



## Thriving in Debt-Stressed Market

### Summary and Recommendation

Low McDep Ratio energy income stocks offer relatively safe haven at a time when high-debt entities are under stress. Buy-recommended **Hugoton Royalty Trust (HGT)** and **San Juan Basin Royalty Trust (SJT)** along with U.S. peers have no debt and are benefiting from favorable natural gas price momentum. Canadian income stocks, including buy-recommended **Canadian Oil Sands Trust (COSWF)** and **Penn West Energy Trust (PWE)**, have low to moderate debt which may be more justified over the next few years until about 2013 when low taxation of distributions may end. Most concentrated on the commodity and having the longest-life production, our top oil recommendation, COSWF, appears priced for \$62 oil (McDep Ratio of 0.77 times \$80 basis for present value) when the average price for the next six years in the futures market is \$86 a barrel. Strengthened by two acquisitions just completed, PWE, our recommendation with the highest income distribution at 15% a year, appears well-positioned to be a winning investment in 2008 after a low total return in 2007. Finally, latest monthly distributions declared for six U.S. royalty trusts are all up from the previous month and the previous year (see charts).

Kurt H. Wulff, CFA

Natural Gas and Oil Income Stocks - Rank by McDep Ratio								
			Price (\$/sh)	Shares	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		18-Jan 2008	(mm)				
<b>U.S. Royalty Trusts</b>								
Permian Basin RT	PBT		16.49	46.6	770	18.00	-	0.92
San Juan Basin Royalty Trust	SJT	B	36.25	46.6	1,690	40.00	-	0.91
Cross Timbers Royalty Trust	CRT		41.97	6.0	250	47.00	-	0.89
Sabine Royalty Trust	SBR		42.02	14.6	610	48.00	-	0.88
Mesa Royalty Trust	MTR		56.87	1.9	110	70.00	-	0.81
Hugoton Royalty Trust	HGT	B	24.73	40.0	990	34.00	-	0.73
<i>Total or Median</i>					4,400			0.88
<b>Canadian Income Trusts (US\$)</b>								
Pengrowth Energy Trust	PGH		16.74	247.0	4,130	19.00	0.25	0.91
Canadian Oil Sands Trust	COSWF	B	33.96	479.0	16,270	45.00	0.06	0.77
Penn West Energy Trust	PWE	B	25.61	242.6	6,210	37.00	0.20	0.75
Enerplus Resources Fund	ERF		37.20	129.4	4,810	52.00	0.13	0.75
<i>Total or Median</i>					31,400		0.17	0.76
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S	56.00	179.3	10,040	17.00	0.54	2.06
Encore Energy Partners, L.P. (39%)	ENP		19.70	12.5	250	20.00	0.24	0.99
Linn Energy, LLC	LINE		22.02	114.0	2,510	27.00	0.30	0.87
Dorchester Minerals, L.P.	DMLP		20.34	28.2	570	27.00	-	0.75
<i>Total or Median</i>					13,400		0.27	0.93
B = Buy, S = Sell								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								

# Oil and Gas Income Stocks

A Weekly Analysis

January 20, 2008



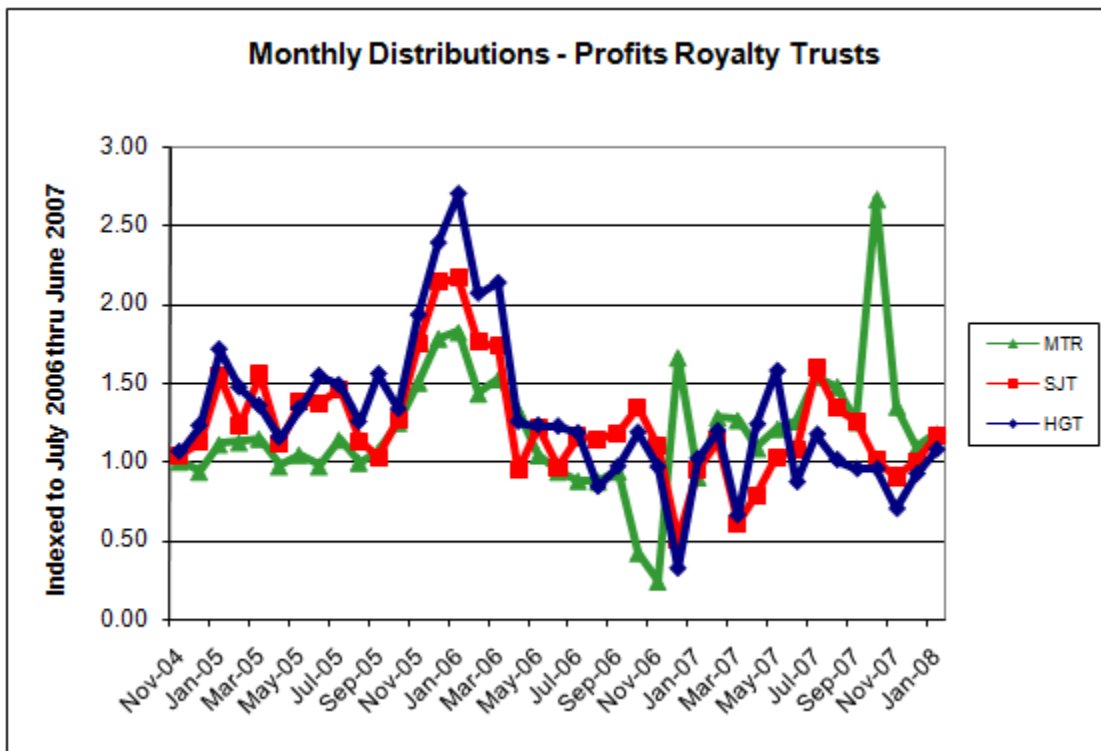
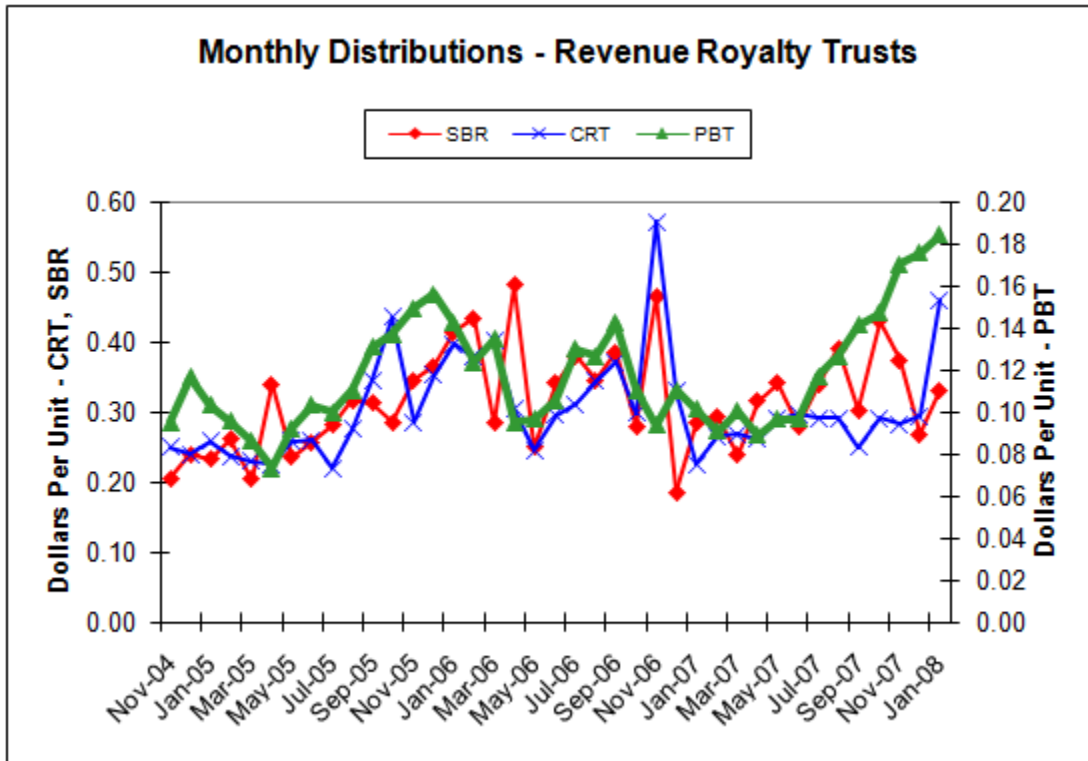
Natural Gas and Oil Income Stocks - Rank by EV/Ebitda									
			Price (\$/sh)	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	P/E	Divd or Distrib	
	Symbol/ Rating		18-Jan 2008	NTM	NTM	NTM	NTM	NTM (%)	
<b>U.S. Royalty Trusts</b>									
	San Juan Basin Royalty Trust	SJT	B	36.25	10.2	13.4	12.1	14.8	6.7
	Cross Timbers Royalty Trust	CRT		41.97	13.1	10.9	9.8	10.4	9.6
	Sabine Royalty Trust	SBR		42.02	9.2	9.9	8.7	8.7	11.5
	Hugoton Royalty Trust	HGT	B	24.73	13.4	11.3	8.2	11.5	8.7
	Permian Basin RT	PBT		16.49	8.2	9.0	8.2	9.2	10.8
	Mesa Royalty Trust	MTR		56.87	21.1	10.0	8.1	9.3	10.8
	<i>Median</i>				11.7	10.5	8.5	9.8	10.2
<b>Canadian Income Trusts (US\$)</b>									
	Canadian Oil Sands Trust	COSWF	B	33.96	23.2	10.1	7.7	9.1	9.4
	Pengrowth Energy Trust	PGH		16.74	7.4	6.9	6.3	17.4	16.2
	Enerplus Resources Fund	ERF		37.20	9.7	8.0	6.0	10.0	13.6
	Penn West Energy Trust	PWE	B	25.61	7.8	6.9	5.2	8.8	16.0
	<i>Median</i>				8.7	7.5	6.2	9.6	14.8
<b>U.S. Master Limited Partnerships (MLPs)</b>									
	Kinder Morgan Energy Partners, L.P.	KMP	S	56.00	7.6	7.9	16.3	35.4	6.3
	Linn Energy, LLC	LINE		22.02	20.8	13.7	11.9	32.8	10.4
	Encore Energy Partners, L.P.	ENP		19.70	12.4	9.5	9.4	92.6	7.9
	Dorchester Minerals, L.P.	DMLP		20.34	9.2	11.4	8.6	12.8	11.6
	<i>Median</i>				10.8	10.5	10.7	34.1	9.1
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2008; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses									

Natural Gas and Oil Income Stocks - Rank by NTM Distribution Yield									
				Natural Gas/ Ebitda	Dist/ Equity Ebitda	NTM Distribution (\$mm)	Dist (\$/un)	Dist Yield (%)	
	Symbol	Revenue Royalty (%)		(%)	Ebitda	Ebitda			
<b>U.S. Royalty Trusts</b>									
	San Juan Basin Royalty Trust	SJT		98	0.82	0.82	114	2.44	6.7
	Hugoton Royalty Trust	HGT		86	0.71	0.71	86	2.14	8.7
	Cross Timbers Royalty Trust	CRT		84	0.94	0.94	24	4.04	9.6
	Mesa Royalty Trust	MTR		-	0.88	0.88	11	6.13	10.8
	Permian Basin RT	PBT		35	0.89	0.89	83	1.79	10.8
	Sabine Royalty Trust	SBR		100	1.00	1.00	70	4.83	11.5
	<i>Total or Median</i>				0.88	0.88	400		10.2
<b>Canadian Income Trusts (US\$)</b>									
	Canadian Oil Sands Trust	COSWF		-	0.68	0.72	1,536	3.21	9.4
	Enerplus Resources Fund	ERF		-	0.67	0.78	654	5.05	13.6
	Penn West Energy Trust	PWE		-	0.61	0.76	992	4.09	16.0
	Pengrowth Energy Trust	PGH		-	0.74	0.99	668	2.71	16.2
	<i>Total or Median</i>				0.68	0.77	3,800		14.8
<b>U.S. Master Limited Partnerships (MLPs)</b>									
	Kinder Morgan Energy Partners	KMP		-	0.75	1.64	631	3.52	6.3
	Encore Energy Partners, L.P.	ENP		20	0.56	0.74	19	1.55	7.9
	Linn Energy, LLC	LINE		66	0.81	1.15	260	2.28	10.4
	Dorchester Minerals, L.P.	DMLP		64	1.00	1.00	67	2.36	11.6
	<i>Total or Median</i>				0.78	1.08	1,000		9.1
NTM = Next Twelve Months Ended December 31, 2008									
Ebitda = Earnings before interest, tax, depreciation and amortization									

# Oil and Gas Income Stocks

A Weekly Analysis

January 20, 2008



# *Oil and Gas Income Stocks*

*A Weekly Analysis*

January 20, 2008



**Disclaimer:** This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was doing business as McDep Associates. 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 does no investment banking business. McDep is not paid by covered companies including revenue from advertising, trading, consulting, subscriptions or research service. McDep shall not own more than 1% of outstanding stock in a covered company. No one at McDep is on the Board of Directors at a covered company nor is anyone at a covered company on the Board of Directors of McDep.

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 thirty 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.