



# Oil & Gas Income Stocks

A Weekly Analysis

September 19, 2008

## Low Debt, No Hedging

### Summary and Recommendation

Amid intensified financial turmoil, investors can be more confident in income stocks that have no debt, or minimal debt, and do not engage in commodity price hedging. **Canadian Oil Sands Trust (COSWF)** fits that description, which we had in mind when we reinstated our buy recommendation (see *Meter Reader Flash*, September 16, 2008). The complete absence of debt and hedging bolsters our confidence in the long-term investment value of the U.S. Royalty Trusts and **Dorchester Minerals (DMLP)**. There are financial risks that we expect will be manageable in the three Canadian trusts concentrated on conventional oil. A close association with bankrupt Lehman Brothers prompted **Linn Energy (LINE)** to acknowledge a likely hedging loss of \$68 million. Commodity price insurance from a highly leveraged bank proved to be false protection. Any further loss in today's markets would push Linn's ratio of debt to present value past 0.49, the maximum we consider tolerable.

Kurt H. Wulff, CFA

Natural Gas and Oil Income Stocks - Rank by McDep Ratio							
		Price			Net		
		(\$/sh)		Market	Present	Debt/	
	Symbol/	18-Sep	Shares	Cap	Value	Present	McDep
	Rating	2008	(mm)	(\$mm)	(\$/un)	Value	Ratio
<b>U.S. Royalty Trusts</b>							
Permian Basin RT	PBT	22.14	46.6	1,030	23.00	-	0.96
Sabine Royalty Trust	SBR	54.85	14.6	800	60.00	-	0.91
Cross Timbers Royalty Trust	CRT	45.74	6.0	270	57.00	-	0.80
San Juan Basin Royalty Trust	SJT	36.80	46.6	1,720	48.00	-	0.77
Mesa RoyaltyTrust	MTR	63.57	1.9	120	93.00	-	0.68
Hugoton RoyaltyTrust	HGT	26.71	40.0	1,070	42.00	-	0.64
<i>Total or Median</i>				5,000			0.78
<b>Canadian Income Trusts (US\$)</b>							
Pengrowth Energy Trust	PGH	15.45	248.0	3,830	24.00	0.26	0.74
Penn West Energy Trust	PWE	23.94	380.0	9,100	40.00	0.26	0.70
Canadian Oil Sands Trust	COSWF	35.92	481.0	17,280	57.00	0.04	0.65
Enerplus Resources Fund	ERF	36.45	164.5	6,000	63.00	0.13	0.63
<i>Total or Median</i>				36,200		0.19	0.67
<b>U.S. Master Limited Partnerships (MLPs)</b>							
Linn Energy, LLC	LINE	15.21	114.0	1,730	30.00	0.49	0.75
Encore Energy Partners, L.P. (32%)	ENP	19.37	10.0	190	29.00	0.17	0.72
Dorchester Minerals, L.P.	DMLP	23.05	28.2	650	33.00	-	0.70
<i>Total or Median</i>				2,600		0.17	0.72
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.							



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Natural Gas and Oil Income Stocks - Rank by EV/Ebitda								
			Price	Adjstd				Divd or
			(\$/sh)	Resrvs/	PV/	EV/		Distrib
	Symbol/		18-Sep	Prod	Ebitda	Ebitda	P/E	NTM
	Rating		2008	NTM	NTM	NTM	NTM	(%)
<b>U.S. Royalty Trusts</b>								
San Juan Basin Royalty Trust	SJT		36.80	10.5	14.2	10.9	13.2	7.6
Permian Basin RT	PBT		22.14	8.6	10.0	9.6	10.0	10.0
Cross Timbers Royalty Trust	CRT		45.74	13.9	11.9	9.6	10.1	9.9
Sabine Royalty Trust	SBR		54.85	8.9	10.1	9.2	9.2	10.8
Mesa Royalty Trust	MTR		63.57	21.1	12.4	8.5	9.7	10.3
Hugoton Royalty Trust	HGT		26.71	13.1	12.9	8.2	11.5	8.7
	<i>Median</i>			11.8	12.2	9.4	10.1	9.9
<b>Canadian Income Trusts (US\$)</b>								
Canadian Oil Sands Trust	COSWF		35.92	21.6	12.3	7.9	9.5	12.2
Pengrowth Energy Trust	PGH		15.45	9.1	7.9	5.9		16.5
Enerplus Resources Fund	ERF		36.45	9.6	9.1	5.8	23.7	14.6
Penn West Energy Trust	PWE		23.94	7.5	8.0	5.6	11.9	16.1
	<i>Median</i>			9.3	8.6	5.8	11.9	15.3
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Linn Energy, LLC	LINE		15.21	17.1	12.3	9.2	27.8	16.6
Dorchester Minerals, L.P.	DMLP		23.05	8.5	12.7	8.9	12.3	11.3
Encore Energy Partners, L.P.	ENP		19.37	11.9	8.6	6.2	40.0	10.4
	<i>Median</i>			11.9	12.3	8.9	27.8	11.3
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 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					
		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	0.83	0.83	130	2.80	7.6
Hugoton Royalty Trust	HGT	-	86	0.71	0.71	93	2.32	8.7
Cross Timbers Royalty Trust	CRT	84	70	0.95	0.95	27	4.52	9.9
Permian Basin RT	PBT	32	33	0.96	0.96	103	2.22	10.0
Mesa Royalty Trust	MTR	-	65	0.88	0.88	12	6.56	10.3
Sabine Royalty Trust	SBR	100	58	1.00	1.00	87	5.95	10.8
	<i>Total or Median</i>		67	0.91	0.91	500		9.9
<b>Canadian Income Trusts (US\$)</b>								
Canadian Oil Sands Trust	COSWF	-	(7)	0.90	0.94	2,100	4.37	12.2
Enerplus Resources Fund	ERF	-	43	0.67	0.77	875	5.32	14.6
Penn West Energy Trust	PWE	-	29	0.57	0.77	1,462	3.85	16.1
Pengrowth Energy Trust	PGH	-	32	0.62	0.84	632	2.55	16.5
	<i>Total or Median</i>		31	0.65	0.81	5,100		15.3
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Encore Energy Partners, L.P.	ENP		19	0.50	0.60	20	2.01	10.4
Dorchester Minerals, L.P.	DMLP	64	69	1.00	1.00	73	2.59	11.3
Linn Energy, LLC	LINE		45	0.53	1.03	287	2.52	16.6
	<i>Total or Median</i>		45	0.53	1.00	400		11.3
NTM = Next Twelve Months Ended September 30, 2009								
Ebitda = Earnings before interest, tax, depreciation and amortization								



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**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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