

For this week's edition we concentrate on one of the seven income stocks in our regular coverage after presenting latest income projections for the group. Because we have no buy/sell recommendation for any of the U.S. royalty trusts at this time, there may be no urgency for action-oriented investors. Yet we own the stocks and we know clients do as well. A potential creative use of the analysis is to show how an operating company with high quality properties might be worth more. Recall that it was the royalty trust idea that triggered the first of the mergers among the Seven Sisters of international oil.

## U.S. Natural Gas and Oil Royalty Trusts

### The Account

		Price (\$/un) 4-Nov 2004	Units	Market Value (\$)	Next Twelve Months Distrib. (\$/un)	Distrib. Yield (%/yr)
Cross Timbers Royalty Trust	CRT	35.81	400	14,324	3.24	9.1
Dorchester Minerals, L.P.	DMLP	22.85	700	15,995	2.29	10.0
Hugoton Royalty Trust	HGT	27.92	500	13,960	2.89	10.4
Mesa RoyaltyTrust	MTR	67.75	200	13,550	6.36	9.4
Permian Basin Royalty Trust	PBT	12.88	1,200	15,456	1.15	8.9
Sabine Royalty Trust	SBR	37.55	400	15,020	3.63	9.7
San Juan Basin Royalty Trust	SJT	30.67	500	15,335	3.27	10.7
	<i>Total</i>			<i>103,640</i>		<i>9.7</i>
Futures Strip						
12 Month - Oil (\$/bbl)		47.06				
12 Month - Natural Gas (\$/mmbtu)		7.69				
72 Month - Oil (\$/bbl)		41.03				
72 Month - Natural Gas (\$/mmbtu)		6.26				

Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at [www.mcdep.com](http://www.mcdep.com). Analyses are prepared from sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Mr. Wulff is not paid by covered companies. Neither he nor his spouse trade a subject stock within a week before or after a change in rating.

Rating: Hold

S&amp;P 500: 1162

**San Juan Basin Royalty Trust  
High Winter Distributions Ahead**

<i>Symbol</i>	SJT	<i>Ebitda Next Twelve Months ending 9/30/05 (US\$m)</i>	169
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	99
<i>Price (US\$/sh)</i>	31.39	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/1/04	<i>Adjusted Reserves/Production NTM</i>	12.5
<i>Shares (mm)</i>	47	<i>EV/Ebitda</i>	8.7
<i>Market Capitalization (US\$m)</i>	1,460	<i>PV/Ebitda</i>	7.5
<i>Debt (US\$m)</i>	0	<i>Undeveloped Reserves (%)</i>	50
<i>Enterprise Value (EV) (US\$m)</i>	1,460	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	5.04
<i>Present Value (PV) (US\$m)</i>	1,260	<i>Present Value Proven Reserves(US\$/boe)</i>	13.57
<i>Net Present Value (US\$/unit)</i>	27	<i>Present Value Proven Reserves(US\$/mcfe)</i>	2.26
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	3.27
<i>McDep Ratio - EV/PV</i>	1.16	<i>Price/Earnings Next Twelve Months</i>	10
<i>Distribution Yield (%/year)</i>	10.4	<i>Distribution Next Twelve Months (US\$/sh)</i>	3.27

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.

**Summary and Recommendation**

Our change in recommendation from Buy to Hold in early August proved to be premature as we raised our estimate of present value from \$22 to \$27 since then and stock price has advanced further as well. The \$27 estimate is tied to a constant real oil price of \$35 a barrel while the average futures quote for the next six-years is about \$41. Because we think futures prices are lower than actual price may turn out to be, there may be a basis for raising present value again. Recent futures quotes also imply high distributions after the peak of winter exceeding 1% a month. Compared to operating companies, all the benefit of higher commodity price is paid to investors. There are no hedge contracts that sacrifice upside and there is no potential dilution from executive compensation.

*The full analysis is scheduled to be posted on [www.mcdep.com](http://www.mcdep.com) as a Stock Idea on about December 5, 2004.*

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