



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

January 28, 2011

## **Rioting in Egypt Strengthens Obama/Carter Parallel**

### **Summary and Recommendation**

President Obama, like his predecessor President Carter, seems to be a tonic for higher oil price. In words and actions, the U.S. leader appears bent on a course to curtail U.S. energy supply. In his state of the union address, Mr. Obama repeated his intent to tax oil companies for the revenue to finance a green energy fantasy. Mr. Carter implemented a windfall profits tax and oversaw energy price controls. In actions, President Obama and his administrators have shut down drilling in the Gulf of Mexico without reasonable justification. Chevron Chairman John Watson confirmed as much on the company's quarterly earnings call today. The historical parallel continues with rioting in Tunisia spreading to Egypt, the country that controls the Suez Canal and its oil traffic. President Carter got international help to raise oil price when rioting erupted in Iran. Income and Small Cap stocks seem to be reacting positively with four of our seven buy recommendations gaining on January 28, 2011, a day of international tumult. Small cap oil and gas producers were stock market stars in the Carter years. Our recommendations don't need a repeat of the Carter years to make money, but are positioned for it. We prefer peaceful global growth where everyone benefits.

Kurt H. Wulff, CFA



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Table ISC-1											
McDep Income and Small Cap Energy Portfolio											
Debt, Segments, Cash Flow, Income and McDep Ratio											
			Price								
Symbol/Rating	(US\$/sh)	EV/	Enterprise	PV(%)	EV/	Dist.	Dist.				
B = Buy	28-Jan	Market	Value	Nat	Ebitda	NTM	Yield	McDep			
CB (see below)	2011	Cap	(\$mm)	Gas	Oil	NTM	(\$/un)	(%)	Ratio		
<b>Small Cap Independent Producers</b>											
Cimarex Energy Company	XEC	B	100.23	1.07	9,230	50	50	7.9	0.32	0.3	1.00
Petrohawk Energy Corporation	HK	B	19.03	1.59	9,150	96	4	10.2	-	-	0.97
Range Resources	RRC	B	47.66	1.28	9,580	68	32	14.4	0.16	0.3	0.96
Berry Petroleum Company	BRY		44.52	1.43	3,470	26	74	8.8	0.30	0.7	0.96
Peyto Exploration and Development	PEYUF		18.65	1.20	2,720	69	31	12.3	0.72	3.9	0.94
Denbury Resources Inc.	DNR		19.27	1.44	11,140	12	88	8.6	-	-	0.91
Ultra Petroleum	UPL		45.63	1.21	8,510	90	10	11.1	-	-	0.90
Whiting Petroleum Corporation	WLL		122.75	1.16	8,420	11	89	7.5	-	-	0.84
Birchcliff Energy Ltd.	BIREF	B	11.25	1.24	1,770	62	38	12.8	-	-	0.74
<i>Total or Median</i>					64,000			10.2		-	0.94
<b>Top Line Cash Payers</b>											
Cross Timbers Royalty Trust	CRT		43.37	1.00	260	69	31		2.79	6.4	1.17
Sabine Royalty Trust	SBR		59.48	1.00	870	38	62		4.15	7.0	1.01
Permian Basin RT	PBT		21.22	1.00	990	31	69		1.58	7.4	0.96
Freehold Royalties Ltd.	FRHLF		20.86	1.07	1,300	20	80		1.69	8.1	0.95
Dorchester Minerals, L.P.	DMLP	B	27.73	1.02	870	60	40		1.74	6.3	0.93
<i>Total or Median</i>					4,300					7.0	0.96
<b>Bottom Line Cash Payers</b>											
Linn Energy, LLC	LINE		38.61	1.39	7,890	38	62	18.7	2.64	6.8	1.25
Vanguard Natural Resources, LLC	VNR		30.57	1.38	1,250	31	69	10.6	2.24	7.3	1.09
Legacy Reserves L.P.	LGCY		29.09	1.33	1,550	13	87	11.3	2.08	7.2	1.03
Encore Energy Partners, L.P.	ENP		22.64	1.24	1,270	19	81	10.6	2.00	8.8	0.99
Hugoton Royalty Trust	HGT	B	21.14	1.00	850	86	14	13.5	1.34	6.4	0.96
San Juan Basin Royalty Trust	SJT	B	23.78	1.00	1,110	100	-	13.6	1.43	6.0	0.95
Pengrowth Energy Corporation	PGH		12.51	1.37	5,100	29	71	8.2	0.84	6.7	0.92
Mesa Royalty Trust	MTR		48.50	1.00	90	75	25	11.9	3.69	7.6	0.91
Enerplus Corporation	ERF		31.77	1.18	6,700	34	66	8.3	2.16	6.8	0.88
<i>Total or Median</i>					25,800			11.3		6.8	0.96
<b>Composite</b>											
<i>Enterprise Value Weighting</i>					94,100	48	52				0.95
<i>Equal Weighting</i>						49	51				0.97
<i>Equal Weighted Buys</i>						72	28				0.93

CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.

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

Present Value (PV) presumes long-term prices of \$100 a barrel for oil and \$8 a million btu for natural gas.

Dist. = Income distribution. NTM = Next Twelve Months Ended December 31, 2011. Enterprise Value = Market Cap and Debt.



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**Table ISC-2**

## McDep Income and Small Cap Energy Portfolio Net Present Value and McDep Ratio

			<i>Price</i>			<i>Net</i>		
			<i>(\$/sh)</i>		<i>Market</i>	<i>Present</i>	<i>Debt/</i>	
	<i>Symbol/</i>		<i>28-Jan</i>	<i>Shares</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	<i>McDep</i>
	<i>Rating</i>		<i>2011</i>	<i>(mm)</i>	<i>(\$mm)</i>	<i>(\$/un)</i>	<i>Value</i>	<i>Ratio</i>
<b>Small Cap Independent Producers</b>								
Cimarex Energy Company	XEC	B	100.23	85.8	8,600	100.00	0.07	1.00
Petrohawk Energy Corporation	HK	B	19.03	302.0	5,750	20.00	0.36	0.97
Range Resources	RRC	B	47.66	157.1	7,490	50.00	0.21	0.96
Berry Petroleum Company	BRY		44.52	54.4	2,420	47.00	0.29	0.96
Peyto Exploration and Development Cor	PEYUF		18.65	121.8	2,270	20.00	0.16	0.94
Denbury Resources Inc.	DNR		19.27	401.0	7,730	22.00	0.28	0.91
Ultra Petroleum	UPL		45.63	154.0	7,030	52.00	0.16	0.90
Whiting Petroleum Corporation	WLL		122.75	59.0	7,240	150.00	0.12	0.84
Birchcliff Energy Ltd.	BIREF	B	11.25	127.3	1,430	16.00	0.14	0.74
<i>Total or Median</i>					<i>49,960</i>		<i>0.16</i>	<i>0.94</i>
<b>Top Line Cash Payers</b>								
Cross Timbers Royalty Trust	CRT		43.37	6.0	260	37.00	-	1.17
Sabine Royalty Trust	SBR		59.48	14.6	870	59.00	-	1.01
Permian Basin RT	PBT		21.22	46.6	990	22.00	-	0.96
Freehold Royalties Ltd.	FRHLF		20.86	58.4	1,220	22.00	0.06	0.95
Dorchester Minerals, L.P.	DMLP	B	27.73	30.7	850	30.00	0.02	0.93
<i>Total or Median</i>					<i>4,190</i>			<i>0.96</i>
<b>Bottom Line Cash Payers</b>								
Linn Energy, LLC	LINE		38.61	146.5	5,660	28.00	0.35	1.25
Vanguard Natural Resources, LLC	VNR		30.57	29.8	910	27.00	0.30	1.09
Legacy Reserves L.P.	LGCY		29.09	40.1	1,170	28.00	0.25	1.03
Encore Energy Partners, L.P.	ENP		22.64	45.3	1,030	23.00	0.19	0.99
Hugoton RoyaltyTrust	HGT	B	21.14	40.0	850	22.00	-	0.96
San Juan Basin Royalty Trust	SJT	B	23.78	46.6	1,110	25.00	-	0.95
Pengrowth Energy Corporation	PGH		12.51	299.0	3,740	14.00	0.25	0.92
Mesa RoyaltyTrust	MTR		48.50	1.9	90	53.00	-	0.91
Enerplus Corporation	ERF		31.77	177.5	5,640	37.00	0.14	0.88
<i>Total or Median</i>					<i>20,200</i>			<i>0.96</i>

B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.

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

Present Value presumes long-term prices of \$100 a barrel for oil and \$8 a million btu for natural gas.



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**Table ISC-3**

## McDep Income and Small Cap Energy Portfolio

### Value Multiples - Rank by EV/Ebitda

			<i>Price (\$/sh)</i>	<i>Revenue</i>	<i>Dist/ Equity</i>	<i>Adjstd Resrvs/ Prod</i>	<i>PV/ Ebitda</i>	<i>EV/ Ebitda</i>
	<i>Symbol/ Rating</i>		<i>28-Jan 2011</i>	<i>Royalty (%)</i>	<i>Ebitda</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>
<b>Small Cap Independent Producers</b>								
Range Resources	RRC	B	47.66		-	11.4	15.0	14.4
Birchcliff Energy Ltd.	BIREF	B	11.25		-	17.6	17.2	12.8
Peyto Exploration and Development Corp	PEYUF		18.65		0.47	17.3	13.1	12.3
Ultra Petroleum	UPL		45.63		-	12.6	12.3	11.1
Petrohawk Energy Corporation	HK	B	19.03		-	7.0	10.5	10.2
Berry Petroleum Company	BRY		44.52		-	11.3	9.1	8.8
Denbury Resources Inc.	DNR		19.27		-	12.9	9.5	8.6
Cimarex Energy Company	XEC	B	100.23		-	6.2	7.8	7.9
Whiting Petroleum Corporation	WLL		122.75		-	9.3	8.9	7.5
	<i>Median</i>					<i>11.4</i>	<i>10.5</i>	<i>10.2</i>
<b>Top Line Cash Payers</b>								
Cross Timbers Royalty Trust	CRT		43.37	84	0.97	13.1	12.8	15.0
Sabine Royalty Trust	SBR		59.48	100	1.00	7.8	14.2	14.3
Dorchester Minerals, L.P.	DMLP	B	27.73	77	0.84	6.7	14.5	13.4
Permian Basin RT	PBT		21.22	32	0.94	13.2	13.1	12.6
Freehold Royalties Ltd.	FRHLF		20.86	71	0.85	8.1	11.1	10.5
	<i>Median</i>					<i>8.1</i>	<i>13.1</i>	<i>13.4</i>
<b>Bottom Line Cash Payers</b>								
Linn Energy, LLC	LINE		38.61		1.41	18.3	15.0	18.7
San Juan Basin Royalty Trust	SJT	B	23.78		0.82	13.6	14.3	13.6
Hugoton Royalty Trust	HGT	B	21.14		0.86	12.6	14.0	13.5
Mesa Royalty Trust	MTR		48.50		0.91	8.7	13.1	11.9
Legacy Reserves L.P.	LGCY		29.09		0.82	12.0	11.0	11.3
Vanguard Natural Resources, LLC	VNR		30.57		0.81	13.0	9.7	10.6
Encore Energy Partners, L.P.	ENP		22.64		0.93	13.5	10.7	10.6
Enerplus Corporation	ERF		31.77		0.55	9.7	9.5	8.3
Pengrowth Energy Corporation	PGH		12.51		0.53	9.6	8.9	8.2
	<i>Median</i>					<i>12.6</i>	<i>11.0</i>	<i>11.3</i>
B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.								
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2011; 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).								



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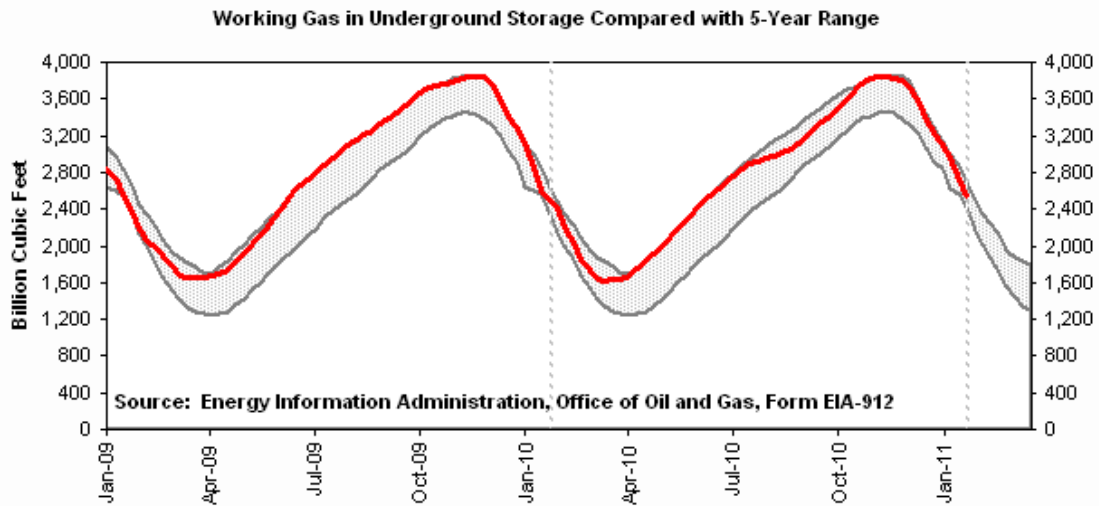
Table ISC-4								
Oil and Gas Income and Small Cap Stocks								
Rank by Enterprise Value to 200 Day Average								
			Price (\$/sh)		Enterprise Value/			
	Symbol/		28-Jan	52Wk	52Wk	50 Day	200 Day	McDep
	Rating	2011	High	Low	Avg.	Avg.	Ratio	
<b>Small Cap Independent Producers</b>								
Cimarex Energy Company	XEC	B	100.23	0.99	1.92	1.12	1.29	1.00
Whiting Petroleum Corporation	WLL		122.75	0.99	1.73	1.07	1.23	0.84
Berry Petroleum Company	BRY		44.52	0.95	1.46	1.03	1.20	0.96
Peyto Exploration and Development Co	PEYUF		18.65	0.94	1.51	1.02	1.17	0.94
Birchcliff Energy Ltd.	BIREF	B	11.25	0.97	1.34	1.11	1.17	0.74
Range Resources	RRC	B	47.66	0.90	1.34	1.05	1.10	0.96
Denbury Resources Inc.	DNR		19.27	0.97	1.27	1.01	1.09	0.91
Petrohawk Energy Corporation	HK	B	19.03	0.85	1.20	1.01	1.03	0.97
Ultra Petroleum	UPL		45.63	0.87	1.18	0.97	1.02	0.90
	<i>Median</i>			<i>0.95</i>	<i>1.34</i>	<i>1.03</i>	<i>1.17</i>	<i>0.94</i>
<b>Top Line Cash Payers</b>								
Freehold Royalties Ltd.	FRHLF		20.86	0.93	1.44	1.03	1.17	0.95
Cross Timbers Royalty Trust	CRT		43.37	0.97	1.54	1.05	1.16	1.17
Sabine Royalty Trust	SBR		59.48	0.91	1.43	1.00	1.11	1.01
Permian Basin RT	PBT		21.22	0.89	1.52	0.95	1.06	0.96
Dorchester Minerals, L.P.	DMLP	B	27.73	0.94	1.34	1.03	1.05	0.93
	<i>Median</i>			<i>0.93</i>	<i>1.44</i>	<i>1.03</i>	<i>1.11</i>	<i>0.96</i>
<b>Bottom Line Cash Payers</b>								
Enerplus Corporation	ERF		31.77	0.96	1.92	1.04	1.20	0.88
Linn Energy, LLC	LINE		38.61	0.99	1.93	1.03	1.16	1.25
Vanguard Natural Resources, LLC	VNR		30.57	0.98	1.48	1.06	1.15	1.09
Encore Energy Partners, L.P.	ENP		22.64	0.99	1.88	1.05	1.13	0.99
Legacy Reserves L.P.	LGCY		29.09	0.96	1.45	1.04	1.12	1.03
Pengrowth Energy Corporation	PGH		12.51	0.94	1.95	0.98	1.09	0.92
Hugoton Royalty Trust	HGT	B	21.14	0.96	1.41	1.02	1.06	0.96
Mesa Royalty Trust	MTR		48.50	0.89	1.32	0.98	1.03	0.91
San Juan Basin Royalty Trust	SJT	B	23.78	0.83	1.21	0.98	0.98	0.95
	<i>Median</i>			<i>0.96</i>	<i>1.48</i>	<i>1.03</i>	<i>1.12</i>	<i>0.96</i>
CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.								



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