



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

October 19, 2012

## Dorchester Minerals, L.P. (DMLP)

### Top Line Core

<i>Symbol</i>	DMLP	<i>Ebitda Next Twelve Months ending 9/30/13 (US\$mm)</i>	66
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	52
<i>Price (US\$/sh)</i>	23.09	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	10/18/12	<i>Adjusted Reserves/Production NTM</i>	6.4
<i>Units (mm)</i>	30.68	<i>EV/Ebitda</i>	10.7
<i>Market Capitalization (US\$mm)</i>	708	<i>PV/Ebitda</i>	12.6
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$mm)</i>	708	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	4.76
<i>Present Value (PV) (US\$mm)</i>	828	<i>Present Value Proven Reserves(US\$/boe)</i>	56.09
<i>Net Present Value (US\$/unit)</i>	27	<i>Oil and Gas Ebitda Margin (%)</i>	87
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	1.46
<i>McDep Ratio - EV/PV</i>	0.86	<i>Price/Earnings Next Twelve Months</i>	16
<i>Distribution Yield (%/year)</i>	8.4	<i>Distribution Next Twelve Months (US\$/sh)</i>	1.94
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas. Reported results may vary widely from estimates. Estimated present value per share revised only infrequently. Estimated present value presumes a long-term price for oil of US\$100 a barrel and natural gas, \$6 a million btu. For historical analysis of DMLP since 2000 see <a href="http://www.mcdep.com/4dhulz.htm">www.mcdep.com/4dhulz.htm</a>			

### Summary and Recommendation

We like the units of **Dorchester Minerals, L.P. (DMLP)** for growing tax-efficient income from high quality oil and gas production. At a comparatively steady stock price, the partnership has delivered a total annual return of 8% for the past three years and 10% for the past 5 years despite declining natural gas price. The \$0.34 a unit distribution for the third quarter of 2012, announced on October 11, reflected the low in natural gas price for the months of May through July when the cash from natural gas was generated. Price is already up since then and futures point to further natural gas price gains, which would boost estimated distributions to a range of \$0.42 to \$0.54 for the next four quarters (see new table Distributions on page 2). Fortunately, for most of our stocks, rising oil price was a welcome balance as natural gas price was declining. Nonetheless, the \$0.34 distribution was less than our expectations mainly because of difficult to predict fluctuations in Bottom Line Cash. That source at 7% of the distribution defined the low end of a range of up to 31% and was well below the average of 20% for the past twelve quarters. The other 80% on average is core Top Line Cash, the royalty proceeds from properties where producers other than DMLP pay the capital and operating expenses. The core Top Line contribution absorbs the Bottom Line swings to yield a steadier overall rising income stream. DMLP management provides discussion and analysis of quarterly progress when it releases earnings several weeks after it discloses distributions (see table Next Twelve Months Operating and Financial Estimates on page 2). The weekly valuation rankings may help in assessing the timing of future commitments (see Tables ISC-1 through ISC-4 on pages 3-6).

Kurt H. Wulff, CFA



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Dorchester Minerals, L.P.									
Next Twelve Months Distributions									
									<i>Next</i>
	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Twelve</i>
	<i>9/30/11</i>	<i>6/30/12</i>	<i>9/30/12</i>	<i>12/31/12</i>	<i>2012E</i>	<i>3/31/13</i>	<i>6/30/13</i>	<i>9/30/13</i>	<i>Months</i>
	<i>9/30/11</i>	<i>6/30/12</i>	<i>9/30/12</i>	<i>12/31/12</i>	<i>2012E</i>	<i>3/31/13</i>	<i>6/30/13</i>	<i>9/30/13</i>	<i>9/30/13</i>
<b>Price</b>									
Henry Hub (\$/mmbtu)	4.19	2.21	2.80	3.58	<b>2.83</b>	3.89	3.85	3.93	<b>3.81</b>
HH lagged two months	4.36	2.43	2.41	2.89	<b>2.76</b>	3.72	3.86	3.88	<b>3.59</b>
WII Cushing (\$/bbl)	89.76	93.32	92.22	92.04	<b>95.13</b>	93.34	94.34	94.66	<b>93.59</b>
WII lagged one month	93.32	101.25	88.17	94.89	<b>92.80</b>	92.86	94.09	94.63	<b>94.12</b>
Wtd. Av. (80 nat gas/ 20 oil)	6.60	5.32	4.86	5.47	<b>5.30</b>	6.07	6.23	6.26	<b>6.01</b>
<b>Distribution (\$mm)</b>									
Top Line Cash	13.3	11.4	10.3						
Bottom Line Cash	2.1	1.1	0.8						
Lease Bonus	-	3.2	1.1						
Other	(1.4)	(1.7)	(1.7)						
Total	14.0	14.0	10.5	13.9	<b>55.0</b>	14.8	15.1	15.6	<b>59.4</b>
Distribution Per Unit (\$)	0.46	0.46	0.34	0.45	<b>1.79</b>	0.48	0.49	0.51	<b>1.94</b>

Dorchester Minerals, L.P.									
Next Twelve Months Operating and Financial Performance									
									<i>Next</i>
	<i>Q3</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Twelve</i>
	<i>9/30/11</i>	<i>6/30/12</i>	<i>9/30/12</i>	<i>12/31/12</i>	<i>2012E</i>	<i>3/31/13</i>	<i>6/30/13</i>	<i>9/30/13</i>	<i>Months</i>
	<i>9/30/11</i>	<i>6/30/12</i>	<i>9/30/12</i>	<i>12/31/12</i>	<i>2012E</i>	<i>3/31/13</i>	<i>6/30/13</i>	<i>9/30/13</i>	<i>9/30/13</i>
<b>Volume</b>									
Natural Gas (mmcf)	28.0	30.6	30.6	30.6	<b>30.4</b>	30.6	30.6	30.6	<b>30.6</b>
Oil (mbd)	1.09	1.19	1.20	1.21	<b>1.18</b>	1.21	1.22	1.24	<b>1.22</b>
Total (bcfe)	3.2	3.4	3.5	3.5	<b>13.7</b>	3.4	3.5	3.5	<b>13.8</b>
Total (mmcf)	35	38	38	38	<b>37</b>	38	38	38	<b>38</b>
<b>Price</b>									
Henry Hub (\$/mmbtu)	4.19	2.21	2.80	3.58	<b>2.83</b>	3.89	3.85	3.93	<b>3.81</b>
Differential (%)	5	4	4	4	<b>5</b>	-	-	-	<b>1</b>
Company (\$/mcf)	4.00	2.12	2.69	3.43	<b>2.68</b>	3.89	3.85	3.93	<b>3.77</b>
WII Cushing (\$/bbl)	89.76	93.32	92.22	92.04	<b>95.13</b>	93.34	94.34	94.66	<b>93.59</b>
Differential	2.77	6.64	6.56	6.55	<b>6.05</b>	4.67	4.72	4.73	<b>5.16</b>
Company	87.00	86.68	85.66	85.49	<b>89.07</b>	88.67	89.63	89.93	<b>88.43</b>
Total (\$/mcf)	5.99	4.45	4.89	5.51	<b>4.97</b>	5.98	5.99	6.09	<b>5.89</b>
<b>Revenue (\$mm)</b>									
Natural Gas	10.3	5.9	7.6	9.7	<b>29.8</b>	10.7	10.7	11.1	<b>42.2</b>
Oil	8.7	9.4	9.4	9.5	<b>38.4</b>	9.7	10.0	10.2	<b>39.4</b>
Other	(0.7)	(0.0)	(1.5)	(1.5)	<b>(6.4)</b>	(1.5)	(1.5)	(1.5)	<b>(6.0)</b>
Total	18.3	15.2	15.5	17.7	<b>61.9</b>	18.9	19.2	19.8	<b>75.6</b>
<b>Expense</b>									
Operating	1.2	1.2			<b>2.2</b>				<b>-</b>
General and administrative	0.8	0.9			<b>1.7</b>				<b>-</b>
Total	2.0	2.1	2.0	2.2	<b>8.1</b>	2.4	2.4	2.5	<b>9.6</b>
<b>Ebitda</b>	16.3	13.2	13.5	15.4	<b>53.8</b>	16.5	16.8	17.3	<b>66.0</b>
Deprec., Deplet., & Amort.	4.8	4.5	4.9	4.9	<b>18.5</b>	4.8	4.8	4.9	<b>19.4</b>
Other Non Cash	0.1	0.1	0.1	0.1	<b>0.1</b>	-	-	-	<b>0.1</b>
<b>Ebit</b>	11.4	8.6	8.6	10.5	<b>35.1</b>	11.7	11.9	12.4	<b>46.5</b>
<b>Ebt</b>	11.4	8.6	8.6	10.5	<b>35.1</b>	11.7	11.9	12.4	<b>46.5</b>
General Partner	0.4	0.3	0.3	0.4	<b>1.4</b>	0.5	0.5	0.5	<b>1.9</b>
<b>Net Income (\$mm)</b>	11.0	8.3	8.3	10.1	<b>33.7</b>	11.2	11.4	11.9	<b>44.7</b>
<b>Units (millions)</b>	30.7	30.7	30.7	30.7	<b>30.7</b>	30.7	30.7	30.7	<b>30.7</b>
<b>Net Income Per Unit (\$)</b>	0.36	0.27	0.27	0.33	<b>1.10</b>	0.37	0.37	0.39	<b>1.46</b>



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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	18-Oct	Market	Value	Nat	Ebitda	NTM	Yield	McDep		
CB (see below)	2012	Cap	(\$mm)	Gas	Oil	NTM	(\$/un)	(%)	Ratio	
<b>Small Cap Independent Producers</b>										
Peyto Exploration and Development	PEYUF	25.89	1.17	4,320	77	23	10.5	0.73	2.8	1.07
PDC Energy	PDCE	32.62	1.70	1,720	54	46	10.0	-	-	1.05
Range Resources	RRC B	70.50	1.28	14,450	74	26	13.7	0.16	0.2	1.01
Continental Resources (32%)	CLR B	78.40	1.19	5,370	20	80	7.6	-	-	0.81
Birchcliff Energy Ltd.	BIREF B	8.62	1.40	1,790	63	37	10.6	-	-	0.78
Halcón Resources	HK	7.16	1.36	2,820	12	88	6.7	-	-	0.77
Berry Petroleum Company	BRY	41.09	1.72	3,870	13	87	5.3	-	-	0.71
Denbury Resources Inc.	DNR	16.60	1.48	9,630	6	94	5.8	-	-	0.68
Cimarex Energy Company	XEC B	63.74	1.23	6,750	45	55	5.4	0.48	0.8	0.63
Whiting Petroleum Corporation	WLL B	48.16	1.34	7,650	8	92	4.8	-	-	0.62
<i>Total or Median</i>				58,400			7.2			0.78
<b>Top Line Cash Payers</b>										
Freehold Royalties Ltd.	FRHLF	20.80	1.04	1,400	16	84		1.71	8.2	0.99
Dorchester Minerals, L.P.	DMLP B	23.21	1.00	710	57	43		1.94	8.3	0.86
Sabine Royalty Trust	SBR	50.27	1.00	730	55	45		3.97	7.9	0.77
Permian Basin RT	PBT	15.03	1.00	700	37	63		1.09	7.2	0.75
Cross Timbers Royalty Trust	CRT	27.77	1.00	170	70	30		2.70	9.7	0.63
<i>Total or Median</i>				3,700					8.2	0.77
<b>Bottom Line Cash Payers</b>										
Linn Energy, LLC	LINE	41.67	1.73	14,290	40	60	13.3	2.90	7.0	1.19
Vanguard Natural Resources, LLC	VNR	29.95	1.66	2,600	23	77	10.5	2.40	8.0	1.11
Legacy Reserves L.P.	LGCY	29.78	1.31	1,850	24	76	9.1	2.24	7.5	0.99
Enduro Royalty Trust (40%)	NDRO	19.45	1.00	260	39	61	8.4	1.80	9.3	0.93
Enerplus Corporation	ERF CB	17.17	1.55	5,200	30	70	6.9	1.10	6.4	0.88
San Juan Basin Royalty Trust	SJT CB	14.68	1.00	680	100	-	9.1	1.20	8.2	0.70
Mesa Royalty Trust	MTR	27.10	1.00	51	75	25	9.2	2.24	8.2	0.68
Hugoton Royalty Trust	HGT	7.01	1.00	280	88	13	5.9	0.46	6.6	0.50
<i>Total or Median</i>				25,200			9.1		7.8	0.90
<b>Composite</b>										
<i>Enterprise Value Weighting</i>				87,300	38	62				0.84
<i>Equal Weighting</i>					44	56				0.83
<i>Equal Weighted Buys</i>					49	51				0.78

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 September 30, 2013. Enterprise Value = Market Cap and Debt.





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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		18-Oct 2012	Royalty (%)	Ebitda	NTM	NTM	NTM
<b>Small Cap Independent Producers</b>								
Range Resources	RRC	B	70.50		-	13.8	13.6	13.7
Birchcliff Energy Ltd.	BIREF	B	8.62		-	20.9	13.6	10.6
Peyto Exploration and Development Corp	PEYUF		25.89		0.30	9.1	9.9	10.5
PDC Energy	PDCE		32.62		-	8.6	9.5	10.0
Continental Resources (32%)	CLR	B	78.40		-	9.7	9.3	7.6
Halcón Resources	HK		7.16		-	5.6	8.7	6.7
Denbury Resources Inc.	DNR		16.60		-	13.0	8.6	5.8
Cimarex Energy Company	XEC	B	63.74		-	7.7	8.6	5.4
Berry Petroleum Company	BRY		41.09		-	11.4	7.5	5.3
Whiting Petroleum Corporation	WLL	B	48.16		-	9.3	7.8	4.8
	<i>Median</i>					9.5	9.0	7.2
<b>Top Line Cash Payers</b>								
Sabine Royalty Trust	SBR		50.27	100	1.00	7.9	16.4	12.7
Freehold Royalties Ltd.	FRHLF		20.80	71	0.97	5.6	11.9	11.8
Dorchester Minerals, L.P.	DMLP	B	23.21	77	0.90	6.4	12.6	10.8
Permian Basin RT	PBT		15.03	47	0.73	9.4	13.5	10.1
Cross Timbers Royalty Trust	CRT		27.77	78	0.96	17.9	15.7	9.9
	<i>Median</i>					7.9	13.5	10.8
<b>Bottom Line Cash Payers</b>								
Linn Energy, LLC	LINE		41.67		1.07	15.1	11.1	13.3
Vanguard Natural Resources, LLC	VNR		29.95		0.91	14.0	9.5	10.5
Mesa RoyaltyTrust	MTR		27.10		0.75	7.7	13.4	9.2
San Juan Basin Royalty Trust	SJT	CB	14.68		0.75	8.6	13.1	9.1
Legacy Reserves L.P.	LGCY		29.78		0.68	11.4	9.1	9.1
Enduro Royalty Trust (40%)	NDRO		19.45		0.78	7.2	9.1	8.4
Enerplus Corporation	ERF	CB	17.17		0.41	6.3	7.8	6.9
Hugoton RoyaltyTrust	HGT		7.01		0.39	13.4	11.8	5.9
	<i>Median</i>					10.0	10.3	9.1
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, 2013; 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	18-Oct 2012	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	McDep Ratio	
<b>Small Cap Independent Producers</b>								
Peyto Exploration and Development C	PEYUF		25.89	0.98	1.60	1.12	1.27	1.07
Range Resources	RRC	B	70.50	0.95	1.25	1.02	1.10	1.01
PDC Energy	PDCE		32.62	0.88	1.31	1.05	1.04	1.05
Birchcliff Energy Ltd.	BIREF	B	8.62	0.64	1.44	1.14	1.04	0.78
Cimarex Energy Company	XEC	B	63.74	0.76	1.29	1.05	1.01	0.63
Continental Resources (32%)	CLR	B	78.40	0.83	1.32	1.03	1.01	0.81
Whiting Petroleum Corporation	WLL	B	48.16	0.80	1.24	1.02	1.00	0.62
Denbury Resources Inc.	DNR		16.60	0.84	1.16	1.02	0.99	0.68
Berry Petroleum Company	BRY		41.09	0.81	1.15	1.03	0.98	0.71
Halcón Resources	HK		7.16	0.61		0.96		0.77
	<i>Median</i>			<i>0.82</i>	<i>1.29</i>	<i>1.03</i>	<i>1.01</i>	<i>0.78</i>
<b>Top Line Cash Payers</b>								
Freehold Royalties Ltd.	FRHLF		20.80	0.98	1.23	1.04	1.08	0.99
Dorchester Minerals, L.P.	DMLP	B	23.21	0.87	1.17	1.04	1.01	0.86
Sabine Royalty Trust	SBR		50.27	0.75	1.10	0.95	0.90	0.77
Permian Basin RT	PBT		15.03	0.65	1.05	0.93	0.79	0.75
Cross Timbers Royalty Trust	CRT		27.77	0.55	1.01	0.81	0.71	0.63
	<i>Median</i>			<i>0.75</i>	<i>1.10</i>	<i>0.95</i>	<i>0.90</i>	<i>0.77</i>
<b>Bottom Line Cash Payers</b>								
Legacy Reserves L.P.	LGCY		29.78	0.97	1.21	1.04	1.05	0.99
Vanguard Natural Resources, LLC	VNR		29.95	1.00	1.17	1.03	1.05	1.11
Linn Energy, LLC	LINE		41.67	0.99	1.11	1.02	1.05	1.19
Enerplus Corporation	ERF	CB	17.17	0.69	1.28	1.04	0.97	0.88
San Juan Basin Royalty Trust	SJT	CB	14.68	0.58	1.22	1.02	0.89	0.70
Mesa RoyaltyTrust	MTR		27.10	0.61	1.19	1.06	0.83	0.68
Hugoton RoyaltyTrust	HGT		7.01	0.31	1.23	1.04	0.66	0.50
	<i>Median</i>			<i>0.69</i>	<i>1.21</i>	<i>1.04</i>	<i>0.97</i>	<i>0.88</i>

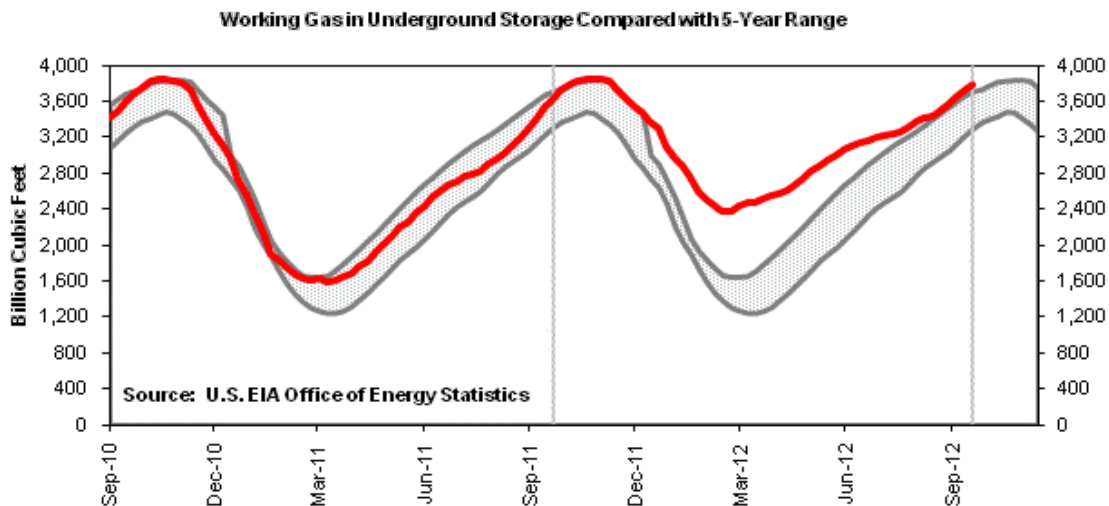
CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.



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