



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

December 22, 2011

## New NPV for \$6 Long-Term Natural Gas Price

### Summary and Recommendation

We reduce our long-term price expectation for natural gas to \$6 a million Btu from \$8 for the positive reason that new technology is unlocking natural gas from shale to greatly expand clean fuel supply. Estimated Net Present Value (NPV) for Buy recommendations with the most natural gas volume potential, **Range Resources (RRC)** and **Birchcliff Energy (BIREF)**, remain unchanged. Among the five remaining Buys, the amount of reduction in NPV is in proportion to concentration on natural gas. In order of declining impact, we reduce NPV for **San Juan Basin Royalty Trust (SJT)** to \$21 a unit from \$25, **Dorchester Minerals (DMLP)** to \$27 from \$30, **Cimarex (XEC)** to \$110 a share from \$120, **Enerplus (ERF)** to \$35 from \$37 and **Whiting Petroleum (WLL)** to \$88 from \$90. Only SJT has noticeably less appreciation potential indicated by a McDep Ratio that rises to 1.11. Yet, new technology also likely makes San Juan Basin production last longer. DMLP, XEC, ERF, and WLL continue to have low McDep Ratios ranging from 0.59 to 0.84 (see [Table ISC-1](#) on page 2 and [Table ISC-2](#) on page 3).

Changes in NPV affect the present value unlevered cash flow multiples (PV/Ebitda), but not the market unlevered cash flow multiples (EV/Ebitda) (see [Table ISC-3](#) on page 4). Conservatively, we like buying at low EV/Ebitda. Yet, higher EV/Ebitda is also appealing depending on the degree to which it is less than PV/Ebitda. The two ratios are components of the McDep Ratio. EV/Ebitda divided by PV/Ebitda equals the McDep Ratio. The combination of low EV/Ebitda and low McDep Ratio, as in WLL and XEC, suggests lower risk and higher reward, stock price volatility notwithstanding.

Kurt H. Wulff, CFA



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

December 22, 2011

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	21-Dec	Market	Value	Nat	Oil	Ebitda	NTM	Yield	McDep	
CB (see below)	2011	Cap	(\$mm)	Gas		NTM	(\$/un)	(%)	Ratio	
<b>Small Cap Independent Producers</b>										
Peyto Exploration and Developmen	PEYUF	24.20	1.17	3,750	75	25	11.9	0.70	2.9	1.01
PDC Energy	PETD	35.87	1.64	1,390	57	43	8.7	-	-	1.00
Range Resources	RRC B	62.45	1.22	12,130	66	34	15.7	0.16	0.3	0.91
Birchcliff Energy Ltd.	BIREF B	13.31	1.23	2,140	56	44	12.9	-	-	0.86
Berry Petroleum Company	BRY	39.10	1.67	3,580	17	83	5.8	0.32	0.8	0.68
Denbury Resources Inc.	DNR	15.42	1.40	8,700	4	96	5.8	-	-	0.63
Cimarex Energy Company	XEC CB	62.79	1.14	6,170	41	59	5.0	0.40	0.6	0.60
Whiting Petroleum Corporation	WLL CB	46.73	1.29	7,170	9	91	4.4	-	-	0.59
<i>Total or Median</i>				45,000			7.3			0.77
<b>Top Line Cash Payers</b>										
Cross Timbers Royalty Trust	CRT	49.27	1.00	300	87	13		2.58	5.2	1.12
Permian Basin RT	PBT	20.42	1.00	950	37	63		1.36	6.6	1.02
Sabine Royalty Trust	SBR	64.62	1.00	940	55	45		4.02	6.2	0.99
Freehold Royalties Ltd.	FRHLF	18.85	1.06	1,180	14	86		1.64	8.7	0.90
Dorchester Minerals, L.P.	DMLP CB	22.60	1.00	690	57	43		1.77	7.8	0.84
<i>Total or Median</i>				4,100					6.6	0.99
<b>Bottom Line Cash Payers</b>										
Linn Energy, LLC	LINE	38.20	1.44	9,690	29	71	14.3	2.76	7.2	1.18
Hugoton RoyaltyTrust	HGT	19.46	1.00	780	87	13	16.9	1.01	5.2	1.14
San Juan Basin Royalty Trust	SJT CB	23.24	1.00	1,080	100	-	15.4	1.14	4.9	1.11
Vanguard Natural Resources, LLC	VNR	26.97	1.55	2,040	26	74	10.4	2.31	8.6	1.05
Enduro Royalty Trust (40%)	NDRO	20.00	1.00	260	45	55	8.9	1.55	7.8	0.95
Legacy Reserves L.P.	LGCY	27.27	1.43	1,700	19	81	8.5	2.18	8.0	0.93
Mesa RoyaltyTrust	MTR	40.87	1.00	76	75	25	11.2	3.22	7.9	0.85
Enerplus Corporation	ERF CB	24.58	1.29	5,700	26	74	7.7	2.10	8.6	0.75
<i>Total or Median</i>				21,300			10.8		7.8	1.00
<b>Composite</b>										
<i>Enterprise Value Weighting</i>				70,400	37	63				0.80
<i>Equal Weighting</i>					47	53				0.91
<i>Equal Weighted Buys</i>					43	57				0.81

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 \$6 a million btu for natural gas.

Dist. = Income distribution. NTM = Next Twelve Months Ended December 31, 2012. Enterprise Value = Market Cap and Debt.





# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

December 22, 2011

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		21-Dec 2011	Royalty (%)	Ebitda	NTM	NTM	NTM
<b>Small Cap Independent Producers</b>								
Range Resources	RRC	B	62.45		-	14.0	17.2	15.7
Birchcliff Energy Ltd.	BIREF	B	13.31		-	19.3	15.1	12.9
Peyto Exploration and Development Corp	PEYUF		24.20		0.34	12.9	11.8	11.9
PDC Energy	PETD		35.87		-	8.1	8.8	8.7
Berry Petroleum Company	BRY		39.10		-	11.4	8.6	5.8
Denbury Resources Inc.	DNR		15.42		-	12.6	9.1	5.8
Cimarex Energy Company	XEC	CB	62.79		-	6.9	8.3	5.0
Whiting Petroleum Corporation	WLL	CB	46.73		-	8.5	7.4	4.4
	<i>Median</i>					12.0	9.0	7.3
<b>Top Line Cash Payers</b>								
Cross Timbers Royalty Trust	CRT		49.27	80	0.96	14.1	16.4	18.4
Sabine Royalty Trust	SBR		64.62	100	1.00	7.3	16.2	16.1
Permian Basin RT	PBT		20.42	32	0.98	17.2	14.5	14.8
Dorchester Minerals, L.P.	DMLP	CB	22.60	77	0.83	6.1	12.6	10.6
Freehold Royalties Ltd.	FRHLF		18.85	71	0.87	6.7	11.1	10.1
	<i>Median</i>					7.3	14.5	14.8
<b>Bottom Line Cash Payers</b>								
Hugoton Royalty Trust	HGT		19.46		0.88	14.0	14.7	16.9
San Juan Basin Royalty Trust	SJT	CB	23.24		0.76	8.6	14.0	15.4
Linn Energy, LLC	LINE		38.20		1.12	16.2	12.2	14.3
Mesa Royalty Trust	MTR		40.87		0.88	13.9	13.2	11.2
Vanguard Natural Resources, LLC	VNR		26.97		0.91	8.7	9.9	10.4
Enduro Royalty Trust (40%)	NDRO		20.00		0.69	7.4	9.4	8.9
Legacy Reserves L.P.	LGCY		27.27		0.66	9.9	9.1	8.5
Enerplus Corporation	ERF	CB	24.58		0.62	8.4	10.2	7.7
	<i>Median</i>					9.3	11.2	10.8
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, 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).								



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

December 22, 2011

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		21-Dec 2011	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	McDep Ratio
<b>Small Cap Independent Producers</b>								
Peyto Exploration and Development C	PEYUF		24.20	0.95	1.31	1.06	1.10	1.01
PDC Energy	PETD		35.87	0.81	1.54	1.11	1.06	1.00
Range Resources	RRC	B	62.45	0.84	1.33	0.92	1.03	0.91
Birchcliff Energy Ltd.	BIREF	B	13.31	0.88	1.32	0.97	1.01	0.86
Berry Petroleum Company	BRY		39.10	0.75	1.15	0.98	0.90	0.68
Whiting Petroleum Corporation	WLL	CB	46.73	0.67	1.42	1.02	0.89	0.59
Denbury Resources Inc.	DNR		15.42	0.67	1.32	0.98	0.89	0.63
Cimarex Energy Company	XEC	CB	62.79	0.56	1.20	0.99	0.80	0.60
	<i>Median</i>			<i>0.78</i>	<i>1.32</i>	<i>0.98</i>	<i>0.95</i>	<i>0.77</i>
<b>Top Line Cash Payers</b>								
Cross Timbers Royalty Trust	CRT		49.27	1.00	1.30	1.04	1.10	1.12
Sabine Royalty Trust	SBR		64.62	0.92	1.36	0.99	1.01	0.99
Permian Basin RT	PBT		20.42	0.87	1.13	1.02	0.97	1.02
Freehold Royalties Ltd.	FRHLF		18.85	0.78	1.35	1.04	0.94	0.90
Dorchester Minerals, L.P.	DMLP	CB	22.60	0.75	1.09	0.95	0.88	0.84
	<i>Median</i>			<i>0.87</i>	<i>1.30</i>	<i>1.02</i>	<i>0.97</i>	<i>0.99</i>
<b>Bottom Line Cash Payers</b>								
Linn Energy, LLC	LINE		38.20	0.95	1.15	1.02	1.01	1.18
Legacy Reserves L.P.	LGCY		27.27	0.86	1.16	0.99	0.96	0.93
Vanguard Natural Resources, LLC	VNR		26.97	0.86	1.14	1.00	0.96	1.05
San Juan Basin Royalty Trust	SJT	CB	23.24	0.83	1.14	0.97	0.96	1.11
Mesa RoyaltyTrust	MTR		40.87	0.81	1.05	0.94	0.90	0.85
Enerplus Corporation	ERF	CB	24.58	0.78	1.10	0.95	0.88	0.75
Hugoton RoyaltyTrust	HGT		19.46	0.79	1.02	0.91	0.88	1.14
	<i>Median</i>			<i>0.83</i>	<i>1.14</i>	<i>0.97</i>	<i>0.96</i>	<i>1.05</i>

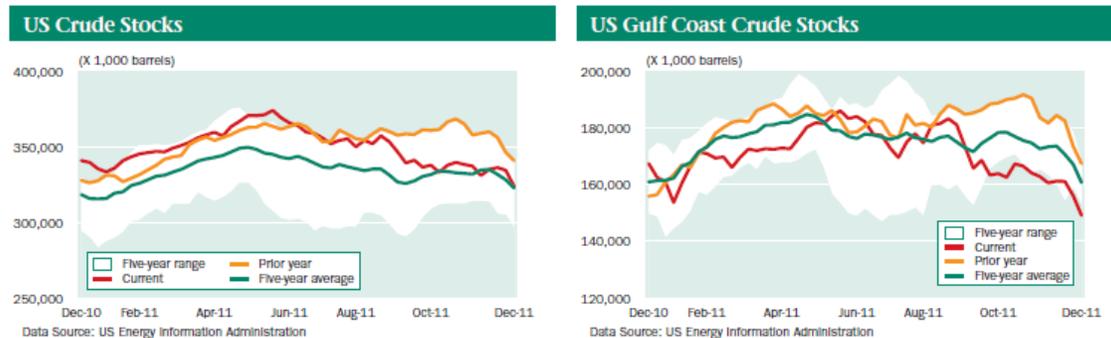
CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

December 22, 2011



Source: Platts Oilgram

**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 forty 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.