



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

May 10, 2013

## Continental Resources (CLR)

### Raise NPV to \$110 from \$100 on Oil Growth

<i>Symbol</i>	CLR	<i>Ebitda Next Twelve Months ending 3/31/14 (US\$m)</i>	2,945
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	13
<i>Price (\$/sh)</i>	83.99	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	5/9/13	<i>Adjusted Reserves/Production NTM</i>	10.5
<i>Shares (mm)</i>	185	<i>EV/Ebitda</i>	6.7
<i>Market Capitalization (\$mm)</i>	15,540	<i>PV/Ebitda</i>	8.3
<i>Debt (\$mm)</i>	4,200	<i>Undeveloped Reserves (%)</i>	59
<i>Enterprise Value (EV) (\$mm)</i>	19,710	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	55.90
<i>Present Value (PV) (\$mm)</i>	24,520	<i>Present Value Proven Reserves(\$/boe)</i>	31.26
<i>Net Present Value (\$/share)</i>	110	<i>Oil and Gas Ebitda Margin (%)</i>	77
<i>Debt/Present Value</i>	0.17	<i>Earnings Next Twelve Months (US\$/sh)</i>	5.38
<i>McDep Ratio - EV/PV</i>	0.80	<i>Price/Earnings Next Twelve Months</i>	16
<i>Dividend Yield (%/year)</i>	0.0	<i>Indicated Annual Dividend (US\$/sh)</i>	0.00
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.			
Chairman and Chief Executive Harold Hamm owns about 68% of the equity in Continental Resources.			
For historical analysis of CLR see <a href="http://www.mcdep.com/4clr.htm">www.mcdep.com/4clr.htm</a>			

## Summary and Recommendation

Buy-recommended **Continental Resources (CLR)** is ahead of trend compared to 35-40% management guidance for oil volume growth in 2013 and 25% a year targeted in a 5-year effort to triple production. Oil and gas was up 42% from a year ago in the first quarter of 2013 reported on May 9. We raise our estimate of Net Present Value (NPV) to \$110 a share from \$100 because that is what it takes to keep NPV within a tolerable limit of value compared to other producers on the basis of Next Twelve Months Cash Flow times a multiple that depends on adjusted reserve life (see tables Operating and Financial Estimates and Cash Flow and Present Value on page 2). The comparison takes account of growth expected in the year ahead. Fast growth beyond that period, on a debt and share adjusted basis and with comparable growth in reserves, would likely create extra value and help CLR stock to outperform. Mr. Harold Hamm, founder and owner of more than \$10 billion of CLR stock, stresses that value creation depends both on premier assets and operating excellence. To that point, CLR was the first to frack the Bakken horizontally and recently became the first to sell Bakken crude oil coast to coast via rail and pipeline east, south and west from North Dakota. Chief Financial Officer John Hart adds the startling point that in a few months Bakken crude oil will exceed in volume Brent, the European benchmark crude. Next, he expects Bakken to become a North American benchmark, filling a role now played by the oft-quoted West Texas Intermediate. Turning high ambitions to reality keeps the outlook exciting for Continental Resources and other oil and gas small cap producers with valuation measures attractive for new investment (see Tables ISC-1 through ISC-4 on pages 3-6).

Kurt H. Wulff, CFA



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Continental Resources									
Next Twelve Months Operating and Financial Estimates									
									<i>Next</i>
	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Twelve</i>
	<i>3/31/12</i>	<i>12/31/12</i>	<i>2012</i>	<i>3/31/13</i>	<i>6/30/13</i>	<i>9/30/13</i>	<i>12/31/13</i>	<i>2013E</i>	<i>Months</i>
									<i>3/31/14</i>
<b>Volume</b>									
Natural Gas (mmcf)	154	182	<b>174</b>	213	228	244	261	<b>237</b>	<b>253</b>
Oil (mbd)	60	76	<b>68</b>	86	92	99	105	<b>96</b>	<b>102</b>
Total (mb)	7.8	9.8	<b>35.7</b>	10.9	11.8	12.8	13.7	<b>49.3</b>	<b>53</b>
Total (mmbd)	86	107	<b>98</b>	122	130	139	149	<b>135</b>	<b>144</b>
<b>Price</b>									
Henry Hub (\$/mmbtu)	2.73	3.40	<b>2.79</b>	3.34	4.05	4.09	4.23	<b>3.93</b>	<b>4.20</b>
Differential (\$/mmbtu)	(1.75)	(1.42)	<b>(1.41)</b>	(1.65)	(1.25)	(1.26)	(1.30)	<b>(1.38)</b>	<b>(1.31)</b>
Company (\$/mcf)	4.48	4.82	<b>4.20</b>	4.99	5.30	5.36	5.53	<b>5.31</b>	<b>5.50</b>
WTI Cushing (\$/bbl)	102.93	88.18	<b>94.16</b>	94.41	94.64	96.06	94.95	<b>95.02</b>	<b>94.77</b>
Differential	12.35	3.19	<b>9.57</b>	4.42	6.00	6.09	6.02	<b>5.65</b>	<b>6.04</b>
Company (\$/bbl)	90.58	84.99	<b>84.59</b>	89.99	88.64	89.97	88.93	<b>89.37</b>	<b>88.73</b>
Total (\$/bbl)	71.47	69.06	<b>66.90</b>	72.46	72.06	73.09	72.66	<b>72.58</b>	<b>72.47</b>
<b>Revenue (\$mm)</b>									
Natural Gas	63	81	<b>268</b>	96	110	120	133	<b>459</b>	<b>508</b>
Oil	494	597	<b>2,120</b>	697	743	816	863	<b>3,119</b>	<b>3,311</b>
Total	557	678	<b>2,388</b>	793	853	936	996	<b>3,578</b>	<b>3,819</b>
<b>Expense</b>									
Lease operating	41	57	<b>196</b>	62					
Production taxes	50	66	<b>228</b>	72					
General and administrative	25	35	<b>122</b>	34					
Total	116	158	<b>546</b>	168	195	214	228	<b>806</b>	<b>874</b>
<b>Ebitda</b>	441	520	<b>1,842</b>	625	658	722	768	<b>2,773</b>	<b>2,945</b>
Exploration	4	6	<b>24</b>	10	10	10	10	<b>40</b>	<b>40</b>
Deprec., Deplet., & Amort.	149	192	<b>691</b>	214	237	256	274	<b>981</b>	<b>1,054</b>
Other	53	(20)	<b>46</b>	21	22	33	37	<b>113</b>	<b>131</b>
<b>Ebit</b>	234	342	<b>1,081</b>	380	389	422	446	<b>1,638</b>	<b>1,720</b>
Interest	24	46	<b>141</b>	47	47	47	47	<b>188</b>	<b>188</b>
<b>Ebt</b>	210	296	<b>940</b>	333	342	375	399	<b>1,450</b>	<b>1,532</b>
Income Tax	74	104	<b>329</b>	117	120	131	140	<b>508</b>	<b>536</b>
<b>Net Income (\$mm)</b>	137	192	<b>611</b>	216	222	244	260	<b>943</b>	<b>996</b>
Per Share (\$)	0.76	1.04	<b>3.35</b>	1.17	1.20	1.32	1.40	<b>5.10</b>	<b>5.38</b>
<b>Shares (millions)</b>	180	185	<b>182</b>	185	185	185	185	<b>185</b>	<b>185</b>
Ebitda Margin	79%	77%	<b>77%</b>	79%	77%	77%	77%	<b>77%</b>	<b>77%</b>
Tax rate	35%	35%	<b>35%</b>	35%	35%	35%	35%	<b>35%</b>	<b>35%</b>

Continental Resources					
Functional Cash Flow and Present Value					
					<i>Present</i>
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Value</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>(US\$mm)</i>	
North American Natural Gas	392	10.2	11.5	4,500	18%
Oil	2,553	10.6	7.9	20,050	82%
	2,945	10.5	8.3	24,550	100%
Debt (US\$mm)					4,200
Net Present Value (US\$mm)					20,350
Shares (mm)					185
Net Present Value - Standard Estimate (US\$/sh)					110
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					120



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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	9-May	Market	Value	Nat	Ebitda	NTM	Yield	McDep			
CB (see below)	2013	Cap	(\$mm)	Gas	Oil	NTM	(\$/un)	(%)	Ratio		
<b>Small Cap Independent Producers</b>											
PDC Energy	PDCE	48.63	1.40	2,110	30	70	10.1	-	-	0.98	
Peyto Exploration and Development Cor	PEYUF	29.13	1.17	4,920	77	23	10.3	0.72	2.5	0.92	
Range Resources	RRC	B 75.96	1.29	15,830	66	34	13.6	0.16	0.2	0.88	
Continental Resources (32%)	CLR	B 83.99	1.27	6,300	18	82	6.7	-	-	0.80	
Halcón Resources	HK	6.20	1.94	5,030	12	88	6.4	-	-	0.76	
Berry Petroleum Company	BRY	44.82	1.74	4,310	12	88	6.6	0.32	0.7	0.76	
Birchcliff Energy Ltd.	BIREF	B 7.77	1.40	1,780	68	32	9.0	-	-	0.72	
Denbury Resources Inc.	DNR	18.00	1.37	9,410	5	95	5.9	-	-	0.71	
Cimarex Energy Company	XEC	B 71.74	1.23	7,620	40	60	5.5	0.56	0.8	0.70	
Whiting Petroleum Corporation	WLL	B 46.90	1.46	8,150	7	93	4.3	-	-	0.62	
<i>Total or Median</i>				1.38	65,500	24	76	6.6		0.76	
<b>Leveraged Cash Payers</b>											
Vanguard Natural Resources, LLC	VNR	29.52	1.56	2,980	37	63	11.2	2.46	8.3	1.11	
Linn Energy, LLC	LINE	34.50	1.78	13,860	43	57	10.4	2.90	8.4	1.08	
Legacy Reserves L.P.	LGCY	26.70	1.61	2,450	19	81	10.1	2.30	8.6	0.93	
Enerplus Corporation	ERF	14.25	1.63	4,600	31	69	6.2	1.08	7.6	0.77	
<i>Total or Median</i>				1.62	23,900	34	66	10.3		8.4	1.00
<b>RTF Cash Payers</b>											
Freehold Royalties Ltd.	FRHLF	23.83	TL	1,640	27	73	11.1	1.67	7.0	1.13	
Dorchester Minerals, L.P.	DMLP	B 24.59	TL	750	61	39	11.6	2.06	8.4	0.91	
Enduro Royalty Trust (40%)	NDRO	16.40	BL	220	41	59	8.9	1.53	9.3	0.86	
Sabine Royalty Trust	SBR	51.42	TL	750	45	55	12.8	4.03	7.8	0.79	
Mesa RoyaltyTrust	MTR	25.13	BL	47	75	25	9.5	2.13	8.5	0.79	
San Juan Basin Royalty Trust	SJT	B 15.32	BL	710	100	-	8.4	1.29	8.4	0.73	
Cross Timbers Royalty Trust	CRT	28.89	TL	170	80	20	11.9	2.18	7.5	0.66	
Hugoton RoyaltyTrust	HGT	9.08	BL	360	89	11	8.8	0.89	9.8	0.65	
Permian Basin RT	PBT	12.49	TL	580	31	69	7.5	0.96	7.7	0.62	
<i>Total or Median</i>				5,200	61	39	9.5		8.4	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 \$6 a million btu for natural gas.											
Dist. = Income distribution. NTM = Next Twelve Months Ended March 31, 2014. Enterprise Value = Market Cap and Debt.											
TL = Top Line income sources, BL = Bottom Line income sources											



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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		9-May 2013	(mm)				
<b>Small Cap Independent Producers</b>								
PDC Energy	PDCE		48.63	31.0	1,510	50.00	0.28	0.98
Peyto Exploration and Development Corp.	PEYUF		29.13	145.0	4,220	32.00	0.13	0.92
Range Resources	RRC	B	75.96	161.0	12,230	90.00	0.20	0.88
Continental Resources (32%)	CLR	B	83.99	59.2	4,970	110.00	0.17	0.80
Halcón Resources	HK		6.20	420.0	2,600	10.00	0.37	0.76
Berry Petroleum Company	BRY		44.82	55.3	2,480	70.00	0.32	0.76
Birchcliff Energy Ltd.	BIREF	B	7.77	163.0	1,270	12.00	0.21	0.72
Denbury Resources Inc.	DNR		18.00	383.0	6,890	28.00	0.19	0.71
Cimarex Energy Company	XEC	B	71.74	86.6	6,210	110.00	0.13	0.70
Whiting Petroleum Corporation	WLL	B	46.90	119.0	5,580	88.00	0.20	0.62
<i>Total or Median</i>					47,960		0.20	0.76
<b>Leveraged Cash Payers</b>								
Vanguard Natural Resources, LLC	VNR		29.52	64.8	1,910	25.00	0.40	1.11
Linn Energy, LLC	LINE		34.50	226.0	7,800	30.00	0.47	1.08
Legacy Reserves L.P.	LGCY		26.70	57.1	1,530	30.00	0.35	0.93
Enerplus Corporation	ERF		14.25	196.0	2,790	21.00	0.30	0.77
<i>Total or Median</i>					14,030		0.37	1.00
<b>RTF Cash Payers</b>								
Freehold Royalties Ltd.	FRHLF		23.83	66.2	1,580	21.00	0.04	1.13
Dorchester Minerals, L.P.	DMLP	B	24.59	30.7	750	27.00	-	0.91
Enduro Royalty Trust (40%)	NDRO		16.40	13.2	220	19.00	-	0.86
Sabine Royalty Trust	SBR		51.42	14.6	750	65.00	-	0.79
Mesa Royalty Trust	MTR		25.13	1.9	47	32.00	-	0.79
San Juan Basin Royalty Trust	SJT	B	15.32	46.6	710	21.00	-	0.73
Cross Timbers Royalty Trust	CRT		28.89	6.0	170	44.00	-	0.66
Hugoton Royalty Trust	HGT		9.08	40.0	360	14.00	-	0.65
Permian Basin RT	PBT		12.49	46.6	580	20.00	-	0.62
<i>Total or Median</i>					5,170			0.79
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 \$6 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		9-May 2013	Royalty (%)	Ebitda	NTM	NTM	NTM
<b>Small Cap Independent Producers</b>								
Range Resources	RRC	B	75.96		-	14.2	15.5	13.6
Peyto Exploration and Development Corp	PEYUF		29.13		0.25	10.6	11.1	10.3
PDC Energy	PDCE		48.63		-	16.7	10.3	10.1
Birchcliff Energy Ltd.	BIREF	B	7.77		-	19.5	12.5	9.0
Continental Resources (32%)	CLR	B	83.99		-	10.5	8.3	6.7
Berry Petroleum Company	BRY		44.82		-	12.1	8.7	6.6
Halcón Resources	HK		6.20		-	4.6	8.5	6.4
Denbury Resources Inc.	DNR		18.00		-	14.1	8.3	5.9
Cimarex Energy Company	XEC	B	71.74		-	7.8	8.0	5.5
Whiting Petroleum Corporation	WLL	B	46.90		-	8.7	6.9	4.3
	<i>Median</i>					<i>11.3</i>	<i>8.6</i>	<i>6.6</i>
<b>Leveraged Cash Payers</b>								
Vanguard Natural Resources, LLC	VNR		29.52		0.99	11.0	10.1	11.2
Linn Energy, LLC	LINE		34.50		0.94	13.9	9.7	10.4
Legacy Reserves L.P.	LGCY		26.70		0.83	11.0	10.9	10.1
Enerplus Corporation	ERF		14.25		0.41	6.7	8.0	6.2
	<i>Median</i>					<i>11.0</i>	<i>9.9</i>	<i>10.3</i>
<b>RTF Cash Payers</b>								
Sabine Royalty Trust	SBR		51.42	100	1.00	8.9	16.1	12.8
Cross Timbers Royalty Trust	CRT		28.89	97	0.90	13.0	18.1	11.9
Dorchester Minerals, L.P.	DMLP	B	24.59	77	0.97	6.4	12.7	11.6
Freehold Royalties Ltd.	FRHLF		23.83	88	0.78	4.6	9.8	11.1
Mesa Royalty Trust	MTR		25.13		0.81	4.9	12.1	9.5
Enduro Royalty Trust (40%)	NDRO		16.40		0.84	6.1	10.4	8.9
Hugoton Royalty Trust	HGT		9.08		0.86	13.0	13.5	8.8
San Juan Basin Royalty Trust	SJT	B	15.32		0.70	10.3	11.5	8.4
Permian Basin RT	PBT		12.49	58	0.57	12.7	12.0	7.5
	<i>Median</i>					<i>8.9</i>	<i>12.1</i>	<i>9.5</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 March 31, 2014; 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										
McDep Income and Small Cap Energy Portfolio										
Total Return and Enterprise Value Momentum										
			Price (\$/sh)	Equity Total	Enterprise Value/					
	Symbol/ Rating		9-May 2013	Return YTD (%)	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	McDep Ratio	
<b>Small Cap Independent Producers</b>										
	PDC Energy	PDCE	48.63	46	0.93	1.76	1.02	1.22	0.98	
	Peyto Exploration and Development C	PEYUF	29.13	27	0.99	1.63	1.08	1.17	0.92	
	Cimarex Energy Company	XEC	B	71.74	24	0.92	1.41	1.00	1.10	0.70
	Berry Petroleum Company	BRY		44.82	34	0.95	1.23	0.97	1.07	0.76
	Range Resources	RRC	B	75.96	21	0.93	1.30	0.98	1.07	0.88
	Continental Resources (32%)	CLR	B	83.99	14	0.91	1.27	1.00	1.06	0.80
	Denbury Resources Inc.	DNR		18.00	11	0.96	1.25	1.00	1.05	0.71
	Birchcliff Energy Ltd.	BIREF	B	7.77	3	0.91	1.36	0.99	1.04	0.72
	Whiting Petroleum Corporation	WLL	B	46.90	8	0.90	1.20	0.99	1.01	0.62
	Halcón Resources	HK		6.20	(10)	0.71	1.14	0.94	0.93	0.76
	<i>Median</i>				18	0.92	1.29	0.99	1.07	0.76
<b>Leveraged Cash Payers</b>										
	Vanguard Natural Resources, LLC	VNR		29.52	17	0.99	1.17	1.03	1.03	1.11
	Legacy Reserves L.P.	LGCY		26.70	17	0.93	1.11	1.00	1.01	0.93
	Enerplus Corporation	ERF		14.25	14	0.88	1.14	1.01	1.00	0.77
	Linn Energy, LLC	LINE		34.50	2	0.88	1.00	0.95	0.94	1.08
	<i>Median</i>				15	0.91	1.13	1.00	1.00	1.00
<b>RTF Cash Payers</b>										
	Hugoton RoyaltyTrust	HGT		9.08	28	0.64	1.59	1.04	1.18	0.65
	Freehold Royalties Ltd.	FRHLF		23.83	10	0.98	1.40	1.04	1.10	1.13
	Dorchester Minerals, L.P.	DMLP	B	24.59	26	0.99	1.24	1.05	1.10	0.91
	Sabine Royalty Trust	SBR		51.42	33	0.89	1.32	1.07	1.06	0.79
	San Juan Basin Royalty Trust	SJT	B	15.32	15	0.81	1.27	0.99	1.04	0.73
	Mesa RoyaltyTrust	MTR		25.13	34	0.70	1.35	1.04	1.03	0.79
	Cross Timbers Royalty Trust	CRT		28.89	9	0.70	1.22	1.02	0.95	0.66
	Enduro Royalty Trust (40%)	NDRO		16.40	0	0.80	1.09	1.02	0.94	0.86
	Permian Basin RT	PBT		12.49	3	0.61	1.04	0.99	0.88	0.62
	<i>Median</i>				15	0.80	1.27	1.04	1.04	0.79

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

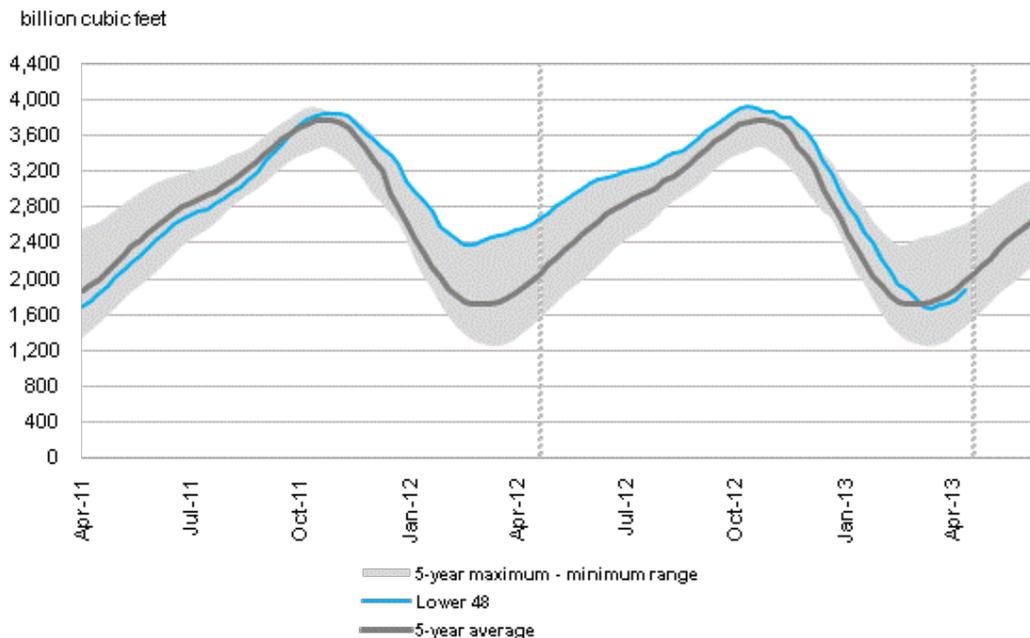


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**Working gas in underground storage compared with the 5-year maximum and minimum**



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