



Oil & Gas Income Stocks

A Weekly Analysis

October 10, 2008

Rebound Candidates

Summary and Recommendation

Buy recommendations **Hugoton Royalty Trust (HGT)** and **Canadian Oil Sands Trust (COSWF)** offer particularly strong rebound potential when the current financial panic stabilizes. The two stocks have near the lowest McDep Ratios and have declined more depending upon the point from which it is measured. In fast moving markets, stock prices for low-debt entities may decline as fast as those for high-debt entities despite the lower risk for the former. We have complete confidence in the financial strength of COSWF and all the no-debt income stocks that have no commodity hedges. We have reasonable confidence in the financial strength of an income stock with a Debt/Present Value ratio of 0.25. We have low confidence in the financial strength of the income stock with a Debt/Present Value ratio of 0.49. We have low confidence that all counterparties will live up to the terms of commodity hedges since Lehman has already defaulted.

A Reassuring Recollection

In the face of the continuing flow of dire financial news, we think of the dark days of 1974 when Wall Street was facing the loss of fixed commissions. As we recall, our friend and employer, Dick Jenrette had secured agreement for a critical capital infusion to Donaldson, Lufkin & Jenrette from the Saudi investor, the late Sulaiman Olayan. When the deal was struck, DLJ stock was \$10 a share. When the deal was supposed to close, DLJ stock was \$2 a share. Mr. Olayan honored the original terms, telling Dick effectively, "A deal is a deal." With that vital support, DLJ survived and then prospered again in a new life.

Kurt H. Wulff, CFA



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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		9-Oct 2008	Shares (mm)				
U.S. Royalty Trusts								
Permian Basin RT	PBT		18.05	46.6	840	23.00	-	0.78
Sabine Royalty Trust	SBR		44.00	14.6	640	60.00	-	0.73
San Juan Basin Royalty Trust	SJT		31.38	46.6	1,460	48.00	-	0.65
Cross Timbers Royalty Trust	CRT		32.33	6.0	190	57.00	-	0.57
Mesa Royalty Trust	MTR		45.50	1.9	90	93.00	-	0.49
Hugoton Royalty Trust	HGT	B	19.01	40.0	760	42.00	-	0.45
<i>Total or Median</i>					4,000			0.61
Canadian Income Trusts (US\$)								
Penn West Energy Trust	PWE		15.41	380.0	5,860	40.00	0.25	0.54
Pengrowth Energy Trust	PGH		9.12	248.0	2,260	24.00	0.26	0.54
Canadian Oil Sands Trust	COSWF	B	25.59	481.0	12,310	57.00	0.04	0.47
Enerplus Resources Fund	ERF		23.88	164.5	3,930	63.00	0.12	0.46
<i>Total or Median</i>					24,400		0.19	0.50
U.S. Master Limited Partnerships (MLPs)								
Linn Energy, LLC	LINE		11.67	114.0	1,330	30.00	0.49	0.69
Encore Energy Partners, L.P. (32%)	ENP		14.40	10.0	140	29.00	0.17	0.58
Dorchester Minerals, L.P.	DMLP		17.59	28.2	500	33.00	-	0.53
<i>Total or Median</i>					2,000		0.17	0.58
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 NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	Divd or Distrib P/E NTM (%)
	Symbol/ Rating		9-Oct 2008				
U.S. Royalty Trusts							
San Juan Basin Royalty Trust	SJT		31.38	10.6	15.8	10.3	7.9
Permian Basin RT	PBT		18.05	8.6	10.9	8.5	11.2
Sabine Royalty Trust	SBR		44.00	8.9	10.7	7.9	12.7
Cross Timbers Royalty Trust	CRT		32.33	13.9	12.7	7.2	13.2
Mesa Royalty Trust	MTR		45.50	21.1	13.3	6.5	13.4
Hugoton Royalty Trust	HGT	B	19.01	13.1	14.0	6.3	11.2
<i>Median</i>				11.8	13.0	7.5	12.0
Canadian Income Trusts (US\$)							
Canadian Oil Sands Trust	COSWF	B	25.59	21.6	13.6	6.4	15.1
Penn West Energy Trust	PWE		15.41	7.5	8.6	4.7	24.1
Pengrowth Energy Trust	PGH		9.12	9.1	8.6	4.6	26.9
Enerplus Resources Fund	ERF		23.88	9.6	9.9	4.5	21.0
<i>Median</i>				9.3	9.2	4.6	22.8
U.S. Master Limited Partnerships (MLPs)							
Linn Energy, LLC	LINE		11.67	17.1	13.3	9.1	39.5
Dorchester Minerals, L.P.	DMLP		17.59	8.5	13.8	7.4	10.6
Encore Energy Partners, L.P.	ENP		14.40	11.9	9.4	5.5	12.8
<i>Median</i>				11.9	13.3	7.4	25.0
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							



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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	0.81	0.81	115	2.48	7.9
Hugoton Royalty Trust	HGT	-	86	0.71	0.71	85	2.13	11.2
Permian Basin RT	PBT	32	34	0.96	0.96	94	2.02	11.2
Sabine Royalty Trust	SBR	100	58	1.00	1.00	82	5.59	12.7
Cross Timbers Royalty Trust	CRT	84	71	0.95	0.95	26	4.26	13.2
Mesa Royalty Trust	MTR	-	65	0.88	0.88	11	6.11	13.4
<i>Total or Median</i>			68	0.91	0.91	400		12.0
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	-	(7)	0.89	0.92	1,861	3.87	15.1
Enerplus Resources Fund	ERF	-	43	0.70	0.80	843	5.13	21.5
Penn West Energy Trust	PWE	-	29	0.60	0.80	1,409	3.71	24.1
Pengrowth Energy Trust	PGH	-	32	0.65	0.87	609	2.45	26.9
<i>Total or Median</i>			31	0.68	0.84	4,700		22.8
U.S. Master Limited Partnerships (MLPs)								
Encore Energy Partners, L.P.	ENP		19	0.50	0.60	19	1.85	12.8
Dorchester Minerals, L.P.	DMLP	64	69	1.00	1.00	67	2.39	13.6
Linn Energy, LLC	LINE		45	0.58	1.12	287	2.52	21.6
<i>Total or Median</i>			45	0.58	1.00	400		13.6
NTM = Next Twelve Months Ended September 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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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.