

All Barrels Are Not the Same

Summary and Recommendation

A valuation difference suggests that operating companies could create more value by learning from royalty trusts, but the difference may not be as wide as suggested in a recent article in the business press (see *Barron's*, Hot or Not, December 27, 2004). Statistics were presented suggesting that **San Juan Basin Royalty Trust (SJT)**, for example, was valued in the stock market at \$35.00 a barrel of reserves while **Burlington Resources (BR)**, for example, was valued at \$10.35 a barrel. Our valuation suggests that the qualitative advantages of SJT may contribute to a 39% premium to BR, not a 240% premium. SJT's reported reserves are stated at only about 44% of what an operating company like BR would report. SJT's reserves are essentially on a developed basis only, on a shorter life than BR reports for developed reserves in the same area apparently and exclude volumes that are assumed to cover all costs of production. The distribution yield currently projected at 8.7% for 2005 for seven income stocks explains much of the royalty trust appeal.

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U.S. Natural Gas and Oil Royalty Trusts

The Account

		<i>Price</i> (\$/un)		<i>Market</i> <i>Value</i> (\$)	<i>Next</i> <i>Twelve</i> <i>Months</i> <i>Distrib.</i> (\$/un)	<i>NTM</i> <i>Distrib.</i> <i>Yield</i> (%/yr)
	<i>Symbol</i>	<i>6-Jan</i> <i>2005</i>	<i>Units</i>			
Cross Timbers Royalty Trust	CRT	37.00	400	14,800	2.92	7.9
Dorchester Minerals, L.P.	DMLP	23.24	700	16,267	1.89	8.1
Hugoton Royalty Trust	HGT	24.41	500	12,205	2.38	9.8
Mesa Royalty Trust	MTR	66.90	200	13,380	5.25	7.8
Permian Basin Royalty Trust	PBT	13.42	1,200	16,104	1.10	8.2
Sabine Royalty Trust	SBR	35.41	400	14,164	3.28	9.3
San Juan Basin Royalty Trust	SJT	28.09	500	14,045	2.84	10.1
	<i>Total</i>			<i>100,965</i>		<i>8.7</i>
Futures Strip						
		44.29				
	12 Month - Oil (\$/bbl)					
	12 Month - Natural Gas (\$/mmbtu)	6.28				
	72 Month - Oil (\$/bbl)	39.94				
	72 Month - Natural Gas (\$/mmbtu)	5.75				

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