for extreme natural gas price conditions with only SJT among 19 stocks in this weekly coverage still trading below its 200-day average, a widely watched trend indicator. The main contributors to low fuel price are the convergence of the seasonal cycle and the economic cycle along with lag time between the drilling cycle and the production cycle. The low demand period in the fall when weather is pleasant is occurring at the same time that economic activity is at a recessionary low, which follows a few years of expansion. Surely, fall will turn to winter and the economy will grow again. While producers began sharp curtailment of drilling new wells a year ago, it took months for volume to slow and then to decline. Surely, it will take time for supply to grow again after producers resume drilling. The cyclical signs are clear. Though the price lows can always be lower, the upside is beckoning beyond the next few weeks into October.

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Table 1										
McDep Income and Small Cap Energy Portfolio										
Debt, Business Segments and Income Yield										
						<i>Present Value by Segment (%)</i>				
	<i>Symbol/Rating</i>		<i>Price (US\$/sh)</i>	<i>EV/Market</i>	<i>Enterprise Value (\$mm)</i>	<i>NAmer. Natural Gas</i>	<i>Oil Prod'n</i>	<i>Dist. NTM (\$/un)</i>	<i>Dist. Yield (%)</i>	<i>McDep Ratio</i>
	B = Buy H = Hold		<i>10-Sep 2009</i>	<i>Cap</i>						
Canadian Income Trusts (US\$)										
Penn West Energy Trust	PWE	H	13.35	1.76	9,600	27	73	1.67	12.5	0.81
Pengrowth Energy Trust	PGH		8.91	1.79	4,200	34	66	1.12	12.5	0.76
Peyto Energy Trust	PEYUF		8.55	1.47	1,340	67	33	1.34	15.7	0.74
Enerplus Resources Fund	ERF		21.21	1.25	4,400	43	57	2.01	9.5	0.64
Canadian Oil Sands Trust	COSWF	B	25.74	1.11	13,900		100	2.11	8.2	0.64
<i>Total or Median</i>					<i>33,400</i>					<i>0.74</i>
Small Cap Independent Producers										
Encore Acquisition Company	EAC	B	37.59	1.85	3,690	23	77	-	-	0.92
Cimarex Energy Company	XEC	B	40.58	1.25	4,170	62	38	0.24	0.6	0.90
Berry Petroleum Company	BRY	H	25.62	1.99	2,290	31	69	0.30	1.2	0.85
Birchcliff Energy Ltd. (US\$)	BIREF		7.19	1.21	1,080	62	38	-	-	0.83
<i>Total or Median</i>					<i>11,230</i>					<i>0.87</i>
Top Line Cash Payers										
Cross Timbers Royalty Trust	CRT		27.05	1.00	160	64	36	1.91	7.1	0.96
Freehold Royalty Trust (US\$)	FRHLF		14.71	1.21	880	25	38	1.12	7.6	0.89
Dorchester Minerals, L.P.	DMLP	B	22.63	1.00	670	63	38	1.41	6.2	0.84
Permian Basin RT	PBT		13.14	1.00	610	27	73	0.90	6.9	0.73
Sabine Royalty Trust	SBR		39.97	1.00	580	38	63	2.95	7.4	0.73
<i>Total or Median</i>					<i>2,900</i>					<i>0.84</i>
Bottom Line Cash Payers										
Linn Energy, LLC	LINE		22.33	1.56	3,970	38	62	2.52	11.3	1.27
Encore Energy Partners, L.P. (52%)	ENP		15.74	1.35	500	24	76	2.15	13.7	0.94
San Juan Basin Royalty Trust	SJT	B	17.01	1.00	790	100	-	1.11	6.6	0.81
Hugoton Royalty Trust	HGT	B	17.00	1.00	680	89	11	0.97	5.7	0.74
Mesa Royalty Trust	MTR		34.50	1.00	64	75	25	2.02	5.8	0.61
<i>Total or Median</i>					<i>6,000</i>					<i>0.81</i>
Composite (excl COSWF)										
<i>Enterprise Value Weighting</i>					<i>39,700</i>	<i>40</i>	<i>60</i>			<i>0.83</i>
<i>Equal Weighting</i>						<i>50</i>	<i>50</i>			<i>0.83</i>
<i>Equal Weighted Buys</i>						<i>53</i>	<i>47</i>			<i>0.84</i>
* 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)	Shares	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating	10-Sep 2009		(mm)				
Canadian Income Trusts (US\$)								
	PWE	H	13.35	410.0	5,470	19.00	0.34	0.80
	PGH		8.91	260.0	2,320	14.00	0.33	0.76
	PEYUF		8.55	105.9	910	13.00	0.24	0.74
	ERF		21.21	166.3	3,530	36.00	0.13	0.64
	COSWF	B	25.74	484.0	12,460	42.00	0.07	0.64
	<i>Total or Median</i>				24,700		0.24	0.74
Small Cap Independent Producers								
	EAC	B	37.59	53.0	1,990	44.00	0.42	0.92
	XEC	B	40.58	82.0	3,330	46.00	0.18	0.90
	BRY	H	25.62	44.8	1,150	35.00	0.42	0.85
	BIREF		7.19	124.0	890	9.00	0.14	0.83
	<i>Total or Median</i>				7,360		0.30	0.87
Top Line Cash Payers								
	CRT		27.05	6.0	160	28.00	-	0.96
	FRHLF		14.71	49.5	730	17.00	0.15	0.89
	DMLP	B	22.63	29.8	670	27.00	-	0.84
	PBT		13.14	46.6	610	18.00	-	0.73
	SBR		39.97	14.6	580	55.00	-	0.73
	<i>Total or Median</i>				2,750			0.84
Bottom Line Cash Payers								
	LINE		22.33	114.0	2,550	15.00	0.45	1.27
	ENP		15.74	23.4	370	17.00	0.25	0.94
	SJT	B	17.01	46.6	790	21.00	-	0.81
	HGT	B	17.00	40.0	680	23.00	-	0.74
	MTR		34.50	1.9	60	56.00	-	0.61
	<i>Total or Median</i>				4,450			0.81
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 \$8 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		10-Sep 2009	Royalty (%)	Ebitda	NTM	NTM	NTM
Canadian Income Trusts (US\$)								
	PEYUF		8.55		1.14	17.2	11.1	8.2
	COSWF	B	25.74		0.65	21.8	12.9	8.2
	PWE	H	13.35		0.82	8.2	9.3	7.5
	ERF		21.21		0.62	9.4	11.1	7.1
	PGH		8.91		0.73	7.9	9.1	6.9
	<i>Median</i>					9.4	11.1	7.5
Small Cap Independent Producers								
	BIREF		7.19		-	10.1	14.0	11.6
	EAC	B	37.59		-	11.5	9.0	8.2
	BRY	H	25.62		-	12.1	8.7	7.4
	XEC	B	40.58		-	7.8	6.2	5.6
	<i>Median</i>					10.8	8.9	7.8
Top Line Cash Payers								
	DMLP	B	22.63	64	0.87	8.2	16.7	14.0
	SBR		39.97	100	1.00	10.2	18.7	13.6
	CRT		27.05	84	0.93	13.3	13.7	13.2
	PBT		13.14	32	0.89	11.7	17.7	12.9
	FRHLF		14.71	71	0.64	6.4	9.8	8.7
	<i>Median</i>					10.2	16.7	13.2
Bottom Line Cash Payers								
	LINE		22.33		2.50	18.2	14.9	18.8
	MTR		34.50		0.85	16.4	23.5	14.4
	HGT	B	17.00		0.69	13.4	16.3	12.0
	SJT	B	17.01		0.77	9.0	14.5	11.7
	ENP		15.74		1.31	13.9	10.4	9.8
	<i>Median</i>					13.9	14.9	12.0
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2010; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



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