



## Factor Futures Prices and Flat Volume into Next Twelve Months Distribution

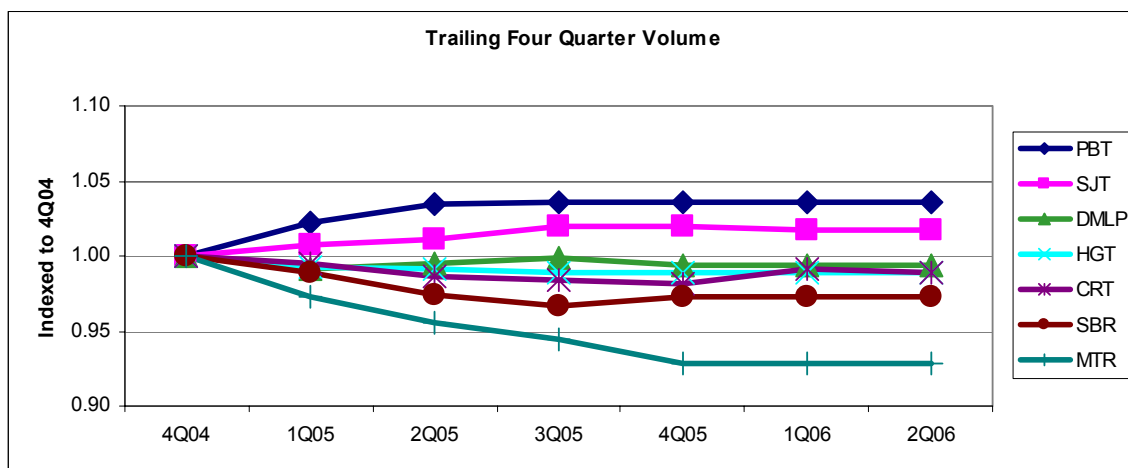
U.S. royalty trusts have little discretion in declaring distributions. All the cash is paid out except for some that might be withheld by the operator of the properties for reinvestment. We could emphasize latest twelve months of distributions actually paid, but that would only beg the question as to what the future holds that is different from the past. The problem with the future is that we cannot know it. Nonetheless we try to make reasonable assumptions that can be easily communicated.

Our next twelve months period is really next four quarters. Now that two of the three monthly distributions have been declared, the second quarter of 2005 is practically history. As a result we move our next twelve months period ahead to the four quarters and twelve months ended June 30, 2006.

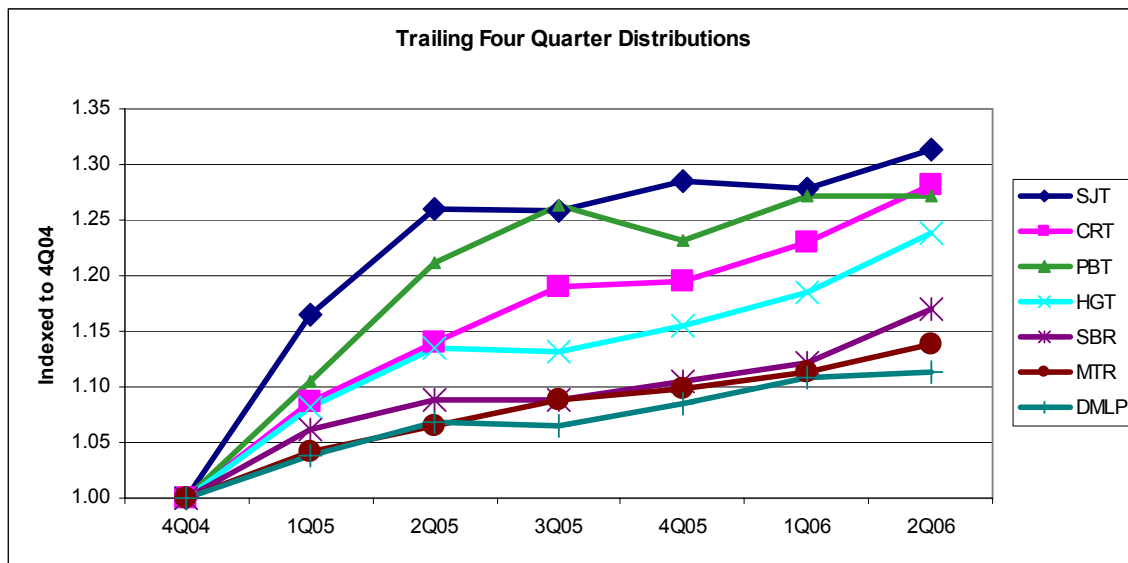
A more sophisticated part of our analysis compared to years gone by is the use of futures prices as forecasts rather than our own projections. That alone produces differences among the trusts depending on the weighting of natural gas compared to oil and the zero to three month lag between real time price and the declaration of distributions.

Our volume assumptions are that recent volumes would be maintained. Though we may give undue weight to latest quarterly results, we can be alert to monthly changes as they are reported for the trusts, but not the partnership. We know that production ought to decline over time, but it need not immediately. The trustee of SBR who recounted the reserves and production we mentioned writes in the annual report, "The current economic conditions in the industry create an environment that could further expand and enhance distributions in the years to come."

Despite simple assumptions the pattern of volume on a trailing four quarters basis ranges from 0.93 to 1.04 times 2004 (see chart Trailing Four Quarter Volume). Price is the main factor driving distributions higher (see chart Trailing Four Quarter Distributions).



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.



**Low Multiples for Understated Life**

From those projections we estimate distributions and cash flow to calculate distribution yield and cash flow multiples both on a market basis, EV/Ebitda, and on an estimated present value basis, PV/Ebitda. EV/Ebitda and PV/Ebitda for the royalty trusts near ten times compare to five and six times for producing companies. For investors interested in income, the multiples for royalty trusts appear low, implying attractive value (see table Rank by McDep Ratio).

**Rank by McDep Ratio: Market Cap and Debt to Present Value**

	<i>Symbol</i>	<i>Price (\$/sh)</i>	<i>26-May 2005</i>	<i>Shares (mm)</i>	<i>Market Cap (\$mm)</i>	<i>Net Present Value (\$/sh)</i>	<i>EV/Ebitda NTM</i>	<i>McDep Ratio</i>
Sabine Royalty Trust	SBR	38.50		14.6	560	33.00	11.8	1.17
San Juan Basin Royalty Trust	SJT	35.55		46.6	1,660	32.00	10.4	1.11
Mesa RoyaltyTrust	MTR	65.99		1.9	120	60.00	10.8	1.10
Cross Timbers Royalty Trust	CRT	38.35		6.0	230	36.00	11.9	1.06
Permian Basin RT (41%)	PBT	12.77		19.1	240	12.00	9.6	1.06
Dorchester Minerals, L.P.	DMLP	21.40		28.2	600	21.00	10.3	1.02
Hugoton RoyaltyTrust (46%)	HGT	26.69		18.4	490	27.00	8.6	0.99
<i>Total or Median</i>					<i>3,900</i>		<i>10.4</i>	<i>1.06</i>

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.

## Reserves Restated

The most important influence on cash flow multiple for oil and gas producers is reserve life. Therein lies an opportunity. Investors who can commit patiently to stocks where the future production may be undervalued in current market price can make a decent return over time.

When estimating present value on a discounted cash flow basis recently we attempted to adjust for the "Sabine understatement". Our reserves of 130 bcf compared to reported reserves of 67 bcf assume constant production for ten years and a steep decline thereafter (see column "Reserves" in table [Rank by PV/Ebitda](#)).

### Rank by PV/Ebitda: Present Value to Earnings Before Interest, Tax, Deprec.

	<i>Symbol</i>	<i>Total Present Value (\$mm)</i>	<i>Unit Present Value (\$/mcf)</i>	<i>Reserves (bcf)</i>	<i>Natural Gas/Ebitda (%)</i>	<i>Adjusted Reserves/Production NTM</i>	<i>Revenue Royalty (%)</i>	<i>PV/Ebitda</i>
Cross Timbers Royalty Trust	CRT	216	3.10	70	73	20.0	85	11.1
Sabine Royalty Trust	SBR	481	3.70	130	58	11.9	100	10.1
Dorchester Minerals, L.P.	DMLP	593	3.79	157	79	13.3	54	10.1
Mesa Royalty Trust	MTR	112	2.58	43	74	20.0	-	9.8
San Juan Basin Royalty Trust	SJT	1,491	2.85	523	99	12.1	-	9.4
Permian Basin RT (41%)	PBT	229	2.30	100	39	16.5	30	9.0
Hugoton Royalty Trust (46%)	HGT	497	2.90	171	92	13.7	-	8.7
<i>Total or Median</i>		3,620		1,194	74	13.7		9.8

Kurt H. Wulff, CFA

### Index of Recent U.S. Royalty Trust Research

#### Single Trust Analyses

<i>Date</i>	<i>Symbol</i>	<i>Stock</i>	<i>Theme</i>
13-May	DMLP	Dorchester Minerals, L.P.	Royalty Volume Increasing
28-Apr	* SJT	San Juan Basin Royalty Trust	Ten Bagger
24-Mar	* MTR	Mesa Royalty Trust	Long Reserve Life Reported
11-Feb	* HGT	Hugoton Royalty Trust	Improving Volume Trend

#### U.S. Natural Gas Royalty Trusts - A Weekly Analysis

27-May		Understated Reserves
20-May		Institutional Longs
13-May	*	The Bottomless Well
6-May	*	Contango and Backwardation Mythology
29-Apr	*	No Debt, No Hedges
22-Apr	*	A Boost from Burlington

\* Archived on [www.mcdep.com](http://www.mcdep.com)

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.