

Permian for Patient Investors

Summary and Recommendation

Units of **Permian Basin Royalty Trust (PBT)** may be timely for patient income investors while offering a 23% return to estimated net present value and priced at the lowest ratio of stock price to the 200-day average among income stocks in our coverage (see table [Rank by Price to 200-Day Average](#)). We see no apparent reason why the stock price should be lagging, particularly considering that oil price has been stronger than natural gas price lately and PBT is concentrated 62% on oil and 38% on natural gas (see column *Natural Gas/Ebitda*, table [Rank by NTM Distribution Yield](#)). Development spending should enhance future volume as indicated by distribution at a low 0.83 times cash flow (see column *Dist/Ebitda*). PBT also benefits from spending by others at no cost to PBT on 35% of its properties (see column *Revenue Royalty*). Reserves are reported too conservatively for valuation purposes at 8.7 years, but that has the beneficial advantage of allowing a high rate of depletion to be claimed by taxable investors (see column *Adjstd Reservs/Prod*, table [Rank by EV/Ebitda](#)). A low McDep Ratio is competitive with Buy-rated stocks (see table [Rank by McDep Ratio](#)). Finally, our estimated distribution yield for the next year is 10% for PBT while the median is 8.9% for U.S. royalty trusts and 10.7% for Canadian income trusts.

Kurt H. Wulff, CFA

Natural Gas and Oil Royalty Trusts Rank by Price to 200-Day Average

	<i>Symbol</i>		<i>Price</i> <i>(\$/sh)</i>			<i>Price/</i>	<i>Price/</i>
	<i>Rating</i>	<i>5-Jul</i>	<i>60-Day</i>	<i>200-Day</i>	<i>60-Day</i>	<i>200-Day</i>	
		<i>2007</i>	<i>Average</i>	<i>Average</i>	<i>Average</i>	<i>Average</i>	
U.S. Royalty Trusts							
Mesa RoyaltyTrust	MTR	59.10	58.30	55.10	1.01	1.07	
Hugoton RoyaltyTrust	HGT	B	25.78	26.40	25.70	0.98	1.00
Dorchester Minerals, L.P.	DMLP		22.70	22.50	23.00	1.01	0.99
Sabine Royalty Trust	SBR		42.57	42.50	43.50	1.00	0.98
Cross Timbers Royalty Trust	CRT		43.11	43.80	45.70	0.98	0.94
San Juan Basin Royalty Trust	SJT	B	31.28	32.30	33.60	0.97	0.93
Permian Basin RT	PBT		13.38	13.70	15.00	0.98	0.89
						<i>0.98</i>	<i>0.98</i>
Canadian Income Trusts (US\$)							
Canadian Oil Sands Trust	COSWF	B	30.57	28.60	26.30	1.07	1.16
Pengrowth Energy Trust	PGH		19.30	18.20	17.70	1.06	1.09
Enerplus Resources Fund	ERF		48.55	46.10	45.30	1.05	1.07
Penn West Energy Trust	PWE	B	33.61	32.90	31.90	1.02	1.05
						<i>1.06</i>	<i>1.08</i>

Source: Bloomberg

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Natural Gas and Oil Royalty Trusts Rank by NTM Distribution Yield

	Symbol	Revenue Royalty (%)	Natural Gas/ Ebitda (%)	Dist/ Ebitda	Dist/ Equity Ebitda	NTM Distribution (\$mm)	NTM Distribution (\$/un)	Dist. Yield (%)
U.S. Royalty Trusts								
	CRT	84	70	0.97	0.97	22	3.61	8.4
	HGT	-	90	0.71	0.71	87	2.18	8.4
	SJT	-	98	0.81	0.81	123	2.65	8.5
	MTR	-	73	0.88	0.88	10	5.28	8.9
	SBR	100	55	1.00	1.00	55	3.80	8.9
	DMLP	64	73	1.00	1.00	59	2.08	9.2
	PBT	35	38	0.83	0.83	63	1.35	10.1
	<i>Total or Median</i>		73	0.88	0.88	400		8.9
Canadian Income Trusts (US\$)								
	COSWF	-	(9)	0.51	0.56	953	1.99	6.5
	ERF	-	45	0.63	0.73	589	4.77	9.8
	PWE	-	38	0.67	0.81	926	3.86	11.5
	PGH	-	43	0.91	1.28	693	2.84	14.7
	<i>Total or Median</i>		41	0.65	0.77	3,200		10.7
	KMP			0.80	1.75			6.0

NTM = Next Twelve Months Ended June 30, 2008

Ebitda = Earnings before interest, tax, depreciation and amortization

Natural Gas and Oil Royalty Trusts Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	Symbol/ Rating	Price (\$/sh) 5-Jul 2007	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
U.S. Royalty Trusts							
	CRT	43.11	12.3	12.4	11.6	11.9	8.4
	SBR	42.57	10.2	11.8	11.2	11.2	8.9
	DMLP	22.70	9.1	13.0	10.9	18.2	9.2
	MTR	59.10	23.7	11.6	9.8	11.2	8.9
	SJT	B 31.28	10.2	12.3	9.6	11.8	8.5
	HGT	B 25.78	14.0	11.0	8.4	11.8	8.4
	PBT	13.38	8.7	10.1	8.2	9.9	10.1
	<i>Median</i>		10.2	11.8	9.8	11.8	8.9
Canadian Income Trusts (US\$)							
	COSWF	B 30.57	21.1	10.9	8.8	11.4	6.5
	PGH	19.30	7.5	7.6	8.4	32.0	14.7
	ERF	48.55	9.0	7.9	7.5	14.4	9.8
	PWE	B 33.61	7.6	7.5	7.1	15.5	11.5
	<i>Median</i>		8.3	7.8	7.9	15.0	10.7

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2008; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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Natural Gas and Oil Royalty Trusts
Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 5-Jul 2007</i>	<i>Shares (mm)</i>	<i>Market Cap (\$mm)</i>	<i>Net Present Value (\$/un)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>
U.S. Royalty Trusts							
Sabine Royalty Trust	SBR	42.57	14.6	620	45.00	-	0.95
Cross Timbers Royalty Trust	CRT	43.11	6.0	260	46.00	-	0.94
Mesa RoyaltyTrust	MTR	59.10	1.9	110	70.00	-	0.84
Dorchester Minerals, L.P.	DMLP	22.70	28.2	640	27.00	-	0.84
Permian Basin RT	PBT	13.38	46.6	620	16.50	-	0.81
San Juan Basin Royalty Trust	SJT	B 31.28	46.6	1,460	40.00	-	0.78
Hugoton RoyaltyTrust	HGT	B 25.78	40.0	1,030	34.00	-	0.76
	<i>Total or Median</i>			4,700			0.84
Canadian Income Trusts (US\$)							
Pengrowth Energy Trust	PGH	19.30	244.0	4,710	17.00	0.29	1.10
Penn West Energy Trust	PWE	B 33.61	239.7	8,060	36.00	0.17	0.95
Enerplus Resources Fund	ERF	48.55	123.4	5,990	52.00	0.13	0.94
Canadian Oil Sands Trust	COSWF	B 30.57	479.0	14,640	39.00	0.08	0.80
	<i>Total or Median</i>			33,400		0.15	0.94

B = Buy

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

Permian Basin Royalty Trust
Valuation Summary

<i>Symbol</i>	PBT	<i>Ebitda Next Twelve Months ending 6/30/08 (US\$mm)</i>	76
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	38
<i>Price (US\$/sh)</i>	13.38	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	7/5/07	<i>Adjusted Reserves/Production NTM</i>	8.7
<i>Shares (mm)</i>	46.61	<i>EV/Ebitda</i>	8.2
<i>Market Capitalization (US\$mm)</i>	624	<i>PV/Ebitda</i>	10.1
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$mm)</i>	624	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	5.99
<i>Present Value (PV) (US\$mm)</i>	769	<i>Present Value Proven Reserves(US\$/boe)</i>	41.20
<i>Net Present Value (US\$/unit)</i>	16.50	<i>Present Value Proven Reserves(US\$/mcf)</i>	6.90
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/un)</i>	1.35
<i>McDep Ratio - EV/PV</i>	0.81	<i>Price/Earnings Next Twelve Months</i>	10
<i>Distribution Yield (%/year)</i>	10.1	<i>Distribution Next Twelve Months (US\$/sh)</i>	1.35

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.

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Natural Gas and Oil Royalty Trusts

A Weekly Analysis

July 6, 2007

Permian Basin Royalty Trust Next Twelve Months Operating and Financial Performance

	Q2	Q1	Q2E	Q3E	Q4E	Year	Q1E	Q2E	Next Twelve Months
	6/30/06	3/31/07	6/30/07	9/30/07	12/31/07	2007E	3/31/08	6/30/08	6/30/08
Volume									
Natural Gas (bcf)	1.43	1.50	1.40	1.45	1.45	5.80	1.45	1.40	5.75
Natural Gas (mmcf)	16.11	16.34	15.76	15.76	15.76	15.9	15.76	15.76	15.76
Days	89	92	89	92	92	365	92	89	365
Oil (mmb)	0.30	0.30	0.28	0.29	0.29	1.16	0.29	0.28	1.15
Oil (mbd)	3.39	3.23	3.16	3.16	3.16	3.2	3.16	3.16	3.16
Days	89	92	89	92	92	365	92	89	365
Total (bcfe)	3.24	3.28	3.09	3.20	3.20	12.77	3.20	3.09	12.68
Total (mmcf)	36.4	35.7	34.7	34.7	34.7	35.0	34.7	34.7	34.7
Price (Henry Hub and WTI Cushing lagged two months)									
Henry Hub (\$/mmbtu)	7.61	7.11	7.38	7.35	6.88	7.18	8.43	8.80	7.87
Differential (%)	5	(0)	-	-	-	(0)	-	-	0
Trust (\$/mcf)	7.23	7.14	7.38	7.35	6.88	7.19	8.43	8.80	7.86
WTI Cushing (\$/bbl)	64.68	58.46	61.31	67.29	71.46	64.63	72.17	72.37	70.82
Differential	7.24	6.48	6.79	7.46	7.92	7.16	8.00	8.02	7.86
Trust (\$/bbl)	57.44	51.98	54.52	59.83	63.54	57.47	64.17	64.35	62.96
Total (\$/bbl)	51.22	47.80	49.88	52.69	53.45	50.94	58.01	59.11	55.79
Revenue (\$mm)									
Natural Gas	10.4	10.7	10.4	10.6	10.0	41.7	12.2	12.3	45.2
Oil	17.3	15.4	15.3	17.4	18.5	66.7	18.7	18.1	72.7
Balance	(5.6)	(5.4)	(5.3)	(5.8)	(5.8)	(22.3)	(6.3)	(6.3)	(24.2)
Total	22.1	20.8	20.4	22.3	22.6	86.1	24.5	24.2	93.6
Expense									
Operating	2.8	3.6	3.0	3.0	3.0	12.7	3.0	3.0	12.1
Production taxes	1.1	1.2	1.1	1.2	1.2	4.6	1.3	1.3	4.9
Other	0.2	0.3	0.2	0.1	0.1	0.7	0.3	0.2	0.7
Total	4.1	5.1	4.3	4.3	4.3	18.0	4.6	4.5	17.7
Ebitda									
Development	4.2	2.1	3.3	3.3	3.3	11.9	3.3	3.3	13.1
Distributable Income (\$mm)									
Per Share (\$)	0.30	0.29	0.28	0.32	0.32	1.21	0.36	0.35	1.35
Shares (millions)									
Dist Inc/Revenue	63%	65%	63%	66%	67%	65%	68%	68%	67%
Ebitda Margin	82%	76%	79%	81%	81%	79%	81%	81%	81%

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