



Independent Stock Idea

April 30, 2015

San Juan Basin Royalty Trust (SJT) New Buy on Depressed Natural Gas Price

<i>Symbol</i>	SJT	<i>Ebitda Next Twelve Months ending 3/31/16 (US\$m)</i>	34
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	97
<i>Price (US\$/unit)</i>	10.92	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	4/30/15	<i>Adjusted Reserves/Production NTM</i>	8.2
<i>Shares (mm)</i>	47	<i>EV/Ebitda</i>	15.1
<i>Market Capitalization (US\$m)</i>	510	<i>PV/Ebitda</i>	29.1
<i>Debt (US\$m)</i>	0	<i>Undeveloped Reserves (%)</i>	2
<i>Enterprise Value (EV) (US\$m)</i>	510	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	1.55
<i>Present Value (PV) (US\$m)</i>	980	<i>Present Value Proven Reserves(US\$/boe)</i>	31.65
<i>Net Present Value (US\$/unit)</i>	21	<i>Oil and Gas Ebitda Margin (%)</i>	55
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	0.51
<i>McDep Ratio - EV/PV</i>	0.52	<i>Price/Earnings Next Twelve Months</i>	21
<i>Distribution Yield (%/year)</i>	4.7	<i>Distribution Next Twelve Months (US\$/sh)</i>	0.51
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\$90 a barrel and natural gas, \$6 a million btu. For historical analysis of SJT since 2000 see www.mcdep.com/4sjt.htm			

Summary and Recommendation

Trading near \$11 a unit compared to the high near \$20 in June 2014 and our Net Present Value (NPV) of \$21, the stock of **San Juan Basin Royalty Trust (SJT)** looks attractive for participation in oil and gas price recovery over the next 18 months. For the past ten months, the decline in SJT stock price of some 45% matches the decline in near-month future price of natural gas of some 45%. Selling pressure on SJT stock seemed reinforced when the trustee declared on April 20 there would be no distribution for the month. We see distributions being restored over the next twelve months to provide an income return of about 4.7% (see table [Operating and Financial Estimates](#) on page 2). Meanwhile, our Buy is the automatic result of our recent decision rule to recommend current purchase of the two lowest McDep Ratio stocks in each peer group (see *Meter Reader*, April 14, 2015). Natural gas producer SJT displaces oil producer **Permian Basin Royalty Trust (PBT)** on the Buy rule (see [Tables 1-4](#) on pages 3-6). Both the San Juan Basin and the Permian Basin are high quality, long-life resource treasures. SJT continues to churn out steady natural gas volumes though the reporting can fluctuate from month-to-month depending on when operator ConocoPhillips forwards revenue and deducts costs for the trust's share of production. We analyze the trends and use our judgment in an industry context in estimating future income as there is little "guidance" from the trustee or the operator. As a result, some of the best opportunities to acquire units arise when investors who judge the stock by the latest income payment lose interest.

Kurt H. Wulff, CFA



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San Juan Basin Royalty Trust										
Next Twelve Months Operating and Financial Estimates										
										Next Twelve Months
	Q1	Q4	Year	Q1E	Q2E	Q3E	Q4E	Year	Q1E	Months
	3/31/14	12/31/14	2014	3/31/15	6/30/15	9/30/15	12/31/15	2015	3/31/16	3/31/16
Highlights										
Revenue (\$mm) (75%)	25.2	23.6	106.8	18.7	15.4	15.3	15.8	65.1	16.8	63.3
Cash flow (\$mm) (75%)	15.1	14.1	64.9	11.1	7.7	7.7	8.1	34.7	10.0	33.6
Per unit	0.32	0.30	1.39	0.24	0.17	0.17	0.17	0.75	0.22	0.72
Distributable Income (\$mm)	14.1	12.4	59.9	6.8	4.7	5.5	5.9	22.8	7.8	23.9
Per unit	0.30	0.27	1.28	0.15	0.10	0.12	0.13	0.49	0.17	0.51
Trailing Twelve Months	1.01	1.28		1.13	0.92	0.63	0.49		0.51	
Units (millions)	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6
Volume										
Natural gas (mmbtu)	8.5	8.4	34.0	7.9	7.9	8.2	8.2	32.2	8.2	32.4
Heat Content(btu/cf)	1,091	1,105	1,099	1,098	1,098	1,098	1,098	1,098	1,098	1,098
Natural gas (bcf)	7.8	7.6	30.9	7.2	7.2	7.5	7.5	29.3	7.5	29.6
Natural Gas (mmcf)	84.5	82.9	84.7	78.3	81.0	81.0	81.0	80.3	81.0	81.0
Days	92	92	365	92	89	92	92	365	92	365
Oil (mb)	0.02	0.01	0.06	0.01	0.01	0.01	0.01	0.06	0.01	0.05
Oil (mbd)	0.20	0.16	0.16	0.16	0.15	0.15	0.14	0.15	0.14	0.15
Days	92	92	365	92	89	92	92	365	92	365
Total gas & oil (bcf)	7.9	7.7	31.3	7.3	7.3	7.5	7.5	29.6	7.5	29.9
Price										
Natural gas (\$/mmbtu) (Henry Hub lagged two months)										
Henry Hub (\$/mmbtu)	3.91	3.94	4.37	3.74	2.79	2.68	2.77	3.00	3.04	2.82
Differential (%)	3	9	7	18	10	10	10	13	13	11
Net to SJT (\$/mmbtu)	3.79	3.59	4.05	3.05	2.51	2.42	2.49	2.62	2.66	2.52
Natural gas (\$/mcf)	4.13	3.97	4.45	3.35	2.76	2.65	2.74	2.87	2.92	2.77
Oil (\$/bbl) (WTI Cushing lagged two months)										
WTI Cushing	95.56	91.23	97.76	60.83	50.88	57.18	59.54	57.11	60.68	57.07
SJT	81.92	76.85	82.99	51.64	43.19	48.54	50.55	48.52	51.55	48.40
Total gas & oil (\$/mcf)	4.27	4.07	4.56	3.42	2.81	2.71	2.80	2.93	2.97	2.82
Revenue (\$mm)										
Natural Gas	32.1	30.3	137.5	24.1	19.9	19.8	20.4	84.2	21.7	81.8
Oil	1.5	1.1	5.0	0.8	0.6	0.7	0.7	2.7	0.7	2.6
Total	33.7	31.4	142.4	24.9	20.5	20.4	21.1	86.9	22.4	84.4
Cost (\$mm)										
Severance tax	4.0	4.3	19.2	2.5	2.1	2.1	2.1	8.8	2.3	8.5
Operating	9.0	8.0	34.6	7.7	7.7	7.7	7.7	30.8	7.7	30.8
Total	13.0	12.1	53.6	9.6	9.8	9.8	9.8	38.9	8.6	38.0
Cash flow (\$mm)										
Development	1.3	2.2	6.5	4.7	4.0	3.0	3.0	14.7	3.0	13.0
Net proceeds (\$mm)	19.4	17.1	82.3	10.5	6.7	7.7	8.2	33.2	10.8	33.4
Royalty income (\$mm)										
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%
Administration	0.4	0.4	1.7	0.3	0.3	0.3	0.3	1.2	0.3	1.2
One-time			-					-		-
Distributable income (\$mm)	14.1	12.4	59.9	6.8	4.7	5.5	5.9	22.8	7.8	23.9



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			<i>Price</i> <i>(US\$/sh)</i>	<i>Shares</i> <i>(mm)</i>	<i>Market</i> <i>Cap</i> <i>(US\$mm)</i>	<i>Net</i> <i>Present</i> <i>Value</i> <i>(US\$/sh)</i>	<i>Debt/</i> <i>Present</i> <i>Value</i>	<i>McDep</i> <i>Ratio</i>
	<i>Symbol/Rating</i>		<i>30-Apr</i> <i>2015</i>					
	<i>B = Buy</i>							
Global Integrated								
Exxon Mobil Corporation	XOM		87.37	4,211	368,000	102.00	0.16	0.88
Royal Dutch Shell (BG pro forma)	RDS-A		63.43	3,900	247,000	89.00	0.26	0.79
Chevron Corporation	CVX	B	111.06	1,884	209,000	150.00	0.16	0.78
Total S.A.	TOT	B	54.14	2,285	124,000	80.00	0.24	0.75
	<i>Total or Median</i>				<i>948,000</i>		<i>0.20</i>	<i>0.78</i>
Large Independent								
EOG Resources, Inc.	EOG		98.95	549	54,300	110.00	0.09	0.91
Occidental Petroleum Corp.	OXY		80.10	773	61,900	100.00	0.08	0.82
Devon Energy Corporation	DVN		68.21	409	27,900	100.00	0.29	0.77
ConocoPhillips	COP	B	67.92	1,246	85,000	100.00	0.22	0.75
Marathon Oil Corporation	MRO	B	31.10	677	21,050	50.00	0.20	0.70
	<i>Total or Median</i>				<i>250,200</i>		<i>0.20</i>	<i>0.77</i>
Small Independent								
Cimarex Energy Company	XEC		124.40	88	10,900	140.00	0.12	0.90
Range Resources	RRC		63.54	166	10,600	100.00	0.19	0.71
Continental Resources (32%)	CLR		52.63	119	6,300	85.00	0.17	0.69
Whiting Petroleum Corporation	WLL	B	37.91	237	9,000	75.00	0.18	0.59
California Resources	CRC	B	9.32	382	3,600	30.00	0.38	0.57
	<i>Total or Median</i>				<i>40,000</i>		<i>0.18</i>	<i>0.69</i>
Income								
Dorchester Minerals, L.P.	DMLP		22.88	31	700	32.00	-	0.72
Permian Basin RT	PBT		9.72	47	450	16.00	-	0.61
Sabine Royalty Trust	SBR		40.34	15	590	68.00	-	0.59
Cross Timbers Royalty Trust	CRT	B	22.10	6	130	42.00	-	0.53
San Juan Basin Royalty Trust	SJT	B	10.92	47	510	21.00	-	0.52
	<i>Total or Median</i>				<i>2,400</i>		<i>-</i>	<i>0.59</i>
Canada								
Imperial Oil Limited (30%)	IMO		44.13	255	11,300	52.00	0.17	0.87
EnCana Corporation	ECA		14.21	839	11,900	20.00	0.39	0.82
Canadian Oil Sands Limited	COSWF		10.81	485	5,200	20.00	0.23	0.64
Cenovus Energy Inc.	CVE	B	18.84	825	15,500	40.00	0.13	0.54
Birchcliff Energy Ltd.	BIREF	B	7.12	155	1,100	16.00	0.18	0.54
	<i>Total or Median</i>				<i>45,000</i>		<i>0.18</i>	<i>0.64</i>
Estimated present value presumes a long-term price for oil of US\$90 a barrel and natural gas, \$6 a million btu.								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								



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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	P/E	Dividend NTM
	Symbol/Rating		30-Apr 2015	NTM	NTM	NTM	NTM	(\$/sh)
	B = Buy							
Global Integrated								
Exxon Mobil Corporation	XOM		87.37	14.2	10.6	9.3	19	2.92
Chevron Corporation	CVX	B	111.06	9.1	11.3	8.9	29	4.28
Total S.A.	TOT	B	54.14	9.7	9.1	6.9	16	2.67
Royal Dutch Shell (BG pro forma)	RDS-A		63.43					3.76
	<i>Median</i>			9.7	10.6	8.9	19	
Large Independent								
EOG Resources, Inc.	EOG		98.95	9.3	15.2	13.8	32	0.67
Devon Energy Corporation	DVN		68.21	10.3	14.3	11.1	88	0.96
ConocoPhillips	COP	B	67.92	11.3	14.7	11.0		2.92
Occidental Petroleum Corp.	OXY		80.10	9.7	12.5	10.2	37	2.88
Marathon Oil Corporation	MRO	B	31.10	12.3	13.9	9.7		0.84
	<i>Median</i>			10.3	14.3	11.0	37	
Small Independent								
Range Resources	RRC		63.54	15.3	28.5	20.1		0.16
Cimarex Energy Company	XEC		124.40	8.2	16.0	14.5		0.64
Continental Resources (32%)	CLR		52.63	11.4	16.6	11.4	170	-
California Resources	CRC	B	9.32	11.4	15.9	9.1		0.04
Whiting Petroleum Corporation	WLL	B	37.91	10.3	14.3	8.5		-
	<i>Median</i>			11.4	16.0	11.4	170	
Income								
Sabine Royalty Trust	SBR		40.34	9.4	27.8	16.5	16	2.45
Dorchester Minerals, L.P.	DMLP		22.88	7.9	22.5	16.1	30	1.23
San Juan Basin Royalty Trust	SJT	B	10.92	8.2	29.1	15.1	21	0.51
Cross Timbers Royalty Trust	CRT	B	22.10	12.6	25.9	13.7	20	1.12
Permian Basin RT	PBT		9.72	9.9	22.0	13.4	26	0.37
	<i>Median</i>			9.4	25.9	15.1	21	
Canada								
Imperial Oil Limited (30%)	IMO		44.13	28.3	16.9	14.7	22	0.42
EnCana Corporation	ECA		14.21	6.9	15.2	12.5	147	0.28
Cenovus Energy Inc.	CVE	B	18.84	15.1	20.8	11.3		0.89
Canadian Oil Sands Limited	COSWF		10.81	18.4	15.4	9.9		0.16
Birchcliff Energy Ltd.	BIREF	B	7.12	12.7	17.3	9.4	307	-
	<i>Median</i>			15.1	16.9	11.3	147	
	<i>Grand Median</i>			11	16	11		

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2016; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses



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Table 4										
McDep Energy Stocks										
Total Return Year-to-Date 2015										
Ranked by Unlevered Total Return										
			Price (\$/sh)	Price (\$/sh)	Price Change (%)	Cash Distrib. (%)	Equity Total (%)	Unlevered Total (%)		McDep Ratio
	Symbol/Rat		30-Apr 2015	29-Dec 2014				Debt (\$/sh)	Return (%)	
Global Integrated										
Total S.A.	TOT	B	54.14	52.74	3	1	4	25	3	0.75
Chevron Corporation	CVX	B	111.06	113.32	(2)	1	(1)	28	(1)	0.78
Royal Dutch Shell (BG pro forma)	RDS-A		63.43	68.31	(7)	1	(6)	32	(4)	0.79
Exxon Mobil Corporation	XOM		87.37	93.07	(6)	1	(5)	20	(4)	0.88
	<i>Median</i>				(4)		(3)		(2)	0.78
Large Independent										
Devon Energy Corporation	DVN		68.21	61.15	12	0	12	41	7	0.77
Marathon Oil Corporation	MRO	B	31.10	28.58	9	1	10	12	7	0.70
EOG Resources, Inc.	EOG		98.95	94.33	5	0	5	10	5	0.91
Occidental Petroleum Corp.	OXY		80.10	81.71	(2)	1	(1)	9	(1)	0.82
ConocoPhillips	COP	B	67.92	70.11	(3)	1	(2)	29	(1)	0.75
	<i>Median</i>				5		5		5	0.77
Small Independent										
Continental Resources (32%)	CLR		52.63	38.26	38	-	38	18	26	0.69
California Resources	CRC	B	9.32	5.77	62	0	62	18	15	0.57
Cimarex Energy Company	XEC		124.40	110.27	13	0	13	19	11	0.90
Range Resources	RRC		63.54	56.00	13	0	14	24	9	0.71
Whiting Petroleum Corporation	WLL	B	37.91	34.09	11	-	11	16	8	0.59
	<i>Median</i>				13		14		11	0.69
Income										
Cross Timbers Royalty Trust	CRT	B	22.10	18.07	22	2	25	-	26	0.53
Sabine Royalty Trust	SBR		40.34	36.68	10	3	13	-	13	0.59
Permian Basin RT	PBT		9.72	9.12	7	1	8	-	8	0.61
Dorchester Minerals, L.P.	DMLP		22.88	25.16	(9)	2	(7)	-	(6)	0.72
San Juan Basin Royalty Trust	SJT	B	10.92	13.97	(22)	1	(21)	-	(21)	0.52
	<i>Median</i>				7		8		8	0.59
Canada										
Canadian Oil Sands Limited	COSWF		10.81	9.20	17	0	18	6	11	0.64
Birchcliff Energy Ltd.	BIREF	B	7.12	6.75	6	-	6	3	4	0.54
Imperial Oil Limited (30%)	IMO		44.13	43.49	1	0	2	11	1	0.87
EnCana Corporation	ECA		14.21	13.94	2	1	2	13	1	0.82
Cenovus Energy Inc.	CVE	B	18.84	20.95	(10)	1	(9)	6	(7)	0.54
	<i>Median</i>				2		2		1	0.64
	<i>Grand Median</i>				7		8		7	0.72
Natural Gas (\$/mmbtu)			2.73	3.19	(14)					
Oil - West Texas Intermediate (\$/bbl)			59.47	53.69	11					

Source: McDep LLC, Yahoo, CME Group, Bloomberg



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Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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