

PBT Deal

Summary

Through a Wall Street syndicate, **Burlington Resources (BR)** is selling 7.5 million of its 27.5 million units of **Permian Basin Royalty Trust (PBT)** for expected proceeds of about \$120 million. We believe PBT is a sound income investment as it is concentrated on oil and gas production with no hedges, no management expense and no debt. In other words, if the price of oil and gas goes up, the trust price should go up without artificial price limits or the drag of executive compensation. If the price of oil and gas goes down instead temporarily, there is no lender to usurp disproportionate value. Meanwhile, oil and gas price continues to trend higher with the *six-year average* for oil quoted at \$60 a barrel for the first time. We estimate PBT's cash distribution to be 8.6% of current price for the next twelve months. Practically all income tax would be deferred in the early years.

Market Appears to Value PBT Closer to Commodity Price

At a McDep Ratio of 1.33 and concentrated about 61% on oil, PBT may be priced to reflect much of the average price of oil for the next six years quoted currently at \$60 a barrel. A McDep Ratio of 1.0 is intended to be consistent with \$40 oil.

While the PBT McDep Ratio seems reasonable in the context of today's commodity market, it contrasts with BR at a McDep Ratio of 0.96. Why would anyone buy PBT when one could buy BR? Well, BR does not pay 8.6% a year. Nor have most operating companies like BR performed as well as leading royalty trusts over time. Yet, we are optimistic that recent performance of BR is a favorable omen for the future. It is reasonable for an investor to own both stocks, in our opinion.

BR Could be Valued Higher

From time to time we have made the point that BR ought to turn itself mostly into a royalty trust. In that context, the current transaction seems logical. BR will sell units that are priced for the superior structure of the trust and take the proceeds to repurchase its own shares.

The main objection we have heard from BR is that the royalty trust market is small. If a large trust were formed there would not be enough demand to support an efficient price, the argument goes. That impression seems to stem in part from the fact U.S. energy income partnerships offerings may be small. We would counter that the royalty trust is a much better deal than an income partnership where the general partner keeps half the cash flow without making a commensurate contribution.

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Moreover, the Canadian royalty trust market is large relative to the size of the industry and country. Only uncertainty over future non-Canadian ownership limitations keeps Canadian royalty trusts from being more widely marketed in the U.S.

Presumably, BR wants the PBT deal to be successful for investors. There are more units of PBT that could be sold in future offerings. BR owns working interests in the trust's main Waddell Ranch properties. Ultimately BR itself may be a royalty trust.

Kurt H. Wulff, CFA

U.S. Natural Gas and Oil Royalty Trusts Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol</i>	<i>Price (\$/sh) 28-Jul 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>
San Juan Basin Royalty Trust	SJT	45.18	46.6	2,110	32.00	11.8	1.41
Sabine Royalty Trust	SBR	46.01	14.6	670	33.00	12.2	1.39
Permian Basin RT (41%)	PBT	15.94	19.1	310	12.00	10.7	1.33
Cross Timbers Royalty Trust	CRT	42.15	6.0	250	36.00	11.1	1.17
Hugoton RoyaltyTrust (46%)	HGT	30.94	18.4	570	27.00	8.6	1.15
Dorchester Minerals, L.P.	DMLP	24.03	28.2	680	21.00	9.7	1.14
Mesa RoyaltyTrust	MTR	66.55	1.9	120	60.00	10.2	1.11
<i>Total or Median</i>				<i>4,700</i>		<i>10.7</i>	<i>1.17</i>

U.S. Natural Gas and Oil Royalty Trusts 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 (\$/mcfe)</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	71	20.0	85	9.5
Mesa RoyaltyTrust	MTR	112	2.65	42	72	20.0	-	9.2
Sabine Royalty Trust	SBR	481	3.70	130	57	11.8	100	8.7
Dorchester Minerals, L.P.	DMLP	593	3.79	157	79	13.8	54	8.5
San Juan Basin Royalty Trust	SJT	1,491	2.88	518	99	12.1	-	8.3
Permian Basin RT (41%)	PBT	229	2.30	100	39	16.3	30	8.0
Hugoton RoyaltyTrust (46%)	HGT	497	2.90	171	92	13.8	-	7.5
<i>Total or Median</i>		<i>3,620</i>		<i>1,188</i>	<i>72</i>	<i>13.8</i>		<i>8.5</i>

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U.S. Natural Gas and Oil Royalty Trusts

The Account

	<i>Symbol</i>	<i>Price (\$/un) 28-Jul 2005</i>	<i>Units</i>	<i>Market Value (\$)</i>	<i>Next Twelve Months Distrib. (\$/un)</i>	<i>NTM Distrib. Yield (%/yr)</i>
San Juan Basin Royalty Trust	SJT	45.18	500	22,590	3.50	7.7
Sabine Royalty Trust	SBR	46.01	400	18,404	3.78	8.2
Mesa Royalty Trust	MTR	66.55	200	13,310	5.71	8.6
Permian Basin Royalty Trust	PBT	15.94	1,200	19,128	1.38	8.7
Cross Timbers Royalty Trust	CRT	42.15	400	16,860	3.76	8.9
Dorchester Minerals, L.P.	DMLP	24.03	700	16,821	2.16	9.0
Hugoton Royalty Trust	HGT	30.94	500	15,470	3.00	9.7
	<i>Total</i>			<i>122,583</i>		<i>8.6</i>
Futures Strip						
		12 Month - Oil (\$/bbl)		62.18		
		12 Month - Natural Gas (\$/mmbtu)		8.22		
		72 Month - Oil (\$/bbl)		60.03		
		72 Month - Natural Gas (\$/mmbtu)		7.42		

Index of Recent U.S. Royalty Trust Research

Single Trust Analyses

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
20-Jul	MTR	Mesa Royalty Trust	Improved Distribution Declared
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

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

29-Jul		PBT Deal
22-Jul		Renminbi Revalued
15-Jul	*	Sakhalin Saga
8-Jul	*	IGCC
30-Jun	*	Natural Gas Vision

* Archived on www.mcdep.com

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