



Oil & Gas Income Stocks

A Weekly Analysis

August 8, 2008

Penn West Energy Trust (PWE) Distribution Yield 13%

<i>Symbol</i>	PWE	<i>Ebitda Next Twelve Months ending 6/30/09 (US\$mm)</i>	3,090
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	28
<i>Price (US\$/un)</i>	28.96	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/7/08	<i>Adjusted Reserves/Production NTM</i>	7.5
<i>Units (mm)</i>	380	<i>EV/Ebitda</i>	5.3
<i>Market Capitalization (US\$mm)</i>	11,000	<i>PV/Ebitda</i>	6.6
<i>Debt (US\$mm)</i>	5,300	<i>Undeveloped Reserves (%)</i>	9
<i>Enterprise Value (EV) (US\$mm)</i>	16,300	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	43.55
<i>Present Value (PV) (US\$mm)</i>	20,500	<i>Present Value Proven Reserves(US\$/boe)</i>	36.56
<i>Net Present Value (US\$/unit)</i>	40	<i>Present Value Proven Reserves(US\$/mcfe)</i>	6.09
<i>Debt/Present Value</i>	0.26	<i>Earnings Next Twelve Months (US\$/un)</i>	2.35
<i>McDep Ratio - EV/PV</i>	0.80	<i>Price/Earnings Next Twelve Months</i>	12
<i>Distribution Yield (%/year)</i>	13.4	<i>Indicated Annual Distribution (US\$/un)</i>	3.87
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 unit revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$100 a barrel and natural gas, \$14 a million btu.			
For historical analysis of PWE since 2005 see www.mcdep.com/5pwt.htm			

Summary and Recommendation

Buy-recommended **Penn West Energy Trust (PWE)**, with estimated net present value (NPV) of \$40 a share, is our choice for investors who want the highest practical distribution yield, now 13.4%. We revert to estimating distributions at the current rate for PWE rather than trying to anticipate changes in rate. Record oil price benefited second quarter results released today. Lower volume than expected prompts us to lower future expectations to the low end of management's guidance range. Projected volumes along with current futures prices promise a high level of unlevered cash flow (Ebitda) (see table [Next Twelve Months Operating and Financial Estimates](#)). Projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) supports NPV (see table [Functional Cash Flow and Present Value](#)). Income sustainability is good as measured by a 0.64 ratio of distribution to equity Ebitda. Meanwhile long-term crude oil price remains in an uptrend where the latest quote of \$116 a barrel for delivery over the next six years is above the 40-week average of \$106 (see chart [Six-Year Commodity Price Meter](#)).

Weekly Income Stock Valuation Parameters

Buy recommendations including PWE have low McDep Ratios (see table, page 4). Taking account of next twelve months futures prices as of August 4, the median of our estimates of distribution yield for 14 stocks is 11% (see tables, bottom of page 4 and top of page 5).

Kurt H. Wulff, CFA



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Penn West Energy Trust									
Next Twelve Months Operating and Financial Estimates									
(Canadian dollars)									
									<i>Next Twelve Months</i>
	<i>Q2</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	
	<i>6/30/07</i>	<i>3/31/08</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008E</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>6/30/09</i>
Volume									
Natural Gas (mmcf)	334	500	487	507	507	500	507	507	507
Days	91	91	91	92	92	366	90	91	365
Oil (mbd)	71	109	109	110	110	110	110	110	110
Total gas & oil (bcf)	69	105	104	107	107	424	105	106	426
Total gas & oil (mbd)	127	192	191	195	195	193	195	195	195
Price									
Natural gas (\$/mcf)									
Henry Hub (US\$/mmbtu)	7.56	8.02	10.93	10.30	9.05	9.57	9.65	8.75	9.44
Currency (US\$/C\$)	0.91	1.00	0.95	0.95	0.95	0.96	0.95	0.95	0.95
Henry Hub (C\$/mmbtu)	8.29	8.05	11.51	10.85	9.52	9.99	10.16	9.22	9.94
Company (C\$/mcf)	7.65	7.98	10.20	9.61	8.44	9.05	9.00	8.17	8.81
Oil (\$/bbl)									
WTI Cushing (US\$)	64.91	97.94	123.97	124.47	119.79	116.55	119.79	119.86	120.98
WTI Cushing (C\$/bbl)	71.25	98.40	130.54	131.07	126.14	121.54	126.13	126.21	127.39
Company (C\$/bbl)	58.40	83.22	107.17	107.60	103.56	100.45	103.56	103.62	104.59
Total gas & oil (\$/mcf)	8.82	11.32	14.60	14.32	13.43	11.05	13.67	13.31	10.92
Revenue (\$mm)									
Natural Gas	233	363	452	448	394	1,657	411	377	1,629
Oil	377	826	1,067	1,089	1,048	4,030	1,025	1,037	4,199
Other	(114)	(214)	(267)	(270)	(253)	(1,005)	(330)	(325)	(1,178)
Total	495	975	1,252	1,267	1,188	4,682	1,106	1,089	4,651
Expense		292	313	380	356	1,342	332	327	1,395
Ebitda (\$mm)	346	682	939	887	832	3,340	774	762	3,256
Deprec., Deplet., & Amort.	218	396	394	394	394	1,578	394	420	1,602
Hedging and other	(36)	210	497	277	186	1,170	31	28	522
Ebit	164	76	48	216	251	592	349	315	1,131
Interest	24	52	48	48	48	196	48	48	192
Ebt	140	24	-	168	203	396	301	267	939
Income Tax		(55)				(55)			-
Net Income (\$mm)	140	79	-	168	203	451	301	267	939
Shares (millions)	242	361	380	380	380	377	380	380	380
Per share (\$)	0.58	0.22	-	0.44	0.54	1.20	0.79	0.70	2.47
Ebitda Margin - O&G	70%	70%	75%	70%	70%	71%	70%	70%	70%
Tax Rate	0%	-225%		0%	0%	-14%	0%	0%	0%
Distribution (\$mm)	246	368	388	388	388	1,536	388	388	1,550
Per share (\$)	1.02	1.02	1.02	1.02	1.02	4.08	1.02	1.02	4.08

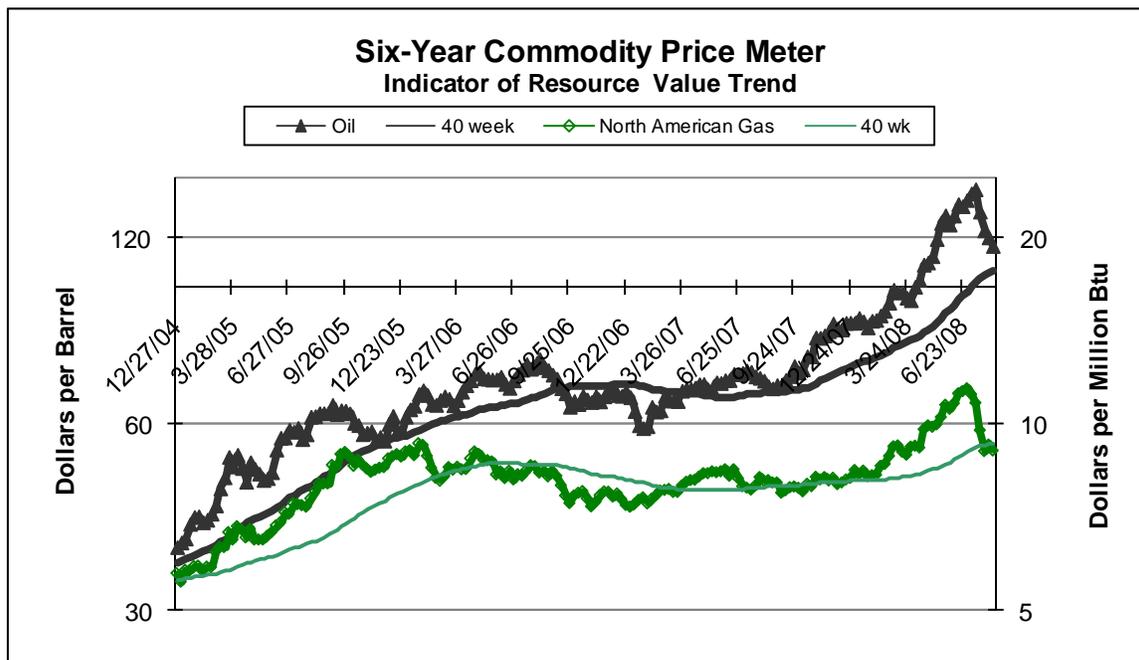


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Penn West Energy Trust					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
North American Natural Gas	860	6.1	7.3	6,300	31%
Oil	2,230	8.6	6.4	14,200	69%
	3,090	7.5	6.6	20,500	100%
Debt (US\$mm)					5,300
Net Present Value (US\$mm)					15,200
Shares (mm)					380
Net Present Value - Standard Estimate (US\$/sh)					40
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					37



Updated with settlement prices for August 7, 2008.



Oil & Gas Income Stocks

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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		7-Aug 2008	Shares (mm)				
U.S. Royalty Trusts								
Sabine Royalty Trust	SBR		64.88	14.6	950	60.00	-	1.08
Permian Basin RT	PBT		21.40	46.6	1,000	23.00	-	0.93
Cross Timbers Royalty Trust	CRT		49.35	6.0	300	57.00	-	0.87
Mesa Royalty Trust	MTR		73.40	1.9	140	93.00	-	0.79
San Juan Basin Royalty Trust	SJT	B	37.45	46.6	1,750	48.00	-	0.78
Hugoton Royalty Trust	HGT	B	29.72	40.0	1,190	42.00	-	0.71
<i>Total or Median</i>					5,300			0.83
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	B	47.30	479.9	22,700	57.00	0.04	0.84
Penn West Energy Trust	PWE	B	28.96	380.0	11,000	40.00	0.26	0.80
Pengrowth Energy Trust	PGH		16.60	247.0	4,100	24.00	0.24	0.77
Enerplus Resources Fund	ERF		39.99	164.5	6,580	63.00	0.13	0.68
<i>Total or Median</i>					44,400		0.19	0.78
U.S. Master Limited Partnerships (MLPs)								
Kinder Morgan Energy Partners, L.P.	KMP	S	55.12	184.2	10,160	17.00	0.60	1.90
Dorchester Minerals, L.P.	DMLP		29.91	28.2	850	33.00	-	0.91
Encore Energy Partners, L.P. (32%)	ENP		24.01	10.2	250	29.00	0.17	0.86
Linn Energy, LLC	LINE		19.89	114.0	2,270	35.00	0.38	0.73
<i>Total or Median</i>					13,500		0.27	0.88
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 NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
	Symbol/ Rating		7-Aug 2008					
U.S. Royalty Trusts								
Sabine Royalty Trust	SBR		64.88	8.9	8.3	9.0	9.0	11.2
Cross Timbers Royalty Trust	CRT		49.35	13.9	9.9	8.6	9.1	11.0
San Juan Basin Royalty Trust	SJT	B	37.45	10.4	11.0	8.6	10.5	9.5
Mesa Royalty Trust	MTR		73.40	21.1	10.1	8.0	9.1	11.0
Permian Basin RT	PBT		21.40	8.4	7.9	7.3	7.8	12.8
Hugoton Royalty Trust	HGT	B	29.72	13.1	9.7	6.9	9.9	10.1
<i>Median</i>				11.8	9.8	8.3	9.1	11.0
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	B	47.30	22.3	9.6	8.0	9.2	11.7
Pengrowth Energy Trust	PGH		16.60	8.9	7.0	5.3		15.5
Enerplus Resources Fund	ERF		39.99	9.6	7.7	5.3		13.2
Penn West Energy Trust	PWE	B	28.96	7.5	6.6	5.3	12.3	13.4
<i>Median</i>				9.2	7.3	5.3	10.8	13.3
U.S. Master Limited Partnerships (MLPs)								
Kinder Morgan Energy Partners, L.P.	KMP	S	55.12	8.0	7.8	14.9	22.3	7.2
Dorchester Minerals, L.P.	DMLP		29.91	8.5	10.8	9.7	13.3	10.3
Linn Energy, LLC	LINE		19.89	17.4	11.3	8.2		12.7
Encore Energy Partners, L.P.	ENP		24.01	11.9	7.7	6.6		11.5
<i>Median</i>				10.2	9.3	9.0	17.8	10.9
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 NTM Distribution Yield								
			Natural					
		Revenue	Gas/		Dist/			Dist.
	Symbol	Royalty	Ebitda	Dist/	Equity	NTM Distribution		Yield
		(%)	(%)	Ebitda	Ebitda	(\$mm)	(\$/un)	(%)
U.S. Royalty Trusts								
San Juan Basin Royalty Trust	SJT	-	98	0.82	0.82	167	3.57	9.5
Hugoton Royalty Trust	HGT	-	86	0.70	0.70	120	3.00	10.1
Cross Timbers Royalty Trust	CRT	84	69	0.94	0.94	33	5.42	11.0
Mesa Royalty Trust	MTR	-	64	0.88	0.88	15	8.09	11.0
Sabine Royalty Trust	SBR	100	56	1.00	1.00	106	7.25	11.2
Permian Basin RT	PBT	32	32	0.94	0.94	128	2.74	12.8
<i>Total or Median</i>			67	0.91	0.91	600		11.0
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	-	(6)	0.89	0.93	2,651	5.52	11.7
Enerplus Resources Fund	ERF	-	41	0.56	0.65	869	5.28	13.2
Penn West Energy Trust	PWE	-	28	0.48	0.64	1,472	3.87	13.4
Pengrowth Energy Trust	PGH	-	33	0.57	0.75	636	2.58	15.5
<i>Total or Median</i>			31	0.56	0.70	5,600		13.3
U.S. Master Limited Partnerships (MLPs)								
Kinder Morgan Energy Partners, L.P.	KMP	-	-	0.73	1.82	730	3.96	7.2
Dorchester Minerals, L.P.	DMLP	64	69	1.00	1.00	87	3.07	10.3
Encore Energy Partners, L.P.	ENP	-	18	0.61	0.73	28	2.75	11.5
Linn Energy, LLC	LINE	-	52	0.51	0.81	287	2.52	12.7
<i>Total or Median</i>			35	0.67	0.91	1,100		10.9
NTM = Next Twelve Months Ended June 30, 2009								
Ebitda = Earnings before interest, tax, depreciation and amortization								

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.

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