

Oil and Gas Income Stocks

A Weekly Analysis

May 9, 2008



Raise Present Value 25%

Summary and Recommendation

Raising our long-term oil price to \$100 a barrel from \$80 a barrel we raise Net Present Value (NPV) for buy recommendations **Canadian Oil Sands Trust (COSWF)** 27%, **Penn West Energy Trust (PWE)** 22%, **San Juan Basin Royalty Trust (SJT)** 20% and **Hugoton Royalty Trust (HGT)** 25%. In roughly the same proportion as for oil, we raise our long-term price for natural gas to \$14 a million btu from \$11. Futures prices for oil to be delivered over the next six years have reached \$117 a barrel. The same measure for natural gas is at \$10 for U.S. markets while international trading of Liquefied Natural Gas (LNG) appears to have moved to the equivalent of oil price divided by 6 in new long-term contracts. In that case a price of \$100 for oil would translate to about \$17 for natural gas. On the new numbers, attractively priced income stocks fall within a McDep Ratio range of 0.73 to 1.05 (see table [Rank by McDep Ratio](#)). Median distribution yield projected for the Next Twelve Months (NTM) is 11% (see table [Rank by Distribution Yield](#)). NPV goes up more than Present Value (PV) when debt is considered as is the case for COSWF and PWE. We temper the increase in PV for PWE and the trusts and partnerships that use hedging. We also temper the increase in NPV for SJT for a somewhat weaker volume trend in recent years.

Kurt H. Wulff, CFA

| Natural Gas and Oil Income Stocks - Rank by McDep Ratio | | | | | | | | |
|--|-------|---------------|------------------|-------|-------------------------|------------------------------------|---------------------------|----------------|
| | | | Price (\$/sh) | | Market Cap (\$mm) | Net Present Value (\$/un) | Debt/ Present Value | McDep Ratio |
| Symbol/ Rating | | 8-May 2008 | Shares (mm) | | | | | |
| U.S. Royalty Trusts | | | | | | | | |
| Permian Basin RT | PBT | | 24.16 | 46.6 | 1,130 | 23.00 | - | 1.05 |
| Sabine Royalty Trust | SBR | | 56.74 | 14.6 | 830 | 60.00 | - | 0.95 |
| Cross Timbers Royalty Trust | CRT | | 51.51 | 6.0 | 310 | 57.00 | - | 0.90 |
| San Juan Basin Royalty Trust | SJT | B | 39.95 | 46.6 | 1,860 | 48.00 | - | 0.83 |
| Mesa Royalty Trust | MTR | | 71.47 | 1.9 | 130 | 93.00 | - | 0.77 |
| Hugoton Royalty Trust | HGT | B | 30.72 | 40.0 | 1,230 | 42.00 | - | 0.73 |
| <i>Total or Median</i> | | | | | 5,500 | | | 0.87 |
| Canadian Income Trusts (US\$) | | | | | | | | |
| Pengrowth Energy Trust | PGH | | 19.74 | 247.0 | 4,880 | 24.00 | 0.23 | 0.86 |
| Canadian Oil Sands Trust | COSWF | B | 48.41 | 479.0 | 23,190 | 57.00 | 0.04 | 0.86 |
| Enerplus Resources Fund | ERF | | 47.51 | 153.0 | 7,270 | 63.00 | 0.13 | 0.79 |
| Penn West Energy Trust | PWE | B | 31.73 | 372.6 | 11,820 | 45.00 | 0.20 | 0.76 |
| <i>Total or Median</i> | | | | | 47,200 | | 0.17 | 0.82 |
| U.S. Master Limited Partnerships (MLPs) | | | | | | | | |
| Kinder Morgan Energy Partners, L.P. | KMP | S | 59.87 | 188.2 | 11,270 | 17.00 | 0.57 | 2.09 |
| Encore Energy Partners, L.P. (32%) | ENP | | 22.98 | 10.2 | 240 | 26.00 | 0.20 | 0.91 |
| Dorchester Minerals, L.P. | DMLP | | 28.00 | 28.2 | 790 | 33.00 | - | 0.85 |
| Linn Energy, LLC | LINE | | 22.27 | 114.0 | 2,540 | 35.00 | 0.28 | 0.74 |
| <i>Total or Median</i> | | | | | 14,800 | | 0.24 | 0.88 |
| B = Buy, S = Sell | | | | | | | | |
| McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses | | | | | | | | |

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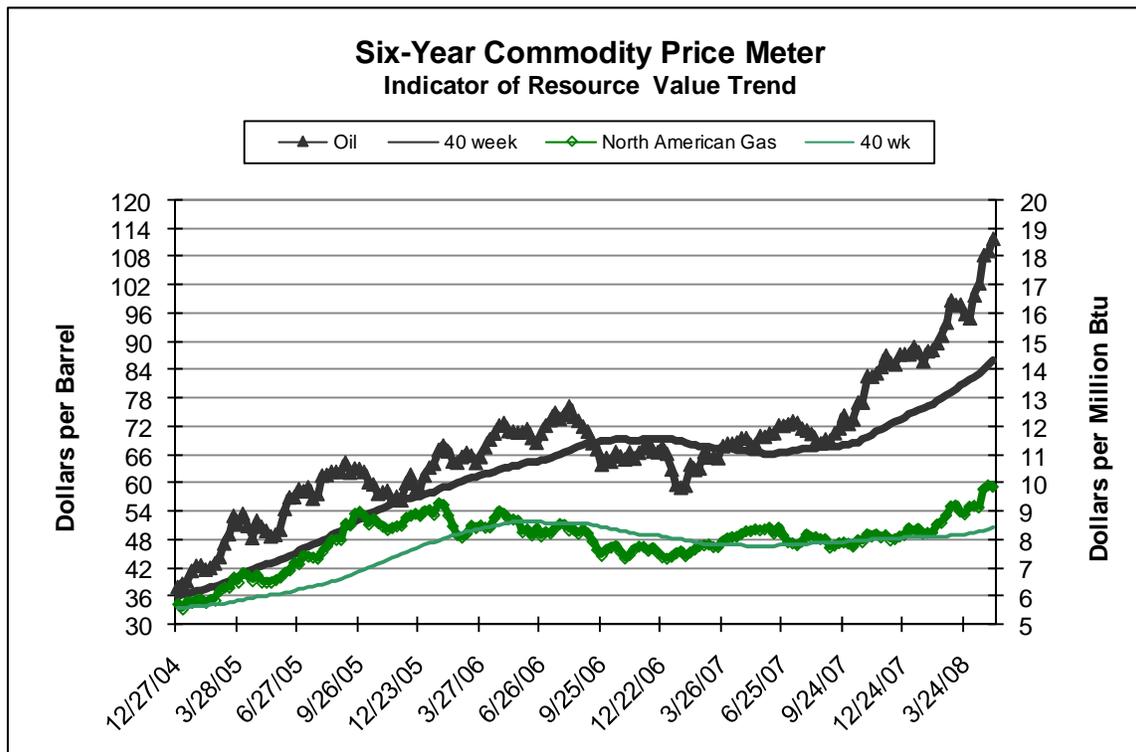
| Natural Gas and Oil Income Stocks - Rank by EV/Ebitda | | | | | | | | |
|--|---------------|---|------------------|-------------------|--------|--------|------|--------------------|
| | | | Price (\$/sh) | Adjstd Resrvs/ | PV/ | EV/ | | Divd or Distrib |
| | Symbol/ | | 8-May | Prod | Ebitda | Ebitda | P/E | NTM |
| | Rating | | 2008 | NTM | NTM | NTM | NTM | (%) |
| U.S. Royalty Trusts | | | | | | | | |
| Cross Timbers Royalty Trust | CRT | | 51.51 | 13.5 | 10.2 | 9.2 | 9.8 | 10.2 |
| Sabine Royalty Trust | SBR | | 56.74 | 9.2 | 9.2 | 8.7 | 8.7 | 11.6 |
| Permian Basin RT | PBT | | 24.16 | 8.2 | 7.9 | 8.3 | 8.9 | 11.2 |
| San Juan Basin Royalty Trust | SJT | B | 39.95 | 10.8 | 9.7 | 8.1 | 9.8 | 10.2 |
| Mesa RoyaltyTrust | MTR | | 71.47 | 21.1 | 9.7 | 7.4 | 8.5 | 11.8 |
| Hugoton RoyaltyTrust | HGT | B | 30.72 | 13.2 | 8.9 | 6.5 | 9.2 | 10.8 |
| | <i>Median</i> | | | 12.0 | 9.4 | 8.2 | 9.1 | 11.0 |
| Canadian Income Trusts (US\$) | | | | | | | | |
| Canadian Oil Sands Trust | COSWF | B | 48.41 | 23.2 | 10.2 | 8.7 | 10.2 | 8.2 |
| Enerplus Resources Fund | ERF | | 47.51 | 9.6 | 7.4 | 5.8 | 8.0 | 10.5 |
| Pengrowth Energy Trust | PGH | | 19.74 | 8.7 | 6.6 | 5.7 | 9.8 | 13.5 |
| Penn West Energy Trust | PWE | B | 31.73 | 7.3 | 6.2 | 4.7 | 10.2 | 12.7 |
| | <i>Median</i> | | | 9.2 | 7.0 | 5.7 | 10.0 | 11.6 |
| U.S. Master Limited Partnerships (MLPs) | | | | | | | | |
| Kinder Morgan Energy Partners, L.P. | KMP | S | 59.87 | 8.0 | 7.4 | 15.4 | 23.0 | 6.1 |
| Dorchester Minerals, L.P. | DMLP | | 28.00 | 8.6 | 9.7 | 8.2 | 10.6 | 12.1 |
| Linn Energy, LLC | LINE | | 22.27 | 19.1 | 10.0 | 7.4 | | 11.3 |
| Encore Energy Partners, L.P. | ENP | | 22.98 | 12.4 | 7.9 | 7.1 | | 6.7 |
| | <i>Median</i> | | | 10.5 | 8.8 | 7.8 | 16.8 | 9.0 |
| EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2009; 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/ | Dist/ | | | Dist. |
| | Symbol | Revenue Royalty (%) | Ebitda (%) | Dist/ Ebitda | Equity Ebitda | NTM Distribution (\$mm) | NTM Distribution (\$/un) | Yield (%) |
| U.S. Royalty Trusts | | | | | | | | |
| San Juan Basin Royalty Trust | SJT | - | 98 | 0.83 | 0.83 | 190 | 4.08 | 10.2 |
| Cross Timbers Royalty Trust | CRT | 84 | 68 | 0.94 | 0.94 | 32 | 5.28 | 10.2 |
| Hugoton RoyaltyTrust | HGT | - | 88 | 0.71 | 0.71 | 133 | 3.32 | 10.8 |
| Permian Basin RT | PBT | 32 | 36 | 0.94 | 0.94 | 127 | 2.72 | 11.2 |
| Mesa RoyaltyTrust | MTR | - | 68 | 0.88 | 0.88 | 16 | 8.41 | 11.8 |
| Sabine Royalty Trust | SBR | 100 | 56 | 1.00 | 1.00 | 96 | 6.55 | 11.6 |
| | <i>Total or Median</i> | | 68 | 0.91 | 0.91 | 600 | | 11.0 |
| Canadian Income Trusts (US\$) | | | | | | | | |
| Canadian Oil Sands Trust | COSWF | - | (8) | 0.68 | 0.71 | 1,891 | 3.95 | 8.2 |
| Enerplus Resources Fund | ERF | - | 49 | 0.50 | 0.58 | 761 | 4.97 | 10.5 |
| Penn West Energy Trust | PWE | - | 34 | 0.44 | 0.55 | 1,500 | 4.03 | 12.7 |
| Pengrowth Energy Trust | PGH | - | 39 | 0.57 | 0.73 | 658 | 2.66 | 13.5 |
| | <i>Total or Median</i> | | 36 | 0.54 | 0.64 | 4,800 | | 11.6 |
| U.S. Master Limited Partnerships (MLPs) | | | | | | | | |
| Kinder Morgan Energy Partners, | KMP | | - | 0.69 | 1.59 | 693 | 3.68 | 6.1 |
| Encore Energy Partners, L.P. | ENP | | 25 | 0.38 | 0.47 | 16 | 1.55 | 6.7 |
| Linn Energy, LLC | LINE | | 66 | 0.52 | 0.72 | 287 | 2.52 | 11.3 |
| Dorchester Minerals, L.P. | DMLP | 64 | 71 | 1.00 | 1.00 | 96 | 3.40 | 12.1 |
| | <i>Total or Median</i> | | 45 | 0.60 | 0.86 | 1,100 | | 9.0 |
| NTM = Next Twelve Months Ended March 31, 2009 | | | | | | | | |
| Ebitda = Earnings before interest, tax, depreciation and amortization | | | | | | | | |

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