



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

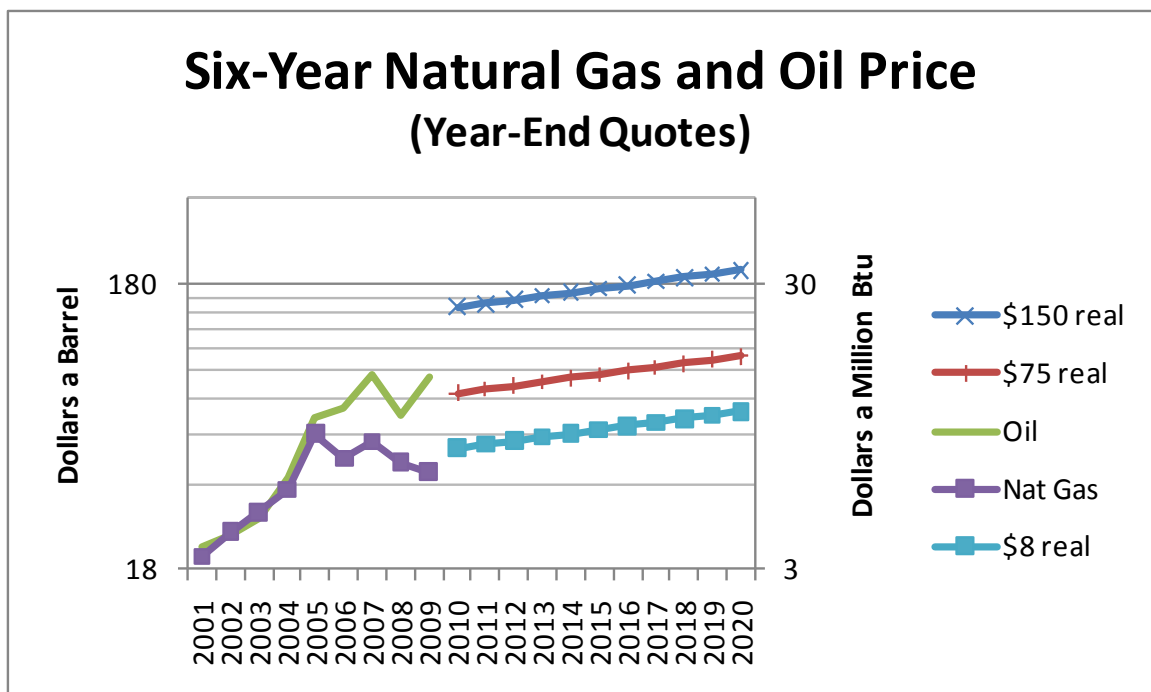
December 24, 2009

## Trending Up for the Tens

### Summary and Recommendation

Income and Small Cap oil and gas stocks are trending upward in price as we enter the new “tens” decade. Value looks attractive on modest long-term oil and gas price assumptions of \$75 a barrel and \$8 a million btu. Investors don’t need higher prices for a reasonable return. Yet considering all of the money that is being created globally, economic activity is likely to be stimulated along with inflation. Growth requires energy and new energy supply can be created only if the price is attractive. On the upside, we think there is a reasonable chance that futures price for oil to be delivered over the next six-years, currently quoted at \$87 a barrel, could double to \$180 by 2016 (see “\$150 real” line on chart below, Six-Year Natural Gas and Oil Price). We also believe that natural gas will be restored to heating parity with oil, which would be \$30 a million btu at \$180 oil. While there is downside risk as we have seen in 2008, we do not expect those extreme conditions to be repeated soon. Meanwhile, a doubling of oil price in the next ten years would be less than the quadruple achieved in the past ten years. Buy recommendations include 100% oil-oriented **Canadian Oil Sands Trust (COSWF)** and 100% natural gas-oriented **San Juan Basin Royalty Trust (SJT)** (see Tables 1-3).

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	Symbol/Rating	Price (US\$/sh)	EV/ Market Cap	Enterprise Value (\$mm)	Present Value by Segment (%)		Dist. NTM (\$/un)	Dist. Yield (%)	McDep Ratio
					N.Amer. Natural Gas	Oil Prod'n			
<b>Canadian Income Trusts (US\$)</b>									
Peyto Energy Trust	PEYUF	13.33	1.25	1,920	72	28	1.35	10.1	1.02
Penn West Energy Trust	PWE	18.02	1.54	11,600	22	78	1.69	9.4	0.97
Pengrowth Energy Trust	PGH	9.88	1.52	4,400	35	65	0.79	8.0	0.88
Enerplus Resources Fund	ERF	23.03	1.22	4,700	42	58	2.03	8.8	0.80
Canadian Oil Sands Trust	COSWF B	27.86	1.10	14,900		100	1.74	6.2	0.68
<i>Total or Median</i>				37,500					0.88
<b>Small Cap Independent Producers</b>									
Cimarex Energy Company	XEC B	53.72	1.18	5,210	67	33	0.24	0.4	1.06
Encore Acquisition Company	EAC	48.74	1.64	4,180	22	78	-	-	0.98
Birchcliff Energy Ltd. (US\$)	BIREF	8.60	1.18	1,350	64	36	-	-	0.96
Berry Petroleum Company	BRY	30.11	1.82	2,460	31	69	0.30	1.0	0.92
<i>Total or Median</i>				13,200					0.97
<b>Top Line Cash Payers</b>									
Cross Timbers Royalty Trust	CRT	34.28	1.00	210	71	29	2.54	7.4	1.01
Sabine Royalty Trust	SBR	41.14	1.00	600	39	61	2.84	6.9	0.91
Freehold Royalty Trust (US\$)	FRHLF	14.38	1.21	860	25	75	1.61	11.2	0.87
Permian Basin RT	PBT	14.60	1.00	680	27	73	1.05	7.2	0.81
Dorchester Minerals, L.P.	DMLP B	21.44	1.03	660	67	33	1.71	8.0	0.80
<i>Total or Median</i>				3,000					0.87
<b>Bottom Line Cash Payers</b>									
Linn Energy, LLC	LINE	28.00	1.50	4,800	36	64	2.52	9.0	1.45
Encore Energy Partners, L.P. (52%)	ENP	20.75	1.28	610	24	76	2.15	10.4	1.16
San Juan Basin Royalty Trust	SJT B	18.21	1.00	850	100	-	1.62	8.9	0.87
Mesa Royalty Trust	MTR	37.05	1.00	69	75	25	2.51	6.8	0.77
Hugoton Royalty Trust	HGT B	16.62	1.00	670	89	11	1.33	8.0	0.72
<i>Total or Median</i>				7,000					0.87
<b>Composite (excl COSWF)</b>									
<i>Enterprise Value Weighting</i>				45,800	40	60			0.97
<i>Equal Weighting</i>					51	49			0.94
<i>Equal Weighted Buys</i>					55	45			0.89

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.  
 Dist. = Income distribution. NTM = Next Twelve Months Ended December 31, 2010. Enterprise Value = Market Cap and Debt.



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Table 2								
Oil and Gas Income and Small Cap Stocks								
Net Present Value and McDep Ratio								
			Price (\$/sh)		Market Cap	Net Present Value	Debt/ Present Value	McDep Ratio
	Symbol/ Rating	24-Dec 2009	Shares (mm)		(\$mm)	(\$/un)		
<b>Canadian Income Trusts (US\$)</b>								
	PEYUF		13.33	114.9	1,530	13.00	0.21	1.02
	PWE		18.02	420.0	7,570	19.00	0.34	0.97
	PGH		9.88	290.0	2,870	12.00	0.30	0.88
	ERF		23.03	169.0	3,890	30.00	0.14	0.80
	COSWF	B	27.86	484.0	13,480	42.00	0.06	0.68
	<i>Total or Median</i>				29,300		0.21	0.88
<b>Small Cap Independent Producers</b>								
	XEC	B	53.72	82.2	4,420	50.00	0.16	1.06
	EAC		48.74	52.3	2,550	50.00	0.38	0.98
	BIREF		8.60	133.7	1,150	9.00	0.14	0.96
	BRY		30.11	44.9	1,350	35.00	0.41	0.92
	<i>Total or Median</i>				9,470		0.27	0.97
<b>Top Line Cash Payers</b>								
	CRT		34.28	6.0	210	34.00	-	1.01
	SBR		41.14	14.6	600	45.00	-	0.91
	FRHLF		14.38	49.6	710	17.00	0.15	0.87
	PBT		14.60	46.6	680	18.00	-	0.81
	DMLP	B	21.44	29.8	640	27.00	0.02	0.80
	<i>Total or Median</i>				2,840			0.87
<b>Bottom Line Cash Payers</b>								
	LINE		28.00	114.0	3,190	15.00	0.48	1.45
	ENP		20.75	23.2	480	17.00	0.25	1.16
	SJT	B	18.21	46.6	850	21.00	-	0.87
	MTR		37.05	1.9	69	48.00	-	0.77
	HGT	B	16.62	40.0	670	23.00	-	0.72
	<i>Total or Median</i>				5,260			0.87
B = Buy, Hold ratings discontinued October 23, 2009								
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		24-Dec 2009	Royalty (%)	Ebitda	NTM	NTM	NTM
<b>Canadian Income Trusts (US\$)</b>								
	PEYUF		13.33		1.27	18.2	12.2	12.5
	COSWF	B	27.86		0.61	23.1	14.7	10.0
	PWE		18.02		0.79	8.3	8.8	8.5
	ERF		23.03		0.62	9.8	9.2	7.4
	PGH		9.88		0.53	8.3	8.1	7.1
	<i>Median</i>					9.8	9.2	8.5
<b>Small Cap Independent Producers</b>								
	BIREF		8.60		-	10.6	15.4	14.8
	EAC		48.74		-	11.7	8.2	8.1
	BRY		30.11		-	12.4	8.1	7.4
	XEC	B	53.72		-	7.6	5.2	5.5
	<i>Median</i>					11.2	8.1	7.7
<b>Top Line Cash Payers</b>								
	SBR		41.14	100	1.00	12.0	15.8	14.5
	CRT		34.28	84	0.95	12.6	12.7	12.8
	PBT		14.60	32	0.89	11.5	15.2	12.3
	DMLP	B	21.44	64	0.91	7.8	14.3	11.4
	FRHLF		14.38	71	0.93	6.8	9.7	8.5
	<i>Median</i>					11.5	14.3	12.3
<b>Bottom Line Cash Payers</b>								
	LINE		28.00		2.23	18.3	13.3	19.2
	MTR		37.05		0.88	9.2	16.9	13.0
	ENP		20.75		1.16	13.2	9.2	10.7
	HGT	B	16.62		0.72	13.4	12.5	9.1
	SJT	B	18.21		0.77	9.2	10.0	8.7
	<i>Median</i>					13.2	12.5	10.7
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2010; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								
Top Line Cash Payers defined as those having Revenue Royalty (see fifth column from right).								



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