

Natural Gas Royalty Trusts

A Weekly Analysis

August 14, 2003

Burlington Resources on the San Juan Basin

Summary and Recommendation

Last week we noted that Steve Shapiro of recommended **Burlington Resources (BR)** identified projects to increase BR's producing reserves in the San Juan Basin by some 80% (see *Meter Reader*, August 7, 2003). That is a stronger outlook than has been confirmed previously and it implies more gains than we incorporate in our analyses of recommended **San Juan Basin Royalty Trust (SJT)** as well as for **Cross Timbers Royalty Trust (CRT)**. Higher natural gas price, technology and a new regulatory decision last month contribute to the raised expectation. As operator of the properties of the trust, BR collects the funds that are sent to the trustee monthly for distribution to unitholders. Since BR furnishes the trustee with only minimal explanation, unitholders must learn about their investment from whatever sources are available. We explain how we translate comments by Mr. Shapiro to valuation implications for SJT. We conclude with an argument that it is in the best interests of BR for it to do a better job of financial disclosure regarding the properties it operates for SJT.

BR Disclosures Shed Light on SJT

Mr. Shapiro puts the decline rate at 9-10% per year for conventional production. The rate is somewhat better than the 11% per year decline we project for "Basic" volume in our present value analysis (see Table SJT-1). A percentage point improvement in the decline rate adds 10% to the value of SJT.

BR expects to maintain its San Juan Basin production at 700-750 million cubic feet equivalent daily (mmcfed), or about 265 billion cubic feet (bcf) annually. That means new projects would offset normal decline.

BR's producing, or proven developed, reserves appear to be about 2.8 trillion cubic feet (tcf). We calculate that amount using a reserve life index that we approximate as the reciprocal of the decline rate.

BR identifies 1.8 tcf of project inventory assuming a price for natural gas of \$3 per million btu (mmbtu). We assume that BR has already booked those amounts as proven undeveloped reserves.

Another 0.6 tcf would be developed according to Mr. Shapiro assuming continuing technological improvement and a price of \$4 per mmbtu, around today's netback to the San Juan Basin. That amount seems to be a new disclosure, at least in its explicit form.

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There is also a new regulatory event. In July 2003, the State of New Mexico approved more drilling in the over-pressured, highest flowing portion of the Fruitland Coal formation.

As a result, BR's expanded project inventory is 2.4 tcf (1.8 + 0.6). The total increment equals 86% of producing reserves of 2.8 tcf.

That gives us increased confidence in our own estimates for SJT. Specifically our estimates are 312 bcf for Basic volume and 208 bcf for Enhanced volume (see Table SJT-1). Basic volume is about 10% less than that implied by Mr. Shapiro's decline rate. The "Enhanced" volume is just 67% more than "Basic" in our analysis, not 86%.

Mr. Shapiro also stated that BR expects to spend about \$150 million a year developing its San Juan properties to keep production stable. That translates to about \$20 million a year on the trust's properties. Our projections contemplate spending 25% of cash flow to the trust, or about \$25 million per year. The difference amounts to about \$0.10 a trust unit annually.

The trust's properties produce 95 mmcfed net to the trust's 75% working interest, or an amount equivalent to 13% of what BR produces for its account in the whole basin. In turn, the San Juan Basin accounts for about 29% of BR's corporate production and 40% of booked reserves. Enterprise value for SJT of about \$800 million implies a value of about \$6 billion for BR's San Juan Basin properties that in turn would be about 40% of the Enterprise Value of BR.

Because there may be a relationship between the stock market value of SJT and BR, we believe that San Juan Basin Royalty Trust is a showcase for BR's core asset. Better information on the trust operations from BR would presumably translate to a better stock price for the trust that in turn could translate to a better stock price for BR.

Kurt H. Wulff, CFA

Natural Gas and Oil Futures

August 13, 2003

	<i>Year Ending August</i>						<i>Six</i>
	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>Year</i>
Natural Gas (\$/mmbtu)	5.25	4.90	4.70	4.71	4.75	4.80	4.85
Light Sweet Crude Oil (\$/bbl)	28.79	25.57	24.60	24.42	24.33	24.27	25.33
Natural Gas/Oil (6:1 = 1.0)	1.09	1.15	1.15	1.16	1.17	1.19	1.15

Source: Nymex.com, McDep Associates

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

	Symbol/ Rating	Price (\$/sh) 13-Aug 2003	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Hugoton RoyaltyTrust (46%)	HGT	18.70	18.4	340	15.50	-	1.21
Cross Timbers Royalty Trust	CRT	23.85	6.0	143	20.30	-	1.17
San Juan Basin Royalty Trust	SJT B	17.35	46.6	810	18.40	-	0.94

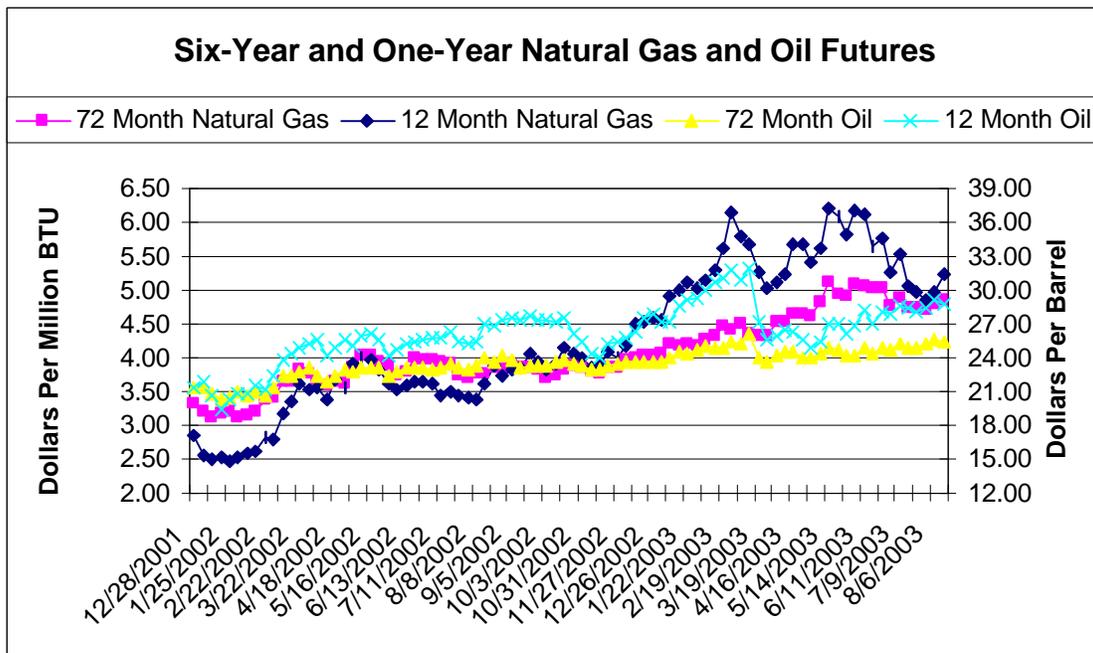
Buy/Sell rating after symbol: B - Buy, N - Neutral, S - Sell

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	Symbol/ Rating	Price (\$/sh) 13-Aug 2003	EV/ Sales NTM	EV/ Ebitda NTM	P/E NTM	Dividend or Distribution NTM (%)	PV/ Ebitda NTM
Cross Timbers Royalty Trust	CRT	23.85	7.5	10.6	11	9.2	9.1
Hugoton RoyaltyTrust (46%)	HGT	18.70	6.4	8.5	9	10.6	7.1
San Juan Basin Royalty Trust	SJT B	17.35	6.1	7.6	9	11.8	8.0

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2004; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses



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Table SJT-1
San Juan Basin Royalty Trust
Present Value

Volume Decline (%/yr):	11	Price Escalation Post 2009 (%/yr):	2.9
Volume Enhancement (%/yr):	10	Discount rate (%/yr):	6.5
Capex/Cash Flow (%):	25	U.S. TIPS Inflation (%/yr):	2.1
Variable Cost (%):	12	U.S. 10 Year Yield (%/yr):	4.5
PV/Volume (\$/mcf):	1.65	PV/EBITDA 2004:	8.1

Year	Basic (bcf)	Enhanced (bcf)	Total (bcf)	Price (\$/mcf)	Revenue (\$mm)	Fixed Cost (\$mm)	Var Cost (\$mm)	Cap Ex (\$mm)	Distribution (\$mm)	(\$/unit)	Disc Factor	Present Value (\$/unit)
Total 2004 through 2030; years ending on 6/30												
	312	208	520	4.41	2292	349	275	190	1477	31.70	0.58	18.40
2004	34.7	0.0	34.7	3.83	133.0	11.4	16.0	10.5	95.1	2.04	0.97	1.98
2005	31.1	3.5	34.5	4.00	138.1	13.0	16.6	27.1	81.4	1.75	0.91	1.59
2006	27.8	6.6	34.3	3.77	129.5	13.0	15.5	25.2	75.7	1.63	0.85	1.39
2007	24.8	9.3	34.1	3.74	127.7	13.0	15.3	24.8	74.5	1.60	0.80	1.28
2008	22.2	11.7	33.9	3.78	128.4	13.0	15.4	25.0	75.0	1.61	0.75	1.21
2009	19.8	13.9	33.7	3.83	129.1	13.0	15.5	25.2	75.5	1.62	0.71	1.14
2010	17.7	15.8	33.5	3.94	132.1	13.0	15.9	25.8	77.4	1.66	0.66	1.10
2011	15.9	17.5	33.3	4.06	135.2	13.0	16.2	26.5	79.5	1.71	0.62	1.06
2012	14.2	15.6	29.8	4.18	124.4	13.0	14.9		96.5	2.07	0.58	1.21
2013	12.7	14.0	26.6	4.30	114.5	13.0	13.7		87.7	1.88	0.55	1.03
2014	11.3	12.5	23.8	4.43	105.4	13.0	12.6		79.7	1.71	0.52	0.88
2015	10.1	11.1	21.3	4.56	97.0	13.0	11.6		72.3	1.55	0.48	0.75
2016	9.1	10.0	19.0	4.69	89.2	13.0	10.7		65.5	1.41	0.45	0.64
2017	8.1	8.9	17.0	4.83	82.1	13.0	9.9		59.3	1.27	0.43	0.54
2018	7.2	8.0	15.2	4.97	75.6	13.0	9.1		53.5	1.15	0.40	0.46
2019	6.5	7.1	13.6	5.12	69.5	13.0	8.3		48.2	1.03	0.38	0.39
2020	5.8	6.4	12.2	5.27	64.0	13.0	7.7		43.3	0.93	0.35	0.33
2021	5.2	5.7	10.9	5.42	58.9	13.0	7.1		38.8	0.83	0.33	0.28
2022	4.6	5.1	9.7	5.58	54.2	13.0	6.5		34.7	0.74	0.31	0.23
2023	4.1	4.5	8.7	5.74	49.9	13.0	6.0		30.9	0.66	0.29	0.19
2024	3.7	4.1	7.8	5.91	45.9	13.0	5.5		27.4	0.59	0.27	0.16
2025	3.3	3.6	6.9	6.09	42.2	13.0	5.1		24.2	0.52	0.26	0.13
2026	3.0	3.3	6.2	6.27	38.9	13.0	4.7		21.2	0.46	0.24	0.11
2027	2.6	2.9	5.5	6.45	35.8	13.0	4.3		18.5	0.40	0.23	0.09
2028	2.4	2.6	5.0	6.64	32.9	13.0	4.0		16.0	0.34	0.21	0.07
2029	2.1	2.3	4.4	6.84	30.3	13.0	3.6		13.7	0.29	0.20	0.06
2030	1.9	2.1	4.0	7.04	27.9	13.0	3.3		11.5	0.25	0.19	0.05

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Table SJT-2
San Juan Basin Royalty Trust
Distributable Income

	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Next</i>
	<i>3/31/03</i>	<i>6/30/03</i>	<i>9/30/03</i>	<i>12/31/03</i>	<i>2003E</i>	<i>3/31/04</i>	<i>6/30/04</i>	<i>Twelve</i>
								<i>Months</i>
								<i>6/30/04</i>
Highlights								
Revenue (\$mm) (75%)	31.0	35.5	33.6	32.0	132.0	34.9	32.5	133.0
Cash flow (\$mm) (75%)	24.9	28.9	26.6	25.7	106.1	28.4	26.3	107.0
Per unit	0.53	0.62	0.57	0.55	2.28	0.61	0.57	2.30
Tax credit (\$mm)					-			
Per unit					-			
Distributable Income (\$mm)	19.5	25.6	23.6	22.8	91.5	25.4	23.3	95.1
Per unit	0.42	0.55	0.51	0.49	1.96	0.54	0.50	2.04
Units (millions)	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6
Volume								
Natural gas (mmbtu)	12.6	11.4	12.3	12.3	48.6	12.3	11.9	48.7
Heat Content(btu/cf)	1,084	1,094	1,060	1,060	1,074	1,060	1,060	1,060
Natural gas (bcf)	11.6	10.5	11.6	11.6	45.3	11.6	11.2	45.9
Natural Gas (mmcf)	126.5	117.5	125.9	125.9	124.0	125.9	125.9	125.9
Days	92	89	92	92	365	92	89	365
Oil (mb)	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.1
Oil (mbd)	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Total gas & oil (bcf)	11.7	10.5	11.7	11.7	45.6	11.7	11.3	46.3
Price								
Natural gas (\$/mmbtu) (Henry Hub lagged two months)								
Henry Hub (\$/mmbtu)	4.73	6.33	5.55	5.13	5.44	5.61	5.41	5.42
Differential (%)	32	35	33	33	34	33	33	33
Total	3.24	4.10	3.72	3.44	3.59	3.76	3.62	3.61
Natural gas (\$/mcf)	3.51	4.48	3.94	3.65	3.85	3.98	3.84	3.82
Oil (\$/bbl) (WTI Cushing lagged two months)								
WTI Cushing	29.55	32.51	29.86	31.21	30.78	29.94	28.46	29.87
SJT	24.44	26.89	24.70	25.82	25.45	24.77	23.54	24.72
Total gas & oil (\$/mcf)	3.52	4.48	3.83	3.65	3.86	3.98	3.84	3.83
Revenue (\$mm)								
Natural Gas	40.9	46.9	44.3	42.2	174.3	46.1	43.0	175.7
Oil	0.4	0.4	0.4	0.4	1.6	0.4	0.4	1.6
Total	41.3	47.3	44.7	42.6	176.0	46.5	43.4	177.3
Cost (\$mm)								
Severance tax	4.2	4.8	5.4	4.3	18.8	4.7	4.3	18.7
Operating	3.9	3.9	3.8	4.1	15.7	4.1	3.9	15.8
Total	8.1	8.7	9.3	8.3	34.4	8.7	8.3	34.5
Cash flow (\$mm)	33.2	38.5	35.5	34.3	141.5	37.8	35.1	142.7
Development	6.6	2.9	3.5	3.5	16.4	3.5	3.5	14.0
Net proceeds (\$mm)	26.6	35.7	32.0	30.8	125.1	34.3	31.6	128.7
Royalty income (\$mm)	19.9	26.8	24.0	23.1	93.8	25.7	23.7	96.5
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%	75%	75%
Administration	0.4	0.2	0.4	0.4	1.4	0.4	0.4	1.5
One-time		0.9			0.9			-
Distributable income (\$mm)	19.5	25.6	23.6	22.8	91.5	25.4	23.3	95.1

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Table SJT-3
San Juan Basin Royalty Trust
Monthly Declarations

	<i>Apr-03</i>	<i>May-03</i>	<i>Jun-03</i>	<i>Jul-03</i>	<i>Aug-03</i>	<i>Sep-03</i>
Distribution (\$/unit)						
Declared	0.16	0.26	0.13	0.15		
<i>Projected</i>					<i>0.19</i>	<i>0.17</i>
Volume						
Natural gas (mmbtu)	3.62	4.06	3.76	4.20	3.97	4.10
Heat Content(btu/cf)	1,107	1,075	1,102	1,077	1,051	1,051
Natural gas (bcf)	3.27	3.78	3.41	3.90	3.78	3.90
Natural Gas (mmcf)	117	122	114	126	126	126
Days	28	31	30	31	30	31
Price						
Natural gas industry quotes lagged two months (\$/mmbtu)						
Henry Hub Daily/Futures	7.77	5.95	5.26	5.81	5.82	5.03
San Juan Monthly Index	4.58	5.91	3.71	4.03	5.03	4.70
SJT/Henry Hub	0.54	0.84	0.59	0.52	0.71	0.74
SJT/San Juan Index	0.91	0.84	0.84	0.75	0.82	0.79
SJT (\$/mmbtu)	4.16	4.97	3.10	3.01	4.13	3.73
SJT (\$/mcf)	4.60	5.34	3.42	3.24	4.35	3.92
Revenue (\$mm)						
Natural Gas	15.0	20.2	11.7	12.6	16.4	15.3
Other	0.1	0.1	(0.1)	(0.0)	(0.0)	(0.0)
Cost (\$mm)						
Severance tax	1.6	2.1	1.2	1.6	2.0	1.9
Operating	1.4	1.3	1.2	1.3	1.3	1.3
Total	3.0	3.3	2.4	2.8	3.3	3.2
Cash flow (\$mm)	12.1	16.9	9.2	9.8	13.1	12.1
Development	1.1	0.5	1.2	0.8	1.4	1.4
Net proceeds (\$mm)	11.0	16.4	7.9	9.0	11.7	10.7
Royalty income (\$mm)	8.3	12.3	6.0	6.8	8.8	8.1
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%
One time	0.9					
Distributable income (\$mm)	7.4	12.3	6.0	6.8	8.8	8.1
Units (millions)	46.6	46.6	46.6	46.6	46.6	46.6
Distribution (\$/unit)	0.16	0.26	0.13	0.15	0.19	0.17
<i>Latest Twelve Month Average</i>						
Heat Content(btu/cf)	1,051	1,049	1,051	1,051		
Natural Gas (mmcf)	126	126	125	126		
SJT/Henry Hub	0.67	0.68	0.67	0.66		
SJT/San Juan Index	0.90	0.90	0.89	0.88		
Other revenue	(0.0)	(0.1)	(0.0)	(0.0)		
Operating	1.3	1.3	1.3	1.3		
Development	1.2	1.4	1.4	1.4		
Severance tax/revenue	10.2%	10.3%	10.3%	10.6%		

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