



# Oil & Gas Income Stocks

A Weekly Analysis

July 18, 2008

## Upgrade Estimates for Encore Energy Partners, L.P.

### Summary and Recommendation

After recent volatility, latest futures prices and stock prices imply distribution yields for the next twelve months ranging from 10.7% to 15.2% for buy-recommended and complementary income stocks including Encore **Energy Partners (ENP)** (see table below, NTM Distribution Yield). We raised the distribution estimate for ENP in line with the partnership's policy to distribute half of incremental cash flow above a minimum level. Encouraged by operating performance we also raise estimated Net Present Value (NPV) for ENP to \$29 a unit from \$26 (see table Rank by McDep Ratio). The Brumleys, I. Jon and Jon S., believe they have created in ENP an investment comparable to the U.S. Royalty Trusts while adding downside commodity price protection and the ability to grow with acquisitions. Long reserve life (Adjstd Resrvs/Prod NTM) and low cash flow multiple support the new NPV for ENP (see table Rank by EV/Ebitda). Along with futures prices for oil and natural gas, stock prices for income stocks trend upward (see table Price to 200-Day Average). Meanwhile, we believe recent government actions to support mortgage insurers help sustain economic activity and energy demand. At the same time oil and gas investments help protect investors against the increased long-term risk of inflation as a result of the emergency actions of the U.S. Treasury and Federal Reserve.

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Natural Gas and Oil Income Stocks - Rank by NTM Distribution Yield								
			Natural					
		Revenue	Gas/		Dist/			Dist.
	Symbol	Royalty	Ebitda	Dist/	Equity	NTM Distribution		Yield
		(%)	(%)	Ebitda	Ebitda	(\$mm)	(\$/un)	(%)
<b>U.S. Royalty Trusts</b>								
San Juan Basin Royalty Trust	SJT	-	98	0.82	0.82	192	4.12	10.7
Cross Timbers Royalty Trust	CRT	84	70	0.95	0.95	36	6.01	10.9
Hugoton Royalty Trust	HGT	-	87	0.70	0.70	136	3.40	10.9
Mesa Royalty Trust	MTR	-	66	0.88	0.88	17	8.99	11.6
Sabine Royalty Trust	SBR	100	55	1.00	1.00	106	7.29	12.2
Permian Basin RT	PBT	32	33	0.94	0.94	141	3.03	13.7
	<i>Total or Median</i>		<i>68</i>	<i>0.91</i>	<i>0.91</i>	<i>600</i>		<i>11.2</i>
<b>Canadian Income Trusts (US\$)</b>								
Enerplus Resources Fund	ERF	-	46	0.44	0.51	770	5.03	12.4
Canadian Oil Sands Trust	COSWF	-	(7)	0.84	0.88	2,929	6.12	13.1
Penn West Energy Trust	PWE	-	32	0.43	0.58	1,617	4.29	14.6
Pengrowth Energy Trust	PGH	-	35	0.51	0.68	666	2.70	15.2
	<i>Total or Median</i>		<i>34</i>	<i>0.47</i>	<i>0.63</i>	<i>6,000</i>		<i>13.9</i>
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Kinder Morgan Energy Partners, L.P.	KMP	-	-	0.73	1.82	730	3.96	7.0
Encore Energy Partners, L.P.	ENP	-	19	0.62	0.75	32	3.10	11.5
Linn Energy, LLC	LINE	-	54	0.45	0.72	287	2.52	11.5
Dorchester Minerals, L.P.	DMLP	64	71	1.00	1.00	101	3.57	11.7
	<i>Total or Median</i>		<i>37</i>	<i>0.68</i>	<i>0.87</i>	<i>1,100</i>		<i>11.5</i>
NTM = Next Twelve Months Ended June 30, 2009								
Ebitda = Earnings before interest, tax, depreciation and amortization								



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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		17-Jul 2008	Shares (mm)				
<b>U.S. Royalty Trusts</b>								
Sabine Royalty Trust	SBR		59.85	14.6	870	60.00	-	1.00
Cross Timbers Royalty Trust	CRT		55.25	6.0	330	57.00	-	0.97
Permian Basin RT	PBT		22.09	46.6	1,030	23.00	-	0.96
Mesa Royalty Trust	MTR		77.50	1.9	140	93.00	-	0.83
San Juan Basin Royalty Trust	SJT	B	38.35	46.6	1,790	48.00	-	0.80
Hugoton Royalty Trust	HGT	B	31.18	40.0	1,250	42.00	-	0.74
	<i>Total or Median</i>				5,400			0.90
<b>Canadian Income Trusts (US\$)</b>								
Canadian Oil Sands Trust	COSWF	B	46.73	479.0	22,380	57.00	0.04	0.83
Pengrowth Energy Trust	PGH		17.73	247.0	4,380	24.00	0.25	0.80
Penn West Energy Trust	PWE	B	29.29	376.8	11,040	40.00	0.25	0.80
Enerplus Resources Fund	ERF		40.44	153.0	6,190	63.00	0.14	0.69
	<i>Total or Median</i>				44,000		0.20	0.80
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S	56.66	184.2	10,440	17.00	0.60	1.94
Encore Energy Partners, L.P. (32%)	ENP		26.96	10.2	280	29.00	0.17	0.94
Dorchester Minerals, L.P.	DMLP		30.39	28.2	860	33.00	-	0.92
Linn Energy, LLC	LINE		21.88	114.0	2,490	35.00	0.38	0.77
	<i>Total or Median</i>				14,100		0.27	0.93
B = Buy, S = Sell								
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 \$14 a million btu for natural gas.								

Natural Gas and Oil Income Stocks - Rank by EV/Ebitda								
			Price (\$/sh)	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	P/E	Divd or Distrib NTM (%)
	Symbol/ Rating		17-Jul 2008	NTM	NTM	NTM	NTM	
<b>U.S. Royalty Trusts</b>								
Cross Timbers Royalty Trust	CRT		55.25	13.9	9.0	8.7	9.2	10.9
Sabine Royalty Trust	SBR		59.85	9.1	8.2	8.2	8.2	12.2
Mesa Royalty Trust	MTR		77.50	21.1	9.1	7.5	8.6	11.6
San Juan Basin Royalty Trust	SJT	B	38.35	10.4	9.5	7.6	9.3	10.7
Permian Basin RT	PBT		22.09	8.4	7.2	6.9	7.3	13.7
Hugoton Royalty Trust	HGT	B	31.18	13.2	8.6	6.4	9.2	10.9
	<i>Median</i>			11.8	8.8	7.6	8.9	11.2
<b>Canadian Income Trusts (US\$)</b>								
Canadian Oil Sands Trust	COSWF	B	46.73	22.0	8.2	6.8	7.6	13.1
Pengrowth Energy Trust	PGH		17.73	8.9	6.0	4.8		15.2
Enerplus Resources Fund	ERF		40.44	9.6	6.4	4.4	7.5	12.4
Penn West Energy Trust	PWE	B	29.29	7.2	5.4	4.3	9.3	14.6
	<i>Median</i>			9.2	6.2	4.6	7.6	13.9
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S	56.66	8.0	7.8	15.2	22.9	7.0
Dorchester Minerals, L.P.	DMLP		30.39	8.5	9.3	8.5	11.1	11.7
Linn Energy, LLC	LINE		21.88	17.4	9.9	7.6		11.5
Encore Energy Partners, L.P.	ENP		26.96	11.9	7.0	6.6		11.5
	<i>Median</i>			10.2	8.5	8.1	17.0	11.5
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2009; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



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Natural Gas and Oil Income Stocks - Rank by Price to 200-Day Average							
			Price (\$/sh)				
	Symbol	Rating	17-Jul 2008	60-Day Average	200-Day Average	Price/ 60-Day Average	Price/ 200-Day Average
<b>U.S. Royalty Trusts</b>							
Cross Timbers Royalty Trust	CRT		55.25	53.38	46.71	1.04	1.18
Sabine Royalty Trust	SBR		59.85	61.91	52.17	0.97	1.15
Hugoton Royalty Trust	HGT	B	31.18	32.98	27.72	0.95	1.13
Permian Basin RT	PBT		22.09	23.89	19.65	0.92	1.12
Mesa Royalty Trust	MTR		77.50	75.76	69.61	1.02	1.11
San Juan Basin Royalty Trust	SJT	B	38.35	42.24	38.03	0.91	1.01
<i>Total or Median</i>						<i>0.96</i>	<i>1.12</i>
<b>Canadian Income Trusts (US\$)</b>							
Canadian Oil Sands Trust	COSWF	B	46.73	49.66	41.45	0.94	1.13
Penn West Energy Trust	PWE	B	29.29	32.53	29.60	0.90	0.99
Pengrowth Energy Trust	PGH		17.73	20.02	18.84	0.89	0.94
Enerplus Resources Fund	ERF		40.44	46.32	43.50	0.87	0.93
<i>Total or Median</i>						<i>0.89</i>	<i>0.97</i>
<b>Other Limited Partnerships (MLPs)</b>							
Dorchester Minerals, L.P.	DMLP		30.39	28.90	23.37	1.05	1.30
Encore Energy Partners, L.P. (32%)	ENP		26.96	24.95	21.34	1.08	1.26
Kinder Morgan Energy Partners, L.P.	KMP	S	56.66	58.40	55.53	0.97	1.02
Linn Energy, LLC	LINE		21.88	23.25	23.76	0.94	0.92
<i>Total or Median</i>						<i>1.01</i>	<i>1.14</i>

Source: Bloomberg, Yahoo, McDep LLC

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