

Buy/Sell Rating: 2 - Buy

San Juan Basin Royalty Trust Three C's of Natural Gas

Symbol	Price	Shares	Market Cap (\$mm)	Net		McDep Ratio	EV/	EV/	P/E	Div'd	PV/
	(\$/sh) 21-Sep 2001			Present Value (\$/sh)	Debt/ Present Value		Sales NTM	Ebitda NTM		NTM	NTM
SJT	10.76	46.6	500	14.70	-	0.73	6.3	8.4	12.0	8.3	11.4

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

EV = Enterprise Value = Market Cap and Debt:

US\$mm 500

Ebitda = Earnings before interest, tax, depreciation and amortization:

US\$mm 60

NTM = Next Twelve Months Ended September 30, 2002; P/E = Stock Price to Earnings

PV = Present Value of energy businesses:

US\$mm 690

Summary and Recommendation

We recommend current purchase of the units of San Juan Basin Royalty Trust for its unique combination of three "C's" of natural gas - concentration, control and commodity. The trust is Concentrated entirely on the clean fuel; there is no other business to complicate the picture. Unitholders Control reinvestment of cash flows; there is no management to waste the golden eggs that the goose lays. Future Commodity price offers the ultimate payoff as we expect natural gas to become much more valuable in the next few years. The trust does not hedge natural gas price and thereby risk the dissipation of future profits to a third party. A McDep Ratio below 0.8 for the first time since February 2001 triggers our current interest. Moreover the compelling valuation relates to today's commodity futures prices that we think are far lower than we will see when the economy gets going again. While the stock is subject to political, economic and business risk, financial risk is minimal, as the trust has no debt. Investors should look for most of their long-term return in tax-advantaged distributions.

Concentration on Natural Gas Simplifies Analysis

We have been analyzing the properties of the San Juan Basin Royalty Trust since our recommendation of Aztec Oil & Gas Company in May 1975. We noted that the price of Aztec's San Juan Basin production reached \$0.30 per mcf in 1974 compared to \$0.19 in 1973. For its February 2001 distribution, the trust reported a price of \$8.95. The price has dropped sharply since then, as our projection for the next twelve months, tied to the futures market, is \$2.35. Aztec produced 35 billion cubic feet from the properties in 1974. The comparable volume we project for the next twelve months is 44 bcf.

Analyses are prepared from original sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Historical energy analysis by Kurt Wulff doing business as McDep Associates is posted at www.mcdep.com. Owning shares in energy stocks, neither Mr. Wulff nor his spouse act contrary to a buy or sell rating. Mr. Wulff is not paid by covered companies.

McDep Associates

Stock Idea

September 24, 2001

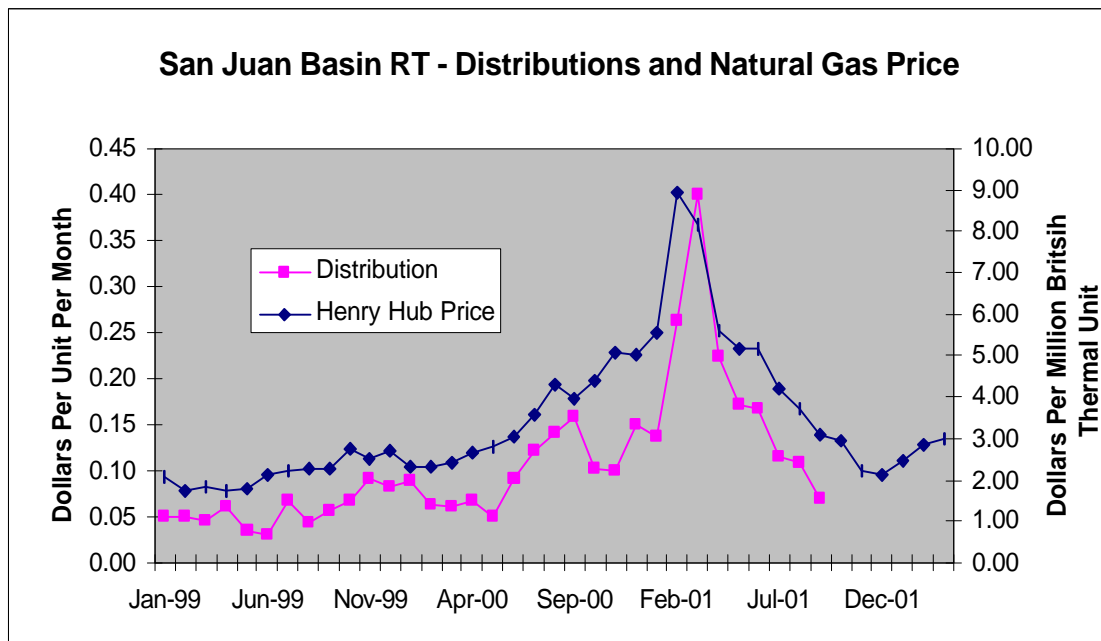
Worth about \$70 million in 1975, the properties are valued in the stock market today at \$500 million for a gain of 8%/year in 26 years. Add about 10% per year in cash flow and the total return might be about 18% per year. Ignoring taxes and reinvesting cash flow an investment of \$10,000 in San Juan Basin Royalty Trust properties in 1975 would be worth perhaps \$730,000 today.

The drivers of value in the trust are understandable enough that we do a weekly calculation of present value (see Table SJT-1). The details for each of the past 86 weeks are accessible at www.mcdep.com.

The present value of future cash flows takes the next twelve months as a starting point (see Table SJT-2). We use the next twelve months because that is the most relevant period for estimating the annual distribution for a new purchaser of the units. It would be misleading to point to the \$0.40 that the trust distributed in a single month this year as indicative of ongoing payout. Instead, current natural gas futures imply that the payout will be \$0.90 for the next twelve months.

Lower, Then Higher Monthly Distributions Ahead

As one might expect, payout tracks natural gas price more than any other variable in the short term (see Chart). Incongruously, we actually know the future for two months ahead because the distribution announced and attributed by us to the month of announcement relates to the actual price received two months earlier. Since we know natural gas price today, we know the relevant measure for the distribution to be announced in two months.



Analyses are prepared from original sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Historical energy analysis by Kurt Wulff doing business as McDep Associates is posted at www.mcdep.com. Owning shares in energy stocks, neither Mr. Wulff nor his spouse act contrary to a buy or sell rating. Mr. Wulff is not paid by covered companies.

McDep Associates

Stock Idea

September 24, 2001

If investors naively priced SJT units in line with the most recently declared distribution, we would expect the price to be lower in two months and we would not recommend the stock today. Alternatively one might argue that any information already known is already in the stock.

Nor should we put too much confidence in the early resumption of higher distributions. The futures prices upon which we base our projections are lower today than they were a few months ago. In the end we have to make a judgment on the validity of futures prices just as we must do for stock prices.

Control of Reinvestment Reduces Risk

If we knew which company was going to make the big natural gas discovery in the future we would want to own the stock of that company. On average, natural gas companies are not likely to find new resources on terms as attractive as in SJT stock. That was borne out in the last decade when SJT was a top performer among exploration and production stocks even though its price per share went up only an average amount. The difference was that SJT paid out its cash flow to unitholders who in turn controlled the reinvestment of that cash flow. Most production companies reinvested cash flow in low return efforts and often charged shareholders with steep overhead.

Commodity Price Translates Directly to Reward

The third "C" refers to another feature of the trust that is superior to managed companies. Natural gas commodity price increases and decreases flow straight into unitholders' pockets. The trust does not play games in speculating on future natural gas price. Just as most management of producing companies cannot find natural gas as cheaply as in SJT stock and they charge overhead on top of that, most cannot make successful bets on the future of the natural gas markets. On top of that, middlemen who make markets in futures, extract their take from the often-unsuccessful bets.

Large Holder Sells

A group including Robert Bass owns 28% of SJT stock. The group acquired its stock in the past few years at lower prices. Since spring the group has been realizing gains through steady sales of units. The group discloses that margin loans may provide some of its funds.

All of this would not be of much concern as the group could normally be expected to act as any rational investor. Yet, late last week, SJT stock price dropped coincident with news that Bass family members sold \$2 billion of stock in Disney partly to payoff margin loans. Robert apparently was not involved in selling that was attributed to brothers Sid and Lee.

Analyses are prepared from original sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Historical energy analysis by Kurt Wulff doing business as McDep Associates is posted at www.mcdep.com. Owning shares in energy stocks, neither Mr. Wulff nor his spouse act contrary to a buy or sell rating. Mr. Wulff is not paid by covered companies.

McDep Associates

Stock Idea

September 24, 2001

Investors apparently became concerned that SJT may also see selling pressure. There is no concrete indication that will be the case. Yet, investors should be forewarned that it might be prudent to hold back some cash in the surprise event that SJT is under pressure again.

Meanwhile, SJT is an unusually high quality oil and gas asset. Should there be a need to place a large amount of stock there are likely to be many willing buyers. The only question may be how much do the buyers want to see any possible forced seller suffer before stepping up. Let us be among the shrewd buyers should that event arise.

Kurt H. Wulff, CFA

Table SJT-1
San Juan Basin Royalty Trust
Present Value

Volume Decline (%/yr):	10	Price Escalation Post 2006 (%/yr):	2.4
Volume Enhancement (%/yr):	10	Discount rate (%/yr):	6.1
Capex/Cash Flow (%):	25	U.S. TIPS Inflation (%/yr):	1.6
Variable Cost (%):	11	U.S. 10 Year Yield (%/yr):	4.7
PV/Volume (\$/mcf):	1.14	PV/EBITDA 2002:	11.6

Year	Basic (bcf)	Volume Enhanced (bcf)	Total (bcf)	Price (\$/mcf)	Revenue (\$mm)	Fixed Cost (\$mm)	Var Cost (\$mm)	Cap Ex (\$mm)	Distribution (\$mm)	(\$/unit)	Tax Credit (\$/unit)	Disc Factor	Present Value (\$/unit)
Total 2001 through 2030													
	320	279	599	3.30	1978	337	218	189	1235	26.50	0.16	0.55	14.70
2002	33.5	0.0	33.5	2.37	79.2	11.2	8.7	17.5	41.8	0.90	0.16	0.97	1.03
2003	30.1	3.3	33.5	2.56	85.8	11.2	9.4	16.3	48.9	1.05		0.92	0.96
2004	27.1	6.4	33.5	2.74	91.6	11.2	10.1	17.6	52.7	1.13		0.86	0.98
2005	24.4	9.1	33.5	2.92	97.6	11.2	10.7	18.9	56.7	1.22		0.81	0.99
2006	22.0	11.5	33.5	2.90	97.1	11.2	10.7	18.8	56.4	1.21		0.77	0.93
2007	19.8	13.7	33.5	2.91	97.4	11.2	10.7	18.9	56.6	1.21		0.72	0.88
2008	17.8	15.7	33.5	2.98	99.8	11.2	11.0	19.4	58.2	1.25		0.68	0.85
2009	16.0	17.5	33.5	3.05	102.2	11.2	11.2	19.9	59.8	1.28		0.64	0.82
2010	14.4	19.1	33.5	3.13	104.7	11.2	11.5	20.5	61.4	1.32		0.60	0.80
2011	13.0	20.5	33.5	3.20	107.2	11.2	11.8	21.0	63.1	1.35		0.57	0.77
2012	11.7	18.4	30.1	3.28	98.8	11.2	10.9		76.7	1.65		0.54	0.88
2013	10.5	16.6	27.1	3.36	91.1	11.2	10.0		69.8	1.50		0.51	0.76
2014	9.5	14.9	24.4	3.44	84.0	11.2	9.2		63.5	1.36		0.48	0.65
2015	8.5	13.4	22.0	3.52	77.4	11.2	8.5		57.6	1.24		0.45	0.56
2016	7.7	12.1	19.8	3.61	71.3	11.2	7.8		52.3	1.12		0.42	0.48
2017	6.9	10.9	17.8	3.70	65.8	11.2	7.2		47.3	1.01		0.40	0.41
2018	6.2	9.8	16.0	3.79	60.6	11.2	6.7		42.7	0.92		0.38	0.35
2019	5.6	8.8	14.4	3.88	55.9	11.2	6.1		38.5	0.83		0.35	0.29
2020	5.0	7.9	13.0	3.97	51.5	11.2	5.7		34.6	0.74		0.33	0.25
2021	4.5	7.1	11.7	4.07	47.5	11.2	5.2		31.0	0.67		0.32	0.21
2022	4.1	6.4	10.5	4.17	43.8	11.2	4.8		27.7	0.59		0.30	0.18
2023	3.7	5.8	9.5	4.27	40.3	11.2	4.4		24.7	0.53		0.28	0.15
2024	3.3	5.2	8.5	4.37	37.2	11.2	4.1		21.9	0.47		0.26	0.12
2025	3.0	4.7	7.7	4.48	34.3	11.2	3.8		19.3	0.41		0.25	0.10
2026	2.7	4.2	6.9	4.59	31.6	11.2	3.5		16.9	0.36		0.23	0.08
2027	2.4	3.8	6.2	4.70	29.1	11.2	3.2		14.7	0.32		0.22	0.07
2028	2.2	3.4	5.6	4.81	26.8	11.2	3.0		12.7	0.27		0.21	0.06
2029	1.9	3.1	5.0	4.93	24.7	11.2	2.7		10.8	0.23		0.20	0.05
2030	1.8	2.8	4.5	5.05	22.8	11.2	2.5		9.1	0.19		0.18	0.04
2031	1.6	2.5	4.1	5.17	21.0	11.2	2.3		7.5	0.16		0.17	0.03

Analyses are prepared from original sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Historical energy analysis by Kurt Wulff doing business as McDep Associates is posted at www.mcdep.com. Owning shares in energy stocks, neither Mr. Wulff nor his spouse act contrary to a buy or sell rating. Mr. Wulff is not paid by covered companies.

McDep Associates
Stock Idea
September 24, 2001

Table SJT-2
San Juan Basin Royalty Trust
Distributable Income

	Q3	Q4	Year	Q1	Q2	Q3E	Q4E	Year	Q1E	Q2E	Q3E	Next Twelve Months
	9/30/00	12/31/00	2000	3/31/01	6/30/01	9/30/01	12/31/01	2001E	3/31/02	6/30/02	9/30/02	9/30/02
Highlights												
Revenue (\$mm) (75%)	29.0	29.9	95.5	49.6	38.7	25.6	17.7	131.6	20.1	20.6	20.7	79.2
Cash flow (\$mm) (75%)	23.6	25.2	75.7	42.2	31.9	20.1	13.1	107.4	15.3	15.8	15.8	60.0
Per unit	0.51	0.54	1.62	0.91	0.69	0.43	0.28	2.30	0.33	0.34	0.34	1.29
Tax credit (\$mm)	1.9	1.9	7.5	1.9	1.9	1.9	1.9	7.5	1.9	1.9	1.9	7.5
Per unit	0.04	0.04	0.16	0.04	0.04	0.04	0.04	0.16	0.04	0.04	0.04	0.16
Distributable Income (\$mm)	19.7	16.5	59.2	37.3	26.3	13.7	7.2	84.4	11.3	11.6	11.7	41.8
Per unit	0.42	0.35	1.27	0.80	0.56	0.29	0.15	1.81	0.24	0.25	0.25	0.90
Units (millions)	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6
Volume												
Natural gas (mmbtu)	12.4	11.2	45.1	11.8	11.3	11.9	11.9	46.9	11.9	11.5	11.9	47.1
Heat Content(btu/cf)	1,104	1,084	1,068	1,052	1,095	1,070	1,070	1,071	1,070	1,070	1,070	1,070
Natural gas (bcf)	11.2	10.3	42.2	11.3	10.4	11.1	11.1	43.8	11.1	10.7	11.1	44.0
Natural Gas (mmcf)	121.6	111.8	115.4	122.4	116.4	120.6	120.6	120.0	120.6	120.6	120.6	120.6
Days	92	92	366	92	89	92	92	365	92	89	92	365
Oil (mb)	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1
Oil (mbd)	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Total gas & oil (bcf)	11.4	10.4	42.8	11.4	10.5	11.2	11.2	44.4	11.2	10.9	11.2	44.6
Price												
Natural gas (\$/mmbtu) (Henry Hub lagged two months)												
Henry Hub (\$/mmbtu)	3.94	4.83	3.49	7.57	5.30	3.67	2.43	4.74	2.77	2.93	2.93	2.76
Differential (\$/mmbtu)	0.87	1.31	0.72	2.04	0.81	0.85	0.49	1.06	0.55	0.59	0.64	0.57
Total	3.07	3.52	2.77	5.53	4.49	2.82	1.94	3.69	2.22	2.34	2.29	2.20
Natural gas (\$/mcf)	3.39	3.81	2.96	5.81	4.92	3.02	2.08	3.95	2.37	2.51	2.45	2.35
Oil (\$/bbl) (WTI Cushing lagged two months)												
WTI Cushing	30.12	32.73	29.31	28.79	28.09	27.57	26.64	27.77	26.14	25.78	25.03	25.90
SJT	25.58	28.37	24.66	26.90	24.60	23.57	22.64	24.41	22.14	21.78	21.03	21.90
Total gas & oil (\$/mcf)	3.40	3.83	2.97	5.79	4.91	3.03	2.10	3.95	2.39	2.52	2.46	2.37
Revenue (\$mm)												
Natural Gas	37.9	39.2	124.9	65.5	50.9	33.5	23.0	173.0	26.3	26.9	27.1	103.3
Oil	0.7	0.7	2.4	0.7	0.6	0.6	0.6	2.5	0.6	0.5	0.5	2.2
Total	38.6	39.9	127.3	66.1	51.6	34.1	23.6	175.4	26.9	27.4	27.7	105.6
Cost (\$mm)												
Severance tax	4.2	3.6	12.3	6.5	5.2	3.7	2.4	17.7	2.7	2.7	2.8	10.6
Operating	3.1	2.7	14.0	3.3	3.8	3.7	3.8	14.5	3.8	3.6	3.8	15.0
Total	7.2	6.3	26.3	9.8	9.0	7.3	6.1	32.2	6.5	6.4	6.5	25.5
Cash flow (\$mm)												
Development	31.4	33.6	101.0	56.3	42.6	26.8	17.5	143.2	20.4	21.0	21.1	80.1
Net proceeds (\$mm)	5.0	11.2	25.6	6.3	7.1	8.1	7.7	29.1	5.1	5.3	5.3	23.3
Net proceeds (\$mm)												
Royalty/Net proceeds	26.4	22.4	75.4	50.0	35.5	18.7	9.8	114.0	15.3	15.8	15.8	56.7
Royalty income (\$mm)	19.8	16.8	56.5	37.5	26.6	14.0	7.4	85.5	11.5	11.8	11.9	42.6
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	3.0
Administration	0.2	0.3	1.1	0.2	0.4	0.3	0.2	1.1	0.2	0.2	0.2	0.8
One-time			3.7					-				-
Distributable income (\$mm)												
Modeling ratios	19.7	16.5	59.2	37.3	26.3	13.7	7.2	84.4	11.3	11.6	11.7	41.8
Severance tax/revenue	10.8%	9.0%	9.7%	9.9%	10.0%	10.7%	10.0%	10.1%	10.0%	10.0%	10.0%	10.0%
Operating cost (\$/mcf)	0.27	0.26	0.33	0.29	0.36	0.33	0.34	0.33	0.34	0.34	0.34	0.34

Analyses are prepared from original sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Historical energy analysis by Kurt Wulff doing business as McDep Associates is posted at www.mcdep.com. Owning shares in energy stocks, neither Mr. Wulff nor his spouse act contrary to a buy or sell rating. Mr. Wulff is not paid by covered companies.