

Rating: Buy
S&P 500: 1472

San Juan Basin Royalty Trust Mountains and Valleys

<i>Symbol</i>	SJT	<i>Ebitda Next Twelve Months ending 9/30/08 (US\$mm)</i>	134
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	98
<i>Price (US\$/sh)</i>	32.37	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	9/5/07	<i>Adjusted Reserves/Production NTM</i>	10.0
<i>Shares (mm)</i>	47	<i>EV/Ebitda</i>	11.2
<i>Market Capitalization (US\$mm)</i>	1,510	<i>PV/Ebitda</i>	13.9
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$mm)</i>	1,510	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	4.69
<i>Present Value (PV) (US\$mm)</i>	1,860	<i>Present Value Proven Reserves(US\$/boe)</i>	36.83
<i>Net Present Value (US\$/unit)</i>	40	<i>Present Value Proven Reserves(US\$/mcf)</i>	6.14
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	2.32
<i>McDep Ratio - EV/PV</i>	0.81	<i>Price/Earnings Next Twelve Months</i>	14
<i>Distribution Yield (%/year)</i>	7.2	<i>Distribution Next Twelve Months (US\$/sh)</i>	2.32

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\$66 a barrel and natural gas, \$11 a million btu.

For historical analysis of SJT since 2000 see www.mcdep.com/4sjt.htm

Summary and Recommendation

Buy-recommended **San Juan Basin Royalty Trust (SJT)** may be entering a valley of low distributions for the next few months before reemerging at higher levels in winter and spring as was the case a year ago. Seasonality has come back for natural gas price after being upset by hurricanes two years ago. Growing demand for natural gas to generate electricity has not been influential enough yet to keep natural gas at the oil equivalent price as the politics of pollution in the U.S. and especially in China favor coal over natural gas. In our view it is only a matter of time before the clean characteristics of natural gas regain tangible value. Meanwhile, a projected distribution of 7.2% for the next twelve months ended September 30, 2008 along with a McDep Ratio of 0.81 point to attractive value in our opinion.

Distributions Depend on Natural Gas Price

During the past seven years monthly distributions have ranged from nothing to about \$0.40 a unit while the natural gas price received by the trust has ranged from \$1 an mcf to \$9 (see chart [Natural Gas Price and Cash Distributions](#)). Because distributions are determined two months after production occurs, low prices of about \$4.73 an mcf for the October distribution and some \$4.37 for the November distribution are indicated by index prices that are already history. As a result we may see a low distribution of \$0.12 a unit in November compared to a low of \$0.10 in December 2006 (see table [Monthly Declarations](#)). Lengthening our perspective twelve months and taking our price forecast from the futures market, we see distributions rebounding from \$0.40 in the fourth quarter of 2007 to more than \$0.60 for each of the quarters of 2008 (see table [Next Twelve Months Operating and Financial Estimates](#)).

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Present Value Also Depends on Natural Gas Price

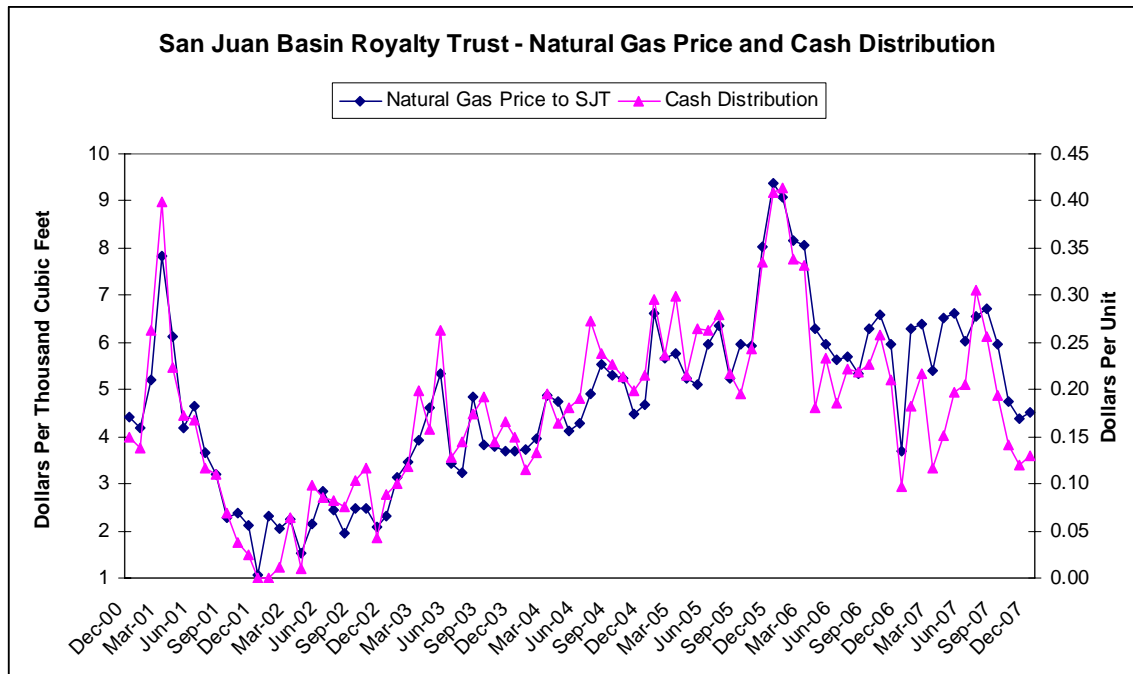
Applying our technique for estimating an appropriate stock price for energy resource companies we estimate a present value of \$40 a unit for SJT (see table Present Value). The calculation illustrates how multiple variables may interact. Any one of the variables could be the subject of a long discussion of which there are past examples on our website, www.mcdep.com.

Taking price as an important variable, we use the futures market to estimate natural gas price for the next twelve months and apply our own estimate of a long-term industry benchmark natural gas price of \$11 an mcf thereafter before adjustment for inflation. In contrast, SJT stock price may reflect a benchmark price of perhaps \$8.90 an mcf that we approximate by multiplying McDep Ratio of 0.81 by \$11. Net to SJT at the San Juan Basin in New Mexico the benchmark of \$8.90 becomes about \$7, or \$2 less than the monthly high received in December 2005 and January 2006.

A Premium Natural Gas Investment

In the end, we rely on the idea that SJT is a high quality energy resource investment that tends to hold its value relative to natural gas commodity price while paying attractive income. Relative to oil, natural gas seems strongly out of favor at a six-year futures price equal to oil divided by 9. The equivalent energy value compared to refined oil products would be crude oil price divided by 5. We think the question is not if that will happen, but when.

Kurt H. Wulff, CFA



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San Juan Basin Royalty Trust
Monthly Declarations

	<i>Sep-06</i>	<i>Oct-06</i>	<i>Nov-06</i>	<i>Dec-06</i>	<i>Sep-07</i>	<i>Oct-07</i>	<i>Nov-07</i>	<i>Dec-07</i>
Distribution (\$/unit)								
Declared	0.23	0.26	0.21	0.10				
Projected					0.19	0.14	0.12	0.13
Volume								
Natural gas (mmbtu)	3.80	3.84	3.41	3.30	3.44	3.44	3.33	3.44
Heat Content(btu/cf)	1,076	1,062	1,072	1,103	1,074	1,074	1,075	1,075
Natural gas (bcf)	3.53	3.62	3.18	2.99	3.20	3.20	3.10	3.20
Natural Gas (mmcf)	114	117	106	96	103	103	103	103
Days	31	31	30	31	31	31	30	31
Price								
Natural gas industry quotes lagged two months (\$/mmbtu)								
Henry Hub Index/Futures	5.89	7.04	6.82	4.21	6.93	6.11	5.43	5.47
San Juan Monthly Index	5.07	5.93	5.78	3.43	6.20	4.99	4.62	4.73
San Juan Index/Henry Hub	0.86	0.84	0.85	0.81	0.89	0.82	0.85	0.87
SJT/San Juan Index	1.15	1.05	0.96	0.97	1.03	1.02	1.02	1.02
SJT (\$/mmbtu)	5.85	6.20	5.54	3.34	6.39	5.08	4.70	4.84
SJT (\$/mcf)	6.30	6.58	5.95	3.68	5.95	4.73	4.37	4.50
Revenue (\$mm)								
Natural Gas	22.3	23.8	18.9	11.0	19.0	15.2	13.6	14.4
Other	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2
Cost (\$mm)								
Severance tax	2.3	2.6	1.9	1.2	2.0	1.6	1.4	1.5
Operating	1.9	2.2	1.7	1.4	2.1	2.2	2.2	2.2
Total	4.2	4.7	3.6	2.6	4.1	3.7	3.5	3.7
Cash flow (\$mm)	18.3	19.3	15.5	8.7	15.2	11.6	10.2	10.9
Development	4.2	3.4	2.4	2.6	2.8	2.7	2.6	2.7
Net proceeds (\$mm)	14.1	16.0	13.1	6.1	12.3	8.9	7.6	8.3
Royalty income (\$mm)	10.5	12.0	9.8	4.5	9.2	6.7	5.7	6.2
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%	75%	75%
One time								
Distributable income (\$mm)	10.5	12.0	9.8	4.5	9.2	6.7	5.7	6.2
Units (millions)	46.6	46.6	46.6	46.6	47.6	47.6	47.6	47.6
Distribution (\$/unit)	0.23	0.26	0.21	0.10	0.19	0.14	0.12	0.13

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San Juan Basin Royalty Trust
Next Twelve Months Operating and Financial Estimates

	<i>Q3</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next Twelve Months</i>
	<i>9/30/06</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>2007E</i>	<i>3/31/08</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>9/30/08</i>
Highlights									
Revenue (\$mm) (75%)	45.8	42.0	48.9	33.2	165.4	45.0	46.7	46.0	170.9
Cash flow (\$mm) (75%)	36.3	32.4	38.8	25.0	128.4	35.6	37.1	36.5	134.3
Per unit	0.78	0.70	0.83	0.54	2.76	0.76	0.80	0.78	2.88
Distributable Income (\$mm)	31.1	25.8	36.0	18.6	104.4	29.0	30.2	30.4	108.2
Per unit	0.67	0.55	0.77	0.40	2.24	0.62	0.65	0.65	2.32
Units (millions)	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6
Volume									
Natural gas (mmbtu)	11.0	9.3	10.7	10.2	39.8	10.2	10.0	10.2	40.6
Heat Content(btu/cf)	1,070	1,075	1,068	1,075	1,073	1,073	1,073	1,072	1,073
Natural gas (bcf)	10.3	8.6	10.0	9.5	37.1	9.5	9.3	9.5	37.8
Natural Gas (mmcf)	112.1	97.0	108.8	103.3	101.7	103.3	103.3	103.3	103.3
Days	92	89	92	92	365	92	90	92	366
Oil (mb)	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1
Oil (mbd)	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Days	92	89	92	92	365	92	90	92	366
Total gas & oil (bcf)	10.4	8.7	10.1	9.6	37.5	9.6	9.4	9.6	38.2
Price									
Natural gas (\$/mmbtu) (Henry Hub lagged two months)									
Henry Hub (\$/mmbtu)	6.36	7.38	7.35	5.67	6.88	7.21	7.67	7.40	6.99
Differential (%)	15	20	18	25	21	20	20	20	21
Net to SJT (\$/mmbtu)	5.41	5.93	6.00	4.22	5.44	5.77	6.14	5.92	5.51
Natural gas (\$/mcf)	5.79	6.38	6.41	4.54	5.83	6.19	6.58	6.34	5.91
Oil (\$/bbl) (WTI Cushing lagged two months)									
WTI Cushing	72.09	61.31	68.31	73.44	65.38	72.54	71.88	70.78	72.16
SJT	66.65	57.98	64.60	69.45	61.52	68.25	67.63	66.60	67.99
Total gas & oil (\$/mcf)	5.85	6.41	6.45	4.61	5.88	6.24	6.63	6.39	5.97
Revenue (\$mm)									
Natural Gas	59.7	55.1	64.2	43.1	216.5	58.9	61.2	60.3	223.5
Oil	1.4	0.9	1.1	1.1	4.1	1.1	1.1	1.1	4.4
Total	61.1	56.0	65.3	44.3	220.6	60.0	62.3	61.4	227.9
Cost (\$mm)									
Severance tax	6.2	5.6	6.5	4.4	22.2	6.0	6.3	6.1	22.8
Operating	6.6	7.2	7.1	6.5	27.2	6.5	6.5	6.5	26.1
Total	12.7	12.8	13.5	10.9	49.3	12.5	12.8	12.7	48.9
Cash flow (\$mm)	48.3	43.2	51.7	33.3	171.2	47.5	49.5	48.7	179.0
Development	8.6	8.2	4.8	8.0	32.0	8.5	8.9	8.8	34.2
Net proceeds (\$mm)	39.7	35.0	46.9	25.3	139.2	38.9	40.6	40.0	144.8
Royalty income (\$mm)	29.8	26.3	35.2	19.0	104.4	29.2	30.4	30.0	108.6
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%	75%	75%	75%
Administration	(0.3)	0.5	(0.4)	0.2	0.3	0.2	0.2	(0.4)	0.2
One-time	(1.0)				-				-
Distributable income (\$mm)	31.1	25.8	36.0	18.6	104.4	29.0	30.2	30.4	108.2
Severance tax/revenue	10.1%	9.9%	9.9%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Operating cost (\$/mcf)	0.63	0.82	0.70	0.68	0.72	0.68	0.69	0.68	0.68
Development/Cash flow	18%	19%	9%	24%	19%	18%	18%	18%	19%

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San Juan Basin Royalty Trust
Present Value

Oil Volume Decline (%/yr):	6	Oil Price Post 2007 (\$/bbl)	66.00
Nat Gas Volume Decline (%/yr):	6	Nat Gas Price Post 2008 (\$/mcf)	11.00
		Real Discount Rate (%/yr):	7.0
Variable Cost (%):	20	PV/EBITDA 2008:	13.9
Cumul. Vol/Prod 2007:	22	Capex/Cash Flow (%):	18

Year	Volume Oil (mmb)	Nat Gas (bcf)	Price (\$/bbl)	Price (\$/mcf)	Revenue (\$mm)	Fixed Cost (\$mm)	Var. Cost (\$mm)	Cap Ex (\$mm)	Distribution (\$mm)	Distribution (\$/unit)	Disc Factor	Present Value (\$/unit)
Total 2008 through 2037; years ending on 9/30												
	1.1	630			5452	87	1090	344	3931	84.34	0.47	40.00
2008	0.05	28.36	67.99	5.91	170.9	2.9	34.2	25.7	108.2	2.32	0.97	2.24
2009	0.05	28.36	62.18	8.67	249.0	2.9	49.8	35.3	161.0	3.45	0.90	3.12
2010	0.05	28.36	62.18	8.67	249.0	2.9	49.8	35.3	161.0	3.45	0.84	2.92
2011	0.05	28.36	62.18	8.67	249.0	2.9	49.8	35.3	161.0	3.45	0.79	2.73
2012	0.05	28.36	62.18	8.67	249.0	2.9	49.8	35.3	161.0	3.45	0.74	2.55
2013	0.05	28.36	62.18	8.67	249.0	2.9	49.8	35.3	161.0	3.45	0.69	2.38
2014	0.05	28.36	62.18	8.67	249.0	2.9	49.8	35.3	161.0	3.45	0.64	2.22
2015	0.05	28.36	62.18	8.67	249.0	2.9	49.8	35.3	161.0	3.45	0.60	2.08
2016	0.05	28.36	62.18	8.67	249.0	2.9	49.8	35.3	161.0	3.45	0.56	1.94
2017	0.05	28.36	62.18	8.67	249.0	2.9	49.8	35.3	161.0	3.45	0.53	1.82
2018	0.05	28.36	62.18	8.67	248.8	2.9	49.8		196.2	4.21	0.49	2.07
2019	0.04	26.78	62.18	8.67	234.9	2.9	47.0		185.0	3.97	0.46	1.82
2020	0.04	25.28	62.18	8.67	221.7	2.9	44.3		174.5	3.74	0.43	1.61
2021	0.04	23.86	62.18	8.67	209.3	2.9	41.9		164.6	3.53	0.40	1.42
2022	0.04	22.52	62.18	8.67	197.6	2.9	39.5		155.2	3.33	0.37	1.25
2023	0.03	21.26	62.18	8.67	186.5	2.9	37.3		146.3	3.14	0.35	1.10
2024	0.03	20.07	62.18	8.67	176.1	2.9	35.2		138.0	2.96	0.33	0.97
2025	0.03	18.95	62.18	8.67	166.2	2.9	33.2		130.1	2.79	0.31	0.85
2026	0.03	17.89	62.18	8.67	156.9	2.9	31.4		122.6	2.63	0.29	0.75
2027	0.03	16.89	62.18	8.67	148.1	2.9	29.6		115.6	2.48	0.27	0.66
2028	0.03	15.94	62.18	8.67	139.8	2.9	28.0		109.0	2.34	0.25	0.58
2029	0.02	15.05	62.18	8.67	132.0	2.9	26.4		102.7	2.20	0.23	0.51
2030	0.02	14.20	62.18	8.67	124.6	2.9	24.9		96.8	2.08	0.22	0.45
2031	0.02	13.41	62.18	8.67	117.6	2.9	23.5		91.2	1.96	0.20	0.40
2032	0.02	12.66	62.18	8.67	111.0	2.9	22.2		85.9	1.84	0.19	0.35
2033	0.02	11.95	62.18	8.67	104.8	2.9	21.0		81.0	1.74	0.18	0.31
2034	0.02	11.28	62.18	8.67	99.0	2.9	19.8		76.3	1.64	0.17	0.27
2035	0.02	10.65	62.18	8.67	93.4	2.9	18.7		71.8	1.54	0.16	0.24
2036	0.02	10.05	62.18	8.67	88.2	2.9	17.6		67.7	1.45	0.15	0.21
2037	0.02	9.49	62.18	8.67	83.2	2.9	16.6		63.7	1.37	0.14	0.19

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