



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

October 9, 2009

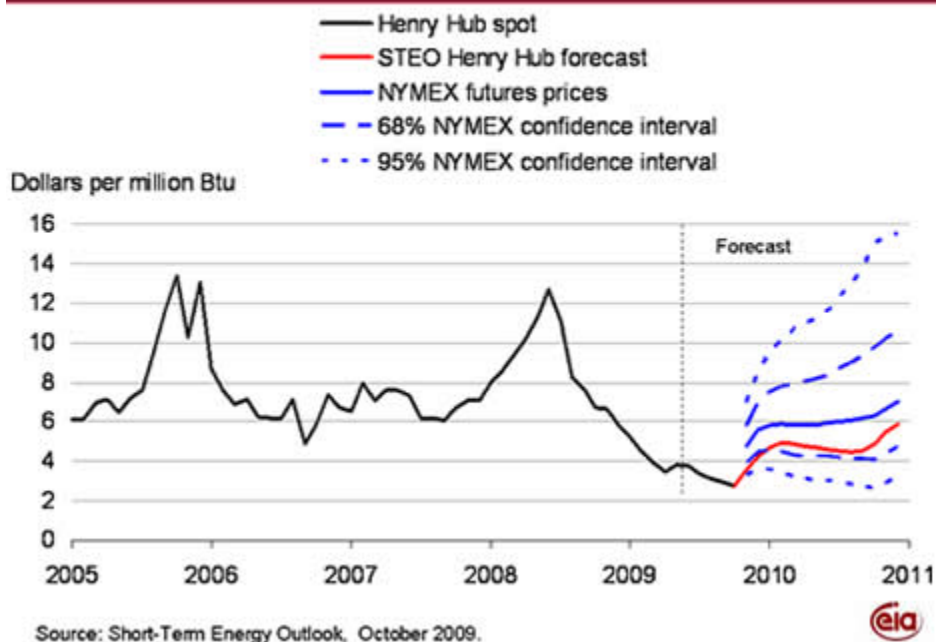
## Friendly Trends

### Summary and Recommendation

All 19 small cap and income stocks in our coverage are in rising stock price trends measured by the 200-day average. At the same time resource values are also advancing. The six-year average of futures prices for oil has been trading above its 40-week average for the past four months. The six-year average of futures prices for natural gas may have just begun a long uptrend with its cross above its 40-week average in the past few weeks. McDep Ratios for six buy recommendations are all below 1.0 thereby providing fundamental justification for the stock price uptrend, at least by our analysis. A continuing oil and gas price uptrend could justify increasing our estimates of fundamental value, perhaps in 2010. Charged with forecasting those prices and despite having voluminous data gathered with the force of law, U.S. government analysts have turned to the futures market for guidance in computing confidence intervals (see chart below for natural gas example). As a result, the Energy Information Administration forecasts a wide range characterized as 95% confidence that the price of natural gas is likely to be more than \$3 and less than \$16 a year from now. Though that looks like no forecast at all, we take it as justification for our conclusion that prices of natural gas stocks, which would be related to natural gas price, have more upside potential than downside risk from here.

Kurt H. Wulff, CFA

**Figure 2. Henry Hub spot prices remain highly uncertain**





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	Symbol/Rating	Price (US\$/sh)	EV/ Market Cap	Enterprise Value (\$mm)	Present Value by Segment (%)			Dist. NTM (\$/un)	Dist. Yield (%)	McDep Ratio
					NAmer. Natural Gas	Oil Prod'n				
<b>Canadian Income Trusts (US\$)</b>										
Penn West Energy Trust	PWE	H	15.90	1.63	10,600	27	73	1.66	10.5	0.89
Peyto Energy Trust	PEYUF		10.50	1.38	1,540	67	33	1.33	12.7	0.85
Pengrowth Energy Trust	PGH		10.21	1.69	4,500	34	66	0.78	7.6	0.82
Canadian Oil Sands Trust	COSWF	B	31.06	1.10	16,500		100	2.12	6.8	0.76
Enerplus Resources Fund	ERF		22.97	1.23	4,700	43	57	1.99	8.7	0.68
<i>Total or Median</i>					37,800					0.82
<b>Small Cap Independent Producers</b>										
Cimarex Energy Company	XEC	B	44.98	1.23	4,530	62	38	0.24	0.5	0.98
Encore Acquisition Company	EAC	B	42.28	1.76	3,940	23	77	-	-	0.98
Birchcliff Energy Ltd. (US\$)	BIREF		8.34	1.18	1,220	62	38	-	-	0.93
Berry Petroleum Company	BRY	H	28.46	1.89	2,420	31	69	0.30	1.1	0.89
<i>Total or Median</i>					12,110					0.96
<b>Top Line Cash Payers</b>										
Cross Timbers Royalty Trust	CRT		30.51	1.00	180	64	36	1.99	6.5	1.09
Freehold Royalty Trust (US\$)	FRHLF		14.82	1.20	880	25	75	1.33	9.0	0.89
Dorchester Minerals, L.P.	DMLP	B	22.10	1.00	660	63	38	1.50	6.8	0.82
Sabine Royalty Trust	SBR		41.52	1.00	610	38	63	3.04	7.3	0.75
Permian Basin RT	PBT		12.66	1.00	590	27	73	0.91	7.2	0.70
<i>Total or Median</i>					2,920					0.82
<b>Bottom Line Cash Payers</b>										
Linn Energy, LLC	LINE		23.44	1.53	4,090	38	62	2.52	10.8	1.31
Encore Energy Partners, L.P. (52%)	ENP		16.85	1.33	520	24	76	2.15	12.8	0.99
San Juan Basin Royalty Trust	SJT	B	18.62	1.00	870	100	-	1.38	7.4	0.89
Hugoton Royalty Trust	HGT	B	17.71	1.00	710	89	11	1.21	6.8	0.77
Mesa Royalty Trust	MTR		33.25	1.00	62	75	25	2.55	7.7	0.69
<i>Total or Median</i>					6,250					0.89
<b>Composite (excl COSWF)</b>										
<i>Enterprise Value Weighting</i>					42,600	40	60			0.89
<i>Equal Weighting</i>						50	50			0.89
<i>Equal Weighted Buys</i>						53	47			0.89

\* Percentages in Symbol column refer to current market Enterprise Value weightings; Rating column, equal weightings.

\* Percentages in Price column refer to equal weighted buys.



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Table 2								
Oil and Gas Income and Small Cap Stocks								
Net Present Value and McDep Ratio								
			Price (\$/sh)		Market Cap	Net Present Value	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		8-Oct 2009	Shares (mm)	(\$mm)	(\$/un)		
<b>Canadian Income Trusts (US\$)</b>								
	PWE	H	15.90	410.0	6,520	19.00	0.35	0.89
	PEYUF		10.50	105.9	1,110	13.00	0.24	0.85
	PGH		10.21	260.0	2,650	14.00	0.33	0.82
	COSWF	B	31.06	484.0	15,030	42.00	0.07	0.76
	ERF		22.97	166.3	3,820	36.00	0.13	0.68
	<i>Total or Median</i>				29,100		0.24	0.82
<b>Small Cap Independent Producers</b>								
	XEC	B	44.98	82.0	3,690	46.00	0.18	0.98
	EAC	B	42.28	53.0	2,240	44.00	0.42	0.98
	BIREF		8.34	124.0	1,030	9.00	0.15	0.93
	BRY	H	28.46	44.8	1,280	35.00	0.42	0.89
	<i>Total or Median</i>				8,240		0.30	0.96
<b>Top Line Cash Payers</b>								
	CRT		30.51	6.0	180	28.00	-	1.09
	FRHLF		14.82	49.5	730	17.00	0.15	0.89
	DMLP	B	22.10	29.8	660	27.00	-	0.82
	SBR		41.52	14.6	610	55.00	-	0.75
	PBT		12.66	46.6	590	18.00	-	0.70
	<i>Total or Median</i>				2,770			0.82
<b>Bottom Line Cash Payers</b>								
	LINE		23.44	114.0	2,670	15.00	0.45	1.31
	ENP		16.85	23.4	390	17.00	0.25	0.99
	SJT	B	18.62	46.6	870	21.00	-	0.89
	HGT	B	17.71	40.0	710	23.00	-	0.77
	MTR		33.25	1.9	62	48.00	-	0.69
	<i>Total or Median</i>				4,700			0.89
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 \$8 a million btu for natural gas.								



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Table 3									
Oil and Gas Income and Small Cap Stocks									
Value Multiples - Rank by EV/Ebitda									
			Price (\$/sh)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	
	Symbol/ Rating		8-Oct 2009	Royalty (%)	Ebitda	NTM	NTM	NTM	
<b>Canadian Income Trusts (US\$)</b>									
	Canadian Oil Sands Trust	COSWF	B	31.06		0.70	21.8	13.9	10.5
	Peyto Energy Trust	PEYUF		10.50		1.04	17.2	10.2	8.7
	Penn West Energy Trust	PWE	H	15.90		0.79	8.2	9.0	8.1
	Enerplus Resources Fund	ERF		22.97		0.58	9.4	10.5	7.2
	Pengrowth Energy Trust	PGH		10.21		0.49	7.9	8.8	7.2
	<i>Median</i>						9.4	10.2	8.1
<b>Small Cap Independent Producers</b>									
	Birchcliff Energy Ltd. (US\$)	BIREF		8.34		-	10.1	13.0	12.2
	Encore Acquisition Company	EAC	B	42.28		-	11.5	8.9	8.7
	Berry Petroleum Company	BRY	H	28.46		-	12.1	8.7	7.8
	Cimarex Energy Company	XEC	B	44.98		-	7.8	5.8	5.7
	<i>Median</i>						10.8	8.8	8.2
<b>Top Line Cash Payers</b>									
	Cross Timbers Royalty Trust	CRT		30.51	84	0.94	13.3	13.2	14.3
	Sabine Royalty Trust	SBR		41.52	100	1.00	10.2	18.1	13.6
	Dorchester Minerals, L.P.	DMLP	B	22.10	64	0.87	8.2	15.6	12.8
	Permian Basin RT	PBT		12.66	32	0.89	11.7	17.5	12.3
	Freehold Royalty Trust (US\$)	FRHLF		14.82	71	0.76	6.4	9.7	8.7
	<i>Median</i>						10.2	15.6	12.8
<b>Bottom Line Cash Payers</b>									
	Linn Energy, LLC	LINE		23.44		2.32	18.2	13.8	18.0
	Hugoton RoyaltyTrust	HGT	B	17.71		0.74	13.4	14.2	10.9
	San Juan Basin Royalty Trust	SJT	B	18.62		0.78	9.1	11.9	10.5
	Encore Energy Partners, L.P.	ENP		16.85		1.32	13.9	10.5	10.4
	Mesa RoyaltyTrust	MTR		33.25		0.77	7.9	14.6	10.1
	<i>Median</i>						13.4	13.8	10.5
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2010; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses									
Top Line Cash Payers defined as those having Revenue Royalty (see fifth column from right).									



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