



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

January 19, 2010

Raise Cimarex NPV to \$60 a Share from \$50

Summary and Recommendation

We raise our estimate of Net Present Value (NPV) for buy recommended small cap producer Cimarex Energy (XEC) to \$60 a share, up from \$50, on the basis of more confidence in the outlook for the company's natural gas volume. The new estimate remains conservative relative to our estimates for most producers considering the resulting low multiple of Present Value to cash flow (PV/Ebitda) of 5.7 times compared to adjusted reserve life of 7.6 times. The higher estimate of NPV lends fundamental support to positive near-term price trends. XEC stock price of \$55 is above its 200-day average of \$39. Natural gas for delivery over the next twelve months at \$5.90 a million btu is above its 40-week average of \$5.40. On a long-term basis we see four-fold type upside potential for natural gas in the 2010s. That optimistic view is not yet supported by the commodity market. Indicating a neutral trend, natural gas price for delivery over the next six-years at \$6.60 recently is little different than its 40-week average of \$6.70. Finally, investor interest could be at a seasonal peak as the northern hemisphere has its coldest month of the winter.

Cimarex Valuation Appears Modest Compared to Popular Peers

Screening candidates for new coverage in our small cap independent producer group, we recently calculated tentative McDep Ratios on a few widely cited small cap and mid cap stocks. The calculation was entirely mechanical without attempting to account for future production higher than reported in the most recent quarter. On that basis, McDep Ratios ranged from 1.2 to 2.7 for a sample of companies that included Southwestern Energy (SWN), Ultra Petroleum (UPL), Range Resources (RRC) and Petrohawk (HK). The apparently high expectations for growth, which may be justified, suggest that the stocks in our independent producer group at a median McDep Ratio of 0.95 may also have more potential than we recognize in our estimates of NPV.

Kurt H. Wulff, CFA



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

January 19, 2010

	Symbol/Rating	Price (US\$/sh) 15-Jan 2010	EV/ Market Cap	Enterprise Value (\$mm)	Present Value by Segment (%)					McDep Ratio
					NAmer.		Dist.		Yield	
					Natural Gas	Oil Prod'n	NTM (\$/un)	Dist. (%)		
Canadian Income Trusts (US\$)										
Peyto Energy Trust	PEYUF	13.92	1.25	2,000	71	29	1.40	10.1	1.06	
Penn West Energy Trust	PWE	18.08	1.56	11,800	22	78	1.75	9.7	0.97	
Pengrowth Energy Trust	PGH	10.47	1.51	4,600	35	65	0.82	7.8	0.91	
Enerplus Resources Fund	ERF	23.69	1.22	4,900	42	58	2.10	8.9	0.82	
Canadian Oil Sands Trust	COSWF B	28.28	1.11	15,100		100	1.80	6.4	0.70	
<i>Total or Median</i>				38,400					0.91	
Small Cap Independent Producers										
Birchcliff Energy Ltd. (US\$)	BIREF	9.47	1.16	1,500	65	35	-	-	1.04	
Encore Acquisition Company	EAC	49.04	1.64	4,190	22	78	-	-	0.99	
Whiting Petroleum Corporation	WLL	72.99	1.27	5,450	17	83	-	-	0.95	
Cimarex Energy Company	XEC B	54.73	1.18	5,290	67	33	0.24	0.4	0.92	
Bery Petroleum Company	BRY	29.06	1.85	2,410	31	69	0.30	1.0	0.90	
<i>Total or Median</i>				18,800					0.95	
Top Line Cash Payers										
Cross Timbers Royalty Trust	CRT	34.71	1.00	210	71	29	2.69	7.7	1.02	
Sabine Royalty Trust	SBR	43.38	1.00	630	39	61	2.98	6.9	0.96	
Freehold Royalty Trust (US\$)	FRHLF	15.46	1.20	920	25	75	1.67	10.8	0.92	
Permian Basin RT	PBT	15.75	1.00	730	27	73	1.11	7.1	0.87	
Dorchester Minerals, L.P.	DMLP B	23.22	1.02	710	67	33	1.80	7.7	0.86	
<i>Total or Median</i>				3,200					0.92	
Bottom Line Cash Payers										
Linn Energy, LLC	LINE	28.25	1.50	4,830	40	60	2.52	8.9	1.36	
Encore Energy Partners, L.P. (52%)	ENP	20.34	1.28	610	24	76	2.15	10.6	1.15	
San Juan Basin Royalty Trust	SJT B	21.96	1.00	1,020	100	-	1.77	8.1	1.05	
Mesa Royalty Trust	MTR	39.88	1.00	74	75	25	4.20	10.5	0.83	
Hugoton Royalty Trust	HGT B	17.32	1.00	690	88	12	1.50	8.7	0.83	
<i>Total or Median</i>				7,200					1.05	
Composite (excl COSWF)										
<i>Enterprise Value Weighting</i>				52,600	38	62			0.97	
<i>Equal Weighting</i>					49	51			0.97	
<i>Equal Weighted Buys</i>					73	27			0.91	
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses.										
Present Value presumes long-term prices of \$75 a barrel for oil and \$8 a million btu for natural gas.										
Dist. = Income distribution. NTM = Next Twelve Months Ended December 31, 2010. Enterprise Value = Market Cap and Debt.										



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

January 19, 2010

Table 2							
Oil and Gas Income and Small Cap Stocks							
Net Present Value and McDep Ratio							
		Price (\$/sh)		Market	Net		
	Symbol/ Rating	15-Jan 2010	Shares (mm)	Cap (\$mm)	Value (\$/un)	Debt/ Present Value	McDep Ratio
Canadian Income Trusts (US\$)							
	Peyto Energy Trust	PEYUF	13.92	114.9	1,600	13.00	0.21
	Penn West Energy Trust	PWE	18.08	420.0	7,590	19.00	0.35
	Pengrowth Energy Trust	PGH	10.47	290.0	3,040	12.00	0.31
	Enerplus Resources Fund	ERF	23.69	169.0	4,000	30.00	0.15
	Canadian Oil Sands Trust	COSWF	B	28.28	484.0	13,690	42.00
	<i>Total or Median</i>				29,900		0.21
							0.91
Small Cap Independent Producers							
	Birchcliff Energy Ltd. (US\$)	BIREF	9.47	136.3	1,290	9.00	0.15
	Encore Acquisition Company	EAC	49.04	52.3	2,560	50.00	0.38
	Whiting Petroleum Corporation	WLL	72.99	59.0	4,310	78.00	0.20
	Cimarex Energy Company	XEC	B	54.73	82.2	4,500	60.00
	Berry Petroleum Company	BRY	29.06	44.9	1,300	35.00	0.41
	<i>Total or Median</i>				13,960		0.20
							0.95
Top Line Cash Payers							
	Cross Timbers Royalty Trust	CRT	34.71	6.0	210	34.00	-
	Sabine Royalty Trust	SBR	43.38	14.6	630	45.00	-
	Freehold Royalty Trust (US\$)	FRHLF	15.46	49.6	770	17.00	0.16
	Permian Basin RT	PBT	15.75	46.6	730	18.00	-
	Dorchester Minerals, L.P.	DMLP	B	23.22	29.8	690	27.00
	<i>Total or Median</i>				3,030		0.02
							0.86
Bottom Line Cash Payers							
	Linn Energy, LLC	LINE	28.25	114.0	3,220	17.00	0.45
	Encore Energy Partners, L.P. (52%)	ENP	20.34	23.2	470	17.00	0.25
	San Juan Basin Royalty Trust	SJT	B	21.96	46.6	1,020	21.00
	Mesa Royalty Trust	MTR	39.88	1.9	74	48.00	-
	Hugoton Royalty Trust	HGT	B	17.32	40.0	690	21.00
	<i>Total or Median</i>				5,470		-
							0.83
							0.83
							1.05
B = Buy. McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses							
Present Value presumes long-term prices of \$75 a barrel for oil and \$8 a million btu for natural gas.							



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

January 19, 2010

Table 3								
Oil and Gas Income and Small Cap Stocks								
Value Multiples - Rank by EV/Ebitda								
			Price (\$/sh)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda
	Symbol/ Rating		15-Jan 2010	Royalty (%)	Ebitda	NTM	NTM	NTM
Canadian Income Trusts (US\$)								
	PEYUF		13.92		1.27	18.2	11.8	12.4
	COSWF	B	28.28		0.59	23.1	13.7	9.5
	PWE		18.08		0.77	8.3	8.4	8.1
	ERF		23.69		0.61	9.8	8.7	7.1
	PGH		10.47		0.52	8.3	7.6	7.0
	<i>Median</i>					9.8	8.7	8.1
Small Cap Independent Producers								
	BIREF		9.47		-	10.6	14.9	15.5
	EAC		49.04		-	11.7	7.6	7.5
	WLL		72.99		-	9.8	7.3	6.9
	BRY		29.06		-	12.4	7.3	6.6
	XEC	B	54.73		-	7.6	5.7	5.3
	<i>Median</i>					10.6	7.3	6.9
Top Line Cash Payers								
	SBR		43.38	100	1.00	12.0	15.1	14.6
	PBT		15.75	32	0.90	11.5	14.5	12.7
	CRT		34.71	84	0.95	12.6	12.0	12.3
	DMLP	B	23.22	64	0.91	7.8	13.7	11.8
	FRHLF		15.46	71	0.91	6.8	9.3	8.6
	<i>Median</i>					11.5	13.7	12.3
Bottom Line Cash Payers								
	LINE		28.25		1.70	18.3	11.5	15.6
	SJT	B	21.96		0.79	9.2	9.4	9.8
	ENP		20.34		1.07	13.2	8.4	9.7
	HGT	B	17.32		0.76	13.4	10.7	8.8
	MTR		39.88		0.93	8.0	10.6	8.8
	<i>Median</i>					13.2	10.6	9.7
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2010; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								
Top Line Cash Payers defined as those having Revenue Royalty (see fifth column from right).								



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

January 19, 2010

Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

Certification: I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

Research Methodology/Ratings Description: McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.