



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

September 9, 2011

A Dime a Gallon

Summary and Recommendation

In the Republican Presidential Debate on September 7, a statement by Candidate Ron Paul reminds us how cheap energy prices are by suggesting that one silver dime could buy a gallon of gasoline. Checking the records we confirm that a silver dime, last minted for general circulation in 1964, is worth about \$3 today for the raw silver content (0.072 troy ounce of silver per coin times \$42 an ounce for silver). Since silver was money for centuries until after 1964, we could say that the value of money has fallen to one-thirtieth in 47 years for a decline rate of about 7% a year. The 30 fold gain in the dollar value of silver makes a 12 fold gain in gasoline price to \$3.50 from \$0.30 a gallon look modest. U.S. crude oil, the raw material from which gasoline is refined, also gained 30 fold to some \$90 a barrel from \$3. Natural gas is a bargain at a wellhead price of \$4 a million btu today, up 26 fold from \$0.15 in 1964. Judging from the lack of mainstream interest in Mr. Paul's forthrightness, there appears to be little likelihood that monetary debasement will be arrested. Investors in oil and gas stocks can get protection from the falling value of money and earn a return on investment in addition. Those factors bolster the case for oil and gas, including small cap and income stocks. Pick stocks from recommendations or similar securities with an eye on McDep Ratio, cash flow, relative concentration on oil and gas, income, debt and recent price trend (see [Tables ISC-1-4](#) on pages 2-5).

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	8-Sep	Market	Value	Nat	Oil	Ebitda	NTM	Yield	McDep		
CB (see below)	2011	Cap	(\$mm)	Gas		NTM	(\$/un)	(%)	Ratio		
Small Cap Independent Producers											
Range Resources	RRC	B	65.39	1.19	12,380	69	31	15.6	0.16	0.2	0.94
Peyto Exploration and Development	PEYUF		21.40	1.18	3,350	76	24	9.9	0.74	3.4	0.91
Birchcliff Energy Ltd.	BIREF	B	13.13	1.22	2,100	56	44	13.0	-	-	0.85
Berry Petroleum Company	BRY		46.73	1.58	4,050	23	77	7.8	0.30	0.6	0.76
Denbury Resources Inc.	DNR		14.79	1.39	8,340	5	95	6.8	-	-	0.61
Cimarex Energy Company	XEC	CB	67.10	1.13	6,510	46	54	5.2	0.40	0.6	0.59
Whiting Petroleum Corporation	WLL	CB	45.08	1.30	6,960	11	89	4.6	-	-	0.57
<i>Total or Median</i>					43,700			7.8			0.76
Top Line Cash Payers											
Cross Timbers Royalty Trust	CRT		45.35	1.00	270	87	13		2.70	5.9	1.01
Permian Basin RT	PBT		21.60	1.00	1,010	42	58		1.44	6.7	0.98
Sabine Royalty Trust	SBR		62.32	1.00	910	51	49		4.23	6.8	0.89
Freehold Royalties Ltd.	FRHLF		17.82	1.06	1,120	18	82		1.71	9.6	0.82
Dorchester Minerals, L.P.	DMLP	CB	23.52	1.00	720	61	39		1.71	7.3	0.78
<i>Total or Median</i>					4,000					6.8	0.89
Bottom Line Cash Payers											
Linn Energy, LLC	LINE		37.06	1.48	9,620	31	69	15.5	2.76	7.4	1.06
Hugoton Royalty Trust	HGT	B	22.34	1.00	890	88	13	14.5	1.32	5.9	1.02
Vanguard Natural Resources, LLC	VNR		27.33	1.46	2,040	23	77	10.9	2.30	8.4	1.01
Legacy Reserves L.P.	LGCY		27.16	1.48	1,750	21	79	9.4	2.16	8.0	0.93
San Juan Basin Royalty Trust	SJT		23.16	1.00	1,080	100	-	13.4	1.42	6.1	0.93
Mesa Royalty Trust	MTR		44.69	1.00	83	75	25	13.1	2.83	6.3	0.84
Enerplus Corporation	ERF	CB	27.73	1.22	6,100	30	70	8.0	2.19	7.9	0.79
<i>Total or Median</i>					21,600			13.1		7.4	0.93
Composite											
<i>Enterprise Value Weighting</i>					69,300	38	62				0.78
<i>Equal Weighting</i>						48	52				0.86
<i>Equal Weighted Buys</i>						46	54				0.79

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 September 30, 2012. 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								
			Price (\$/sh)	Shares	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		8-Sep 2011	(mm)				
Small Cap Independent Producers								
Range Resources	RRC	B	65.39	159.0	10,400	70.00	0.15	0.94
Peyto Exploration and Development Cor	PEYUF		21.40	133.1	2,850	24.00	0.14	0.91
Birchcliff Energy Ltd.	BIREF	B	13.13	131.0	1,720	16.00	0.16	0.85
Berry Petroleum Company	BRY		46.73	54.7	2,560	70.00	0.28	0.76
Denbury Resources Inc.	DNR		14.79	404.0	5,980	28.00	0.17	0.61
Cimarex Energy Company	XEC	CB	67.10	86.1	5,780	120.00	0.07	0.59
Whiting Petroleum Corporation	WLL	CB	45.08	119.0	5,360	90.00	0.13	0.57
<i>Total or Median</i>					34,650		0.15	0.76
Top Line Cash Payers								
Cross Timbers Royalty Trust	CRT		45.35	6.0	270	45.00	-	1.01
Permian Basin RT	PBT		21.60	46.6	1,010	22.00	-	0.98
Sabine Royalty Trust	SBR		62.32	14.6	910	70.00	-	0.89
Freehold Royalties Ltd.	FRHLF		17.82	59.1	1,050	22.00	0.05	0.82
Dorchester Minerals, L.P.	DMLP	CB	23.52	30.7	720	30.00	-	0.78
<i>Total or Median</i>					3,960			0.89
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		37.06	176.0	6,520	34.00	0.34	1.06
Hugoton Royalty Trust	HGT	B	22.34	40.0	890	22.00	-	1.02
Vanguard Natural Resources, LLC	VNR		27.33	51.1	1,400	27.00	0.32	1.01
Legacy Reserves L.P.	LGCY		27.16	43.6	1,180	30.00	0.30	0.93
San Juan Basin Royalty Trust	SJT		23.16	46.6	1,080	25.00	-	0.93
Mesa Royalty Trust	MTR		44.69	1.9	83	53.00	-	0.84
Enerplus Corporation	ERF	CB	27.73	179.6	4,980	37.00	0.14	0.79
<i>Total or Median</i>					16,130			0.93
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								
			Price (\$/sh)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda
	Symbol/ Rating		8-Sep 2011	Royalty (%)	Ebitda	NTM	NTM	NTM
Small Cap Independent Producers								
Range Resources	RRC	B	65.39		-	14.4	16.5	15.6
Birchcliff Energy Ltd.	BIREF	B	13.13		-	19.7	15.3	13.0
Peyto Exploration and Development Corp	PEYUF		21.40		0.33	13.6	10.9	9.9
Berry Petroleum Company	BRY		46.73		-	11.9	10.3	7.8
Denbury Resources Inc.	DNR		14.79		-	13.4	11.2	6.8
Cimarex Energy Company	XEC	CB	67.10		-	6.8	8.8	5.2
Whiting Petroleum Corporation	WLL	CB	45.08		-	8.5	8.1	4.6
	<i>Median</i>					13.4	10.9	7.8
Top Line Cash Payers								
Cross Timbers Royalty Trust	CRT		45.35	80	0.96	14.1	16.1	16.2
Sabine Royalty Trust	SBR		62.32	100	1.00	7.2	16.5	14.7
Permian Basin RT	PBT		21.60	32	0.98	16.8	15.0	14.7
Dorchester Minerals, L.P.	DMLP	CB	23.52	77	0.84	6.6	14.8	11.6
Freehold Royalties Ltd.	FRHLF		17.82	71	0.97	6.7	12.5	10.3
	<i>Median</i>					7.2	15.0	14.7
Bottom Line Cash Payers								
Linn Energy, LLC	LINE		37.06		1.19	17.1	14.7	15.5
Hugoton Royalty Trust	HGT	B	22.34		0.85	14.2	14.3	14.5
San Juan Basin Royalty Trust	SJT		23.16		0.82	9.3	14.5	13.4
Mesa Royalty Trust	MTR		44.69		0.83	14.5	15.6	13.1
Vanguard Natural Resources, LLC	VNR		27.33		0.92	8.8	10.8	10.9
Legacy Reserves L.P.	LGCY		27.16		0.72	10.2	10.1	9.4
Enerplus Corporation	ERF	CB	27.73		0.60	8.3	10.2	8.0
	<i>Median</i>					10.2	14.3	13.1
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 September 30, 2012; 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/ Rating		8-Sep 2011	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	McDep Ratio
Small Cap Independent Producers								
Range Resources	RRC	B	65.39	0.98	1.65	1.07	1.19	0.94
Birchcliff Energy Ltd.	BIREF	B	13.13	0.89	1.51	0.98	1.07	0.85
Peyto Exploration and Development C	PEYUF		21.40	0.87	1.46	0.94	1.03	0.91
Berry Petroleum Company	BRY		46.73	0.84	1.32	0.94	0.98	0.76
Whiting Petroleum Corporation	WLL	CB	45.08	0.65	1.08	0.88	0.79	0.57
Denbury Resources Inc.	DNR		14.79	0.65	1.05	0.88	0.79	0.61
Cimarex Energy Company	XEC	CB	67.10	0.60	1.12	0.88	0.74	0.59
	<i>Median</i>			<i>0.84</i>	<i>1.32</i>	<i>0.94</i>	<i>0.98</i>	<i>0.76</i>
Top Line Cash Payers								
Cross Timbers Royalty Trust	CRT		45.35	0.93	1.31	1.02	1.04	1.01
Permian Basin RT	PBT		21.60	0.91	1.17	0.98	1.00	0.98
Sabine Royalty Trust	SBR		62.32	0.88	1.31	0.99	1.00	0.89
Dorchester Minerals, L.P.	DMLP	CB	23.52	0.78	1.13	0.91	0.87	0.78
Freehold Royalties Ltd.	FRHLF		17.82	0.74	1.12	0.90	0.85	0.82
	<i>Median</i>			<i>0.88</i>	<i>1.17</i>	<i>0.98</i>	<i>1.00</i>	<i>0.89</i>
Bottom Line Cash Payers								
Hugoton RoyaltyTrust	HGT	B	22.34	0.91	1.21	0.99	1.01	1.02
Linn Energy, LLC	LINE		37.06	0.93	1.16	0.98	0.98	1.06
Mesa RoyaltyTrust	MTR		44.69	0.87	1.12	0.98	0.95	0.84
Legacy Reserves L.P.	LGCY		27.16	0.86	1.15	0.97	0.95	0.93
Vanguard Natural Resources, LLC	VNR		27.33	0.86	1.13	0.97	0.95	1.01
San Juan Basin Royalty Trust	SJT		23.16	0.83	1.13	0.96	0.95	0.93
Enerplus Corporation	ERF	CB	27.73	0.86	1.15	0.94	0.92	0.79
	<i>Median</i>			<i>0.86</i>	<i>1.15</i>	<i>0.97</i>	<i>0.95</i>	<i>0.93</i>

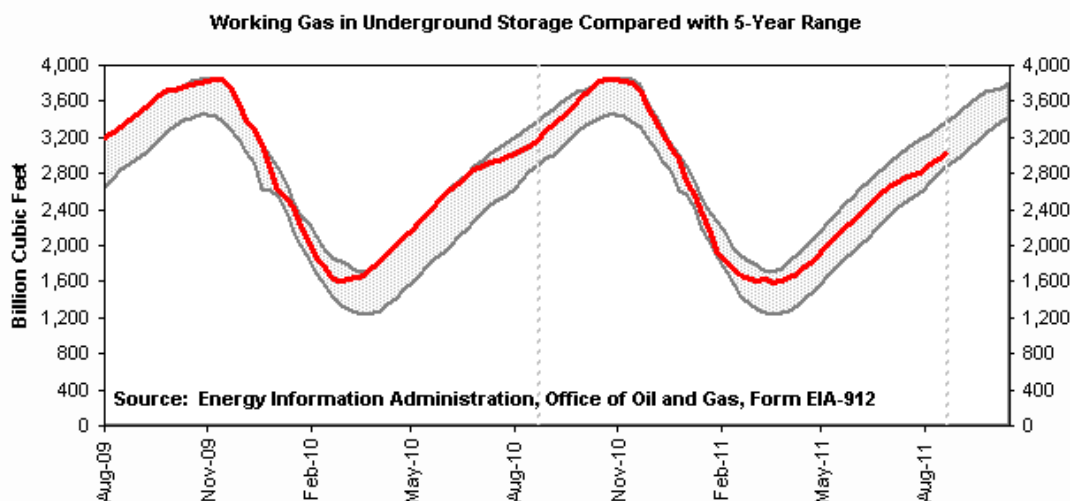
CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.



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