



Independent Stock Idea

August 30, 2016

Sabine Royalty Trust (SBR) Long-Life Top Line Cash Payer

<i>Symbol</i>	SBR	<i>Ebitda Next Twelve Months ending 9/30/17 (US\$mm)</i>	40
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	45
<i>Price (US\$/sh)</i>	36.83	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/29/16	<i>Adjusted Reserves/Production NTM</i>	9.5
<i>Shares (mm)</i>	14.58	<i>EV/Ebitda</i>	13.5
<i>Market Capitalization (US\$mm)</i>	537	<i>PV/Ebitda</i>	22.0
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	5
<i>Enterprise Value (EV) (US\$mm)</i>	537	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	3.90
<i>Present Value (PV) (US\$mm)</i>	875	<i>Present Value Proven Reserves(US\$/boe)</i>	74.00
<i>Net Present Value (US\$/unit)</i>	60	<i>Oil and Gas Ebitda Margin (%)</i>	84
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	2.72
<i>McDep Ratio - EV/PV</i>	0.61	<i>Price/Earnings Next Twelve Months</i>	14
<i>Distribution Yield (%/year)</i>	7.4	<i>Distribution Next Twelve Months (US\$/sh)</i>	2.72
Note: Estimated cash flow and earnings tied to one-year futures prices for natural gas.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.00 a million btu.			
For historical analysis of SBR since 2003 see www.mcdep.com .			

Summary and Recommendation

We recommend current purchase of the units of **Sabine Royalty Trust (SBR)** for cash distributions from Top Line royalties on long-life oil and gas properties in the oil fields of the Permian Basin and the natural gas fields of East Texas and Louisiana among other rich resource areas of the Southwest. The trust receives a percentage of revenue free of operating and capital costs from wells operated by ExxonMobil, Chevron, Occidental Petroleum, Pioneer Resources and other producers. The stock appears priced for a 7.4% annual distribution (see table Operating and Financial Estimates on page 2). Burdened by zero debt, the units have appreciation potential of 66% to Estimated Net Present Value (NPV) of \$60 a unit (see table Present Value on page 2). The distribution rate has bottomed and will likely rise with expected recovery in oil and gas prices from depressed levels (see chart Quarterly Distribution on page 3). Subject to short-term fluctuations magnified by whether cash royalty payments to the trustee are received early or late each month, the recently declared August distribution of \$0.14 was light. A more normal amount for the distribution to be declared on or about September 6 would \$0.17 a unit (see chart Monthly Distribution on page 3). A moderate upward trend in oil production is a strong sign of long life considering that the normal trend is for mature production to decline steadily (see charts Underlying Oil Volume on page 4). The trust's properties undoubtedly benefit from advances in drilling and fracking technology. Even a flat trend for natural gas production is a sign of longer life than officially reported in proven reserves (see charts Underlying Natural Gas Volume on page 5). The advent in 2016 of exports of U.S. natural gas to Europe and Asia may contribute an upward bias to future production for SBR. Finally, a low McDep Ratio of 0.61 stands out in our coverage of 24 stocks despite SBR being a strong performer with a 44% total return year-to-date (see Tables 1-4 on pages 6-9).

Kurt H. Wulff, CFA



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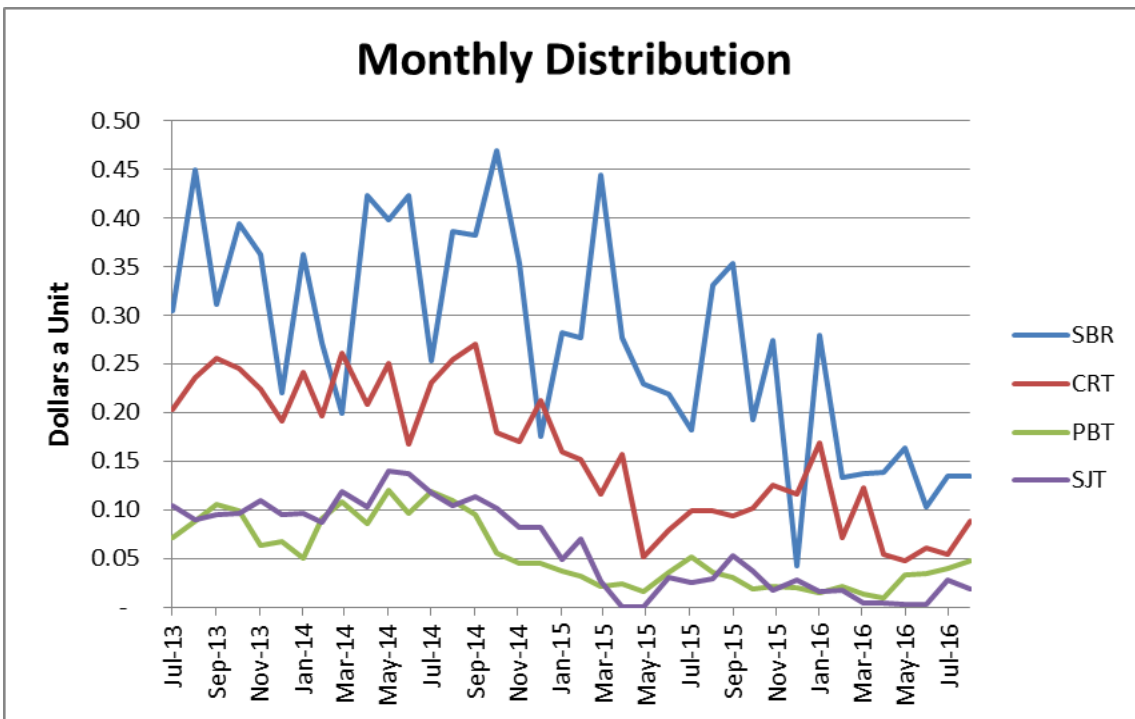
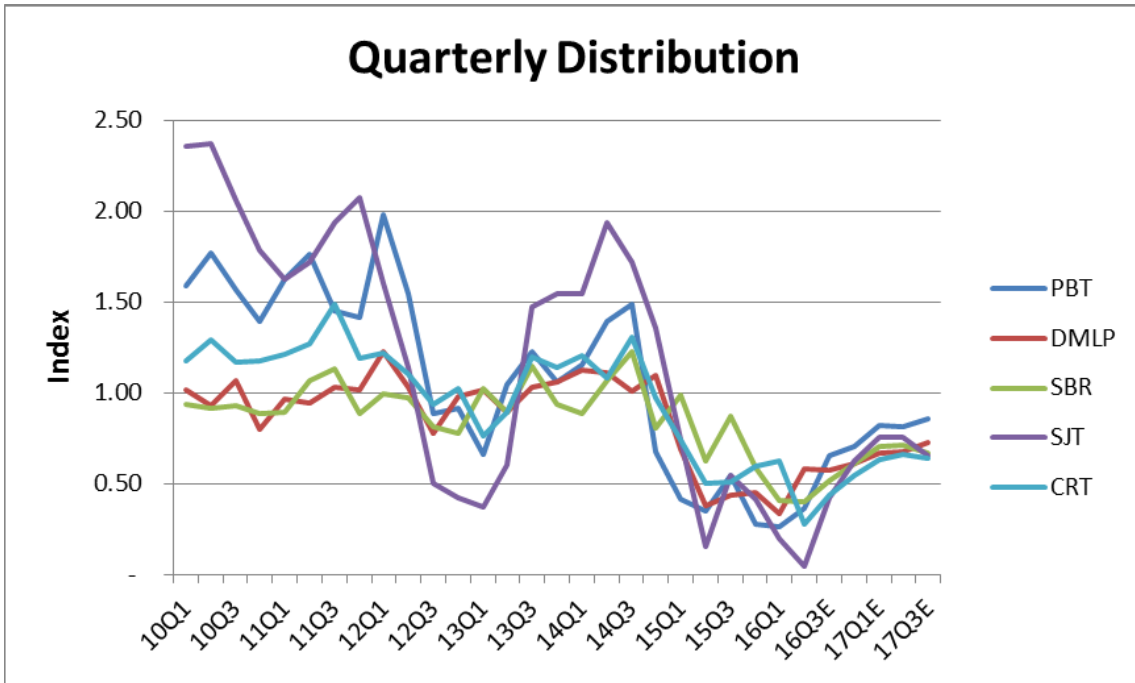
Sabine Royalty Trust											
Next Twelve Months Operating and Financial Performance											
											<i>Next Twelve Months</i>
	<i>Q3</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>9/30/17</i>
	<i>9/30/15</i>	<i>2015</i>	<i>3/31/16</i>	<i>6/30/16</i>	<i>9/30/16</i>	<i>12/31/16</i>	<i>2016E</i>	<i>3/31/17</i>	<i>6/30/17</i>	<i>9/30/17</i>	<i>9/30/17</i>
Volume											
Natural Gas (bcf)	2.26	7.66	1.48	1.70	1.73	1.75	6.66	1.75	1.71	1.73	6.94
Natural Gas (mmcf)	24.8	21.0	16.1	18.7	19.0	19.0	18.2	19.0	19.0	19.0	19.0
Days	91	365	92	91	91	92	366	92	90	91	365
Oil (mmb)	0.132	0.551	0.124	0.104	0.133	0.135	0.496	0.136	0.135	0.137	0.544
Oil (mbd)	1.43	1.51	1.35	1.17	1.46	1.47	1.36	1.48	1.50	1.51	1.49
Days	92	365	92	89	92	92	365	92	89	92	365
Total (bcfe)	3.05	10.97	2.22	2.32	2.53	2.56	9.63	2.57	2.52	2.55	10.20
Total (mmcf)	33.4	30.0	24.2	25.7	27.8	27.8	26.3	27.9	28.0	28.0	27.9
Price (Henry Hub natural gas lagged three months; WTI Cushing oil, two months)											
Henry Hub (\$/mmbtu)	2.66	3.11	2.28	2.09	1.95	2.82	2.29	3.06	3.33	3.00	3.05
Differential (%)	(10)	(3)	4	(12)	-	-	(2)	-	-	-	0
Trust (\$/mcf)	2.93	3.21	2.18	2.35	1.95	2.82	2.33	3.06	3.33	3.00	3.05
WTI Cushing (\$/bbl)	56.70	53.37	37.35	36.66	46.80	46.75	41.89	48.98	50.64	51.58	49.49
Differential	1.26	(0.64)	1.14	3.31	2.34	2.34	1.83	-	-	2.58	1.23
Trust (\$/bbl)	55.44	54.01	36.21	33.35	44.46	44.42	40.06	48.98	50.64	49.00	48.26
Total (\$/bcfe)	4.57	4.96	3.47	3.21	3.68	4.27	3.68	4.69	4.97	4.67	4.65
Revenue (\$mm)											
Natural Gas	6.6	24.6	3.2	4.0	3.4	4.9	15.5	5.3	5.7	5.2	21.2
Oil	7.3	29.8	4.5	3.5	5.9	6.0	19.9	6.7	6.8	6.7	26.2
Total	13.9	54.3	7.7	7.5	9.3	10.9	35.4	12.0	12.5	11.9	47.4
Expense											
Tax and other	0.6	6.7	0.9	1.0	1.1	1.3	4.3	1.1	1.5	1.4	5.3
General and administrative	0.6	2.4	0.8	0.7	0.6	0.6	2.7	0.6	0.5	0.6	2.3
Total	1.2	9.1	1.7	1.6	1.7	1.9	7.0	1.7	2.0	2.0	7.7
Ebitda	12.8	45.2	6.0	5.9	7.6	9.0	28.4	10.3	10.5	9.9	39.7
Ebit	12.8	45.2	6.0	5.9	7.6	9.0	28.4	10.3	10.5	9.9	39.7
Ebt	12.8	45.2	6.0	5.9	7.6	9.0	28.4	10.3	10.5	9.9	39.7
Distributable Income (\$mm)	12.8	45.2	6.0	5.9	7.6	9.0	28.4	10.3	10.5	9.9	39.7
Units (millions)	14.6	14.6	14.6	14.6	14.6	14.6	14.6	14.6	14.6	14.6	14.6
Per Unit (\$)	0.88	3.10	0.41	0.40	0.52	0.62	1.95	0.71	0.72	0.68	2.72

Sabine Royalty Trust						
Net Present Value						
						<i>Present Value</i>
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>			
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>			<i>(US\$mm)</i>
North American Natural Gas	18	6.9	23.7			420
Oil	22	14.4	20.5			450
	40	9.5	21.9			870
Debt (US\$mm)						-
Net Present Value (US\$mm)						870
Shares (mm)						14.6
Net Present Value (US\$/sh)						60
Top Line Approximation at 1.5 times Cash Flow Multiple Depending on Reserve Life						63



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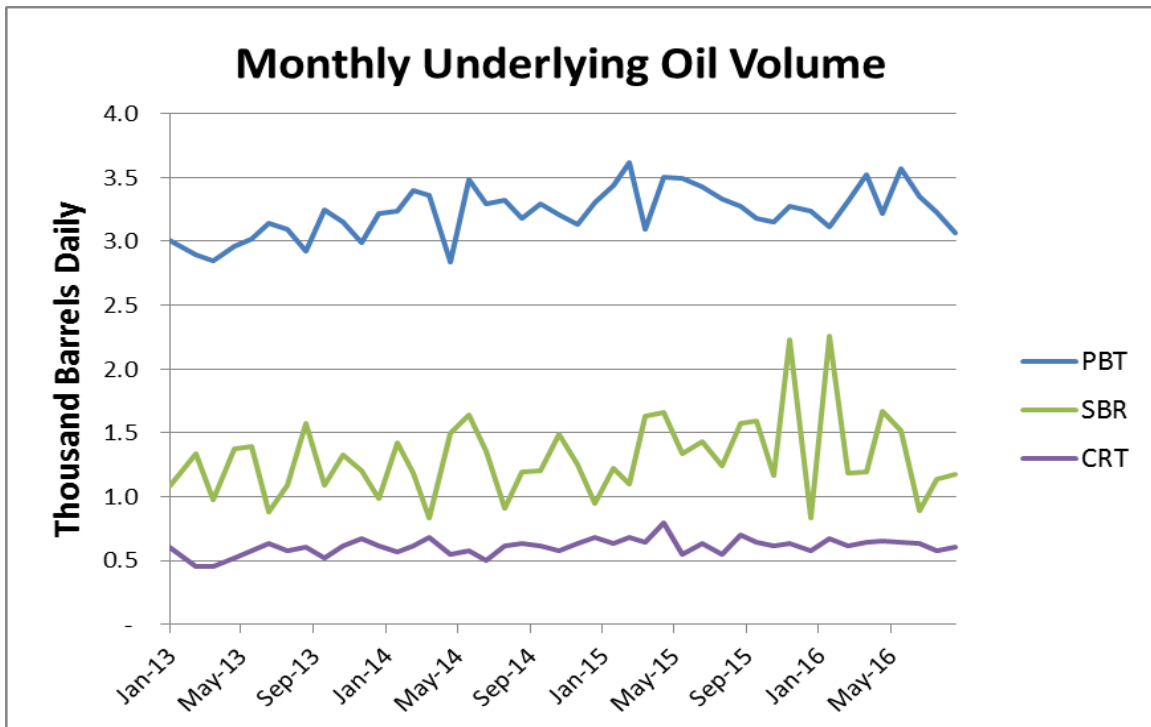
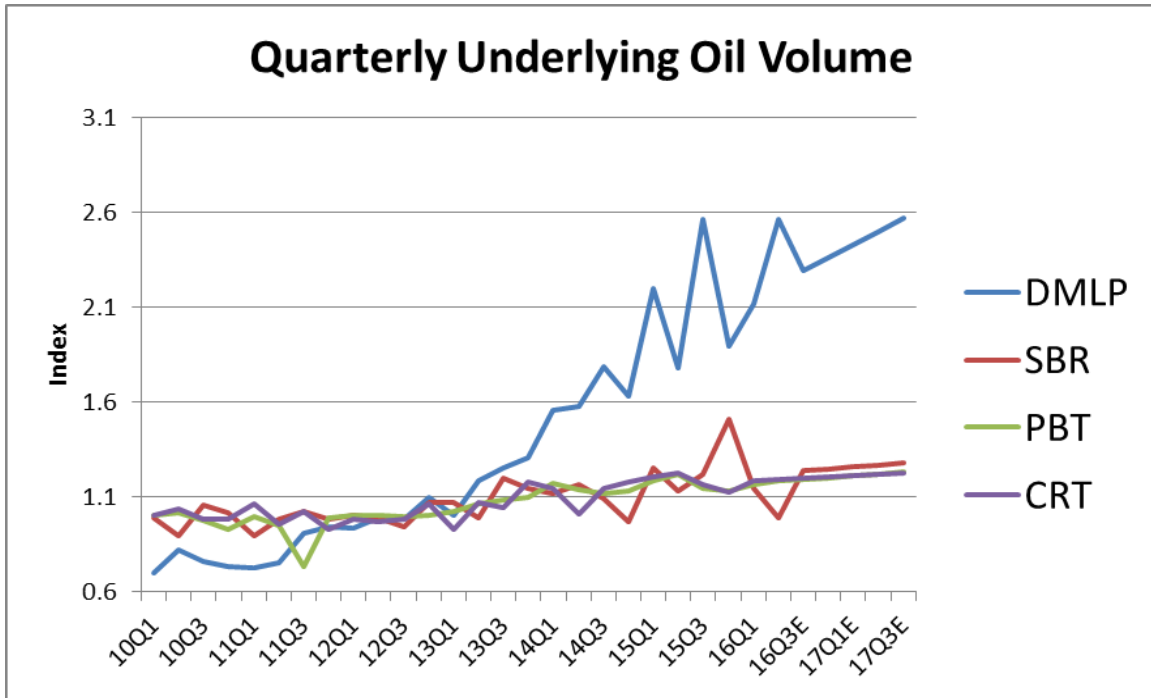
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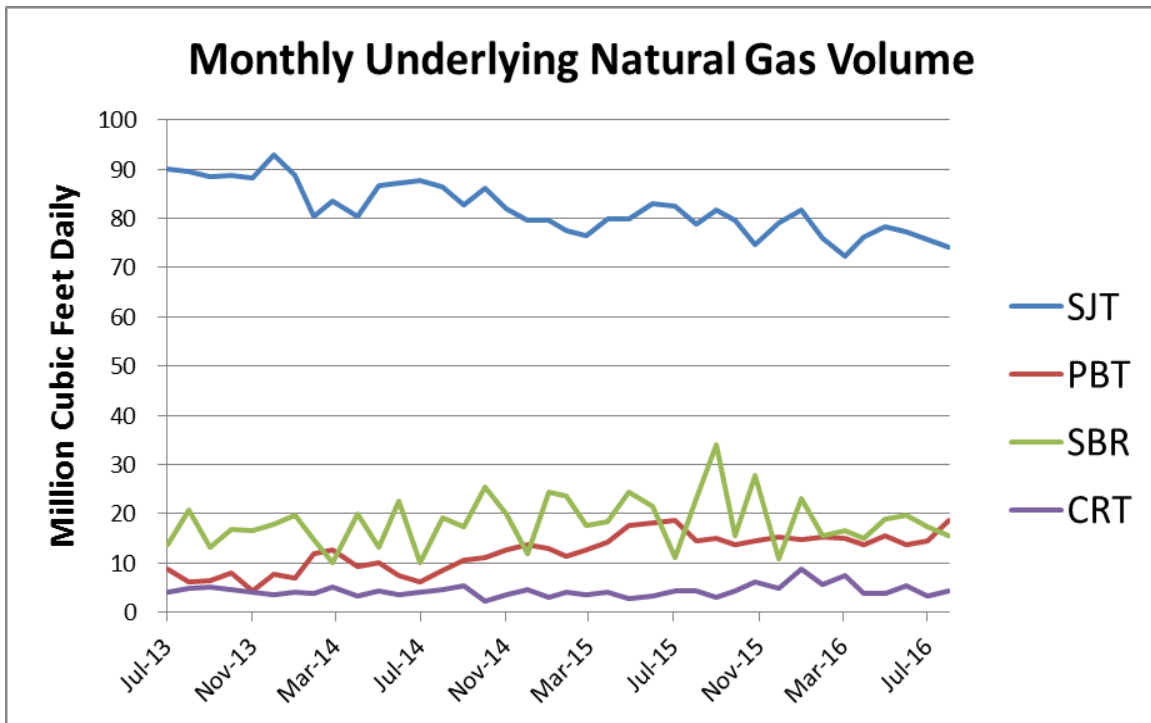
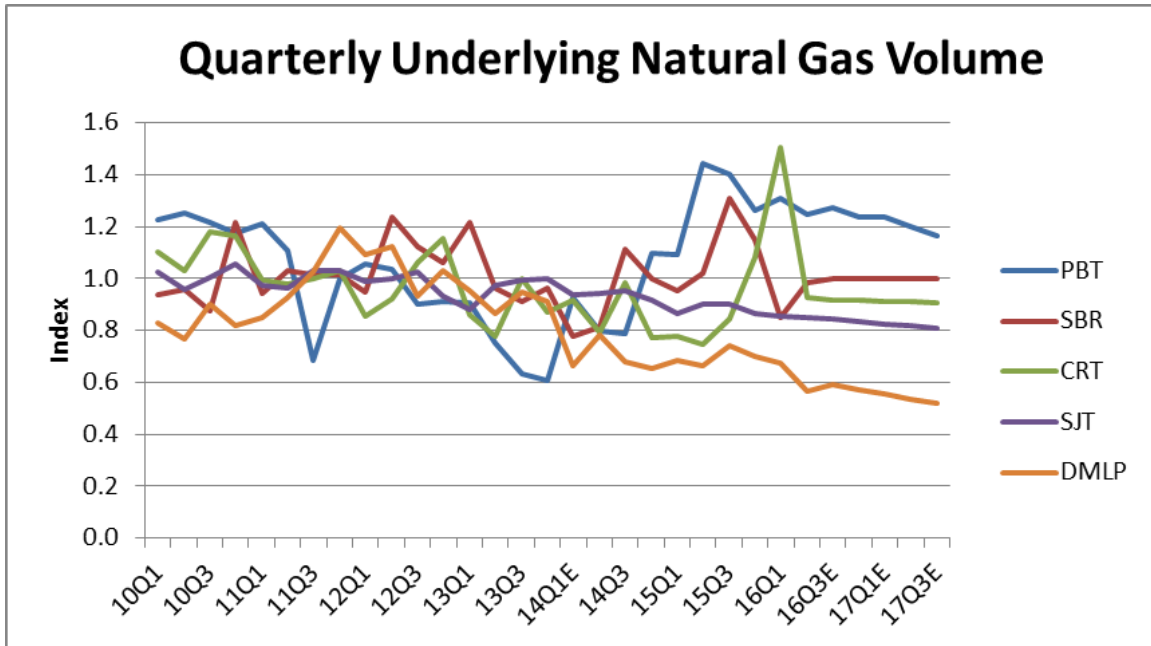
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Symbol/Rating	Price (US\$/sh)	EV/ Market Cap	Enterprise Value (\$mm)	Present Value by Segment (%)				Dist. Yield	NTM (%)	McDep Ratio
				North Amer.	Rest of World	Oil Prod'n	Down- stream			
				Natural Gas	Natural Gas					
Global Integrated										
Exxon Mobil Corporation	XOM	87.84	1.26	462,000	6	16	55	23	3.4	0.90
Chevron Corporation	CVX	102.05	1.35	258,000	2	13	66	19	4.2	0.81
Royal Dutch Shell	RDS-A B	49.76	1.69	334,000	2	21	53	24	7.6	0.74
Total S.A.	TOT B	48.30	1.52	174,000		20	58	22	5.7	0.64
<i>Total or Median</i>			<i>1.43</i>	<i>1,228,000</i>			<i>56</i>	<i>23</i>	<i>4.9</i>	<i>0.77</i>
Large Independent										
Devon Energy Corporation	DVN	45.01	1.48	33,800	28		62	10	0.5	1.22
EOG Resources, Inc.	EOG	91.14	1.15	57,200	11	1	87		0.7	1.18
Occidental Petroleum Corp.	OXY	77.95	1.17	69,600	4	2	86	7	3.8	1.03
Marathon Oil Corporation	MRO B	15.99	1.56	21,200	10	2	88		1.3	0.86
ConocoPhillips	COP B	42.35	1.75	92,000	13	13	75		2.4	0.73
<i>Total or Median</i>			<i>1.48</i>	<i>274,000</i>	<i>11</i>		<i>86</i>		<i>1.3</i>	<i>1.03</i>
Small Independent										
Cimarex Energy Company	XEC	133.50	1.10	13,700	34		66		0.2	1.10
Range Resources	RRC	39.78	1.43	13,800	77		23		0.2	0.96
Continental Resources (32%)	CLR B	49.66	1.39	8,200	22		78		-	0.92
Whiting Petroleum Corporation	WLL	7.77	3.17	7,000	10		90		-	0.85
California Resources	CRC	10.26	17.59	7,200	13		88		-	0.82
<i>Total or Median</i>			<i>1.43</i>	<i>50,000</i>	<i>22</i>		<i>78</i>		<i>-</i>	<i>0.92</i>
Income										
San Juan Basin Royalty Trust	SJT	6.37	1.00	300	100		-		8.6	0.80
Permian Basin RT	PBT	7.24	1.00	340	23		77		9.6	0.66
Cross Timbers Royalty Trust	CRT	18.80	1.00	110	57		43		7.7	0.65
Dorchester Minerals, L.P.	DMLP B	15.19	1.00	470	28		72		7.8	0.63
Sabine Royalty Trust	SBR B	36.83	1.00	540	48		52		7.4	0.61
<i>Total or Median</i>			<i>1.00</i>	<i>1,800</i>	<i>48</i>		<i>52</i>		<i>7.8</i>	<i>0.65</i>
Canada										
EnCana Corporation	ECA	9.95	2.00	17,000	43		57		0.6	1.25
Imperial Oil Limited (30%)	IMO	30.75	1.36	10,700	0		64	36	1.5	0.85
Suncor Energy	SU	27.76	1.39	64,300	-		84	16	3.2	0.84
Cenovus Energy Inc.	CVE	14.84	1.33	16,400	7		76	16	1.0	0.79
Birchcliff Energy Ltd.	BIREF B	7.08	1.34	2,500	74		26		-	0.76
<i>Total or Median</i>			<i>1.36</i>	<i>111,000</i>			<i>64</i>		<i>1.0</i>	<i>0.84</i>
Estimated present value presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.00 a million btu.										
Estimated present value capped by unlevered cash flow multiple (EV/Ebitda)										
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses										
For historical research see www.mcdep.com										



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Table 2								
McDep Energy Stocks								
Net Present Value and McDep Ratio								
			Price (US\$/sh)	Shares	Market Cap (US\$m)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
	Symbol/Rating		29-Aug 2016	(mm)				
	B = Buy							
Global Integrated								
Exxon Mobil Corporation	XOM		87.84	4,178	367,000	100.00	0.18	0.90
Chevron Corporation	CVX		102.05	1,872	191,000	135.00	0.21	0.81
Royal Dutch Shell	RDS-A	B	49.76	3,980	198,000	80.00	0.30	0.74
Total S.A.	TOT	B	48.30	2,379	115,000	90.00	0.22	0.64
	<i>Total or Median</i>				871,000		0.21	0.77
Large Independent								
Devon Energy Corporation	DVN		45.01	508	22,900	33.00	0.39	1.22
EOG Resources, Inc.	EOG		91.14	547	49,900	75.00	0.15	1.18
Occidental Petroleum Corp.	OXY		77.95	764	59,600	75.00	0.15	1.03
Marathon Oil Corporation	MRO	B	15.99	847	13,540	20.00	0.31	0.86
ConocoPhillips	COP	B	42.35	1,245	53,000	70.00	0.31	0.73
	<i>Total or Median</i>				198,900		0.31	1.03
Small Independent								
Cimarex Energy Company	XEC		133.50	93	12,400	120.00	0.10	1.10
Range Resources	RRC		39.78	244	9,700	42.00	0.29	0.96
Continental Resources (32%)	CLR	B	49.66	118	5,900	56.00	0.26	0.92
Whiting Petroleum Corporation	WLL		7.77	285	2,200	12.00	0.58	0.85
California Resources	CRC		10.26	40	400	50.00	0.77	0.82
	<i>Total or Median</i>				31,000		0.29	0.92
Income								
San Juan Basin Royalty Trust	SJT		6.37	47	300	8.00	-	0.80
Permian Basin RT	PBT		7.24	47	340	11.00	-	0.66
Cross Timbers Royalty Trust	CRT		18.80	6	110	29.00	-	0.65
Dorchester Minerals, L.P.	DMLP	B	15.19	31	470	24.00	-	0.63
Sabine Royalty Trust	SBR	B	36.83	15	540	60.00	-	0.61
	<i>Total or Median</i>				1,800		-	0.65
Canada								
EnCana Corporation	ECA		9.95	850	8,500	6.00	0.63	1.25
Imperial Oil Limited (30%)	IMO		30.75	255	7,900	38.00	0.23	0.85
Suncor Energy	SU		27.76	1,665	46,200	35.00	0.24	0.84
Cenovus Energy Inc.	CVE		14.84	833	12,400	20.00	0.20	0.79
Birchcliff Energy Ltd.	BIREF	B	7.08	263	1,900	10.00	0.19	0.76
	<i>Total or Median</i>				77,000		0.23	0.84
Estimated present value presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.00 a million btu.								
Estimated present value capped by unlevered cash flow multiple (EV/Ebitda)								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
For historical research see www.mcdep.com								



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Table 3							
McDep Energy Stocks							
Value Multiples and Dividend							
Ranked by EV/Ebitda							
			Price (US\$/sh)	Adjustd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	Dividend NTM
	Symbol/Rating		29-Aug 2016	NTM	NTM	NTM	NTM
	B = Buy						(\$/sh)
Global Integrated							
Exxon Mobil Corporation	XOM		87.84	14.5	12.0	10.8	26
Chevron Corporation	CVX		102.05	9.2	12.2	9.9	39
Royal Dutch Shell	RDS-A	B	49.76	9.8	10.9	8.0	26
Total S.A.	TOT	B	48.30	9.9	10.2	6.5	14
	<i>Median</i>			9.8	11.4	8.9	26
Large Independent							
Devon Energy Corporation	DVN		45.01	9.1	13.9	17.0	0.24
EOG Resources, Inc.	EOG		91.14	8.2	13.3	15.7	0.67
Occidental Petroleum Corp.	OXY		77.95	8.3	14.1	14.6	3.00
Marathon Oil Corporation	MRO	B	15.99	12.7	14.2	12.2	0.20
ConocoPhillips	COP	B	42.35	11.3	15.3	11.1	1.00
	<i>Median</i>			9.1	14.1	14.6	
Small Independent							
Range Resources	RRC		39.78	12.6	17.0	16.4	0.08
Continental Resources (32%)	CLR	B	49.66	11.4	17.1	15.6	-
Cimarex Energy Company	XEC		133.50	6.9	14.1	15.5	0.32
California Resources	CRC		10.26	12.0	13.4	11.0	-
Whiting Petroleum Corporation	WLL		7.77	9.5	11.1	9.4	-
	<i>Median</i>			11.4	14.1	15.5	
Income							
Sabine Royalty Trust	SBR	B	36.83	9.5	22.0	13.5	14
Dorchester Minerals, L.P.	DMLP	B	15.19	7.0	18.1	11.5	15
Cross Timbers Royalty Trust	CRT		18.80	7.5	17.4	11.3	13
San Juan Basin Royalty Trust	SJT		6.37	10.1	13.9	11.1	12
Permian Basin RT	PBT		7.24	8.7	14.8	9.7	10
	<i>Median</i>			8.7	17.4	11.3	13
Canada							
EnCana Corporation	ECA		9.95	5.6	11.0	13.8	0.06
Imperial Oil Limited (30%)	IMO		30.75	33.2	12.5	10.7	0.46
Suncor Energy	SU		27.76	21.6	11.7	9.9	0.89
Birchcliff Energy Ltd.	BIREF	B	7.08	12.9	12.9	9.9	-
Cenovus Energy Inc.	CVE		14.84	16.6	12.2	9.7	0.15
	<i>Median</i>			16.6	12.2	9.9	
	<i>Grand Median</i>			10	14	11	

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2017; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

For historical research see www.mcdep.com



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Table 4										
McDep Energy Stocks										
Total Return Year-to-Date 2016										
Ranked by Unlevered Total Return										
			Price (\$/sh)	Price (\$/sh)	Price Change	Cash Distrib. (%)	Equity Total Return (%)	Unlevered Debt Return (\$/sh) (%)	McDep	
	Symbol/Rati		29-Aug 2016	31-Dec 2015	(%)	(%)	(%)	(%)	Ratio	
Global Integrated										
	CVX		102.05	89.96	13	4	17	36	12	0.81
	XOM		87.84	77.95	13	3	16	23	12	0.90
	RDS-A	B	49.76	45.79	9	6	15	34	8	0.74
	TOT	B	48.30	44.95	7	3	11	25	7	0.64
	<i>Median</i>				11		15		10	0.77
Large Independent										
	DVN		45.01	32.00	41	1	42	21	25	1.22
	EOG		91.14	70.79	29	1	29	13	25	1.18
	MRO	B	15.99	12.58	27	1	28	9	16	0.86
	OXY		77.95	67.61	15	2	18	13	15	1.03
	COP	B	42.35	46.69	(9)	2	(8)	32	(5)	0.73
	<i>Median</i>				27		28		16	1.03
Small Independent										
	CLR	B	49.66	22.98	116	-	116	19	63	0.92
	XEC		133.50	89.38	49	0	50	14	43	1.10
	RRC		39.78	24.62	62	0	62	17	37	0.96
	WLL		7.77	9.44	(18)	-	(18)	17	(6)	0.85
	CRC		10.26	23.30	(56)	-	(56)	170	(7)	0.82
	<i>Median</i>				49		50		37	0.92
Income										
	DMLP	B	15.19	9.89	54	6	60	-	60	0.63
	SJT		6.37	4.14	54	3	57	-	57	0.80
	CRT		18.80	13.01	45	6	51	-	51	0.65
	PBT		7.24	5.06	43	5	48	-	48	0.66
	SBR	B	36.83	26.26	40	5	45	-	45	0.61
	<i>Median</i>				45		51		51	0.65
Canada										
	BIREF	B	7.08	2.93	142	-	142	2	78	0.76
	ECA		9.95	5.09	95	1	96	10	32	1.25
	CVE		14.84	12.62	18	1	18	5	13	0.79
	SU		27.76	25.80	8	2	9	11	7	0.84
	IMO		30.75	32.52	(5)	1	(5)	11	(4)	0.85
	<i>Median</i>				18		18		13	0.84
	<i>Grand Median</i>				28		29		21	0.83
	Natural Gas (\$/mmbtu)		2.85	2.33	22					
	Oil - West Texas Intermediate (\$/bbl)		46.96	37.06	27					
	S&P 500		2,180	2,044	7					
Source: McDep LLC, Yahoo, CME Group, Bloomberg					For historical research see www.mcdep.com					



Independent Stock Idea

August 30, 2016

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