



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

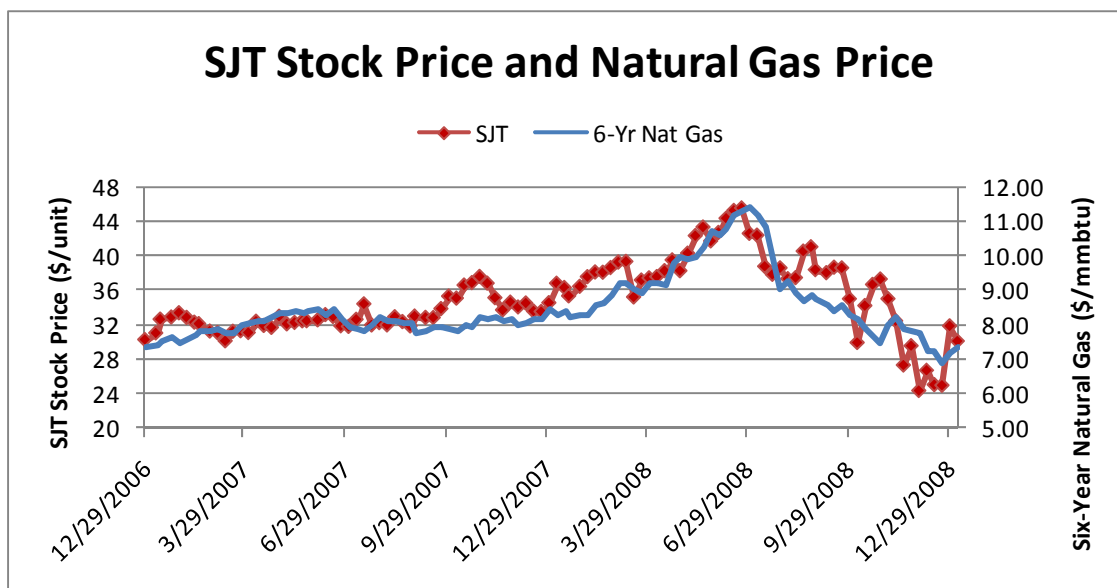
January 9, 2009

SJT – A Clean Fuel Pure Play

Summary and Recommendation

Concentrated entirely on the production of natural gas, hold-rated **San Juan Basin Royalty Trust (SJT)** offers a “pure play” on the economic opportunities in a widely discussed “green” environmental future. SJT stock price roughly tracks the price of natural gas, which we believe is undervalued (see chart). In addition investors receive cash distributions that we estimate at 5.4% of current stock price for the next twelve months. The monthly distribution to be declared on January 20 may be unusually low reflecting the unusually low San Juan Basin Index price for natural gas delivered in November (see table Monthly Declarations). Results would be progressively better in 2009, as indicated by latest futures prices (see table Next Twelve Months Operating and Financial Estimates). Since SJT stock has shown relatively better resistance to the recent market decline, its McDep Ratio is not as depressed as for some peer stocks (see Table 1). Though the unlevered cash flow multiple, EV/Ebitda, looks high compared to reserve life, we believe reserves are understated for the trust’s share of the largest natural gas field in the U.S. Ebitda is also understated compared to operating companies and compared to our long-term expectations (see Table 2). Distribution Yield compares to a median of 9.3% for thirteen income stocks in our coverage (see Table 3). In a tough stock market, SJT’s total return in the past year has been minus 11% compared to minus 33% for the S&P 500 index, according to Bloomberg.

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San Juan Basin Royalty Trust									
Monthly Declarations									
	Jan-08	Feb-08	Mar-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09
Distribution (\$/unit)									
Declared	0.22	0.24	0.08	0.29	0.21	0.16			
Projected							0.05	0.13	0.14
Volume									
Natural gas (mmbtu)	3.22	3.15	2.90	3.26	3.24	3.60	3.07	3.16	3.16
Heat Content(btu/cf)	1,086	1,084	1,075	1,081	1,083	1,062	1,081	1,080	1,080
Natural gas (bcf)	2.96	2.90	2.69	3.02	2.99	3.39	2.84	2.92	2.92
Natural Gas (mmcf)	99	94	87	97	100	109	95	94	94
Days	30	31	31	31	30	31	30	31	31
Price									
Natural gas industry quotes lagged two months (\$/mmbtu)									
Henry Hub Index/Futures	7.28	7.21	7.13	9.23	8.40	7.48	6.47	6.91	6.13
San Juan Monthly Index	6.06	6.50	6.39	7.63	6.35	4.27	2.84	4.63	4.83
San Juan Index/Henry Hub	0.83	0.90	0.90	0.83	0.76	0.57	0.44	0.67	0.79
SJT/San Juan Index	1.05	1.01	1.00	1.01	1.02	1.05	1.00	1.00	1.00
SJT (\$/mmbtu)	6.39	6.56	6.37	7.69	6.45	4.50	2.84	4.63	4.83
SJT (\$/mcf)	6.94	7.11	6.85	8.32	6.98	4.78	3.07	5.00	5.22
Revenue (\$mm)									
Natural Gas	20.6	20.6	18.4	25.1	20.9	16.2	8.7	14.6	15.2
Other	0.3	0.3	(0.1)	0.4	0.4	0.2	0.3	0.2	0.5
Cost (\$mm)									
Severance tax	2.0	2.0	1.8	2.4	2.0	1.6	0.8	1.4	1.5
Operating	2.7	2.8	2.6	2.6	3.3	3.2	2.7	2.7	2.7
Total	4.7	4.7	4.5	5.0	5.4	4.7	3.6	4.1	4.2
Cash flow (\$mm)	16.2	16.2	13.9	20.4	15.9	11.7	5.4	10.7	11.6
Development	2.4	1.5	2.3	2.3	2.8	2.0	2.2	2.2	2.3
Net proceeds (\$mm)	13.8	14.7	11.5	18.1	13.1	9.7	3.2	8.4	9.3
Royalty income (\$mm)	10.4	11.0	8.7	13.6	9.8	7.3	2.4	6.3	6.9
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%	75%	75%	75%
One time			4.9						
Distributable income (\$mm)	10.4	11.0	3.8	13.6	9.8	7.3	2.4	6.3	6.9
Units (millions)	46.6	46.6	46.6	46.6	46.6	46.6	47.6	48.6	49.6
Distribution (\$/unit)	0.22	0.24	0.08	0.29	0.21	0.16	0.05	0.13	0.14
<i>Latest Twelve Month Average</i>									
Heat Content(btu/cf)	1,074	1,073	1,073	1,081	1,083	1,081	1,080	1,080	1,080
Natural Gas (mmcf)	101	101	100	94	94	95	94	94	95
San Juan Index/Henry Hub	0.86	0.87	0.86	0.86	0.85	0.83	0.80	0.78	0.77
SJT/San Juan Index	0.96	0.97	0.98	1.00	1.00	1.00	0.99	0.99	0.99
Other revenue	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Operating	2.4	2.4	2.5	2.6	2.7	2.7	2.7	2.7	2.8
Development	2.2	2.1	1.9	2.2	2.3	2.2	2.2	2.3	2.3
Severance tax/revenue	9.9%	9.8%	9.8%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%
Ebitda Margin	78%	78%	78%	79%	79%	79%	78%	78%	78%



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San Juan Basin Royalty Trust									
Next Twelve Months Operating and Financial Estimates									
									<i>Next</i>
	<i>Q4</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Months</i>
	<i>12/31/07</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>9/30/09</i>	<i>12/31/09</i>	<i>12/31/09</i>
Highlights									
Revenue (\$mm) (75%)	39.1	70.8	47.5	214.6	29.3	30.0	33.7	36.6	129.6
Cash flow (\$mm) (75%)	30.1	58.2	36.1	169.7	20.4	21.0	24.3	26.9	92.6
Per unit	0.65	1.25	0.78	3.64	0.44	0.45	0.52	0.58	1.99
Distributable Income (\$mm)	26.0	52.2	30.7	143.1	15.6	16.9	19.6	21.8	74.0
Per unit	0.56	1.12	0.66	3.07	0.34	0.36	0.42	0.47	1.59
Units (millions)	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6
Volume									
Natural gas (mmbtu)	10.1	9.4	10.1	37.3	9.4	9.2	9.3	9.4	37.3
Heat Content(btu/cf)	1,072	1,074	1,075	1,081	1,075	1,081	1,076	1,078	1,079
Natural gas (bcf)	9.4	8.7	9.4	34.5	8.7	8.5	8.7	8.7	34.5
Natural Gas (mmcf)	102.5	95.0	102.1	94.3	94.4	94.4	94.4	94.4	94.4
Days	92	92	92	366	92	90	92	92	366
Oil (mb)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Oil (mbd)	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Days	92	92	92	366	92	90	92	92	366
Total gas & oil (bcf)	9.5	8.8	9.5	34.8	8.8	8.6	8.8	8.8	34.8
Price									
Natural gas (\$/mmbtu) (Henry Hub lagged two months)									
Henry Hub (\$/mmbtu)	5.99	12.11	8.37	9.13	6.50	5.59	5.80	6.09	6.00
Differential (%)	16	18	16	17	37	23	18	16	24
Net to SJT (\$/mmbtu)	5.05	9.89	7.06	7.54	4.11	4.30	4.74	5.14	4.57
Natural gas (\$/mcf)	5.42	10.62	7.59	8.15	4.42	4.65	5.10	5.54	4.93
Oil (\$/bbl) (WTI Cushing lagged two months)									
WTI Cushing	79.40	130.89	99.06	106.87	46.81	45.89	52.78	56.00	50.37
SJT	78.19	120.99	91.57	99.18	43.44	42.59	48.99	51.97	46.77
Total gas & oil (\$/mcf)	5.49	10.70	6.69	8.22	4.47	4.67	5.13	5.56	4.96
Revenue (\$mm)									
Natural Gas	51.1	92.8	62.1	281.3	38.6	39.5	44.3	48.1	170.4
Oil	1.1	1.5	1.2	4.9	0.6	0.5	0.6	0.7	2.4
Total	52.2	94.3	63.3	286.1	39.1	40.0	44.9	48.7	172.8
Cost (\$mm)									
Severance tax	4.9	8.8	6.0	27.1	3.7	3.8	4.3	4.6	16.4
Operating	7.1	7.9	9.1	32.9	8.2	8.2	8.2	8.2	32.9
Total	12.1	16.8	15.1	59.9	11.9	12.0	12.5	12.8	49.3
Cash flow (\$mm)	40.1	77.6	48.2	226.2	27.2	28.0	32.4	35.9	123.5
Development	5.0	7.5	7.1	27.0	6.8	5.0	5.8	6.5	24.1
Net proceeds (\$mm)	35.1	70.0	41.1	199.2	20.4	23.0	26.6	29.4	99.4
Royalty income (\$mm)	26.3	52.5	30.8	149.4	15.3	17.2	19.9	22.1	74.6
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%	75%	75%	75%
Administration	0.3	0.3	0.3	1.7	0.3	0.3	0.3	0.3	1.2
One-time				4.9					-
Distributable income (\$mm)	26.0	52.2	30.7	143.1	15.6	16.9	19.6	21.8	74.0
Severance tax/revenue	9.5%	9.3%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
Operating cost (\$/mcf)	0.75	0.90	0.96	0.94	0.94	0.96	0.94	0.94	0.94
Development/Cash flow	12%	10%	15%	12%	25%	18%	18%	18%	20%



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Table 1								
Oil and Gas Income and Small Cap Stocks								
Net Present Value and McDep Ratio								
			Price (\$/sh)			Net Present Value	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		8-Jan 2009	Shares (mm)	Market Cap (\$mm)	Value (\$/un)		
Canadian Income Trusts (US\$)								
Pengrowth Energy Trust	PGH		8.31	249.0	2,070	16.00	0.32	0.68
Penn West Energy Trust	PWE	H	13.21	389.9	5,150	27.00	0.28	0.63
Enerplus Resources Fund	ERF		22.30	164.9	3,680	44.00	0.10	0.56
Canadian Oil Sands Trust	COSWF	B	19.42	482.0	9,360	42.00	0.05	0.49
<i>Total or Median</i>					20,300		0.19	0.59
Small Cap Independent Producers								
Encore Acquisition Company	EAC	H	30.16	53.5	1,610	48.00	0.36	0.76
Berry Petroleum Company	BRY	H	8.93	45.5	410	40.00	0.43	0.56
Birchcliff Energy Ltd. (US\$)	BIR.TO		4.65	117.0	540	10.00	0.14	0.54
Cimarex Energy Company	XEC	B	28.49	84.5	2,410	70.00	0.09	0.46
<i>Total or Median</i>					4,970		0.25	0.55
U.S. Royalty Trusts								
Sabine Royalty Trust	SBR		44.54	14.6	650	47.00	-	0.95
San Juan Basin Royalty Trust	SJT	H	29.41	46.6	1,370	34.00	-	0.87
Permian Basin RT	PBT		15.02	46.6	700	19.00	-	0.79
Cross Timbers Royalty Trust	CRT		32.45	6.0	200	42.00	-	0.77
Hugoton Royalty Trust	HGT	B	17.50	40.0	700	28.00	-	0.63
Mesa Royalty Trust	MTR		42.00	1.9	80	67.00	-	0.62
<i>Total or Median</i>					3,700			0.78
U.S. Master Limited Partnerships (MLPs)								
Linn Energy, LLC	LINE		15.75	114.0	1,800	14.00	0.52	1.06
Encore Energy Partners, L.P. (32%)	ENP		15.60	10.6	170	19.00	0.23	0.86
Dorchester Minerals, L.P.	DMLP		18.46	28.2	520	24.00	-	0.77
<i>Total or Median</i>					2,490		0.23	0.86
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.								



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Table 2								
Oil and Gas Income and Small Cap Stocks								
Value Multiples - Rank by EV/Ebitda								
			Price (\$/sh)	Adjstd Resrvs/ Prod	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Ebitda Margin (%)
	Symbol/ Rating		8-Jan 2009	NTM	NTM	NTM	NTM	
Canadian Income Trusts (US\$)								
	Canadian Oil Sands Trust	COSWF	B	19.42	23.3	24.5	11.9	42
	Pengrowth Energy Trust	PGH		8.31	9.5	11.1	7.5	70
	Enerplus Resources Fund	ERF		22.30	10.6	11.0	6.1	74
	Penn West Energy Trust	PWE	H	13.21	7.7	9.6	6.0	75
	<i>Median</i>				10.0	11.1	6.8	72
Small Cap Independent Producers								
	Birchcliff Energy Ltd. (US\$)	BIR.TO		4.65	6.9	18.4	9.9	73
	Encore Acquisition Company	EAC		30.16	13.4	12.2	9.3	53
	Berry Petroleum Company	BRY		8.93	9.6	10.7	6.7	60
	Cimarex Energy Company	XEC		28.49	7.4	9.3	4.3	61
	<i>Median</i>				8.5	11.5	7.6	60
U.S. Royalty Trusts								
	San Juan Basin Royalty Trust	SJT	H	29.41	10.8	17.1	14.8	18.5
	Sabine Royalty Trust	SBR		44.54	9.2	13.5	12.8	12.8
	Cross Timbers Royalty Trust	CRT		32.45	14.5	15.3	11.9	12.5
	Permian Basin RT	PBT		15.02	8.8	14.4	11.4	13.1
	Mesa RoyaltyTrust	MTR		42.00	21.1	13.6	8.5	9.7
	Hugoton RoyaltyTrust	HGT	B	17.50	13.1	13.0	8.1	11.7
	<i>Median</i>				12.0	14.0	11.6	12.6
U.S. Master Limited Partnerships (MLPs)								
	Encore Energy Partners, L.P.	ENP		15.60	12.7	13.3	11.4	70
	Dorchester Minerals, L.P.	DMLP		18.46	8.5	13.8	10.6	17.7
	Linn Energy, LLC	LINE		15.75	13.6	10.0	10.6	70
	<i>Median</i>				12.7	13.3	10.6	17.7
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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Table 3								
Oil and Gas Income and Small Cap Stocks								
Next Twelve Months Distribution Yield								
			<i>Natural</i>					
		<i>Revenue</i>	<i>Gas</i>		<i>Dist/</i>			<i>Dist.</i>
	<i>Symbol</i>	<i>Royalty</i>	<i>%</i>	<i>Dist/</i>	<i>Equity</i>	<i>NTM Distribution</i>		<i>Yield</i>
		<i>(%)</i>	<i>NPV</i>	<i>Ebitda</i>	<i>Ebitda</i>	<i>(\$mm)</i>	<i>(\$/un)</i>	<i>(%)</i>
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	-	-	0.47	0.49	406	0.84	4.3
Enerplus Resources Fund	ERF	-	55	0.57	0.64	419	2.54	11.4
Penn West Energy Trust	PWE	-	28	0.52	0.72	793	2.03	15.4
Pengrowth Energy Trust	PGH	-	34	0.81	1.20	431	1.73	20.8
<i>Total or Median</i>			<i>31</i>	<i>0.55</i>	<i>0.68</i>	<i>2,000</i>		<i>13.4</i>
Small Cap Independent Producers								
Birchcliff Energy Ltd. (US\$)	BIR.TO	-	75	-	-	-	-	-
Encore Acquisition Company	EAC	-	18	-	-	-	-	-
Cimarex Energy Company	XEC	-	65	0.03	0.03	20	0.24	0.8
Berry Petroleum Company	BRY	-	42	0.05	0.08	14	0.30	3.4
<i>Total or Median</i>			<i>53</i>					
U.S. Royalty Trusts								
San Juan Basin Royalty Trust	SJT	-	100	0.80	0.80	74	1.59	5.4
Permian Basin RT	PBT	32	33	0.87	0.87	54	1.15	7.7
Sabine Royalty Trust	SBR	100	54	1.00	1.00	51	3.47	7.8
Cross Timbers Royalty Trust	CRT	84	76	0.95	0.95	16	2.60	8.0
Hugoton RoyaltyTrust	HGT	-	91	0.69	0.69	60	1.49	8.5
Mesa RoyaltyTrust	MTR	-	75	0.87	0.87	8	4.31	10.3
<i>Total or Median</i>			<i>76</i>	<i>0.87</i>	<i>0.87</i>	<i>260</i>		<i>7.9</i>
U.S. Master Limited Partnerships (MLPs)								
Dorchester Minerals, L.P.	DMLP	64	68	0.99	0.99	49	1.72	9.3
Encore Energy Partners, L.P.	ENP		30	0.93	1.21	18	1.73	11.1
Linn Energy, LLC	LINE		48	0.86	1.79	287	2.52	16.0
<i>Total or Median</i>			<i>48</i>	<i>0.93</i>	<i>1.21</i>	<i>350</i>		<i>11.1</i>
NTM = Next Twelve Months Ended December 31, 2009								
Ebitda = Earnings before interest, tax, depreciation and amortization								



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