



Oil & Gas Income Stocks

A Weekly Analysis

November 28, 2008

Insider Buying in Encore Energy Partners

Summary and Recommendation

The founding chairman of **Encore Energy Partners (ENP)** made a timely purchase of units that put a bottom on stock price at least for now, if not indefinitely. In the past nine days, Jon Brumley purchased about 35,000 units at an average price of about \$10 a unit, boosting his holdings to about 170,000 units. Mr. Brumley believes in the appeal of long-life resources such as those held by ENP as well as by the three royalty trusts he founded, **Permian Basin Royalty Trust (PBT)**, **Cross Timbers Royalty Trust (CRT)** and hold-rated **San Juan Basin Royalty Trust (SJT)**. ENP has bought financial derivatives that indicate the partnership would receive about \$100 a barrel for most of its oil production in 2009. Fortunately, the likelihood of actually collecting from ultra-leveraged counterparties in the derivatives is higher after the global government bailout of the financial industry. As a result, a distribution yield of 12% in 2009 seems assured. On a longer term basis, small cap oil producer ENP at \$14 a unit and a McDep Ratio of 0.81 offers attractive value, in our opinion.

Since a 57% stock price gain in a week for ENP is quite a move, investors might look for related stocks that have not shown such recent strength. Thinly-traded Cross Timbers Royalty Trust immediately comes to mind. CRT and thinly-traded **Mesa Royalty Trust (MTR)** are the only two income stocks to decline in the past week. Both have high quality natural gas resources most concentrated in the San Juan Basin of New Mexico and Colorado. Investors may need no reminder that a little buy interest can move stock prices a lot for CRT and MTR and conversely the stocks should not be held in accounts that may be required to sell on short notice.

Thirteen income stocks have a median distribution yield of 10.4% for the Next Twelve Months ended December 31, 2009. Estimates use November 28 closing quotes for stock prices and settlement prices for futures for next twelve months deliveries of Light, Sweet Crude Oil at \$60.40 a barrel and Louisiana Natural Gas at \$6.90 a million btu.

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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		28-Nov 2008	Shares (mm)				
U.S. Royalty Trusts								
Permian Basin RT	PBT		17.50	46.6	820	19.00	-	0.92
Sabine Royalty Trust	SBR		42.10	14.6	610	47.00	-	0.90
San Juan Basin Royalty Trust	SJT	H	29.51	46.6	1,380	34.00	-	0.87
Cross Timbers Royalty Trust	CRT		28.76	6.0	170	42.00	-	0.69
Hugoton RoyaltyTrust	HGT	B	20.24	40.0	810	30.00	-	0.68
Mesa RoyaltyTrust	MTR		42.97	1.9	80	67.00	-	0.64
<i>Total or Median</i>					3,900			0.78
Canadian Income Trusts (US\$)								
Pengrowth Energy Trust	PGH		8.97	249.0	2,230	16.00	0.31	0.70
Penn West Energy Trust	PWE	H	14.58	389.9	5,680	27.00	0.27	0.66
Enerplus Resources Fund	ERF		23.19	164.9	3,820	44.00	0.10	0.57
Canadian Oil Sands Trust	COSWF	B	21.22	482.0	10,230	42.00	0.04	0.53
<i>Total or Median</i>					22,000		0.18	0.62
U.S. Master Limited Partnerships (MLPs)								
Linn Energy, LLC	LINE		13.60	114.0	1,550	14.00	0.52	0.99
Dorchester Minerals, L.P.	DMLP		19.80	28.2	560	24.00	-	0.82
Encore Energy Partners, L.P. (32%)	ENP		14.39	10.6	150	19.00	0.23	0.81
<i>Total or Median</i>					2,300		0.23	0.82
B = Buy, H = Hold								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
Present Value presumes long-term prices of \$75 a barrel for oil and \$10 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		28-Nov 2008	NTM				
U.S. Royalty Trusts								
Permian Basin RT	PBT		17.50	8.8	12.2	11.2	12.6	7.9
San Juan Basin Royalty Trust	SJT	H	29.51	10.7	12.9	11.2	13.8	7.2
Sabine Royalty Trust	SBR		42.10	9.2	12.0	10.7	10.7	9.3
Cross Timbers Royalty Trust	CRT		28.76	14.1	13.4	9.2	9.6	10.4
Hugoton RoyaltyTrust	HGT	B	20.24	13.1	12.1	8.2	11.8	8.5
Mesa RoyaltyTrust	MTR		42.97	21.1	12.0	7.7	8.8	11.4
<i>Median</i>				11.9	12.2	9.9	11.2	8.9
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	B	21.22	21.0	15.8	8.3	12.2	9.8
Pengrowth Energy Trust	PGH		8.97	9.1	9.0	6.3		24.3
Penn West Energy Trust	PWE	H	14.58	7.7	8.2	5.4	19.9	22.6
Enerplus Resources Fund	ERF		23.19	10.0	9.1	5.2	10.1	15.9
<i>Median</i>				9.6	9.1	5.9	12.2	19.2
U.S. Master Limited Partnerships (MLPs)								
Dorchester Minerals, L.P.	DMLP		19.80	8.5	12.0	9.9	15.2	10.1
Linn Energy, LLC	LINE		13.60	13.6	8.6	8.5		18.5
Encore Energy Partners, L.P.	ENP		14.39	12.7	10.0	8.1		12.0
<i>Median</i>				12.7	10.0	8.5	15.2	12.0
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 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	-	99	0.81	0.81	99	2.13	7.2
Permian Basin RT	PBT	32	41	0.89	0.89	65	1.39	7.9
Hugoton Royalty Trust	HGT	-	88	0.69	0.69	69	1.72	8.5
Sabine Royalty Trust	SBR	100	64	1.00	1.00	57	3.93	9.3
Cross Timbers Royalty Trust	CRT	84	73	0.95	0.95	18	2.99	10.4
Mesa Royalty Trust	MTR	-	72	0.88	0.88	9	4.89	11.4
<i>Total or Median</i>			72	0.88	0.88	300		8.9
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	-	(9)	0.75	0.78	1,004	2.08	9.8
Enerplus Resources Fund	ERF	-	46	0.69	0.76	607	3.68	15.9
Penn West Energy Trust	PWE	-	33	0.73	1.00	1,285	3.29	22.6
Pengrowth Energy Trust	PGH	-	40	0.84	1.23	543	2.18	24.3
<i>Total or Median</i>			36	0.74	0.89	3,400		19.2
U.S. Master Limited Partnerships (MLPs)								
Dorchester Minerals, L.P.	DMLP	64	76	1.00	1.00	57	2.00	10.1
Encore Energy Partners, L.P.	ENP		22	0.70	0.91	18	1.73	12.0
Linn Energy, LLC	LINE		48	0.74	1.56	287	2.52	18.5
<i>Total or Median</i>			48	0.74	1.00	400		12.0
NTM = Next Twelve Months Ended December 31, 2009								
Ebitda = Earnings before interest, tax, depreciation and amortization								

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